

THE ECONOMY & YOU

Conduct of Monetary Policy and a Facilitator of Financial Development

The Central Bank can impose reserve requirements on banks, determine limits on domestic rates of interest - such as the 3.0 per cent minimum on savings - and regulate credit. In effect the conduct of monetary policy is regulation of the banks in a wider sense, bearing in mind their impact on the level of economic activity.

As the single most important financial institution in the Eastern Caribbean, the ECCB must ensure that there are channels to receive and disseminate information. The Bank has Agency Offices stationed in each country, and through them (and from its departments) the Bank receives up-to-date information on economic activity in the region. In turn, the Bank makes available statistical information and reports, which can be used by governments, business and industry in decision making, by educators and various sections of the public.

In its fifth function, the ECCB acts as a **Facilitator of Financial Development**.

Through its initiative to develop money and capital markets, the Bank is attempting to transform the ECCB area into a single financial space. This process is marked by the creation of institutions and markets which add depth and breadth to the existing financial system. One such example is the interbank money market, which recycles liquidity within the ECCB area among the participating commercial banks.

For instance a commercial bank in St Vincent and the Grenadines which has surplus funds, can put these on the market to be borrowed by another bank in Antigua and Barbuda, which might need some funds. Another example is the

Eastern Caribbean Home Mortgage Bank (ECHMB), whose principal aim is to purchase existing mortgages from banks and other financial institutions throughout the ECCB area, using the proceeds of bond sales. By so doing the ECHMB creates a secondary market in mortgages, leaving the financial institutions with money to write more mortgages. In other words, it keeps the home mortgage market liquid. Then there's the Eastern Caribbean Securities Exchange, which allows people with money to invest to trade in stocks, bonds and other financial products offered by corporations, governments and other sellers. The securities exchange gives investors a new way to make money while allowing enterprises to raise money for development.

In addition to these functions, the ECCB monitors and provides a forum for the discussion of policy issues related to what is called the non-bank financial sector. This sector includes credit unions, development banks, social security schemes, and insurance companies.

The Bank is also actively involved in helping member territories to improve on the management of their economies.