COMMERCIAL BANKS' LIABILITIES IN ECCA TERRITORIES

1968–1978

by

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PREFACE

This study is basically an empirical one, and is an attempt to give an indepth knowledge of the performance and structure of the liability portfolio of commercial banks of the member territories of the East Caribbean Currency Authority. An historical overview has been included in order to place the study in some sort of perspective.

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Commercial banks have two fundamental roles to play in the economy. First to borrow loanable funds from spending units with excess funds, issuing indirect securities in exchange, and secondly to transmit these borrowed funds to spending units with deficits. The extent to which commercial banks can perform these productive services will depend on their ability to attract funds. There are three main categories of funds, namely:

a) deposits

b) inflows of funds from branches or banks overseas

c) inflows to funds from other branches or banks in the area.

Balances due to banks abroad represent the accumulation of foreign debts and this has been of importance to some banks in the area. A possible explanation for the presence or absence of this debt is the extent to which the loans and advances of commercial banks are in excess of (or grow more rapidly) than the deposits of that bank. Also of immediate importance is the cost and risk involved in borrowing funds from abroad. The counterpart of balances due to banks abroad is the overseas holdings of the commercial banks. If it is a positive item it measures the extent to which the local liabilities of the commercial banks are not matched by their holding of local assets. That is, it represents an export of capital. It would seem unreasonable, because of the underdeveloped nature of the

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economy and the demand for local savings to finance capital formation, for commercial banks to hold overseas balances.

Table I shows the net position of commercial banks 1966-1978. With the exception of Antigua, St. Lucia and Grenada, all the other territories had a surplus position. Most bank managers argue that a minimum of balances will be held abroad to cover payments resulting from the international trading and producing activities of the banks customers. Our impression is, however, that some of these balances are used for investment purposes. In 1976, amid rumours that a revaluation would occur when the E.C. dollar would be linked to the U.S. dollar, notably, in all territories there was a dramatic reduction in foreign assets and a large inflow of foreign exchange. In the case of Antigua and St. Lucia, borrowing have been rising instead of declining, reaching a peak in 1975 and 1976 in both territories. The decrease since has probably been due to the cost of borrowing which has increased following the linking of the E.C. dollar to the U.S. dollar. Notable increases have been observed in balances held with other local banks.

Borrowing abroad and locally constitute but a small percentage of the total liabilities of the commercial banks in any one territory. At its maximum it was never more than 14%. Except in Antigua in 1972, foreign liabilities accounted for 20% of the total but has since declined to 12% in 1978. The figures indicate that deposits are the most important group in the liability portfolios of the banks. The rest of this section is devoted to an empirical analysis of these deposits.

THE GROWTH AND STRUCTURE OF DEPOSITS

Deposits in commercial banks in the ECCA territories are created in almost the same way as deposits in commercial banks elsewhere. They may be created through advances or new loans granted by commercial banks, i.e. they are supply determined; by capital inflows from expatriate firms to finance investments; savings deposits may reflect increases in incomes of residents, households and unincorporated businesses; finally, they may be created by immigrants (i.e. those persons who have migrated and hold savings accounts at home).

The average annual rates of growth of total deposits are shown in Table 2. St. Lucia experienced the highest rates of growth followed by St. Kitts, St. Vincent and Antigua. This can be accounted for through very high rates of growth of time and demand deposits for these territories between 1966-1969 and 1970-1973. In fact, for St. Lucia the rate of growth of time deposits was as high as 48.6% between 1970 and 1973. Montserrat, however, experienced negative growth of time deposits for this period. Demand deposits also experienced high growth rates during this period. For example, in Dominica demand deposits grew by 26.2%, in St. Lucia and Dominica by 22% and 22.2% respectively for 1974-1978. St. Kitts was the exception, the growth rate showing a marked deceleration to a mere 1.8% between 1974-1977. In both St. Kitts and St. Vincent, the growth of time deposits surpassed that of demand deposits. Saving deposits in almost all territories were growing at a steady but slower pace than either time or demand deposits. The growth rate centred about 10%.

Comparing the growth rates of total deposits with that of the MDC's over the period 1974-1978, it is found that on the average the growth of total deposits in the LDC's surpassed that in the MDC's with the exception of Trinidad and Tobago. This could be attributed to the fact that commercial banks in the LDC's are the dominant mobilisers of savings in these economies (LDC's). It would be instructive to compare the growth of savings in commercial banks with that of other financial institutions in the respective islands. Lack of data preclude this type of analysis here. Suffice it to say that other financial institutions are relatively small in terms of asset holdings, particularly because of the absence of a relatively sophisticated financial structure in terms of the range of assets available and different types of financial institutions.

During the same period loans and advances were growing at a slightly lesser rate in some territories (see Table II). It does seem therefore that bank lending has kept pace with the growth in deposits, and has even surpassed it as is the case in St. Lucia. If we further compare the ratio of loans and advances to deposits (Table III), it is found that in St. Lucia it decreased somewhat between 1972-1976, but has since risen as high as 1.04 in 1977. The opposite has occurred in Antigua where the ratio was 1.04 in 1972 and decreased to .73 in 1975, and has since been increasing slightly and was as high as .91 in 1978. The ratio in Grenada has shown a persistent downward trend, from a high of 1.07 in 1972 to .68 in 1978. For the islands of Dominica, St. Vincent and St. Kitts, the ratio fluctuates quite frequently. The coefficient of variation was calculated to give the measure of variability between the two sets of data for each of these territories. It was found that in St. Kitts and Dominica, loans and advances exhibited the greater variability of the two ratios (69.8% and 64.0% as compared to 25.6% and 58.4% for deposits respectively). For St. Vincent both ratios were high, 64% for deposits and 63% for loans and advances.

Knowledge of the level of business activity in the economies over the prescribed period would probably give us an insight into the reasons for the high ratios or instability observed. For these ECCA territories, exports are an accurate indicator of trends in domestic production except in the case of Antigua which is almost totally a tourist oriented economy.

Between 1966 and 1975 the Antiguan economy appeared to be a very buoyant one. Exports increased from EC$6.2 million to a modest EC$59.9 million in 1976. Correspondingly, imports rose from EC$25.0 million to an over-proportional EC$145 million. At the same time the tourist industry has boomed with Antigua catering to about 34%[1] of total tourist arrivals in the Leeward and Windward islands. Its contribution to GDP in 1978 was 17%. This in part helps to explain the exceedingly high ratios (relative to other ECCA territories) observed for Antigua. In 1974 there has been a considerable decline in the ratios attributed primarily to (a)[2] the effects of the U.S. recession on the territories; (b) the repercussions on the economy associated with the closing of the oil refinery 1975-1976; (c) the closing of operations of two of the islands foreign commercial banks; and (d) the decline in the growth of deposits (6.4% between 1974-1978 compared to 16.4% between 1970-1973).

In contrast, St. Kitts has some of the lowest ratios, below .50 for most years. From 1972 the ratio began increasing probably due to a revival of domestic production from its previously depressed state. Total exports increased from EC$3 million in 1971 to $24 million in 1974, and $45 million in 1975. Concomitantly GDP was increasing significantly over the latter half of the 1970's.

