FOREIGN BANKING AND BUSINESS CONDITIONS

CURRENCY AND BANKING REFORM IN ECUADOR

In accordance with the recommendations of an American commission of experts under the chairmanship of Prof. E. W. Kemmerer, the Government of Ecuador, on March 19, 1927, passed a series of laws providing for currency reform and the establishment of a new central bank.

Currency reform.—The currency law provides for the devaluation of the sucre, which under the new law contains 0.300933 gram of fine gold, or one-fifth of the gold content of the United States dollar. The new sucre, therefore, has a par value of 20 cents in United States currency as compared with its former parity of 48.66 cents. Gold coins, 9/10 fine, in denominations of 25 sucres or 1 condor, and 50 sucres or 2 condors, will be minted by the central bank as agent for the Government.

The law abrogates all restrictions upon the free importation and exportation of gold and silver, effective on the day on which the new central bank opens for business. On the same date the moratorium, which has been in force since 1914, will be abolished.

Establishment of central bank.—The banking law provides for the establishment of the Banco Central del Ecuador. The bank is granted a charter for a period of 50 years. The head office is located in Quito, and provision is made for a major branch in every city of the Republic with a population of 80,000 or more, and for minor branches in other cities. Branches and agencies may also be established abroad.

Capital and shares of the bank.—The bank has a capital of 10,000,000 sucres, which may later be increased to 20,000,000 sucres. The shares are divided into two classes, A and B. Class A shares are subscribed for and held exclusively by banks, domestic as well as foreign, which conduct a commercial banking business in Ecuador. They must be purchased and held by every commercial bank now or in future operating in Ecuador to a total par value equivalent to 15 per cent of its paid-up capital and surplus, and by branches of foreign banks to 15 per cent of the capital and surplus assigned to them. Banks holding class A shares are known as member banks. Class B shares may be subscribed for and held without restriction by any individual or corporation, except that no member bank may hold for a period longer than six months class B shares to an amount, at par value, greater than 10 per cent of its paid-up capital and surplus.

Control and management.—The control of the central bank is vested in a board of directors consisting of nine members. Of these directors, two are appointed by the President of the Republic, two are elected by banks holding class A shares, one by holders of class B shares, and one by each of the following organizations: The Chamber of Commerce and Agriculture of Guayaquil, the Chamber of Commerce, Agriculture, and Industries of Quito, the National Society of Agriculture, and the labor organizations. Every director must reside in Ecuador, and the majority of the board must be citizens of Ecuador.

The board elects the president and vice president of the bank for a term of one year, and a general manager whose term of office is at the discretion of the board. Each branch of the Banco Central has its own board of directors, responsible to the general board and having only such authority as is delegated by that board.

Operations of the bank.—The business in which the bank may engage is clearly defined in the law. The bank may deal both with member banks and with the public. The relation of the central bank to the member banks is defined by law as follows:

> The Banco Central is authorized to make loans and discounts for member banks, to receive noninterest-bearing deposits from member banks, to carry on operations with them in the purchase and sale of exchange, the transfer and custody of money, the collection of checks, notes, and bills, and the purchase, sale, and shipment of gold. (Art. 44.)
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> The Banco Central shall act as a clearing house for the member banks in Quito and Guayaquil, and in any other city of the Republic in which it has a branch, in case a majority of the member banks in that city so desire. (Art 45.)

In addition to its dealings with the member banks, the Banco Central is authorized to carry on the following kinds of business:

> (1) To buy and sell cable and telegraphic transfers payable within 90 days.
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> (2) To buy, sell, and clear drafts and checks payable on demand, and drawn on banks and bankers of high standing at home or abroad.
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> (3) To buy and sell gold coin and bullion.
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> (4) To buy, sell, and discount drafts payable in foreign countries, and foreign bills of exchange maturing in not more than 90 days * * *.

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(5) To buy, sell, and discount bank acceptances of member banks, and domestic commercial bills maturing in not more than 90 days * * *.

