
**TRANSPARENCY PRACTICES FOR MONETARY POLICY
AT THE EASTERN CARIBBEAN CENTRAL BANK**



*Prepared for the 59th Meeting of the Monetary Council
21 July 2007
Anguilla*

**EASTERN CARIBBEAN CENTRAL BANK
*ST KITTS***

TABLE OF CONTENTS

	Page
Foreword	i
1.0 Introduction and Background	1
2.0 Transparency No I	2
3.0 Transparency No II	7
4.0 Transparency No III	10
Appendices	15

FOREWORD

The Eastern Caribbean Central Bank (ECCB) has been promoting good governance practices in the member countries of the Organisation of Eastern Caribbean States (OECS) and the wider Caribbean Community (CARICOM) for some time. The Bank, in collaboration with other regional and international stakeholders, has been involved in a number of initiatives. These include the establishment of the Caribbean Corporate Governance Forum (CCGF) and its Technical Working Group to facilitate discussions on, and explore ways of enhancing corporate governance practices in the Caribbean region. The Bank has also hosted seminars and training sessions on governance issues for Management and Directors of Boards of private and public sector institutions.

The Bank is aware that, as the central bank for the member governments of the Eastern Caribbean Currency Union (ECCU) and by extension the people of the region, there is an even greater call for accountability as the countries move towards the creation of an OECS Economic Union. Like most central banks today, the ECCB recognises the importance, for effective implementation of monetary policy, of explaining to the public the Bank's objectives and decisions as well as the rules and procedures which govern the operations of the institution.

It is against this background that the Bank has decided to publish its transparency practices, adopting the approach recommended by the International Monetary Fund (IMF) in its "*Code of Good Practices on Transparency in Monetary and Financial Policies*" and in particular "*Good Transparency Practices for Monetary Policy by Central Banks*".

We hope that this publication would lead to a better understanding of the ECCB's role, responsibilities and objectives, its processes for formulating and reporting policy decisions and the methodologies utilised for providing the required level of accountability and assurances of the integrity of its operations.

K DWIGHT VENNER, KBE
GOVERNOR
EASTERN CARIBBEAN CENTRAL BANK

JULY 2007

TRANSPARENCY PRACTICES FOR MONETARY POLICY AT
THE EASTERN CARIBBEAN CENTRAL BANK

1.0 INTRODUCTION AND BACKGROUND

The Eastern Caribbean Central Bank (ECCB), as the central monetary authority for the eight member countries of the Eastern Caribbean Currency Union (ECCU), is charged, in Article 4 of the ECCB Agreement Act 1983, with the following responsibilities:

- (i) to regulate the availability of money and credit;*
- (ii) to promote and maintain monetary stability;*
- (iii) to promote 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; and*
- (iv) to actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.*

The primary monetary policy objective of the Bank is maintenance of the exchange rate peg of the EC dollar to the currency of the region's major trading partner, the United States of America (USA). Given the circumstances of the ECCU member countries as small, open and vulnerable economies, this objective is viewed as consistent with the ultimate role of monetary policy, that is, a facilitator of economic growth and development.

The Bank has articulated this objective in its mission statement which is, "*To maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states*". This statement is widely published in the Central Bank's reports and on the Bank's website.

The Monetary Council, the highest decision making authority of the ECCB is comprised of the Ministers of Finance of the respective Governments of the member countries.

The Council is charged, in Article 7 (2) of the ECCB Agreement Act 1983, with the responsibility of providing ". . . *directives and guidelines on matters of monetary and credit*

policy to the Bank . . . ". Article 7 (2) also requires the Governor to present the Bank's report on monetary and credit conditions in the currency union to the Council and this report forms the basis for the monetary policy decisions which are handed down by the Council.

It is now generally accepted by central banks that clarity in explaining to the public their objectives and decisions as well as the rules and procedures which govern their operations make for more effective monetary policy implementation. This is also in keeping with good governance practices for central banks which call for accountability to the public.

