The Financial Evolution of the Caribbean Community (1970-1996)

Edited by Laurence Clarke and Donna Danns

Caribbean Centre for Monetary Studies

THE FINANCIAL EVOLUTION OF THE CARIBBEAN COMMUNITY (1970-1996)

This publication is undoubtedly the most comprehensive documentation of the post-Independence financial history of the Caribbean Community and Nation. Against a brief theoretical background to the subject matter, the work charts a detailed chronology of the evolution of the financial institutions and economies of the Bahamas, Barbados, Belize, Eastern Caribbean States, Guyana, Jamaica, Suriname and Trinidad and Tobago. It explores the marked process of financial deepening evidenced in the region over the period of a quarter of a century studied. It concludes that while money and finance have undoubtedly underpinned the region's real economic progress since attainment of political Independence, the extent to which this catalytic process was effective must be the object of deeper and more sustained investigation. The publication concludes with the hope that Caribbean or other international scholars will soon rise to the emerging imperative of a more profound examination of the important nexus between financial and real economic development.

ABOUT THE EDITORS

***Dr. Laurence Clarke** is currently Executive Director of the Caribbean Centre for Monetary Studies at the St. Augustine Campus of the University of the West Indies, initially under the Technical Assistance Programme of the International Monetary Fund. He is a former Deputy Governor of the Central Bank of Botswana, and staff member of the International Finance Corporation and the World Bank, and is a Fellow of the Chartered Institute of (UK) Bankers. He holds a Doctoral Degree in Monetary Economics and graduate and undergraduate degrees in Finance and Economics respectively. He has edited and published monographs and articles in the areas of banking and financial and capital market development.*

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Caribbean Centre for Monetary Studies
Established under the joint auspices of the
Central Banks of the Caribbean Community and
the University of the West Indies

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Caribbean Centre for Monetary Studies
The University of the West Indies
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Foreword

Sir Neville Nicholls[1]

For a number of reasons I am very pleased to write the Foreword for this publication of the Caribbean Centre for Monetary Studies on the Financial Development of the Caribbean Community (1970-1996).

In the first place, the period 1970-1996 covered by this publication, by happy coincidence, just exceeds the first twenty-five (25) years of the operations of the Caribbean Development Bank (CDB).

Secondly, the establishment of CDB by an inter-government agreement (CDB's Charter) which was signed in Kingston, Jamaica, on October 18, 1969 and came into force on January 26, 1970, could itself be regarded as a land-mark in the financial development of the Caricom Region.

For among the several functions which CDB is required by its Charter to perform in order to achieve its purpose which is to "contribute to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic co-operation and integration among them, having special and urgent regard to the needs of the less developed members of the Region" are some which relate directly to the financial development of the Region.

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[1]Sir Neville Nichols is the President of the Caribbean Development Bank, Bridgetown, Barbados.

I refer, in particular, to the following functions:

(a) to mobilize within and outside the Region additional financial resources for the development of the Region;

(b) to promote public and private investment in development projects by, among other means, aiding financial institutions in the Region and supporting the establishment of consortia;

(c) to co-operate and assist in other regional efforts designed to promote regional and locally controlled financial institutions and a regional market for credit and savings; and

(d) to stimulate and encourage the development of capital markets in the Region.

By the end of 1995, having mobilized the equivalent of just over one billion United States Dollars in financial resources for the development of the Region, CDB had clearly succeeded in the performance of its resource mobilization function.

Furthermore, at a very early stage in its operations, CDB realised that, in order to be able to channel financing to small and medium-sized enterprises in its borrowing member countries (BMCs) in a cost-effective way, it would be necessary to work closely with financial intermediaries in these countries. CDB, therefore, encouraged many of its BMCs to establish development financial institutions (commonly referred to as Development Finance Corporations (DFCs), provided considerable technical assistance for this purpose and continues to provide such assistance to its BMCs as is necessary for improving the operational efficiency of their DFCs. In more recent years CDB has been exploring the feasibility of using private sector financial institutions as financial intermediaries in some of its BMCs and a line of credit has actually been made available to private sector financial institutions in one of its BMCs; CDB hopes to expand the use of private sector financial intermediaries in the future.

The publication of this very important work on Caribbean financial development is very timely. For it marks the first attempt to bring together, in a cohesive form, a comprehensive record of the financial development of all of the Caricom countries since 1970.

This publication, which details the specifics of the financial development of the individual Caricom countries since 1970, should prove to be a most interesting review and analysis, at the national level, of the financial development which was characterised by CDB at the regional level. It should also help readers, including policy makers and other observers of the Caricom scene, better understand the financial environment in which CDB operated in its first 25 years. It could also help to explain why CDB's functions relating to the promotion of a regional market for credit and savings and to stimulating and encouraging the development of capital markets in the Region were, perhaps, virtually impossible to perform.

October, 1997

Preface and Acknowledgements

The production of this book has been a monumental task spanning in a sense almost a decade. Work was first initiated in its compilation in 1990 by **Dr. Eric St Cyr**, at the time a Senior Lecturer at the University of the West Indies and Coordinator of the then (Caribbean) **Regional Programme for Monetary Studies (RPMS)**. The RPMS was a joint effort since 1968 between the Central Banks of the Caribbean Community and the University of the West Indies. As a result of Dr. St. Cyr's retirement from the University, completion was regrettably not possible and the effort was thus resumed by **Dr. Ramesh Ramsaran**, at the time a Reader at the University of the West Indies and successor to Dr. St. Cyr as Coordinator of the RPMS. While some progress was made, as in the case of the initial effort under Dr. St. Cyr's supervision, Dr. Ramsaran was unable to complete it, owing to a number of operational and practical difficulties facing the Centre at the time and in the contributions from the Central Banks themselves, though the ground-work was clearly laid.

Upon the restructuring of the previous RPMS in 1995 and the reconstitution at that time of the programme into the **Caribbean Centre for Monetary Studies (CCMS, The Centre)**, a third attempt was made by the Centre to launch and complete this project of vital importance to the CARICOM region. Work therefore began in earnest once again on the project in April 1996 when the region's Central Banks were reapproached and Mrs. Donna Danns appointed as consultant to the Centre for the project, under the wider supervision of the Centre's Executive Director. The fruits of this sustained final effort, and without doubt the earlier foundation, manifest themselves in the current release of this publication.

The journey therefore in the production of this book has been long, but in a sense began with the 'first step', as the Chinese are known to say proverbially. As is to be expected, along the way a number of people lent a hand, and more, to ensure the final completion of what amounts to a post-independence treatise of the financial history of the Caribbean Community. To these and many others, the Editors would like to express profound gratitude.

In particular, a deep debt is owed to Drs St. Cyr and Ramsaran for the torch that they lit and passed on along the way. Theirs was the vision to commission the work, for which the region ought to be fully grateful. Dr. St. Cyr in fact retained an active interest in this project to the extent that he readily agreed to be the referee for this final version. As expected, he did a suberb job of not only refereeing, but in supporting the Centre with his experience by also doing some editing of this massive work wherever that was still necessary in the final manuscript.

The region's eight Central Banks and in particular their individual contributing officers played a key role in the painstaking process of compiling the first and subsequent drafts of the individual country experiences, which form the nerve centre of the publication. In addition, the Central Banks were very helpful in the administration of an important survey in 1996 of financial practitioners, which attempted to guage the views of banks and non-banks operating in the region. The Centre and, indeed the region, are grateful for the persistence and tolerance of the Central Banks, as well as the other financial intermediaries, in addressing our queries and for their willingness to see the effort through to finality.

Michael Craigwell and, to a lesser extent **Allisha Abraham**, of the Centre consistently churned out and rechecked the extensive tables and charts that are the foundation to an effort of this sort. **Sharri Byron** , Graduate Assistant at the University of the West Indies, assisted by **Anthony Birchwood**, Research Assistant at the Centre, persisted and concluded the statistical analysis in the work, without which an important part of its substance would have been missing. **Gloria Lawrence** and **Carol**

Grant-Francique, Secretaries in the Institute of Social and Economic Research, St. Augustine, and **Jessy Mitchell**, a type-setting consultant, were exclusively responsible for the fine lay out of the book and worked tirelessly on a part-time basis to this end. **Marlene Jones, Irma Regis** and **Pamela Joseph**, Secretaries in the CCMS, bore the brunt of typing most of the initial chapters. **Sheldon Warner** of the UWI, St. Augustine, once again graphically conceptualised the theme of the book in his art-work design for the cover. Finally, and importantly, **Sir Neville Nichols** , President of the Caribbean Development Bank has, on yet another occasion, graciously agreed to support the Centre's operational efforts, by writing the **Foreword** for this landmark publication to the region.

To **Sir Neville** and all other regional personalities integrally and indirectly linked with the final launch of this book, a special thank-you is fully in order. History will undoubtedly be the final arbiter as to whether their dedicated efforts in the output of this important tome in the region's financial history, were in vain. As Joint-Editors, we sincerely think, their efforts were not.

Laurence Clarke
Executive Director
CCMS
Editor

Donna Danns
Economic Consultant to
CCMS
Editor

October , 1997

INTRODUCTION

Money, Finance and Development: The Nexus

Laurence Clarke[1]

This work represents perhaps the first serious attempt at documenting in a detailed and comprehensive manner the financial history of independent English-speaking Caribbean States, jointly and severally. It sets out for each of the eight states and groups of states (OECS) a systematic commentary on the emergence of their financial structures. The study also chronicles the key events of the financial landscape of these countries. In this respect, the study represents hopefully, a clear narrative of the particular paths of financial and monetary development, traversed by these economies.

At another level, the study could conceptually be viewed as a commentary on the nexus of money, finance and development, for a region whose post-independence economic emergence has ranged over the past three decades from laudable on the one hand (the OECS) to bordering tragic (Guyana and Jamaica). Such is the contradiction in the economic emergence of these economies, that while most of them were at about the

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[1]Dr. Clarke is the Executive Director of the Caribbean Centre for Monetary Studies at The University of the West Indies, St. Augustine, Trinidad and Tobago.

same level of development as Singapore and Malaysia in the 1960s, thirty years later none is anywhere as developed as either of these two Asian economies.

Thus the study could be equally viewed as a discussion on the importance of both money and finance in the broader economic development of these nations, as well as a partial analysis of the monetary and financial transmission mechanisms of these economies and of the effectiveness of such mechanisms in the process of development for small open economies.

The importance of such a study cannot be over-emphasized. It affords the opportunity to compare and contrast the financial development of various territories within the region, thus allowing us to learn from our collective strengths and weaknesses. As such, it provides a wider basis for critically assessing the policy framework of each territory. This can only serve to accelerate the learning process of the region, since history can serve as an invaluable teacher.

0.1. Money, Finance and Development

There are certain issues which naturally arise in a discussion on financial development. For instance one may question whether financial development in its own right, can have a causal effect upon economic growth. Put another way, is it theoretically and empirically correct to say that financial development is supply leading? In this regard, **Compton Bourne (1988)** observes that many developing countries have placed a great deal of emphasis on financial development, thus assuming a supply-leading role. This notwithstanding, much of the traditional economic literature is replete with the use of narrow money 'M1' as representative of the financial sector. The financial sector was simply seen as a veil over economic activity. Thus financial development was thought of as demand following, since it was viewed as the consequence of real-side activity, with narrow money used as an indicator.

It is common cause that money 'facilitates' and in turn emerges from finance, which in turn facilitates investment and development. But money itself is complex and multi-faceted. Different forms, types and species of money, give rise to various 'types' of finance and seriously influence the catalytic capacity for the transformation of such finance into real activity. Money could be 'narrow', it could be 'broad'; it could be 'deep', it could be 'shallow', it could be 'inside', it could be 'outside', it could be at one end of a spectrum 'fiat', it could be at the other end 'commodity' in content.

A common form of outside money would be 'fiat' money, that is, high powered or 'reserve' money, with virtually no backing in the form of foreign reserves. 'Fiat' money is inflationary money and ultimately inflationary finance. At the other extreme, 'commodity' money is the monetary liabilities of an economy, or more precisely, of its monetary authority that is fully or near fully backed, as in currency board arrangements. 'Specie' or commodity money, is 'outside' money that is not necessarily bad money, but in fact money that can facilitate non-inflationary finance, though only limited, financial development, because of its inefficient, not readily transactable form.

There seems to be growing consensus in the literature that:

(i) narrow money is inadequate as a representative variable of the financial sector; and

(ii) activity in the financial sector can affect the real side of the economy.

As early as 1933, **Irving Fisher** traced the slump in real economic activity of that time, to a spate of bankruptcies caused by untenable loans built up during periods of prosperity **(Mark Gertler, 1988).**

Later, **John Gurley and Edward Shaw (1955)** also alluded to the significance of the financial sector, by pointing to the need to explicitly include it in macro-economic theorising. In a path-breaking book three decades ago, **Raymond W. Goldsmith (1969)** sought to explain the structural relationships between finance and development in economies. He argued that over time the financial structures of economies change. That is, positive changes of this nature lead to financial development, itself a necessary ingredient for wider economic development. From a study of some three dozen developed and developing countries, covering the period 1860-1963, wherever possible, Goldsmith 'inter alia' made the following two key observations:

(a) Most countries tend to follow a broadly unique path of financial development as measured structurally by the size, composition, shape and distribution of their financial system or superstructure, relative to the real economy or infrastructure. A measure he describes as a **Financial Interrelations Ratio (FIR)**, would typically relate that financial superstructure to the real infrastructure of an economy; and

(b) There is typically a broad parallelism between the evolution of the financial structures of countries - that is, in their financial development and broader economic development - and this is normally positive. As financial systems develop, economies also tend to develop, though Goldsmith was unable in his study to ascribe any clear direction of causality.

While Goldsmith's objective was predominantly not to isolate underlying factors to financial development, he was clear in this contribution as to the constituent elements and components of financial structure and to their relationship to the wider economic structure.

A turning point in the literature came when **Ronald McKinnon (1973)** and **Edward Shaw (1973)** in their separate works, argued that a restricted (or repressed) financial sector only served to deter productive investment and therefore economic growth. They suggested that a liberalisation of the financial sector will be more conducive to improving the quantum and quality of investment. Moreover, as pointed out by **McKinnon (1973),** financial deepening is a likely outcome of such liberalisation.

Both the studies by **McKinnon (1973)** and **Shaw (1973)** have been challenged on various fronts, among which are its micro-economic underpinnings. Armed with the tool of asymmetric information, micro-economists have shown that a liberalised financial sector may not necessarily lead to a social optimal level of investment **(Zephirin, 1990)**. Indeed, adverse selection and moral hazard can have deleterious effects on the quantum and quality of investment. For instance, **Maxwell Fry (1966)** points out in a study of 85 developing countries that at the centre of the relationship between the financial sector and the real-side is the issue of information between savers, investors and/or intermediaries. The quantum and quality of available information on lenders and borrowers, will typically influence the quality of finance and the marginal efficiency of such finance. The greater, therefore, is the degree of symmetry in information affecting agents in a financial system, especially lenders in financial institutions, the less are the likely resultant problems of adverse selection and moral hazard. The presence of either of these conditions or states could provide influences that could be detrimental to the effectiveness of finance and entrepreneurial capacity and ultimately economic development.

Ongoing research is being conducted on models of the financial intermediation process and its relationship with the real side of the economy. A major concern here is the efficient allocation of financial resources and of insights into the transmission mechanism. The theoretical studies have been supported by a plethora of empirical studies being conducted as well.

0.1.1. The Caribbean Experience

The literature emanating from the CARICOM region on the nexus between money, finance and development is quite sparse. While not attempting to measure the degree of the link between finance and economic performance, **Laurence Clarke (1986)** raised the important question - as to whether there was a systematic 'stifling' by the banking system of non-banks in the region (Jamaica and Trinidad and Tobago), resulting from institutional, historical and other factors, and the extent to which real sector development was impaired if this were the case. He found that for the two Caribbean economies in his sample of four studied (Korea and the USA being the others) for the 1960-1980 period, there was not overwhelming and sustained evidence of 'stifling' of 'non-banks' by banks (a phenomenon he called 'financial asphyxiation'). However, whenever this phenomenon did occur (early 1970s for Jamaica and middle to end-1970s for Trinidad and Tobago), welfare costs were quite significant, with the real potential for adverse impact on real development.[2]

One of the earlier studies, however, that more directly attempted to assess the robustness of the financial-real sector nexus, was that of **Bourne (1988)**. This study combined several financial variables, including interest rates, income velocity, broad money, the ratio of credit to GDP, investment and GDP growth in OLS regressions, using Trinidad and Tobago data for the period 1953 to 1981. He concluded that financial deepening had a strong positive influence on investment and economic growth.

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[2]The study in fact showed the greatest incidence of this distortive phenomenon in the USA in the late 1960s and early 1970s, a finding perhaps corroborated later by the Savings and Loans institutional collapse in the 1980s.

Anthony Wood (1993) attempted an empirical investigation of the direction of causality of financial development in Barbados. Applying Granger-Causality tests to the ratio of M2 to GDP and GDP growth for the period 1946 to 1990, he found a bi-causal relationship between financial development and economic growth. However, when he divided the sample into sub-periods of 1946 to 1968 and 1969 to 1990, he found financial development to be demand-following for the former, and supply-leading in the case of the latter.

In a more recent study, **Anthony Birchwood (1997)** conducted a study with respect to Trinidad and Tobago on the link between the financial sector and real side of the economy, covering the period 1968-1994. In his study, the transmission mechanism between the financial sector and the real side of the economy was via the link between business credit, investment and economic growth. Birchwood proceeded to apply Granger-Causality tests to the ratio of commercial bank credit to GDP as the financial deepening variable and the growth of GDP as the real-side variable. Unidirectional causality was found in favour of a supply-leading relationship between the financial sector and economic growth, as was the case in the Wood study for Barbados between 1969 and 1990.

What appears to be the case, is that these empirical studies on the Caribbean suggest a supply-leading role of the financial sector over the last 25 years at least. In other words, they are consistent in their finding that finance has fuelled real-side development. Given the foregoing, a central objective of this study is not only to document the factual history of the financial emergence of CARICOM economies, but to identify possible parallels in the relationship between financial aggregates and those of the wider economic development of CARICOM countries. It also seeks to examine in the process, the extent to which such evolution has paralleled that of other more mature countries in their own emergence.

0.2. Structure of the Study

This study is divided into four parts. After an **Introduction** examines the nexus between money, finance and development at both the conceptual and empirical level, **Part 1**, defines the context and environment within with it the study is located. **Chapter 1** presents an overview of the study, identifying its key findings. **Chapter 2** then chronicles the broad evolution of Caribbean financial institutions since 1970. It identifies the general trends in the pattern, paths and traces of these agents of Caribbean financial development.

Part 2, consisting of **Chapters 3 - 10,** presents the individual country studies, sequentially moving from The Bahamas, Barbados, Belize, Eastern Caribbean States, Guyana, Jamaica, Suriname to Trinidad and Tobago. These Chapters each identified in detail the structural, policy and other environmental aspects that characterized and shaped each country's evolution through financial development.

Part 3 consists of the two final Chapters. **Chapter 11** attempts to statistically measure, in a preliminary way, what the financial development experience of the region meant for its wider economic development and seeks to underpin the nexus in such relationships for the region as a whole. In a sense this Chapter tests the second major Goldsmith finding between finance and wider development earlier alluded to in **Section 0.1** above and that of other later researchers in this area.

Chapter 12 then draws some concluding thoughts for the future direction of research and policy for CARICOM economies.

Part 4 presents chronologies of monetary and financial development for each of the CARICOM countries for the period of their study. These chronologies are followed by **Annexes** of key tables and statistical data underlying the study.

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Part 1

The Context and Environment

1

Post-Independence Caribbean Financial Evolution: An Overview and Summary of Findings

Laurence Clarke and Donna Danns[1]

The origin from colonial times of the financial sector of the Caribbean must at once be understood as an imposition on and a reaction to developments in the regional economies. The plantation economies of the Caribbean preceded the institutionalization of its financial sector. Both the concept of financial intermediation and financial institutions themselves were transplanted from European colonizing nations. Early financial institutions functioned to enhance internal and external payment mechanisms, provide trade financing, mobilize savings, facilitate capital transfer and investment abroad as well as lubricate the trade links between the regional and international economies. From its earliest beginnings and for much of its history, the region's financial sector has been conservative in the sense of being reactive and accommodating as opposed to proactive to changes in the economy and wider society.

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[1]Dr. Clarke is the Executive Director of the Caribbean Centre for Monetary Studies (CCMS) and Ms. Danns is a former Assistant Chief Economist of the Bank of Guyana and is presently an Economic Consultant to the CCMS.

As an integral part of the regional economy, the financial sector has over time been shaped by historical, political, social and economic factors which determined its growth and effectiveness. Though not in the least homogeneous, the financial sectors of Caribbean economies have manifested many attributes which could be traced to their common colonial origins. British and Dutch colonization have had a lasting impact on the structure and functioning of the financial sectors in the CARICOM region. In addition, CARICOM countries have gone through their own political changes and economic experimentation which have influenced ownership, growth and behaviour in their respective financial sectors.

1.1. Caribbean Financial Emergence

Taken as a whole, the financial sector of the region could be viewed as evolving through four distinct but interrelated periods. These could be described as:

1. The period of colonial financial growth;
2. The period of post-independence financial development;
3. The period of economic stabilization and structural adjustment; and
4. The period of financial innovation and preparation for the 21st century.

This study is specifically concerned about the last three of these periods, but nevertheless briefly includes a bird's eye view of the earlier period.

1.1.1. The Period of Colonial Financial Growth

This phase in the region's history witnessed the emergence of indigenous savings banks as early as 1828 in Guyana and the transplant of foreign commercial banks, most notably the Colonial Bank. Jamaica, Barbados, Trinidad and Tobago and Guyana have all had the Colonial Bank, which was probably the first "regional" financial institution to have ever existed. Other commercial banks emerging in this colonial phase with regional branches were the Barclay's Bank DCO, which in fact evolved from the Colonial Bank, and the Royal Bank of Canada.

The **British Caribbean Currency Board (BCCB)** emerged in the Anglophone Caribbean in 1951 as the single currency authority and highlighted not so much regional integration but the centralized regulatory demands of the British colonial rule. There was tight control of the issue of the British West Indian dollar which had a fixed initial exchange rate of BW$4.80 to £1. This period of colonial financial growth then witnessed the creation of financial structures tailored to the narrow structure of the colonial economies of the region. The financial sector was conservative and oriented to mobilization of financial resources for export and investment in metropolitan financial centres. Stimulating economic growth in regional economies was a peripheral rather than central concern of the financial sector in this period.

1.1.2. The Period of Post-Independence Financial Development (Early 1960s - mid-1970s)

This period was typified by the institutionalization of indigenous central bank systems and indigenous autonomous monetary authorities. The commitment to national sovereignty resulted in the demise of "regional" financial institutions and the concomitant de-regionalization of the financial sector. Nationhood status for regional countries witnessed the wooing of foreign investment. Numerous foreign commercial banks responded to this call for "industrialization by invitation". In countries such as Barbados, the Bahamas and some OECS countries, offshore banking institutions flourished. Locally, however, development banks were created by government to stimulate investment in desired sectors of the economy. A variety of non-bank financial institutions also emerged in this period. As regional economies restructured, some of these foreign banks either withdrew or were nationalized by some regional governments anxious to incline the financial sector to national development needs. The heavy hand of state intervention, regulation and ownership functioned to stymie the creative expansion of the financial sector of regional economies.

1.1.3. The Period of Stabilization and Structural Adjustment (Mid-1970s - early 1990s)

This phase of financial evolution signified the failure of nationalist economic plans and the grim economic recessions experienced in the region as a whole. It was a reactive phase in which plans for economic revival were externally created and imposed in exchange for selective but needed inputs of foreign capital from Multilateral Financial Institutions (MFIs), bilateral sources and private investors. Stabilization and structural adjustment programmes were essentially geared, *inter alia*, towards the institutionalization of a free market regime and diminishing state economic regulation, ownership and control. Several countries in the region - Guyana, Jamaica, Suriname, Barbados, Trinidad and Tobago - had undergone either structural adjustment or stabilization programmes. This period resulted in the freeing up of the region's financial sector from strangling exchange and other controls and regulations.

1.1.4. *The Period of Financial Innovation and Preparation for the 21st Century (Post-1990)*

This period was and still is a concomitant of the structural adjustment phase and was/is determined by:

(a) technological innovations revolutionizing the international financial sector and inducing the traditional regional financial structures to adapt or else risk extinction;

(b) the emergence of and competition from a plethora of non-bank financial intermediaries/institutions, cambios, money transfer systems etc. which are performing financial services previously the prerogative of commercial banks; and

(c) the influx of large flows of 'narco-dollars' into the veins of the regional financial sector, creating anomalous adjustments and novel financial institutional responses aimed at laundering such inflows.

In present day terms, the regional financial sectors are paying particular attention to strategic programming aimed at rapidly modernizing and internationalizing their operations to cope with competition and in response to futuristic perceptions of the 21st century. There is growing evidence that more technological innovations and financial experimentation have been introduced in the region's financial sector over the past five years than for all the rest of the 20th century - hence a relatively mature, deep and broad financial structure for most regional economies today, though there continue to be signs of fragility especially in Jamaica, and to some extent Trinidad and Tobago and Guyana.

1.2. The Evolution of CARICOM Financial Structures: A Bird's Eye View of the Study

Structurally, the Caribbean region, like most developing nations, has witnessed significant changes in its financial sectors since attainment of political independence in the 1960s (Jamaica, Trinidad and Tobago, Barbados, The Bahamas and Guyana) and the 1970s (Belize, OECS countries individually, Suriname). As a consolidated entity, the region's financial system has grown at a much faster rate than its real economy. As **Table 1.1**, which presents a rough estimate of the region's consolidated evolution, attests, all financial subsectors have also deepened significantly over the past two decades although the banking system (central and commercial) continues to dominate the financial landscape in the region, accounting for as high as over 80% of all financial assets in some regional economies. Non-banks as a group, especially thrift institutions such as pensions, building societies and credit unions also evidenced strong growth over the period.

In general, financial systems in every single country of the CARICOM region in 1995/96 are more complex, deeper, broader and in most cases more robust, than they were in 1975. Financial infrastructure including specialist legislation, instruments, technology and specialist technical human skills, are now by and large in place in most CARICOM economies, and in greater profusion than was the case two or more decades ago.

More specifically, the study finds the following:

(a) **Monetization:** Caribbean monetary systems, especially the banking systems themselves, are deeper presently than they were a quarter century ago, consistent with the global literature on financial development. Every single CARICOM country, for instance, now has a **Monetization Ratio (MR)** (broad money/GNP) higher in 1995 than in 1975. All of these ratios have shown distinctly upward trends over the years, suggesting maturing

Table 1.1. CARICOM: Estimates of Consolidated Financial Sector Position (1975-1995)
(US$ Millions)

	TOTAL ASSETS			AVG. GROWTH RATE P.A.		
	1975	1985	1995	1975-85	1985-95	1975-95
1. The Banking System[a]	4596.6	15458.9	18214.6	13%	2%	7%
2. Thrift Institutions[b]	52.2	476.5	1569.1	25%	13%	19%
3. Insurance Institutions[c]	268.7	127.3	1354.2	17%	1%	8%
4. Miscellaneous Institutions[d]	553.3	1972.9	2316.1	14%	2%	7%
ALL FINANCIAL INSTITUTIONS (ESTIMATES)	**5470.8**	**19179.6**	**23454.1**	**13%**	**2%**	**8%**

[a]Consists of central and commercial banks.

[b]Consist of post office savings banks, pension schemes, credit unions and building societies. Exclude data for The Bahamas 1995; Belize 1975; Suriname and the OECS for all years.

[c]Consist of public and private insurance companies. Exclude data for The Bahamas 1975, 1985 and 1995; Jamaica 1975 and 1995; Suriname and the OECS for all years.

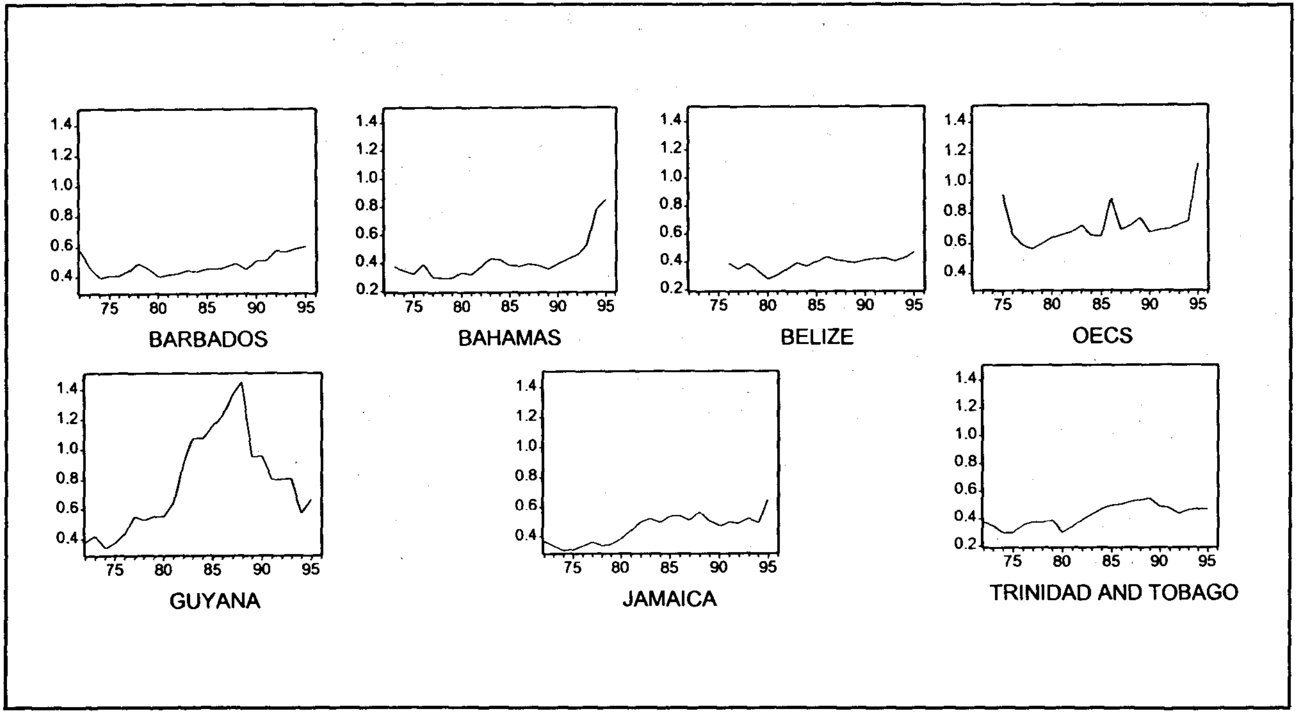
[d]Consist of trust and mortgage companies, finance companies, merchant banks, and development banks and corporations. Exclude data for Suriname and the OECS for all years.

monetary systems and larger shares of monetised GNP (**Table 1.2 and Chart 1.1**). In fact, 1995 monetization ratios in Jamaica, OECS and The Bahamas, compare favourably with 1995 levels in advanced emerging nations of Singapore and Chile, though they are still at levels much lower than today's mature economies were some 30-40 years ago. The rise in their ratios over the period has been fairly steep, as it was sharp for Guyana until 1988, when it gradually declined thereafter. On the other hand, most of the other countries while exhibiting growing ratios, did so at much slower rates. Presumably the excessive monetization of Guyana especially in the 1980s, was a direct result of its sustained fiscal imbalances and concomitant monetary expansion to fund such imbalances, while the rapid evolution of the off-shore sector in the Bahamas was probably key to its own special performance.

Table 1.2. Monetization Ratios for CARICOM Countries (1975-1995)

	1975	**1985**	**1995**
Bahamas	0.32	0..38	0.85
Barbados	0.41	0.45	0.60
Belize	-	0.40	0.47
Guyana	0.37	1.15	0.67
Jamaica	0.32	0.54	0.65
OECS	0.92	0.65	1.12
Suriname	-	-	-
Trinidad & Tobago	0.29	0.50	0.47
CARICOM Average	**0.44**	**0.58**	**0.69**
CARICOM Average (Excluding Bahamas)	**0.46**	**0.61**	**0.67**

CHART 1.1. MONETIZATION RATIOS FOR SELECTED CARICOM COUNTRIES (1972-1995)



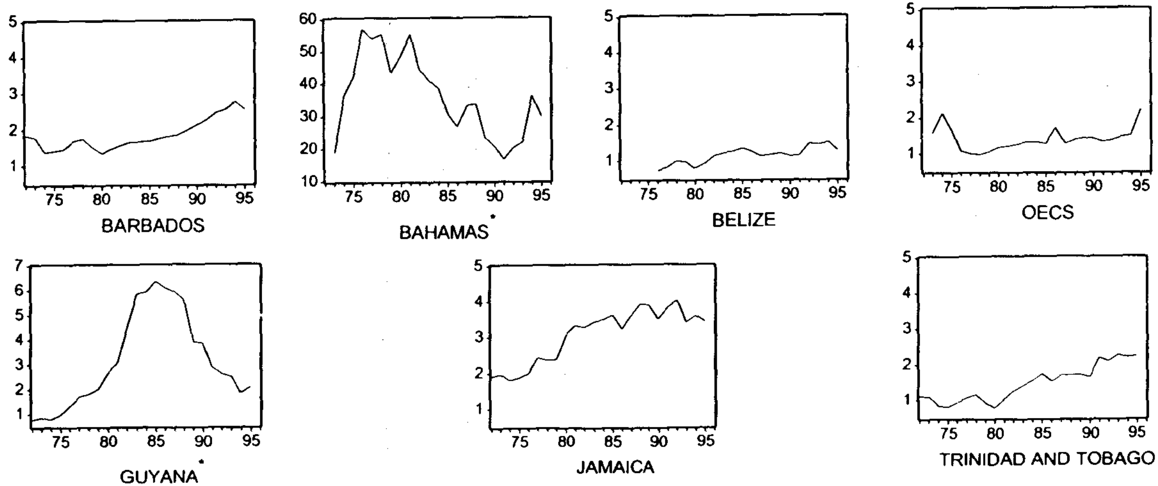
(b) **Financial Deepening:** In terms of the evolution of the financial system or its superstructure as a whole, pronounced deepening over the period was evident in virtually all CARICOM economies. In The Bahamas, where unusually large ratios broadly reflected the extraordinary size and activity of the financial services industry, especially its off-shore banking, a reverse trend was, however, evident between 1975 and 1995. By contrast, in Jamaica and to a lesser extent Trinidad & Tobago and Guyana, indicators of deepening initially rose quite sharply and have either turned downwards since the end of the 1980s or at least slowed down in growth. Thus, as **Table 1.3** and **Chart 1.2** below illustrate, **Finance Ratios (FRS)** (Total Financial Assets/GNP), good indicators of financial depth, were for virtually every country in the early 1970s lower compared with those twenty-five years later in the mid-nineties. Of some interest is the fact that inflation rates in The Bahamas were persistently low for most of these periods, compared with Jamaica and Guyana. Significant real financial growth appeared to have taken place therefore in The Bahamas, perhaps less so than in Jamaica and Guyana. The Finance Ratio for Guyana was also strikingly volatile, rising sharply for the first half of the twenty-five year period and then declining rapidly for many years thereafter, probably as GNP growth accelerated.

Table 1.3. Finance Ratios for CARICOM Countries (1975-1995)*

	1975	1985	1995
Bahamas	42.22	30.54	29.83
Barbados	1.41	1.70	2.55
Belize	-	1.27	1.25
Guyana	0.98	6.36	2.09
Jamaica	1.87	3.62	3.45
OECS	1.67	1.28	2.22
Suriname	-	-	-
Trinidad & Tobago	0.82	1.74	2.25
CARICOM Average	**7.0**	**6.64**	**6.23**
CARICOM Average (Excluding Bahamas)	**1.35**	**2.66**	**2.30**

*Caricom finance ratios appear to be presently higher than those in most advanced emerging countries, probably excepting high-inflation environments such as in Latin America This probably reflects the high levels of inflation especially in the last ten years in the larger regional economies and relatively smaller real sectors.

CHART 1.2. FINANCE RATIOS FOR SELECTED CARICOM COUNTRIES (1972-1995)



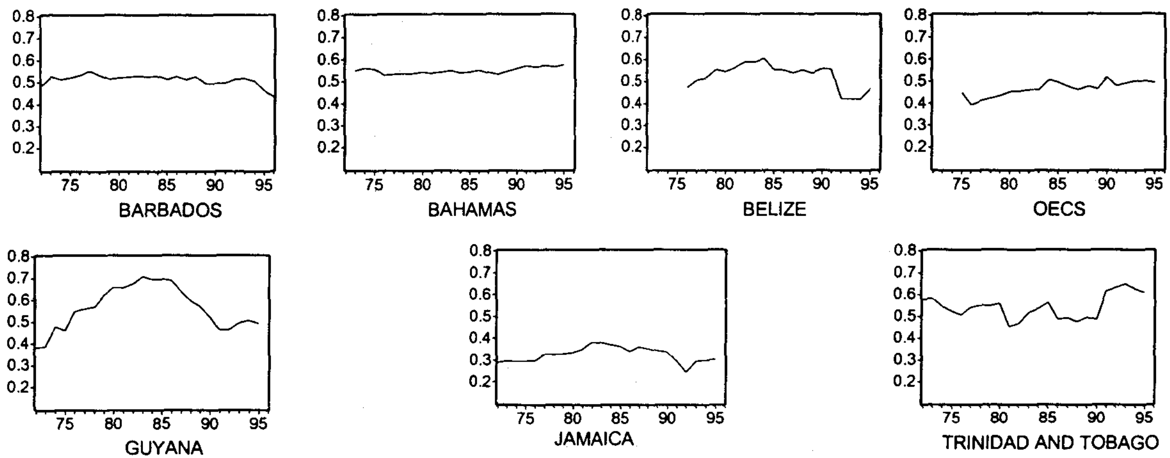
*Scales are not comparable in this case because of very large ratio values.

(c) **Financial Intermediation:** As **Chart 1.3 and Table 1.4** below indicate, overall observed growth in the financial assets of CARICOM economies has come for the most part with barely an increase in the degree of 'institutionalization' for most countries over the period. **Financial Intermediation Ratios (FIMRs)** (Total Financial Assets of Financial Institutions to Aggregate Financial Assets) were surprisingly lower in 1995 than in the early 1970s and 1980s for Jamaica, Barbados and the OECS, probably suggesting a combination of some disinter-mediation from the financial system (Jamaica); some maturing financial structures (Barbados); and possibly the presence of more non-financial institutional issuers/holders of instruments (Barbados and Jamaica). These findings are, however, to some extent counter-intuitive, though possible, for the reasons indicated. Empirical evidence suggests some rise in this ratio in early years in emerging economies, with some levelling off as economies mature.

Table 1. 4. Financial Intermediation Ratios for CARICOM Countries (1975-1995)

Bahamas	0.56	0.54	0.58
Barbados	0.52	0.51	0.46
Belize	-	0.56	0.47
Guyana	0.46	0.70	0.49
Jamaica	0.30	0.36	0.30
OECS	0.45	0.50	0.50
Suriname	-	-	-
Trinidad & Tobago	0.52	0.54	0.61
CARICOM Average	**0.42**	**0.47**	**0.49**
CARICOM Average (Excluding Bahamas)	**0.39**	**0.46**	**0.47**

CHART 1.3. FINANCIAL INTERMEDIATION RATIOS FOR SELECTED COUNTRIES (1972-1995)



(d) **Banking Systems:** Notwithstanding the obvious financial deepening region-wide since 1975, and consistent with trends in maturing financial systems, banking systems (central and commercial banks) in CARICOM economies as a whole were generally smaller in size as a proportion of their total financial systems in 1995 than twenty years earlier **(Table 1.1 above)**. The only exceptions appeared to be The Bahamas and Barbados, perhaps reflecting their own unique financial and economic structures and circumstances. By contrast, however, the reverse was true for most commercial banking systems, these tending to have expanded significantly over the period relative to other institutions, a not entirely healthy situation for a region that has generally been short on investment (longer term) financing. This reality should, however, not obfuscate the fact that non-banks, especially life insurance companies and pension funds, have themselves emerged at much stronger rates over the period than banks for the most part in the region. The policy concern that is, nevertheless, raised as a result of the nature of the evolution of the region's banking system over the past two decades, is the extent to which this particular pattern has given rise to the continued underperformance of the region's real sector, given the historical propensity of commercial banking towards shorter-term investment decisions.

(e) **Paths of Financial Development:** In terms of identifiable paths of financial development, it would appear that all CARICOM countries pursued a basic path of sustained monetary and financial deepening, though as earlier noted they assumed varying degrees of intensity at various times, responding to particular local environments and conditions. Growth in financial indicators tended to be explosive for most countries in the 1970s and 1980s, but slowed dramatically and in several cases turned down from about the mid-1980s, often coinciding in the case of Jamaica and Guyana with intense externally driven stabilisation and adjustment activities. A couple of features are, however, noticeable in this regard. These are:

(i) the relatively low levels of the paths of the monetization and finance ratios of one of the largest economies - Trinidad and Tobago, suggesting higher over all levels of development of its financial system on the one hand and perhaps some residual financial repression on the other;

(ii) monetary and financial deepening for countries that maintained a fixed exchange rate regime for most, if not all, of the period under review tended to occur throughout at a relatively slower pace, especially in Belize and Barbados, than for their floating exchange regime counterparts. The Bahamas monetary deepening was somewhat of an exception, perhaps because of the magnitude of its offshore financial operations over the period. Flexible exchange rate economies for the entire or significant parts of the period, witnessed explosive and often volatile paths of monetary and financial evolution. This problem would appear consistent with theory and empirical behaviour especially in Latin American economies.

(iii) CARICOM countries pursuing non-market-oriented paths of economic development, especially in the 1960s and 1970s (Jamaica and Guyana), counter-intuitively evidenced relatively strong growth in monetization and financial deepening indicators during those periods but as expected, a noticeably greater build up in their public sector supported financial institutions, than their market-oriented counterparts. Coincidentally higher rates of inflation manifested in these market-oriented economies, especially in the 1980s may have been partly responsible for this trend; and

(v) In terms of the three distinct periods of post-independence financial development referred to earlier in **Section 1.1**, the behaviour of CARICOM economies basically corroborated the observations made in that Section. Greater activities of monetary and financial deepening were experienced between 1975 and 1985, with post-stabilization/structural adjustment programme responses clearly coinciding with stronger financial consolidation and less expansion in most economies in the 1990s.

1.3. CARICOM Finance and Economic Development: Some Initial Estimates

Chapter 11 preliminarily tests for noticeable statistical relationships between financial development and wider economic development in individual CARICOM economies and for the region as a whole between 1972 and 1995. It found that there were mixed indications in statistical relationships between financial development and economic growth. Barbados, Jamaica, the OECS and Trinidad & Tobago broadly reflected strong positive associations between these variables in simple correlation analyses, while results varied for the other economies. Granger-Causality tests indicated a bi-causal relationship between financial and economic development at least in the selective short-run, corroborating similar findings, especially by **Wood (1993),** for Barbados (1946 to 1990).

The results of this study should, however, be interpreted with much caution for a number of methodological and data deficiency reasons, but should ideally serve as a real basis for deeper and more scientific research and analysis of this area of vital regional importance. The 'causal interdependence' between the financial and real sectors in the region has come under much scrutiny and suspicion in recent years and must be more systematically investigated, with a view to any imperative shifts in economic policy design and management in the region, on the threshold of the next millennium.

1.4. Survey of Regional Financial Practitioners (1996)

As an integral part of this study of the financial evolution of CARICOM over the past two decades, a region-wide survey of financial intermediaries was conducted in 1996 by the Caribbean Centre for Monetary Studies, with administrative support from the region's central banks. The survey which was intended to canvas perspectives of the region's financial practitioners on their backgrounds, activities, environmental considerations and constraints, and their perception of their economy, system and region-wide impact and relevance, appeared to be modestly successful. Some 73 financial institutions (banks and non-banks) responded in five of the eight regional central banking catchment areas (The Bahamas, Belize, ECCB, (OECS), Suriname and Trinidad and Tobago). A detailed survey report is presented as **Annex 1.1.** The key findings are summarised as:

(a) Commercial banking in the region has expanded its branch network significantly over the past twenty odd years, partly in response to the decline in the popularity of savings banks.

(b) Cross-border branching and creation of subsidiaries are now a growing reality in the region, especially among indigenous Trinidadian and Jamaican banks, as well as among foreign banks such as Royal Bank, Bank of Nova Scotia and Barclays Bank.

(c) Provision of quality financial and general banking services continues to be a key goal among commercial banks.

(d) Foreign exchange trading activities are becoming a significant part of the operations of these banks.

(e) There is an increasing trend away from the traditional role of commercial banks, more towards a blurring of the divide between banks and non-banks. This, however, includes some degree of specialization in lending and other activities, probably by sector or market-segmentation.

(f) Liberalization of the financial sector and modernisation of legislation are cited by both banks and non-banks, as the major positive developments in recent years influencing their activities. Recession or stagnation, and natural disasters were main negatives. (Trinidad and Tobago, Suriname, OECS). Bahamians see enhanced tourism and foreign investments as key.

(g) Regional banks generally feel that their contributions over the past decade or two are positive and include innovations, job creation, financial security, training and supporting the real sector.

(h) Non-banking institutions, which grew faster than banks over the past two decades, seem more obsessed with the social aspects of development, than commercial banks in general. Non-bank pre-occupations are typically industrial and agricultural development and small industries. Insurance companies tend to consider profit maximisaton, cost effectiveness and growth as key objectives.

(i) As in banking, non-banks are beginning to cross traditional functional lines of operation, especially trust companies and merchant banks.

2

CARICOM Financial Policy and Institutional Development: A Regional Profile

Donna Danns

This Chapter presents an overview of trends in the financial development of the CARICOM region, building on the summaries of the earlier **Introductory Chapter** and **Chapter 1.** It traces in greater detail the evolutionary path to post-independence financial development in the region, highlighting the key institutional structures that emerged and elucidating the financial and economic policy environment within which this evolution proceeded. The Chapter commences with the central banking experience in the region and the monetary, exchange and other principal factors that shaped and were shaped by these apex institutions. It then proceeds to the key agent for the conduct of monetary and other policy stances - commercial banks - and follows thereafter on to non-bank financial institutions (savings, insurance, unorganized operations and public financial types).

2.1. Central Banking

Central banking deserves special focus in any study of the financial sector in the Caribbean. Besides being at the apex of their respective financial systems and occupying key positions in the monetary and financial management of their economies, central banks in the Anglophone Caribbean are in a real sense symbols of nationhood. Their establishment throughout the Anglophone Caribbean was part of broader changes which ushered in independence and sought to help regional countries shed the yoke of colonialism during the 1960s and 1970s. One notable exception to this trend is the Central Bank of Suriname (Centrale Bank van Suriname). This institution established in 1957 was more a symbol of necessity than one of nationhood as that country attained political independence from the Netherlands almost two decades later in 1975.

Central banks throughout the Anglophone Caribbean bridged the colonial and post-colonial eras by replacing monetary authorities and currency boards whose roles in the money management of the colonial economies were limited.

The first central bank to be established in the Anglophone Caribbean was the Bank of Jamaica which commenced operations in May of 1961 after the passing of the Bank of Jamaica Law (1960). The Central Bank of Trinidad and Tobago followed with its establishment by Act of Parliament in December of 1964 and Guyana in October of 1965 by the Bank of Guyana Act of that same year. The establishment of these three Central Banks in the 1960s in a fundamental sense paved the way for other CARICOM countries to follow.

