

THE ECONOMY & YOU

The Role of the Eastern Caribbean Central Bank

Every country in the world has a central monetary authority or central bank, the oldest being that of Sweden which was established in 1668.

The Eastern Caribbean Central Bank or ECCB is the central monetary authority of the territories of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines. These countries have a common currency – the EC dollar.

The ECCB is one of only four multi-state central banks in the world. The others three are the Central Bank of West African States, established in 1962, the Bank of Central African States, established in 1972 and the European Central Bank, established in 1999. Established in 1983, the ECCB's headquarters are located in Basseterre, St Kitts with an Agency Office in each of the other territories.

The eight participating governments were motivated to establish a common central bank because of their desire to maintain a common currency and to put in place an institution that would issue and manage that currency. Another important reason for the existence of the ECCB is its mandate to promote monetary stability and a financial system conducive to economic growth and development.

The ECCB issues and manages our currency; acts as banker to the eight member governments; supervises and regulates the financial system; conducts monetary policy and facilitates financial development.

Let us look at each of these in turn:

The first function is the **Issue and Management of Currency**

The Central Bank has the sole right to issue notes and coins in participating territories. This responsibility includes transporting and distributing currency to the territories and making sure that adequate stocks are always on hand.

By the agreement establishing the ECCB, every dollar put into circulation must be backed at a minimum of 60 per cent by foreign reserves. This means that for every EC dollar out there at least 22 US cents must be put aside in order to maintain the stability of the EC dollar.

The second function is that of **Banker to Governments**

In this role the Central Bank provides deposit and borrowing facilities to participating governments. The governments maintain accounts with the Central Bank, which makes transactions on their behalf with other governments and with regional and international organisations. The Bank also gives technical advice to the governments on monetary and financial policy matters.

The Central Bank functions as **Banker to Commercial Banks**, and holds minimum cash balances and excess reserves of the commercial banks. The ECCB also provides a clearinghouse facility where all banks meet daily to present cheques and offset claims and debts against each other. For example, you might have deposited a cheque from someone with an account at RBTT into your Scotia bank account. When the officers from the different banks meet for the clearings Scotia returns the cheque to RBTT, who in turn pays Scotia. The settlement takes place using the commercial banks accounts at ECCB so no money actually changes hands.

Closely linked to this is the **Supervision of the Financial System**. The basic objective here is to safeguard your interests as depositors and to build up and maintain a sound banking system. Bank supervision is carried out by on-site inspection at banks and through the analysis of forms submitted by the banks to the ECCB.