In line with the International Monetary Fund's (IMF's) "*Code of Good Practices on Transparency in Monetary and Financial Policies*" and in particular, Part 2, which addresses "*Good Transparency Practices for Monetary Policy by Central Banks*", the ECCB observes the following transparency practices.

2.0 TRANSPARENCY PRACTICE NO I

Clear Specification of the Processes for Formulating and Reporting on Monetary Policy Decisions.

2.1 Monetary Policy Formulation

The ECCB's monetary policy formulation processes are closely aligned with the reporting systems and governance arrangements mandated in the ECCB Agreement as well as with operational procedures established by the Bank.

In seeking to operationalise Article 4 of the ECCB Agreement the Bank's policy formulation focuses on the following areas:

- The maintenance and promotion of monetary stability
- The maintenance and promotion of financial sector stability, and
- The promotion and development of money and capital markets.

The Bank holds the view that monetary and financial sector stability supported by the development and proper regulation of money and capital markets would serve to facilitate economic growth and development.

Monetary policy is formulated based on data that are gathered, processed and analysed to determine the state of economic activity and of monetary and credit conditions in the member countries.

2.1.1 Data Gathering

This is a collaborative effort by officers of the ECCB from the Statistics, Research and Bank Supervision Departments, the ECCB Resident Representatives and the Central Statistical Offices in the member countries. The following processes are followed.

- Data are collected on a variety of economic and financial indicators to determine the level of economic activity in member countries and the prevailing monetary and credit conditions.
- Surveys are conducted on monetary and credit conditions in member countries to determine whether credit conditions are perceived to be easy or tight.
- Consultative and networking meetings are held with important players in the member countries. The Monetary Council has specifically mandated meetings with the consultative groups, while the networking groups have been identified by the Bank as being able to give a broader perspective on developments in the countries that could inform the recommended policy stance. The main groups with which the Bank currently meets are listed in Appendix I.

2.1.2 Data Processing and Analysis

Data are processed and checked for consistency by departments at the Bank including Statistics, Research and Bank Supervision.

The data are revised when inconsistencies are discovered and also to incorporate more recent data which may become available.

Once all of the checks have been done, the data are analysed to determine the macroeconomic situation in the member countries and the implications for the Bank's monetary policy.

2.1.3 Report Writing and Review Process

The ECCB compiles a Research Agenda for each financial year on topics which have been identified by the ECCB's management and approved by the Board of Directors as critical to the policy making process.

During the year research is carried out and papers prepared on these topics and are discussed at various fora at the Bank. They are first presented at the regular Seminar Series following which these papers are discussed at meetings of the Policy Division and subsequently at the Monetary Policy Advisory Committee (MPAC) which gives the final review before submission to the Board or Council. Some policy documents, depending on the subject matter, are also discussed at the Economic and Monetary Policy Committee (EMPC), the Investment Management Committee (IMC) or the Financial Institutions Regulatory Committee (FIRC) prior to submission to the MPAC. At each stage of the process recommendations are made for improvement.

For papers intended for the Monetary Council, a two-day Policy Review meeting is convened with participants from the management and a wide cross section of the Bank. Discussions during the Policy Review meeting culminate in recommendations with respect to the appropriate monetary policy stance.

2.1.4 The Monetary Policy Decision Making Process

The recommendations from the Policy Review Committee are incorporated into policy documents which are presented and discussed at meetings of the Board of Directors before being included in the Governor's report to the Monetary Council.

In a typical meeting of the Monetary Council the members would receive the Governor's report on monetary and credit conditions. The report assesses the monetary and credit conditions in the ECCU and the international and regional economic developments that affect these conditions. The report also makes short to medium term projections. Recommendations are advanced for the consideration of the Council based on the findings of the report. After intense deliberations among the Council members, decisions are taken.

2.2 Monetary Policy Reporting

The processes for reporting on monetary policy to the **statutory bodies** of the Bank are set out in the ECCB Agreement 1983 under the following Articles.