Other central banks in the region established during the 1970s and 1980s include the Central Bank of Barbados (1972) and the Central Bank of The Bahamas (1974). The Central Bank of Belize (1982) and the Eastern Caribbean Central Bank in 1983 were the last of the Caricom Central Banks to be established.

The Central Bank of Barbados was established after that country broke ranks with the Organization of the Eastern Caribbean States (OECS) and the Eastern Caribbean Currency Authority in assertion of its own identity and sovereignty. It is precisely such quests by regional countries to assert sovereignty that led to the establishment of their own central banks and the possible dilution of regional financial sector integration earlier evident during the colonial era.

While a formal central bank was not established in Belize until 1982, Belize had a Monetary Authority set up in 1976 as a half-way house to a full-fledged central bank. According to **Vellos (1991)** this Authority established under the Monetary Authority Ordinance of 1976 regulated commercial banks, implemented limited monetary policy measures, altered discount and rediscount rates and imposed selective controls on the volume of commercial bank credit. Very few functions distinguished the Central Bank of Belize from its immediate predecessor. The 1982 creation, in addition to the functions of the Monetary Authority, was permitted to set deposit and lending rates and hold treasury bills which enhanced its open market operations.

Perhaps the unique institution among the central banks of the Caribbean included in this study is the Eastern Caribbean Central Bank (ECCB). Its controlling and development functions extend to an agglomeration of eight countries namely: St. Lucia, St. Vincent and the Grenadines, Antigua & Barbuda, Anguilla, Montserrat, Dominica, St. Kitts and Nevis, and Grenada. The ECCB was established in 1983 because of the perceived impracticality of these micro-states and colonies creating separate central banks. The ECCB represents the most significant symbol of regional financial sector integration. Despite some similarities in the economies of OECS countries, their problems and requirements are different, making the monetary and financial management of any one central bank somewhat complex. In addition, the legal and regulatory framework of the financial sector within the individual countries vary.

Central banks in the Caribbean are pre-eminently governing banking institutions. They have been patterned off the British and broader European systems but tailored to meet the varying needs, aspirations and ambitions of the countries that cradle them. Over time Caribbean central banks have changed and developed within the framework of the economic, social and especially political settings of the nations. They have exercised quite varying degrees of autonomy within their political and economic systems. Central banks within Caribbean nations like Guyana, Jamaica and Suriname that have experimented with socialism have had their "autonomy" diminished and later somewhat restored.

Central banks in the region derive their authority from the acts or laws which have created them, the subsequent amendments to these acts and other related banking financial and exchange control acts. They find policy expression in their relations with Government to whom they are bankers and advisors and with commercial banks to whom they are bankers, lenders of last resort and regulators. Central banks pursue stabilisation and development policies, primarily through monetary policy, bank supervision and through exchange rate policy and foreign exchange management.

The common functions of regional central banks include:

- Issuing their local currencies.
- Ensuring the stability of the currencies they issue.
- Promoting the development of sound banking and financial systems.
- Facilitating the payment systems within their respective countries as well as between countries.
- Promulgating monetary policy.

In addition, many Caribbean central banks have been charged with the responsibility of promulgating financial and economic policies favorable to the development of their economies and managing the foreign reserves of their countries. While it is widely understood and acknowledged that Caribbean central banks have a statutory role in the stimulation of economic development within their respective economies, it is often unclear how such a role can be articulated.

The economic development mandate, it is believed, evolved from a generalized criticism that the commercial banks that operated in the Colonial Caribbean were least concerned with the development of the economies in which they operate. Rather their main focus was to garner domestic savings for investment abroad. **Clive Thomas (1965)** argued that post-colonial states in establishing central banks were motivated by the belief that to accelerate economic development, underdeveloped economies must reform existing institutions or establish new ones more geared to meet the needs of development. Indeed the then Minister of Finance of Trinidad and Tobago, Mr. A.N.R. Robinson, during his 1963 Budget Speech was quoted as saying, "one of the most serious disadvantages from which developing countries have suffered and from which we in Trinidad and Tobago have not escaped has been the nature of policies of the banks and other financial institutions operating in the country..." **(Brown, 1989)**. Similar pronouncements were made by government officials and politicians of other territories. **Danns (1990)** quotes a former Minister of Finance in Guyana, Dr. C.R. Jacobs, during parliamentary debates for the establishment of that country's central bank. "What we need in this country is real monetary reform. We do not want a monetary system which is going to continue to be manipulated in the interest of expatriates... Neither the government nor the Guyanese people have any say in these vital decisions concerning this nation. This is something we cannot tolerate much longer." Jacobs continued "...the colonial monetary system, which is some 150 years old, has resulted in economic backwardness in this country" **(House of Assembly Debate October 12, 1965).**

Similar sentiments were expressed by politicians and some economists in other territories.

It was partly against this background of intolerance and anxiety to shed all that colonialism represented that the first central banks were established in the 1960s. The precise directions of monetary management were never carefully mapped out upon their establishment. Further, some central banks were in the early stages of their development possibly unconsciously misdirected by their policy makers, to the detriment of many regional economies.

2.1.1. Monetary Policies in CARICOM Central Banks

The central banks of the Caribbean have had mixed success in the promulgation of appropriate and sound monetary policy. While many have succeeded in controlling inflationary pressures and inflation, others have performed poorly in this regard.

The central banks within the Anglophone Caribbean have had and made use of a repertoire of instruments in the conduct of monetary policy. On the other hand the Central Bank of Suriname has gained control over commercial bank credit extension by utilizing only credit ceilings. This central bank unlike others in the Caribbean has never utilized reserve requirements.

Central banks commenced their monetary management by issuing their own currency and sought to control its stability in a number of ways. Reserve ratios, fixed interest rates, moral suasion, selective credit ceiling, global ceilings, interest rate adjustments, liquid asset ratios and open market operations are the more popular instruments.

In most cases, early monetary policy focused on protecting these small open economies from endogenous and exogenous shocks and encouraging credit conditions more suitable for promoting investment and subsequent development. Moreover, newly established banks in the 1960s and 1970s fought to stamp their authority on systems which for over 100 years operated largely without any limitations and/or supervision. In the mid-1970s and early 1980s most central banks struggled to pursue policies aimed at averting economic crises. This they achieved with varying degrees of success. For instance, central banks throughout the Caribbean have reported little difficulty in getting commercial banks to respond to policy signals. The greatest challenges yet to the authority of the central banks and to their successful execution of appropriate policies have in fact been the central governments that established them. Central government financing needs have thrown some central banks into what could be called "involuntary expansionary phases" when the objective economic conditions of these phases required tight monetary responses aimed at demand management. Jamaica, Guyana and Suriname are cases in point while The Bahamas has also reported some anxiety over government's financing of its deficit and the changing of laws to accommodate the financing of widening deficits.

Guyana, after a wave of nationalization in the 1970s and an expansion of subsidies and free social services, found itself in the throes of an economic crisis. The crisis was prolonged by inappropriate policy response. Increasing fiscal deficits were financed through monetary expansion, which in turn exacerbated the crisis.

Suriname's situation was similar during a period of military control and in the wake of an aid embargo from the Netherlands between 1982 and 1988. For that country, tight credit controls were placed on commercial bank lending while the Central Bank engaged in monetary base expansions.

For Jamaica, **Lue Lim (1991)** explains the failure in the mid-1970s of monetary policy in the control of inflationary pressures in the following way:

> Between 1974 and 1976 the Central Bank utilized additional monetary policy instruments including rediscounting facilities... With significant increases in central government credit, however, there was a substantial expansion in aggregate demand and further deterioration of the external reserves.

These deficits continued into the 1980s as economic crises deepened. In further explaining the phenomenon of the 1980s, and the use of strict demand management measures against commercial banks, Lue Lim concludes "against a background of large fiscal deficits, monetary policy objectives were unrealized."

Monetary policy within Caribbean central banks currently seems to be shaped by the conditionalities of stabilization and structural adjustment programmes which many countries resorted to in times of economic decline and difficulties. These programmes have policies of financial liberalization, financial sector reform and the intensification of the use of indirect instruments such as open market operations, as monetary policy tools.

Jamaica, Guyana and Suriname have all implemented structural adjustment programmes which tended to move these economies towards the adoption of more market-oriented policies. It is within this new environment that more appropriate monetary policy measures developed. For Suriname, as it was for Guyana, these included market determined interest rates and the development of open market operations. The reforms came in 1989 for Guyana and 1993 for Suriname. Since 1986, however, Jamaica has had as a principal objective, the creation of an environment more conducive to the effective implementation of monetary policy, "intensifying its use of open market instruments and interest rate policy in 1989" (**Lue Lim, 1991**).

Trinidad and Tobago, Barbados and Belize have also implemented stabilization programmes. Writers on the monetary policies of these central banks during their periods of stabilisation and adjustment all point to liberalization and financial sector reform. **De Silva and Forde (1994)** in explaining Trinidad and Tobago's monetary policy of the 1990s notes that, "The country entered into a Stand-by Arrangement with the IMF in early 1989 and subsequent monetary policy was substantially shaped by the conditionalities and financial liberalization thrust of the programme."

Haynes (1996) in explaining the conduct of monetary policy of the 1990s in Barbados points out that the Central Bank of Barbados initially set prime rates then targeted the average lending rate. This policy was maintained until 1991 when "as part of the stabilization package, the Bank initiated a process of financial deregulation."

In the case of Belize, **Vellos (1991)** recognizes the role of the IMF Stand-by Programme (1984-86) in enabling the Central Bank in Belize to increase its information flow from commercial banks and recognized also the use of the said information in the conduct of monetary policy. Vellos pointed too to the limited successes of open market operations in Belize (direct vs indirect instrument shifts).

In recent years, a distinct phase of monetary policy which involves the use of open market operations has emerged in many Caribbean economies. This operational tool is for the most part a distinct transplant of the central banks of developed countries. Its use is often viewed as a vehicle for the development of financial markets in these economies. Its success in Caribbean economies has so far been mixed. The total success of open market operations, however, depends on flows of financial information, attitudinal changes within the financial sectors and the development of financial markets.

2.1.2. Exchange Rate Policy and Foreign Exchange Management

In keeping with their objective of currency stability, virtually all Caribbean central banks at one point or another have had exchange controls as a generalized tool. Central banks have emerged over time as the principal custodians of their countries' foreign reserves and, as such, are at the centre of the articulation of exchange rate policy and in the management of foreign exchange. For none of the central banks in this study has this been an easy task. Like most third world countries, their host countries are and were at some point or the other faced with low reserves and declining terms of trade. In addition, at least two countries in the study, Jamaica and Guyana, have been faced with relatively huge foreign debts, the repayment of which placed an onerous strain on foreign reserves.

Many of the central banks in the region played and continue to play crucial roles in determining legal access of individuals, businesses and government agencies to foreign currency. Banks have, therefore, married the day-to-day allocation and management of foreign exchange with the broader articulation of exchange rate policies, so much so that for some countries the two distinct functions have become almost indistinguishable. In most situations, however, such policies have been inextricably tied to the nature of their exchange control regimes.

2.1.3. Exchange Rate Policy

All central banks within this study at some point in time presided over fixed exchange rate regimes and fought assiduously for nearly two decades to maintain such regimes at a time when the entire world seemed to have been moving towards market determined rates. Barbados, Belize, The Bahamas and the OECS countries represented by the ECCB still maintain fixed-parity exchange rates. Jamaica, Guyana, Suriname and Trinidad and Tobago now have flexible exchange rates. Guyana, Jamaica and Suriname were apparently relatively slow to adjust from past policies and practices, in the face of changing economic realities. For them, movement away from a fixed exchange rate was the very last resort. Before finally instituting totally flexible and "market determined" rates, these countries have each in turn gone through a series of combinations of exchange rate regimes. As it turned out, economic outcomes in Guyana and Suriname were almost exact replays of the Jamaica situation. These countries have had similarly traumatic economic results.

Their commonalities included, weakening terms of trade, declining production and productivity deteriorating balance of payments, huge budgetary deficits, severe shortages of foreign exchange, large distortions in prices, parallel market activity and black-marketing of currency. In an effort to combat the parallel market for currency, these central banks and governments implemented all or some combination of the following exchange rate practices:

- An auction system for foreign exchange with the aim of arriving at a market rate.
- A dual exchange rate system where certain imports were done at the subsidized rate.
- A multiple exchange rate system.
- Free foreign exchange market system operating in conjunction with the official system.
- The establishment of cambios (exchange bureaus) to incorporate the parallel market.
- Unification of the exchange rate.

Table 2.1 shows exchange rates for the US dollar as at the end of 1975 and 1995 for countries that implemented flexible rate regimes. Rate movements were largest in Suriname. Trinidad and Tobago has gone through a less colourful history with regard to exchange rate policy. **De Silva and Forde (1994)** observe that when persistent weaknesses in oil prices and declining production had precipitated an economic downturn there were sentiments in favour of devaluation after the failure of import controls. They further explain that it took another year before a devaluation was announced in 1985. This effectively operationalized a dual rate system in that economy.

Table 2.1. Exchange Rates for US$1 in Selected Caricom Countries as at the End of 1975 and 1995

Countries with Flexible Rates	1975	1995
Guyana	G$ 2.5	G$ 140.0
Suriname	SGD 1.8	SGD 412.0
Jamaica	J$ 0.7	J$ 39.6
Trinidad & Tobago	TT$ 2.4	TT$ 5.9

That country's exchange rate moved from TT$2.40 = US$1 to TT$3.60 = US$1 for all imports with the exception of food, drugs and other "basic" items which continued at the previous rate **(De Silva & Forde, 1994)**. The unification of that rate came in 1986 and by 1988 another devaluation moved the rate to TT$4.25 for US$1 after fiscal and external deficits seemed a permanent feature of that economy. In 1993 the TT$ was allowed to float and by the end of 1995 had reached a rate of TT$5.99 = US$1. The official exchange rate is now averaged on the basis of rates determined in the inter-bank market.

2.1.4 Exchange Controls

Exchange controls are in varying degrees features of all the economies of the Caribbean included in this study. This function falls to the central banks in almost all territories, with the exception of the ECCB and to some extent the Central Bank of Suriname. **Anthony-Brown and Samuel (1996)** explain that for the ECCB Area most of the foreign exchange earned was channelled through the commercial banks of the various territories. Foreign exchange controls arrangements were, according to them, administered by the individual Ministries of Finance. They pointed out that while quite liberal practices obtained, these varied widely across countries despite the central bank's effort to harmonize practices. Generally, however, the payment for imports were automatically done by commercial banks while other transactions were subjected to "case by case approval."

In Suriname, there still exists a Foreign Exchange Board but much of the authority for exchange control is vested in the Central Bank and the Ministry of Economic Affairs. Exchange controls and rate fixing must be determined in conjunction with the Minister of Finance.

Guyana, Suriname and Jamaica have seemingly implemented the most restrictive exchange control measures during times of economic crisis. Restrictions were aimed at demand management as well as garnering foreign exchange for approved purposes. For Guyana, **Danns (1990)** identifies the following impositions in the past:

- Total suspension of travel allowance.
- Banning of motor cars over 1600cc.
- An import quota system.

- Prohibition of commercial banks from approving foreign payments.
- The establishment of an External Payment Deposit Scheme for importers with respect to the commercial debts.
- Restrictions on import licenses.
- Restrictions on allocations for students studying abroad.
- Restrictions on payment for personal services.

Jamaica and Suriname have had combinations of the above restrictions. Restrictions in these economies seemingly did not work to correct the external deficits nor did they halt the exchange rate slide. Parallel markets flourished in these environments as more and more funds were lured from the official banking system to satisfy the needs for imports, outside of the formal banking system.

The practices of the Central Bank of Jamaica, Guyana and Suriname though excessive, were not unique to these economies. Trinidad and Tobago during the late 1980s introduced a system of foreign exchange allocation to importers after earlier devising other measures aimed at the control of imports. **De Silva and Forde (1994)** observe that these restrictions were at the time of their implementation, the chosen alternative to devaluation or to multiple exchange rate systems. Other Caribbean central banks implemented exchange controls to a lesser extent and in a more formal and legal setting.

2.1.5 Banking Supervision

The roles of central banks in promoting sound banking systems in developing countries have typically informed their supervision activities of commercial banks and other financial intermediaries. Most CARICOM central banks have derived authority for this function from the laws that brought them into being, while some had to acquire that authority from other laws and acts of Parliament.

The major emphasis of the supervisory function of central banks was and still is in most countries oversight of the activities of commercial banks. This is important as these institutions still garner most of the public's deposits and their failure would have a greater negative effect than that of other financial institutions. Bank supervision targets commercial banks' credit portfolios with a view to improving the quality of loans. In addition, supervision covers the level of exposure of banks in an attempt to safeguard depositors, the institutions and the integrity of the banking system.

In time, regional central banks would place increasing emphasis on the supervision of their non-bank financial institutions as these institutions emerged. **Haynes (1996)** explains that for Barbados the failure of one such intermediary gave impetus to the introduction of new legislation designed "to broaden the powers of the central banks as they related to financial institutions". Such failures have in turn given impetus to other central banks to provide greater supervision. For Trinidad and Tobago it took a financial crisis in 1980 to bring to the fore the inadequacies of the NFI Act. According to **De Silva and Forde**, this crisis initiated sweeping joint reforms of the Central Bank Act as well as the Financial Institution (Non-Banking) Act.

The Central Bank of Suriname in 1986 extended its supervision to non-bank institutions. The Bank of Guyana is only now focussing attention on these institutions after recently instituting the New Financial Institutions Act (FIA) 1995.

CARICOM Governments, on the advice of central banks, have been passing legislation (in most cases the Financial Institutions Act) which brings commercial banks and non-bank financial institutions under the same legislative framework. This has led to the repealing of old Banking Acts (some of which date back to the 1960s). The new legislations have collectively enhanced the central banks authority over banks and other non-bank institutions and even the previously labelled informal financial institutions. Many central banks have been prodded in this direction as they implement structural programmes aimed at providing more lee-way to commercial banks and other financial institutions in determining resource allocation and cost of credit. As such, central banks must enhance their legal and regulatory capacity in the interest of a sound financial system.

The region's central banks during the 1990s have collaborated with support from multilateral financial institutions in the interest of unification of their bank supervisory and regulatory frameworks. This assistance has enabled each central bank to successfully implement its mandate and to bring into being new regulations. There is also a move towards increased off-site bank inspections, though on-site inspections continue to be the dominant mode for most regional banking systems, with the probable exception of The Bahamas where there are more than nine commercial and 400 offshore banks and trust companies.

2.2. Commercial Banking

Commercial banks are in a sense the bastions of CARICOM's financial sector. This institutional type has its roots in Caribbean economies dating back to the 1830s when banks were established in many territories to serve the needs of the planter class. They provided mainly trade and commerce financing.

Guyana, Trinidad and Tobago, Barbados and Jamaica were the first territories in the region to host commercial banking during the mid-1830s. The Colonial Bank of the U.K. was one of the first commercial banks to operate in several countries throughout the region. Commercial banking came to other territories later. In Belize, for example, the first commercial bank - the Royal Bank of Canada was established in 1912. Suriname, the only Dutch territory included in the study had its first commercial bank in 1865. This entity, De Surinaamsche Bank besides carrying on its commercial banking business, acted as the bank of issue for the local currency for over 95 years.

The smaller territories such as Antigua and Barbuda, and St. Lucia, have had commercial banking establishments for over 100 years. commercial banking, therefore, is a well-entrenched institutional type in the financial sectors of the Caribbean.

2.2.1 *Ownership Structure of Banks*

While earlier banks were predominantly British-owned, the early 20th century saw the establishment of Canadian banks, especially the Royal Bank of Canada which established offices in Guyana, Jamaica, Trinidad and Tobago, Barbados and Belize to name a few. This bank purportedly followed developments in the bauxite industry but never confined activities to countries only with a bauxite sector.

American Banks - the Chase Manhattan, First National City Bank and others - made their debut in these territories in the 1960s. They seemingly found interest in the economies that were soon to be independent states.

Commercial banking as a sub-sector has been widely criticized by scholars and economists in the region especially in the pre-independence phase. Their entire operations were apparently geared towards the export of wealth, with too little emphasis placed on the development of the local economies. This criticism gained more ground when political independence for the region as a whole was imminent. The task of development for nationalist governments seemed onerous in these underdeveloped primary-product economies. It was feared that commercial banks held the key to resource allocation and had the collective institutional capacity to determine lasting outcomes in the economies.

The history of pre-independence commercial bank practices and the determination of nationalist leaders in office after independence are the factors which make the 1970s an extremely interesting phase in the commercial banking history of the Caribbean territories.

Governments dealt with commercial banks during the 1970s in varying ways. **De Silva and Forde (1994)** report that in Trinidad and Tobago in 1970 the "assets of a foreign bank branch were nationalized leading to the creation of the fully local National Commercial Bank". In 1971 in that same territory, the Workers' Bank was established with substantial assistance from government and in 1976 a savings bank with limited lending capacity was converted to a full commercial bank. Currently five of the six commercial banks operating in Trinidad and Tobago are either fully or majority-owned by nationals.

Similar developments took place in Guyana leading to a more dominant share of commercial banking resources in the hands of governments and nationals. The Guyana National Co-operative Bank (GNCB) was established on February 14, 1970 to coincide with the country's becoming a Republic. The mandate of the institution was to assist in the tri-sectoral development of Guyana, that is the co-operative, private and public sectors. That bank was further instructed to make special allocations to the co-operative sector which was viewed by government as the vehicle for development in that nation. Needless to say, that GNCB was fully supported by government, with state ownership of over 95%. It developed rapidly garnering patronage from government ministries, parastatals and other agencies. Public sector workers were encouraged to use the bank.

The closure of the Post Office Savings Bank in 1974 allowed the GNCB to capture additional funds through its extensive branch network. The bank quickly grew to be the largest bank in Guyana with respect to assets but its viability was constantly questioned and challenged.

The unease with commercial bank operations in Guyana continued throughout the 1970s although these entities were not nationalized. The Prime Minister of Guyana, Forbes Burnham, in delivering an address in 1975 to mark the 10th Anniversary of the Bank of Guyana sought advice from central bankers. As quoted by **Danns (1990)** the Prime Minister said:

> As from tomorrow October 17, 1975, what I would like to see the Bank advising us is...how do we really relate the operations of the commercial banks to the development of the country, along the lines decided by the government or whether or not, I know not...whether or not the presence of foreign commercial banks in Guyana is consistent with our development thrust and objectives. **(Forbes Burnham, 1975)**.

The Guyanese government never initiated nationalization of commercial banking institutions but one British, one American and one Canadian Bank handed over their operations to government in the 1980s as economic problems deepened. In 1994 another local bank was established. Four of the seven banks currently operating in Guyana are local entities.

In Jamaica, changes started as early as 1967 with the establishment of the Jamaica Citizens Bank. The Workers' Saving and Loan Bank was established in 1973 after taking over assets of the government savings bank, while the National Commercial Bank (formerly Barclay's Bank International) was also established.

Anthony-Brown and Samuel (1996) explaining developments of the 1970s in the OECS state:

> The mood towards political independence that swept across the Caribbean in the early 1970s significantly influenced development in the banking sector. This era was characterized by an upsurge in national banks which were promoted by the countries' governments, as part of a general move towards the control of their internal affairs. These banks were expected to operate in a manner which was more consistent with the development priorities of these countries.

Throughout the Eastern Caribbean there are currently 19 locally incorporated banks, many products of that era.

Barbados' move towards ownership and localization of its financial sector in the 1970 was less intense than its Caribbean counterparts. The Barbados National Bank was established in 1978 after the Barbados Savings Banks shifted operations to commercial banking. In addition, the new entity took over he assets of the Sugar Industry Agriculture Bank and incorporated it as its Agricultural Division. Of the seven commercial banks that currently operate in the Barbados economy, two are fully Barbadian owned while another has been incorporated in Barbados with its ultimate parent body being CL Financial Co. Ltd. of Trinidad and Tobago.

The Suriname experience with commercial bank ownership structure differs from that of the English-speaking Caribbean. This country's financial sector was never dominated by foreign concerns but rather by government ownership of banks. By 1975, the year of Suriname's independence and continuing to the present time, there were six commercial banks operating in the economy. The ABN AMRO is presently the only foreign owned bank. Four of the others are fully government-owned and have always been so. De Surinaamsche Bank was once wholly-owned by the ABN AMRO but, upon the government's request, 1% was divested in 1977. Thus divestment resulted in an ownership structure that now includes government, private shareholders and another foreign bank.

In The Bahamas foreign commercial banks predominate, consistent with that country's offshore banking operations.

2.2.2. *Commercial Banking Activities and Operations*

As at the beginning of 1996, Jamaica, Guyana, Trinidad and Tobago, Suriname, the OECS, Barbados and Belize together reported a total of 85 commercial banking institutions, with a network of over 250 branches operating in their economies. The Bahamian commercial banking system is different because of the widespread offshore banking entities. This country had at that time over 400 commercial banks and unit trusts, many of which were offshore entities with which the Bahamian public never interacts.

Some countries have sizable networks of branches while others report far fewer branches. Trinidad and Tobago, for example, had just six commercial banks at the end of 1993, but there were 125 branches in that economy. Barbados in 1995 had seven banks with a network of 42 branches. Guyana had at the beginning of 1996 a total of seven banks with 24 branches. For Jamaica in 1990, there were some 11 banks with a network of over 170 branches and agencies. Suriname in 1995 had a total of six banks and over 15 branches. In addition, the Postpaabank (Postal Savings Bank) in Suriname reached small savers in rural areas through post offices.

In the mid-1990s, there was a wave of commercial bank activity in Guyana as the economy showed signs of expansion. Within one year (1994) two new commercial banks were established - the first in twenty-four years. One of the new entities was locally owned while the other had its Head Office in Jamaica. During that period, branching was foremost in the minds of bankers. Indeed the Bank of Guyana reported recent requests for permission to establish branches in areas outside the capital city of Georgetown. Some banks have, in recent years, also established or re-opened branches. If one should draw some inference from this situation then it is possible that an economy like Suriname, just emerging from economic decline and stagnation, might soon also find an expansion in the branch network.

2.2.3. *Bank Liabilities and Assets*

From country studies presented in subsequent chapters, if central bank assets are excluded, commercial banks share of financial assets and liabilities currently range between 50% and 90% of total assets. At the lower end is Trinidad and Tobago which has a proliferation of non-bank financial institutions competing with the commercial banks for deposits. For Suriname this figure is close to 95%. These assets are mainly credit, underscoring the dominance of commercial banks in most economies and their ability to determine economic outcomes.

While some variations in lending patterns can be observed over time, CARICOM commercial banks still largely support trade and commerce in preference to the other sectors. Lending for trade and commerce, for distribution and for consumption is relatively high in some economies. In countries where the dominant activity is agriculture some commercial banks have taken up the challenges of agricultural lending. The Landbouwbank in Suriname, for example, was established as a commercial bank with an agri-sector focus. This institution carries out its mandate alongside other activities.

In third world economies British-type commercial banks specialize in short-term lending to businesses, through trade and export financing and working capital financing. They also provide short-term personal lending. They hardly ever provide long-term loans. This trend has continued in large measure in the Anglophone Caribbean. However, some banks have been extending longer term loans and are being quite innovative with their lending portfolio. Lease financing, for example, is becoming more popular and banks are now more disposed to providing mortgage loans.

2.2.4. *Deposits*

Deposits from the public remain the major source of commercial bank funds. On average, they account for over 75% of bank liabilities. Savings mobilization, therefore, is still a primary function of commercial banks. However, it would apper that deposits are encouraged only in so far as the profit motive is being achieved. During periods of economic decline in Suriname and Guyana, deposits were actually discouraged as banks found few avenues for lending. As these economies experienced growth and demand for credit increased, these very commercial banks found new and innovative ways of packaging deposits. Bankers in Suriname, for example, now report an insatiable demand for credit and a lack of funds to satisfy these demands. A wide range of time and savings deposits to attract funds has been developed by the lenders in the economy. In these financial sectors new products include overnight funds, weekly interest accounts and interest bearing demand deposits. Some deposits carry jackpot and other features.

In other countries involved in this study, new products developed mainly in response to competition from the non-bank financial institution. Most financial sectors now have foreign asset accounts, although many restrictions are imposed on the uses of these deposits. Correspondingly banks have been able to extend foreign currency loans.

2.3. Non-Bank Financial Institutions

The Caribbean economies have a history of non-bank institutions that date almost as far back as commercial banks. The first real non-bank institutions (NFIs) were savings banks established just prior to or after the abolition of slavery. These were established as depository institutions to "inculcate habits of thrift in the freed men and women." These provided little more than a safe-keep for funds. The inadequacies of these institutions were always recognized and savings banks are today almost defunct in the Caribbean economies. Some have had their assets taken over by commercial banking entities which provide a wider range of services.

Besides the savings banks, insurance companies have had a long history in the Caribbean economies with establishments dating back to the mid-nineteenth century. Other non-bank financial intermediaries have developed over the years mainly from the 1960s.

The importance of non-bank financial institutions in the Caribbean economies vary significantly across countries. In Trinidad and Tobago which has the greatest proliferation of non-bank financial intermediaries, there has been consistent, hard evidence of NFI growth within the financial system. In 1993 these institutions accounted for just over 40% of total financial assets compared to just over 30% in 1970. They have been competing fiercely with commercial banks which in the 1970s commanded over 50% of total assets, compared with about 40% in 1993. **De Silva and Forde** explains that in Trinidad and Tobago the proliferation of NFI in the 1970s "was a direct consequence of the then prevailing economic boom and the failure of several of them in the 1980s was equally a consequence of the end of that boom." **(De Silva and Forde (1994))**. Data, however, suggest that these institutions have since resumed the trend towards a build up of sizable assets. NFIs characteristically mobilize deposits and aggressively divert savings from the banking system. In addition their services are collectively more varied than those of the commercial banks.

In Jamaica, NFIs are also highly developed and have experienced much growth both in terms of number and services between 1970 and 1995. **McBain (1996)** points to the overall growth financial services that has been taking place in Jamaica and identifies economic liberalization, among other factors as influencing such growth. While acknowledging the steady growth within the commercial banking industry, McBain explains that "market banks, trust companies or institutions licensed under the Financial Institutions Act (NFIs) increased from eight in 1985 to 29 in 1996. She further chronicles the increased services offered by NFIs in Jamaica, explaining that insurance companies have added mutual funds and equity linked insurance services to their portfolios. The development of non-bank financial services in Jamaica and elsewhere in the Caribbean seemingly goes hand-in-hand with the establishment of financial holding companies and conglomerates with subsidiaries for specific financial services.

At the other end of the spectrum are Guyana and Suriname, whose non-bank financial sectors are little developed. For Guyana, **Khan (1996)** points out that insurance companies declined from 26 in 1970 to 11 in 1996. From two development banks in 1975 there is currently only one such entity undertaking very limited activity in the housing sector. Trust companies have increased to four from two in the 1970s. In Suriname, the NFIs are responsible for only between 5% and 10% of credit in the economy.

The development of NFIs in the countries of the OECS and Barbados over the two decades, 1975-1995, could be considered moderate. In some OECS countries credit unions have become particularly active, offering many of the traditional banking services including automatic teller machines and electronic funds transfer.

Odle (1972) in a most comprehensive work on non-bank financial institutions in the Caribbean, classified NFIs as of then, into four types:

- Saving institutions
- Insurance institutions
- Unorganized money market operators, and
- Public finance corporations

Odle's work covered the economies of Trinidad and Tobago, Jamaica and Guyana primarily but in large measure reflected the developments of the non-bank financial institutions in other territories.

Since Odle's classification in the early 1970s, a number of other institutional types have mushroomed in the Caribbean. Further classification today can include hire purchase financing institutions and longer-term business lenders which include the merchant banks. Perhaps the public finance corporation as a classification could be replaced by the development banks which tend to be government-owned and government-funded.

At the end of 1996, the non-bank institutions that existed in the collective financial sector of the region were insurance companies, merchant banks, finance companies, development banks, thrift societies, credit unions, trust companies, unit trusts, mortgage banks, building societies and pension funds. The combination of non-bank financial institutions to be found in the economies of the region varied both in terms of types and numbers.

Trust companies seem to be institutional developments of the 1950s and 1960s, while merchant banks are developments of the 1970s and 1980s. In Jamaica, the 1980s saw the establishment of financial institutions that combined the functions of merchant banks and trust companies.

Historically, many of the non-bank financial institutions in the CARICOM region, with the exception of the insurance companies, have been subsidiaries of commercial banks. In Suriname, for example in 1996, there were six finance companies, five of which are subsidiaries of the three large commercial banks. In Jamaica, many of the trust companies and finance companies were at that time subsidiaries of commercial banks. In Guyana this was also the case for some trust companies. In Barbados all of the trust companies have been subsidiaries of the existing commercial banks. These subsidiaries provided avenues for lending and deposit taking outside of the normal commercial bank activity. They enabled commercial banks also to access finance held in trust and to specialize in certain types of lending. The development of these bank subsidiaries also allowed commercial banks avenues to operate outside the purview of the central bank's supervision but with the operationalizing of the new Financial Institutions Act this advantage may disappear.

Table 2.2 shows the various types of non-banks operating within Caribbean economies. As at 1995, Jamaica and Trinidad and Tobago led in terms of institutional types, with nine and ten NFI types respectively.

The ECCB Area as a union of countries had eight non-bank financial institutional types while Guyana and Barbados each had seven. Insurance companies, development banks and credit unions were common to all countries across the region. Like commercial banks, insurance companies have had a long and stable existence in the region.

Historically, merchant banks have been popular in Jamaica, Trinidad and Tobago and Barbados only. This type of institution seemed to follow and emerge in economies with heightened trade and commerce. It is highly possible that in time many more economies in the region will witness their establishment.

Table 2.2. CARICOM Non-Bank Financial Institutions by Country (1995)

INSTITUTION TYPE	COUNTRIES							
	The Bahamas	Barbados	Belize	ECCB	Guyana	Jamaica	Suriname	Trinidad & Tobago
Insurance Companies	x	x	x	x	x	x	x	x
Merchant Banks		x				x		x
Finance Companies		x		x		x	x	x
Dev. Bank/Dev. Finance Companies	x	x	x	x	x	x		x
Trust Companies	x	x		x	x	x		x
Unit Trusts								x
Mortgage Banks/Companies	x	x			x	x		x
Building Societies				x	x	x		x
Pension Funds					x	x	x	x
Credit Unions	x	x	x	x	x	x	x	x
Thrift Institutions/Savings Banks			x	x				x
Provident Funds					x			
Savings & Loans Associations	x			x				

Source: Compilations by authors.

In Guyana there have been enquiries about the establishment of a first specialist merchant bank. Regional central banks may be more disposed to approving their establishment once the regulatory framework has been structured.

2.3.1. *Activities of Non-Bank Financial Institutions*

In general non-bank financial intermediaries garner funds through deposits from the public, insurance premiums, transfers from governments, through equity financing from multilateral financial institutions in the case of development banks and, for some finance houses, from their parent commercial banks.

On the other hand, they lend to the private and public sectors on a long term basis. Moreover, they provide such services as trade financing and start-up capital, agricultural credit, leasing arrangements, trust services, pay claims, mortgage and hire purchase loans and do general lending. NFIs also provide investment services. Taken together, their sphere of operations is much more diverse than that of commercial banks. They collectively offer a wide range of services. This does not suggest, however, that any one non-bank institutional type in the Caribbean can seriously challenge the activities of commercial banks.

2.3.2. *Securities Market Activities*

In general, securities markets in the Caribbean, while growing noticeably over the past two to three decades, are still largely underdeveloped. A few countries have stock exchanges while others have had call exchanges that never really developed into full-fledged stock exchanges.

Trinidad and Tobago, Barbados and Jamaica have established stock exchanges for some while. Suriname has only recently (1994) established its stock exchange, while Guyana has made several futile attempts at arousing interest in such a development. The ECCB in its "facilitator role" has indicated that central to a current programme for the development of money and capital markets, will be the establishment of an Eastern Caribbean Stock Market, among other institutions **(Anthony-Brown and Samuel, 1996)**.

For the countries that currently have stock exchanges there are reports of a loss in momentum of activity in the various stock exchanges. **De Silva and Forde (1994)** in explaining the Trinidad and Tobago situation state "The establishment of a formal stock market has not resulted in any substantial new investment funds... Between 1986-1990 no new issue of shares were made. However in 1992 two new issues were made."

Data reveal that for Trinidad and Tobago, the number of listed companies on the stock exchange is decreasing. In 1989 there were 31 companies listed, 30 in 1991; 28 in 1992 and 26 in 1993. A corresponding fall in shareholders has also been evident.

For Barbados, **Haynes (1996)** explains that "liquidity in these (the bond and stocks) markets is limited as secondary markets to trade bonds and stocks are now in their infancy and trading remains relatively thin." For Suriname, **Danns (1996)** explains that after gaining momentum shortly after establishment, trading on that country's stock exchange declined somewhat.

The bond markets too are little developed, although some writers **(Haynes, 1996; Danns, 1990)** point to the fact that much trading of government securities is done in the primary markets. Government securities have had a long tradition in the market. Apparently, institutions and individuals feel secure investing in those low-risk securities. Not much can be said for the trading in private sector bonds, which still tends to be infrequent in the region.

Secondary market for bonds is also in need of development. In Guyana, the Central Bank has recently introduced heavy penal rates for re-discounting bills and has introduced a new system of accounting to facilitate an inter-bank market for trading in securities. This has provided little if any impetus for those institutions to trade on the secondary market. This attitude transfers to the broader economy that knows little of secondary markets, positions except for the Home Mortgage Bank created in the mid-1980s in Trinidad and Tobago and a similar concept replicated in the mid-1990s in the ECCB Area.

Direct financing in the Caribbean economies is, therefore, infrequently practised except for government securities and some private sector shares. It would appear that the approach to be taken by the ECCB in which it identifies "the development and implementation of a comprehensive public education programme for the development of money and capital markets", might be the way to start or re-start for many of the region's economies.

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Part 2

Country Experiences

3

The Evolution of the Financial Sector in The Bahamas (1970-1996)

Wendy Craigg et al.[1]

The financial sector is one of the main pillars of The Bahamian economy, and it is characterized by dichotomy. Apart from a domestic banking sector, which is partially foreign-owned, there is also a very large offshore sector. Over the years, sector developments mirrored efforts to address various changes occurring in these activities, particularly in the burgeoning offshore banking sector. The critical focus of this review, however begins in 1974, a watershed period in the evolution of the system. It was one year after The Bahamas gained independence from Great Britain, marking the start of operations for a new fledgling Central Bank of The Bahamas and the consolidation of the 1960's campaign to restore credibility to the dominant offshore banking and trust sector.

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[1]Ms. Craigg, is Deputy Governor of the Central Bank of The Bahamas, provided overall editting to this Chapter, which was prepared by a team of staff members from the Bank consisting of: LaShelle Adderley; Kevin Demeritte; John Rolle; Josephine Seymour and Peggy Winder.

At the time the Central Bank was established, the institutional framework of both the monetary and non-monetary sectors was inadequate in relation to the aspirations of an independent nation. In this context, as in other developing countries, an important function of the Government and the Central Bank was to promote the development of the country's financial system. The Government intervened directly by establishing new public sector financial institutions and introducing new regulations and controls on financial sector activities. Consequently, the banking sector, dominated by foreign institutions, underwent radical changes. By mandate, the Central Bank of The Bahamas assumed a critical role in economic management, particularly balance of payments stability and the preservation of the value of The Bahamian currency. Over time, the monetary policy tools have been fine-tuned, in keeping with changes in the domestic sector, focusing in this regard on credit controls and liquidity management.

By standards of developing countries, the financial sector of The Bahamas is highly developed and dynamic, providing a wide array of services by several types of intermediaries. Apart from The Central Bank of The Bahamas, the sector consists of commercial banks, saving banks, trust companies, offshore banks, insurance companies, a development bank, a publicly controlled pension fund, a housing corporation, a public savings bank, private pension funds, cooperative societies and credit unions. Although financial intermediation is dominated by commercial banks, the insurance industry and the numerous private pension schemes, which constitute the institutional investor base, mobilize a sizeable pool of long-term investible resources for economic growth. Credit unions are also gaining in importance and statutory bodies, such as The Bahamas Mortgage Corporation, The Bahamas Development Bank and the National Insurance Board, perform an integral role in the mobilization and intermediation of funds in The Bahamas. Capital and money market activities are relatively thin. There is only a very small informal over-the-counter stock exchange and public sector bonds and bills almost exclusively comprise the scope of available short and long term securities.

As in other countries, the financial sector in The Bahamas is sensitive to macro-economic disturbances, the fiscal situation and external shocks. The evolution of the system after 1974 occurred within the context of various external developments and discrete policy initiatives and their consequential impact on developments in the rest of the economy, particularly tourism which, together with financial services, predominantly define The Bahamian economic base.

3.1. The Economic & Policy Setting

The Bahamian economy is predominantly service-based, with more than 40% of the national income linked either directly or indirectly to tourism; another 15% is derived from banking and financial services. Within this context, The Bahamas is relatively very open, with imports of goods and services representing, on average, approximately 56% of gross domestic product since 1980. More than three quarters of all trade over the last two decades has been conducted with the United States, which also provides just over 80% of all stopover tourists. To a great extent, therefore, the economic fortunes of The Bahamas have been closely tied to the United States. However, recessions have tended to be relatively prolonged, with downturns leading output contractions in the United States and recoveries trailing the United States' economic upturns. Another factor shaping the economic climate in The Bahamas has been the historically fixed exchange rate between The Bahamian and United States' dollars, with its direct consequences for monetary policy and balance of payments management.

Despite high exposure to external shocks, The Bahamas has been able to maintain stability and growth for many decades. (**Table 3.1(a)**). In the period since 1974, the record of economic performance can be divided into three sub-periods for analytical convenience, each characterized by varying rates of output growth, monetary and fiscal performance and balance of payments outcomes. During the first period, 1974 -1980, real GDP growth expanded at an estimated average annual rate of 3.2%, accompanied by impressive real gains in tourism, but amid high levels of inflation and nominal interest rates. A similar average rate of growth was experienced in the second period, 1981-1988, in the context of a fair degree of price stability. However, accelerated private sector demand for consumer imports led to, on average balance of payments deficits. In the most recent period, 1989-1996, average real growth was almost flat under the impact of structural realignments within the tourism sector, vis-a-vis the global recession, and weakness in construction, following a buildup in the housing stock during the preceding period. These conditions evoked a restrictive monetary policy stance, which helped to narrow the balance of payment deficit considerably. However, gains were moderated by the expansionary fiscal policy stance, as evidenced by the significant boost in the average budget deficit and the rate of increase in the public sector debt.

While growth in tourism has mainly reflected trends in the United States' economy, the impact of per capita visitor expenditures and structural changes within the industry has also been important. Corresponding to a declining share of total stopover visitors, the average proportion of cruise passengers in the overall visitor mix has risen markedly from 28.0% between 1974-1980 to 52.3% for 1989-1996, with a peak of 58.0% attained in 1992. Notwithstanding, stopovers continue to provide the bulk of tourism earnings – on average 80% – with average expenditure per head approximately 13 times that for cruise passengers. However, average gains in nominal per capita spending for stopovers have tapered significantly since 1974, even faster than decelerating inflation rates, to produce an overall per capita decrease in real terms.

Table 3.1(a). The Bahamas: Selected Economic Indicators (1974-1996)
(B$M)

	1974	1981	1989	1993	1994	1995	1996
Population ('000)	186	215	251	268	273	279	284
Exchange Rate (B$/US$)	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Retail Price Index (Dec./Nov.)	44.1	75.4	81.3	96.3	97.6	99.7	101.2
Tourism Expenditure	328.0	639.1	1309.5	1304.0	1332.6	1346.3	1450.0
Construction Starts	24.7	125.1	177.6	121.0	175.3	119.3	186.8
Balance of Payment							
Current Account (Net)	-92.9	-82.0	-100.3	65.1	-30.7	1.3	-223.7
Capital Account (Net)	118.1	145.6	49.6	8.3	66.0	84.4	130.3
Overall Balance	-24.5	-5.6	-64.9	17.3	-1.6	-20.3	-30.5
Fiscal Balance	-41.3	-62.2	-121.1	88.1	-20.0	-23.2	64.9
National Debt	141.0	359.8	789.1	1410.5	1473.9	1488.2	1544.3
Public Foreign Currency Debt	n/a	159.5	221.0	462.4	411.4	395.5	357.9
Money Supply (M3)	249.7	605.4	1423.7	1844.9	1988.6	2136.3	2256.8
Domestic Credit	393.3	711.0	1668.5	2206.2	2356.2	2572.5	2776.7

Note: Revised series for 1974 & 1981.
Source:Central Bank of The Bahamas.

The Bahamas experienced the strongest real decline in average stopover visitor spending of 2.0% between 1989-1996, as increased global and regional competition negatively impacted average hotel room rates and per capita spending. In the previous two sub-periods, however, (1974-1980 and 1981-1988), growth in the number of stopovers was strong enough to counteract lower spending and the ongoing shift towards cruise passengers in the visitor mix, as well as sustain rising real growth in overall tourism earnings of 1.8% and 2.8%, respectively. The outcome was reversed in 1990-1992, as recessionary conditions, coupled with the downturn in cruise performance, caused real industry earnings to contract by some 1.8% per annum.

Corresponding to the acceleration in economic growth of the late 1970s and early 1980s, The Bahamas experienced a boom in construction activity, particularly in the residential sector. Between 1974-1980, the estimated real value of construction starts rose by 9.5% with the attendant growth in residential activities averaging 13.8% yearly. Declining commercial activity caused total starts to contract on a real basis, by an average 1.2% from 1981-1989, but residential investments were still buoyant rising in real terms by 4.1% on average each year. These two periods also featured a large expansion in public sector low cost housing stock. Based upon construction starts between 1994 and 1996, indications are that rising demand is again stimulating a rebound in the construction sector, fuelled by private sector as opposed to public sector investments.

As regard government finances, the overall review period suggests a slight mismatch between revenue and expenditure growth, at 8.3% and 8.5% respectively; with the resulting fiscal deficits approximating, on average, 2.2% of GDP (**Table 3.1(b)**). Indicative of the counter-cyclical pattern of government expenditure, particularly at the height of the 1974, 1982 and 1991 recessions, the deficit ratios were elevated to between 3.7-4.6% of GDP. Still, on average, the deficit to GDP ratio was stable at 2.1% over the first two periods, before firming to an average

2.4% of GDP between 1989-1996. Corresponding to the marked slowdown in real activity over the latter sub-period, there was a noticeable increase in the average debt to GDP ratio, from 21.5% between 1981-1988 to 30.6% during 1989-1996. After 1990, fiscal policy was directed at controlling the growth rate of the national debt, with the deficit to GDP ratio falling from 3.7% in 1991 to a low of 0.7% in 1995, and the debt to GDP ratio levelling off to an estimated 34.6% in 1995.

Analysis of the balance of payments reveals that tourism related improvements in the services' account helped sustain average current account surpluses of $20.1 million each year between 1974-1980. Despite slower growth in overall trade volumes during 1981-1988, the expansion in net invisible inflows still lagged the rising trade deficit, producing average current account shortfalls of $29.9 million, deteriorating to an average $78.8 million per annum in the eight years through 1996. Correspondingly, the average current account deficit to GDP rose significantly from 1.7% to 2.4% over the last two sub-periods. On the capital account, The Bahamas enjoyed comfortable average net inflows, although, as a proportion of GDP, these were highest during the 1970s at 2.9% on average, waning to 1.5% in the 1980s, before rebounding to an average 2.2% of GDP in the last eight years. Together with earlier surpluses on the current account, net capital inflows helped secure a buildup in the banking system's net foreign assets. However, reduced net capital inflows during the early 1980s, combined with boosted current account imbalances in the most recent period, resulted in overall external payments deficits, which were initially financed by the domestic banks during 1981-1988 and later accommodated via a net reduction in the Central Bank's external reserves.