It is difficult to analyse the performance of the economy of Grenada and make meaningful statements in relation to the observed ratios. Data has been found to be inadequate, inconsistent and at times conflicting.[3] However, it would appear, from reports on the economy's performance,[4] that there have been trends of decline between 1970-1975 and low levels of productivity. Over the same period (1970-1974) very high ratios of loans and advances to deposits are observed. This seems contradictory; loans and advances are one of the more reliable indicators of the growth of these economies.

Export figures for both Montserrat and St. Vincent indicate that the economies of these islands were fairly stagnant during the earlier half of the period. Exports in St. Vincent increased from EC$6.4 million in assets to only EC$9.4 million in 1973. Since then the growth rate has been improving and the exports were $16.5 million in 1975. Montserrat, on the other hand seems to be sustaining its economy with British grants-and-aid and British development grants. Combined, these totalled some $EM5.1 in 1977, exports were $EC1.6 and imports EC$18.7 million. (In this economy export production is not the generating force in increasing the growth of economic activities.)

COMPOSITION OF DEPOSITS

The structure and different rates of growth of deposits dealt with have significance for the composition of deposits. Total deposits are usually divided into three categories, savings, time and demand deposits.

As can be gleaned from Table 4 , the share of saving deposits in total deposits has been quite high for most territories, no appreciable differences are observed between the Leeward and Windward group of islands. In 1966 the share of saving deposits were highest in Dominica (70.5%), and lowest in Grenada (51.4%). From 1970 onwards, in the ECCA territories, there has been a deceleration of the percentage of saving deposits in total deposits in Antigua, St. Lucia and to a limited extent St. Vincent and Grenada. What is interesting is in most cases where saving deposits decrease or increase, a reverse trend is observed for time deposits, and suggests that these deposits are substitutes for each other. This may be due to higher rates of interest paid on time deposits for those years when a favourable shift (for time deposits) is observed.

In the larger Caricom territories as well, there has been a shift in the structure of deposits towards time deposits at the expense of saving and demand deposits especially in Trinidad and Barbados in the 1970's. Over the last three or four years in Jamaica, there has been a decrease in the rate of growth of time deposits and a reverse switch has now been taking place.

It would have been informative here to examine the maturity distribution of fixed deposits. Time deposits consists of fixed deposits for maturity periods of three, six and twelve months with varying rates of interest for the different periods. Again lack of statistical data precludes this type of analysis.

One problem that emerges in analysing saving deposits is the extend to which they are used for transaction purposes. It has often been hypothesized that saving deposits in dependent economies are often used for transaction and precautionary purposes. This can be borne out by calculating the velocity of savings deposits or by data pertaining to frequency withdrawals from saving accounts. In the absence of requisite data, it is only possible to speculate what they do represent. Miller (14) and Bourne (2) in different works found for Jamaica and Guyana respectively, that the velocity of saving deposits was extremely small indicating most of the savings done to be genuine savings. There is no reason to suspect it would be different for the ECCA territories.

It is therefore felt that only a small proportion of saving deposits are very liquid, and are used as a substitute for demand deposits. If this is so, then these economies are very liquid, since demand deposits plus that proportion of saving deposits could account for a substantial proportion of total deposits.

Demand deposits have exhibited a tendency to behave in a very erratic manner in most of the territories particularly from 1970 onwards. Examining their contribution to total deposits over this period, there is the indication of shifts toward saving or time deposits. However, from 1976 it would seem that the trend is towards increasing funds in demand deposits at the expense of time deposits (see Table 4). In Antigua, St. Lucia, St. Vincent and Montserrat, time deposits as a composition of total deposits fell from 55.4%, 45.9%, 42.5%, 33.2% in 1975 to 41.2%, 37%, 33.8%, 12.2% in 1978 for the respective islands. While for demand deposits ~~for the same years~~ 1975 and 1978, the trend observed was an acceleration from 10.8% to 17.1% for Antigua, from 15.4% to 19% for St. Lucia, 12.2% to 17.3% for St. Vincent and 16.3% to 20.7% for Montserrat.

The importance of the structure of deposits just outlined is its resultant impact on the volatility of commercial bank lending, and consequent increasing economic activity. Saving deposits are more stable than either time or demand deposits and concomitantly, time deposits have more stability than demand.

The increases we have observed in demand deposits from 1975 onwards could therefore be attributed to upturns in the economies of these islands whereby there would be increasing demand for credit, leading to activation of idle time deposit funds.

Lending, although it has increased significantly, is as of a short term nature. Secondly, several other reasons have been advanced for the increase in demand deposits. These increases could have resulted in 1975 and 1976 from speculative moves on the part of consumers envisaging a revaluation of the dollar; from a reduction in incentives to hold funds in time rather than demand deposits (results from the following low levels of interest paid on time deposits. It fell from an average of 8.5% in 1975 to 4% in 1978) and expectations of a revival in economic activity by businessmen who preferred to hold funds in a fairly liquid form.[5]

Demand deposits could have been influenced by increasing employment and income of the low income groups. This implies the use of currency rather than deposits. Also the movement of unskilled workers from rural areas to the urban area, as is the case in St. Vincent (they have experienced fairly high levels of urban concentration), St. Kitts (here people working in agriculture has dropped significantly and increased productivity in other sectors has begun from 4% in 1964 to 12% in 1974). The high level of urban concentration implies the use of money on a larger scale by these workers than rural workers. People who are becoming monetized, tend to hold currency.

To gain some insight into the share of emigrees financial claims in total financial claims in the economy, commercial banks deposit liabilities were divided into two categories, residents and non-residents for the period 1972-1977 (see Table 5). Non-resident contributions varied in the territories. It was moderately high in St. Vincent 22.1% in 1978, Montserrat 24.12%, 16.1% and 12.1% for Grenada and Dominica. In Montserrat and St. Vincent the growth of non-residents deposits were faster than that for residents. This helps to explain whether the increase in savings represent a genuine mobilisation of domestic personal financial savings. The trend in total deposits of commercial banks in St. Kitts, Antigua and St. Lucia, as assessed by us, and where the ratio of non-resident deposits to total deposits is very low, reveals a definite growth in the amount of financial savings. This is clear evidence that the banks are becoming successful in attracting new savings. The same cannot be stated adamantly about those territories that have high ratios of non-resident deposits to total deposits.

DETERMINANTS OF DEPOSITS

The determinants of the volume of bank deposits are important not only because changes in the money supply are reflected primarily in changes in the volume of deposits, but also because deposits represent the savings of the community. It has been asserted that commercial banks are the largest mobilisers of savings in the economy.

Reviewing the literature on national savings, we find there are two broad discussions of the nature of the determinant of these savings. Firstly, in the early period of economic theory, the classicalists and neo-classicalists stressed interest or the rate of return on savings as the major determinant of savings. The second view is attributable to Keynes and the Keynesians. Savings was equivalent to income less consumption.

In the succeeding years variants of the income saving relationship has developed e.g. Friedman (6), Modigliani (15), Duesenberry (4) etc. There are a number of studies on developing countries as well, see Hooley on Phillipines (9), Friend on Argentina and India (7), Gupta on Asia (8).