2.2.1 *Meetings of the Monetary Council*

Article 7(2) – *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.*

Article 7(4) - *In addition to its regular meetings, the Council may hold such additional meetings as it may decide or when requested by at least two of its members.*

Article - 7(7) – *Whenever, in the judgment of the Board, there arises a situation where any action contemplated by the Bank requiring the approval of the Council should not be postponed until the next meeting of the Council and cannot await the calling of a special meeting of the Council, the Board shall request the Council members to vote without meeting.*

In addition to the above stipulations with respect to the regularity of Council meetings, Council currently meets three times per year and has agreed to the establishment of fixed dates for the convening of these meetings as follows:

- February – First week
- July – Third week
- October – Third week

These meetings are to be convened on the Friday of the respective weeks.

2.2.2 *Meetings of the Board of Directors*

Article 13 (1) – *“The Board shall meet as often as the business of the Bank may require but not less than once every three calendar months. The Board may provide for regular meetings for which two weeks’ notice shall be necessary; special meetings shall be convened at the written request of the Governor or of any three appointed Directors for which reasonable notice shall be required”.*

The Board currently meets five times per year.

2.2.3 *Other reporting requirements*

Article 37(2) – *“The Council, as well as any Participating Government may request the Bank to render advice and to furnish reports on matters relating to the purposes of the Bank as set forth in Article 4 of the Agreement.*

Article 37 (3) – *“It shall be the duty of the Bank to inform and advise the Council and any Participating Government concerning any matter that in the opinion of the Bank is likely to affect the achievement of the Bank’s purposes”.*

2.2.4 Transmission of decisions of the Monetary Council

Article 7(6) – “Decisions of the Council on matters of monetary and credit policy under paragraph (2) shall be communicated in writing to the Bank and such decisions shall be binding on the Bank while they remain in effect”.

The processes for reporting on monetary policy decisions to **the public** have been agreed on by the Monetary Council and take the form of:

- A Communiqué which is issued at the conclusion of each meeting of the Council, and
- A press briefing, including a question and answer session, which is conducted at the end of each meeting with the members of Council in attendance.

3.0 TRANSPARENCY PRACTICE NO II

Public Availability of Information on ECCB'S Monetary Policies

3.1 Objectives of ECCB's Communication on Monetary Policy

ECCB's communication on monetary policy is aimed at facilitating the public's understanding of

- the objectives and instruments of monetary policy;
- the process of formulating monetary policy;
- the importance of economic and financial information in making monetary policy choices; and
- the role of ECCB's monetary policy and its relationship to other policies in achieving growth and development.

3.2 ECCB's Publications Programme

The ECCB publishes a range of economic and financial statistics on the individual member countries and for the ECCU as a whole. (Appendix II) The Monetary Council at

its 58th meeting held on 2 March 2007 agreed to recommend to member governments that the providers of statistical information across the currency union establish release dates for the publication of information consistent with the guidelines under the IMF's General Data Dissemination Standards (GDDS) for member countries. These guidelines serve to enhance the availability of timely and comprehensive data and also assist in improving the quality and integrity of the data.

The Bank also publishes an Annual Economic and Financial Review as well as Quarterly Economic and Financial Reviews. In the latter publications the Bank aims to include research papers, speeches made by senior officials of the Bank or working papers of staff members.

3.3 Public Information Services

The ECCB has a Corporate Relations Department which spearheads the Bank's public awareness programmes. The Corporate Relations Department has the responsibility of informing the public about the ECCB's monetary policy as well as other central banking activities and of encouraging and contributing to a constructive public dialogue on ECCB's policies and current topics related to the Bank's agenda. Various publics using a range of media and other access tools are targeted.

3.3.1 Media

Press Conferences

The main scheduled press conference is that held between the ECCB's Monetary Council and the local media in the country in which the particular meeting takes place. This serves to convey the collective views of the Council and highlights the key issues arising out of the discussions. The Communiqué is however distributed to the wider ECCU media houses. Video extracts from the media briefings/press conferences are produced for dissemination throughout the ECCU.