Given The Bahamas' fixed exchange rate arrangement and the close relationship between domestic credit creation and imports demand, additional insights into the evolution of the balance of payments may be gleaned from the observed trends in the monetary and credit aggregates over the 23 years under

Table 3.1(b). The Bahamas: Government Financing (B$M) (1974-1996)

	1974	1981	1989	1993P	1994P	1995P	1996P
A. REVENUE & GRANTS (i + ii + iii)	**115.4**	**282.2**	**456.7**	**537.1**	**618.2**	**660.2**	**678.8**
i) Tax Revenue	101.1	207.7	401.8	482.1	552.6	585.6	608.6
ii) Non-Tax Revenue	14.3	74.5	54.9	55.0	62.1	61.6	70.2
iii) Capital Revenue & Grants	0.0	0.0	0.0	0.0	3.6	13.1	-
B. EXPENDITURE (i + ii + iii)	**156.7**	**344.4**	**577.8**	**622.7**	**638.2**	**683.4**	**743.7**
i) Current Expenditure	107.7	243.7	473.3	530.6	551.6	586.2	645.9
ii) Capital Expenditure	15.4	45.6	105.1	67.2	52.9	71.1	67.9
iii) Net Lending [() = repayment]	33.6	55.1	(0.6)	24.9	33.7	26.1	29.9
C. OVERALL BALANCE (A - B)	**(41.3)**	**(62.2)**	**(121.1)**	**(88.1)**	**(20.0)**	**(23.2)**	**(64.9)**
Financing (Net)							
Borrowing less Repayments	36.2	37.9	95.7	112.3	68.5	15.1	69.8
Other Financing	5.1	24.3	25.4	(27.2)	(48.6)	8.1	(4.9)
Memo: Total Direct Charge	**108.2**	**281.0**	**671.8**	**1,064.7**	**1,136.3**	**1,165.8**	**1,235.6**
i) B$ Internal	40.3	193.3	538.9	897.4	987.4	1,010.3	1,102.3
ii) Foreign Currency	67.9	87.7	132.9	167.3	148.8	155.6	133.4

Note: P = Provisional

Source: Public Treasury Accounts and Monthly Statistical Printouts review. From 1974-1980, average growth in the money supply of 12.0% contrasted with average credit expansion of 7.5%. With money creation for the most part linked to the sterilization of foreign currency tourism proceeds, the gap in growth rates translated into direct improvements in the foreign asset position of the financial system. During this period, banks also experienced relatively buoyant liquidity, setting the stage for the rapid expansion in credit and the average balance of payments deficits registered between 1981-1988.

From 1981-1988, the average gap between money and credit growth narrowed considerably, with the respective rates estimated at 12.2% and 11.7%, placing upward pressure on interest rates and depleting bank liquidity. Conditions provoked a more restrictive policy stance by the Central Bank, which helped to contain the average expansion in credit to below 7% during 1983-1985, but liquidity and interest rate pressures re-emerged as controls were lifted. With the reimposition of interest rate controls in 1988 and the pursuit of a more active credit control policy, the Central Bank was able to successfully reduce the average rate of credit expansion to 8.2% between 1989-1993, albeit monetary expansion also slowed to 6.7% amid the onset of recessionary conditions. Still, a gradual recovery in bank liquidity was evident, and net balance of payments outflows were significantly reduced.

As regard the pattern of overall consumption in the economy, trends in credit and the expansion in the national debt suggest that the government's share in GDP has risen on average since 1974. The experience in the sub-periods, however, has been mixed. Reflecting significant capital works and infrastructural developments, the rate of increase in government consumption exceeded that for the private sector in the first period, as suggested by an average growth in the national debt of 12.9% relative to an 8.8% average yearly increase in banks' private sector credit. Although these trends were reversed during the decade of the 1980s, the estimated average rate of expansion in private sector consumption once again fell below that for the public sector from 1989 onwards.

Other than defining a role for the Central Bank, financial sector policy in 1974 also focused on increased mobilization of domestic savings and the channeling of resources to the productive sectors of agriculture, fisheries and light manufacturing. On the one hand, the latter objective complemented The Bahamianization policy which promoted the greater economic empowerment of Bahamians and was also consistent with the Government's goal of economic diversification. The Government's intervention in the financial sector was symbolized by the establishment of the National Insurance Board in 1974 and the passage of The Bahamas Development Bank Act that same year. As a mandatory savings and pension scheme for all employed Bahamians, the National Insurance Board's funds would grow to assume a critical role in the financial system, influencing bank liquidity and monetary policy and the financing of public sector budgetary activities.

The need for a development bank was recognized before 1974, as the government proposed the formation of such an institution in the 1972 White Paper on Independence. It was intended that this organization would provide the requisite financing of small businesses and projects which commercial banks would not ordinarily finance, because of the length of maturity on such loans and the perceived riskiness of the projects.

The third public corporation, The Bahamas Mortgage Corporation (BMC), was established as an element of social policy in 1983, to finance low-cost housing needs. This provided a focused outlet for some of the National Insurance Board's (NIB) resources as the NIB became the primary holder of the BMC's mortgage bonds. BMC was charged with providing loans to low and medium income persons enabling them to acquire "reasonable housing accommodation" where such needs were not being met by existing lending institutions. Along with the

Grant's Town Urban Improvement Project, which was announced in the annual budget speech of December 1980, and for which planning began in 1981, this represented an effort by government to address the widespread need for adequate housing by the mass of the population after independence. Assisting this effort, the Central Bank later designated bank loans for low cost housing under the Grant's Town scheme as eligible liquid assets for secondary reserve purposes, in November 1981. A similar treatment was also given to banks' holdings of BMC's bonds in January 1988 which, in effect, increased the incentive for commercial and savings banks to channel resources into the construction of low-cost homes.

This greater ability to mobilize domestic savings and finance small and medium-sized enterprises accorded well with the early 1970's policy of Bahamianization and was expected to stimulate expanded production at a time when The Bahamas was gaining acceptance into a number of international economic groupings and bilateral trade agreements. While production of manufactured goods did not expand on a large scale, the early 1970s helped pave the way for the formal assertion of the governing Progressive Liberal Party (PLP)'s "Bahamianization policy". Under this policy, certain activities were reserved exclusively for Bahamian citizens, including wholesale and retail distribution of up to $2 million in value, real estate agencies, public transportation, newspaper and magazine publication, theatres, non-hotel nightclubs and restaurants (except specialty gourmet and ethnic restaurants), small guest houses and hotels, fishing and farming of up to 25 acres. Moreover, majority Bahamian ownership was reserved for larger wholesale and retail distribution, inter-island air and sea transport, construction valued in excess of $2 million, medium-sized hotels (26-100 rooms), manufacturing primarily for the local market, water and electricity generation and distribution, and farming of up to 500 acres. Another element of this policy was stricter immigration and work permit rules. These arrangements were later refined into key elements of The Bahamas' official National Investment Policy.

It was therefore within this wider dynamic context of modest but stable growth and development, that the financial sector of The Bahamas evolved over the past quarter century since gaining its political Independence from the United Kingdom.

3.2. The Evolution of the Financial Sector

3.2.1. The Central Bank of The Bahamas

The Central Bank of The Bahamas, which is at the apex of the financial sector, evolved through two stages of development; namely, the Currency Board/Commissioners of Currency and the Monetary Authority. The Currency Board was instituted in 1919, as part of the process of decentralization among the British colonies. The Board had no policy mandate; rather, it was solely charged with the issuance and redemption of Bahamian currency.

By the 1960s, the rapid growth of financial sector activities, together with the devaluation of the Pound Sterling in 1967, heightened the need for new institutional and monetary arrangements and an independent exchange rate policy to cope with these changed circumstances. The Bahamian dollar was adopted as the new monetary unit in 1966, pegged to the US dollar and replacing The Bahamian pound which had a fixed relationship with the pound sterling under the 1965 Currency Act. Massive exchange rate losses resulted as banks, in the absence of alternative domestic investment opportunities, held most of their assets in sterling balances. This also brought into sharp focus the need for an institution that could, *inter alia*, relieve banks of the exchange risks arising from capital inflows. These developments, along with an increasing need for closer supervision and monitoring of the fast expanding banking system, led to the establishment of The Bahamas Monetary Authority (BMA) in 1968.

Under the BMA, banks in The Bahamas were subjected to tighter supervision, and a stronger link between the public and private sector was formed through its advisory role to Government and its relationship with commercial banks. However, the BMA was unable to develop effective monetary policies *vis-a-vis* reserve requirements for commercial banks or to employ instruments of monetary and credit control. A fundamental weakness of the arrangements became increasingly clear in the events of the late 1960s, when the BMA was virtually powerless to deal with the external imbalances arising from the sharp expansion in domestic money supply as banks converted sterling assets to Bahamian dollar assets by expanding loans and advances to the private sector. The global recession of the early 1970s, brought on by the OPEC oil crisis, also heightened the need for balance of payments management.

There was a series of exchange rate changes during the review period. In February 1970, the gold parity of The Bahamian dollar was changed from 0.870898 to 0.888671 and the rate of exchange against the US dollar was set at B$1.00 = US$1.00. The rate of exchange against sterling was B$2.40 = £1.00. Following the suspension of the US dollar convertibility with gold, The Bahamas Government on 27 August 1971 decided to trade the US dollar at par with The Bahamian dollar, but to allow The Bahamian dollar to fluctuate *vis-a-vis* the pound sterling. On 24 December, 1971, with the new gold parity at 0.843828 gms The Bahamian dollar was devalued to B$0.97 = US$1.00 and was fixed at this rate on June 28, 1972. The Bahamian dollar was again devalued by 12.7% on February 15, 1973 as against a 10% devaluation for the US dollar. With the concurrent reduction in gold parity of The Bahamian dollar, parity was reached between the US dollar and The Bahamian dollar, an arrangement which continues to date.

From its inception, The Bahamas Monetary Authority (BMA) was allowed to charge a 1% commission on the exchange of banknotes redeemed or issued, because of the link of such exchanges with purchases/sales of sterling and the need to cover transaction costs. In many instances, it was left up to the banks to decide whether similar charges would be passed on to the public. During the early 1970s, variations in the BMA's commission rate via buying and selling rates for US dollar balances, signalled its intent to either encourage inflows or discourage outflows. From December 1971, the commission was reduced and maintained below 1%, decreasing from a net 5/8% at end 1971 to an eventual 0.15% *vis-a-vis* the Central Bank, in September 1982. No further adjustments were made to the net spread in sterling balances, which was reduced to below 1% from December 1971 to February 1973, before being re-established at 1%.

Today, the Central Bank buys US dollar balances from banks at 1.0025 and sells at 1.0040. With a view towards maintaining a harmonized system of lending with the public, banks are permitted to buy balances from the public at 0.9950 and sell at 1.0125. The banks are also permitted to sell cash at 1.0050 and buy at 1.0000.

The Central Bank was established on June 1, 1974, under The Central Bank of The Bahamas Act, 1974, with the pivotal central banking mandate to safeguard and ensure monetary and financial stability. The Central Bank performs the traditional roles of issuing legal tender, maintaining external reserves to safeguard the external value of The Bahamian dollar, promoting monetary stability and a sound financial structure and acting as a banker and advisor to the Government. In addition, the Central Bank administers the country's exchange control regulations, issues and makes a market in government securities and regulates and supervises the activities of the banking sector. It also acts as a banker to banks.

Upon establishment, the Central Bank had an issued capital of B$3.0 million and external reserves stood at B$42 million. Balance sheet developments over the years mirrored changing balance of payments conditions and the shifting sources of domestic credit growth. (**Table 3.2**) For the most part, balance of payments surpluses fed through to steady increases in foreign assets over the course of 1973 to 1986. Coincidentally, reserve money rose steadily as the buildup in currency mirrored the favourable economic conditions. Since 1986, net domestic assets have increased steadily under an expansionary fiscal stance. According to the balance sheet at end-1996, assets totalled $335.1 million, of which 48.6% were holdings in foreign currency. Between 1973-1986, claims on the public sector comprised, on average, 18.7% of total assets, before increasing to 27.1% in 1987 and further to 46.7% at end-1996, coincident with the widening of the Government deficit. On the liabilities side, currency represented, on average, 42.8% of the total, followed by bank deposits (25.0%) and public sector deposits (3.5%).

Monetary Policy

The fundamental objective of monetary policy in The Bahamas has always been to maintain stable credit and other conditions to support the fixed parity between The Bahamian and U.S. dollars that has prevailed since 1973, while simultaneously allowing the economic development objective to be pursued. Indeed, upon establishment, the Bank was given a statutory mandate to ensure that external reserves are maintained at 50% of the value of total notes and coins and demand liabilities of the Bank. The stability objective includes maintaining the domestic as well as the external value of the currency, while the domestic objective requires promoting and supporting a high level of domestic production, employment and growth. In formulating its monetary policy, the Central Bank takes into consideration the prevailing and prospective domestic economic situation, fiscal operations and emerging external sector developments. In particular, credit and liquidity conditions are continuously monitored by the Central Bank.

Table 3.2. The Bahamas: The Central Bank - Net Domestic Assets (1974-1996)
(B$M)

	1974	1981	1989	1993	1994	1995	1996
External Reserves	**41.6**	**103.1**	**146.9**	**164.3**	**173.6**	**170.6**	**163.0**
Monetary Base	**41.7**	**74.2**	**170.8**	**199.5**	**223.5**	**231.9**	**227.2**
Currency in Circulation	28.6	50.6	111.3	112.8	124.0	129.9	143.5
Bankers Balances	13.1	23.6	59.5	86.7	99.5	102.0	83.7
Net Domestic Assets (Liabilities)	**0.1**	**-28.9**	**23.9**	**35.2**	**49.9**	**61.3**	**64.2**
Net Credit to Government	**9.7**	**27.5**	**85.4**	**113.1**	**130.5**	**142.4**	**146.3**
Advances	9.4	15.7	37.0	44.0	44.0	47.0	52.0
Registered Stocks	0.3	13.2	20.3	30.0	34.8	28.3	20.9
T-Bills	0.0	5.9	32.6	40.7	64.8	74.1	80.3
Less: Deposits	0.0	7.3	4.5	1.6	13.2	7.1	6.9
Net Credit to Public Corporations	0.0	-24.0	-4.9	-1.4	-4.0	-1.3	(0.3)
Claims on Banks	1.6	19.4	13.0	0.0	0.0	0.0	--
Other Items (Net)*	-11.2	-51.8	-69.6	-76.5	-76.6	-79.6	(81.8)

Source: Central Bank of The Bahamas.

The main instruments of monetary policy in The Bahamas are reserve requirements, changes in the Bank discount rate and selective credit controls, supplemented by moral suasion. One of the first acts of the Central Bank in 1974 was to impose legal reserves on banks operating domestically, which required no major adjustment on the part of the banks because of their practice of holding reserves with the BMA for clearing purposes. Indeed, since June 1, 1971, under the clearing arrangements between the BMA and the seven clearing banks, banks were required to hold at least 52% of Bahamian dollar deposit liabilities as till cash or as deposits with the BMA, of which at least 1% was to be held in accounts with the BMA. This agreement reportedly had no statutory basis, being solely for purposes of facilitating clearing transactions. However, since June 1974, under the statutory reserve requirement, banks are obliged to keep reserves equal to 5% of total Bahamian dollar deposits—4% to be held in non-remunerated deposits at the Central Bank and 1% to be met by vault cash. The Act authorizes the Central Bank to vary this ratio between 5% and 20%, but it has remained unchanged at five since instituted in 1974.

Over the years, the Central Bank has relied extensively on interest rate controls in combination with moral suasion and other policies to manage financial sector liquidity. Excess liquidity in the system in early 1975, led to the Bank establishing a Special Deposit Account, on which interest of 4% was paid on bank balances in excess of 250% of the statutory level. This scheme continued until October 1975 when excess liquidity receded. The next discretionary measure was taken on 15 April, 1979, when remarkable growth in external reserves permitted a reduction in the prime rate from 9.50% to 9.00% stimulating a general lowering of rates across the board. Strong money supply and credit growth in the second half of 1979 and into 1980 led to an agreement with banks to raise the prime rate from 9% to 11%, but the Bank imposed a 2% surcharge on borrowings by banks in November 1980, in a further move to restrain credit.

By 1981, unsustainable credit expansion exerted significant pressure on bank liquidity which, adjusted for Central Bank's claims on commercial banks, ended the year at a negative $8.8 million. Initially, the Central Bank ,in May, imposed secondary or liquid assets reserve requirements in line with Sections 20 (1) and (3) of the Act, stipulating that banks must hold 20% of demand deposits and 15% of savings and fixed deposits in liquid assets. Eligible assets primarily comprised government securities (Treasury bills and Registered Stocks), balances with the Central Bank and money at call and demand balances with other financial institutions. In addition to placing deposits with select commercial banks, the Central Bank advised institutions to limit the interest paid on other deposits to 10.0%, as a means of discouraging destabilizing shifts in deposits between institutions. In January 1982, the Bank also reintroduced a variable surcharge of between 1% and 2% on frequent or excessive borrowings from the Bank that was lifted in November 1981.

In April 1983, the Bank decided, as a matter of policy, to maintain a level of interest rates which would restrict the differential between Bahamian dollar rates and rates on United States dollars to not more than 2%. This was a response to a perceived trend of sizeable foreign exchange purchases thought to be linked to the emerging interest rate differential.

In December 1988, monetary conditions led the Bank to impose an 8.0% interest rate ceiling on all new bank deposits to stem disruptions in the system arising from the large and frequent shifts of deposits within the system, amid tightening liquidity conditions and unsustainable credit growth. Under an August 1990 amendment to the Central Bank Act, the Bank also strengthened the enforceability of reserve requirements by increasing the penalties that could be applied for shortfalls in banks' required reserves. The penalty was set at a maximum of twice the discount rate prevailing at the time of the deficiency for every day that the deficiency persisted. Fines for the incurring of secondary reserve deficits were placed at these same levels. As of January 1, 1991, the actual fine imposed amounted to one tenth of 1% (0.1%) of the amount of the deficiency for each day the deficiency continued. To restrain credit growth, banks were further instructed in November 1990 to insist upon a higher minimum down payment or initial equity requirement of 35% on consumer loans, which account for the largest share of total banking system credit.

These measures, together with improving foreign currency receipts, permitted a gradual recovery in bank liquidity and a removal of the 35% equity requirement on consumer loans by January 1993, with banks returning to the 25% norm and subsequently to requirements of as low as 10%. It was not until April 1994, that liquidity conditions permitted a removal of the deposit interest rate ceiling. In the interim, however, the ceiling had been lowered on a number of occasions, to 6.25% by 1994, in tandem with official discount rate reductions to stimulate economic activity (**Table 3.3**).

The Central Bank affects interest rates by varying the Bank discount rate, which is used mainly to signal changes in monetary policy. Between 1974 and 1978, the discount rate was stable at 9.50%, peaking at 11.00% in 1980. The rate was held steady at 9.00% from 1988 to January 1992, after which it was reduced on three separate occasions, to 7.50% in February 1992, 7.00% in June 1993, and further in April 1994 to its current rate of 6.50%.

For the most part, interest rate policy reflects changing responses to bank liquidity and domestic credit conditions. The international environment provided an exception in 1980, when rates in the industrial countries rose above 20.0%. This prompted the 1980 amendment to The Bahamas' Rate of Interest Act, 1948, to remove the imposed ceiling of 20% (annual simple interest) on loans of more than $100 and the 30% limit on loans of $100 or less contracted by banks and trust companies. All other financial institutions remained bound by these limits. This allowed banks to be more competitive internationally in attracting foreign funds.

Table 3.3. The Bahamas: Financial Survey (1974 - 1996)
(B$M)

	1974	1981	1989	1993	1994	1995	1996
A. Net Foreign Assets	(110.3)	(2.2)	73.3)	(62.2)	(56.2)	(78.1)	(108.6)
B. Total Domestic Credit	**393.3**	**711.0**	**1,668.5**	**2,206.2**	**2,356.2**	**2,572.5**	**2,776.7**
Government (Net)	66.6	119.6	247.0	436.6	412.5	424.1	422.1
Private Sector	324.6	569.1	1,333.8	1,668.0	1,859.2	2,060.1	2,263.9
Public Corporations	2.1	22.3	87.7	101.6	84.5	88.3	90.7
C. Money Supply							
Currency in Circulation	19.1	37.1	77.8	82.7	88.5	91.6	96.1
Demand Deposits	56.2	127.6	227.8	296.8	323.8	351.4	349.7
M1	**75.3**	**164.7**	**305.6**	**379.5**	**412.3**	**443.0**	**445.8**
Savings Deposits	45.6	137.0	309.9	305.4	338.9	342.0	355.1
Fixed Deposits	109.6	293.5	788.9	1,127.1	1,211.1	1,317.8	1,427.1
M2	**230.6**	**595.2**	**1,404.4**	**1,812.0**	**1,962.3**	**2,102.8**	**2,228.0**
Resident F/C Deposits	19.1	10.2	19.3	32.9	26.3	33.5	28.8
M3	**249.7**	**605.4**	**1,423.7**	**1,844.9**	**1,988.6**	**2,136.3**	**2,256.8**

Source: Central Bank of The Bahamas.

Eleven years later, on December 6, 1991, the Rate of Interest Act would be amended again to extend similar freedoms to non-bank financial institutions, to remedy the situation where provisions in many insurance companies' mortgage contracts allowed the capitalization of interest arrears to increase effective contract rates beyond 20%. In 1991, a legal challenge launched against one such provision resulted in the affected mortgage being nullified in rulings by the Supreme Court and Court of Appeal. It was then that Parliament moved quickly to remove the 20% ceiling for non-bank institutions, averting substantial losses by some insurance companies and the likely diminution of Bahamian pension funds managed by these companies and invested in mortgages. The amendment was made retroactive to 1948.

The extent to which the Central Bank makes use of market operations in the conduct of monetary policy is limited in The Bahamas. Under Section 27(2) of the Act, The Central Bank acts as agent for the Government issuing treasury bills and bonds on behalf of the Government, and is permitted to buy, hold and sell stock issued to the public and maturing within 20 years from the date of acquisition. Open market operations in these instruments are constrained by the generally small amounts of outstanding paper relative to overall liquidity in the financial system, the fact that the amount of securities available at tenders is generally limited to the roll-over of maturing issues, and by the absence of an active secondary market. For Government bonds, the coupon rate of interest offered is set by the Central Bank, based on existing interest rate conditions. These stocks are issued under The Bahamas Registered Stock Act, 1973 and the amount issued in any fiscal year is based on budgeted capital financing provisions authorized by resolution of the House of Assembly.

The amount of outstanding Treasury bills is limited by law; the Public Treasury Bills Act was amended on December 31, 1990 to increase the outstanding limit from 20% to 25% of the Government's average ordinary revenue in the three preceding years. At end-1996, the amount of Treasury bills outstanding was $132.5 million, blocks of which were rolled over at quarterly and semi-annual frequencies. The Central Bank's intervention consists of setting a "cut-off" interest rate for bills, i.e., the maximum rate that would be paid on Treasury bills issued in the tender.

While there is no active secondary market in Treasury bills or bonds, the Central Bank provides liquidity to the market by standing ready to discount bonds and Treasury bills before maturity, although there is no legal requirement to do so. Treasury bills are rediscounted at a rate of 0.5% points above the average discount rate, and sold, after the tender, at a rate of 0.1% points below the average discount rate. Also, the Bank extends loans against the collateral of government paper, with the interest rate on these loans rising in line with the duration of the loan. Banks' use of the rediscount and refinance facilities is monitored as an indication of liquidity and credit expansion.

Under the Exchange Control Act, 1952 and the Exchange Control Regulations 1956, the Central Bank administers exchange controls, and delegates to authorized dealers, the authority to approve allocations of foreign exchange for certain current payments. It should be noted that applications for foreign exchange for current payments in excess of these limits, are made to the Central Bank and are normally granted automatic approval upon submission of documentary evidence. Through its acceptance of the obligations of Article VIII, Sections 2, 3 and 4 of the International Monetary Fund Agreement on December 5, 1973, as a member, the Central Bank does not impose restrictions on current account transactions, although exchange controls are used to monitor developments in this area.

Over the years, there have been several significant changes in the administrative operations of the exchange system, geared primarily towards improved efficiency, as was some moderate easing of the controls. Amid exchange rate realignments and the movement towards independence in the early 1970s, the authorities sought to maintain confidence in the economy and the currency, particularly by alleviating the speculative concerns of temporary residents. In April 1973, temporary residents were granted permission to repatriate Bahamian dollars which exceeded their immediate local requirements. Permission was also given to local businesses to operate private foreign currency accounts in The Bahamas, and emigrating residents were allowed to transfer all of their assets overseas over a period of four years, starting with the first $25,000 immediately.

Rising personal income and increased demand for travel and spending abroad have prompted significant relaxation of personal limits on foreign currency purchases from commercial banks. On April 1, 1977, a general notice was issued to Authorized Dealers which announced that limits for personal allowance cards for residents were increased from $200 to $1,000 per annum, with a further rise to $2,000 on January 1, 1987. In addition, for the first time in 1987, delegated authority was granted to Authorized Dealers to approve foreign currency purchase requests for educational purposes up to a maximum of $10,000 per beneficiary. These arrangements were not adjusted again until May 10, 1993, when the Central Bank increased annual personal allowances to $10,000 for credit card payments only. More significant in this later period was the increase in delegated authority of commercial banks for a number of transactions. Non-oil import payments up to $100,000.00 now fall under delegated authority limits. For holiday travel by residents, commercial banks were permitted to approve a maximum of $1,000.00 per trip for individuals above the age of 18 years and $500.00 for persons up to the age of 18 years. A new limit of $10,000.00 now applies for business/professional travel; $3,000.00 for educational travel and $1,000.00 for medical travel. In all cases, transactions are required to be effected on the basis of appropriate documentation and amounts in excess of these limits continue to require direct Central Bank approval. In many respects, these administrative accommodations were a delayed policy response, as by 1993 the annual volume of commercial bank foreign currency sales had more than trebled to over $1 billion.

It is useful to note that the Central Bank maintains a market in investment currency, prescribed for the purchase of foreign currency securities from non-residents and the making of direct investments outside The Bahamas. The market has its origins in the United Kingdom after World War II, but was established in The Bahamas in June 1972, after the United Kingdom abolished the Sterling Area. Until June 1972, investment currency transactions involving Bahamian residents were funded using the main pool of investment currency for the Sterling Area out of sale by the United Kingdom Treasury of resident holdings of foreign currency securities, which had been sequestered shortly after the War commenced.

The investment currency market in The Bahamas has undergone several changes since 1972. The pool was initially managed by several dealers, led by National Westminster Bank, and funded by proceeds from the sale of Bahamian-owned foreign currency securities, which had originally been purchased using the United Kingdom's or The Bahamas' pool of foreign exchange. However, the Central Bank commenced support of the market from its own foreign exchange reserves in 1986, providing a total of $840,000 during 1986-1989. In late 1989, the Bank assumed responsibility for the administration of the market, which was almost illiquid. Investment currency bid and offer transactions attract a premium of 20% and 25%, respectively. In 1995, total purchases amounted to $203,898 and total sales $268,533, for a closing year-end balance of $1,291,136. Most sales were for portfolio investments and for the purchase of real estate overseas.

Bank regulation and supervisory activities are a critical part of the Central Bank's functions. The main goal underlying the Central Bank's supervisory functions is to preserve the long-term resiliency of The Bahamas as a financial centre by fostering prudent and healthy banking practices. The provisions of the

Banks and Trust Companies Regulation Act, 1965, established the office of Inspector of Banks and vested the functions of the office in the Central Bank. It is the Inspector's duty to maintain a general review of banking practices in The Bahamas, to examine the affairs of every licensee to ensure that it is operating within the law and is in a sound financial position, and to make recommendations to the Minister on applications for licenses.

The Central Bank is authorized to examine and supervise banks according to established guidelines for capital adequacy, asset concentration and rate exposure, adequacy of liquidity in relation to liabilities, asset quality and adequacy of provisions against loan losses, internal controls and accounting systems and other criteria considered relevant. Bank inspection by the Central Bank is generally only offsite.

Other than prudential considerations, more recent enhancements of the supervisory process have focused on greater consumer protection and openness on the part of domestic institutions. Under the December 1989 amendment to the Banks and Trust Companies Regulation Act, banks were required to transfer to the Central Bank, all balances on deposit accounts in respect of which no transaction had taken place for seven years. In so doing, banks were relieved of further responsibilities to make continual interest payments on such accounts and also, a time limit was placed on the likely dimunition of small balances of low income savers via continual service changes. The amendment also called for banks to make upfront disclosures of all account service charges, and otherwise made such impositions illegal.

Additional measures, which would benefit borrowers, followed in January 1994, when domestic banks agreed among themselves to discontinue the practice of publishing the names of mortgage defaulters whose properties were up for sale. Later in October 1994, the Central Bank, in response to public calls for greater transparency in the lending process, directed banks to cease using the "add-on" method of interest rate application to loans, in favour of simple interest rates.

Added supervisory responsibility has also been entrusted to the Central Bank, in an effort to extend business opportunities in the offshore sector to majority Bahamian owned non-bank entities, other than legal and accounting firms. This was facilitated by a 1994 amendment to the International Business Companies (IBC) Act—for offshore non-financial companies—which allowed the Central Bank to designate "suitably qualified" companies, with a minimum of $50,000 capitalization and at least 60% beneficial Bahamian ownership, as Approved Management Companies. Such companies are permitted to function as registered offices and perform the functions of registered agents. Initially, applications for approved management status were vetted by the Exchange Control Department. However, in view of the supervisory significance this responsibility was entrusted to the Bank Supervision Department as of February 1995.

3.2.2. *The Banking Sector*

The Bahamian banking sector is characterized by dichotomy; there is a domestic sector that is distinct from a very large offshore component. From an historical institutional perspective, the first foreign bank to establish operations in The Bahamas was the Royal Bank of Canada, which opened a domestic bank in 1908 and soon afterwards acquired the assets of a locally owned bank that had failed. The Royal Bank of Canada was the only bank conducting business with the public until 1947. Trust company business commenced in 1936, with the establishment of Bahamas General Trust Company which was owned by Canadian interests. It was not until the 1950s and 1960s that a steady flow of banks, trust companies, finance companies and investment firms began to establish operation in The Bahamas—a growth that was fostered by a series of external demand and supply stimuli.

Among the factors behind the emergence of The Bahamas as an offshore banking domicile, were the continuation of high rates of taxation, stringent exchange and investment controls in the major industrial economies, the introduction of certain domestic monetary measures in some industrial countries and the surplus of US dollars accumulated in Europe after World War II. These conditions placed a premium on centres where banking, trust and investment business could be conducted free from restrictive controls and with minimal incidence of taxation.

The Bahamas presented itself as an attractive centre: it had a tax haven status; bank secrecy provisions; absence of exchange controls on transactions between non-residents; longstanding history of political, economic and social stability; developed infrastructure facilities; skilled professional support; convenient direct transportation links and strategic location in the same time zone as New York.

Licence type and exchange control designation basically circumscribe the type of activities that can be undertaken by the various institutions. The Minister of Finance, upon the recommendation of the Central Bank, will designate an applicant company as a bank, a trust company or a bank and trust company, and will issue one of three broad types of licence: 1) a public licence for banks or trust companies carrying on banking or trust business with members of the public; 2) a restrictive licence for institutions conducting business with certain specified persons usually named in the licence; and 3) a non-active license for a company that wishes to retain the word "bank" or 'trust" in its name, although not carrying on banking or trust business.

Coincidentally, the Exchange Control Department of the Central Bank designates the company as resident or non-resident, and it is through such designations that offshore transactions are effectively separated from domestic Bahamian dollar banking business, thereby ensuring effective conduct of domestic monetary policy. A resident bank or trust company is one that can deal only in Bahamian dollars, although it may deal in foreign currency and gold with the authorization of the Exchange Control Department and hence further designated as an Authorized Dealer. A trust company designated resident and authorized agent may also deal in foreign currency securities on behalf of non-resident customers and hold such currencies in safe custody for customers. Conversely, a non-resident bank or trust company is one that can operate only in foreign currencies, a designation which covers all offshore banks and trust companies. A number of banks operate in both the domestic and the offshore markets and in almost all cases, operations in the latter far exceed the former. For example, non-resident deposits of domestic banks at end-1996 were placed at $10.4 billion relative to $1.9 billion for resident deposits.

In addition to the residency status, an exchange control limit is applied to the long or short open positions in foreign currencies that resident banks may hold. This position against Bahamian dollars cannot exceed $500,000, and banks are obliged to sell foreign exchange to or buy from the Central Bank in order to maintain this limit. The limit seeks to ensure that banks provide adequate cover for their Bahamian dollar liabilities with adequate amounts of Bahamian dollar assets, to prevent speculation in Bahamian dollars and to ensure that Bahamian dollar deposits are earmarked for Bahamian dollar assets. Owing to the volatile state of major international currencies towards the end of the Bretton Woods era, the open position was temporarily increased to $1 million by The Bahamas Monetary Authority from October 1972 through April 1973.

The importance of banking and finance to The Bahamian economy far exceeds references to absolute size. Ranking next only to tourism, the sector contributes an estimated 15% to Gross Domestic Product. Direct employment in the banking industry alone was placed at some 3,757 persons at end-1996, as against 2,203 in 1977 and expenditures of nearly $266.9 million for 1996 compared with $55.9 million in 1977. The 1996 expenditure was comprised mostly of salaries (62.5%), followed by other administrative costs (36.8%).

Growth in the measurable benefits of offshore banking over the years primarily reflects the increase in the number of functional operations, which the Central Bank encourages, as opposed to mere booking or brass plate activities. Approximately one hundred and ninety (in fact 188), or slightly less than one half (1/2) of the licencees have a physical presence in The Bahamas, with staff levels ranging from five employees to over 400, in some instances.

Of the 425 licensed institutions at end-1996, 299 were public institutions and 126 were restricted, non-active, or nominee companies. Of the public financial institutions, 20 were authorized dealers and agents, 88 were eurocurrency branches of foreign banks and trusts and 191 were Bahamian incorporated companies. Among the authorized dealers and agents and The Bahamian incorporated companies, there were nine commercial banks and 14 Other Local Financial Institutions (OLFIs). Of the nine commercial banks, seven are authorized dealers and two have both authorized dealer and agent status. Seven of the nine commercial banks make up the clearing banks association and two are fully Bahamian-owned (Bank of The Bahamas and Commonwealth Bank), while the others are branches of large international banks. The OLFIs are a mix of Bahamian companies and subsidiaries of foreign banks and comprise 11 trust companies which are authorized to deal in foreign currency securities, and three savings and loans. The latter group tends to be more specialized in mortgage lending.

Domestic Banks Portfolio Structure

A survey of the domestic banking system shows total credit outstanding expanding from $319.8 million in 1974 to $2.3 billion at end-1996. In this regard, net claims on Government rose from $52.9 million to $254.1 million, and total credit to the rest of the public sector from $2.1 million to $87.3 million. Owing to the rising participation of the National Insurance Board (NIB) and other institutional investors in funding the Government's borrowing requirement, the banking system's gross claims on government have fallen from 63.8% of the direct charge in 1974 to 34.2% in 1996.

The banking system's total claims on the private sector of $2.0 billion in 1996 contrasted with $264.8 million in 1974, and have been traditionally skewed towards personal loans. In 1996, personal loans accounted for 65.2% of total private credit as opposed to just under 10% for tourism and the agriculture, fisheries and manufacturing sectors.

As regard funding resources, the total money supply rose from $249.7 million in 1974 to $2.3 billion in 1996 **(Table 3.3)**. Bahamian dollar savings and fixed deposits comprised the bulk of these resources, at $355.1 million and $1.4 billion respectively, at end 1996.

Ownership Structure and Product Evolution

In recent history, local ownership of domestic banking facilities was marked by the establishment of the Peoples Penny Savings Bank (PPSB) in 1952. Another local institution was the Mutual United Bank of Nassau which operated for only seven years (1957-1963). The PPSB was considered an equal with the Post Office Savings Bank (POSB) as the *"poor man's"* bank, attracting mostly "small" savers. The PPSB focused on lending activities which, in its view, were being overlooked by foreign commercial banks, such as longer term low cost housing loans. Not being able to keep pace with the changing technology and banking practices, the PPSB lingered in the commercial banks' shadow and by 1974 failure was imminent, with the government assuming full ownership of the bank and its illiquid portfolio. In 1974 it was intended that the institution be merged with the POSB in the launching of the National Savings Bank, in accordance with the Government's plan of encouraging savings and mobilizing capital for economic development. However, this never materialized.

There are several noteworthy recent developments in the institutional structure of the domestic banking sector. In 1983 Commonwealth Bank was established, after local investors acquired the domestic operations of National Bank of Canada, and has been extremely successful in establishing a niche in consumer lending. More broad based domestic ownership of banking emerged in 1984, when the Royal Bank of Canada made a public offering of 1.33 million shares of its mortgage subsidiary, the Finance Corporation of The Bahamas. Other public offerings to follow would include the Government's first round privatization of the Bank of The Bahamas in 1994, and an offering by the owners of British American Bank in 1995.

On October 1, 1988, the Government acquired a 51% stake in what was formerly the Bank of Montreal (BOM), with the pullout of the BOM from The Bahamas. The bank was renamed the Bank of The Bahamas on October 31, 1990, at which time Government assumed the remaining 49% interest from the minority partner, Euro-Canadian Bank. In 1991 when the Government liquidated the faltering PPSB, it transferred the institution's portfolio to the Bank of The Bahamas. By October 1995, Government has reduced its ownership of the Bank of The Bahamas to 50%, with the sale of 6 million shares to the public.

In May 1995, The British American Group sold its banking division, comprising British American Bank Bahamas Limited, British American Bank Cayman, British American Card Company Cayman and Britam Bahamas to Fidelity Bank and Trust International (FBTI), a locally incorporated and licensed bank holding company. Subsequently, FBTI floated 2.432 million ordinary shares to residents and non-residents, with subscriptions by the British American Group (19.9%), Bahamians (36.1%) and non-Bahamians (44.0%). British American Bank Bahamas, the major subsidiary of FBTI, also floated 30% of its ordinary shareholding to The Bahamian public.

The other Bahamian owned banking institution, Workers Bank, was formed in 1990, with a majority ownership by The Bahamas Hotel Catering and Allied Workers Union, a key union in the tourism industry.

The Canadian Imperial Bank of Commerce (CIBC) also paved the way for local ownership, by transferring all of the bank's domestic operations to a newly formed subsidiary, CIBC Bahamas Limited, on November 1, 1995. CIBC intends to sell 49% of the equity in The Bahamian subsidiary to the public in the near future. With this sale, the number of domestic banks with Bahamian ownership will increase to six, inclusive of the Bank of The Bahamas, British American Bank, Finance Corporation of The Bahamas (FINCO) Ltd., Commonwealth Bank Ltd. and Workers Bank Ltd.

Banks in The Bahamas provide an extensive array of contemporary banking services, including the normal corporate and personal depository services, checking, savings and time deposit services, as well as short-, medium- and long-term financing.

Automation in the sector is advanced, with automated banking facilities introduced in the latter half of the 1980s and the period following, marked by a significant expansion in the range of other banking services and the introduction of increasingly innovative approaches to marketing. The more notable product development has been the growing issuance of credit cards, under the major international labels (Visa and Mastercard). Currently, five commercial banks issue credit cards – compared to just one in 1992 – and a sixth has a subsidiary offering a Bahamian dollar card. Vibrant activity in the credit card market is evidenced by growth in the number of locally issued credit cards, from some 18,000 in 1992 to almost 53,000 at end 1996, and the aggregate credit limit from in the upper $20 million range to the mid $70 million range. Added to this trend, one commercial bank is now allowing its Bahamian customers to access deposit balances from outside The Bahamas and another has introduced a debit card facility.

Innovation in the banking sector also included the issuance of mortgage backed bonds by two banks, as a means of raising liquidity. Leveraging low cost housing mortgages guaranteed by government, British American issued a total of $18.7 million between 1980 and 1991, at variable interest rates, with outstanding bonds to date standing at $4.5 million. Citibank initiated a mortgage backed bond product in September 1990, with the outstanding portfolio at $2.0 million at end 1995. It is significant to note that these instruments, which were a close substitute for regular deposits, attracted interest rates in excess of the cap on deposits imposed by the Central Bank.

3.2.3. *Commercial Banks*

Commercial banks are by far The Bahamas' most important depository institutions. By 1970, the 15 commercial banks, vis-a-vis a single operation in 1935, had 64 offices, branches and sub-branches. At end-1996, the nine banks operated 83 branches throughout the islands and employed 2,266 staff and had domestic assets approaching $2.68 billion. With approximately 4,000 inhabitants per commercial bank branch, the level of banking services in The Bahamas is relatively high. However, the spread of services is relatively uneven, with a high concentration of bank branches in New Providence and Grand Bahama. Many of the residents of the Family Islands are gaining increased access to deposit and other credit facilities as banks broaden the level of banking services offered in the Islands.

Two commercial banks are totally Bahamian-owned, while the others are branches of large international banks, most notably, from Canada (3), the United Kingdom (1) and the United States

(1). Collectively, the banks hold close to half of the total assets of the financial system in The Bahamas. The range of services includes loan facilities, credit card services and 24-hour banking. Given their predominately foreign ownership, commercial banks avail themselves of excellent international banking connections. As regard market concentration, the four largest banks account for more than half of private sector deposits and credit to the private sector. The distribution of market shares can best be described as oligopolistic. However, over the years, competition has stiffened, particularly in the area of consumer lending and deposit mobilization.

In terms of balance sheet structure, domestic assets stood at $2.4 billion at end 1996 compared to $390.1 million in 1974, representing 86.9% and 83.2% respectively of the banking system's total domestic assets. (**Table 3.4**). In 1996 and across the survey period, lending to the private sector accounted for most of these claims (73.0%), which in turn is dominated by consumer loans (36.8%) and mortgages (20.8%). Owing to their predominantly foreign origin, capital resources account for a small fraction of commercial banks domestic resources (19.4%). Instead, credit has been financed mainly through Bahamian dollar deposits which stood at $1.9 billion in 1995 as against $170.6 million in 1974, of which 66.3% were time deposits, 15.7% were savings deposits and 18.0% demand deposits. The consolidated balance sheet also reveals that commercial banks had substantial negative foreign assets of $276.9 million at end 1996, indicative of net resource flows from overseas which helped to finance the lending boom of recent years.

3.2.4. Other Local Financial Institutions

This grouping of banks and trust operations comprised 14 institutions at end 1996, including three savings and loans (S&Ls) operating solely in the domestic market and 11 banks and trusts which, although resident for exchange control purposes, operate predominantly in the offshore market.

Table 3.4. The Bahamas: Balance Sheet of Commercial Banks (1974 - 1996)
(B$M)

	1974	1981	1989	1993	1994	1995	1996
Assets							
Net Foreign Assets	-140.6	-103.7	-222.3	-222.0	-249.7	-259.8	-276.9
Net Claims on Central Bank	20.6	12.9	59.9	105.0	123.0	128.3	118.0
Domestic Assets							
Net Claims on Other Financial Institutions	-7.6	0.0	-14.4	-21.5	-13.8	-19.6	-30.1
Domestic Credit							
Credit to Government (Net)	52.9	85.1	144.2	300.2	260.0	259.8	254.1
Credit to Public Corporation	2.1	22.3	85.2	95.7	81.4	84.7	87.3
Credit to Private Sector	264.8	443.3	929.3	1,399.9	1,591.6	1,777.3	1,966.5
Total Domestic Credit	**319.8**	**550.7**	**1,158.7**	**1,795.8**	**1,933.0**	**2,121.8**	**2,307.9**
Other Assets (Net)	9.6	3.0	24.0	-27.2	-22.5	-28.4	(43.7)
Total Assets	**201.8**	**462.9**	**1,005.9**	**1,630.1**	**1,770.0**	**1,942.3**	**2,075.2**

Table 3.4. The Bahamas: Balance Sheet of Commercial Banks (1974 - 1996) - Concluded (B$M)

	1974	1981	1989	1993	1994	1995	1996
Liabilities							
Bahamian Dollar Deposits							
Demand	56.2	103.5	213.9	279.9	308.5	335.5	334.2
Savings	45.6	100.5	216.3	244.2	274.1	277.7	290.8
Fixed	68.8	213.3	515.7	944.5	1,025.9	1,134.7	1,231.8
Foreign Currency Deposits	18.5	10.2	19.1	32.8	26.0	33.5	28.8
Total Deposits	**189.1**	**427.5**	**965.0**	**1,501.4**	**1,624.5**	**1,781.4**	**1,885.6**
Capital and Surplus	12.7	35.4	40.9	128.7	135.2	160.9	189.6
Total Liabilities	**201.8**	**462.9**	**1,005.9**	**1,630.1**	**1,769.7**	**1,942.3**	**2,075.2**

Source: Central Bank of The Bahamas.

The only product feature which separates the S&Ls' operations from commercial banks is the absence of foreign currency services, although for a while, checking account services were also not available. Nonetheless, these institutions are mostly the specialized mortgage lending subsidiaries of the larger commercial banks. For 1996, the activities of the three S&Ls, account for more than 90% of the OLFI group domestic assets.

Over the review period, OLFIs' total domestic credit rose from $63.9 million in 1974 to $319.2 million in 1996. The corresponding shares of private sector mortgages in total credit were 71.5% and 77.4%, respectively. Traditionally, net claims on the Government have been a small fraction of these institutions' credit portfolio, estimated at 6.8% in 1996. Underscoring a greater importance of capital funding, Bahamian dollar deposits resources stood at $271.3 million in 1996 vis-a-vis $40.8 million in 1974 (**Table 3.5**).

3.2.5. *Offshore Banks and Trust Companies*

The offshore banking sector offers a full range of banking and trust activities, with subtle differences in the *modus operandi* of individual banks that reflect regulations in their respective country of origin. For example, US banks tend to separate their banking business from trust business with the former being transacted by branches of the parent bank whereas trust business is conducted by locally incorporated subsidiaries. By contrast, Swiss banks in The Bahamas are generally locally incorporated – although a few branches exist and have a substantial physical presence. Canadian banks, which provide the major portion of domestic services, also have substantial offshore activity.

Up to 1965, banks were governed under the Bank Act, 1909 which, apart from not providing for the licensing of banks, made minimal provisions for the supervision of banks and no provision for the supervision of trust companies. The consequence of this *laissez-faire* environment was the establishment of some 600 banks

Table 3.5. The Bahamas: Balance Sheets of Other Local Financial Institutions (1974-1996)
(B$M)

	1974	1981	1989	1993	1994	1995	1996
Assets							
Net Foreign Assets	-16.0	-2.8	-2.1	-4.4	19.9	11.1	5.4
Net Claims on Central Bank	2.0	5.5	19.3	12.9	12.9	12.9	13.4
Domestic Assets							
Net Claims on Commercial Banks	7.6	0.0	14.4	21.5	13.8	19.6	30.1
Domestic Credit							
Credit to Government (Net)	4.0	7.0	18.3	23.3	22.1	22.3	21.7
Credit to Public Corporation	0.0	0.0	0.0	0.0	0.0	0.0	-
Credit to Private Sector	59.9	125.8	404.5	268.1	267.6	282.8	297.4
Total Domestic Credit	**63.9**	**132.8**	**422.8**	**291.4**	**289.7**	**305.1**	**319.2**
Other Assets (Net)	-1.9	-2.6	-8.3	4.4	4.0	8.2	6.2
Total Assets	**55.6**	**132.9**	**450.3**	**325.8**	**340.3**	**356.9**	**374.3**

Table 3.5. The Bahamas: Balance Sheets of Other Local Financial Institutions (1974-1996) - Concluded
(B$M)

	1974	1981	1989	1993	1994	1995	1996
Liabilities							
Bahamian Dollar Deposits							
Demand	0.0	0.0	6.5	9.5	8.3	11.0	11.7
Savings	0.0	36.5	93.6	61.1	64.8	64.3	64.2
Fixed	40.8	80.2	273.3	182.7	185.1	183.0	195.4
Foreign Currency Deposits	0.7	0.0	0.1	0.2	0.0	0.0	-
Total Deposits	**41.5**	**116.7**	**373.5**	**253.5**	**258.2**	**258.3**	**271.3**
Capital and Surplus	14.1	16.2	76.8	72.3	82.1	98.6	103.0
Total Liabilities	**55.6**	**132.9**	**450.3**	**325.8**	**340.3**	**356.9**	**374.3**

Source: Central Bank of The Bahamas.

or institutions purporting to be banks, conducting business from within The Bahamas.