On the basis of the theoretical and empirical evidence, most economists would agree that the main economic determinants of savings are both income and interest rates. In addition one would expect *savings to be influenced by price stability, confidence in the currency,* general investment climate, and such non-economic influences as social and political considerations.

Although the immediately preceeding discussion was generally conducted to real savings (i.e. savings in a national income sense), it is no less applicable to financial asset accumulation which are a major form of total savings in economies such as ECCA territories with limited opportunities for direct investment. It should be recognised, nonetheless, that to some extent financial savings are substitutable for real savings in the total portfolio of savings assets. Consequently, growth in financial savings does not necessarily reflect a growth in total savings or vice versa. The remainder of this section focusses primarily on interest rates, income, and the rate of inflation as the main possible determinants of commercial bank deposits. The non-economic factors, apart from being not easily quantified, are less amenable to policy manipulation than economic factors.

NATIONAL INCOME*

If we assume that there exists a stable relationship between income growth and the demand for financial asset holdings, one would expect as income increases, the level of deposits would also rise. Looking at the growth of deposits and GDP for all ECCA territories, it is found that in all territories the rate of growth of total deposits surpassed that of GDP in the late 1960's (see Table 6). A GDP growth rate of .95 compared to 17.2 for time deposits for St. Kitts, reflects the almost stagnant state of the economy experienced at this time and the high level of non-residents deposits as

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* GDP data are/often not very reliable, but are the best estimates available for making any meaningful analyses.

a percentage of total deposits. For Antigua, Dominica and St. Lucia, almost similar trends are observed for the first period. The impact of the growth of tourist industry triggered growth in other sectors. GDP increased to an annual growth rate of 19.7% between 1971-1977, while deposits registered an even faster growth rate of 23.3%. Similarly, in St. Lucia in the 1970's, tourism and manufacturing improved and developed. The Hess Oil Company also had a major impact on the economy. By 1976 the growth rate was 12%, in 1978 it had increased by 16.9% over the previous year, the growth of total deposits also increased significantly.

In Montserrat, St. Vincent and Grenada, the high rates of growth observed for total deposits was due mainly to non-resident deposits as a contributor to total deposits. The St. Vincent economy remained in a depressed state up to 1977 due mainly to low prices for exports. In the 1970's, increasing economical activity in various sectors has led to slight improvements in the annual growth rate.

For both Grenada and Montserrat, there is a decline in the annual growth rate of GDP, while concomitantly there is an increase in the average annual growth rate of total deposits. Information on the performance of the Grenadian economy (/7) indicates a general decline in the economy between 1970-1975.

In most of the islands there is therefore a parallelism between the rate of growth of deposits and GDP in the 1970's. The role of income as an index of the capacity to save is obvious. Casual observation suggests that low income workers consumes almost their entire income. As income increases, this gives rise to a positive propensity to save. This is in keeping with the theory of the decrease in the long-run marginal propensity to consume. Capital inflows for investment purposes (between 1975-1978 in St. Lucia *private investments* grew by 87%)[6] might be an additional factor. The level of growth rates have been sustained by sizeable remittances especially in St. Vincent.

Other factors, such as shifts in the asset portfolios of wealth owners and financial intermediaries cannot be fully assessed here. But it is expected that as an economy develops, the level of assets held in financial intermediaries would increase.

PRICES

Looking at the evidence (Chart I) there is no indication of a negative relationship between price increases and changes in saving balances in the economy. Inflation ($\dot{p}$) should reduce the real rate of return on financial assets and hence be inversely related to the demand for deposits. This hypothesis does not hold true for ECCA territories. Given the motives which exist for savings, many individuals increase their holdings of bank deposits regardless of the rate of inflation. The absence of alternative real and financial assets might have contributed to this result.

Up to 1972 modest rates of inflation were experienced in the territories, growth rates for this period were large. With the increasing oil prices for 1973, and the recession in the U.S. in the mid 1970's inflation increased to almost intolerable levels in all the islands in 1974 (36.2 in Dominica, 34.1 in St. Lucia, 35.9 in St. Vincent, 35.5 in Montserrat and 28.5 in St. Kitts). Yet increments in total deposits showed no appreciable changes for most of the territories as shown in Chart (1). When the rates of inflation dropped to more moderate levels by 1977 (7.0 in St. Vincent, 8.9 in St. Lucia) total deposits continued its upward trend. The growth of total deposits between 1974-1978 surpassed the growth in these deposits for the preceding years in most ECCA territories (see Table 7) when the rates of inflation were lower.

Nominal rates of interest have failed to keep pace with the rate of inflation for the latter part of the period. Assuming that actual rates of inflation are expected rates, then it is obvious from the data that negative real rates of inflation prevailed for much of the period for certain assets. However, inflation via its impact on real interest rates as well as on the transaction demand for deposits have not altered to any significant extent, the preference for deposits.

INTEREST RATES

The term structure of interest rates varies according to the type of market in which they are determined. In a closed economy the interest rate is determined by the supply and demand for loanable funds (i.e. assuming income and prices remain constant). In an open financial system, these rates can be influenced by exogenous factors including external interest rate movements, price level changes, and statutory regulations.

The East Caribbean Currency Authority is the monetary authority for the territory, and is, by its very structure, unable to influence such rates in the territories. The East Caribbean dollar was tied to sterling up to 1976, and the foreign revenues of these territories were held in sterling until this time. With a free movement of funds between the United Kingdom and the State, it would be expected that commercial bank rates would vary with United Kingdom bank rate to preserve the differential between rates in London and the territory. There is no indication that this is the case (see Chart II).

In interviews with the managers of commercial banks in some of the territories, it was brought out that these banks, in co-operation with their Head Offices (where applicable) were responsible for fixing the rates on deposits. The level of the rates are influenced by the degree of competition of the banks, their cost and earnings which invariably affect their profit margin, and the anticipated reactions of the consumers to the increase in the rates. These conditions pertain to each particular territory. Thus it is usual to find that deposit rates vary, among branches of the same bank in different territories, by as much as 1½% in the same time period.

In all the territories where national banks exist, it has been found that the rates of interest offered on both savings and time deposits are higher than that offered by other banks operating in the particular island. This is to attract potential customers, and to encourage others to switch. These banks also appear to be overwhelmingly concerned in attracting the small saver. This was done in order to build some foundation for themselves in the banking industry.

The bulk of deposits held at most banks were in the form of saving deposits up to 1972. As interest rates increased significantly in 1973, 1974 and 1975, there is a marked switch observed in the composition of deposits (see Table 4). When interest rate was highest (average of 9% for the islands), in 1974 the growth and level of time deposits also increased significantly. By the end of 1976, the rate of interest paid on all categories of time deposits had dropped to an average of 4.0% as in the early period in Antigua, St. Lucia, Dominica, St. Vincent. There were also small decreases observed in the growth and level of time deposits. It was brought out in interviews that some middle income consumers and businessmen are becoming interest sensitive, particularly in St. Lucia and Antigua. The data is not available to permit an analysis of the effect of the different interest rates on the term structure of fixed deposits.