ECCB Media Seminars

ECCB sponsored Media Seminars have been periodically conducted with the aim of encouraging the media to engage in discussions on economic and financial matters and so increase their interest in reporting on such matters.

3.3.2 Schools

Presentations to teachers and students on the roles and functions of the ECCB are made periodically. ECCB also organises essay and other competitions which serve to advance the understanding of the workings of the economy and/or the ECCB.

The Bank also publishes booklets for incorporation into the curricula of schools. One example is *The ECCB – Working to Enhance the Lives of the People of the ECCU*.

3.3.3 General Public

An Annual Economic Review Presentation by the Governor takes place in January of each year followed by a regional discussion on the economy involving representatives of the ECCU public utilising video conferencing facilities.

An Annual Report Presentation is made by the Governor in June of each year to coincide with the publication of the Annual Report and Statement of Accounts. The aim is to explain the institution's objectives and performance to the public, with the video and text posted to the Website immediately following the presentation.

The ECCB publishes in the print media and on its web site its statement of assets and liabilities at the end of each month and the audited annual financial statements by the end of June in accordance with its statutory requirements.

The Bank also engages in radio and television presentations, discussions and interviews when ECCB representatives focus on various financial and economic

issues. During the month of October, which has been declared by the Monetary Council to be Financial Literacy Month, these activities are heightened. The activities are carried out in partnership with financial institutions in the member countries as well as with the respective Ministries of Finance and Ministries of Education.

The Bank issues news releases on a regular basis which serve to inform the public of Bank issues and events.

The Bank, in collaboration with financial institutions, the University of the West Indies (UWI) Schools of Continuing Education, the Ministries of Finance and the Ministries of Education in the member countries, facilitate Savings and Investment Courses to provide participants with insights into the working of financial markets and the economies.

4.0 TRANSPARENCY PRACTICE NO III

<i>Accountability and Assurances of Integrity by the ECCB</i>

4.1 Disclosure of Audited Financial Statements

The Central Bank provides assurances of the integrity of its operations through the publication of the annual audited financial statements and a report on its operations during the year which are in keeping with internationally recognised standards. Article 48 (1) of the ECCB Agreement Act stipulates that:

Within three months of the close of each financial year the Bank shall –

- (a) transmit to each of the Participating Governments a copy of its annual accounts certified by the auditor and such annual accounts shall be published as soon as may be;*
- (b) transmit to each of the Participating Governments and publish a report on its operations during the year.*

Moreover Article 47 mandates that:

The accounts of all transactions of the Bank shall be audited by an auditor appointed by the Bank from a list approved by the Council.

The periodic rotation of the external auditors is also recommended to ensure the integrity of the auditing process.

4.2 Disclosure of Balance Sheet

Accountability is also required under Article 48 (2) which states that:

“The Bank shall, as soon as may be, make up and publish a return of its assets and liabilities as at the close of business on the last business day of each month and shall transmit a copy to each of the Participating Governments”.

4.3 Oversight of Internal Governance and Audit

4.3.1 *Board Audit Committee*

The Board of Directors is assisted by an Audit Committee in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank’s process for monitoring compliance with laws and regulations. The Audit Committee is comprised of Board members with particular expertise in these areas and its work is governed by a *Board of Directors Audit Committee Charter*.

4.3.2 *Internal Audit Operations*

In order to assist the Central Bank in achieving its monetary policy objectives the Internal Audit Department (IAD) provides oversight assurances to the Bank, the Board of Directors and the Monetary Council by attesting to the adequacy of internal controls in place to address any risks to the achievement of these objectives. The work of the Department is governed by an *Internal Audit Charter*.