To avert an early collapse of the emerging banking industry and restore credibility to these activities Parliament, in 1965, enacted the Banks and Trust Companies Regulations Act. Along with defining the business of banking, it provided, inter alia, for the licensing and supervision of banks and trust companies along with the revocation of licenses, when deemed necessary. Following its enactment, a significant number of companies were purged from the records; the number of institutions was reduced to 90 by 1967, growing steadily to 191 by 1973. With the establishment of The Central Bank of The Bahamas in 1974 and intensified efforts to remove undesirable operations, 18 licences were revoked and a further 20 in 1975.

In terms of institutional participation, the level of offshore business in The Bahamas has increased significantly over the last 20 years. From a total of 90 public licensees in 1967, the number of banks and trust companies licensed to operate within or from within The Bahamas has increased to 425 at end December, 1996. Of this number, the offshore sector comprises 88 eurocurrency branches of foreign banks; 191 Bahamian incorporated eurocurrency operations and 126 restricted, non-active and nominee licencees.

It is difficult to measure the exact stock of external assets and liabilities of the offshore banking and trust sector, mainly because of the growing volume of trust and management business, where assets and liabilities are predominantly off-balance sheet and for which there are no available data. In terms of balance sheet size of banks and trust companies, figures compiled by the IMF indicate that the value of external assets of the offshore banking sector rose from $37.6 billion in 1974 to $180 billion in 1984. The December 1995 survey by the Central Bank places these assets modestly above $200 billion.

Among the offshore banking community is a diverse international mix, with banks from as many as 36 different countries, representing branches and subsidiaries of the world's foremost banks. The United States has the largest representation with 59 institutions followed by Switzerland (28), the United Kingdom (6) and Canada (8). Some 65 entities are of Latin American origin, including banks from Brazil and Colombia.

Ownership of trust companies in The Bahamas is diverse, as is the range of services which includes custodianship of bonds and other securities and precious metals, executor services, corporate services such as company formation, provision of registrar and transfer agency facilities, investment financial services and invoicing facilities for trading companies, management of pension funds, mutual funds and unit trust schemes. Over the years, trust companies have also developed major business in discretionary management of portfolios. Several companies have established full securities trading rooms and the capacity to manage diversified portfolios on a discretionary to advisory basis.

In the global setting of the 1970s and early 1980s, The Bahamas ranked among the top five international banking centres, behind New York, London, Geneva and Luxembourg, and was the leading jurisdiction outside of Europe and North America. However, several events in the financial environment during the 1980s challenged and transformed the conduct of global offshore banking and trust business. Globalization and deregulation of financial markets, together with increased technological sophistication, created new financing vehicles and caused a shift in intermediation away from syndicated lending through large banks towards direct credit markets, and the volume of transactions multiplied. Moreover, The Bahamas faced stiffened competition from emerging offshore havens and measures taken by mainland countries which had developed onshore financial centres.

One specific challenge for The Bahamas, was the creation in 1981 of International Banking Facilities (IBF's) in New York, as a means of encouraging the return of offshore business of US overseas branches back to mainland USA. These facilities had a noticeable impact on the worldwide income of US companies, by conspiring to minimize the tax haven appeal of offshore centres to US companies.

The result of these developments was a stagnation in The Bahamas' market share, at a time when there was unparalleled growth in international banking centres' activities. Faced with a more challenging financial environment, The Bahamas was compelled to review its regulatory environment to ensure competitiveness as an offshore centre and, like other centres, had to add new products to traditional facilities to attract the modern investor.

Repositioning efforts mainly took the form of a series of legislative refinements and initiatives to complement the existing menu of incentives and advantages for setting up operations in The Bahamas. Modern legislation relating to trust and asset protection, international business companies and mutual funds have been successful in improving The Bahamas' competitiveness in recent years. Moreover, with the decline in syndicated lending and the move towards securitization and off-balance sheet business, licensees have successfully restructured their activities placing greater emphasis on off-balance sheet business, private banking, discretionary fund management and back office administration of mutual funds. Roughly 70% or 300 of the licensees are trust or bank and trust operations as opposed to strictly banking operations, indicative of the growth in these areas of business.

Policies to boost offshore trust operations were particularly evident from 1989 onwards, in response to growing regional competition and changes elsewhere. The 1989 Trust (Choice of Governing) Law Act provided for the recognition and validation of settlers' decision to have their trusts executed under Bahamian laws, regardless of the jurisdiction in which the trust is administered. Further, the 1990 Domicile of Trust Act allowed individuals living in countries which do not recognize the concept of trust to establish a trust in The Bahamas without the possibility of the trust being questioned in the home country. The Act represented an attempt to attract additional trust business to The Bahamas by closing the question of whether a trust could be upheld in such a situation.

In a similar vein, the Fraudulent Disposition Act 1991, provided trusts and other assets with protection from potential litigation arising outside The Bahamas, particularly suits of a frivolous nature. The Perpetuities Act, 1995 eliminated all uncertainties over the legal life span of trusts, by effectively allowing such arrangements to remain in effect indefinitely. Subsequent amendments in 1995 to the International Business Companies Act, 1990, provided for the establishment of limited duration companies, and this legislation collectively created the framework for establishing asset protection trusts, mutual funds and other collective investment schemes. The regulatory environment has been further strengthened by the enactment of the Mutual Funds Act of 1995, which has imposed minimum fiduciary responsibilities on mutual funds administered or registered in The Bahamas, and the Securities Board Act of 1995, which established the supervisory authority for oversight of these activities. The success of the IBC legislation is evidenced by the incorporation of more than 55,000 companies since 1990 (as of June 1997) and the number of mutual funds has risen to approximately 505, with managed funds totalling approximately $55.9 billion (as of December, 1996).

Like other offshore centres, The Bahamas has had to contend with increasing attempts by developed countries to either dismantle or significantly dilute confidentiality provisions, prompted partly by global concerns about drug trafficking and money laundering. In particular, The Bahamas was subjected to repeated fishing expeditions by the US Internal Revenue Service to obtain client information from Bahamian banks.

The Government considers secrecy to be the bedrock of The Bahamas' success as an offshore financial centre and is committed to upholding these principles, while ensuring that only legitimate business is conducted from the centre. Therefore, a tough stance is assumed against drug trafficking and money laundering. Several improved supervisory measures were implemented to safeguard The Bahamas' reputation and counter the bad publicity received with respect to illegal transactions.

In 1983, a reporting requirement was put in place for cash transactions in excess of US$5,000.00. The importance of due diligence in safeguarding against fraudulent transactions, and familiarity with the customer was emphasized in the Association of International Banks and Trust Companies 1985 Code of Conduct, which enjoined observation of the "know your customer" rule. The Code was further amended in 1989, when the Basle Committee's Statement of Principle on money laundering was adopted by the Association, in a further attempt to deflate claims of money laundering and to avoid extreme pressures to dilute bank secrecy provisions, as was the trend in Europe during 1989/90.

Government also move, in 1987, to enact the Proceeds of Drug Trafficking Act, which empowered the courts to confiscate real estate and financial properties acquired from the proceeds of drug trafficking and also permitted reporting of suspicious transactions exempted from bank secrecy. Although the provisions were mainly directed at the domestic sector, international pressures prompted broader measures which enveloped the offshore sector. In 1988, The Bahamas was the first country to ratify the United Nations' Convention on money laundering.

Mutual legal assistance treaties were also negotiated and signed with the United States (1987), Canada (1988) and the United Kingdom (1990) covering information exchange in suspected cases of non-tax, criminal activities only.

It was not until December 1996 that a legal responsibility for criminal deterrence was placed upon banks, under the Money Laundering (Proceeds of Crimes) Act and accompanying Regulations. The Act requires all banks to maintain the records of financial transactions for periods of at least 5 years. More importantly, institutions will be required to monitor and report all suspicious transactions to the Central Bank or the Attorney General's office; and will not be able to accept unsubstantiated cash deposits exceeding US$5,000. Failure to abide by the law on any of these accounts will attract severe fines and imprisonment.

3.2.6. Non-Bank Financial Institutions

The major non-bank financial institutions are private insurance companies, private and public pension funds and to a lesser extent, credit unions and cooperatives. There are also the other public financial entities; The Bahamas Development Bank, The Bahamas Mortgage Corporation and the Post Office Savings Bank.

Private Insurance Companies

As in many other developing countries, the private insurance industry enjoys one of the most important and prestigious positions in the financial services industry in The Bahamas, raising large volumes of financial resources—which being long-term are important for economic development. Insurance companies are also the principal managers of private pension funds and as such, mobilize substantial savings in support of the local mortgage market and are a major participant in government bond issues. As at end-1995, insurance companies controlled $209.1 million in mortgages or 23.1% of the market and held government bonds valued at $73.1 million. With the level of resources available, it is expected that the industry will have a significant impact on the development of the local stock exchange expected to begin by end-1997.

The primary legislation governing the insurance industry in The Bahamas is the Insurance Act, 1969, as amended and the External Insurance Act, 1983. The Office of the Registrar of Insurance Companies was created under the 1969 legislation and ratified in 1983 as the chief regulatory agency, with responsibility for enforcing both the 1969 and 1983 legislation. In enacting the Insurance Act of 1969, the Government's principal intent was to provide basic protection for The Bahamian public in doing business with local insurance operations and establish some measure of regulatory control over a previously unregulated industry. The Act succeeded in eliminating fraudulent operations, by introducing more stringent requirements for companies wishing to retain their registration in The Bahamas, including minimum paid up capital, which did not, however, have to be held in The Bahamas and the publishing of financial statements. The External Insurance Act, 1983 sought to encourage the development of international or captive insurance business from The Bahamas.

At the time of the 1969 enactment, The Bahamas was the foremost centre for the nascent captive insurance industry; there were in excess of 300 insurance companies operating mainly in the offshore sector. The requirement to publish financial statements, generally perceived to relate to captives, was poorly received by the industry and resulted in the emigration of companies to Bermuda and The Cayman Islands. Under the Insurance (Amendment) Act, 1975, the imposition of a 1% tax on gross insurance premiums cast further doubt on the suitability of The Bahamas as a captive insurance jurisdiction and by 1977, fewer than 50 institutions remained. It was not until 1978, under the Non-Resident Insurer (Exemption) Regulations, that the

Government clarified its intent that non-resident insurers did not have to publish financial statements nor were subject to the 1 percent tax. For local insurance business, however, this tax was subsequently increased to 2% in 1980. Despite these legislative changes to enhance the competitiveness of the regulatory framework, it was not until 1983 that the industry showed signs of growth, following on the enactment of the External Insurance Act—the provisions of which were detailed in the 1984 External Insurance Regulations. Designed to cater to pure captives, characterized as single parent or association type captives writing at least $500,000 of related business, the Act removed all premium restrictions and taxes.

Notwithstanding differences in the 1969 and 1983 legislation, the application process and subsequent on-going statutory requirements are similar for both local and captive insurers. Both prescribe minimum statutory net worth figures and net premium to capital and surplus ratios.

The three types of insurance companies conducting business in or from within The Bahamas are life and health, property and liability and captive companies. At the end of 1995, the local insurance sector comprised 128 institutions, including 27 life and health (five Bahamian-owned and twenty-two foreign-owned) companies; 34 property and liability companies (four Bahamian-owned and thirty foreign companies); ten captive insurance companies; 45 insurance brokers and seven underwriting managers. In 1994, the industry recorded annual gross premiums for life insurers of US$90 million; property and liability insurance, US$124.6 million and annual gross premium for non-resident insurers was US$161.2 million in 1993. Employment in the industry reached an estimated 2,000 persons. In addition, the industry currently manages some 46 domestic private pension plans, with assets in excess of $160 million.

As for the institutional makeup, the life insurance sector is dominated by subsidiaries or branches of Canadian and US life insurance companies, with Bahamian-owned life insurance companies accounting for less than 30% of the market. Other insurance is provided predominantly by UK companies, with the exception of two Bahamian owned companies. Companies registered as non-resident risk insurers are generally engaged in captive insurance or related third party reinsurance. In addition, ancillary and administrative insurance services are provided in Nassau and Freeport for captive insurers incorporated elsewhere, notably in the Turks and Caicos Islands and the Cayman Islands.

The Government is intent on repositioning The Bahamas as a centre for international insurance business. In this regard, there is currently under active consideration by the authorities, a new insurance bill, which is expected to incorporate the best of existing legislation, while including modern and innovative elements designed to move the industry forward to the twenty-first century. Also expected to be introduced in late 1997 is legislation to regulate, under the aegis of the Registrar of Insurance, the pension funds industry, of which insurance companies are the most significant principals.

3.2.7. *Cooperatives*

The Cooperative Societies Act, which was passed by Parliament in 1974, formally ushered in the era of cooperative development in The Bahamas, with the first formal co-operative being registered the following year. However, the cooperative movement can trace its roots much further back, to the initiatives of the Catholic Church in the early 1940s. The cooperative movement in The Bahamas can be defined as " . . . an association of persons, usually of limited means who have voluntarily joined together to achieve a common-end economy through the formation of a democratically controlled business organization making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking"

Cooperatives are of two types, the non-financial cooperative society and the financial cooperative society, more commonly known as credit unions.

In 1975, one year after Parliament enacted the Cooperative Societies Act, 1974, the Department of Cooperative Development was established within the Ministry of Agriculture, Fisheries and Local Government. The Department was mandated with the direct responsibility of enforcing the Act, with respect to registration, supervision, and inspection of the various societies. In addition, the Department provided technical assistance to cooperatives by organizing and conducting training courses for members and management committees, assistance with record maintenance and the marketing and promotion of cooperatives. With the establishment of The Bahamas Cooperative League in 1994 as the apex cooperative body, the Department of Cooperative Development was able to devolve much of its technical assistance responsibility to this agency. This allowed the Department to redefine its role within the cooperative movement and to focus more on its regulatory functions.

3.2.8. Non-Financial Cooperative Societies

As of December 31, 1995 there were approximately thirteen (13) non-financial co-operative societies, accounting for total assets of $2.1 million and membership of 1,639. Share subscriptions stood at $1.4 million. These cooperatives have experienced minimal growth and are now being examined with a view to restructuring them in a way that may result in greater income and employment potential. Of the thirteen registered non-financial cooperative societies, approximately 47% are agricultural in nature, 23% have a multi-purpose orientation and 15% are devoted to fisheries endeavours.

Ventures undertaken by cooperative societies over the recent years have included: passenger and freight services between Nassau and the Family Islands; investment in retail sales of groceries; farm supplies; food processing; fishing boats; livestock rearing and processing; buses to transport school children and others and the trading of consumer goods and Cascarilla bark. Investments have also included the acquisition of share capital in the banking and communication sectors.

In 1995, a thorough evaluation of the cooperative movement in The Bahamas was conducted with the assistance and close cooperation of both the Department of Cooperative Development and The Bahamas Cooperative League. Areas to which particular attention was given included education and training, establishing a clear division of roles and responsibilities between the two controlling bodies, effective communication and marketing, and upgrading inspection and regulation procedures.

3.2.9. Credit Unions

Financial cooperative societies, credit unions, operating under the cooperative movement are relatively new to The Bahamas compared to other parts of the world, and serve to provide low cost consumer loans to members at below market interest rates. Loans tend to be of a short term nature, directed towards consumer goods and services purchases. Credit union membership today consists of a broad cross section of the working population including hotel workers, teachers, police officers and other civil servants. In addition, from its earliest days credit unions have been organized around religious groupings and this practice continues today.

Since the first credit union was established in 1975, the total number on register at the Department of Cooperative Development has grown to ten at end-1995. Data for 1995 reveal total union membership of 21,192, representing approximately 16.7% of the employed labour force and in excess of 92% of total cooperative memberships. As regard sector growth, both aggregate loans and share capital of credit unions have risen, from less than \$0.5 million in 1977 to \$46.0 million and \$39.0

million, respectively in 1995 (**Table 3.6**). Along with other investments, total assets were placed at $57.0 million at end 1995, comprised principally of loans (73.2%), with smaller amounts in the form of fixed deposits, cash, marketable securities and fixed assets. While almost all of the loans of the credit unions are of the consumer nature, efforts are being made to expand the commercial and business loan portfolios and to finance small projects. Within the sector, there is a high degree of concentration: the three largest credit unions account for approximately 84.0% of total assets and total loans; these are the Teachers and Salaried Workers Cooperative Credit Union Limited, the Nationals Workers Cooperative Credit Union (hotel sector) and the Public Workers Cooperative Credit Union Limited.

Although small in the context of the overall financial system, Bahamian credit unions have traditionally played a vital role in diversifying the financial services sector in The Bahamas. Increases in both membership and loans by credit unions have closely paralleled overall economic developments in the country as a whole. Falling outside of the Central Bank's supervision, credit unions were not affected by the deposit rate ceiling imposed by the Bank, nor were they affected by the Banks directive requiring commercial banks to comply with a benchmark of 35% equity financing for consumer loans. Credit unions will usually provide financing up to 2.5 times accumulated savings and interest rates competitive with those of commercial banks. In periods of tight bank liquidity conditions, there is evidence that members have opted for increased recourse to credit unions' lending facilities. In this regard, credit unions have been important mobilizers of domestic savings among medium and low-income families.

The major concern of the credit union movement as it evolves in The Bahamas, is reflected in the increasing efforts to provide the type of prudential supervision and guidelines similar to the regulatory environment governing the wider banking industry.

Table 3.6. The Bahamas: Balance Sheets of Credit Unions (1977 - 1982)
(B$'000)

	1977	1978	1979	1980	1981	1982
Assets						
Cash and Bank Depo	49	13	56	364	367	399
Loans	20	72	303	597	1,246	2,129
Investments/ Secritie	0	0	0	0	0	0
Accounts Receivable	0	12	60	112	209	351
Other Assets	57	2	3	14	7	122
Total Assets	**113**	**188**	**396**	**908**	**1,649**	**2,803**
Liabilities						
Members Deposits	0	9	28	20	19	42
Due to Banks	3	8	9	35	56	197
Loans	0	0	0	0	0	71
Dividends Payable	0	0	0	0	10	0
Other Payable	1	2	5	19	18	26
Other Liabilities	25	0	0	0	0	0
Total Liabilities	**29**	**19**	**42**	**74**	**104**	**336**
Members Equity	84	169	354	834	1.545	2.466
Total Liabilities & Equity	**113**	**188**	**396**	**908**	**1,649**	**2,802**

Table 3.6. The Bahamas: Balance Sheets of Credit Unions (1983 - 1988) - Cont'd
(B$'000)

	1983	1984	1985	1986	1987	1988
Assets						
Cash and Bank Depo	402	640	617	871	1,275	1,530
Loans	3,180	4,507	6,080	7,678	-	-
Investments/ Securitie	21	71	106	114	92	92
Accounts Receivable	254	519	615	672	790	1,114
Other Assets	163	135	248	277	292	326
Total Assets	**3,822**	**5,555**	**7,362**	**9,179**	**-**	**-**
Liabilities						
Members Deposits	81	183	432	727	993	1,334
Due to Banks	74	184	332	411	599	620
Loans	39	0	0	0	0	0
Dividends Payable	0	0	0	0	0	0
Other Payable	54	78	100	70	98	148
Other Liabilities	2	2	3	4	17	22
Total Liabilities	**251**	**447**	**867**	**1,212**	**1,707**	**2,124**
Members Equity	3,571	5,108	6,494	7,967	-	-
Total Liabilities & Equity	3,822	5,555	7,362	9,179	-	-

Table 3.6. The Bahamas: Balance Sheets of Credit Unions (1989 - 1994) - Concluded
(B$'000)

	1989	1990	1991	1992	1993	1994
Assets						
Cash and Bank Depo	1,813	1,357	1,250	1,504	3,032	9,100
Loans	-	-	-	-	-	43,397
Investments/ Secritie	108	108	45	45	47	65
Accounts Receivable	1,756	1,300	1,413	2,146	2,702	2,494
Other Assets	383	452	1,232	1,384	1,614	2,384
Total Assets	-	-	-	-	-	**53,002**
Liabilities						
Members Deposits	1,907	2,643	3,281	3,637	5,786	1,425
Due to Banks	476	295	350	1,283	455	7,617
Loans	0	0	429	2	0	265
Dividends Payable	0	0	332	0	0	0
Other Payable	165	265	572	493	518	372
Other Liabilities	117	114	98	135	567	787
Total Liabilities	**2,666**	**3,317**	**5,062**	**5,550**	**7,326**	**10,467**
Members Equity	-	-	-	-	-	42,535
Total Liabilities & Equity	-	-	-	-	-	53,002

Source: Department of Cooperative Development

3.2.10. Pension Funds: Private

Historically, pension provisions were granted legislative expression in the Trustee Act (1893), however, it must be noted that the Government utilized limited private pension arrangements as early as 1862. In addressing matters under trust administration, the Act expressed interest in regards to soundness and solvency, provisions for maintaining capital values of investment, along with a specific set of investment options for trustee funds—with particular emphasis on sovereign or government securities and bonds. In The Bahamas, private pension schemes exist to provide supplemental income to plan participants at retirement, or at a specified age.

As a general rule, Bahamian pension plans are established as trusts separate from the employer's other assets, and are administered by boards of trustees, approved by employers. Typically, trustees are selected from management and may include employee representation. In many cases, trustees have selected investment managers and appointed actuaries and independent auditors. In 1994, approximately 44% of pension assets were managed by insurance companies; 8% by trust companies as part of their broader fiduciary business; 39% under in-house management and 9% by other entities.

A recent survey conducted by the Central Bank suggests that the formal establishment of private pensions in The Bahamas began around the early 1960s. Historically, their development evolved within the context of the absence of a public pension scheme (the National Insurance Board was not established until 1974) and was strongly influenced by labour organizations attempting to secure greater financial stability for members. In fact, union linked plans in the hotel, restaurants, communications and utilities industries have the longest plan life. Growth in private pensions also reflected their increasing use as a component of the compensation package offered by employers competing in the job market.

Based on the 1994 Central Bank survey, the private pension system in The Bahamas is largely comprised of single employer occupational plans that are set up voluntarily. Indications are that for the most part, small employers tend to establish defined contribution plans, while medium and large employers, particularly where collective bargaining exists, provide coverage through defined benefit plans. In 1994, defined contribution plans, the most prevalent scheme offered by employers, accounted for 63% of all plans covering 11% of total participants, while defined benefit plans held a 37% share of all plans and covered 89% of active participants. Over one-third of these plans were non-contributory, in which the employer paid the entire cost. In total, two thirds of all defined benefit plans are compulsory compared with close to one-third for defined contribution plans. As at end-1994, there were a total of 23,872 contributors, representing 20.8% of the employed labour force compared to 29.6% in 1992. This compares to comparable estimates of 46% for the United States and 30% for both the United Kingdom and Canada in 1989.

Based on survey details, private pension assets grew by an estimated inflation adjusted rate of 7.5% in 1993 to $338.7 million, and by a further 9.2% in 1994 to $373.4 million, which represented an estimated 11.0% of GDP. This growth exceeded the real rate of expansion (4.3%) of the banking system's domestic assets for 1993 (4.1%) and almost equalled the 1994 rate of 5.9%. Based on the 1994 position, defined benefit plans comprised 84.5% of total assets at $316.3 million and defined contribution the remaining $58.1 million or 15.5% **(Table 3.7)**

Of the total asset stock, the primary outlets for investments were bank deposits and Government bonds, (27.0% each), and mortgages (20.7%). In terms of ownership the largest pension funds are those representing the interest of employees in the public corporations (just under 40%), the financial sector (24.1%) and the tourism sector (20.9%).

Table 3.7. The Bahamas: Private Pension Funds Investments (1992-1994) (B$M)

	1992	1993	1994
Government Registered Stocks	63.6	73.6	100.7
Bank Deposits	88.6	105.7	100.9
Real Estate	2.9	3.0	3.2
Employers Business	2.1	2.3	2.6
Mortgages	88.3	83.2	77.4
Equities	23.8	26.6	30.4
Other	38.0	44.4	59.1
Total	**307.3**	**338.7**	**374.4**
Share Distribution by Sectors (%)			
Communications & Utilities	38.1	37.5	37.8
Manufacturing	3.3	3.0	2.9
Transportation	3.8	3.8	3.2
Financial Sector	22.9	22.7	24.1
Banks	14.3	14.3	15.5
Insurance Companies	5.2	4.8	4.9
Other	3.5	3.6	3.7
Wholesale & Retail Trade	7.6	7.7	6.7
Tourism	21.2	21.2	20.9
Other	3.0	4.0	4.3
Total	**100.0**	**100.0**	**100.0**
Of which: Public Corporation	43.1	42.6	42.4

Source: Central Bank of The Bahamas' Survey of Pension Funds.

Like the National Insurance Board, private pension funds have amassed a significant share of national savings. Up through 1995, investment options have been limited mainly to domestic government securities and bank deposits. However, the impending creation of a domestic stock exchange is expected to alter this relationship as institutional investments assume a greater role in a more dynamic local securities market. The Central Bank survey confirmed initial assessments that private pension funds have the ability to become significant niche players in the development of the local capital market because of the stability of their liabilities. Pension funds may also play an increasingly important social function in supplementing the public social security scheme. In anticipation of these developments, legislation is already under review to provide a formal framework for the regulation and supervision of pension funds, in order to ensure the safe and orderly growth of this pool of financial savings and encourage a broadening of the participation rate.

3.2.11. The National Insurance Board

The National Insurance Act (1972) came into force in October 1974, introducing a comprehensive national insurance scheme for all employed Bahamians. The scheme is administered by the National Insurance Board (NIB) and participation is mandatory for the employed, employers and self-employed. Implementation was in three phases: all employed persons and their employers were brought into the scheme in October 1974; self-employed persons were included in 1976, and industrial benefits were introduced in 1980. In addition to retirement benefits, the scheme provides a variety of other benefit payments, covering sickness, injury, maternity and various other non-contributory social assistance.

The NIB is headquartered in New Providence and operates 25 local offices and a number of sub-offices in New Providence, Grand Bahama, and the Family Islands. Contribution rates and salary ceilings for contributions purposes have remained unchanged since 1984, although proposals are being considered to increase the wage ceiling on contributions from the current $250. Contribution rates range from 1.7% to 3.4% for employees, 5.4% to 7.1% for employers, 6.8% to 8.8% for the self-employed and 5.0% for the voluntarily insured.

Since its inception, the NIB has generated substantial surpluses, with accumulated reserves of approximately $778.4 million by end 1996. Outside of voluntary savings within the banking sector, these surpluses represent the largest single pool of financial savings in The Bahamas, and related investments can have significant macro-economic implications, particularly with respect to the conduct of monetary policy and the balance of payments. Investment practices are governed by the National Insurance Act, having regard to minimal risk, high yields and optimum liquidity objectives; while also seeking to influence the socio-economic development of The Bahamas (**Table 3.8**).

Data from the NIB's annual reports reveal that total assets rose from $17.9 million in 1975 to $792.4 million in 1995 and the size of the investment portfolio from $13.3 million in 1975 to $742.1 million in 1995. Assets at end 1995 were larger than M1 and were as large as of M2. The bulk of the National Insurance Board's funds is invested locally in short, medium and long term instruments—mainly within the public sector—and in bank deposits. In 1996, investments in government bonds amounted to $471.2 million or 59.5% of total assets; $107.2 million (13.5%) were in Bahamas Mortgage Corporation bonds; $25.2 million (3.2%) in Treasury bills; $29.4 million (3.7%) in loans to government corporations and $82.4 million (10.4%) in bank deposits. The average return on investments was 8% in 1995 compared with an average bank deposit rate of 6%. The Board has also invested significantly in the construction of community health clinics throughout The Bahamas, which are leased to the Government for a nominal fee.

Table 3.8. The Bahamas: Balance Sheets of the National Insurance Board (1975 - 1996)
(B$M)

	1975	1981	1989	1993	1994	1995	1996
Assets							
Cash and Demand Deposits	1.6	8.0	5.0	5.4	4.2	7.5	6.6
Investments							
Short Term Fixed Deposits	4.3	40.1	39.2	30.7	38.4	70.4	76.9
Long-Term Fixed Deposits	0.0	0.5	7.3	6.4	6.1	5.7	5.5
Loans to Public Corporations	0.0	0.0	51.1	41.6	47.8	32.0	29.4
Bahamas Mortgage Corp. Bon	0.0	0.0	72.0	108.2	108.2	108.2	107.2
Treasury Bills	3.2	9.8	30.1	41.5	44.9	35.3	25.2
Government Registered Stocks	5.9	75.9	214.7	366.0	403.3	422.9	471.2
Other Investments	0.0	0.0	14.7	20.4	19.3	21.4	26.7
Total Investments	**13.3**	**126.3**	**429.2**	**614.8**	**658.0**	**695.9**	**742.1**
Fixed Assets	0.3	1.2	9.6	19.8	20.0	20.2	21.1
Other Assets	2.7	2.8	9.9	17.1	16.0	18.5	22.6
Total Assets	**17.9**	**138.3**	**453.6**	**657.1**	**698.3**	**742.1**	**792.4**

Table 3.8. The Bahamas: Balance Sheets of the National Insurance Board (1975 - 1996) - Concluded
(B$M)

	1975	1981	1989	1993	1994	1995	1996
Liabilities							
Reserves							
Short Term Benefits	3.6	23.0	11.5	4.5	13.0	11.5	10.4
Pension	9.8	75.5	323.4	495.6	531.3	569.4	609.1
Other	4.4	39.5	113.7	148.6	144.7	150.5	158.9
Total Reserves	**17.8**	**138.0**	**448.6**	**648.8**	**689.0**	**731.4**	**778.4**
Other Liabilities	0.1	0.3	5.0	8.3	9.3	10.7	14.0
Total Liabilities	**17.9**	**138.3**	**453.6**	**657.1**	**698.3**	**742.1**	**792.4**

Source: National Insurance Board's Financial Statements.

The magnitude of the current surpluses of NIB represents an important source of savings to the economy and investment of its surplus can have important macro-economic implications, particularly with respect to overall credit availability and the balance of payments. Over the years, NIB funds have been used as an additional "policy tool" by the Central Bank. Specifically, in the first half of the 1980s NIB held an average of 8.6% of its portfolio in the Central Bank, permitting the Bank to sterilize funds in times of excess liquidity. However, in 1987 the NIB's decision to transfer some $44.9 million of deposits into the banking system in order to improve investment yield, marked the start of a more aggressive investment strategy by the Board, helping to fuel the upward spiral in interest rates during 1987 and 1988 and an unprecedented 22% expansion in credit. Since then, there is ongoing consultation between the NIB and the Central Bank with regards to the Board's investment portfolio, in the interest of prudent balance of payments management.

3.2.11. The Bahamas Mortgage Corporation

The Bahamas Mortgage Corporation (BMC) was established under The Bahamas Mortgage Corporation Act (1983) on October 31, 1983. As the main public sector financial intermediary, its purpose is to provide long term (up to 25 years) loans to low and medium income persons, enabling them to acquire "reasonable housing accommodation" where such needs are not being met by existing lenders. Along with the Grant's Town Urban Improvement Project, which was announced in the annual budget speech of December 1980 and for which planning began in 1981, (the object of which was to redevelop a low income area known as 'Grants Town' where housing conditions had seriously deteriorated), this represented an effort by government to address the widespread need for adequate housing by a major segment of the population after independence.

Although minimal progress was made in the redevelopment of the Grants Town area, BMC has made a large dent in financing the construction of low cost homes in other subdivisions in New Providence and the Family Islands **(Table 3.9)**. The value of the BMC's mortgage portfolio has grown from $2.9 million in 1984, to $74.2 million in 1989 and further to $101.1 million in 1996. Financing has been exclusively through government guaranteed mortgage bonds, which increased from $4.0 million in 1984 to $119.3 million in 1994, with repayments commencing in 1995 to reduce the level to $115.9 in 1996. Partly reflecting the policy intent of the Government, the National Insurance Board is by far the largest holder (93.4%) of these bonds. The other factor in this skewed holding has been the below prime variable yields attached to these bonds, making them unattractive to the rest of the financial system.

The BMC enjoys a healthy financial position, with the 1995 level of accumulated income and bond sinking fund reserves at $66.1 million, the equivalent of 43.3% of total assets.

3.2.12. The Bahamas Development Bank (BDB)

Although The Bahamas Development Bank Act was passed in October 1974, the BDB's operations were not started until 1978. Given an authorized capital of $5 million, the BDB's primary mandate was to assist in the economic development of The Bahamas by financing the development of industry, tourism and agricultural diversification, either through the financing or investing in approved enterprises. It was intended that the BDB would provide the requisite financing of projects which commercial banks would not ordinarily finance because of the longer maturity structure of such loans and their perceived riskiness. Lending undertaken by the BDB in its early years was extremely limited. By end-1981, the total credit outstanding amounted to a modest $0.4 million, growing to $28.5 million by end-1996 **(Table 3.10)**.

As regards the funding structure of the BDB, the majority of resources is obtained from international lending institutions,

Table 3.9. The Bahamas: Balance Sheets of Mortgage Corporations (1984 - 1996)
(B$M)

	1984	1989	1993	1994	1995P	1996
Assets						
Cash	1.5	1.1	3.3	14.2	15.3	11.3
Sinking Fund Investments						
Government Registered Stock	0.0	5.3	16.1	17.6	21.4	22.0
Bank Deposits & Other	0.0	0.0	1.9	5.1	6.1	10.4
Sinking Fund Total	**0.0**	**5.3**	**17.9**	**22.7**	**27.4**	**33.4**
Construction in Progress	0.0	1.1	0.8	0.8	2.0	5.9
Mortgages	2.9	74.2	110.1	107.3	104.2	101.1
Other Assets	0.1	0.9	1.3	1.3	1.9	2.1
Total Assets	**4.5**	**82.6**	**133.5**	**146.3**	**150.9**	**152.8**
Liabilities						
Current Liabilities	0.1	3.0	2.0	2.0	3.1	3.2
Bonds Payable	4.0	72.8	111.3	119.3	119.3	115.9
Capital	0.6	1.0	1.0	1.0	1.0	1.0
Accumulated Surplus Deficit	(0.1)	5.8	19.2	24.0	27.5	32.7
Total Liabilities	**4.5**	**82.6**	**133.5**	**146.3**	**150.9**	**152.8**

Source: The Bahamas Mortgage Corporation's Financial Statements

Table 3.10. The Bahamas: Balance Sheets of Development Banks (1978 - 1996) (B$'000)

	1978	1981	1989	1993	1994	1995	1996
Assets							
Till Cash	1	54	2	2	2	2	2
Amounts Due/Claims:							
Banks in The Bahamas	3,492	2,308	1,521	4,648	3,232	1,745	323
Central Bank	---	---	201	1	1	1	1
External Financial Institutions	---	1,088	---	---	---	---	---
Loans	398	4,033	18,117	24,719	26,752	26,874	28,504
Govt. Registered Stocks	1,000	1,000	---	750	750	750	---
Other Assets	157	492	1,268	1,643	1,671	1,285	1,186
Total Assets	5,048	8,975	21,109	31,763	32,408	30,657	30,016

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Total Assets	**5,048**	**8,975**	**21,109**	**31,763**	**32,408**	**30,657**	**30,016**

Source: Financial Statements of The Bahamas Development Bank.

including the Inter-American Development Bank (IDB) and Caribbean Development Bank (CDB), and supported by capital contributions from Government. At end 1996, capital funding represented some 54% of all resources, compared to 67% in 1981, and borrowings (mainly from the IDB and CDB) 51% as compared to 29% in 1981 **(Table 3.10)**. In this regard, resources from the NIB and CDB have grown in importance, to account for 73% of all outstanding borrowings at end-1996.

The disparity in resources distribution underscores the fact that the BDB's operations have not been consistently profitable, as evidenced by a substantial portfolio of non-performing loans. Accumulated operational losses approximated 5.9% of total assets in 1996. Nonetheless, there is consensus within the government that the institution ought to play an expanding role in the development of small enterprises. Based on data at end- 1996, the fisheries sector is the largest single beneficiary of the BDB's lending (23.1%), followed by the transportation sector (13.7%), tourism (11.9%) and manufacturing (10.3%) **(Table 3.11)**. Lesser resources have been channelled into agriculture and various other industries.

Although the BDB has made a modest impact upon small productive enterprise financing, there is still the official view that local enterprise growth is not being optimized. Concern over funding of development type projects resurfaced in light of the consumer credit boom of 1987 and the gradual drawdown on the Central Bank's external reserves which followed over the next several years. Increased economic diversification continues to be viewed as a principal means of alleviating these balance of payments pressures. In this vein, the authorized capital of the institution was boosted to $50 million in 1989, to permit the Government to channel more of its own resources into the BDB. In 1995, plans were finalized to further expand the supply of loanable funds through the establishment of a $21 million multi-sectoral loan programme with the IDB, a segment of which was earmarked for the BDB and also for on lending by commercial

Table 3.11. The Bahamas: Distribution of Loans by Sector (1981 - 1996)
(%)

	1981	1989	1993	1994	1995	1996
Agriculture	3.7	2.6	3.4	5.7	6.8	6.7
Fishing	22.4	18.0	20.6	21.4	20.3	23.1
Manufacturing	23.9	12.8	9.8	9.4	8.9	10.3
Transportation	22.1	24.9	16.3	14.5	15.1	13.7
Tourism	22.7	13.6	12.4	12.1	13.0	11.9
Small Business & Other	5.3	28.1	37.6	36.9	35.8	34.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Bahamas Development Bank.

banks. However, no loans have yet been made under the programme.

3.2.13. The Post Office Savings Bank (POSB)

A government savings bank existed in The Bahamas as early as 1836, when its operations were transferred to the post office in 1885 to be managed by the Post Master General. Its primary purpose was to encourage thrift habits among colonists of lower economic means. Until 1910, branches existed in only a few of the Bahama Islands. The inclusion of additional islands thereafter had only a marginal effect, since cash hoarding persisted as a common practice among out island colonists. With the proliferation of commercial banking branching in the 1950s and the rising affluence of the population, institutional growth stalled and the importance of the POSB diminished. Today, the POSB plays at best a marginal role in the financial system of The Bahamas. The POSB offers simple deposit facilities, primarily in the form of savings accounts.

The Bank is not permitted to offer checking facilities, and cannot conduct any credit business. It does, however, offer limited foreign exchange services via money and postal orders. POSB recorded $1.8 million in assets in 1958, increasing to $3.2 million in 1981 and to $5.5 million in 1988. Savings deposits rose from $1.9 million in 1958 to $2.2 million by 1974 and further to $3.1 million in 1988. By end 1995, total deposits stood lower at $1.8 million, and the Bank had 37,031 accounts, a substantial proportion of which are dormant (**Table 3.12**). Funds have been invested by the Treasury, the majority of which are held in the form of Government bonds and bank deposits. Interest is calculated on monthly balances and credited annually. The current interest rate is 5%, above comparative commercial bank interest rates.

Table 3.12. The Bahamas: Assets and Liabilities of The Bahamas Post Office Savings Bank (1958 - 1988)
(B$'000)

	1958	1959	1974	1981	1987	1988
Liabilities:						
Savings Deposits	1,935	2,177	2,237	2,455	3,035	3,128
Other Liabilities	1	1	2	2	182	206
Profits & Reserves	-132	-70	-272	766	1,867	2,143
Total Liabilities	**1,804**	**2,108**	**1,967**	**3,223**	**5,084**	**5,477**
Assets:						
Notes & Coins	3	9	13	45	72	17
Balance with Commercial Ban	18	44	246	338	614	652
Balance with Government	45	15	353	740	991	1,101
Domestic and Foreign Invest	1,738	2,040	1,353	2,100	3,407	3,707
Other Assets	--	--	2	--	--	--
Total Assets	**1,804**	**2,108**	**1,967**	**3,223**	**5,084**	**5,477**

Source: Post Office Savings Bank.

3.2.14. The Stock Exchange

The concept of a formal stock exchange in The Bahamas is not new, as evidenced by the passage of the Securities Act, 1971 and the Securities Industry Act, 1989, although both pieces of legislation were never enacted. The latter, based roughly on the British model of securities law, relied heavily upon self-regulation, but was without provisions for the creation of a regulatory institution analogous to the UK's Securities and Investment Board (SIB) or the United States' Securities and Exchange Commission (SEC).

The stock market is viewed as the critical element needed for the next stage of development in both the domestic and offshore financial sectors. In October 1992, the Government appointed a securities market task force to examine the issue of capital market development and to make recommendations for the establishment of a securities market in The Bahamas. This task force has produced several initial advances towards the development of a formal stock exchange. A significant first step was the enactment of The Securities Board Act, 1994, which would have overall supervisory and regulatory oversight for the securities market in The Bahamas, including The Bahamas International Securities Exchange (BISX), when established. Simultaneously, Parliament passed the "Mutual Funds Act," designed to regulate the burgeoning mutual funds industry.

A major boost to the prospects of a Bahamian stock exchange was received in November 1994, when the Multilateral Investment Fund, administered by the Inter-American Bank, approved $2.2 million to help modernize stock exchanges in four Caribbean territories and to assist The Bahamas in its domestic efforts. The program is designed to significantly increase capital flows to the Caribbean by offering investors increased security and providing for regional standardization of these activities.

The government-appointed task force, with the mandate to oversee the development of the local capital market and the stock exchange, presented its final report to the Government in March 1995, and has currently assisted in drafting a new securities bill to be introduced to Parliament during 1997. The establishment of a formal framework is expected to follow, by end-1997.

Upon establishment, The Bahamas International Securities Exchange (BISX) is expected to be segregated into a domestic sector, trading in shares of local companies and Bahamas Government securities; and an offshore sector. It is anticipated that the domestic exchange would assist in the development process of the local capital market and provide alternative sources of financing for local businesses. Further, the many advantages offered by The Bahamas, including its convenience and superior services, should attract the listing of foreign securities – particularly mutual funds and Bahamian registered Global Depository Receipts (GDRs) – to the international segment of the exchange which would mesh very well with the burgeoning mutual funds industry currently operating in The Bahamas.

Presently, the equities market in The Bahamas is relatively thin, characterized by a small amount of funds being raised, a limited range of securities and a small volume of secondary market transactions. There are a number of trust companies involved in the informal over-the-counter market: Coutts and Co., and Ansbacher, and New World Trustees—which act as registrar and transfer agents. A number of Bahamian companies have taken advantage of this facility to raise needed capital including, Finance Corporation of The Bahamas, Commonwealth Bank Ltd., Bank of The Bahamas and British American Bank (banking institutions); J.S. Johnson and Co. and Global Bahamas Ltd. (insurance entities); Bahamas Supermarkets (retail food operations); Cable Bahamas (broadcasting); and Freeport Power and Light (utility company).

Coutts & Co., in particular, has also facilitated a market in the shares of companies for which it has acted as agent and publishes bid and offer prices of these shares. However, it is expected that this arrangement will be formalized with the enactment of comprehensive securities legislation and the start-up of the local exchange.

The scope of equity's market operations is expected to be enhanced by the prospective privatization of various government owned public corporations, which will add to the existing pool of securities.

3.3. Conclusion

The economic and financial development of The Bahamas has been clearly conditioned by the country's lack of traditional natural resources, and the authorities' deliberate intent to exploit those areas in which The Bahamas enjoyed a comparative advantage, namely financial services and tourism.

The evolution of the financial system has been steady and stable, which explains why The Bahamas has been an attractive locale for foreign banks and trust companies. The proliferation of financial products and services and the consequent development of personnel to service the sector (including lawyers, accountants and computer specialists), ensured that the industry played a significant role in the economic development of the country; and the 'Bahamianization policy' accelerated the transfer of skills to Bahamians.

The modernization of the entire financial sector is reflective of the strong foreign institutional presence in The Bahamas. The now ubiquitous ATMs, the proliferation of credit cards, the availability of remote banking and other modern products are all part of the response of institutions to demands of local consumers, for quality of service and variety of products similar to those available to offshore clients.

Although the financial system is developed in terms of the scope of financial services provided, financial depth is still rather shallow. Money and capital markets are still in the infant stages of development. The incipient establishment of a formal domestic stock exchange is expected to accelerate economic and financial sector development. Bahamians already have access to one Bahamian mutual fund, and other sophisticated financial products are expected to become available to the local market.

4

The Evolution of the Financial Sector in Barbados (1970-1996)

Cleviston Haynes[1]

The process of financial intermediation is entrenched in the Barbadian economy. Public confidence in financial institutions has contributed to the level of social and economic development and is reflected in the relative stability of the economy. Over the past fifty years, the financial system has undergone significant changes, resulting in increased accessibility to financial institutions and improved mobilization and allocation of resources. The size of the financial sector has expanded in relation to the real economy, while the dominance of commercial banks has receded with the emergence of new instruments and institutions. Despite these gains the financial system is still unsophisticated by international standards. Financial institutions are largely specialized and are only now beginning to take advantage of international technological advancements. Secondary markets for stocks and bonds are in the embryonic stage and offer limited opportunities for reallocation of financial portfolios.

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[1]Mr. Haynes is Advisor to the Governor, Central Bank of Barbados.

Wood (1993) offers an interpretation of these trends by examining the causal relationship between financial development and growth for the period 1946-1990. He concluded that the financial sector exerted no significant influence on economic activity before 1968 but that after 1968 there was a bi-directional relationship in which the financial sector impacted on and was affected by economic growth. The scope of this Chapter does not seek to challenge or confirm Wood's results which seem consistent with the conclusions of others familiar with the Barbadian experience. This work seeks to update the institutional aspects of **Worrell and Prescod's** survey of the Barbadian financial sector **(1983)**.

The study examines the role of the Central Bank in charting macroeconomic policies to achieve the objective of exchange rate stability and the impact of such policies on financial sector developments. In particular, it traces the development of non-banks and the growth of alternative financial instruments. **Section 4.1** provides an overview of the structure of the economy and background of key influences on the pace of economic growth during the review. **Section 4.2** reviews the evolution of the financial sector while, including developments with respect to the Central Bank, commercial banks and the non-banks respectively, as well as the government bond market and the performance of the stock market. **Section 4.3** concludes the Chapter.

4.1. Economic Structure and Performance

Over the period 1970-1996 the structure of the Barbadian economy shifted from dependence on agriculture towards greater reliance on export services. With a population of 264,000 and a limited natural resource base, the economy has always relied on its foreign earning sectors to propel growth. Tourism is now the main source of foreign exchange while business services, sugar and light manufacturing provide support, enabling growth estimated at 1.3% per annum between 1970-1995. As **Table 4.1** indicates, tourism accounted for 12.4% of output in 1995 compared to 8% in 1975. Agriculture, the former mainstay of the economy, accounted for only 5.4% of output in 1995, down from 11.5% in 1975. The small scale import substituting and export enclave manufacturing sector played an increasingly important role through the 1970s and early 1980s but declined in significance during the last ten years. The diversification thrust was supported by modest population growth (0.4% per annum) and generally stable economic policies, contributing to a gradual rise in the standard of living and a per capita income by 1995 second only to the Bahamas in CARICOM.