Savings deposits, in contrast to time, attract a very low rate of interest and on average pay no more than 4% per annum, and goes as low as 2.7% (St. Lucia 1977). This rate has remained stable over the whole period in all the islands, and seems to have been unaffected by the prime loan rate. Chart 3 shows the lack of movement interest rates on saving deposits, and the synchronous growth in those deposits in a period of rising prices. Take the case of Montserrat. In 1974, the rate of interest on saving deposits increased from 3.75% to 4.3%, the percentage change in savings deposits declined, when the rate decreased from 3.0% in 1976 to 2.5% in 1977 there was a large percentage increase for savings deposits of 16%. Similar examples can be found for the other territories.

The rationale behind the low rates offered on savings deposits is that commercial banks have found if the rates are increased, the differentials in the rates have little impact even on those persons who have built up small savings balances over the years. Obviously, movement in interest rates do not affect all categories of deposits in the same way. Saving deposits seem to be invariant with respect to its own rate of interest (there has been no positive relationship observed between the level of savings and the sqvings rate). This suggests that the decision to same is dominated by other factors.

Generally, with reference to the relationship between the share of deposits and interest rates, it cannot be asserted on the basis of our analysis that there has been a greater consciousness of interest returns on the part of asset holders. However, the precise relationship between the variables are not very clear, and suggest the need for vigorous statistical procedures. This is at present being undertaken.

AN HISTORICAL OVERVIEW OF COMMERCIAL BANKING IN ECCA TERRITORIES

The previous empirical analysis must be placed in an historical perspective.

A considerable amount of interest is recently being shown in the operations of commercial banks in the Caribbean as governments seek to increase their knowledge about the magnitude, pattern and structure of their operations. This is in keeping with the new trend in government circles in the region, of the need to be aware of, or preferably to get an insight into the economic and financial aspect of the economy. Information about the commercial banking industry is therefore of paramount importance as they can be regarded as the most highly developed sector of the monetary and financial system of any Caricom country.

Their importance are even more obvious in the case of the "so-called" LDC's of the region where the development of non-banking financial institutions is limited. Indeed, institutions such as Building Societies, Insurance Companies, and to a lesser extent, Government Savings Banks are practically non-existent. Even in those territories where they do exist, their level of development is rudimentary and is no serious threat to banking institutions. This is in contrast to the operations of NBFI in the MDC's where those institutions are in serious rivalry to commercial banks. Whereas in most of the developed countries of the world, if a comparison of bank and non-bank assets were to be made, it would be revealed that collectively non-bank assets are greater than those of commercial banks and are increasing.[7]

Commercial banking in the region dates back to the nineteenth century, and like their Caricom counterparts were introduced for specific purposes. Up until the late 1960's, four commercial banks dominated the banking industry. These are Barclays Bank with branches in each of the seven territories; following closely is the Royal Bank of Canada. This was also established early throughout the Caribbean. Canadian Imperial Bank of Commerce had less branches and Nova Scotia entered into the banking industry after 1945.

These British and Canadian banks performed all the commercial business in the territories. They established a form of cartol arrangement among themselves. This ensured that no one bank would be considerably better off than the other through a policy of fixing prices and tacit agreements to prevent price competition among themselves.

As tourism and trade with United States have gathered momentum in the Caribbean, and particularly in the ECCA territories over tho last ten years, one has witnessed the entry of United States banks. This has resulted in an increase in the number of banks operating in the islands.

A more recent development in the banking industry has been the entry of State owned and local private banks. This began with the establishment of the State Bank in 1974 in St. Kitts, followed by the National Commercial Bank in St. Vincent in 1977, the National Bank in Dominica in 1978, the conversion of a foreign bank to a local private bank in St. Kitts in 1978, and finally the conversion of privately owned co-operative banks to full commercial bank status in Antigua (Antigua Commercial Bank) in 1974 and in St. Lucia.

This has meant the market has become more competitive and the view is that there has been a breakdown of the extent of the monopolistic or oligopolistic policies practised by the original four commercial banks. (N.B. competition has not arisen from branch banking but rather the introduction of new banks).

At the end of 1978 there were therefore a total of some 29 commercial banks operating in the Leewards and Windwards (i.e. Antigua, St. Kitts-Nevis, Montserrat, St. Lucia, St. Vincent, Grenada, Dominica), with a population ranging from 11.7 in Montserrat to 100.9 in St. Lucia. Four of the United States based late foreign entries into the region has closed their operations in Antigua, (VINB, AIT), Montserrat (Chase), Grenada (1976) (Chase). The smallest territories (in terms of population size) has the least number of banks.

These banks that operate in the ECCA territories are predominantly foreign owned. Indeed local ownership of, or participation in commercial banks did not take place until the latter part of the 1970's with the establishment of State Banks. The extent of foreign domination is even more obvious if one were to look at the percentage share of foreign liabilities in the industry as a whole, or any one territory in particular. For the industry as a whole, foreign owned banks account for up to 93% in 1978, and for each territory (with the exception of St. Kitts-Nevis) the industry is either 100% foreign owned or at least 95%. The number of local banks number a mere six of the sum total.

The trend that has developed for local participation in banking follows a somewhat different path though related to the precedent set by the larger Caricom countries. For example, in Jamaica, it was a case of re-organization of some banks, Nova Scotia in the 1960's, and Nationalisation of Barclays in 1977. Similarly in Guyana. Trinidad and Barbados pursues the same path to a lesser extent. In the islands it has been a case of establishing State banks. *The banking industry remains foreign dominated.*

The question of ownership whether State, private, local or foreign is undoubtedly tied up with the type of political ideologies that have surfaced in the Caribbean region in the late 1960's and the present decade and the related issue of the ownership of the means of production. It would therefore seem that in most of those territories whose political ideologies have undergone obvious changes the case of nationalisation and localisation of commercial banks is *more apparent. These trends have helped to influence the* establishment of indigenous banks in some of the ECCA territories. Indications are that later in the 1970's and over the next decade, one would see developing national banks in all the territories. Whether this birth of State control, apart from being politically acceptable is economically feasible in terms of efficiency, changing present patterns of lending, or channelling policies in keeping with the social and development aspirations of the governments, is a question for debate.

Related to the *question of indigenous* banks *or* State *owned* banks is that they are all unit banks. Most of the banks that operate in the ECCA territories are unit banks; in very few of the territories does one find more than one bank operating. This is vastly different from the situation obtaining in the other Caricom countries where there are several branches of any one bank to be found operating in the city and rural areas. At the same time it is noteworthy that most of the foreign banks are subsidiaries of some metropolitan parent company about four in number. So that although there are twenty nine units, twenty three of these each belong to four different parent company, Barclays, Nova Scotia, Royal Bank of Canada, Canadian Imperial Bank of Commerce. Also these banks all operate with a common Currency Authority (ECCA). This is the central monetary authority (a modified Currency Board system), for the Windward and Leeward islands. By virtue of the limited powers with which it is endowed, it lacks the discretionary authority to regulate and control commercial banking activities. Within the currency area therefore, there is no exchange rate barriers in existence, restrictions and/or obstacles to currency transactions are often negligible. This implies that reserves of one bank can be transferred to others who share the same parent company, and in this sense the banks can be termed branch banks giving them an excess of autonomy. They are better able to withstand fluctuating economic conditions or crises than the indigenous unit banks.