(6) To receive noninterest-bearing deposits payable at sight.

(7) To buy, sell, hold, and accept as collateral * * * obligations of the National Government and of local governments * * *.

(8) To borrow money either at home or abroad * * * for the sole purpose of establishing or maintaining the gold standard * * *.

(9) To act as agent for the collection of credit instruments. (Art 46.)

The board of directors establishes the official rates at which the bank will discount eligible paper for member banks or purchase eligible paper in the open market. The rates of discount for member banks may be different from rates of discount for the public, and rates may differ for paper of different classes or maturities. But rates for the same kind of paper with the same maturity must be the same at the head office and at all branches.

The bank will act as fiscal agent for the National Government; and may also act as fiscal agent for the various political subdivisions, for the railroads, Government monopolies, and other Government enterprises. The credit operations of the bank with the Government are restricted and clearly defined.

Note issues.—The Banco Central has the exclusive right of note issue for the term of its existence. Prior to the establishment of the new central bank, the note issue privilege was enjoyed by a number of banks. In order to amalgamate these issues, the note liabilities of the former banks of issue were transferred to the Caja Central, created for that purpose by the law of June 23, 1926. In compensation for the note liabilities the Caja took over the metallic reserves held against these notes, together with Government obligations and other assets, which when added to the metallic reserves were sufficient to furnish a cover of 100 per cent against the note liability thus transferred. On the day of opening for business, the Banco Central will take over the assets and liabilities of the Caja Central, which thereupon will cease to exist.

The notes of the Banco Central are redeemable on demand in any of the following forms at the option of the bank:

(*a*) Ecuadorian gold coins issued in terms of gold sucres.

(*b*) Gold bars of approximately 100 per cent fineness and of weights not less than 500 grams, according to their fine gold contents.

(*c*) Legal weight gold coin of the United States at the rate of five sucres to the dollar, and legal weight British sovereigns at the rate of 24.3325 sucres to the sovereign.

(*d*) Demand drafts or three day sight drafts on New York or London, payable in gold and drawn on funds held in banks of high standing located in these cities; provided, that on such drafts the bank may charge a premium above the gold parity of the sucre with the American dollar and the pound sterling, respectively, which premium shall not exceed the amount necessary to cover all expenses involved in shipping gold bars in substantial quantities from Quito to the foreign financial center on which such draft is drawn. * * * (Art. 57.)

The Banco Central, as rapidly as its own notes are available, will exchange them for notes of the former banks of issue and of the Caja Central. These notes will thereupon be withdrawn from circulation and destroyed. Until their withdrawal, however, they will have the same rights of redemption in gold or gold exchange as the notes of the Banco Central itself. If the bank should fail to redeem its notes on demand as provided by law, it will be declared bankrupt and will be liquidated.

Reserve requirements.—The reserve requirements of the Banco Central are as follows:

The Banco Central del Ecuador shall maintain a gold reserve of 50 per cent of its notes outstanding, namely, the notes outside of its own possession, and its deposits, combined.

This reserve shall consist of—

(1) Gold coin and gold bars in the vaults of the Banco Central.

(2) Earmarked gold coin and gold bars in banks of high standing located abroad.

(3) Deposits payable in gold on demand or on three days' notice in banks of high standing in New York and/or London.

The reserve may be distributed among the abovementioned forms in such proportions as the board of directors may consider desirable. (Art. 78.)

The 50 per cent gold reserve shall be required also against the outstanding notes of the former banks of issue and of the Caja Central, for whose redemption and retirement the Banco Central is responsible in accordance with the provisions of the law. (Art. 79.)

Whenever the gold reserve of the Banco Central * * * shall fall below the legal minimum of 50 per cent, the bank shall be subject to a progressive tax. * * * (Art. 80.)

No discount rate of the Central Bank shall be below 7 per cent per annum when the bank's reserve shall have been continuously for one week or more below the above-mentioned normal minimum of 50 per cent of the bank's note and deposit liabilities combined. (Art. 81.)