The openness of the Barbadian economy leaves it very vulnerable to external shocks which interrupted economic development on three occasions during the review period. During 1974-75 recession was initiated by the 1973 oil shock which, together with a sharp hike in indirect tax rates due to the implementation of a new Common External Tariff in CARICOM, created severe inflationary pressures. Output contracted and job losses ensued. The economy began to stabilize by 1976 as inflation fell from 38.9% in 1974 to single digits in 1976. The recovery of industrial countries and the favourable impact of the oil price increase on the Trinidad and Tobago economy prompted renewed growth for Barbados during the rest of the decade. A second oil shock and contractionary measures by industrial countries created problems for the Barbadian economy in 1981-82 period. A burgeoning fiscal imbalance pressured foreign reserves while difficulties elsewhere in the Caribbean and the inability of one Caricom country to settle its trade obligations to Barbados further exacerbated the situation. Reduced external liquidity gave rise to external borrowing to shore up foreign reserves and protect the exchange rate. Efforts to restore fiscal and external balance were consolidated under an IMF Stabilization Programme in 1982-84.

Slow growth and a significant fall in investment prompted government to pursue expansionary fiscal policies in the latter

Table 4.1. Barbados: Economic Indicators (1970 - 1995)

	1970	1975	1980	1985	1990	1995
Population (000)	239	246	249	257	261	264
Per Capita Income (US$)	606	1,423	2,987	4,242	5,685	6,001
Real Output (BDS M)	627	1,423	2,987	4,242	5,685	6,001
Sectoral Shares						
Agriculture (%)	11.1	11.5	8.4	5.7	4.6	5.4
Manufacturing (%)	8.7	8.8	10.6	9.6	6.7	5.8
Tourism (%)	n.a	8.0	10.6	9.3	9.8	12.4
Distribution (%)	19.6	15.7	18.4	18.7	17.1	14.4
Other (%)	60.6	56.0	51.9	56.6	61.7	62.1
External Current Account/ GDP (%)	19.5	(10.3)	(1.9)	5.2	0.5	5.7
Money Ratio[1] (%)	62.2	46.6	47.6	49.2	56.3	63.2

[1] Money is defined as total monetary liabilities of the banking system.

Source: Central Bank of Barbados.

half of the 1980s. This expansion together with a sharp downturn in tourism precipitated a crisis of major proportions in 1991. Unprecedented monetization of the fiscal deficit eroded the foreign reserves, culminating in the implementation of another IMF programme. The contraction in output and the job losses were more severe than the preceding recession, but fiscal and external sustainability were regained without necessitating a devaluation. Although economic growth resumed by 1995, the severity of the recession makes the attainment of peak output somewhat difficult.

4. 2. Evolution of the Financial Sector

The domestic financial system has played a significant role in the development of the modern Barbadian economy particularly during the past twenty-five years. Most economic transactions are now monetized and the financial system has proven to be a relatively efficient conduit of funds between savers and borrowers. The institutional network currently consisting of a Central Bank, several commercial banks, a growing complement of non-banks and fledgling stock and bond markets, mobilizes adequate resources for the provision of short, medium and long term finance.

Financial institutions in Barbados date back to the 1830s. In the pre-emancipation period these institutions were scarcely required as the economic system was not highly monetized and merchants performed the role of suppliers of short term credit. In addition, in an era where metals served as currency, there was no local issue in Barbados. Instead, as **Greaves (1952)** notes until the second half of the 19th century, Spanish and Portuguese coins were used as the local medium of exchange in the face of English restrictions on the export of their own currency.

In 1837 a Royal Charter enabled the establishment of the Colonial Bank, a commercial bank, and the first formal financial institution with note issuing authority in Barbados. It was not until 1937 that the Barbados government issued its own currency but then only for a short period as the British Caribbean Currency Board (BCCB) was established in 1951 as a regional currency issuing body for the Eastern Caribbean.

While the Colonial Bank had note issuing authority, its lending function was initially severely restricted. In this context, the indigenous West India Bank, a conservative reaction to the Colonial Bank, was influential in the 1840s before it collapsed during the 1847-48 financial crisis in England. **Karch (1979)** argues that after this the Barbados Mutual Life Assurance Society (1840), another indigenous financial institution, became the dominant intermediary during difficult times. A local Savings Bank was also formed during this period to mobilize savings. The level of economic development and the distribution of wealth mitigated against faster expansion within the financial sector at that time.

Institutional developments in the post-emancipation colonial period were primarily demand determined with the result that there existed four foreign commercial banks managing a six branch network, a government savings bank, two agricultural banks and life and general insurance companies by 1960. Small householders, whose access to the formal financial system was severely restricted, devised their own savings schemes and invested in small friendly societies. Up until 1970 the financial system, represented largely by foreign commercial banks, served mainly as a store of savings and a source of short-term working capital for the agricultural and mercantile community.

By 1995 the structure and scope of the financial sector had changed substantially. Unlike many developing countries the Barbadian financial system is predominantly private sector with government's involvement being limited to a few specialized institutions. Apart from the Central Bank, government's principal interests in the sector are a commercial bank and a general insurance company. Government entities also provide specialized credit for agriculture and housing. During, the review period, Government also operated a development finance institution catering to industry, tourism and small-business credit needs. An accumulation of bad debts and subsequent insolvency resulted in the closure of this institution at the end of 1995.

For Barbados, there has been no apparent effort to localize the financial services sector. Only in the insurance industry have dominant privately owned indigenous institutions developed. The presence of internationally acclaimed banks may have helped to strengthen confidence in the financial system. Until recently, however, these banks appear to have been slow to modify financial instruments and to introduce customer friendly technological advances which exist in their parent countries. There is currently a varied institutional network comprising the financial sector and providing more opportunities for investment and capital accumulation outside of traditional sectors.

4.2.1. The Central Bank of Barbados

Established in 1972, the Central Bank of Barbados stands at the apex of the financial system, directing monetary policy and regulating financial institutions. Following on similar decisions by Jamaica, Trinidad & Tobago and Guyana, during the independence period, the creation of the Central Bank of Barbados represented an attempt to facilitate greater autonomy over the domestic financial system. The colonial system had been much criticized for the lack of discretionary power of the Currency Board and the dominant role of foreign commercial banks. **McLean (1975)** argues that the functioning of the Eastern Caribbean Currency Authority (ECCA), which served as the monetary authority for Barbados in the immediate pre-Central Bank period lacked a development focus. Two aspects of the ECCA's behaviour which received criticism and which disappeared with the establishment of the Central Bank were the need for the currency to be partially backed by reserves and strict limitations on the extent of government borrowing from the monetary authority. **Greaves (1952)** sums up the feeling when she notes that "money and finance have always been among the last affairs to pass under internal control when a colony moved to a fully self-governing status".

Monetary and Exchange Rate Policies

The functioning of the Central Bank was immediately visible as a new currency was issued in 1973. As its establishment coincided with liquidity problems in the banking system, rising inflation and a weakening external position **(Haynes and Holder, 1989)**, the Bank introduced reserve and securities requirements on banks, manipulated interest rates and, with the aid of selective credit controls, attempted to regulate the flow of credit to consumption oriented sectors. In addition, the scope of exchange controls was extended to cover the sterling area and banks were mandated to seek Central Bank's permission before borrowing abroad for on-lending in the domestic economy. The Central Bank complemented its demand management measures by making funds available to financial institutions to ensure that adequate resources were available for financing the export sectors. While the sugar industry was the main beneficiary of this measure, funds were also made available to the tourism and manufacturing sectors.

From the outset the Central Bank established exchange rate stability as its primary goal. As the dominance of sterling in the international economy lessened during the 1970s the Bank switched its peg from sterling to the United States dollar and revalued the local currency by 9%. Commitment to the maintenance of exchange rate parity was reflected in the reduction in banks' capacity to lend to the private sector during the 1970s. By 1979, in an effort to curb private spending and help finance growing fiscal imbalances, the Bank was already diverting 25% of bank deposits away from lending to the private sector through reserve requirement policies.

Fiscal imbalances pressured the Central Bank into expanding money supply through lending to government. In addition, the Bank provided credit to some financial institutions. These practices together contributed to and compounded the economic difficulties faced in 1981 and in the 1990-91 period.

Interest Rate Policy

Strong domestic demand in the early 1970s and double digit inflation between 1973-1975 forced interest rates up for a short period (**Table 4.2**). In the face of inflationary pressures, the Bank did not actively pursue a positive real interest rate policy and interest rates remained negative for most of the period. This reflected the view that a high interest rate strategy would destroy the productive sectors rather than mobilize additional resources. Deposit and loan rates were regulated as there was concern that banks would collude if allowed to set interest rates freely in a thin market. After an initial period of setting prime rates, the Bank targeted the average lending rate. Only for mortgages did the Bank attempt to control specific lending rates. This policy approach was maintained until 1991 when as part of its stabilization package, the Bank initiated a process of financial deregulation, retaining control of the minimum deposit rate only. **Worrell (1996)** argues that this liberalization was essentially cosmetic since the banking sector was not severely regulated and controls were generally not binding. In addition, the Bank ceased to provide subsidized credits to financial institutions while fiscal restraint and improved domestic liquidity eased demand for credit from the public sector.

Bank Supervision

The Central Bank's role in promoting financial stability extends to the supervision of the activities of financial institutions. Initially, the emphasis was placed on commercial banks but as

Table 4.2. Barbados: Interest Rates, Inflation and Reserve Ratios (1970 - 1996) (%)

	1970	1975	1980	1985	1990	1995	1996
Reserve Requirements							
Cash	-	6.0	8.0	8.0	8.0	6.0	6
Securities	-	9.0	17.0	19.0	22.0	23.0	23
Interest Rates							
Savings	4.5	7.0	5.0	4.0	5.5	5.0	5
Bank Rate	-	7.5	7.0	13.0	13.5	12.5	12.5
Treasury Bill Rate	7.1	4.0	6.2	4.6	8.1	8.3	5.6
Inflation	7.8	20.3	14.4	3.9	3.1	1.8	2.4

Source: Central Bank of Barbados, *Annual Statistical Digest.*

Table 4.3. Central Bank of Barbados: Net Domestic Assets (1975-1996) ($M)

	1975	1980	1985	1990	1995	1996
Net Domestic Assets	-6.0	2.8	48.1	246.9	8.1	56.5
Of Which						
Credit to Public Sector	0.1	38.7	6.5	105.8	-108.1	194.5
Credit to Banks	0.3	1.2	1.9	27.8	6.0	-
Credit to Financial Institutions	3.7	26.0	44.3	60.2	8.4	9.1

Source: Central Bank of Barbados, *Annual Statistical Digest.*

non-banks developed, the Bank also monitored their operations. The Bank had limited authority in dealing with some of these institutions as they were registered under the Companies Act. The failure of a finance company in 1987 gave impetus to the introduction of new legislation designed to broaden the supervisory and regulatory authority of the Central Bank. The new Financial Intermediaries Regulatory Act of 1992 now provides the increased powers to the Central Bank.

4.2.2. *Commercial Banking*

Commercial banks still remain the dominant form of financial institutions in Barbados reflecting both their historic role in the financial system and the varied financial services they offer. By 1995, there were seven banks operating a 42 branch network moving from a 4-bank, 6-branches network in 1960. Development of the branch network was particularly rapid in the decades of the 1960s and 1970s. By 1970 Barbados had six banks and 26 branches rising to seven banks and 43 branches by 1980 (Table 4.4).

Table 4.4 . Barbados: Bank Expansion (1970 - 1995)

	1970	1980	1990	1995
Commercial Banks	6	7	7	7
Bank Branches	26	43	43	42

Source: Central Bank of Barbados.

As registered under the Financial Intermediaries Regulatory Act of 1992 the banks operating in the Barbados economy as at December 1995 were the Barclay's Bank PLC, The Barbados National Bank, the Bank of Nova Scotia, the Caribbean

Commercial Bank, the CIBC Caribbean Ltd, The Mutual Bank of the Caribbean Inc and the Royal Bank of Canada.

Barclay's Bank PLC: Barclay's Bank PLC was formerly the Colonial Bank and was established in the Barbados economy in 1837. This bank which is a wholly-owned subsidiary of Barclay's Bank PLC incorporated in England had a name change in 1925. As at the end of 1993 Barclay's Bank PLC was the largest commercial bank in Barbados owning 24.2% of commercial bank assets in the economy.

Royal Bank of Canada: The Royal Bank of Canada (RBC) is the second largest commercial bank in Barbados accounting for 18.8% of commercial bank assets as at 1993. RBC was established in Barbados since 1911 when the Canada-owned entity sought to establish bank branches in the Caribbean.

Bank of Nova Scotia: The Bank of Nova Scotia, another Canadian entity, established its first branch in Barbados in 1959. It is a wholly-owned subsidiary of the Bank of Nova Scotia, Canada and accounts for approximately 14% of total bank assets in Barbados.

Canadian International Banking Corporation (Caribbean Ltd.): Like the Royal Bank of Canada and the Bank of Nova Scotia the CIBC (Caribbean Ltd) has Canadian origins and linkages. From 1920 until November of 1993 CIBC operated in the Caribbean territory as a fully-owned subsidiary of CIBC (Canada). A new entity, CIBC Caribbean Ltd was formed in 1993 as a wholly-owned subsidiary of CIBC West Indies Holdings Ltd. The latter entity is majority owned by CIBC Toronto which has a 84.7% interest and by the Republic Bank (12.2%) and Inter-Americana Trading Corporation (3.1%). CIBC Caribbean Ltd. is the third largest commercial bank in Barbados accounting for 16.5% of total commercial bank assets as at December 1993.

The Barbados National Bank: This is a fully indigenous bank established in 1978 when the government-owned Barbados Savings Bank assumed commercial banking functions. Further the entity, also in 1978, incorporated into its operations the Sugar Industry Agricultural Bank which previously financed loans to the agricultural sector.

The Caribbean Commercial Bank: The Caribbean Commercial Bank with a 6.5% share of commercial bank assets commenced operations in 1984. In May 1986 the CCB took over the operations of the Chase Manhattan Bank in Barbados. The CCB is a fully-owned subsidiary of CLICO Holdings (Barbados) Ltd with the ultimate parent company being CL Financial Co Ltd of Trinidad and Tobago. CL Financial Co Ltd by itself and through its subsidiaries and holding companies own a number of financial institutions throughout the Caribbean and Suriname.

The Mutual Bank of the Caribbean Inc: The Mutual Bank of the Caribbean was established in October of 1992 and commenced operations in March 1993. This entity took over the assets and liabilities of the BCCI. It is a fully-owned Barbados entity with the Barbados Mutual Life Assurance Society having 48% control, the National Insurance Department (44%), Barbados Shipping and Trading Co. (4%) and Goddard Enterprise Ltd. (4%). As at the end of 1993 the Mutual Bank of the Caribbean had 5.2% share of the commercial bank market.

The single British bank, the three Canadian and the Barbados National Bank dominate the mobilization of funds in Barbados. The other two banks have relatively small networks and their recent accession to the market has seemingly prevented them from achieving a significant penetration of the domestic market.

Bank Activity

The 1960s were a precursor for change in the financial system in general and the operations of commercial banks in particular. By all indicators this was an extraordinary period of economic and financial development. The economy grew by 3.5% per annum, raising income and subsequently the demand for financial services. **Worrell and Prescod (1983)** note that the arrival of the Bank of Nova Scotia and its aggressive introduction of consumer instalment credit triggered an expansion in banking services. This helped spur private consumption, deepen the intermediation process and quicken the pace of economic activity. Led by Barclay's, the commercial banks extended their branch network and competition was further heightened by the arrival of other banks.

Deposits: Deposits grew rapidly and the structure of such deposits in banks underwent significant change, with the share of demand deposits declining from almost 50% to 29%. McLean attributes this shift to successful marketing by commercial banks for household savings. Perhaps even more critically, banks invested less of their funds abroad with the booming tourism industry and consumer demand absorbing a significant share of the new lending.

By 1970, the financial system was attracting just over 55% of GDP in deposits, 90% of which were held in banks **(Table 4.5)**. The deposit ratio declined through the 1970s, a result of inflationary pressures and the rapid growth in government securities issued to non-bank financial institutions, particularly the National Insurance Fund. Commercial banks, however, continued to dominate the intermediation process, a development exaggerated by the conversion of the Savings Bank into a full commercial banking facility in 1978. The end of the 1970s and throughout the 1980s was a particularly difficult period for commercial banking in Barbados. Branch network slowed and one bank alone closed five of its branches. In addition, the Chase

Table 4.5. **Barbados: Deposits of Financial Institutions (1970-1996)**
(% of GDP)

	1970	1975	1980	1985	1990	1995	1996
Commercial Banks	49.7	44.3	42.6	45.2	50.5	58.4	65.4
Savings Bank	4.9	3.2	0.0	0.0	0.0	0.0	-
Credit Unions	0.2	0.2	0.3	1.0	4.3	4.3	4.6
Trust Companies	0.6	2.4	4.0	6.1	9.3	9.2	9.2
Finance Companies	0.0	0.0	0.7	0.9	1.2	1.1	1.5
SIAB/BNB-AD	0.0	0.0	0.9	1.3	2.8	4.0	1
Deposit/GDP Ratio	55.3	50.1	48.5	54.6	68.2	77.0	81.7
TOTAL DEPOSIT ($M)	**200.8**	**406.8**	**840.2**	**1,315.8**	**2,345.1**	**2,900.5**	**3,295.6**
Currency/Deposits (%)	10.7	9.8	12.1	9.4	8.2	6.9	6.7
Banks' Deposit Share (%)	89.8	88.5	87.8	82.8	74.1	75.7	79.7

Source: Central Bank of Barbados.

Manhattan Bank ceased operations in Barbados in 1986. By the mid-1980s commercial banks' share of deposits had declined from its 1970 level as the non-banks intensified their role in the financial system. However, banks still accounted for almost 83% of all deposits.

Under the fiscal stimulus of the late 1980s and increased reliance on external financing, deposit growth recovered, reaching 68% of GDP in 1990. Deposits declined in 1991 as the economy encountered difficulties, but there was a swift recovery as confidence returned. By 1995, the deposit ratio stood at 77% of GDP, just over 75% of which is held by banks. The thrust towards increased savings via the domestic financial system is evidenced by a decline in the currency/deposits ratio. This ratio peaked in the high inflationary period of 1980 and tapered off as inflation receded. In addition, the recent move towards debit and other bank cards may have accounted for some of the downward drift in the ratio.

Lending Operations: In 1970, commercial banks were even more dominant as lending institutions than they were as deposits takers, accounting for almost all credit extended in the financial system. During the 1970s commercial banks began shifting from foreign investment towards greater domestic lending. More than one third of this credit went towards the distributive and personal sectors to finance an upsurge in private consumption. Central Bank policy immediately restricted commercial bank lending ratios by establishing mandatory holdings of cash and government securities and by imposing credit ceilings to constrain their lending to the distributive and personal sectors. Incentives were provided through credit guarantee schemes to facilitate credit to foreign exchange earning sectors but this had no material effect on credit shares. By 1990, the personal and distributive sectors accounted for 43% of commercial bank lending (**Table 4.6**). Agriculture's share of commercial bank credit contracted as government facilitated an alternative source of

Table 4.6. Barbados: Commercial Bank Credit Distribution (1970 - 1996)
(%)

Sector	1970	1975	1980	1985	1990	1995	1996
Agriculture	7.0	4.0	3.8	4.4	2.5	2.5	2.7
Manufacturing	7.5	9.9	18.1	15.1	15.3	8.4	8.4
Tourism	13.5	12.2	11.9	13.5	7.3	10.4	10.8
Distribution	17.8	17.9	16.8	15.0	18.0	22.3	16.4
Personal	19.3	25.8	25.9	22.5	25.0	29.5	35.5
Other	35.0	30.3	23.4	29.5	31.9	26.1	26.2
Private Sector Credit ($M)	163.2	288.4	521.5	769.4	1,134.2	1,484.5	1,544.5

Source: Central Bank of Barbados.

funding through the Barbados National Bank's Agricultural Division. Despite tourism's importance to the local economy, its share of commercial bank credit fell to as low as 7.3% in 1990 from a level of 13.5% in 1985. This partly reflects alternate financing of large hotels by foreign parent companies while small hoteliers attracted funds from the Barbados Development Bank, government's development finance institution.

As **Table 4.7** reveals, the ratio of credit to GDP provided by the financial system declined in the 1970s but has been on an upward trend since then, reaching over 60% in 1995. Banks now account for 66% of this credit. The removal of credit restrictions on the distribution and personal sectors has provided a boost to commercial bank lending in these areas. Economic recession slowed credit demand between 1991 and 1993. Renewed confidence in the economy, expansion in the tourism sectors and the thrust towards credit cards usage resulted in a boom in commercial bank lending by 1995.

Bank Innovations: The introduction of credit cards as a payments instrument is the latest innovation as the financial sector adapts to technological advances and customers' desire for convenient banking services. The pace of credit cards introduction into the economy and the public acceptance are remarkable. The first ATM was introduced in 1988 by one of the smaller banks. This spurred other banks into action to maintain their competitive edge. Additional services including debit cards and a limited range of telephone banking services have been added by some banks.

4.2.3. Non-Bank Financial Institutions

In 1970, non-bank financial institutions were relatively insignificant in the Barbadian financial system accounting for 10% of deposits and a mere 2% of credit. The Barbados Savings Bank was the main non-bank financial institution, mobilizing deposits equivalent to 5% of GDP. Even with this situation in 1970, the

Table 4.7. Barbados: Credit of Financial Institutions (1970 - 1996)
(% of GDP)

Institutional Type	1970	1975	1980	1985	1990	1995	1996
Commercial Banks	46.8	36.2	30.7	32.5	33.9	40.1	39.2
Barbados Development Bank	0.2	1.1	1.8	3.5	2.6	1.9	1.5
Credit Unions	0.1	0.1	0.2	1.3	3.9	4.3	4.8
Trust Companies	0.0	1.6	4.1	5.1	9.6	10.8	10.5
Finance Companies	0.0	0.0	0.7	1.1	1.1	1.0	1.3
SIAB/BNB-AD	0.3	0.7	2.4	5.0	5.3	0.3	0.2
BMFC	0.4	1.7	1.9	2.3	2.6	2.6	2.5
Credit/GDP Ratio	47.9	41.4	41.8	50.8	59.0	60.9	60.1
TOTAL CREDIT ($M)	**173.8**	**336.6**	**723.8**	**1,223.9**	**2,031.2**	**2,292.5**	**2,426.8**
Banks' Credit Share (%)	97.8	87.3	73.4	64.0	57.5	65.9	65.3
Loans/Deposits (%)	86.6	82.7	86.1	93.0	86.6	79.0	73.5

Source: Central Bank of Barbados.

role of the Barbados Savings Bank was severely diminished as its deposit base shrank by almost 15% from the preceding decade and its share of deposits fell from almost one third to less than 9% of overall deposits. This institution was seemingly marginalized by the variety of services which banks offered and their consumer lending patterns. In contrast, the Savings Bank invested its funds in government or foreign securities.

The Non-Bank Financial Institutions operating in the Barbados economy as at 1995 were trust companies, finance companies and merchant banks, a development bank, insurance companies, a mortgage finance company and credit unions. The government-owned National Insurance Fund is also considered a non-bank intermediary. While commercial banks remain the dominant financial intermediaries, the non-bank sub-sector competes with or complements the services provided by traditional commercial banks. Non-banks now account for 24% of deposits and 34% of loans. This discrepancy reflects the absence of statutory reserve requirements on non-banks and the more varied source of funding available to them. For example, the Barbados Development Bank (BDB) and Barbados Mortgage Finance Company (BMFC) have raised funds on the domestic market and from international financial institutions to support their lending activities.

Trust and finance companies which are affiliated to commercial banks engage primarily in commercial and residential mortgage lending by mobilizing medium term funds. This process was first helped by the surpluses generated by the National Insurance Fund which was established in 1968, enabling these institutions to provide what Worrell and Prescod term the "private sector's only significant contribution to institutional growth in the financial sector." By 1995, trust companies, which mobilized less than 1% of GDP in deposits in 1970, were accounting for deposits equivalent to over 9% of GDP. By borrowing from their affiliated banks, they were able to make loans of almost 11% of GDP. In addition to being depository institutions and financing mortgages, trust companies provide administrative and management services in relation to trust funds, estates and investment portfolios.

The trust companies' efforts in providing mortgages were complemented by insurance companies and the Barbados Mortgage Finance Company (BMFC). The BMFC's focus was on low and middle income housing. It raised its lending from 0.3% of GDP in 1970 to 2.6% by 1995. By contrast insurance companies which were extending about the same level of credit in the early 1970s grew more rapidly, a result of a wider catchment market and the absence of restrictive lending limits. By 1995 insurance companies accounted for about a quarter of all residential mortgages.

The contributions of the other non-banks were significant even though numerically weaker than the trust companies. First, as the sugar industry encountered difficulties, traditional banking institutions became increasingly reluctant to lend to the industry. As a result, government made more funding available through the agricultural division of the Barbados National Bank (BNB-AD) which had replaced the Sugar Industry Agricultural Bank in 1978. While the BNB-AD raised its own funds, especially from other government institutions, it relied heavily for additional financing from the Central Bank's discount scheme and its own commercial division. In 1990, its exposure of over 5% of GDP made up primarily of a large volume of bad debts left the institution's viability severely compromised. In 1993 government effectively took over the debts of the industry, reducing the portfolio to 0.3% of GDP.

Secondly, the Barbados Development Bank pursued an aggressive lending policy particularly in the early part of the 1980s, leading to a quadrupling of its loan portfolio. However, declining demand for domestic manufactures and softness within tourism resulted in increasing levels of loan delinquency. The loan portfolio declined from 3.5% of GDP in 1985 to just under 2% by 1995 as the institution stopped lending and concentrated its efforts on recovery. Changes in the structure of BDB's portfolio is reflective of the changing focus of the economy. In 1995 tourism credits represented over 54% of BDB lending compared to 37.4% in 1970. In contrast, lending to manufacturing fell from 33% to 23.3% of overall lending. At the end of 1995 the institution was officially closed, except for a small core of staff retained to collect its existing debts.

Thirdly, Central Bank regulations on the banking sector encouraged the growth of non-bank institutions providing consumer oriented lending. Finance companies emerged to fill this void but were unable to significantly penetrate the market, in part because of the failure of one such institution in the 1980s. Finance companies in Barbados provide term finance and engage in leasing arrangements primarily for motor vehicles and equipment.

In contrast to other non-bank financial institutions, credit unions expanded rapidly in number, membership and assets. Between 1980 and 1990, the number of credit unions almost doubled, membership increased seven fold while deposits were up 34 times. Their growth was facilitated by tax incentives which encouraged membership, but growth slowed with the recession of 1990 - 1993 and the liberalization of financial policies. Deposits rose sharply from 0.3% of GDP in 1980 to 4.3% in 1990, but were unchanged by 1995. Credit unions have attempted to extend their range of activities and some of the larger ones are developing mortgage portfolios. At least one credit union has kept abreast of technological developments by introducing automated banking services while another has spawned its own general insurance company.

4.2.4. Bonds and Stock Markets

The bond and stock markets complement the traditional financial institutions as sources of finance for the public and private sectors and as alternative forms of financial assets. Liquidity in these markets is, however, limited as secondary markets to trade bonds and stocks are now in their infancy and trading remains relatively thin.

The bond market is more established in the sense that government has a long tradition in the issue of government securities. By 1970 government issues represented just under 10% of GDP. However, beginning in the 1970s, there was a rapid escalation in government debt issue, a result of large fiscal imbalances and institutional developments which raised the demand for such paper. By 1990 these issues represented over 25% of GDP, almost half of which were held by commercial banks mainly as a result of statutory requirements. With the advent of stabilization in 1991, there was a marked increase in the government securities available. This represents the combined effect of a reduction in external indebtedness, improved domestic liquidity and efforts to minimize Central Bank's money creation. In addition, as part of structural reforms, government assumed the obligations of the indebted public enterprises and of the bankrupt sugar industry. By 1995 government local securities represented 45% of GDP **(Table 4.8)**. An interesting feature of this period is that the share of securities held voluntarily by the private sector rose from about 11% in 1990 to about 21% in 1995.

The Securities Exchange of Barbados commenced operations in mid-1987 with the aim of promoting secondary trading in stocks and bonds. As at the end of 1995 only eighteen companies are listed on the exchange and shares were closely held by investors. The volume of transactions averaged 47 per month in 1995, compared to 53 in the peak year of 1991 and 33 in 1988, the first full year of operation. Market capitalization valued at 16.4% of GDP in 1990 stood at 26.3% in 1995, largely the result

Table 4.8. Barbados: Bonds Outstanding (1970 - 1996)
(BDS$ Million)

Year	Treasury Bills	Debentures/ Treasury Notes	Savings Bonds	Total Claims	Claims/GDP (%)
1970	6.9	29.0	-	35.9	9.9
1975	56.9	82.4	-	139.3	17.1
1980	164.2	130.6	-	294.8	17.0
1985	405.0	154.7	6.9	566.6	23.5
1990	506.2	341.2	34.6	882.0	25.6
1995	504.4	1,132.8	51.7	1688.9	44.9
1996	595.5	1,222.7	59.0	1,877.2	48.8

Sources: Central Bank of Barbados *Annual Statistical Digests*.

of new listings, including one commercial bank. However, the turnover ratio remained exceptionally low at .002 in 1995. Prices dropped dramatically in 1992, the year of stabilization and high interest rates, but recovered in 1993 as interest rates declined. These gains were partly eroded in 1995 as the market adjusted to a perceived overvaluation of some stocks.

4.3. Conclusion

Barbados possesses an increasingly diversified financial sector. Although still dominant, commercial banks have ceded some of their market share in deposit and loan markets to non-traditional non-banking institutions. Some of these new institutions finance viable projects which would not normally earn the support of banks, thus strengthening the process of economic development. In general, financial institutions have tended to follow prudential norms, ensuring a stable financial system. The influence of a strong private sector orientation in the financial system seems to have contributed significantly to this process. Public sector financial institutions which incorporated a development focus into their mandate tended to be less successful.

The foundations of the financial system, cemented over the past 25 years, have prepared the sector to meet challenges provided by gradual deregulation, the evolution of competing financial instruments in stock and bond markets and changes in technology. However, traditionally, size has prevented the development of a highly competitive sector and, with the thrust of liberalization, regional financial integration and globalization, the Barbadian financial system will need to demonstrate its resilience in the coming years.

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5

The Evolution of the Financial Sector in Belize (1970 - 1996)

Christine Vellos & Nigeli Sosa[1]

Despite evidence of both a widening and deepening of the financial system during the period 1970 to 1996 Belize's financial system is still characterized by its small size essentially comprising of the Central Bank, commercial banks and some non-bank financial institutions. There is currently limited organized financial market activity. The sector's developments have been fashioned first and foremost by the long history of British rule and the institutions developed during that era. Further, the sector as a whole and the monetary authorities in particular have struggled over a long period to lessen the impact of international happenings on this small open economy. Commercial banks remain the dominant institution but emerging institutions are playing a larger and increasingly more important role in the system.

Hopes for the further development of the financial sector have been revived by the adoption of strategies and practices aimed at financial sector modernization and liberalization.

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Interest rates regulations, foreign exchange and other price controls have been significantly reduced allowing a more market-oriented economy and financial system to emerge. Further, the introduction of the new Banks and Financial Institutions Act has provided an environment for strong supervision of the financial sector.

This Chapter charts the development of Belize's financial system as well as takes account of other domestic and international happenings that have been influential in determining the path of its development. A brief historical background and economic setting are presented in **Section 5.1** of this Chapter. **Section 5.2** then sequentially provides insights into the development of Belize's monetary authorities, its commercial banking, the non-bank financial institutions and the unorganized money market respectively.

5.1. Economic Setting and Developments

After 95 years of Crown Colony rule, Belize achieved full internal self-government status in 1964 with the establishment of a new constitution that substantially reduced the wide executive and legislative powers previously held by the colonial Governor. Thereafter, the Government embarked upon a seven-year Development Plan designed to lay the economic foundation required to sustain independence and raise the economic and social standards of the people. Until then the economy had been largely dominated by timber exports (first logwood then mahogany) with the sugar and citrus industries beginning to gain importance. As part of the Plan, a Development Finance Corporation was established and provided with capital, mainly raised on the local market by public subscription, for investment in agriculture, housing, industry and other fields of enterprise.

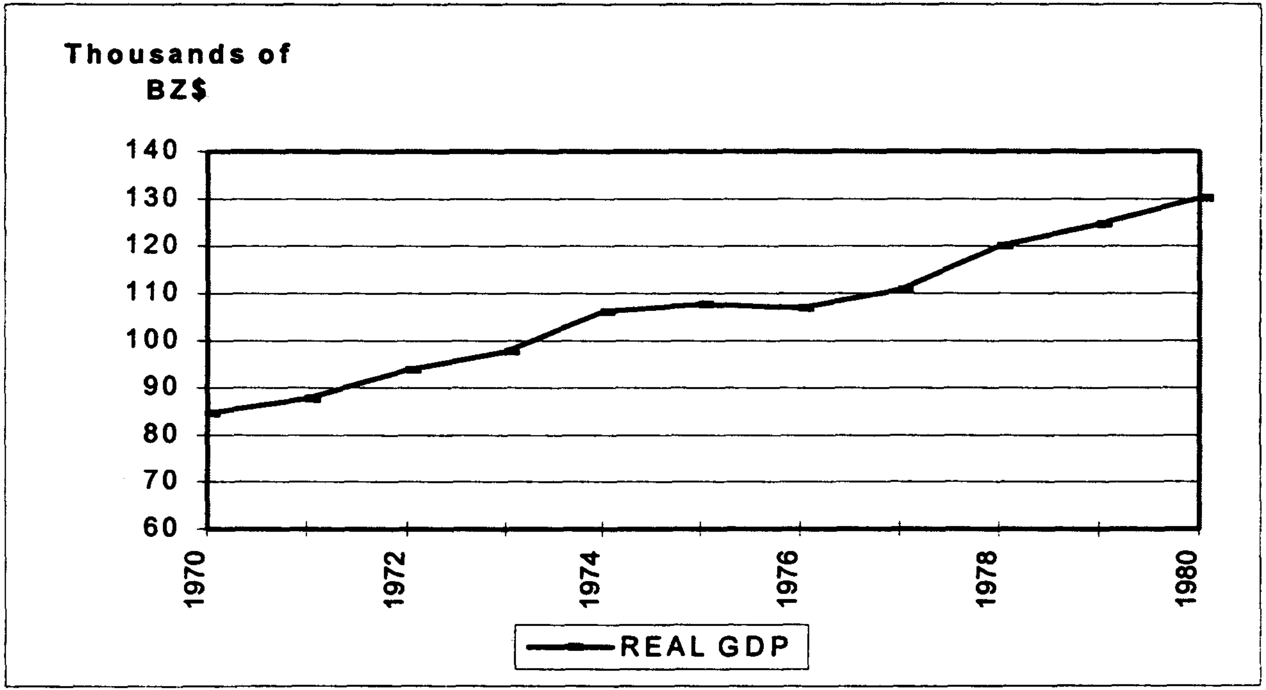
Agriculture's contribution to the country's economy increased considerably during the 1960s mainly through the expansion of citrus, sugar, and rice production. Meanwhile the timber industry, which had been the mainstay of the economy since the beginning of the colony, suffered a severe loss when the largest sawmill in the country was destroyed by fire.

The Development Incentives Legislation enacted in 1960 provided development concessions by way of tax holidays and duty exemption opening the way for foreign investment. Concessions were granted to enterprises in agriculture, tourism, fisheries and manufacturing. Economic growth in the 1960s was also stimulated by the aid received from the UK and other countries to assist the country's recovery from the disastrous effects of Hurricane Hattie in the latter part of 1961. These inflows paid for the construction of the new capital city of Belmopan which was commenced in 1965 and completed in 1970. Other major infrastructure projects undertaken in the mid- to late 1960s included the upgrading and expansion of the electricity system in Stann Creek, the construction of a house-to-house water supply system and Airport expansion in Belize City.

During the 1970s, Belize's economic performance was good, with annual real GDP growth averaging 4.4%, despite a two year period of stagnation in 1975-76. Performance in the 1970s can be assessed in three distinct phases as depicted in **Chart 5.1.** During 1970 - 1974, real GDP grew at the rate of 6.0% as all sectors of the economy recorded positive growth rates. The primary sector accounted for 25% of real GDP and continued to be the main source of foreign exchange earnings as production of both sugar and citrus expanded. The manufacturing industry also experienced increased production resulting from the establishment of an abattoir and meat packing plant, a brewery, a fertilizer plant and a paper conversion plant, along with expansion in existing industries.

1975 - 1976 was a period of stagnation as heavy rains resulting from hurricanes in the latter part of 1974, compounded by a prolonged drought in 1975, affected most agricultural crops. In addition high imported inflation contributed to a reduction in

CHART 5.1. GDP AT FACTOR COST (1973 PRICES)

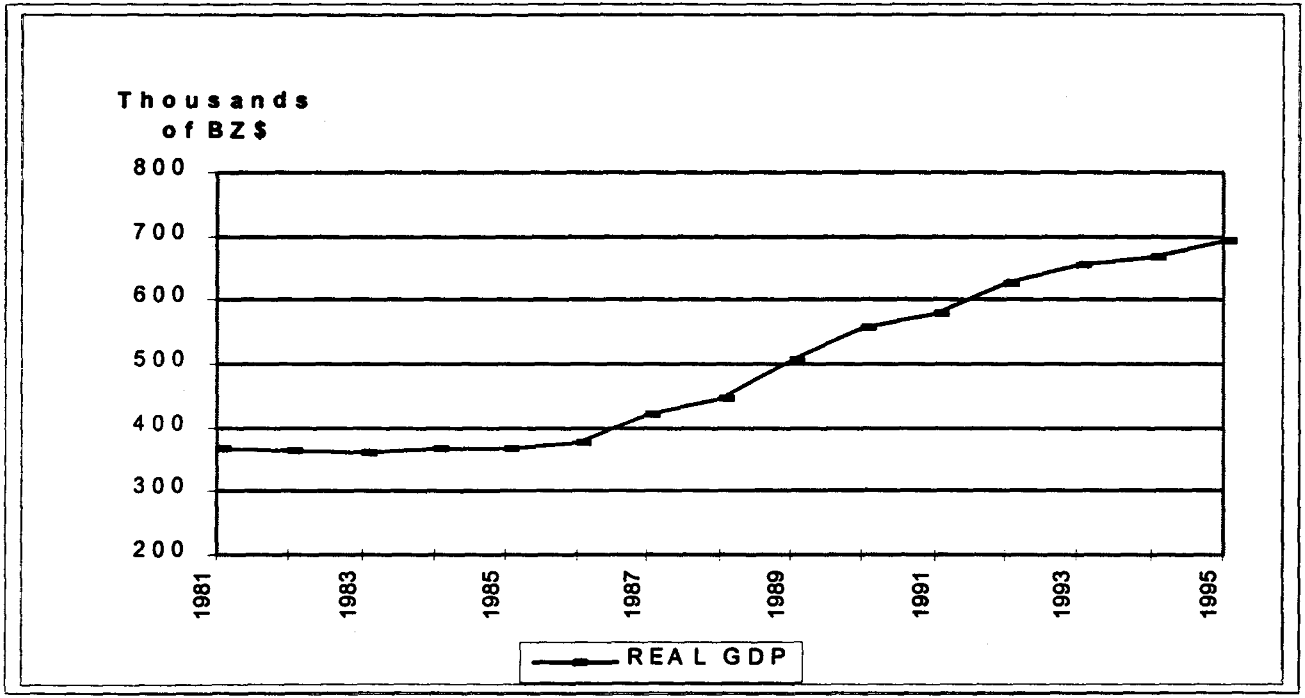


the production of some goods. Production in the primary sector consequently fell by 5.3% during this period while the secondary and tertiary sectors registered increases of 4.2% and 1.1% respectively, due largely to increased activity in the construction sector. Between 1977 and 1979 real GDP averaged 5.3% as all sectors of the economy, except fisheries, expanded.

Belize gained independence from Britain in 1981. Economic performance deteriorated somewhat in the first half of the 1980s but there was significant improvement thereafter. Expansionary fiscal and monetary policies during 1980 to 1985 contributed to persistent current account deficits which were compounded by depressed sugar prices and increased oil prices. With the economy stagnating and foreign reserves falling, Belizean authorities sought assistance from the International Monetary Fund in early 1983. The Fund provided SDR 3.6 mn under its Compensatory Financing Facility. With a continued decline in the fiscal and foreign reserves positions the Government entered into a Standby Arrangement in December of 1984. In addition a range of tax and monetary measures aimed at improving public sector finances, reducing the growth of aggregate demand and restoring the balance of payments to a sustainable position were subsequently implemented.

Growth in real GDP in the second half of the 1980s amounted to a record average of 8.6%. **(Chart 5.2)** By 1986, the system had recovered from the balance of payments crisis aided by increased foreign exchange inflows mainly from the filming of the movie "Mosquito Coast", the USAID Stabilization Fund, final IMF draw-downs and increases in export values of sugar, banana and citrus. Monetary policy was thus relaxed in order to stimulate private investment which had fallen significantly in the two years under the Standby Programme. Increased domestic and foreign investment, a favorable external environment and prudent fiscal

CHART 5.2. GDP AT FACTOR COST (1984 PRICES)



management all contributed to the significant improvement in the economy.[2]

Over the 1990-1995 period real GDP growth was moderate, averaging 4.4% annually. From 1990 to 1992 the economy grew by 7.6% per annum but this was not sustainable since much of it hinged on a large expansion in government spending. While the agricultural sector performed relatively well, severe fiscal imbalances developed as government expenditures grew at a much faster pace than its revenues. Even with a windfall from the final sale of government equity in BTL and Big Falls Ranch in January of 1992, the overall deficit grew to $50.2 mn, reflecting an increased wages bill and a locally financed capital budget which had mushroomed to $101.0 mn. The Government during this period increasingly relied on Central Bank advances while simultaneously drawing down on deposits held in the local commercial banks.[3]

Early elections in June 1993 resulted in victory for the opposing United Democratic Party. The new government responded to the fiscal dilemma by halting expenditure on some investment projects while down-sizing others. However, the introduction of free tuition in secondary schools and increases in public sector emoluments caused a widening of the fiscal deficit. The government during this period issued new short and medium term debt paper inclusive of one-year treasury notes and five-year defence bonds. While raising needed funds, these

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[2]Net international reserves increrased from $9.8 mn in 1985 to $115.0 mn in 1989 while an overall surplus of $53.8 mn was recorded in the fiscal accounts for 1988/89 as Government divested itself from its holdings in BTL (the local telephone monopoly). This is compared with the $23.1 mn deficit which existed in 1984/85.

[3] Net credit from the Central Bank and the commercial banks was up by $5.2 million and $20.1 million, respectively.

instruments assisted in the deepening of the financial markets in Belize. Real GDP growth dropped to 1.6% in 1994 as improvements in the agricultural and services sectors were offset by declines in the construction industry, the latter being a direct result of Government's reduction in capital expenditure and the beginning of the phased withdrawal of the British Troops which amounted to an average of $40.0mn per annum.

The economy experienced a mild recovery in 1995 as real GDP grew by 3.8%. Despite previous measures to increase revenues and reduce capital expenditure, the fiscal situation did not improve primarily because of the sizable wages and salaries bill. As the need for further adjustment became evident, several measures were taken to correct the situation. The most drastic of these was the imposition of a two-year wages freeze and the retrenchment of 860 workers in December, 1995. To raise revenues, excise taxes on spirits and tobacco were increased and a controversial value-added tax on goods and services was introduced effective April 1, 1996.

5.2. Financial Sector Developments (1970 - 1996)

Belize's financial system is characterized by its small size, consisting of the Central Bank, commercial banks, credit unions, the Development Finance Corporation, insurance companies, the Savings Bank and the NDFB. This has resulted in a somewhat low level of competitiveness over the years but there is recent evidence of change in this area. Although there has been expansion in the number of savings institutions and considerable deepening of the financial system based on the increased level of financial savings relative to total output, savers are still faced with limited alternatives with respect to the number, maturity, liquidity and yield of financial instruments. Even a recent imposition of a 5% tax on interest earned on time deposits in excess of $100, had no effect on the growth of financial savings.

Since 1986, with a build-up of momemtum in 1991, a broadening of the range of financial instruments has been due largely to new issues of Government paper associated with the imperative of financing annual deficits and continued privatization of public enterprises. These instruments have been purchased primarily by large institutions such as the commercial banks themselves. While big and well established firms obtain financing from the banking system, excessive collateral and other requirements limit small and medium sized enterprises from accessing credit from these institutions. Small local enterprises therefore continue to experience difficulty in acquiring resources for medium and long term investment. Since both the mobilization and allocation of financial savings is hindered by the size and depth of the system, this has led to imbalances in the country's economic development.

The prospects for the continued development of the financial system have recently been improved by the adoption of strategies to achieve some degree of financial liberalization. Interest rates regulations, foreign exchange and other price controls have been significantly reduced. With the Central Bank maintaining a strong prudential and regulatory framework facilitated by the new Banking and Financial Institution Act 1996, the reduction of such price distortions which normally result in inefficient allocation of financial resources can only have a positive effect on the system's evolution.

5.2.1. *The Monetary Authorities*

The Belize Board of Commissioners of Currency

Established in 1894, the Belize Board of Commissioners of Currency continued to operate until 1976. During its existence, the Board was primarily responsible for the issue of local currency which it was obligated to redeem in exchange for sterling on demand. Its operations were basically passive as the Board could not refuse to issue currency as long as the requisite amount of sterling was deposited. The money supply was thus determined by commercial bank deposit creation and by the level of productivity in the economy as this impacted on the balance of payments.

Up until 1958, the Currency Board was not permitted to invest in Government securities. In that year, an amendment was passed which authorized the Board to take up a fiduciary issue of $350,000. In 1965, the amount allowed was raised to $1,000,000, although it was not until 1967 that the Board made an initial purchase of government bonds worth $500,000. This was followed by a second purchase of an equal amount in 1970. At no time did the Board attempt to use these securities as an instrument of policy to vary the level of the money supply or to develop a market for active trading.

Belize Monetary Authority Legislative Changes

In 1976, the Monetary Authority Ordinance was passed establishing the Belize Monetary Authority. This Authority assumed control of the assets and liabilities of the Board of Commissioners of Currency and the scope of its functions was broadened. In addition to currency issuing, it was expected to regulate commercial banking operations, initiate appropriate monetary policy measures, provide banking and related services for the government, commercial banks and other financial institutions within Belize, and manage the country's foreign reserves.

At the Monetary Authority's discretion for the conduct of monetary policy, were open market operations, the discount/re-discount rate, reserve and liquid assets requirements and selective credit controls. In contrast to the Currency Board which was required to maintain 100% foreign asset backing for the local currency issue, the Authority was required to maintain external assets at no less than 50% of local currency in circulation and its domestic deposit liabilities. In addition to the authority to to conduct monetary policy, the shift from the currency board system also paved the way for the beginning of a domestic money market as commercial banks were required to diversify their portfolios in order to meet the new liquid asset requirements.

The Government first issued Treasury Bills in 1977. This provided an alternative for the commercial banks that historically invested surplus funds abroad. By 1980, Treasury Bills totalled \$16.0 mn and were evenly subscribed to by the commercial banks and the Monetary Authority. During the first six years, active trading was limited to the commercial banks and the Monetary Authority which together held 99.4% of outstanding bills.