Arising out of the above discussion, a heated debate can be made on the opposing dimensions of a series of small banks versus one or two large banks. The question of size, efficiency (given low levels of financial resources of the ECCA territories), cost and economies of scale will undoubtedly arise.

TABLE 1

Net Position of Commercial Banks
of ECCA Territories - 1966-1978

Year	St.Kitts	Antigua	Dominica	Grenada	Montserrat	St.Lucia	St.Vincent
1966	7.5	-11.5	6.8	6.7	-0.3	1.8	-1.5
1967	6.0	-12.2	8.8	9.1	1.4	-0.7	-0.2
1968	8.0	-26.9	10.5	9.0	1.7	4.8	-0.7
1969	10.7	-21.3	12.0	13.3	2.8	10.4	6.6
1970	11.6	-19.3	10.2	4.4	3.9	3.5	8.3
1971	11.4	-18.1	4.8	-1.3	5.5	4.0	8.3
1972	10.6	-13.8	0.4	-11.9	5.4	-3.8	4.8
1973	7.2	-14.7	0.2	-12.0	4.3	-0.2	1.5
1974	13.1	4.9	0.6	-12.4	4.9	-1.6	1.0
1975	12.9	4.2	1.3	-1.5	5.9	1.3	3.5
1976	9.5	-23.6	-1.6	-0.6	-0.8	-3.0	1.7
1977		-9.3	-0.4	-2.2	0.3	-2.0	-0.1
1978		-9.0	-1.4	5.0	-0.1	-5.4	-1.8

TABLE 2

Annual Rates of Deposits and Loans for ECCA -1966-1978

	St.Kitts	Antigua	St.Lucia	Dominica	St.Vincent	Grenada	Montserrat
Total Deposits	18.3	16.7	19.9	13	19.1	12.7	14.3
Demand Deposits		13.5	18.0	15.4	19.1	10.9	--
Time Deposits		25.6	14.7	17.8	25.3	13.7	7.4
Savings Deposits		13.5	18.3	11.2	16.4	12.7	16.9
Loans and Advances		12.5	22.2	19.1	15.9	14.3	12.7

Annual Rates of Growth of Deposits

	Total Deposits	Demand Deposits	Time Deposits	Savings Deposits
(a) Grenada				
1966-1969	19.7	27.6	13.5	21.9
1970-1973	8.6	18.3	24.3	2.8
1974-1978	16.9	24.7	14.6	16.7
(b) St.Lucia				
1966-1969	23.3	29.4	27.9	18.6
1970-1973	31.5	15.9	48.6	24.4
1974-1978	14.8	25.6	8.9	16.7
(c) St.Vincent				
1966-1969	21.3	16.7	36.1	17.5
1970-1973	16.7	12.5	17.8	17.8
1974-1978	20.5	26.8	22.5	17.8
(d) Antigua				
1966-1969	22.7	22.5	30.6	21.1
1970-1973	16.4	11.2	34.6	6.4
1974-1978	6.4	1.86	1.9	14.6

TABLE 3

Ratio of Loans/Advances To Deposits For ECCA Territories: 1966-1978

Year	Antigua	Dominica	Grenada	St. Kitts	St. Lucia	St. Vincent	Montserrat
1966	1.42	.37	.57	.33	.81	.98	.56
1967	1.18	.28	.51	.33	.99	.83	.63
1968	1.56	.28	.47	.33	.72	.64	.58
1969	1.20	.33	.57	.53	.58	.54	.55
1970	1.16	.45	.90	.57	.80	.59	.55
1971	1.09	.64	1.04	.35	.96	.60	.48
1972	1.04	.83	1.07	.52	.95	.73	.51
1973	1.01	.87	1.03	.64	.91	.82	.59
1974	.79	.77	1.01	.62	.91	.86	.59
1975	.73	.69	.77	.52	.89	.66	.56
1976	.83	.70	.63	.47	.85	.52	.50
1977	.96	.69	.69	.54	1.04	.65	.49
1978	.91	.71	.68	.57	1.01	.69	.49

TABLE 4

Composition of Deposits of ECCA Territories 1966-1972

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1979
Antigue													
Time Deposits	17.0	19.1	22.1	20.3	26.4	30.1	36.8	41.4	48.7	55.4	48.0	33.4	41.2
Savings Dep.	58.6	57.3	54.3	55.8	53.6	54.6	47.3	40.9	30.9	33.8	37.3	44.3	41.6
Demand Dep.	24.4	23.6	23.6	24.9	20.0	15.3	15.9	17.6	20.3	10.8	14.7	22.8	17.1
St.Lucia													
Time Dep.	23.4	25.4	25.0	25.9	29.5	32.2	38.0	42.6	45.4	45.9	38.1	33.3	37
Savings Dep.	52.9	55.8	52.2	46.5	51.9	52.0	48.5	44.6	41.4	38.7	44.7	47.4	44
Demand Dep.	23.7	18.8	22.8	27.6	18.6	15.8	13.5	12.8	13,3	15.4	19.2	19.3	19
St. Kitts													
Time Dep.	17.8	15.4	17.5	19.1	21.1	23.2	21.5	20.1	25.7	23.3	27.0	29.2	
Savings Dep.	62.1	65.9	64.5	60.9	64.1	61.2	63.4	65.3	57.5	53.9	61.5	61.0	
Demand Dep.	20.1	18.7	18.0	20.6	14.8	15.6	15.1	14.6	16.8	12.8	11.5	9. 8	
Grenada													
Time Dep.	28.0	28.5	28.9	24.0	22.9	26.9	31.8	33.6	34.7	45.2	37.8	34.1	31.7
Savings Dep.	51.4	51.8	52.3	51.1	61.1	59.3	54.4	51.6	51.9	42.7	45.7	49.4	51.1
Demand Dep.	20.6	19.7	18.8	24.9	16.0	13.8	13.8	14.8	13.4	12.1	16.5	16.5	17.2
St. Vincent													
Time Dep.	17.7	18.7	19.9	25.7	25.3	24.1	25.3	26.3	32.0	42.5	35.2	32.8	33.8
Savings Dep.	64.7	65.1	62.2	58.7	58.0	62.9	60.8	58.9	54.1	45.3	49.8	51.7	48.9
Demand Dep.	17.6	16.2	18.9	15.6	16.7	13.0	13.9	14.8	13.9	12.2	15.0	15.5	17.3
Dominica													
Time Dep.	12.6	15.6	16.9	19.6	18.4	18.8	19.2	18.9	29.2	33.3	31.7	23.6	20.9
Savings Dep.	70.5	67.2	62.9	63.5	67.8	69.6	69.3	66.2	58.0	54.8	54.9	60.7	57.7
Demand Dep.	17.9	17.2	20.2	16.9	13.8	11.6	11.4	14.9	12.7	14.4	13.4	15.6	21.4
Montserrat													
Time Dep.	23.5	30.5	33.7	31.6	31.7	32,2	28,3	25,5	27.0	33.2	26.8	12,5	11,2
Savings Dep.	58.7	52.2	53.2	54.9	52.2	53.9	56.2	57.1	54.2	50.5	54.9	70.2	68.1

