

## **The Role Of The Eastern Caribbean Central Bank**

**By**

**K Dwight Venner, Governor, ECCB**

**(17 October 2000)**

The role of central banks has changed from being highly secretive and mysterious institutions to open, transparent, and in some cases, predictable organisations.

This has been the result of two trends. Firstly, the almost compelling understanding that independent and accountable central banks are able to deliver low rates of inflation which has now become a significant public good.

Secondly, a convergence of theory and practice in which increased access to information, or as we say in economics, the decrease in information asymmetries, leads to better decision-making and positive outcomes.

These changing circumstances have led to a number of new paradigms in the philosophy and operation of not only central banks but most institutions in both the public and private sectors. We are now in the era of governance and accountability.

The quid pro quo for greater independence and autonomy for central banks has been increased accountability and openness by these institutions. This has been clearly manifested in three ways.

1. There are specific reporting requirements to a parliamentary body or some representative committee of that body. The partial or complete publication of the decisions of the central bank with respect to its objective target has become a standard practice.
2. Central banks now have to deliver a much higher level of analytical work to provide quality information for their own decisions and those of public and private sector entities.
3. They now have to employ more effective means of communicating information to the government, the financial sector, the private sector, and the public at large. Speeches by the Governor and senior officers of the Central Bank, press conferences, websites, official communiqués, and a whole host of new communication techniques must be used to inform the various clients of the bank and critical sectors about the current status and future prospects of the economy.

These issues have taken on added significance in an era when good governance at both the state and corporate levels has been recognised as an important public good.

In a rapidly globalising environment such trends and standards have become almost universal, and societies, governments and institutions in both developed and emerging countries have of necessity to take cognisance of them.

## **The Role Of The Eastern Caribbean Central Bank**

**By**

**K Dwight Venner, Governor, ECCB**

**(17 October 2000)**

The Eastern Caribbean Central Bank (ECCB) presents a particular approach to these issues given its own peculiar circumstances. It is a multinational central bank with eight members, six of whom are independent countries and two dependent territories of the United Kingdom.

The Bank was established on 1 October 1983 following an agreement signed on 5 July 1983 by the seven Governments of Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and The Grenadines. Anguilla became a member of the Bank on 1 April 1987.

The ECCB can claim to be the final evolution of currency arrangements in the Eastern Caribbean. The original institution was the British Caribbean Currency Board (BCCB) 1950, which had as its membership, in addition to the current members of the ECCB, Trinidad and Tobago, Guyana and Barbados. With the attainment of independence the first two countries withdrew from the currency board to establish their own central banks. Barbados and the other members then established the East Caribbean Currency Authority (ECCA) with the headquarters moving from Port-of-Spain, Trinidad to Bridgetown, Barbados. Barbados then established its own central bank in 1972 and ECCA moved to Basseterre, St Kitts, where it took on its final form in 1983.

The member countries of the ECCB are small, open, and vulnerable economies which have entered into treaty arrangements with each other to facilitate their economic development and to fulfill their obligations to the international community. The Treaty of Basseterre (1981) created the Organisation of Eastern Caribbean States (OECS) which is the main decision-making body in the integration arrangement. The treaty sets out in Article 3, a number of areas of cooperation, including central banking, which they considered to be critical to their social and economic development.

The ECCB was established two years later with the following purposes as laid out in Article 4:

1. To regulate the availability of money and credit.
2. To promote and maintain monetary stability.
3. To provide credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments.
4. To actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.

The main decision-making body of the ECCB is the Monetary Council which is made up of the Ministers of Finance of each member territory. A chairman is elected annually on a rotating basis.

## The Role Of The Eastern Caribbean Central Bank

By

K Dwight Venner, Governor, ECCB

(17 October 2000)

Article 7(2) states that *“the Council shall meet not less than twice each year to receive from the Governor the Bank’s report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank and for such other purposes as are prescribed under this Agreement.”*

The multinational nature of the arrangement implies that through the Monetary Council joint sovereignty is exercised over monetary policy. The Council is also the instrument through which the Bank is held accountable. In short, in the absence of a single executive and legislature, members of the Council are accountable in these matters to their cabinets, legislatures and the general public. The Council, like the Congress in the United States, receives a report from the Governor as stated above. However, unlike Congress, the Council can issue directives with respect to interest rates and required reserves.

The Council has no responsibility for the administration of the Bank except for the appointment of the Governor and the Deputy Governor. This preserves a great deal of the operational autonomy of the institution. Administration is the province of the Board which under Article 8 (1) has responsibility for policy and administration.

In the area of policy, the Bank has as its main target the maintenance of a competitive fixed exchange rate. It has in fact maintained such a fixed rate to the US dollar of EC\$2.70 to US\$1 over the last 24 years.

The ECCB is the central monetary authority for what can be described as a currency union with a quasi currency board arrangement. This in large part explains the choice of a fixed exchange rate regime which is influenced by the following:

1. The agreement in Article 17(2) provides for unanimous decisions by both the Council and the Board in order to change the parity of the currency.
2. Article 24 sections 2 and 3 provide for the backing of the currency by a minimum of 60% in foreign exchange reserves and this minimum requires the unanimous decision of the Council to be changed.
3. Article 40(1) limits the accommodation that Governments can receive from the Central Bank.
4. The Council has itself very clearly enunciated a strong dollar policy which member countries have endorsed.
5. The public sentiment is in favour of the strong dollar policy as manifested in their willingness to hold the currency for transactions, precautionary and speculative purposes. It should also be noted that there is no black market for the EC dollar.

## **The Role Of The Eastern Caribbean Central Bank**

**By**

**K Dwight Venner, Governor, ECCB**

**(17 October 2000)**

The stability of the EC dollar has been the anchor which has encouraged both foreign and domestic investment and has in turn contributed to the stability of the financial system.

It has provided the platform for the development of the financial sector through the establishment across the currency union of money markets, government securities markets, and by the end of this year, an equities market.

These initiatives in the creation of currency union markets have already led to the establishment of a successful secondary mortgage institution, the Eastern Caribbean Home Mortgage Bank, which paid its first dividend after its fifth year of operation.

The ECCB has taken a very serious and strategic approach to public education on financial and economic issues. It has also established networking arrangements with a wide range of interests in both the public and private sectors. Meetings are held on an annual and half-yearly basis with ministries of finance, the private sector, social security schemes, development finance institutions, credit unions and others. The Bank has an outreach programme in which it sponsors an essay competition, a netball competition for young women, a city beautification competition and an annual lecture in honour of Sir Arthur Lewis, the Nobel Laureate in Economics from the currency union, whose image adorns one of our currency notes.

The conclusion we have come to, like many other central banks, is that there is a need for a broad involvement and understanding of the workings of our institutions on the part of the public. One of the most potent instruments at the disposal of a central bank is moral suasion. This however, cannot be effectively exercised if there is no connection to the main sectors of the economy and the body politic and no credibility of the institution in the eyes of the public at large.

In developing countries whose institutions are somewhat fragile, central banks because of their resources, both financial and technical, have an extremely important role to play. They serve as think tanks in critical areas to the government and have the responsibility of supplying accurate and timely information to the public to raise the level of economic literacy and public debate.

The ECCB mindful of these trends and with the full support and encouragement of the Monetary Council and the Board of Directors is about to embark on an even more ambitious and strategic programme of activities. This springs from the conviction that the responsibility of such institutions to the process of development in emerging economies is critically linked to the ability of the citizenry to utilise information in the pursuit of economic advancement and a better quality of life.