In 1980 Statutory Instrument (S.I.) No. 30 was passed providing detailed regulations for the control of transactions involving gold, foreign currency, foreign securities, foreign exchange etc. These regulations were connected to the implementation of the "Exchange Control Regulations Ordinance, 1972". Although the principal ordinance was passed in 1972, there was no means of implementation until the statutory instrument came into force. Under its guidelines the Authority instituted a system to continuously monitor foreign exchange inflows and outflows. Effective June 16, 1977, the Monetary Authority set the minimum and maximum selling rates for commercial banks dealings with the public and also the rate at which the Authority would enter into transactions with the commercial banks. This was done so as to cover the commercial banks exchange rate risks given the fluctuations in the pound sterling and US dollar.

Monetary Policy

Despite the availability of a wide range of monetary policy instruments the Monetary Authority imposed only cash reserve and liquid asset requirements on the commercial banks of 5.0% and 20.0% respectively, between 1976 and 1979. In 1977, two commercial banks experienced short term difficulties in meeting cash reserve requirements and thus financing was facilitated by the Authority. In the midst of difficulties in meeting the liquid asset requirements a decision was reached to allow banks to classify all loans and advances outstanding to government and any other public sector entity plus ten percent of all other outstanding loans and advances as liquid assets. This became effective on February 1, 1977 but was gradually rolled back thereafter. By July of 1978, only the loans and advances outstanding to Government and other public sector entities were classified as approved liquid assets.

In the absence of short-term investment opportunities for liquid assets, the Authority paid interest on commercial bank deposits in excess of the legal requirements. However, with the introduction of monthly treasury bills in August 1977, this practice was discontinued. During the period 1976-1977, the Authority maintained its discount rate at 7% and consequently its lending rate fell below those prevailing in the major developed countries. Owing to an increased spate of bank lending, made attractive by low interest rates, there was an abrupt fall in foreign reserves. As such, an activist monetary policy stance was taken by 1978. The Monetary Authority increased its discount rate from 7% to 7.5% in that year, and by the end of 1979 the rate stood at 10%. The rate was further increased to 14% in 1980. In response, average prime lending rate of commercial banks moved from 9.5% at December 1979 to 17.0% in 1980 while rates on time deposits increased to 15.0%. These measures were largely successful as by the end of 1980 there was a 13.0% increase in deposits aided by the seasonal inflow of sugar funds, the disparity between deposits and loans was erased and the outflow of foreign exchange stemmed.

5.2.2. The Central Bank of Belize

In 1982, the year immediately following the attainment of political independence, the Central Bank of Belize was established resulting in the transfer of the assets and liabilities of the Monetary

Authority to the new institution. In addition to instruments already available for the conduct of monetary policy the Central Bank was authorized to set maximum and minimum deposit and lending rates. Other legislative changes allowed the Bank to hold Treasury Bills of up to five times the value of its paid up capital and reserves and reduced the level of reserves on external assets from 50% to not less than 40% of currency in circulation and deposit liabilities.

In Belize, as in many other small open economies, the fixed exchange rate system existed at the time when the Bank was established. The Central Bank Act of 1982, however, explicitly stated that "within the context of the economic policy of the Government" that the Bank is to carry out the functions of fostering monetary and exchange rate stability and promoting credit and exchange conditions conducive to economic growth. Section 33 (1) of the Central Bank of Belize Act stipulated that "The bank may act as fiscal agent and trustee of, and as banker to, the Government." In performing its role as banker to Government, it is allowed to make direct advances to the Government and purchase Government paper. Initially, the Central Bank was prohibited from lending Government more than 15% of the Government's estimated current revenues and its Treasury Bill holdings were limited to five times the aggregate amount of the Bank's paid up capital and General Reserve Fund. Subsequently, on November 5, 1993 the Central Bank Act was amended to state that direct advances by the Bank to Central Government at any one time must not exceed 20% of current revenue collected by Government during the preceding financial year or the sum of $50.0 mn, whichever is greater.

The maintenance of monetary and exchange rate stability were and are primary objectives of the Central Bank although its quest to carry out this mandate has been complicated from time to time by, among other things, the effect of government's fiscal policy. Under the present legislation the Central Bank is seemingly not accorded sufficient autonomy as its ability to maintain monetary stability and adequate foreign asset holdings is largely subject to the fiscal policy initiatives of Central Government.[4] Developments since 1990 in particular highlight the need for greater restrictions on Government's access to deficit financing from the Central Bank.

Monetary Policy

Upon its establishment the Central Bank continued an active monetary policy as the economy suffered from a sharp decline in the terms of trade due to falling sugar prices. This was exacerbated by successive devaluations of the Mexican peso which led to a collapse of the hitherto lucrative re-export trade with that country and compounded by an increase in cross border smuggling from Mexico to Belize. Domestically, prices were rising, aggregate demand was falling and Central Government, faced with declining revenues, resorted to borrowing from the commercial banks to meet wages and salaries obligations and other recurrent payments.

Against the background of deteriorating international reserves and continuous high public sector deficits, the Government entered into a Standby Agreement with the International Monetary Fund for the amount of SDR 7.1 million in December 1984. This was aimed at strengthening the finances of the public sector and restoring the balance of payments to a sustainable position. With the implementation of the Standby Agreement, monetary and fiscal policies were tightened substantially. Under the programme, the commercial banks were required to increase their cash reserve and liquid asset ratios from 5% to 9% and from 20% to 30%, respectively. The Central Bank

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[4]The Central Bank Act initially allowed it to provide direct advances to Government of up to 15% of estimated current revenue and hold Treasury Bills of up to five times its paid up capital and General Reserve Fund. The Act was subsequently amended in November, 1993.

economic activity slowed considerably with real GDP growing by only 1.6%.

During 1994, the Central Bank felt it necessary to reduce the commercial banks' reliance on Central Government deposits to fund private sector credit as the fiscal deficit was being financed mainly through overdraft facilities at the Central Bank. Acting finally on the Central Bank's advice, Government shifted $21.0 mn of its deposits from the commercial banks into the Central Bank at the end of December, 1994. To offset the resulting liquidity squeeze on commercial banks, the cash and liquid asset reserve requirement were lowered by two and three percentage points, respectively, during the same month. Shortly thereafter, the Bank removed the interest rate floors on time deposits in an effort to improve efficiency in the determination of interest rates and credit allocation in the banking system.

Bank Supervision

In carrying out its responsibilities of ensuring a healthy banking system, the Central Bank in 1983 obtained IMF assistance in establishing a separate department to carry out banking supervision. The primary function of the Banking Supervision Department was maintaining surveillance over financial institutions and over the performance of banking business in or from within Belize to ensure compliance with legal requirements and promote prudent banking practices.

Initially surveillance was undertaken by analyzing information and data submitted by commercial banks to the Bank. It was not until the latter part of 1987 that the first on-site inspection was concluded. The main focus then was on the quality of loan portfolio and possible violations of the law. Subsequently, the department increased both coverage and scope of its on-site examination while still maintaining off-site examination.

to the private sector led to a gradual tightening of liquidity. The Central Bank responded by reducing the cash and liquid asset requirements of the banks in September 1991 from 7% to 6% and from 28% to 25%, respectively. The main consideration was to ensure that the commercial banks were able to provide bridging finance for a struggling agricultural sector, specifically, citrus. This easing of liquidity came at a time when there was a seasonal increase in imports due to the Christmas season and thus facilitated an expansion in credit and a fall in official reserves.

Improvements in the performance of citrus and bananas contributed to an increase in foreign reserves during the first semester of 1992 but as reserves began to decline in the latter part of the year the Central Bank increased the cash reserve requirement to 7.0% and the liquidity requirement to 27.0% in October, 1992. This contributed to a fall in commercial banks' liquidity during the last quarter of the year by some $16.5 mn. However, a decision by Government to deposit windfall revenues from partial divestment of the Belize Electricity Board into the commercial banks in January 1993 resulted in quick replenishment of bank liquidity levels. Even with seasonal foreign exchange inflows from exports, reserves declined continuously during the first months of 1993 largely due to the monetization of a rapidly expanding fiscal deficit.

In June 1993, snap elections were called and the party in power narrowly lost to the United Democratic Party. Although the incoming administration responded to the fiscal crisis by cutting back on domestically financed capital expenditure, the deficit was not reduced sufficiently to stem the foreign outflows. The Central Bank was, therefore, compelled to increase further the liquid asset requirement of the commercial banks in October, 1993 to dampen foreign exchange demand and encourage commercial banks to increase supplies by bringing funds from abroad. Although this measure was somewhat successful in slowing down the rate of decline in the Central Bank's foreign asset holdings, the trend was not reversed. In the following year, nearly 60% of public investment and a large proportion of private investment was foreign-funded this growth did not adversely affect the balance of payments **(Brownbridge and Morgan, 1990)**. Between 1985 and 1990, balance of payments surpluses led to steady increases in the country's stock of net foreign assets.

By January 1989, a continued trend of declining excess liquidity in commercial banks led the Central Bank to examine the existing liquidity requirements. With a stabilized economy, rising foreign reserves and substantial fiscal surpluses the time seemed right for further loosening of monetary policy. The Central Bank stimulated the flow of funds for private investment by lowering the cash reserve and liquid assets ratios by 2 percentage points to 7% and 28%, respectively, in February 1989. It further maintained incentives for lower and middle income savers by raising the minimum interest rate on ordinary savings deposits from 4.5% to 5.0% in April of the same year.

Economic performance during 1990 was marked by rapid growth in domestic production and the accumulation of public sector and external surpluses. In 1991, however, there was a shortfall in export earnings of the three major commodities namely sugar, citrus, and bananas. Financed partly by drawdowns on deposits held with the Central Bank,[5] Government's expenditure rose significantly to pay for increased purchases of goods and services, the addition of over 200 employees (medical staff, teachers & policemen), and an acceleration of infrastructure investment and capital transfers to assist the troubled Development Finance Corporation. Meanwhile, sharp increases (22.4%) in commercial bank credit

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[5] Deposits with the Central bank were reduced by $19.1 mn. Also, from being net lender of funds to the banking system to the tune of $18.7 mn at the end of 1990, Government reverted to the position of net borrower of $9.2 mn at the end of 1991.

also increased the minimum lending rate from 12% to 14% and raised the interest payable on commercial bank savings and time deposits by three percentage points. Commercial banks were directed to reduce the level of outstanding credit in an effort to stem the foreign reserves drain. In conjunction with these monetary measures, Central Government increased indirect taxes and utility rates in an attempt to improve its own financial position. The implementation of these measures led to a reduction in commercial banks excess liquidity from $13.8 mn at December of 1984 to $8.3 mn in 1985 while loans and advances fell by 10.9% and deposits increased by 5.3%.

As the Standby Programme drew to a close in mid 1986, commercial banks began experiencing substantial excess liquidity resulting from increased foreign exchange inflows and reductions in credit demand partly due to the high interest rates. This continued through to 1988. The Central Bank therefore decided to reduce minimum interest rates by between one and two percentage points in December 1986 and again in August 1988. At the same time commercial banks were encouraged to expand credit efforts and restructure their lending away from personal loans and the imports/distribution sector where possible. Credit to the private sector subsequently rose by $56.6 mn to $183.0 mn over this period as the relaxation of monetary policy brought about a sharp increase in lending. Coupled with this, a slow down in deposit growth resulted in a tightening of the commercial banks' liquidity position. This situation was temporarily alleviated by the transfer of Central Government deposits from the Central Bank to the commercial banks in October 1988 **(Brownbridge and Morgan, 1990)**.

Commercial bank lending significantly influenced the expansion in construction, manufacturing and agriculture in the late 1980s. Combined with improvement in public sector finances real GDP growth between 1987 and 1990 averaged 14.8% per annum. Growth was evident in all sectors, particularly construction, tourism, other services and export agriculture. Since

In terms of coverage, the Supervision Department increased inspection from 25% of existing banks offices in 1987 to 50% during the 1988 - 1990 period. In 1991, 80% of bank offices were surveyed. Thereafter coverage fluctuated between 50% and 75%. Operating in the light of constraints the Central Bank places greater importance on examining the two indigenous banks annually while inspection of the others is rotated on a two year basis. Currently the scope of the on-site examinations has been broadened somewhat. Capital adequacy, asset quality, management expertise, earnings, liquidity, internal controls and more recently, money laundering are at the core of inspection.

There was some impairment of the Bank's ability to adequately supervise banking institutions and the payments system due to the passage of the "International Business Companies (IBC) Act" in 1990. Besides facilitating a blurring of the lines between traditional banking and other investment activities, this legislation enabled the creation of a hybrid entity known as a Public Investment Company which enjoys the benefits of being classified as an offshore enterprise while owning and conducting business through on-shore entities. Controls over financial transactions between holding companies and subsidiaries of so-called "Public Investment Company Groups" were severely limited by the IBC Act thereby posing a serious setback to prudential supervision. Exemptions from all foreign exchange controls and some taxes led to marked increases in the level and frequency of short term foreign flows having destabilizing effects.

In response the new "Banks and Financial Institutions Act (BFIA)" was enacted providing more regulatory and supervisory scope for the Bank. This Act provides for the supervision of not only banks but other financial institutions such as finance companies, trust companies, investment banks, etc. The Bank is now more adequately geared to protect depositors, ensure the viability of financial institutions and general stability of the financial system.

Although continued emphasis is placed on the surveillance of commercial banks, the Bank broke new ground by conducting an inspection of the Development Finance Corporation (DFC) in 1993 upon a request from the Ministry of Finance. The DFC was the first non-bank institution that the Department examined, the second being a money lending institution which was examined in 1994 for compliance with the New Money Lender Act rules which were issued in 1992.

5.2.3. *Commercial Banking*

The first commercial bank to commence operations in Belize was the Bank of British Honduras which was founded by a group of local financiers in 1904.[6] This Bank was bought over by the Royal Bank of Canada in 1912. During the next thirty-seven years the Royal bank of Canada enjoyed a monopoly until Barclays Bank established a branch in Belize City in 1949. In the 1950s bank expansion began as branches were established in areas outside the city. These expansions were halted for some while but continued in the mid-1960s. In 1968 the Bank of Nova Scotia opened its branch office making three the number of banks operating in the Belizean economy at the beginning of the 1970s.

Commercial bank development within the review period was influenced by the many pieces of legislation enacted to regulate the behaviour of such entities and by monetary policy enforced by the Monetary Authorities.

During 1971 the Atlantic Bank (a member of the Chase Manhattan group) opened offices in Belize. In 1973 a "Banking (Liquid Assets) Order" was passed amending the 1963 ordinance and stipulating that the liquid assets of a bank other than "a

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[6] Gregg, R.A., *British Honduras, 1978.*

schedule bank" should not on average be less than 20% of deposit liabilities. The liquid asset requirements applied to the newly established banks (Bank of Nova Scotia and Atlantic Bank) and not to the older banks (Royal Bank of Canada and Barclays Bank). It is unclear whether any particular liquidity ratio was ever enforced on the commercial banks in Belize during this period. Three years later the "Banking Ordinance, 1976", which placed all four banks on equal footing with respect to liquid asset requirements, came into force replacing the 1963 law. This ordinance was passed simultaneously with the "Monetary Authority of Belize Ordinance" and signalled the Government's intention of instituting closer monitoring and control of commercial banking in Belize. Up to that time commercial banks operated without restrictions with respect to deposit creation and their domestic and foreign investment portfolio.

The 1976 Banking Ordinance provided for the maintenance of a liquid asset ratio of 20% of average deposit liabilities and allowed banks' holdings of Treasury Bills to be included in the liquidity requirements. The passage of the new banking legislation therefore facilitated a rapid increase in the level of Government borrowing from the banking system.[7]

Commercial Bank Activities and Developments

Over the period reviewed, the banks heavily dominated the financial system averaging approximately 85% of total financial assets. They provided financial intermediation services

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[7] Between 1976 and 1980, the year just prior to independence, total credit to Central Government from the banking system almost tripled from $7.9 million to $22.5 million. The increase in Government borrowing was not only a result of greater public investment but also due to its need to support several statutory bodies (Belize Electricity Board, Belize Marketing Board, Banana Control Board) which were experiencing financial problems.

and instruments such as term and other deposits, financing foreign trade and provision of working capital for agricultural exporters. The popularity of commercial banking during the 1960s and 1970s was manifest in a substantial rise in the level of commercial bank assets and liabilities with expansion in bank offices and increased competition in the sector. This generalized expansion was also fueled by increases in sugar production and exports and inflows from the UK to finance the construction of a new capital city in the late sixties.

While there was a substantial overall rise in the level of commercial bank lending, there was also a shift in the structure of bank loans and advances between 1960 and 1976 with the percentage share of loans for the distributive trade growing larger while the share of loans for the agricultural sector declined. Commercial bank lending seemed to have varied somewhat from official government policy as outlined in successive government plans and which championed economic diversification and a lessening of reliance on imports.

Development of the structure of the financial system continued to be dominated by the commercial banks during the 1980s. Although the banks came under new restrictions requiring their submission to closer supervision by the Central Bank, this was somewhat thwarted during the first four years of the decade by the Government's fiscal woes and its consequent partial reliance on the commercial banks for financing.

In 1982 and 1984, there were separate amendments to the Banking Act. The "Banking (Amendment) Act 1982" doubled the required level of assigned capital of foreign banks operating in Belize and increased the license fees payable.[8] Provision was

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[8] The locally assigned capital of a foreign bank was raised from $200,000 to a minimum of $400,000 while annual fees for a local license rose from $3,000 to $5,000. The newly introduced International License carried an annual fee of $20,000.

made for the granting of International Licenses authorizing off shore banking in Belize. Follow-up legislation, however, was never enacted to provide detailed regulations governing such banking. While some interest was expressed by local and foreign entities, no formal application for an International License was processed.

Under the 1982 amendment, transactions with the Government were exempt from the restrictions imposed on commercial banks under Section 13 of the Banking Act with respect to the granting of credit valued at more than 25% of a bank's paid up and outstanding capital and reserves. The inclusion of this latter clause was linked to the Government's need for financing during this period and was evident by the fact that in 1982, commercial bank loans and advances to Government rose from $4.2 mn to $14.4 mn.

Two years later, the "Banking (Amendment) Act 1984" came into force resulting in the imposition of, and increases in the level of fines payable for the contravention of certain sections of the Act. Fines were imposed on financial institutions which paid dividends locally or remitted profits overseas before all capitalized expenditure and losses not represented by tangible assets were completely written off. A fine was also imposed for violation of Section 13 and there was a significant increase in the fine for contravention of Section 14 of the Act which prohibits banks from engaging in trade, agricultural, industrial or other productive activity, acquiring shares in financial or productive enterprises valued in excess of 25% of the aggregate of the specific bank's assigned capital and reserves, and real estate investments.

The IMF Standby Agreement (Dec. 1984 - 1986) coincided with the election of a new government in 1984. IMF credit lines largely replaced that of the commercial banks and the information needs of the Fund, combined with stronger legislation, enabled the Central Bank to obtain more detailed information on commercial bank operations. Banks began to submit detailed balance sheet information plus additional information on public sector deposits, and loans and advances. The improvement in the flow of data facilitated the Bank in drafting a more informed monetary policy while enabling it to more efficiently supervise the commercial bank sector.

In 1988, Section 14 of the Act was further amended by the passage of the "Banking (Amendment) Act, 1988" which removed the restrictions on investment in public companies in which the Government held more than 50% of the shares carrying voting rights.

The 1980s in general was marked by a significant increase in the number of bank offices. All told, seven new bank offices were opened. For the most part, the expansion took place during the latter half of the decade which coincided with a considerable increase in real economic growth. A recovery in world sugar prices, large increases in banana exports, and a rise in invisible earnings from tourism all contributed to the expansion. Bank deposits rose considerably during the period following increases in private financial savings, a substantial accumulation of deposits by the Social Security Board since its establishment in 1982 and the build up of Central Government and non financial public enterprises deposits between 1985 and 1990.

With the exception of the two years under the IMF Standby Programme, commercial bank loans and advances also rose vigorously at an annual average of 16.7%. The banks reliance on foreign financing to facilitate domestic credit expansion in the first half of the decade was gradually reversed due to the strength of domestic deposit growth, particularly that of the public sector after 1985.

By 1991, the number of banks operating in the country rose to five as Banca Serfin SNC, a Mexican Bank, commenced operations in February of that year. This entity only lasted ten months as operations were suspended as a result of a global streamlining strategy pending privatization of the parent Bank in Mexico. In that same year, there was a total of twenty-one bank offices dispersed among all seven districts within Belize. Commercial bank assets totalled $443.4 mn (60.4% of GDP) while their deposit liabilities amounted to $361.2 mn (49.2% of GDP). This growth was influenced by economic expansion as well as by increases in the number of bank offices. In 1991 there were 34,212 savings accounts which meant that approximately 33.4% of the adult population had commercial bank savings accounts. Demand and time deposit accounts were significantly fewer at 4,829 and 2,492 respectively.

Developments in the 1990s have been manifest mainly in the increased number of services offered by the commercial banks stimulated by a more competitive environment. In 1993 the Bank of Nova Scotia became the first bank to offer their customers ATM services. Barclays Bank soon followed suit by offering a debit card facility in June 1994. This bank also opened another modern and strategically located office in Belize City. In September 1995, the Belize Bank issued cash cards to customers while the Atlantic Bank established its first ATM in November of the same year.

Visa credit cards first became available to the general public in April 1994 upon the initiative of the Belize Bank. However a credit card facility can only be used abroad. Another bank, Atlantic Bank Limited, has also issued credit cards which can be used both locally and abroad. The issuance of the Belize Bank/ Visa credit card was facilitated by the Central Bank's relaxation of exchange control regulations in a general move to de-regulate the financial system. In October 1995, the Atlantic Bank provided a drive-through banking service.

Notwithstanding these innovations, the lending policy of commercial banks remains conservative. While two banks have authority to grant loan approval subject to the limitation imposed by Section 21(2) of the BFIA, the others must refer loans above a certain amount to head offices abroad for approval. The banks also customarily require sizeable collateral (sometimes between 150% and 200% of loan value) restricting growth in certain sectors of the economy (**Shoraka, 1986**). Borrowers must usually possess long and favorable track-records, have co-signers with equally favourable credit records, or have adequate collateral before obtaining loans from the banks. Lending continues to be concentrated in short term loans consisting of working capital for the retail trade, manufacturing, agricultural and personal loans. Mortgage loans are usually approved only for middle and upper income home purchasers as interest charges are high. More recently commercial banks have been actively advertising lending for mortgage purposes but as yet there is no evidence to indicate a lowering of interest rates for such purposes.

5.2.4. The Development Finance Corporation

The Development Finance Corporation was originally established under the terms and conditions laid out in the "DFC Ordinance" of 1961. The DFC was expected to remedy one of the major deficiencies of the financial system namely, a shortage of investment capital. The objectives of the Corporation as spelt out in the Ordinance were to expand and strengthen the economy of Belize by providing financial assistance for the development of enterprises, and promoting and facilitating private capital investment by undertaking economic and financial studies as a guide to investment. The Ordinance included provisions for exempting the corporation from the payment of income taxes and excluding dividends paid on shares from being taken into account in ascertaining the chargeable income of shareholders under the Income Tax Ordinance.

In 1963, the Corporation's income tax holiday was limited to 15 years as a result of the passage of the DFC Ordinance of 1963 which repealed the 1961 Ordinance. The objectives of DFC were spelt out in the new law as aimed at expanding and strengthening the country's economy by:

(a) supplying finance for the development of agriculture, forestry, fishing, industry, tourism, housing, and public utilities;

(b) purchasing, developing and improving land and engaging in commercial ventures;

(c) promoting and facilitating domestic and foreign capital investment; and

(d) undertaking, promoting and facilitating economic and financial studies as a guide to investment.

Central Government's 1964-1970 Development Plan proposed the granting of material support to the DFC to compensate for the perceived deficiencies in the financial system with respect to investment financing. However between 1963 and 1972 the Corporation's activities were low keyed due to the small size of its capital base and its continued inability to access loan funds. In 1972 the "Development Finance Corporation (Loans) Ordinance" came into force. The new law authorized the Minister of Finance to issue debentures the proceeds of which were to be used by Government to purchase shares in DFC. In the following year the DFC Transfer of Shares Ordinance was passed. This law approved compensation to the private shareholders and transformed DFC into a government owned corporation with an authorized share capital of $4.0 mn.

After its transfer to Government ownership, the Corporation experienced a considerable increase in assets and liabilities. A United Kingdom grant in 1975 enabled DFC to establish branches in the main district towns and institute a small farmers loan programme. The authority of Branch officers was limited to the granting of short term loans primarily for use as working capital. DFC's new status enabled it to access over $15.5 mn in foreign loans over the period primarily from foreign sources. Sixty-five percent of these funds was on-lent for agricultural purposes and the balance was directed toward housing, tourism and industry. The Corporation's share of total financial assets rose from 0.7% in 1972 to 12.9% in 1980. The DFC had become a lender of risk capital for agriculture and industry - a role commercial banks were unwilling to undertake.

The Development Finance Corporation expanded the level of its operations during the decade as it continued to access foreign loans. The level of its foreign liabilities consequently increased from $17.0 mn in 1980 to $30.7 mn in 1990 while its outstanding loans and advances also rose from $19.8mn to $32.7 mn.

In 1989, the "DFC (Amendment) Act, 1989" came into force. The amendment was principally to enable the Financial Secretary or his representative to sit on DFC's Board of Directors and to require the annual submission of the Corporation's budget estimates to the Minister of Finance who would then present these estimates to the National Assembly with any amendments thought necessary. This was seen as an essential precaution because weaknesses in DFC's financial position were beginning to surface and this followed a period in which Central Government had been required to shoulder the significant burden caused by several struggling public sector enterprises. The Government felt there was a need to ensure that the Ministry of Finance was not only fully apprised of all developments which could have an adverse impact on its budget, but able to take preventative steps if necessary.

As a statutory body, the Development Finance Corporation is required to channel development funds to priority sectors determined by government and to use its project evaluation capabilities to assist those sectors in formulating and implementing financially viable projects. To date the priority sectors have included agriculture, forestry, fishing, industry, tourism, housing and public utilities. In addition to promoting domestic investment, the Corporation's charter also requires it to promote foreign capital investment in Belize.

DFC's main sources of funds are from the Belize government and foreign bi-lateral and multi-lateral agencies such as USAID, the World Bank, CDB, CDC, IFAD and EIB. In 1990 foreign liabilities to such bodies accounted for 71.5% of the Corporation's total liabilities. Loans are usually negotiated on concessional terms between the foreign agency and the Government in accordance with Government priorities. However in recent years these loans have been more frequently negotiated at market rates since the country's GDP no longer qualifies it as a low income country. Since loan funds specify the purpose for which they may be used, there is no established pattern with respect to the level and allocation of DFC's loan disbursements.

As a government owned body, DFC is generally required to conduct its operations so as to enable Government to achieve its macroeconomic, social and political objectives. However, in pursuit of these objectives DFC has been subject to political interference over the years which contributed to its developing financial difficulties. Perhaps the single most important contributory factor was the high level of inefficiency which plagued the Corporation over the years and which manifested itself in "a technically bankrupt institution by the end of 1990" (**Alpuche, 1992**). DFC's problems included a loan delinquency rate in excess of 50% as well as the suspension of disbursements to DFC under various credit lines from CDB and the World Bank.

Despite the difficulties which the Corporation has encountered, it remains an important source of financing for agriculture, industry, construction and education. In 1990 loans amounting to $6.1 mn were approved including agriculture (38.1%), housing (26.4%), tourism (28.0%), student loans (5.2%), and industry (2.3%). More recently, however there has been a notable shift in the Corporation's lending away from agriculture which in the past had accounted for the lion's share of total loans.

While loans provided to the agricultural sector accounted for an average of 46.9% of total loans in the 1980s, this fell in the 1990s to 33.2%. Loans for building and construction have increased over the period December 1990 to December 1995 by $8.3 mn or 68% largely facilitated by financing obtained from the Social Security Board.[9] During this same period, student loans increased by $2.4 mn, loans for professional services increased by $1.2 mn while loans for agricultural purposes fell by $1.4 mn.

5.2.5. *Credit Unions*

Credit Unions have existed in Belize since 1943. The movement grew steadily as it provided small savers with an outlet and provided credit for a variety of purposes including home improvement, purchases of household furniture and equipment, farming, trading, medical expenses, etc. The activities of the credit unions were governed by the "Cooperative Societies Ordinance" of 1948 which basically provided legal guidelines for investments by the credit unions, level of dividends payable to shareholder/ members, and the level of interest charged on loans. According to this Ordinance, credit unions were allowed to deposit money in any chartered bank in Belize including the Government Savings Bank but were prohibited from investing more than 25% of their share capital in any private or public stock, debentures or securities. Credit unions were also limited to charging an interest rate of 12.0% per annum calculated on a reducing balance while obligated to pay interest of 6.0% on share dividends.

In 1973, the "Credit Unions (Amendment) Ordinance" was passed. This Ordinance specified that the Registrar of Cooperatives must approve any auditor selected by a credit union to conduct the annual audit of their books. The amendment also spelled out the power of the auditor to request all books and

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[9] At the end of 1994, DFC owed $7.8 mn to the Social Security Board.

documents relevant to the audit examination. It is likely that the passage of the amendment was influenced by the rather high failure rate in the credit union movement and government's desire to provide a greater level of protection for shareholders.[10]

Growth in the credit union movement from 1964 to 1980 was evidenced by an almost eleven-fold rise in the level of assets while the listed membership nearly doubled from 14,657 to 28,567. Although information is not available to indicate membership growth by region, Belize City (the major population center) was host to several of the larger credit unions including the largest, Holy Redeemer Credit Union.

During the 1980s, credit unions membership continued to increase and the number of active credit unions rose to 21. Share capital rose steadily during the period while loans and advances also increased substantially, averaging an annual increase of 17.2%. Both of these aggregates increased relative to GDP during this period.

In 1982, the Credit Union Act was amended empowering the responsible Minister to vary the interest rate payable on credit union loans. The Minister was also granted the authority to increase the borrowing limits of the credit unions while shareholders were enabled to operate joint accounts, a facility similar to that offered then, only by the commercial banks.

The changes in legislation stemmed from a desire by the credit union movement to widen its scope in terms of providing loans for home construction and improvement for their members. The statutory limit of 1.0% interest rate charged on loans

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[10] In 1964 a total of 43 credit unions were registered but only 18 were active.

calculated on a reducing balance, meant that the credit unions could only earn on average approximately 7.5% on loans advanced which was far less than that charged by commercial banks whose weighted average rates stood at 17.7%. The amendment was designed to increase the flexibility of the credit unions by enabling them to access loans from commercial sources including the banks, DFC and the Social Security Board. From 1985 onwards, credit unions expanded their loans for housing. This was facilitated by financing obtained by DFC from USAID and on lent to credit unions specifically for home improvement.

By 1991, there were approximately 21 active credit unions of which the Holy Redeemer Credit Union was the largest, accounting for approximately 67.9% of total assets. Thirteen of the inactive credit unions were then being considered for liquidation. Total assets of the credit unions in that year amounted to $50.5 mn while outstanding loans and advances were valued at $44.8 mn, approximately 21.0% of total credit extended in the country.

The basic objectives of the credit unions continue to be that of promoting thrift among their members and provision of loans for provident and productive purposes. Over 90% of credit union assets are loans . Shareholders, in accordance with the credit union legislation, are paid an annual dividend of 6.0% , currently one percentage point higher than interest paid on savings accounts by commercial banks. This makes the credit unions quite competitive with the more established financial institutions.

An added attraction of the credit unions is the relative ease with which members obtain loans. A person is able to borrow up to two times the value of his/her shares without obtaining approval from the credit committee. In addition, both loans and shares are insured by most credit unions with CUNA Mutual. Thus, if a member dies, his debt is canceled up to the amount of $40,000 while he receives 100% of the money saved from age 6 months to 55 years and twice this value if the member dies by accident. Some credit unions also pay a rebate on interest paid to borrowers who are current with their loan repayments. In the case of the Holy Redeemer Credit Union, this rebate amounts to 5%, thus making borrowing in comparison to other sources, not only cheaper but even attractive.

While there are no firm statistics, it is generally believed that a considerable number of individuals maintain commercial bank accounts as well as shares in a credit union. Another important aspect of the credit union movement is its ability to penetrate the rural areas which commercial banks find uneconomical to service. The credit unions are able to do this because in many instances its administrators perform their functions free of cost. Consequently these organizations have and continue to play an important role in the mobilization of savings and in developing the productive sectors and the financial system itself.

Notwithstanding their continued importance, the number of credit unions over the years has declined for several reasons, the most important of which may be poor management and supervision. There are major success stories among those that have managed to survive however. In particular, the Holy Redeemer Credit Union, which has existed now for 51 years, had a membership at the end of 1995 of 30,652 and assets totalling $73.5 mn of which loans receivable amounted to $64.1 mn. This credit union had been instrumental in lending for mortgage purposes and at the end of 1995 loans for such purposes has accounted for 42.5% of total outstanding loans. Other credit unions that have not only managed to survive but which have made notable progress over the years are St. John's Credit Union, Civil Service Credit Union, La Inmaculada Credit Union, Xavier Credit Union, among others.

5.2.6. *The Government Savings Bank*

The Government Savings Bank was established in 1938 and its operations are governed by the "Savings Bank Ordinance" which came into force in 1939. The ordinance places the Accountant General in control of the Savings Bank and guarantees the repayment of all moneys deposited in the Bank with interest out of Central Government's consolidated revenue fund. It also specifies that not more than one third of moneys mobilized through the Savings Bank can be used for investment in Belize Government securities while at least two-thirds must be invested in sterling securities.

Growth in the assets of the Savings Bank has been slow since the early sixties as the expansion of commercial bank offices attracted more deposits. Over a period of 33 years (1938 to 1971) the rate of interest offered by the Savings Bank rose by 0.5% only. In 1971 the Savings Bank Ordinance was amended so as to authorize an increase in the interest offered on deposits from 3.0% to 4.0% but this had no apparent impact on the Bank's rate of deposit growth. The interest rate remained at 4.0% until 1980 when it was moved upward to 6.0% in line with the upward shift in commercial bank savings and time deposit rates.

Deposits in the Savings Bank continued to rise at a slower rate than those of the commercial banks and credit unions and its share of total financial assets declined. There was no change in the legislation during the decade and the interest offered by the Savings Bank consequently remained fixed at 6.0% throughout the period.

Presently, the Savings Bank consists of seven branches located in the Treasury offices in each of the six district capitals as well as in the capital city of Belmopan. The bank is principally a savings institution having no authority to advance loans to customers. Since its establishment there have been no changes in its governing legislation apart from amendments raising the interest payable on deposits. Its objective appears to remain that of encouraging individuals in the middle and lower income brackets to save since importantly, one of its regulations places an upper limit of $40,000 on savings by individuals and $60,000 in the case of registered friendly societies (**Luben, 1983**). Treasury officials state that it is highly unusual for deposits to reach these limits.

Like credit unions the Savings Bank pays interest on deposits of 6.0%. Despite its attractive interest rate, the Savings Bank's assets at the end of 1995 was approximately $6.8 mn, representing an annual average growth rate of 4.8% over the past 5 years. Deposits however, have fallen slightly over this same period from $5.7 mn in 1990 to $5.5 mn in 1995. There is no active promotion of the Savings Bank by the responsible authorities and this may have contributed to its decline.

In accordance with its governing legislation which states that at least two thirds of the Bank's assets must consist of investment in sterling securities, the Savings Bank invests a large share of its funds overseas thus limiting its impact on the domestic financial market.

5.2.7. The National Development Foundation of Belize

The National Development Foundation of Belize (NDFB) was established in 1983 with US Aid assistance as a private non-profit organization designed to provide funding and technical assistance for small enterprises which are generally unable to access commercial bank financing due to lack of adequate collateral. It achieves this by lending at an interest rate of 12% per annum plus an additional 2% administrative fee. While the interest rate is lower than that charged by the commercial banks, it is comparable to that charged by other institutions such as credit unions and DFC. However, the NDFB, unlike credit unions, charges an additional 2% administrative fee but in return provides technical assistance and training to its borrowers whenever necessary.

The Foundation obtains funds through grants obtained from various international agencies including United States Agency for International Development (USAID), European Economic Commission (EEC), United Nations High Commission for Refugees (UNHCR) and European Development Fund (EDF), among others. Given the expansion in the institution's activities and the inadequate level of grants it received, NDFB resorted to borrowing from the Government in 1987. Since then, it has borrowed from several other international sources and supplements this with local fund raising. Donations given to the Foundation are tax deductible thus providing an incentive for members of the public to make contributions. The funding received has been utilized for issuing credit as well as to sustain the daily operations of the institution. NDFB's loan portfolio has increased from $82,358 in 1984 to $7.5 mn in 1995.

Originally, the Foundation had hoped to become self-sustainable within five years from the commencement of its operations. However, by 1988, its operating revenues only amounted to 40% of its operating expenditure. Revenues have therefore been supplemented mainly by grants received from various institutions plus other funds raised locally. Subsequent expansion in loan portfolio has improved the NDFB's income earning capacity significantly and consequently in 1995, they were able to meet 85% of operating costs from operating revenues. This is a major improvement but there is still some distance to go before the Foundation will be fully self-sustainable and able to operate without the aid which it has been privileged to receive so far.

The typical size of an NDFB loan is around $5,000. Loans are extended for a variety of purposes such as manufactures, trades and services ranging from tailoring, furniture making and small farming to retail and distribution. While the NDFB remains small relative to the other major components of the financial system it has nevertheless made a significant impact in the number of micro enterprises that have been launched with its assistance. Between 1984 and 1994 the Foundation approved a cumulative total of 3,888 loans valued at $17.8 mn.

5.2.8. *Insurance Companies*

Information on the insurance industry in Belize is limited. Consequently no attempt has been made to trace the development of this sector over the past years. The problem of collecting data is compounded by the failure of several insurance companies to submit audited financial statements to the Supervisor of Insurance.

During 1995, there were twenty insurance companies doing business in Belize. Approximately one half are branches or agents of foreign companies. Eleven companies transact both life and non-life insurance business, five transact non-life insurance only and there is one company which offers only life insurance coverage. In addition, there are two insurance brokerage firms and two agents. Gross premium income reported for 1989 amounted to $12.8 million, a $2.9 million increase over that reported for the previous year.

In the absence of detailed information on the assets and liabilities of the insurance sector one can only make tentative conclusions about the disposition of insurance funds. While firms which are branches of foreign companies would most likely remit funds overseas for investment, locally owned companies are believed to invest a significant portion of their funds in interest bearing deposits and an indeterminate portion is used to purchase re-insurance overseas. There is also preliminary information that individuals who have life insurance coverage with one of the existing twelve life insurance companies are able to borrow from this companies for home construction using their life insurance policies as collateral.

5.2.9. *The Unorganized Money Market*

The scope and size of operations of the unorganized money market is a matter of mostly conjecture as very little research has been done in this area. The legal component of the market consists primarily of the "syndicates" which are small groups of people (averaging around ten in number) who make interest free loans to each other (**Luben, 1983**). Store credit, loan sharking and money laundering through the border trade with Mexico are other aspects of this market for which little information is available.

The very nature of an unorganized money market implies that the sector is not subject to Government monitoring and control. However the central authorities have not been completely oblivious to its existence as evidenced by the passage of a "Moneylenders Ordinance" in 1954. Under this ordinance the term "moneylender" includes every person whose business is that of moneylending or who advertises or announces that he is carrying on such a business. **Section** 3 of the ordinance declares the charging of compound interest on loans or the imposition of increases either in the rate or amount of interest due to default in payment of sums due, to be illegal. **Section** 7 provides for the granting of relief by the courts from harsh and unconscionable transactions which includes the charging of excessive interest. If interest charged by a moneylender exceeds 48% per annum this qualifies for legal relief under the ordinance. However the law also provides for relief if the court is satisfied that interest charged is excessive even if the rate does not exceed 48%.

The practice of pawnbroking falls under the provisions of the Moneylenders Ordinance based on its definition of a moneylender. However there seems to be no attempt at enforcing this aspect of the legislation. Presently there is one registered pawnbroker although the writers know of at least two others which are in business. None are included on the income tax role and it is therefore extremely difficult to gather information on the level of assets and liabilities of this sector.

Investigations show that one unregistered pawnbroker accepts almost any item as collateral with the stipulation that the customer presents identification or show proof of purchase. An interest of 25.0% is charged, payable after 17 days. If the loan is not repaid at that time the collateral is forfeited. The lone registered pawnbroker, JL's Quick Loan Ltd., offers loans up to a maximum of $5,000. The only collateral which is accepted at this institution is jewelry and the customer has to present some sort of valid identification or proof of purchase. The loan is repayable within 33 days. The interest rate charged is 10.0% for the first ten days and increased to 15.0% thereafter up to 33 days. If the interest was paid after 33 days the cycle began again.

In the Belizean context, pawnbroking has not been considered a very reputable activity. This concept however has changed somewhat over the recent past attributable largely to the aggressive advertising and innovative services which are being offered by the only registered pawnbroker, JL's Quick Loan Ltd. Having established the business in 1988 as a pawnshop, JL's has quickly expanded the business by offering certain services that have been lacking for some time.

These services include the Quick Cash Card instituted in 1993. The concept began with J.L's advancing customers cash at 10% interest rate over a 30 day period in return for post dated cheques. By 1993, the company believed it had acquired enough knowledge about the type of clientele it was dealing with to be able to issue the Quick Cash Card to customers without any collateral. Holders of the card are able to obtain cash up to an authorized amount simply by presenting the card to the J.L's cashier. At this time the only conditions for obtaining such a card is Belizean citizenship and continuous employment for at least one year.

The interest charged on advances received by using the Card declines as the customer is able to acquire a good credit rating over a period of time. In the first instance, a new customer is issued a Blue Card with an authorized amount which ranges between $200 - $600 with an interest charge of 10.0% for 30 days. After one year and a good credit record, the individual qualifies for a Silver Card where the maximum amount obtainable is increased to $1,000 at an interest rate of 8.0% for 30 days. A good credit rating over a two year period enables the issuance of a Gold Card with a maximum of $2,000 and a reduced interest charge of 6.0% over the same 30 day period.

J.L's has successfully offered incentives to encourage increased usage of the Quick Cash Card facility by the public. These include an insurance scheme which provides the sum of $1,000 for the beneficiaries of a Card holder upon his/her death, emergency medical benefit of $350 and up to $120 for dental cleaning. As at August of 1996, the Quick Cash Card was offered free of cost but since then a membership fee of $25.00 has been introduced. However, management is currently working towards an expansion of benefits for its cardholders. To date, some 2,100 Quick Cash Cards have been issued and advances to card holders have increased from $119,264 in 1993 to $1.5 mn in 1995 and $1.5 mn for the first nine months of 1996.

More recently J.L's has gone beyond providing very short-term financing and now offers advances up to a maximum of $1,000 for a period of 6 months at 4.0% per month. This facility has been named "Finance 60" as the objective is to provide advances to Quick Cash Card holders within 60 seconds. The ease with which financing is made available both in terms of time and requirements, makes these facilities very attractive. At the same time, financing is made available to those who might not qualify for a loan at the commercial banks or other financial institutions.

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6

The Evolution of the Financial Sector in the ECCB Area (1970-1996)

Laura Anthony-Brown & Wendell Samuel[1]

Financial system development of the ECCB area has been fashioned by both the individual and collective economic and political happenings in the participating territories. The establishment of the Eastern Caribbean Central Bank in 1983 and the drive towards the localization of the commercial banking sector are perhaps the foremost impacting events shaping the financial sector during the 1970 - 1995 period.

This Chapter discusses firstly the economic and political framework within which the financial sector of the ECCB area has operated over the past 25 years. Further, it examines and explains the identifiable phases of financial sector development and looks at the institutional developments of the financial sub-

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sectors. In so doing this chapter provides an understanding of the role and development of the monetary authorities, the commercial banks, the development financial institutions, the social security schemes, the insurance sector, credit unions, other financial institutions and the money and capital markets.

6.1. The Economic & Political Setting 1970 - 1995

The twenty-five years since 1970 have seen the major economic theoretic influences which have guided policy in the ECCB[2] member territories turn full circle. At the start of the period, the economies were largely agricultural and service oriented, in which state intervention was minimal. The economies were by their nature externally propelled and oriented. The dominant economic strategy for development was Import Substitution Industrialisation (ISI). This strategy implied an enhanced role of the state in economic development and more activist policy stance for the authorities. Fiscal incentives to industry, import restrictions, exchange controls and an emphasis on direct rather than indirect methods of monetary policy were advocated. The enhanced role of the state in development led to the establishment of national development banks in most of the ECCB member territories during the period, and the establishment of national commercial banks in an effort to lessen the influence of foreign banks on the economies and to direct lending to productive enterprises.

At the wider Caribbean level, the Caribbean Community (CARICOM) was established partly to implement a regional ISI strategy. A common market was established so that import

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[2]The Easterm Caribbean Central Bank (ECCB) area comprises the Caribbean territories of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevils, St. Lucia, St Vincent and the Grenadines. All territories with the exception of Anguilla which joined in 1987, formed the ECCB in 1983.

substitution could be effected in a wider internal market. Measured in terms of its effect on the increase in manufacturing output of the region, the strategy was a modest success. However, the entire process began to unravel in the early 1980s as foreign exchange shortages brought on by the oil crisis exposed the weaknesses of the ISI strategy. The 1980s was a period of economic adjustment for most of the economies, either within the context of IMF/World Bank adjustment programmes or self-imposed adjustment programmes as in some of the ECCB countries.[3, 4]

Twenty-five years later, the result of these adjustment programmes has been a total repudiation of the policy prescriptions of the 1970s. Trade regimes are now more open with the liberalisation of exchange controls and tariff reductions. Countries are moving to make governments leaner and to reduce state intervention. Policy stances are more facilitatory than direct. Monetary policy methods are more indirect, financial systems are liberalised and most state owned financial institutions are either privatised or being considered for privatisation.

Fortunately, the ECCB countries did not move as far as some of the other countries in the implementation of the ISI strategy, mainly due to the fact that most of them received their independence at a much later date.[5] Thus, the ECCB countries would have maintained more open regimes and policies were rather less interventionist. This would partially explain the less

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[3] Jamaica's economic adjustment programmes began in 1977.

[4] St. Lucia, St. Vincent and the Grenadines and Grenada all undertook self-imposed adjustment programmes, but the Grenada programme was slightly more formal, supported by the CDB, ECCB and OECS Economic Affairs Secretariat.

[5] As of 1996 Montserrat and Angulla are still colonies.

direct monetary policy stance of the Monetary Authorities and less strict regulatory framework described in the later sections. Twenty-five years on, the economies are even more vulnerable to changes in the international environment, and are looking to export services as the major plank of their development. Most of the countries see financial services playing a critical role in their future and hence, could be on the verge of major developments in the financial sector.

6.1.1. The Legal/Political Framework of the ECCB Countries

With the failure of the federal experiment, last ditch efforts to salvage a union of the little eight thwarted by the decision of Barbados to become independent on its own in 1966, the British sought to find a new constitutional status for the other English-speaking Eastern Caribbean countries. The solution was Associated Statehood with Britain, under which the colonies were given full internal self-government and Britain was responsible for defense and external affairs. This was a half-way house to full independence, jointly or severally. To maintain some semblance of unity, the associated states were formed into a loose association called the West Indies Associated States (WISA). The major organ of the association was the WISA Council of Ministers, which deliberated on areas of cooperation and the provision of common services. These included the judiciary, external transportation, the regulation of air travel, etc.

On the economic side, the countries established the Eastern Caribbean Common Market (ECCM) in 1968, to foster greater economic cooperation among themselves and to take advantage of the tariff and other concessions accorded them under the CARICOM treaty. The ECCM established a customs union among territories with free movement of goods and similar rates of tariff against the rest of the world.