TABLE 5

Non-Residents Deposits as % of Total Deposits 1972-1977

Year	Montserrat	St. Vincent	Grenada	Dominica	St. Kitts	Antigua	St. Lucia
1972	19.9	18.2	16.0	3.3	12.2	8.0	12.9
1973	24.5	17.3	17.0	16.3	16.5	9.7	17.2
1974	27.9	18.0	20.4	15.0	15.3	10.1	11.8
1975	31.2	22.6	19.3	17.3	15.4	10.6	11.4
1976	31.9	22.4	16.6	13.5	13.8	11.3	10.6
1977	24.1	22.3	16.5	12.1	13.1	11.2	10.5

TABLE 6

Average Annual Growth Rate of Deposits and GDP

	GDP	T.D.
ANTIGUA		
1966 - 1970	8.1	14.0
1971 - 1977	19.7	23.3
ST. LUCIA		
1966 - 1970	8.1	19.7
1971 - 1975	8.6	18.6
ST. VINCENT		
1966 - 1970	7.1	16.7
1971 - 1977	8.6	21.0
GRENADA		
1966 - 1970	10.7	11.9
1971 - 1977	8.9	15.1
ST. KITTS		
1966 - 1970	.93	17.2
1971 - 1976	13.8	15.1
DOMINICA		
1966 - 1970	5.7	12.7
1971 - 1977	11.7	14.6
MONTSERRAT		
1966 - 1970	10.7	14.8
1971 - 1977	7.7	19.7

TABLE 7

Rate of Inflation for ECCA Territories
1966 – 1968

Year	Antigua	Dominica	St.Lucia	Grenada	St.Vincent	St. Kitts	Mont.
1966	-1.0	1.7	2.4	0.3	4.1		5.0
1967	7.0	5.1	3.1	8.0	2.9	2.4	5.1
1968	7.7	3.5	4.0	5.7	2.7	9.9	5.0
1969	4.2	4.4	2.3	6.6	4.2	3.4	6.3
1970	6.2	12.9	13.4	4.8	4.2	15.7	6.0
1971	8.8	3.5	8.4	5.0	3.9	-1.7	16.9
1972	8.7	3.7	7.8	14.6	12.6	6.6	11.9
1973	12.6	12.1	13.5	9.8	16.3	9.9	18.6
1974	21.7	36.2	34.1	18.5	35.9	28.5	35.5
1975	13.0		17.8			9.8	
1976	13.2		9.7			7.8	16.4
1977	13.7		8.9		7.0	17.7	17.8

TABLE 8

Rates of Interests on Deposits For ECCA Territories: 1969-1977

	St. Lucia	Antigua	St. Kitts	St. Vincent	Dominica	Grenada	Montserrat
1969							
RSD	4.10	4.30	4.13	4.15	4.10	4.20	4.10
RTD (6)	-	5.25	5.50	4.95	4.95	5.30	4.95
RTD (12)	5.60	5.70	5.60	5.45	5.50	6.00	5.45
1970							
RSD	4.25	4.10	4.13	4.6	4.10	4.15	4.10
RTD (6)	6.10	5.65	5.25	5.6	5.6	6.00	5.35
RTD (12)	6.50	6.00	6.00	5.55	5.30	6.55	5.50
1971							
RSD	4.20	4.65	3.00	3.95	3.75	4.10	4.25
RTD (6)	6.40	5.60	5.25	5.10	4.65	6.40	4.80
RTD (12)	7.05	6.15	6.00	5.90	5.15	7.15	5.40
1972							
RSD	3.75	3.90	3.00	3.25	3.0	3.75	3.20
RTD (6)	5.50	6.0	4.07	4.75	3.75	6.10	3.75
RTD (12)	6.50	6.0	5.20	5.50	4.25	6.70	4.8
1973							
RSD	4.10	4.70	4.00	[illegible]	[illegible]	[illegible]	[illegible]

GDP for ECCA Territories

	Antigua	St.Lucia	St.Vincent	Grenada	St.Kitts	Dominica	Montserrat
5	56.27	42.63	26.57	34.54	27.54	28.60	5.8-58
6	42.16	49.34	28.23	41.15	29.50	30.64	7.3-52
7	43.31	51.27	28.4	43.12	29.59	32.32	8.7-37
8	46.22	54.44	31.36	48.42	27.65	34.12	9.3-33
9	45.45	65.91	33.90	56.85	29.20	35.40	9.8-33
0	49.95	66.79	37.0	61.27	30.47	37.9	10.8-97
1	57.73	75.98	39.59	65.70	33.57	39.6	11.7-90
2	81.20	73.30	45.00	61.06	43.00	45.1	15.5-0
3	89.90	72.80	49.70	64.74	48.30	51.5	17.30
4	104.00			72.00	57.20		
5	120.[illegible]		46.32	84.6	74.00	52.5	14.511
76	129.3		59.37	96.8	82.00	62.0	16.89
77	170.3		65.50	110.9		77.3	
78			81.37	120.7			

FOOTNOTES

1 See "Economy of Antigua" in Small Farm Study (17).

2 Some effects listed here are obtained from ECCA Financial Review 1974.

3 See (17) in Bibliography.

4 Ibid

5 ECCA Financial Review 1976.

6 Economy of St. Lucia in Small Farming Study (17).

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CHART I (a) Percentage yearly changes in Total Deposits and the Rate of Inflation For ST. Lucia 1967-1977.