4.3.3 *Internal Control Systems*

The Internal Audit Department attempts to ensure that the stage is set for the achievement of the Bank’s monetary policy objectives by:

- (i) Evaluating the processes through which policies and /or decisions are made, documented, communicated, implemented and followed through;
- (ii) Assessing the appropriateness of the lines of authority and who will be accountable, that is, the accountability requirements; and
- (iii) Examining the link between these and the risk and ¹control environment issues.

The Internal Audit Department conducts periodic risk assessments on various areas of the Central Bank's operations. These include risk management, control and governance processes. Risk identification and assessment are carried out for the entire Bank and controls are identified, measured and evaluated by the IAD. In addition there is periodic monitoring of the various areas that are not subject to in-depth audit activity which also provide assurance to the Bank's stakeholders concerning the operations of the Central Bank.

Periodic consultations are held with senior management, divisions and management at the departmental levels, which are intended to add value and improve the integrity of the operations of the Bank. In addition the IAD is involved in constant follow-up to ensure that various policies and procedures are adhered to, decisions implemented and necessary action taken.

4.3.4 *IMF Safeguards Assessment*

The Bank completed its first Safeguards Assessment conducted by the IMF in February 2003 and in March 2007 underwent an update. These assessments provide additional assurances of the integrity of the Bank's legal structure, and its control, accounting, reporting and auditing systems.

¹ Control environment – the attitude and actions of the Board and Management regarding the significance of control within the organisation (Internal Auditing Standards).

4.3.5 *IMF/World Bank Financial Sector Assessment Programme*

The effectiveness of the Bank's regulatory framework in maintaining financial sector stability to support its monetary policy objective was tested under the joint IMF/World Bank Financial Sector Assessment Programme (FSAP) in September 2003. Follow-up surveillance missions by IMF staff continue.

4.3.6 *Standards for Conduct of Personal Affairs of Staff*

The integrity of the Bank is enhanced by the required standards for the conduct of the personal financial affairs of staff of the Bank and rules to prevent conflicts of interest. These are published in the Staff Regulations handbook.

4.3.7 *Disclosure Requirement for Board Members*

The principle of good governance in the avoidance of conflicts of interest at the level of the Board is covered in Article 15(2) which requires that *“Every Director shall fully disclose to the Board any (private) interest, industrial or other, which he may directly or indirectly hold or be connected with and which becomes the subject of Board action, and shall refrain from voting on any matter relating thereto:*

Provided that such an interest, if so disclosed shall not disqualify the interested party for the purpose of constituting a quorum”.

4.3.8 *Duty of the Board to Consider all Relevant Information in making Decisions relating to a Participating Government*

The integrity of the decision-making process at the level of the Board of Directors is further enhanced by virtue of Article 13(4) which reads as follows:

“Where a matter relating to a Participating Government is to be determined by the Board, the Government concerned shall have the right,

if it so desires, to send a representative to that meeting of the Board with a view to assisting the Board in making an informed judgment on the matter. The representative shall not, however, have the right to vote, and shall be present only for the specific item for which, in the opinion of the Board, his presence was required.”

CONSULTATIVE AND NETWORKING GROUPS

1. Consultative Groups

- Ministries of Finance (Financial Secretaries and Regional Debt Coordinating Committee (RDCC))
- Banking Committee
- Private Sector Consultative Group

2. Networking Groups

- Accountants General
- Attorneys General
- Directors of Budget
- Directors of Audit
- Comptrollers of Inland Revenue
- Comptrollers of Customs
- Directors of Planning and Statistics
- Heads of ECCU Policy Units
- Financial Sector Regulators
- OECS Bar Association
- OECS Bankers Association
- Institute of Chartered Accountants of the Eastern Caribbean
- Social Security Systems

PUBLICATIONS OF THE EASTERN CARIBBEAN CENTRAL BANK

- ECCB Annual Report and Statement of Accounts
- ECCB Annual Economic and Financial Review
- ECCB Quarterly Economic and Financial Review
- ECCB Financial Statistics Yearbook (annual)
- ECCB Balance of Payments (annual)
- ECCB National Accounts Statistics (annual)