Although the Associated Statehood with Britain offered the countries the option to become independent jointly, all of the countries opted to seek independence individually starting with Grenada in 1974. Montserrat which did not achieve associated status, still remains a colony. Anguilla, which was part of the state of St Kitts-Nevis-Anguilla, seceded from that state in 1968 and was ruled directly from Britain for a while. It is also still a colony.

As more of the countries became independent, WISA became more of an anachronism and the countries began to negotiate a more relevant form of cooperation. These negotiations culminated in the signing of the Treaty of Basseterre (June 18, 1981) which established the Organisation of Eastern Caribbean States (OECS).[6] The purposes of the OECS are:

(i) To promote cooperation among the member states and at the regional and international levels;

(ii) to promote unity and solidarity among the member states and to defend sovereignty, territorial integrity and independence;

(iii) to assist member states in the realisation of their obligations and responsibilities to the international community;

(iv) to seek to achieve the fullest possible harmonisation of foreign policy among the member states;

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[6] The original membership was Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines. The British Virgin Islands and Anguilla were later admitted as Associate Members.

(v) to promote economic integration among the member states through the provision of the agreement establishing the Eastern Caribbean Common Market;

(vi) to pursue the said purposes through respective institutions by discussion of questions of common concern and by agreement and common action.

The agreement clearly went beyond the scope of CARICOM and included, joint overseas representation, international marketing of goods and services including tourism, external transport, matters relating to the sea and its resources, the judiciary, currency and central banking, audit, tertiary education, income tax and customs administration and mutual defense and security. The major institutions of the OECS are the Authority of the Heads of Governments, the Foreign Affairs Committee, the Defense and Security Committee, the Economic Affairs Committee and the Central Secretariat.

In 1988, there was a move to take the OECS agreement to its logical conclusion, political union. However, the Leeward Islands declared quite early that they were not ready for political union and would not participate. The Windward Islands agreed to go ahead, while leaving the door open for the others to join if they wished. A Constituent Assembly was established to deliberate on the various issues involved in the move towards political union. The Constituent Assembly had four meetings, one in each of the islands after which a final report was prepared. The next step should have been a referendum in each country to determine if the people of the islands had a desire for political union. However, the referenda were not held as the leaders concentrated on national elections and eventually the process lost momentum.

As the countries approach the twenty-first century, the challenge is to intensify economic cooperation to achieve an economic union as a platform, for developing strategies for survival in the new international environment. The countries have already achieved largely, free movement in goods and services, they have a common currency and a programme for the free movement of capital is being pursued aggressively by the ECCB. The only missing link to the establishment of an economic union is the free movement of labour. Countries should try to accelerate the CARICOM initiative for the free movement of skills, which would provide basis for the eventual free movement of labour.

The legal/regulatory framework of the ECCB financial system is the joint responsibility of the ECCB Monetary Authorities, defined as the Central Bank and the Ministries of Finance. Some aspects of the regulatory system rest purely on the Central Bank, others exclusively in the Ministry of Finance of the various countries, and yet others are the joint responsibility of the two institutions **(Table 6.1)**. This tripartite arrangement among the actors in the financial system has the potential to develop into a three-ringed circus. The enterprises in the financial system can play one agency against the other and exploit any inconsistency, and/or uncertainty in policy positions or administrative interpretation of the laws **(Nicholls,1996)**. For example, the Minister of Finance issues bank licenses on the advice of the Central Bank. This requires that the application be sent to the Ministry of Finance which passes it on to the Central Bank for vetting. After vetting, a recommendation is made to the Minister of Finance based on which a license is issued or declined. The management of such a system calls for an extremely high level of cooperation and exchange of information between the monetary authorities.

The Monetary Authorities (ECCB and officials of the various Ministries of Finance) meet at least twice per year to coordinate policy positions and streamline operational issues. In addition, the ECCB is represented at all meetings between the Ministries of Finance and various actors in the financial system. All meetings

Table 6.1. OECS: Legal and Regulatory Structure of the Financial Sector

ITEM		Anguilla	Antigua & Barbuda	Dominica	Grenada	Mon/t	St. Kitts & Nevis	St. Lucia	St.Vincent & the Grenadines
Statutory Regulations									
ECCB Agreement		1987	1983	1983	1983	1983	1983	1983	1983
Uniform Banking Act		1991	1991	1991	1988	1991	1991	1991	1988
Offshore Banking Act		1991	1982	1996	1994	1991	1993	n/a	1982
Development Bank Legislation		1978	n/a	1983	1976	n/a	1981	1980	1970
Credit Union Act		1961	n/a	1983	1957	1960	1995	n/a	1963
Insurance Act		1968	n/a	1974	1973	1977	1968	1968	1970
Building Societies Act		1956	n/a	1950	1887	1965	1956	1965	1941
Reserve Requirements on Banks									
Deposits	(%)	5	5	5	5	5	5	5	5
Cash	(%)	1	1	1	1	1	1	1	1
Loan Rate maximum	Reg. (%)	-	-	-	16	-	-	-	-
Deposit Rate Minimum	Reg. (%)	4	4	4	4	4	4	4	4

Table 6.1. OECS: Legal and Regulatory Structure of the Financial Sector - Concluded

ITEM	Anguilla	Antigua & Barbuda	Dominica	Grenada	Mon/t	St Kitts & Nevis	St. Lucia	St. Vincent & the Grenadines
Tax Structure								
Tax on Interest-bearing Deposits (%) Max	1	-	-	-	.5	-	-	1
Tax on Interest (%) Max	-	-	-	-	15-20	-	25	20
Tax on a per Branch Basis	-	-	-	-	-	-	-	-
Tax on Foreign Exch Operations (%)	-	-	35	-	-	-	-	-
Tax on Income (%)	-	-	-	-	40	2.5-5	45	40
Tax on Bank Loans to Aliens (%)	-	-	-	-	-	-	-	-
Tax on Bank Services (%)	-	-	-	20	-	-	-	-
Deposit Liab. Ratio-Min. (%)	-	-	-	-	-	-	-	-
Reserve Fund Ratio	-	-	-	-	-	-	-	-

Source: Compiled by authors.

between the ECCB and commercial banks are attended by the officials of the Ministries of Finance.

The major legislation governing the ECCB financial system is the Uniform Banking Act which was passed in the various territories at different dates. It is jointly administered by the ECCB and the Ministries of Finance. In addition, there are other legislation impinging on the operation of the collective financial system, which are exclusively the responsibility of the local authorities. Some of these are given in **Table 6.1**. Part of the ECCB Money and Capital Markets Development Programme is directed to legal reform, which would see the passage of uniform legislation for the regulation of various financial institutions and further harmonisation of existing legislation.

6.2. The Evolution of the Financial System

The evolution of the collective financial system of the OECS countries over the last 25 years has passed through four identifiable phases. The first corresponds to the era of the extended Eastern Caribbean Currency Authority ECCA (1970-1973).[7] The second (1974-1982) saw the regrouping of the ECCA after the departure of Barbados from the union. The third can be viewed as the establishment and consolidation of the ECCB (1983-1990). The fourth period (1991-1995) corresponds to the active period of financial development, fueled by the ECCB orchestrated development of money and capital markets and the passage of the Uniform Banking Act. Coincidentally, these four periods correspond to periods of differing economic fortunes for the Eastern Caribbean countries. The first period was one of relative boom, followed by a period of extended stagnation for most of the countries as they sought to adjust their economies.

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[7] The ECCA was established in 1965, thus the period reflects that portion covered in the present analysis.

The period 1983-1990 was a period of unprecedented growth for all of the countries, and the final period was one of relative stagnation as the high growth rates of 1980s receded.

6.2.1. The Extended ECCA Period (1970 - 1973)

The ECCA was established in January 1965 as a successor to the British Caribbean Currency Board (BCCB), after the withdrawal of Guyana and Trinidad & Tobago in order to establish their own Central Banks. It marked a radical departure from the old Currency Board system which required that the BCCB dollar be backed 100% by sterling. Commercial banks received domestic currency only after the deposit of an equivalent amount of sterling with BCCB agents in London. The ECCA was only required to maintain a 70% backing initially and this was further reduced to 60% in 1975. The 30% fiduciary issue allowed the ECCA to invest in participating governments' securities. The ECCA could invest up to 10% of the estimated revenue of the participating governments in treasury bills, and up to 15% of its demand liabilities in long term securities. This was the historical antecedent to the current foreign exchange rule in the ECCB agreement. The foreign exchange rule together with the fixed exchange rate (price rule) provide the basis for a rules based system which attenuates time-inconsistency of economic policy.

Apart from this change in its operating procedures, the ECCA functioned mainly as a money changer via its note issuing powers. Its other functions were mainly the maintenance of the payments system via the clearing arrangements, and effecting foreign payments on behalf of commercial banks.

This period was marked by modest growth in most of the economies, mainly related to the export of traditional agricultural products of sugar, bananas, cocoa, nutmeg and mace. The year 1973 was a peak of activity for most ECCB countries with troughs in 1968/1969 and 1976. During this period, the contribution of agriculture to GDP ranged between 20% and 30% in the ECCB countries, except in Anguilla and Antigua and Barbuda where it contributed less than 5%. Manufacturing was almost non-existent in all of the countries. The measure of the success of the industrialisation effort is that, by the mid 1980s manufactured goods constituted about 20% of domestic exports **(World Bank, 1990)**.

6.2.2. The Period of Regrouping (1974 - 1982)

Barbados established its own Central Bank in 1972 and formally withdrew from the ECCA in 1974. During the overlapping period, the two institutions worked together to try to effect a smooth transition. In 1975, the headquarters of the ECCA was relocated to St Kitts from Barbados. In that same year, the agreement was amended to reduce the legal foreign exchange cover from 70% to 60%. This was a period initially of consolidating the organisation after the withdrawal of Barbados, and then a period of conceptualisation and negotiating the move to a full-fledged Central Bank. The negotiations were not made any easier by the political pluralism which existed in the sub-region at that time. Representatives of the leftist regime in Grenada spared no effort in trying to move the institution along lines consistent with their economic philosophy.

These developments took place against a backdrop of near stagnation in most of the member countries, as they came to grips with adjustment and volatility in the international environment. In particular, the sugar industry in Antigua and Barbuda was closed and tourism did not take off as rapidly as expected. Banana prices remained low and variable. All of this was complemented by the crippling effects of imported inflation consequent on the oil crisis. The **World Bank (1990)** noted that the cyclical behaviour of real output in the OECS countries was different from the experience in the industrialised countries. A number of the OECS countries endured long periods of stagnation, during which real output failed to achieve their previously achieved levels. It took

12 years for Dominica to achieve its 1973 level of output, and nine and eight years respectively for St Vincent and the Grenadines and Antigua and Barbuda to get back to their 1972/1973 levels.

During this period, the structure of some of the economies changed significantly as tourism emerged as a dominant industry in Antigua and Barbuda, and St Vincent and the Grenadines managed to engineer significant diversification of agriculture. Spurred by generous incentives and high rates of effective protection both in the domestic and regional markets, manufacturing increased in most of the countries ranging between 5% and 10%. Agriculture declined in all of the countries. The shift was lowest in Dominica and highest in St. Kitts and Nevis which tried aggressively to develop its tourism sector.

6.2.3. *Period of Establishment and Consolidation of the ECCB (1983 - 1990)*

After several years of difficult negotiations, the ECCB Agreement was signed in Port-of-Spain in July 1983 and the ECCB came into being on October 1, 1983. The agreement endowed the ECCB with all of the powers of a traditional Central Bank, hence correcting the deficiencies of the ECCA.

The agreement augmented the powers of the bank to include: the regulation of credit policies; fixing of the rate of interest; the establishment of reserve requirements for commercial banks, set at 6%; bank inspection and supervision. Recognising that the rules based system which was preserved from the ECCA agreement severely constrains the use of the tools of monetary policy, perhaps even makes them redundant **(Nicholls, 1995)**, the said tools have been used quite sparingly by the bank. The only activist monetary policy initiative pursued during the period 1983 to 1990, was the establishment of 4% floor on the savings rate to protect small savers. This has led many commentators to observe that the ECCB has not pursued any monetary policy.

However, it can be argued that in the circumstances, a passive monetary policy would have been the best course of action and this was pursued.

For reasons unrelated to the establishment of the Central Bank and its conduct of monetary policy, the economies experienced a period of boom during this period. The tourism sector in most of the economies recorded rates of growth averaging 10% to 12% annually. Banana prices were extremely favourable prompting shifts of resources, sometimes even marginal resources into the industry. Capital inflows in the form of official development assistance and direct investment were quite significant. These together resulted in average rates of growth of 6% for the period as a whole. Anguilla and Montserrat had average rates of growth approaching 10 per cent per annum.

These developments, however, were not unmitigated advantages, as "Dutch disease" in both the tourism and banana industries pushed real wages in the economies higher than sustainable levels. This would spell difficulties for the adjustment process in the recession which followed at the end of the period.

6.2.4. *Period of Active Financial Development (1991 - Present)*

During the period 1991 to 1995, the bank took a closer look at its mandate and has tried to clarify its role as outlined in the 1983 agreement. In particular, the fourth purpose of the Bank which speaks of its development role, gives wide latitude to the bank in terms of its contribution to the improvement in the quality of life of the citizens of the region. One important area in which this has found expression, is in the development of money and capital markets and the creation of a single financial space. This has been the focal point of the bank's effort during the last five years. The emphasis has been on improving the microeconomic efficiency of the financial markets, by encouraging the development of the necessary institutions and improving the regulatory framework. The passage of the Uniform Banking Act in all of the eight ECCB member countries was salutary in improving the regulatory framework. Further work is in progress on Companies Legislation, Credit Union, Insurance, Offshore Banking and Aliens Land Holding Legislation. The ECCB is currently involved in a wide range of initiatives for the development of money and capital markets which would change the face of the financial system. In addition, government initiatives to create off-shore financial centres are proceeding apace.

Meanwhile, growth of real output in the economies of the ECCB countries slowed considerably during the period. The rate of growth was reduced from an average of over 6% during the period 1983 to 1990 to an average of 3% in the 1990s. Uncertainty in the banana industry over marketing arrangements in Europe and devastating storms and drought, resulted in the decline of banana production in the Windward Islands. Banana production in 1995 was 31.2% lower than production in 1990. Grenada also suffered a nutmeg shock as the demise of a marketing arrangement with Indonesia led to a 40% reduction in earnings from nutmeg and mace, its by-product. The manufacturing sector continued to struggle as marketing difficulties in CARICOM and the decrease in protection afforded by the reduced CET stultified manufacturing for the CARICOM market. At the same time, softness in the US markets for garments and electronics forced the closure of many enclave manufacturing firms in the region.

The tourism industry remains the mainstay of most of the countries in the sub-region, but this is also showing signs of slower growth. Antigua, the major tourist destination in the sub-region, has experienced slower growth in three successive years, culminating in an actual decline in tourist arrivals in 1995, consequent on the devastation wrought by the passage of two hurricanes in as many weeks. Hurricanes Luis and Marilyn only served to underscore the extreme fragility of these economies and their vulnerability to both manmade and natural disasters. The development of the economies of Dominica and Anguilla in addition to Antigua and Barbuda & Barbuda was abruptly interrupted by the hurricanes, and the economy of Montserrat which has been becalmed since the passage of Hurricane Hugo in 1989, has virtually ground to a halt as a result of the uncertainty generated by the seismic activity in that country.

Thus twenty-five years on, the economies of the ECCB member countries face the same problems as identified in **O'Loughlin (1968)**. Poor infrastructure, dysfunctional education system, export agriculture in shambles and the necessity to develop new leading sectors. It is almost as if they have been given a fresh page on which to start over. The only difference is that, the international environment is less accommodating and less sympathetic to small countries. In an environment of declining development assistance and full reciprocity regardless of size, the task of survival is likely to prove more challenging. However, the countries have a long history of adjusting to the changes in the international environment, and it is not outside of their collective capacity for them to identify and exploit opportunities in the new environment.

6.3. The Financial Institutions

6.3.1. The Currency Authority

Following the dissolution of the East Caribbean Currency Board, the East Caribbean Currency Authority (ECCA) was established in 1965. Under the ECCA Agreement, the institution issued the common currency, managed most of the external reserves of the area, and provided some services to the commercial banks. However, it generally lacked the power to pursue an active monetary policy. The main advantage of the increase of the fiduciary component of money from zero to 30%, was that it freed resources which enabled the institution to support development activities of the participating governments, through the purchase of treasury bills and other government securities.

ECCA's assets increased by over 200% from $26.5m at the end of 1965 to $84.7m at the end of 1968. This increase in assets resulted mainly from the increase in ECCA's holding of external assets.

ECCA was not significantly involved in the financial sector of the Eastern Caribbean, and apart from its role in issuing and redeeming currency, and the management of portfolio assets, its operations were limited to a cheque clearing system for commercial banks in Barbados.

6.3.2. *The Central Bank*

The Eastern Caribbean Central Bank (ECCB) commenced operations on October 1, 1983 following protracted discussions among the remaining members of ECCA. As the central monetary authority, the ECCB was designated to "regulate banking business on behalf of and in collaboration with the participating governments within the monetary union". There were initially seven members, with Anguilla joining the union on April 1, 1987. The purposes of the ECCB were stated as follows:

1. To regulate the availability of money and credit.

2. To promote and maintain monetary stability.

3. 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.

4. To actively promote through means consistent with its other objectives, the economic development of the territories of the Participating Governments.

Integral to the purposes establishing the ECCB, was the desire to maintain a common currency. As a result, enshrined in the ECCB's Act was that "the bank shall have sole right to issue currency notes and coins in the territories of the participating governments, and no other person or authority shall issue currency notes, bank notes or coins (whether or not of a commemorative nature), or any documents or token payable to bearer on demand, having the appearance of or purporting to be currency".

Apart from its role as the sole issuer of a common currency, the ECCB is characterised by a common pool of foreign exchange reserves. In this pooling arrangements, no individual country reserves are kept, and the reserves available for each country are *imputed* based on the deduction of domestic credit from reserve money. Other important characteristics of the ECCB are: the inability of any individual Government to change the parity of the currency, since such a decision requires concurrence by all participating governments; the legal requirement to back the currency in circulation by a minimum of 60% of foreign assets; and the prescribed limitations on the ECCB's ability to lend to the member Governments.

Monetary Policy

In the early stages of its operations, the ECCB's main focus was the regulation of banking business. In this regard, the main instruments used by the Central Bank were:

1. The reserve requirement, prescribing the maintenance of required reserves, including marginal required reserves, against deposit and other similar liabilities specified for that purpose.

2. The discount policy, which allows the ECCB to prescribe the minimum and maximum interest rates payable by financial institutions on deposits

> and similar liabilities, the maximum interest rates chargeable on loans, and to prescribe the method of computation and the manner of disclosure to the public, of interest rates on deposits and loans.

The reserve requirement was used primarily to guarantee the liquidity of the banking system and to regulate the money supply. Legal minimum required reserves for commercial banks were introduced in April 1984. Prior to that, commercial banks held reserves with the monetary authority, usually the Government in the individual country, on a voluntary basis. The inter-bank market mechanism was introduced to recycle liquidity in the banking system, and provide revenue earning opportunities for excess funds, which the commercial banks may be holding at the ECCB.

The discount rate policy empowered the Central Bank to exercise control over domestic credit and interest rates through the manipulation of the discount rate. In 1985, an interest rate floor on savings deposits was prescribed by the ECCB, in an attempt to narrow the spread between lending and deposit rates in an effort to assist financial intermediation and encourage savings by small depositors.

In reality, these instruments were not very effective in that, the underdeveloped nature of the financial system and the predominance of foreign owned banks meant that the Central Bank was not called upon to play its role as lender of last resort. Indeed, the Central Bank lowered its discount rate from 10% to 9% in 1993, while the reserve requirement was set at 6% at the inception of the ECCB, but their effect on reducing the interest rates in the member countries of the bank was marginal.

Following the period from its establishment to the late 1980s, when the ECCB basically consolidated its position, a new developmental phase was entered in the active pursuit of the development of money and capital markets. These initiatives would eventually enhance the capability of the Central Bank to implement monetary policy, which it was thought was circumscribed by the very fragmented and narrow financial system.

Foreign Exchange and Control

The Eastern Caribbean dollar (EC$), which is the monetary unit of the Eastern Caribbean Central Bank, has been pegged to the US dollar at a rate of EC$2.7 since 1976. Before then, the EC dollar was pegged to the pound sterling, but following sterling's depreciation which was precipitated by the international financial crisis of the 1970s, the decision was made to shift the peg to the US Dollar.

Most of the foreign exchange that is earned in the ECCB area is channeled through the commercial banks, with the ECCB itself obtaining foreign exchange mainly through the inflows from international agencies to the official sector. ECCB also obtains foreign exchange from the commercial banks when they surrender funds to meet their demand for local currency, fulfill reserve requirements with the ECCB, fund their settlement accounts and to invest surplus funds, or through the purchase of foreign currency notes from the commercial banks.

In 1995, the ECCB signaled its intentions to remove requirements in respect of foreign exchange for current account transactions. Prior to that, foreign exchange control arrangements were under the direct supervision of the individual Governments, administered by the Ministry of Finance, which developed its own guidelines for approving or declining applications. While restrictions on the export of foreign exchange were fairly liberal, they varied widely across countries in spite of numerous efforts by the ECCB to harmonise these practices. In all countries, the payment of imports was delegated to authorised dealers, mainly commercial banks. Other transactions, such as those for education, medical care and travel were subjected to a case by case approval from the Ministry of Finance.

In the early stages, foreign currency accounts were not permitted in most territories, but this was later changed to allow first, non-residents then later, residents to hold foreign currency accounts subject to the approval from the Ministry of Finance.

Bank Supervision and Regulation

Although the ECCB was vested with the responsibility of regulating banking business on behalf of, and in collaboration with the participating Governments, the regulatory framework did not really permit easy regulation. To begin with, most of the authority allowing banks to operate were granted under the Banking or Companies Act that date back to the 1960s and early 1970s, when all of the participating governments were still colonies of Britain.

These Acts obviously did not recognise the existence of the ECCB, and in a real sense, the ECCB was limited in its mandate to regulate banking business, since it had no legal authority so to do. In response, the Uniform Banking Act was proposed. The Uniform Banking Act recognises the ECCB as the regional Central Bank. It empowers the ECCB to grant or to withdraw licenses to conduct banking business, and to conduct examination and inspection of banking activities in each participating territory. The Act significantly enhances the supervisory role of ECCB, and considerably simplifies the regulatory procedures under which supervision of the system is carried out.

6.3.3. *Commercial Banking*

The most highly developed, and perhaps the oldest sector of the financial system of the ECCB area, is commercial banking. The commercial banks, some of which are more than one hundred years old, were originally established for the specific purpose of servicing the main export industry, which at the time was sugar. At that time, the banks were merely branches of foreign multinational banks, but today, locally incorporated banks are well represented among the 44 banks which operated in the region at the end of 1995 (**Table 6.2**).

The mood towards political independence that swept across the Caribbean in the early 1970s significantly influenced developments in the commercial banking sector. This era was characterised by an upsurge in national banks which were promoted by the countries governments, as part of the general move towards the control of their internal affairs. These banks were expected to operate in a manner which was more consistent with the development priorities of these countries.

At the end of 1995, locally incorporated banks which number 19 throughout the ECCB region, included three cooperative banks, seven government controlled national banks, five non- government controlled locally owned banks, and locally four incorporated foreign owned banks. The twenty-five foreign banks are branches of five multinational banks and together with the locally incorporated banks, they are governed by the Uniform Banking Act which became effective on the date it was gazetted in the individual territory.

Commercial Bank Assets

At the end of December 1995, total assets of the banking system in the area amounted to $6.2b, having almost quadrupled from the $1.6m at the end of 1983. The share of the assets of the region vary widely across countries, with Montserrat having the smallest share of 2.8% and St.Lucia the largest of 22.9%.

Loans and advances comprised the largest share of the asset portfolio of the commercial banks, averaging around 60% year, (**Table 6.3**). Loans and advances grew at an average annual rate

Table 6.2. OECS: Structure of the Financial System (1970-1995)

	1970	1975	1980	1983	1985	1990	1995
Central Banks	-	-	-	1	1	1	1
Commercial Banks	-	-	-	-	-	42	44
Offshore Banks	-	-	-	-	-	43	43
Non-Bank Financial Institutions							
Development Banks	-	-	-	-	-	7	7
Credit Unions	63	65	63	69	73	74	74
Insurance Companies/Agencies	-	-	-	-	-	185	185
Nat'l Development Foundations	-	-	-	-	-	-	1
Home Mortgage Banks	-	-	-	-	-	-	1
Other	-	-	-	-	-	-	-

Source: ECCB.

Table 6.3. OECS: Area Commercial Banks

	(EC$M)			
	Dec. 83	Dec. 85	Dec. 90	Dec. 95
Total Assets	1,604	2,035	3,926	6,232
Loans and Advances	980	1,241	2,630	4,232
Loans and Advances as a Percentage of Assets	61.10	60.98	66.99	67.91
Total Liabilities	1,604	2,035	3,926	6,232
Total Deposits	1,208	1,526	3,185	5,184
Deposits as a Percentage of Liabilities	75.31	74.99	81.12	83.18

Source: ECCB.

of 14.4% with a peak of 23.6% in 1989, and a minimum of 9.4% in 1991. At the end of 1983, 81.1% of deposits were on loan to the public, and this increased to 83.3% by 1992.

Commercial Bank Liabilities

The liabilities of the banking system are dominated to a large extent by deposits, mainly demand, time and savings (**Table 6.4**). By far, saving deposits constitute the largest share. Between 1983 when ECCB commenced operations and 1992, deposits grew at an average annual rate of 12.1%. The maximum rate of 20.4% was attained in 1986, while the minimum rate of 8.6% was attained in 1991. Foreign liabilities accounted for 4% of total liabilities in 1983 but declined to 3% in 1995.

Table 6.4. OECS: Commercial Banks - Selected Data (1971-1995)

	(EC$M)						
	1971	**1975**	**1980**	**1983**	**1985**	**1990**	**1995**
Net Foreign Assets	76.1	83.1	231.6	269.4	856.8	1311.3	
Net Credit to Central Government	7.9	18.4	162.1	205.1	272.5	352.3	446.7
Credit to Private Sector	177.0	290.1	472.2	788.1	1288.2	2250.7	3577.4
Credit to Non-Financial							
Public Enterprises	n.a.	n.a.	n.a.	98.6	125.5	114.0	246.9
Liabilities to Private Sector	257.8	411.7	827.5	1323.6	1666.5	3005.6	4785.8
Of Which:							
Demand Deposits	32.1	63.1	151.4	202.4	315.0	472.1	725.9
Quasi Money	192.6	310.9	598.0	1084.4	1054.1	2283.5	3748.8
Non-Resident Deposits	n.a.	n.a.	n.a.	188.0	214.4	339.3	534.9

n.a. - not applicable.

Source: ECCB.

6.3.4. Development Finance Institutions

Development Finance Institutions in the OECS were established partly to give support to Import Substitution Industrialisation effort. There are two major types of Development Finance Institutions viz, National Development Banks and National Development Foundations which provide funding and technical assistance to micro enterprises. Given the penchant of the commercial banks for short-term less risky lending, the DFIs in general were created to : -

(i) streamline the flow of development finance to private sector enterprises. Development finance was being channeled to countries from the CDB and other development institutions, it was necessary to create institutions which would facilitate this process;

(ii) provide long-term finance for the purchase of land, buildings and machinery to assist in the development effort;

iii) make available short term working capital for enterprises which were subject to variations in their production cycle;

(iv) assist in the development of entrepreneurship, by providing finance and technical assistance to people who had such inclinations.

In addition to providing finance, DFI's provided a range of technical assistance services to their clients. These included pre-feasibility and feasibility studies, project implementation and management services. It was critical that these services be provided by these institutions given the shortage of these skills in the private sector. The necessity was even greater for small enterprises which could not maintain an in-house capability for the provision of these services, and were unable to purchase these services in the private sector.

The similarities and differences of the two major types of DFIs are examined in the following two sections.

6.3.5. *National Development Banks*

There are National Development Banks in six of the eight OECS countries. In St Vincent and the Grenadines there is a hybrid Development Finance Corporation which functions both as a development finance agency and an export promotion agency. This organisational structure has created some conflict of interest between the two arms of the organisation, and the structure is being reviewed with a view towards separating the functions. Montserrat does not have a development bank, but the development finance function is being carried out through an alliance between the Credit Union and the National Development Foundation.

Funding for the development banks come mainly from the CDB. In addition to their share capital which in most cases has been severely eroded by accumulated losses, other sources of funding are the European Investment Bank (EIB), Canadian International Development Agency (CIDA) and the Caisse Francaise de Developpement, a french development agency. The development banks have not tried to mobilise much funds domestically, apart from borrowing from the National Insurance Schemes. As part of a restructuring effort of the DFI's under the ECCB Money and Capital Markets Development Programme, there would be a move to broaden the financing base of these institutions. Such efforts would include increases in the capital base by the governments, the issue of securities on the local market and the retailing of funds mobilised by the ECEF.

The development banks make mainly longer term loans to enterprises in the productive sectors and for housing. Some educational loans are also granted to students to attend university and technical trade schools. The composition of their loan portfolio has changed somewhat overtime but housing continues to account for the largest share of the portfolio (**Table 6.5**).

The development banks do not currently take equity positions in private enterprises. This is due more to a lack of demand for this type of financing, rather than any restrictions in their legislation. Some of the development banks have negotiated lines of credit with the EIB for equity financing, but there are very few takers. The proliferation of family owned businesses and the unwillingness to allow participation outside of the family circle, restricts the demand for this type of finance. Moreover, the equity option imposes a level of discipline on the enterprises in terms of accounting standards and disclosure practices, which has caused many small firms to shy away from this method of finance.

The national development banks face a series of problems which in some cases has lowered their effectiveness as providers of finance. These include ineffective management, political interference, and an inability to generate their own funds locally to avoid some of the conditionalities imposed by borrowing from international development institutions. As providers of risk finance, their portfolio of bad and doubtful debts are likely to be higher than commercial banks. They also have to deal with the sentiment of some borrowers that the funds are owed to the government and need not be repaid. In spite of this, some of the development banks in the ECCB area are turning in a respectable profit, and their track record stands in stark contrast to similar institutions in other developing countries.

6.3.6. National Development Foundations (NDFs)

The NDF's were established in 1986 under the USAID sponsored Small Enterprise Development Project (SEAP), to provide technical assistance to small enterprises in the OECS and

Table 6.5. OECS: Development Bank Lending by Sectors (1985-1995)

Sector	1985		1990 [1]		1995	
	$	(%)	$	(%)	$	(%)
Agriculture & Fisheries	11.1	17.5	4.6	19.60	23.5	9.10
Industrial	16.3	25.6	0	--	0.97	0.38
Housing[2]	28.3	44.5	2.42	10.31	104.6	40.61
Education	5.8	9.1	3.29	14.02	46.77	18.15
Other	2	3.2	13.16	56.07	81.71	31.72
Total	**63.5**	**100**	**23.47**	**100**	**257.6**	**100**

[1]Figures for 1990 represent only two of the seven development banks.

[2]Housing is available as an aggregate only: "Private Dwellings and Land".

Source: ECCB and Annual Reports of Development Banks.

Barbados. Apart from providing finance for new and established micro-enterprises, the SEAP funds were provided for loan processing costs, technical and managerial support for the NDF clients and administrative support. Other sources of funding were, the Pan American Development Foundation, CIDA and Barclays Bank Development Fund.

The NDF's lend primarily to micro and small enterprises, with a maximum repayment period of five years. Technical assistance is provided through a small business counseling unit which is staffed by project officers, who assist in implementation and monitoring of the projects. The small business counseling unit often package projects to be submitted to commercial banks for financing on behalf of their clients. In cases where the small enterprises do not have the collateral required by the commercial banks, the NDF may guarantee up to 80 per cent of the loans.

They have established a regional coordination unit called the Eastern Caribbean Organisation of Development Foundations (ECODEF). Its task is to coordinate the activities of the national development foundations and mobilise funds internationally. The NDF's have made a significant contribution to the development of micro enterprises in the sub-region, which would find it difficult to attract financing through the established channels. However, their technical assistance programme was dependent on external financing which has come to an end. The challenge for them is to make that part of their activities self-financing and sustainable over time.

6.3.7. Social Security Schemes

One of the major developments in the financial system of the OECS sub-region during the last two decades, is the emergence of the Social Security (National Insurance) Schemes. Some of the islands established Provident Funds to provide a greater measure of security for the aged in these countries. The establishment of the National Provident Funds was only an interim step, and they were subsequently upgraded into full fledged Social Security Schemes.

With the attainment of associated statehood by most of the territories in the late 1960s, and the consequent reduction of British grants in aid, the countries took on greater fiscal responsibilities. It became quite clear that the provision of support for the elderly could no longer be financed out of the general budgetary resources. Thus, Provident Funds were established with technical support from the British government, to force people to save for their retirement. The earliest of these funds were established in St. Kitts and Nevis in 1968. **Table 6.6** gives the dates for the establishment of Provident Funds in the other countries.

Contributions to the Provident Funds were made by both employers and workers. In most cases, employers and employees paid the same percentage, which was set initially at 5% in all countries. Membership was usually extended to agricultural workers and self- employed persons. The coverage of the schemes is uncertain due to the paucity of labour force data in the countries, and the prevalence of double counting due to multiple registrations. With computerisation, many of the schemes are trying to eliminate this problem.

The benefits from the Provident Funds were limited. At retirement, the participant would receive his accumulated contributions plus accrued interest. If the participant died before retirement, the benefits would go to the next of kin. There were no unemployment benefits or disability compensation. In recognition of these deficiencies, they were transformed into full-fledged Social Security Schemes **(Table 6.6)**.

The NIS programmes are financed by payroll taxes in all the islands. They are operated on a part capitalisation basis. That is, part of the current revenue is used to pay current claims on

Table 6.6. OECS: Provident Funds and Social Security Schemes

Country	Provident Fund	NIS	% of Administrative Cost to Revenue from Contributions 1982 %	1995 %
Anguilla	--	1982	11.0	17.1
Anguilla & Barbuda	1970	1972	12.7	27.0
Dominica	1970	1976	16.5	21.1
Grenada	1978[1]	1983	n.a.	16.7
Montserrat	1972	1986	n.a.	n.a.
St. Kitts-Nevis	1968	1977	7.6	13.6
St. Lucia	1970	1978	13.3	12.8
St. Vincent & the Grenadines	1970	1986	22.4	9.8

n.a. - not applicable.

[1]This was a non-contributory fund for agricultural workers only.

Source: Individual Company Reports.

the fund, and the rest is used to augment the reserves of the schemes. An upper limit is imposed on the insurable income of the members. Thus, no tax is paid on income in excess of a specified threshold. All of the countries require that employers pay a part of the tax. Income from capital is not included in this tax base.

The tax is withheld at the source by the employers and paid over to the scheme. Self- employed people and agricultural workers are included in the scheme. The tax brings in a large amount of revenue with relatively low administrative and compliance cost. The percentage of administrative cost to contributions are given in **Table 6.5**. Although these percentages are higher than those reported by **St. Rose (1982)**, the schemes are still relatively cost efficient (compared to the other CARICOM countries) in their mobilisation of savings.

Although the Social Security/National Insurance Schemes are first and foremost, schemes to provide security for the aged, in the context of less developed countries, there is another dimension to them which is not always recognised. They are powerful instruments for mobilising domestic saving which can be used to finance domestic investment. By 1995, the schemes in the ECCB countries had mobilised resources in excess of EC$1 billion, and had a significant investment portfolio. This makes them one of the largest, and potentially the most influential non-bank financial institutions in the ECCB area.

The effect on investment is not as encouraging. Although the investment ratio increased for three countries for the OECS as a whole, the ratio of investment to GDP has declined between the years 1971 to 1986. This observation highlights the absence of strong linkages between savings and investment in small dependent economies. One explanation for this observation is the portfolio mix chosen by the NIS schemes. About 46% of the funds are held in commercial banks, 30% is government lending.

Although this situation results from a dearth of high grade private sector securities in the region, with a little thought, more imaginative use can be made of these resources to increase private investment and foster economic growth in these countries.

The social security schemes need to invest their funds in such a way that the best return is achieved without assuming excessive risk in the portfolio. They also must maintain a certain degree of liquidity. Thus, the social security schemes need to hold some proportion of their reserves with the commercial banks in the form of fixed deposits for prudential reasons, just in case current payments outstrip current contributions for a prolonged period. However, there is no necessity for them to hold this inordinate amount in the form of low interest bearing fixed deposits, whose maturity rarely exceed one year.

The funds so deposited with the commercial banks are not always channeled into the productive sectors. Commercial banks prefer to lend short term mainly to the distributive and personal sectors. That way, their portfolio keeps turning over and the goods can be used for collateral. They prefer not to make long term risky loans, which is the type of loan most frequently demanded by the productive sectors. Thus, as custodians of the largest chunk of NIS funds, they have been unable to channel much of these funds into productive enterprises.

At present, commercial banks do not offer the variety of instruments in terms of maturity which would allow the Social Security Schemes to move away from one year fixed deposits. Under these circumstances, the Social Security Schemes can make a long term commitment of the funds for loans to the productive sectors. The government of St Vincent and the Grenadines has committed a pool of the Social Security Schemes funds in the National Commercial Bank for home mortgages and student loans. There is no reason why this facility cannot, in theory, be extended to loans to agriculture, manufacturing and tourism.

This facility need not be placed exclusively in the commercial banks, it can also be housed in the national development banks. This would reduce their dependence on the Caribbean Development Bank for funds for on lending. The acquisition of local funds allows the development banks to make some of their loans, without the restrictions which are placed on the use of funds provided by the Caribbean Development Bank and other donor agencies. To some extent, the development banks have utilised some of the resources available in the National Insurance Schemes, but this is a minuscule part of the resources harnessed by the Social Security Schemes, and an even smaller fraction of the loan funds of the national development banks.

A look at the investment portfolio of the various NIS schemes, reveals that the overwhelming concern has been the need to use domestic savings for domestic investment, and very little attention paid to diversification to reduce risk. Foreign assets account for less than 1% of the total resources in the NIS schemes in the OECS.

The ECCB sponsored developments in the sub-regional money and capital markets will create opportunities for the Social Security Schemes to diversify their portfolios. In fact, an active role is envisaged for the Social Security Schemes in the development of the capital markets. Two of the major institutions are the Eastern Caribbean Enterprise Fund (ECEF) and the Eastern Caribbean Home Mortgage Bank (ECHMB). Investment in a sub-regional enterprise fund can ensure that the locally generated resources can be made available to local enterprises, and at the same time reduce the excessive exposure of a portfolio consisting of purely local assets.

The regional focus of the two institutions would increase their ability to attract funds. The bonds they issued would prove attractive for Social Security Schemes, for the economies of the OECS countries are sufficiently diverse to spread the risk around.

The Social Security Schemes have indeed succeeded in mobilising a significant amount of resources, which can be utilised in the development of these economies. During the period of their existence, an increase in the ratio of savings to GDP has also been observed. However, the impact of the increase in saving on investments has not been very significant. This is due to the portfolio mix chosen by the investment committees of the various schemes.

6.3.8. *The Insurance Sector*

In terms of its importance in the financial system of the ECCB, the insurance sector is next to the commercial banking sector. However, the industry is typified by extreme fragmentation and dominated by agency arrangements, which limits its efficiency and increases its cost of operations. At the end of 1995, there were 182 registered insurance entities, i.e., insurance companies and insurance agencies, operating in the ECCB region.

The period of the 1980s witnessed a rapid expansion of the insurance industry in the ECCB region. Several factors contributed to this growth. The most important of which, was the growth in the economies that facilitated the development of the services sector. An offshoot to this development was the increased demand for loans which created the environment for new entrants into the industry.

6.3.9. *Credit Unions*

Credit unions were the first formal indigenous institutions in the development of the financial sector of the ECCB member countries. They evolved from informal institutions such as the Sou Sou, Burial Aid and Friendly Societies. They aimed primarily to improve welfare, mobilise capital and create an environment for financial independence, i.e. through encouraging the savings habit, and at the same time facilitating relatively low cost financing, to the lower income levels.

The first record of any credit union activity in the region was that established in Dominica in 1951. Between that time and 1972, the number of credit unions had grown to 63. By 1994, the number had increased to 74 (**Table 6.2**). Among the reasons often cited for the growth of credit unions in the ECCB region, is the difficulty in accessing credit at commercial banks by low income borrowers. The credit union movement is more predominant in the Windward Islands than in the Leeward Islands.

In 1990, the share capital of the credit union movement in the region was $141m, a significant increase from the $2m at the beginning of the period. Notwithstanding this apparent growth, there is much scope for the development and modernisation of the credit union movement. The movement will however have to broaden its appeal, and undergo significant reform if it is to take its position in the development of the ECCB member countries. Credit unions can, for example, play a vital role in the development of money and capital market through the purchase and sale of securities. Some credit unions in the Eastern Caribbean states have already started to provide modern financial services.

6.3.10. Other Non-Bank Financial Institutions

The remainder of the ECCB area financial sector consists of financial intermediaries such as savings banks, finance companies, building societies and trust companies. Most of the post office banks which mobilised deposits of small savers in rural areas have been incorporated into National Commercial Banks established by the governments. The deposits of the other non-bank financial institutions are usually time or savings deposits and hence cannot create money. In some cases, the funds of these institutions are redeposited into commercial banks and hence, including these deposits in the monetary survey would be double-counting.

Savings banks, building societies and finance companies raise funds directly in the local markets, while trust companies receive their funding from a parent commercial bank. The lending activities of building societies and trust companies are highly specialised in the area of home mortgages. Finance companies lend mainly for financing the purchase of consumer durables like cars, electrical appliances and furniture. They also have some mortgages in their portfolio. Savings banks make mainly personal loans for the purchase of land, consumer durables and some mortgages.

Data on these institutions are severely deficient, since many of the institutions do not submit statements to the authorities in the various countries. When they do, the data are not aggregated. The Uniform Banking Act has given the ECCB regulatory authority over the non-bank financial institutions and a unit is being established in the Bank Supervision Department to undertake this function. As this function develops, so would data on these institutions.

6.4. Money and Capital Market Development

The ECCB's approach to the development of Money and Capital Markets is mainly facilitatory, and the programme is aimed at addressing some of the gaps that exist in the present financial arrangement. Germane to the programme are:

1. The development and implementation of a comprehensive public education programme to enhance financial literacy.

2. The development and promotion of legislative and regulatory reforms, as well as accounting, reporting and disclosure standards.

3. The development of money and capital markets and the government securities market via the establishment and expansion of secondary market mechanisms for these securities.

4. The establishment of key capital market institutions, such as the Eastern Caribbean Home Mortgage Bank (ECHMB), a secondary market institution for residential mortgages; the Eastern Caribbean Stock Market (ECSM), a secondary market for equities which will be developed in two stages (an interim Over-the-Counter Call Exchange and a formally organised Stock Exchange); The Eastern Caribbean Enterprise Fund (ECEF), an omnibus investment/ venture capital fund; and the Eastern Caribbean Unit Trust Company (ECUTC), a regional mutual fund investment company.

6.4.1. The Home Mortgage Bank

Though facilitated by the ECCB, the ECHMB is an independent, privately managed institution, with the shareholders being the ECCB, the Social Security and National Insurance Schemes, Commercial Banks, Insurance Companies and other non-bank financial institutions, the Home Mortgage Bank of Trinidad and Tobago, and the International Finance Corporation (IFC). The ECHMB has as its primary function, the creation of a secondary market for residential mortgages in ECCB member countries, by purchasing good mortgages from primary lenders and issuing bonds and other securities. The ECHMB became a legal entity when the legislation giving validity to its existence was passed in all member territories of the ECCB, in 1995. It became operational in 1996.

7

The Evolution of the Financial Sector in Guyana (1970 - 1996)

Glenn A. Khan[1]

Financial development is a positive change in financial structure, typically consisting of an increase in the number of financial instruments, markets and institutions. It is true, however, that such development is not an end in itself rather it is a facilitator of economic development.

Financial institutions are critical in the intermediation process as they function to transfer investible resources to much needed sectors of the economy. We should, however, recall Thomas' admonition that more does not mean better. He asserted that a variety of the type of institutions is perhaps more desirable than numerical size, since persons can have the option to spread their resources and reduce the risk to themselves **(Thomas, 1965).**

This Chapter examines the evolution of the financial system in Guyana over the period 1970 to 1995. It examines briefly the

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early stages of financial development in so far as they provide useful insights into the current situation.

The current financial sector in Guyana is relatively less developed than that of the three economies which, together with the country, have been called the "More Developed Countries" (Barbados, Jamaica, and Trinidad and Tobago) within the CARICOM region. According to **Odle (1972)** all of these countries would have experienced at some time "structural dependence in the financial system". Not only were their most important institutions (banks and insurance companies) foreign owned, but their asset portfolios largely reflected a bias towards the financing of import and export trade and the acquisition of foreign securities and shares. Two of the pioneering firms in the financial sector of Guyana were Barclays Bank D.C.O., and the Royal Bank of Canada. These institutions were established in this economy mainly to finance the economic activities of the two major export industries, sugar and bauxite mining, in which the companies involved had their head offices in the United Kingdom and Canada.

Guyana's financial system up to 1970 consisted mainly of expatriate commercial banks and insurance companies. In 1965, the sector came under the control of the newly established Bank of Guyana whose creation was seen as a prominent symbol of the country's sovereignty and nationhood status **(Danns, 1990).**

In 1970, the financial sector consisted of the central bank, six commercial banks (with 36 branches), about 26 insurance companies, one development bank, one savings bank, the New Building Society, and an indeterminate number of cooperative societies. By 1995, twenty five years later, the situation was not significantly different. There were now seven commercial banks, with ownership structures significantly different from that of 1970. There were only 11 insurance companies, the National Insurance Scheme, a small number of trust companies, a development bank, the New Building Society and several pension schemes and credit unions.

7.1. The Economic Setting

Like many other countries within the Caribbean, Guyana remained under colonial rule for over 300 years, gaining independence from the United Kingdom in 1966. For its entire known history and up to the time of independence, agriculture (predominantly sugar cultivation) has been the primary economic activity. Agriculture and its processing accounted for almost 40% of national income and employed a similar percentage of the labour force. Besides sugar cane cultivation and processing, rice was and is an agricultural produce of some promise in the economy. Agriculture apart, mining and quarrying and the distribution sector were other sizeable categories of economic activity in the late 1960s and early 1970s. Despite some activity in other sectors, as at independence, Guyana's economic base remained narrow and financial institutions few.

Danns (1990) points out that the nationalist government in power during and after independence was seemingly more development oriented, as manifested in its social and economic policies, and set about implementing a development plan in a 'spirited manner'. Immediately after independence, while recognizing its mammoth role in the promotion of economic development, the government worked closely with existing economic entities and institutions. By the early 1970s, however, the government had started to orient policies and practices towards a more active involvement in all aspects of economic activity. Government had set out a tri-sectoral approach to development, where the public sector, the private sector and the co-operative sector were to work in partnership towards change. The Guyana National Co-operative Bank (GNCB), a fully government-owned bank, was established in 1970 to support government's tri-sectoral approach, but in the main, to provide financing for the co-operative sector, the public sector and for small investors.

7.1.1. Political and Economic Change

An event of significant importance in the history of the Guyana economy was the declaration of "co-operative socialism" when the country became a Republic in 1970 . This has had a profound and lasting impact on the structure of the financial system and the relationships between that sector and the real sector. This new ideology, together with the establishment of the central bank and other governmental agencies, as well as the country's political independence in 1966, provided the social conditions through which the entire economy was to be transformed.