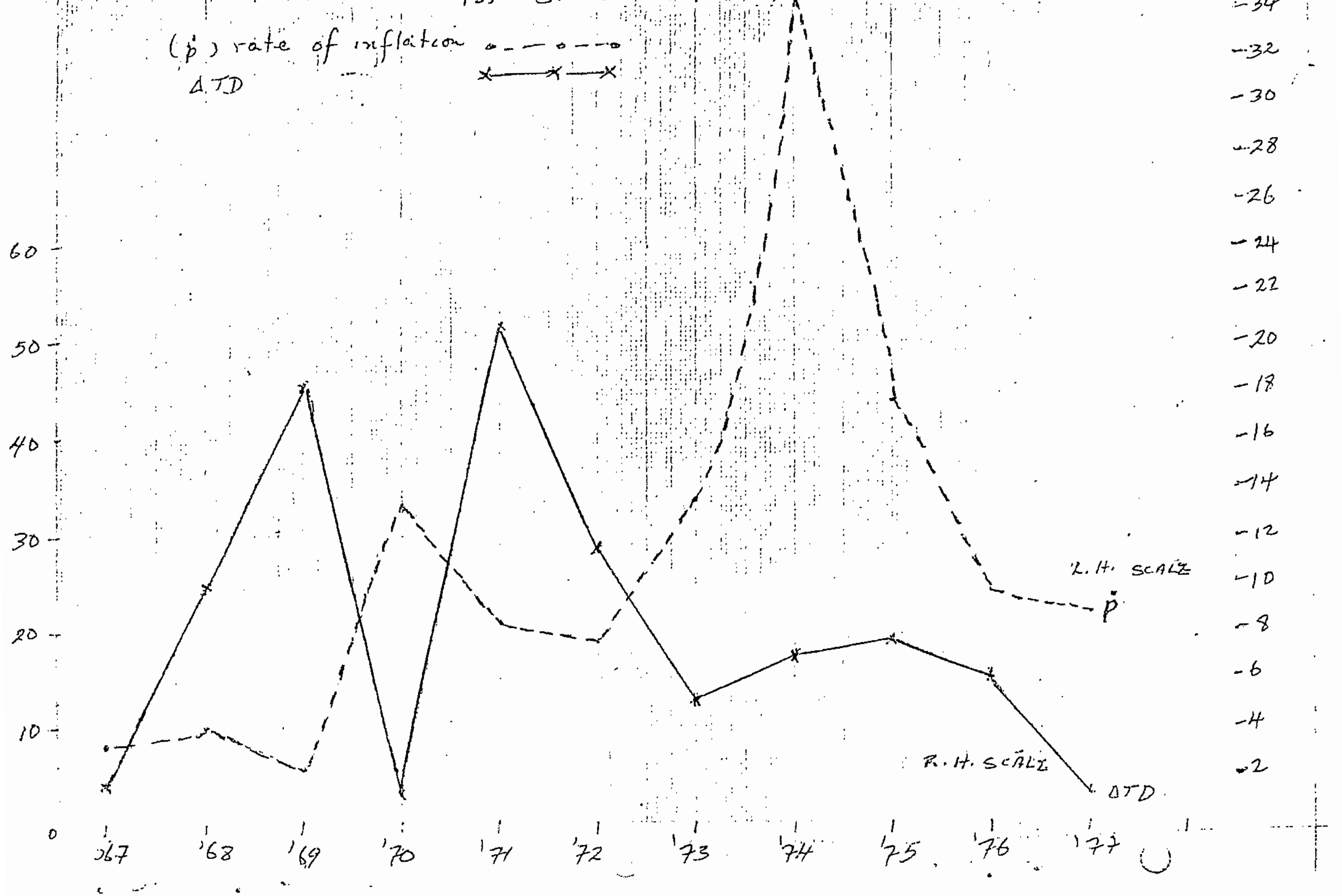

CHART II: Percentage Yearly Changes in Total Deposits and the Rate of Inflation For St. Kitts 1967–1977.

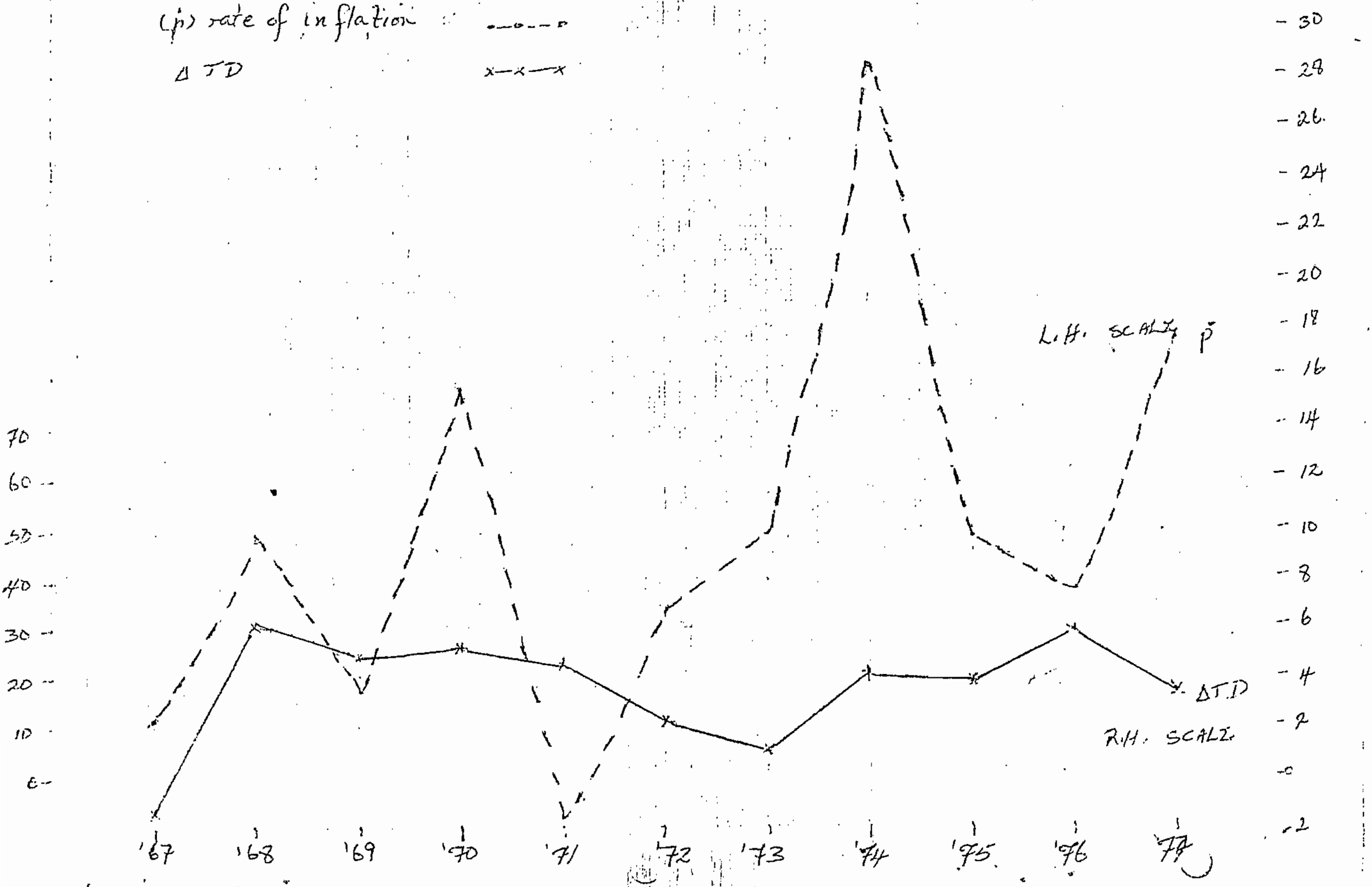

CHART 2.

U.K Bank Rate and Prime Loan Rate for ECCA Territories 1969-1977

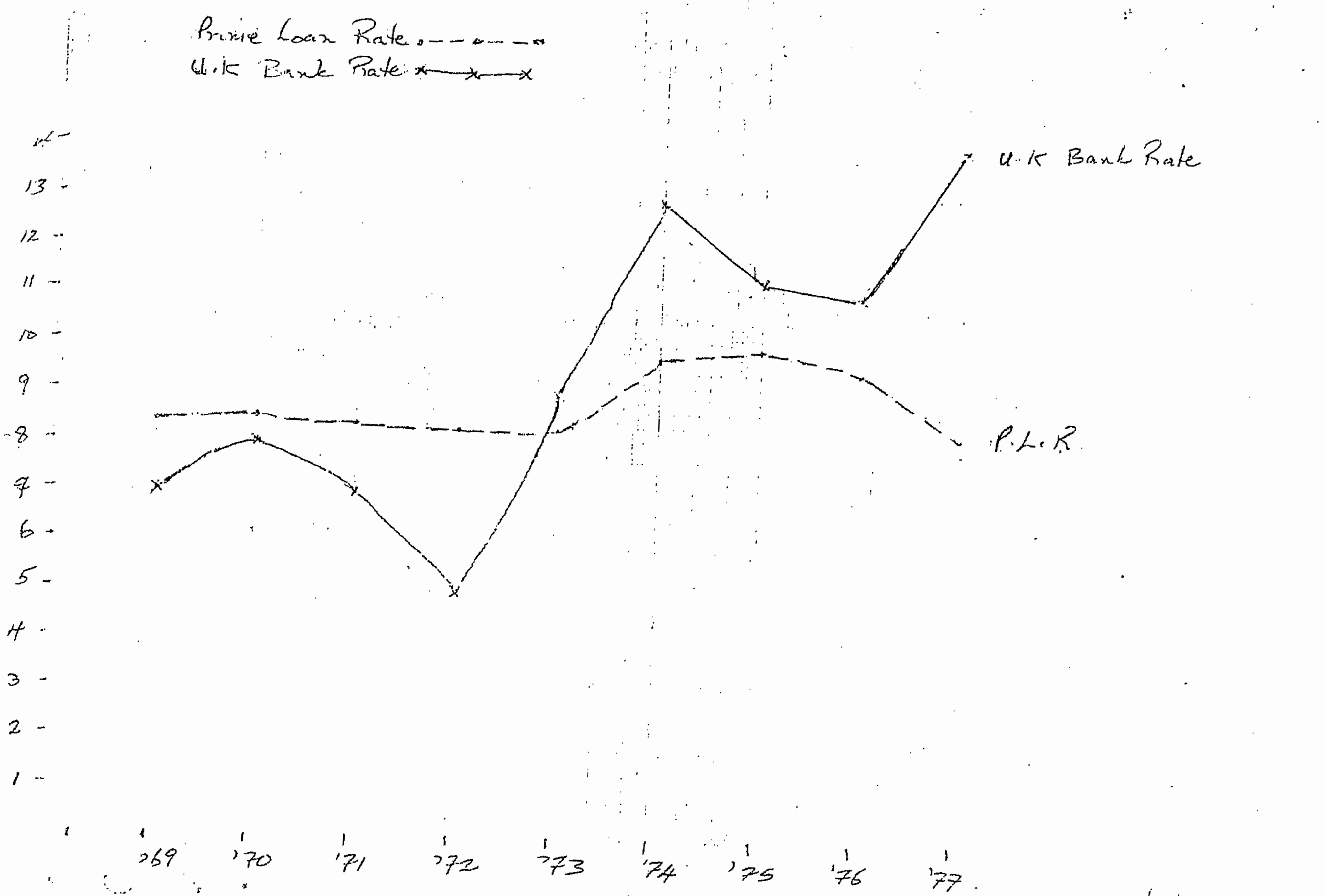

CHART V. Rate of Inflation, Rate of Interest on Saving Deposits and Total Saving Deposits for Montserrat. 1969-1978.

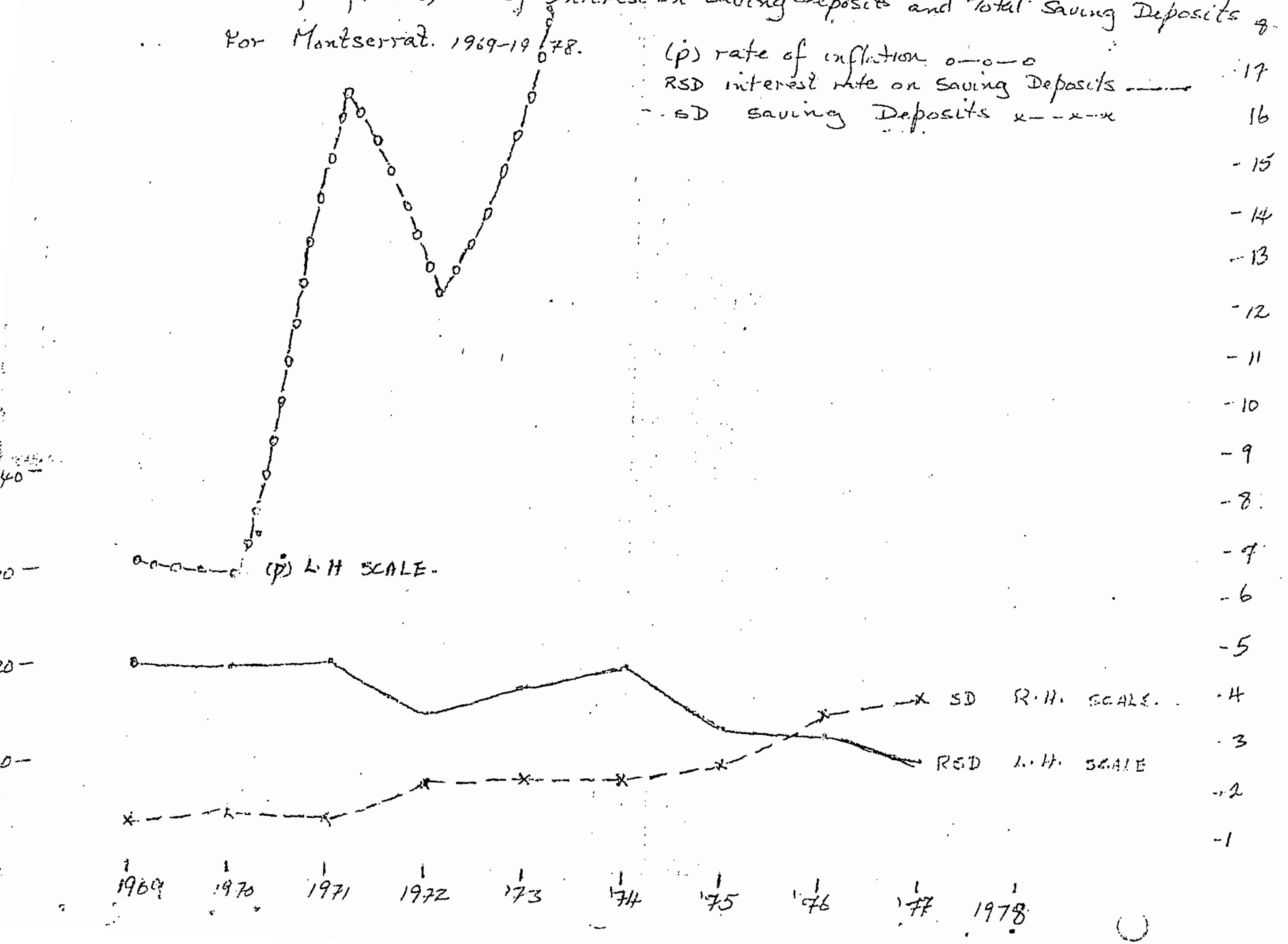

CHART I (b) Rate of Inflation, Rate of Interest on Saving Deposits and Total Saving Deposits For Antigua 1969 – 1977.