By 1976, government controlled the "commanding heights" of the economy through a series of nationalization of strategically important industries. The allocation of financial and other resources had tilted in favour of a widened public sector, as government began to absorb substantial resources to finance its activities. Not only was this so for the government-controlled enterprises, but extensive borrowing was done both internally and externally to accommodate expanded central government activity **(Danns, 1990).** Government undertook schemes such as free education from nursery to university, free health care and infrastructural development which placed a considerable strain on its finances. These and other activities effectively crowded-out the private sector.

7.1.2. Economic Decline

From about 1976, Guyana experienced severe economic decline which lasted for over a decade and a half. Production in the government-owned sugar and bauxite industries declined in the late 1970s and throughout the 1980s. This decline was compounded with unfavorable terms of trade, widening fiscal deficits and monetary financing , significant external and internal debts, high inflation and a severe foreign exchange crisis.

The government during the late 1970s and throughout the early 1980s, made several attempts at following through stabilization and structural adjustment programmes. However, it was not until 1989 that serious efforts were made to implement and stick to a holistic economic recovery programme. **Danns (1990)** explains that this program had bold objectives of, among other things:

1. reversing the economic decline and restoring productive capacity particularly in the export sector;

2. incorporating the parallel market into the official economy;

3. improving public sector fiscal and other performance;

4. divesting public enterprises;

5. liberalizing commodities and foreign exchange markets in a thrust towards a more market-oriented system;

6. diversifying the economic base;

7. regularizing the external debt situation; and

8. providing a basis for sustainable development **(Danns, 1990)**.

The IMF, World Bank, other multilateral agencies and a number of friendly nations supported Guyana's efforts at economic recovery by providing balance of payments support, debt relief, concessionary loans and grant aid. The Economic

Recovery Program was in 1990 formalized under a Fund-supported Structural Adjustment Program. The economy has been experiencing, since 1991, remarkable growth in all sectors especially in the agricultural and mining (gold) sectors. Central Government finances have improved and the central bank is now more able to implement appropriate policies and function in an environment more conducive to economic growth.

During the mid 1980s, as the economic crisis deepened and real profits of foreign banks dwindled, the Royal Bank of Canada, the Chase Manhattan Bank and the Barclays Bank PLC pulled out of the economy handing over their assets and liabilities to government. Three new local banks, the National Bank of Industry and Commerce, the Republic Bank and the Guyana Bank for Trade and Industry emerged respectively to take their places. These events together with the established GNCB effectively brought a sizeable proportion of the financial sector under the control of government. With economic and other liberalization, this trend began to reverse in the 1990s as government started to divest its interest in commercial banks and new banks entered the market.

7.2. The Financial Sector

The financial sector of Guyana by 1995, had undergone several areas of change moving from dominantly private and foreign owned to more state-dominated. It has most recently been undergoing transformation, a result of economic liberalization and more market oriented policies. There are now more banks but less bank branches than there were in the late 1970s. Trends in 1996, however, pointed to a disposition of commercial banks to renew branching networks, especially in the urban areas. Insurance companies have lessened but pension schemes have emerged as an important mobilizer of savings **(Table 7.1)**. Guyana's non-bank financial institutions, as a collectivity, never emerged as a serious challenge to the dominance of commercial banks.

TABLE 7.1. Guyana: Number of Financial Institutions in Existence (1970-1977)

INSTITUTION	1970	1971	1972	1973	1974	1975	1976	1977
Central Bank	1	1	1	1	1	1	1	1
Commercial Banks	6	6	6	6	6	6	6	6
(No. of Branches)	(36)	(31)	(30)	(29)	(28)	(28)	(24)	(23)
Trust Companies	2	2	2	2	2	2	2	2
Licensed Foreign Exchange Dealers	-	-	-	-	-	-	-	-
Insurance Companies	26	17	15	15	15	16	16	18
Cooperative Credit Societies	N/A	N/A	649	N/A	N/A	N/A	N/A	N/A
Development Banks	-	-	2	2	2	2	2	2
Savings Banks	1	1	1	1	1	-	-	-
New Building Society	1	1	1	1	1	1	1	1
National Insurance Scheme	1	1	1	1	1	1	1	1
Pension Scheme	N/A	N/A	-	-	-	-	-	-
Unit Trust	1	1	1	-	-	-	-	-
Investment Companies	1	1	1	-	-	-	-	-

TABLE 7.1. Guyana: Number of Financial Institutions in Existence (1978-1986) - Cont'd

INSTITUTION	1978	1979	1980	1981	1982	1983	1984	1985	1986
Central Bank	1	1	1	1	1	1	1	1	1
Commercial Banks	6	6	6	6	6	6	6	6	6
(No. of Branches)	(23)	(23)	(18)	(24)					(18)
Trust Companies	2	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Licensed Foreign Exchange Dealers	-	-	-	-	-	-	-	-	-
Insurance Companies	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cooperative Credit Societies	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Development Banks	2	2	2	2	2	2	2	2	2
Savings Banks	-	-	-	-	-	-	-	-	-
New Building Society	1	1	1	1	1	1	1	1	1
National Insurance Scheme	1	1	1	1	1	1	1	1	1
Pension Scheme	-	-	-	-	-	-	-	-	-
Unit Trust	-	-	-	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-	-	-	-

TABLE 7.1. Guyana: Number of Financial Institutions in Existence (1987-1995) - Concluded

INSTITUTION	1987	1988	1989	1990	1991	1992	1993	1994	1995
Central Bank	1	1	1	1	1	1	1	1	1
Commercial Banks	6	6	6	5	5	5	5	7	7
(No. of Branches)	(18)	(19)			(19)		(20)	(23)	(23)
Trust Companies	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3	4
Licensed Foreign Exchange Dealers	-	-	-	-	-	-	31	36	29
Insurance Companies	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11
Cooperative Credit Societies	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Development Banks	2	2	2	2	2	2	2	2	1
Savings Banks	-	-	-	-	-	-	-	-	-
New Building Society	1	1	1	1	1	1	1	1	1
National Insurance Scheme	1	1	1	1	1	1	1	1	1
Pension Scheme	-	N/A	N/A	N/A	N/A	N/A	N/A	22	22
Unit Trust	-	-	-	-	-	-	-	-	-
Investment Companies	-	-	-	-	-	-	-	-	-

Source: Bank of Guyana *Annual Reports.*

All financial institutions now fall under the ambit of The Financial Institutions Act (FIA) which was passed in the National Assembly in 1995. The act seeks to strengthen and to modernize the regulatory and supervisory framework for the financial sector, aligning it with regional and international standards.

7.2.1. Central Banking

The Bank of Guyana was established by Ordinance 23 of 1965, on October 15, 1965 and commenced operations on October 16, 1965. In Section 5, it is enjoined to be "guided in all its actions by the objectives of fostering monetary stability and promoting credit and exchange conditions conducive to the growth of the economy." **(Bank of Guyana Act, 1965).**

The bank occupies the apex of the monetary and financial system, as it functions as banker to the Government and is lender of last resort to commercial banks. It adumbrates monetary policy and supervises and regulates other financial institutions. In the Bank's regulatory role, its objective is to ensure that the activities of commercial banks and other financial institutions promote the desired national economic and monetary policy objectives.

The establishment of the Bank of Guyana was consistent with a general trend in newly independent countries of setting up their own central banks. An earlier attempt had been made to establish a Central Bank in 1962 by the then Government, which had anticipated that independence would have been granted the following year. However, independence did not come until 1966, several months after the establishment of the Bank. The Bank commenced the issue of its own notes and coins on November 15, 1965 and February 2, 1967 respectively **(Danns, 1990)**. This function was previously carried out by the British Caribbean Currency Board which acted as the currency issuing authority for a number of English-speaking Caribbean colonies. As these countries gained independence and established their own central banks, the Currency Board was dissolved in 1967.

Monetary Policy

The first year of the decade of the 1970s can be described as a watershed for Guyana. It was in that year that Guyana embraced the "socialist ideology", which has had a lasting and significant effect on every aspect of life and activity in the country. Monetary policy after this declaration, was influenced largely by the economic objectives of the Government, which began a process of nationalization of industries deemed strategically important. **Danns (1990)** has categorized monetary policy up until 1988 as belonging to two distinct phases; (1965-1975) the phase of **active monetary policy**; and (1976-1988) the phase of **accommodative monetary policy**. She labelled the period since 1988 as **reassertive monetary policy**. She contended that during the first 25 years since the establishment of the Bank of Guyana monetary policy was oriented towards the following:

(i) regulating the money supply;

(ii) controlling the availability and cost of credit;

(iii) monitoring and regulating the behaviour of commercial banks and other financial institutions;

(iv) assisting in the reduction of inflationary pressures,

(v) encouraging investment and economic growth; and

(vi) dovetailing with exchange control policy in stabilizing the exchange rate of the local currency. **(Danns, 1990)**

In the early 1970s and through 1975, the economic situation in Guyana was relatively healthy, but moreso in 1974 and 1975, when the price of sugar reached an all-time high on the world market. During that period, the monetary authorities were committed to maintaining low interest rates. There was very little attempt to alter local rates even though those of its major trading partners were increasing. The Bank used moral suasion to encourage the shift of resources away from consumption and into productive use. It also issued credit guidelines to the commercial banks seeking to have them allocate a portion of their portfolio to activities such as agriculture, house construction and manufacturing. The authorities went a step further in 1974 by stipulating that commercial banks reduce credit to sectors which were able to access funding form other sources. This policy impacted heavily on the foreign owned companies, which were requested to reduce their indebtedness to the local banking sectors. By 1975, the public sector's demand for credit was expanding at a faster rate than any other sector. This had an inflationary effect.

After the boom in export earnings in 1975, linked mainly to the sugar industry, the economy had begun by 1976 to show signs of serious decline. Production levels were down; there was a scarcity of foreign exchange; the balance of payments recorded large deficits, and the standard of living had started to decline. By this time too, the Government had virtually completed its nationalization process and the state enterprises appeared to be like an albatross around the public's neck. Government found itself borrowing increasingly large sums to finance the ailing industries whose fortunes were at an all time low due to low export earnings and declining markets. **Danns (1990)** explained that in these circumstances, monetary policy sought to accommodate the needs of the Government whose regular operations were experiencing large deficits. In 1970, the public sector accounted for 40% of the total claims of the banking sector and by 1986, it was almost 90%.

The decline in export earnings, which began in 1976, had by 1977 resulted in an acute shortage of foreign exchange, which caused restrictions to be placed on foreign exchange usage. The decline in economic growth continued in 1978. The private sector was unable to secure the necessary foreign currency to purchase new material inputs and thus its savings accumulated, producing a situation of excess liquidity. Despite this situation, however, interest rates were increased in the hope of raising the overall level of savings to an acceptable level. Increases continued in 1979, 1980 and 1982. However, national savings, as a percentage of Gross National Product at factor cost, reached only 15% in 1978 compared to a level of 25% in 1974.

Interest rate variations were seemingly the main policy measure used throughout the period 1976 to 1985, but apart from the increases recorded up to 1982, the rates were virtually unchanged until 1988. The Bank also continued its use of moral suasion and its restrictive credit policy.

In addition to the aforementioned economic woes, Guyana had been unable to service adequately both its internal and external debt since 1982. At the end of 1986 Guyana's total public external debt stood at US$1.48 bn, of which US$706.3mn represented the total disbursed sum, while the remainder represented accumulated arrears and interest on those arrears.

This situation was untenable and had to be reversed. The Government, which had sought the assistance of the International Monetary Fund (IMF) in 1980 and that of the International Bank for Reconstruction and Development (IBRD) in 1982, embarked on a medium term **Economic Recovery Programme** (ERP) in 1989. Its main objectives were to resume growth, reduce internal and external imbalances and regularize the country's relations with the multilateral lending agencies. Within the content of the ERP, and in order to restrain credit expansion on consumption activities, the Bank Rate was raised from 14.0% to 35% and the treasury bill rate from 11.3% to 33.7%, in April 1989. Correspondingly the prime lending rate moved from 15% to 36%, while that of time deposits (1 year) moved from 13.0% to 33.4%.

Monetary policy aimed at the maintenance of real positive interest rates and their determination through market forces. Further, the policy was aimed at mopping up the excess liquidity of the banking system with a view to containing credit expansion.

Most of the new policy initiatives were suggested by the IMF and the measures introduced in 1989 began to show positive results by 1991. Real GDP expanded by 6.1% in 1991 following four years of negative growth **(Bank of Guyana, 1991)**. This may not have been possible without an about turn in Government's approach to economic management and the role of the state. Deliberate policies of divesting public enterprises and wooing private investment (foreign and domestic) were being pursued.

The Bank of Guyana continued to utilize moral suasion in the hope of enlisting the commercial banks' support in curbing credit expansion, but the Bank wanted to reduce the capacity of the commercial banks to lend on a long term basis and so they turned to the IMF for advice. The establishment of an active money market was suggested, but this would take time to set up whilst the liquidity problem needed urgent attention.

The Bank of Guyana initiated what became known as the Minimum Holdings of Liquid Assets by Banks (Temporary Provision) Act 1989, which provided for a temporary suspension of the Liquid Assets Order which had existed since 1966, and required commercial banks to hold liquid assets of 15% and 20% of their time and demand deposits respectively. This Act was extended by two subsequent temporary provisions and it expired on September 30, 1990. **Danns (1990)** concluded, that "while the restrictions may have caused the commercial banks some adjustment problems they did not seem to pose any long run problems, as they soon began building on their liquid assets."

Over the period 1991 to 1995 the commercial banks continued to be highly liquid and monetary policy focused on sterilizing such liquidity. The liquid assets ratio continued to be utilized and was maintained at a level of 25% of demand liabilities and 20% of time and savings liabilities. Competitive bidding for treasury bills was introduced in June 1991, permitting interest rates to be somewhat market-determined. Domestic credit policy focused on the reduction of credit to the public sector with a view to making greater resources available to the private sector. In 1992, the Bank Rate was linked to the Treasury Bill Rate and consequently the Bank Rate was changed on seven occasions to reach 24.25% at year-end. In tandem with this change, the prime lending rate fell from 32.25% in March 1992 to 25.25% by the end of 1992. This action resulted in the deposit rate on savings declining from 26.18% at year-end 1991, to 16.58% at December 1992.

In 1993, liquidity reached an all time high of 202% above the required amount. The authorities introduced longer-term treasury bills to further intensify their sterilization efforts. Bills with maturities of 182 and 364 days were offered to the public for the first time in April 1993. Interest rates continued to decline and the Bank rate was reduced on four occasions to reach 17% by year-end 1993. Beginning in 1994, and continuing to the present time, monetary policy is operationalized mainly through open market operations, in particular the primary sale of treasury bills. In addition to treasury bills, reserve requirements continue to be relied upon for monetary management, while credit policies continue to focus on the reduction of credit to the public sector, in order to facilitate the flow of resources to the private sector. The Bank had done a relatively good job in liquidity management and monetary policy, and by 1995, its lending rate, which had reached a high of 36.0% in the mid-1980s, had declined substantially.

Exchange Control and Exchange Rate Policy

This section of the study has been largely reproduced from the writing of **Danns (1990)** and has been augmented by additional information for the period 1990-1995.

The Foreign Exchange Regime: The Bank of Guyana Act assigns to the Central Bank, the role of fiscal agent for the Government in its international transactions, and the task of managing the country's foreign reserves. Section 32, of the Ordinance states: "The Bank may exercise any powers or functions conferred upon or entrusted to the Bank by or under the Exchange Control Ordinance 1958, or any other law for the time being in force relating to exchange control."

The responsibility for exchange control, which previously lied with the Ministry of Finance, was transferred to the Bank of Guyana on April 10, 1967. The Bank was responsible for the day to day administration, and the commercial banks - Royal Bank of Canada, Barclays Bank DCO, Chase Manhattan Bank and the Bank of Baroda Limited - were authorized by the Bank, under the act, as dealers in all foreign currency. The banks could approve applications on exchange control forms for such currencies within specified limits. When the Bank of Guyana assumed control over the exchange control function, Guyana was within the sterling area and as such its currency was convertible into pounds, along with the currencies of all scheduled territories. In view of this, exchange control applied only to countries outside of the sterling area.

The period 1967 to 1971 witnessed very little change in the management of foreign exchange in the Guyana economy. However, in 1971, Guyana ceased to be a member of the sterling area and this immediately affected the convertibility of her currency vis a vis other currencies in the sterling area. By 1972, restrictions were placed on the transfer of assets and bans were imposed on a wide array of foreign items. In 1974, the Bank totally suspended the allowances granted for tourist travel abroad and other measures were implemented to contain the hemorrhage of foreign exchange. Over the period 1975 to 1976, there was an easing of restrictions owing to the favorable terms of trade which resulted from strong export earnings related to the huge increases in the price of Guyana's main export, sugar.

During the period 1977 to 1990, the management of foreign reserves by the Bank of Guyana proved difficult with net international reserves at a very low or negative level. In 1977, arrangements were put in place to closely monitor all export proceeds. The commercial banks were prohibited from approving foreign payments, and a complete ban on the importation of cars, commercial vehicles and some equipment from all sources was proclaimed.

During 1978, in recognition of the potential magnitude of the country's foreign exchange crisis, the Bank of Guyana introduced the External Payment Deposit Scheme. This scheme, which facilitated the depositing of Guyana dollars by importers, in respect of their commercial debts, initially had the effect of reducing the business community's commercial arrears, but this success was not enduring. In the years that followed up to 1982, the Bank of Guyana intensified its restrictive policies and sought to curtail imports further by establishing a priority list, with raw materials for the manufacturing of essential items at the top, and medical drugs occupying the cellar position. The crisis had reached such proportions that it became exceedingly difficult to qualify for any foreign exchange for services of a personal nature; restrictions were imposed even for medical and educational expenses.

There were very few changes in the ensuing years but the restrictive exchange control measures, and the general shortage of foreign currency, encouraged the development of a black market for foreign currency, which offered higher rates and effectively subverted the flow of foreign currencies through official channels. In 1987, the Bank of Guyana experimented with a Free Foreign Exchange Market Scheme, which put commercial banks in direct competition with the parallel market. Some of the official requests for foreign exchange were directed to this market, on the understanding that higher prices would be paid for foreign currency, but this scheme also proved unworkable. Notwithstanding the failure or insufficiency of early initiatives, the Bank of Guyana continued to initiate a number of measures aimed at assisting exporters. These consisted of the Export

Development Fund, the Retention Accounts Scheme, and Countertrade. The various schemes enjoyed some measure of success but did not achieve their full potential **(Danns, 1990)**.

Export Development Fund (EDF)

The EDF was established in 1981 with the aim of stimulating exports in the non-traditional sector of the economy. It was executed through the Bank of Guyana. With initial capital of US$8.0 million, it provided a revolving loan facility from which exporters in the non-traditional sector could access resources to acquire their imported raw materials and spare parts, without having to seek foreign exchange through the normal channels.

Retention Accounts Scheme (RAS)

In 1983, the Bank of Guyana introduced the RAS, primarily for exporters in the non-traditional sector. It was hoped that such a facility would provide exporters with the requisite amounts of foreign currency needed to improve their production levels and to further expand their exports.

Countertrade

This was yet another measure geared to stimulating exports and providing imports for economic activity. Countertrade took the form of barter agreements with other nations, and was employed as alternatives were sought to alleviate the impact of the foreign exchange crisis. It was initiated by the Export Promotion Council but required approval from the Bank of Guyana. Its importance waned from about 1987 as other measures were introduced to arrest the foreign exchange crisis.

The flexible exchange rate regime continued to be used, and over the period 1990 to 1995 there had been very little, though significant, change in the system. First, the Dealers in Foreign

Currency (Licensing) Act 1989 was brought into operation from March 1990, and it sought to streamline issues related to the export sectors. Second, and of greater significance, was the establishment of the Cambio Market, as a step towards the unification of the exchange rate system. The new system established two markets; on the one hand, the official market to service external debt and transactions involving sugar, rice, petroleum and for other essential items, and on the other, the cambio market, a floating banking rate determined on the free market, to service all remaining transactions. As at December 1995 there were twenty nine (29) individuals or businesses licensed to operate as cambios.

Exchange Rate Management: Given its historical link with the United Kingdom, the British Guiana dollar was fixed at a parity of BG$4.80 to £1 prior to the attainment of political independence in 1966. This relationship continued after independence, and because the country remained a member of the Sterling Area it enjoyed easy convertibility with the pound sterling.

After the collapse of the "Bretton Woods System" in 1971, all the major countries met to realign their currencies, and following this the pound sterling appreciated while the US dollar depreciated. The Bank of Guyana decided against having the Guyana dollar appreciate with the pound and opted instead to depreciate with the US dollar. The relationship of the Guyana dollar to the US dollar continued at G$2=US$1, while a parity of G$5.2114 to £1 was established. The Guyana dollar remained fixed to the pound at this new parity. This action was taken to ensure favorable terms of trade and to maintain strong export proceeds. The relationship with the pound sterling continued until October 1975 when it became necessary, because of inflationary pressures, to align the local currency to a "stronger" currency to provide for stability. The US dollar could provide such stability, and hence the Guyana dollar was fixed to the US dollar from October 1975 at G$2.55 = US$1.

Between 1975 and the onset of the foreign exchange crisis of 1981, the exchange rate was maintained at G$2.55 = US$1. Though no action was taken to vary the rate of exchange until 1981, the foreign reserves came under tremendous pressure and the Bank of Guyana was occupied with finding ways to maintain reserves at an acceptable level and ensuring the critical sectors of the economy were not starved of foreign exchange.

The Government had by then entered into an IMF arrangement in 1980, and with the foreign exchange crisis in which the country was engulfed by 1981, the monetary authorities devalued the Guyana dollar to a rate of G$3.00=US$1. It was hoped that the devaluation would improve public sector finances and stimulate growth in the export industry, while at the same time limit imports. It has been suggested that the objectives of the devaluation were not achieved.

A new exchange rate regime was put in place in October 1984, by which time there had been two devaluations and the parity adjusted to G$4.12=US$1. The local currency was pegged to a basket of currencies comprising the British pound, the Deutsche mark, the Dutch guilder, the French franc, and the Japanese yen, with the US dollar being the intervention currency. The initial intention was for the Guyana dollar to float against the basket of currencies. Small fluctuations were catered for, and between 1984 and January 1987 the model rate of local currency was G$4.30=US$1, with fluctuations between G$4.12 and G$4.40.

By 1986, a thriving parallel market for commodities and foreign exchange had developed, and hence a parallel exchange rate, which diverged significantly from the official rate. In January 1987, the Guyana dollar was devalued to a new parity of G$10.00 to US$1. This was a drastic move and previously unexampled. The black market rate fluctuated between G$14 and G$21 per US dollar and this reality caused the Bank of Guyana to establish a Free Foreign Exchange Market Scheme aimed at operating an official dual rate system to compete for scarce foreign exchange. The rate was initially set at G$20.00 =US$1.

The foreign exchange window was expected to act as a competitor to the "Street banking system," but it proved inadequate. By March 1989, while the official rate was maintained at G$10.00=US$1, the black market rate fluctuated between G$48-G$50 per US$1. Consequently, the Government decided that effective April 1, 1989, the free foreign exchange window would be abolished and only one official rate would apply. That rate had a parity of G$33=US$1.

On June 15, 1990, another devaluation brought about a new parity of G$45=US$1. Almost simultaneously with this devaluation, the Government announced that it would set up the "Cambio System" as a means of eliminating the black market for foreign currencies. Even commercial banks were allowed to establish cambios as separate units or divisions of their institutions. At the time of establishment of the cambios, the rates were, on average, G$55 to US$1, but after it commenced operations, the rate jumped as high as G$90 to US$1, while the official rate stood at its 1989 level of G$45 to US$1.

The floating exchange rate regime was formally introduced in 1990 for the entire economy, being then further liberalized with the merger of the official and free market rates. In February 1991, the official market rate was quoted at G$101.75 per US dollar, and from that time until September 1991, the official rate was determined on a weekly basis by the average free market rates for the preceding week. From October 1, 1991 it was fixed daily and by year-end the official rate had reached G$122.75 per US dollar. By 1993, the rate was determined daily by the average daily telegraphic transfer rates of the three largest cambio dealers.

The operation of the cambio system seem to have stabilized the currency, since over the recent past the fluctuations had been relatively moderate, varying at maximum of only 12%, on the side of depreciation. Guyana has experienced drastic changes in its exchange rate like no other Caribbean country. In fact, in that regard its experience is similar to some South American countries (such as Argentina and Brazil). Between 1970 and 1995, the rate of exchange per US dollar moved from G$2.55 to G$140.00. This represents a fifty-four fold increase or a percentage increase of 5372.5% over the twenty-five year period.

7.2.2. Bank Supervision

In 1991, the Bank of Guyana implemented an off-site surveillance system by maintaining performance tracking sheets for each bank. The off-site supervisory efforts, over several years, focused primarily on commercial banks. These institutions were assessed, among other things, on the soundness of their lending policies and practices. In 1993, supervisory practices were boosted by on-site inspection.

In 1994, after a detailed process of consultation with commercial banks and non-bank financial institutions, the Financial Institutions Bill was completed. It was intended to strengthen and to modernise the regulatory and supervisory framework for the financial sector, aligning it with regional and international standards.

The year 1995, was a milestone for the Bank Supervision Department (BSD). The Financial Institutions Act 1995 (FIA) became effective on May 29, 1995, repealing and replacing the thirty year old Banking Act, Chap 85:01. The new FIA brought all financial institutions in Guyana under the supervision of the Bank of Guyana. Draft regulations and guidelines to implement the FIA were prepared by the Department, along with a Bank Inspection Manual, the latter being issued to staffers within the BSD. In May 1995, the Bank of Guyana hosted the Annual Conference of Caribbean Bank Supervisors, as part of its continuing efforts to enhance the skills of its staff and to increase their capability to fulfil their responsibility under the FIA 1995.

Under the FIA (1995), any financial institution which intends to transact financial business in Guyana must have a valid license issued by the Bank of Guyana. Its fully paid up capital must not be less than G$250,000,000, in the case of deposit taking institutions. For a foreign institution, its capital must not be less than G$2,500,000,000 and assigned capital for its local branch in Guyana of not less than G$250,000,000.

7.3. Commercial Banking

The first commercial banks in what was then British Guiana, were established in 1836. They were the "Colonial Bank", which later became "Barclays Bank DCO", and the "British Guiana Bank", which later became "The Royal Bank of Canada". Neither was, however, the first bank to be established in the colony. In 1828, the "Savings Bank for Slaves" was established. This bank was later renamed the "Government Savings Bank." **(Danns, 1986)**.

Originally, the commercial banks were set up with the intention of servicing the needs of the two main export industries, mining and sugar manufacturing, which were controlled by foreign companies. They were virtually unchallenged and without competition until the 1960s, when three additional foreign banks entered the system. These were the Bank of Baroda, Bank of Nova Scotia and the Chase Manhattan Bank.

After the attainment of independence in 1966, the activities of foreign commercial banks seemingly appeared inimical to the success of national economic development. The nationalist government wanted to control the "commanding heights of the economy." As previously explained, in 1970 the Government declared Guyana to be a Socialist Republic. This action had tremendous implications for the real and financial sectors which were largely foreign-owned and controlled. One direct result of this new initiative was the establishment of the first local bank in February 1970.

The Guyana National Cooperative Bank (GNCB) was set up as an important institution to aid the Government, its predominant shareholder, in its development strategy. Initially, its objective was to facilitate the flow of investible resources into areas that could bring about the transformation of the national economy, through the cooperative sector. The GNCB recognized the importance of the agricultural sector and committed itself to assist in the improvement of production and distribution of agricultural products. With the establishment of this indigenous bank, there were then six banks (five of which were foreign), with a total of 36 branches, the majority of which were located in urban areas. At that time, the Post Office Savings Bank (POSB) acted as a conduit for deposits of rural areas to reach the GNCB.

By 1974, the POSB was dissolved and accounts merged with those of the GNCB. The GNCB had by this time established branches in many rural areas and patronage for the bank was not only from small savers. State enterprises and other agencies were directed to use the government-owned institution. During the 1980s the GNCB had become the largest bank in Guyana.

During the period 1976 to 1990, the real profitability of the commercial banks on the whole was considerably reduced. While banks had Guyana dollar profits, in real terms it represented little as the value of the Guyana dollar dwindled vis-a-vis other currencies. Further, restrictions with respect to repatriation of profits, were placed on foreign commercial banks among other entities. These and other dynamics resulted in the-pull-out of three foreign commercial banks - the Royal Bank of Canada (1984), Chase Manhattan Bank (1985) and Barclays Bank PLC (1987). The operations of these institutions were taken over by the National Bank for Industry and Commerce (NBIC), the Republic Bank and the Guyana Bank of Trade and Industry (GBTI), respectively. The two latter banks were later in 1987 merged under the name of the GBTI.

During difficult economic times and in the light of doubtful and bad debts, the profitability of the GNCB was also questioned. This entity was forced to rationalize and consolidate its activity in the light of continued losses. Its branch network was considerably reduced. As this happened, the NBIC overtook the GNCB by way of assets and liabilities.

The Bank of Baroda and Bank of Nova Scotia were the two expatriate banks that continued operations in Guyana. Throughout the late 1980s and early 1990s, five banks, namely, the GNCB, GBTI, NBIC, Bank of Baroda and Bank of Nova Scotia continued activity in Guyana. During 1994, two commercial banks, The Demerara Bank, a locally owned entity, and Citizens Bank (Guyana) Limited, with Head Office in Jamaica, entered the local market, bringing to seven the number of commercial banks currently operating in Guyana.

The dominance of the commercial banks has never been in dispute but their relative importance has declined both in terms of the number of branches and their share of the total financial system assets (**Table 7.2**).

7.3.1. Commercial Bank Assets

Up to 1970, the assets of commercial banks were mainly comprised of loans. As adverted to earlier, the bulk of economic activity was foreign dominated and hence loans were made largely to the distribution and export sectors. In 1970, over 60% of commercial bank assets constituted loans. However, shortly thereafter, this situation changed drastically, both in terms of the percentage share of loans and its allocation to the various sectors.

Table 7.3 reveals that in 1970, almost two-thirds (62.3%) of commercial bank assets comprised loans, with public sector securities accounting for just 4.4% of assets. At that time, loans to the public sector represented only 15% of the banks' portfolio, while loans to the services and manufacturing sectors totalled

Table 7.2. Guyana: Institutional Composition of Financial Assets (1970-1994) (G$MN)

INSTITUTION	1970	1975	1980	1985	1990	1991	1992	1993	1994
Commercial Banks	146.60	422.30	924.30	3,076.20	134,302.80	24,720.70	38,827.70	43,505.70	46,935.10
% of Total	*48.85%*	*46.72%*	*41.00%*	*39.45%*	*22.48%*	*20.20%*	*20.38%*	*21.19%*	*20.52%*
Central Bank	65.50	305.70	889.40	3736.50	40861.60	83979.80	133925.30	142827.30	159505.70
% of Total	*21.83%*	*33.81%*	*39.45%*	*47.92%*	*64.21%*	*68.63%*	*70.29%*	*69.59%*	*69.75%*
New Building Society	11.20	30.00	76.60	240.80	1043.30	1657.50	2667.20	3566.60	4695.70
% of Total	*3.73%*	*3.32%*	*3.39%*	*3.09%*	*1.64%*	*1.35%*	*1.40%*	*1.74%*	*2.05%*
Trust Companies	N/A	6.60	23.10	84.20	498.70	899.70	1548.30	2169.30	3165.00
% of Total		*0.73%*	*1.02%*	*1.08%*	*0.78%*	*0.74%*	*0.81%*	*1.06%*	*1.38%*
Life Insurance Companies	61.50**	73.60	130.60	297.20	2914.60	2937.6-	5295.40	4717.40	4618.80
% of Total	*20.49%*	*8.14%*	*5.79%*	*3.81%*	*4.58%*	*4.04%*	*2.78%*	*2.29%*	*2.02%*
Pension Schemes	N/A	64.60	127.60	146.30	922.90	1504.20	2248.00	2848.80	3748.90
% of Total		*7.15%*	*5.66%*	*1.88%*	*1.45%*	*1.23%*	*1.18%*	*1.39%*	*1.64%*
Development Banks *	15.20*	1.20	83.00	215.90	2088.70	4660.20	6000.40	5619.40	6024.30
% of Total	*5.06%*	*0.13%*	*3.68%*	*2.77%*	*3.28%*	*3.81%*	*3.15%*	*2.74%*	*2.63%*
TOTAL	**300.1**	**905.10**	**2255.60**	**7798.10**	**62633.58**	**122360.10**	**190513.30**	**205255.50**	**228693.50**

* Guyana Credit Corporation Only

** Life and Fire Insurance Companies, after 1975, Life Insurance Companies alone.

Source: Bank of Guyana *Annual Reports*

57.3% of commercial bank loans. By 1985, however, loans had fallen to 45.9% of assets while government securities had risen to 26.5% of assets. In terms of sectoral allocation, the public sector enjoyed the privileged position, accounting for 60.1% of commercial bank loans, compared to the service and manufacturing sectors which together accounted for only 23.2% of total loans. It must be noted that the above period was one of active government participation in the economy, and hence government borrowing was crowding out the private sector.

The decline continued, and by 1993, loans comprised only 25.9% of total assets. while the banks continued to increase their holding of government paper, such that their holding of public sector securities then comprised 46.0% of total assets. At that time, the divestment activities of the Government had taken root and it no longer commanded a significant percentage of loans; its share dropping precipitously to only 4.8%, while those of the service and manufacturing sectors had recovered to 57.1%. The decline in the size of the commercial banks loan portfolio coincided with a period of low demand for credit by individuals as well as an extremely liquid time for the banks, and as such they invested heavily in government securities.

7.3.2. Commercial Bank Liabilities

During the period 1970 to 1979, deposits averaged 83.4% of total liabilities, but declined to 68.8% during the 1980s (**Table 7.3**). It was during the 1980s that Guyana was caught in the throes of an economic crisis, and hence individuals having to adjust to the high levels of inflation, either were unable to or unwilling to invest in savings' deposits, preferring instead the acquisition of real assets. Notwithstanding the low growth in deposits, the geometric growth rate over the period 1970 to 1994 still reached an annual average of over 50%.

The banks generally offer to their customers three types of deposit instruments; demand deposits, time deposits and saving

Table 7.3. Guyana: Commercial Bank Assets/Liabilities (Selected) (1970-1994) (G$MN)

	1970	1975	1980	1985	1990	1991	1992	1993	1994
No. of Banks	6	6	6	6	5	5	5	5	7
Total Assets	146.6	422.3	924.3	3076.2	14302.7	24720.1	38827.7	43505.7	46935.1
Public Sector Securities	6.4	7.4	216.4	816.5	4075.7	7184.1	12241.8	20026.7	15617.4
% of Assets	*4.40%*	*1.80%*	*23.40%*	*26.40%*	*28.50%*	*29.10%*	*31.50%*	*46.00%*	*33.30%*
Loans[1]	94.2	167.2	423.3	1411.2	4914.4	7091.7	9896.4	11276.7	15075.8
% of Assets	*62.30%*	*39.60%*	*45.80%*	*45.90%*	*24.40%*	*28.70%*	*25.50%*	*25.90%*	*32.10%*
Government %	15.0%	32.90%	56.30%	60.10%	16.10%	5.70%	9.10%	4.80%	1.50%
Manufacturing %	27.30%	23.70%	12.20%	9.70%	21.60%	24.40%	23.00%	21.40%	15.90%
Services %	33.0%	19.90%	12.80%	13.50%	37.90%	39.50%	36.50%	35.70%	38.80%
Agriculture %	6.80%	6.30%	3.70%	3.40%	6.80%	11.30%	9.90%	9.50%	11.70%
Consumers %	13.90%	15.80%	15.50%	8.90%	13.60%	13.90%	14.80%	18.50%	20.70%
Mining & Quarrying %	0.80%	0.60%	0.09%	0.50%	3.60%	4.70%	3.50%	5.30%	4.30%
Deposits	127.5	342.2	704.0	1780.0	10765.9	19059.2	30751.5	37602.7	40250.0
% of Liabilities	*86.90%*	*81.00%*	*76.20%*	*57.90%*	*75.30%*	*77.10%*	*79.20%*	*86.40%*	*85.80%*
Time %	29.80%	29.10%	32.90%	29.90%	20.00%	28.10%	28.10%	32.60%	27.60%
Savings %	52.60%	42.20%	45.30%	53.30%	50.990%	51.90%	57.60%	51.60%	56.80%
Demand %	17.60%	28.60%	21.80%	16.80%	19.90%	20.00%	14.20%	15.80%	15.60%

Average Annual Growth Rate of Deposit Liabilities (1970-1994): 51%

[1]Loans to Residents and Non-residents

Source: Bank of Guyana *Annual Reports*

deposits. Demand deposits are used mainly by businesses, although within recent time, individuals have been attracted to its use because of the movement towards a cashless society and the safety of carrying cheques relative to cash. As an asset, however, it continues to be relatively low yielding. A time deposit, on the other hand, is the highest yielding commercial bank deposit instrument, though the least liquid, whilst savings deposits are more liquid but also low yielding.

Over the period 1970 to 1994, demand deposits have averaged only 19.0% of deposit liabilities while time and saving deposits have averaged 30.0% and 52.0%, respectively **(Table 7.3)**. It seems, therefore, that customers preferred saving deposits to other types of deposits, and that this trend endured in spite of the lower yields of this instrument. Perhaps the liquidity and ease of access were what made it so attractive to savers.

7.4. Development Banks

In most developing economies there is usually structural weaknesses in the financial system; the instruments are few and the market relatively undeveloped. Perhaps this consideration led a World Bank mission, which visited the country in 1953 at the Government's request, to recommend the establishment of a development bank in Guyana. The history of development banking goes back to 1954 when the British Guiana Credit Corporation was established. From inception, it was hoped that institution would provide medium or long term credit, except for mortgages. Its main intent was, however, to promote the economic development of the country by providing financial resources where necessary and desirable.

In 1962, the Guyana Development Corporation (GDC) was established to finance the establishment or expansion of industries in association with the commercial banks and the Guyana Credit Corporation (GCC). On recommendation from the GDC to commercial banks, assistance could be provided through medium to long term financing for the establishment of new industries. By 1970, two additional institutions were operative in the system, the Guyana Mortgage Finance Company Limited (GMFC), and the Guyana Housing and Development Company Limited (GHDCL). These institutions were found to be inadequate in that they functioned like commercial banks and hence credit was still not available to the agricultural sector.

As a result of the inadequacy of the existing agencies to provide the level of financing required, the Government intervened and set up two new public sector development banking institutions in 1973. The Guyana Cooperative Mortgage Finance Bank (GCMFB) was established for the financing of small loans to households, and the Guyana Agricultural Cooperative Development Bank (Agribank), established for lending aimed at promoting the development of small scale agriculture. The Agribank took over part of the functions of the GCC in order to accelerate the development of agriculture, through supervised credit to agro-based industry, and to agriculture, including fishing and forestry. At the end of 1973, it had disbursed G$1.8 million, and this figure reached G$109 million by 1981.

The Agribank received assistance through international agencies such as the European Economic Community (EEC), and Canadian International Development Agency (CIDA), and those resources were allocated to local development projects. In 1978, it took over the operations of the Small Industries Corporation (SIC), and thereafter expanded its portfolio to include industrial credit. Consequent to the absorption of SIC, the Agribank became known as the Guyana Cooperative Agricultural and Industrial Development Bank (GAIBANK). GAIBANK's chief responsibility was the provision of credit to projects of a developmental nature, but it also provided technical assistance to farmers, and guidance in the development of policies governing agriculture and industry.

Table 7.4 shows that except for the period 1990 to 1992, when it averaged approximately 48% of the development bank assets, loans accounted for approximately 75% of the portfolio. During the period, a significant proportion of their assets were held in commercial bank deposits, which averaged over 40% between 1990 and 1992, but only about 16% throughout the remaining years. During the period of declining or low development loans, the loan to asset ratio for the Guyana Cooperative Mortgage Finance Bank averaged approximately 80% while that of GAIBANK averaged about 40% and hence resulted in a lower overall average. It was GAIBANK which held a significant proportion of its assets in commercial bank deposits. The banks, were, however, able to mobilize significant reserves with their asset bases expanding twenty-five fold between 1980 and 1990.

GAIBANK was merged with the Guyana National Co-operative Bank in 1995, under the name of the latter. The value of total assets as reflected in 1995, is therefore representative of the GCMFB alone **(Table 7.4)**.

7.5. The New Building Society

The New Building Society (NBS) was established by ordinance in 1940. Prior to its establishment there was the British Guiana Building Society, which ran into financial difficulties and had to be wound up. According to the Ordinance, the society can invest only in the following:

(a) first mortgages or purchase tenancy agreements,

(b) trustee securities or bonds and government securities.

Building societies are thrift institutions and, as such, their growth is partly determined by the extent to which they can effectively compete with other deposit taking institutions, such

Table 7.4. Guyana: Development Banks - Asset Composition for Selected Years (1980-1995) (G$MN)

ASSETS	1980	1985	1990	1991	1992	1993	1994	1995*
Commercial Bank Deposits	-	34.10	1090.20	1986.9	1650.5	934.4	742.6	0.90
% of Total		*15.80%*	*52.20%*	*42.64%*	*27.51%*	*16.63%*	*12.33%*	*2.00%*
Developmental Loans	66.80	155.00	839.2	2224.8	3411.2	4164.7	4616.9	35.30
% of Total	*80.50%*	*71.80%*	*40.18%*	*47.74%*	*56.85%*	*74.11%*	*76.64%*	*77.90%*
Investments	-	2.40	-	-	-	-	-	-
% of Total		*1.10%*						
Other	16.20	24.40	159.30	448.4	938.6	520.3	664.9	9.10
% of Total	*19.50%*	*11.30%*	*7.60%*	*9.62%*	*15.64%*	*9.26%*	*11.04%*	*20.10%*
Total Assets	**83.00**	**215.90**	**2088.70**	**4660.1**	**6000.3**	**5619.4**	**6024.4**	**45.30**

* For Guyana Co-operative Mortgage Finance Bank
Source: Bank of Guyana *Annual Reports*

as commercial banks and cooperative societies. Their main competitor is the commercial bank. Traditionally, the growth of building societies tends not be phenomenal, because people prefer to make deposits in foreign-owned rather than-locally-owned financial institutions, due to greater confidence in those institutions.

In Guyana dollar terms, the share deposit of the New Building Society, which represents its major liability, increased eight-fold between 1970 and 1980 and thirteen-fold between 1980 and 1990. In actual figures, assets moved from G$11.25 million to G$1043.3 million. These figures suggest that the NBS enjoyed tremendous success in its savings mobilization activities. In terms of its percentage share of total institutional financial assets, this showed a marginal decline between 1970 and 1990, with its overall average standing around 2.0% of institutional financial assets.

In terms of its assets, mortgage loans showed a significant decline, since the latter half of the 1980s, reaching a low of 6.94% of total NBS' assets in 1991, before rebounding to 31.70% in 1995. A significant decline compared to an average of 75.0% from 1970 to 1980. The society showed a preference for short-term government securities, especially treasury bills. Their holdings of these instruments moved from 4.3% of assets in 1980, to a high of 78.2% in 1992. The NBS which was established to provide mortgage loans to the so-called "small man", has throughout the late eighties and early nineties, invested heavily in treasury bills and thereby provided resources to the Government at the expense of their membership who continued to invest significant savings, such that the society's share deposit could increase by thirteen fold between 1980 and 1990 (**Table 7.5**). Perhaps an explanation for this trend is the difficult economic circumstances which occurred over the above period in which persons either were unable or reluctant to undertake long term expenditure such as home construction.

Table 7.5. Guyana: The New Building Society - Assets and Liabilities for Selected Years ((1970-1995) (G $MN)

	1970	1975	1980	1985	1990	1995
Assets:						
Liquid Assets	0.17	1.90	10.80	7.40	96.60	520.7
% of Total Assets	*1.50%*	*6.33%*	*14.10%*	*3%*	*9.30%*	*8.90%*
Investments	1.59	6.30	9.20	169.90	850.70	3499.9
% of Total Assets	*14.10%*	*21%*	*12%*	*70.60%*	*81.50%*	*59.50%*
Loans and Mortgages	9.49	21.80	56.60	63.50	96.00	1862.7
% of Total Assets	*84.40%*	*72.66%*	*73.90%*	*26.40%*	*9.20%*	*31.70%*
TOTAL ASSETS/ LIABILITIES	**11.25**	30.00	**76.60**	**240.80**	**1043.30**	**5883.3**
Liabilities:						
Share Deposits	7.93	24.60	67.40	211.90	903.70	4766.5
% of Total Liabilities	*70.49%*	*82%*	*88%*	*88%*	*86.60%*	*81.00%*
Other Deposits	2.11	3.60	5.60	19.00	70.00	239.7
% of Total Liabilities	*18.76%*	*12%*	*7.30%*	*7.90%*	*6.70%*	*4.10%*
Other Liabilities	1.20	1.80	3.60	4.10	69.60	877.1
% Total Liabilities	*10.67%*	*6%*	*4.70%*	*9.9%*	*6.70%*	*14.90%*

Source: Bank of Guyana *Annual Reports*.

7.6. Insurance Companies

Insurance Companies have a relatively long history in Guyana, the first having been established over a century ago. Of the 11 insurance companies offering both life and general services in 1995, six were domestically owned and controlled, while five were foreign owned. Ganga asserted that the insurance sector held the largest share of the assets of the non-bank financial intermediaries and that foreign companies dominated the life insurance sub-sector until 1992, when they accounted for approximately 51% of gross premiums written (**Ganga, 1995**).

The assets of these companies increased significantly between 1970 and 1995, moving from G$61.5 million in 1970 to G$5.4 billion in 1995, an eighty-nine fold increase (**Table 7.6**). Assets typically comprise of long term securities, mortgages, government debentures, treasury bills other loans and private securities. During the period 1970 to 1985, the life insurance sector's foreign assets (including loans) averaged about 38%, but after 1990 the relative importance of the local assets declined markedly, with its foreign assets averaging approximately 75% between 1990 and 1995. Mortgage loans which averaged about 30% of total assets between 1970 and 1980, declined to an average of approximately 1.3% over the period 1990 to 1995. Foreign loans, on the other hand, have averaged about 23.4% during the first half of the nineties.

Life insurance companies in Guyana have noticeably reduced their exposures in the local economy. During the mid-1980s and early 1990s, the total assets of these companies increased eighty-nine fold, while between 1970 and 1995 their foreign assets increased one hundred and thirteen fold. Their local loans increased fifteen fold over the same period, but foreign loans increased sixty-four fold between 1980 and 1995. To demonstrate even further the sector's lack of interest in local investment, its holding of both public and private securities which

Table 7.6.. Guyana: Insurance Companies (Assets and Liabilities) (Selected Years) (1970-1990) (G $MN)

	1970	1975	1980	1985	1990
Assets:					
Foreign Assets (excluding loans)	21.1	24.5	31.4	95.2	1402.4
% of Total Assets	*34%*	*33%*	*24%*	*32%*	*48%*
Foreign Loans	N/A	N/A	19.4	44.6	913.3
% of Total Assets	*N/A*	*N/A*	*15%*	*15%*	*31%*
Public Sector Sec.	5.2	9.7	14.7	44	96.9
% of Total Assets	*8%*	*13%*	*11%*	*15%*	*3%*
Private Sector Sec.	3.6	5.5	9.5	15.3	13.7
% of Total Assets	*6%*	*7%*	*7%*	*5%*	*0.5%*
Deposits (Local)	0.9	0.7	6.2	1.6	53.6
% of Total Assets	*1%*	*1%*	*5%*	*1%*	*2%*
Mortgage Loans	22.5	22	30.3	38.4	42
% of Total Assets	*37%*	*30%*	*23%*	*13%*	*1%*
Other Loans	4.8	4.6	10.5	20.4	14.5
% of Total Assets	*8%*	*6%*	*8%*	*7%*	*0.5%*
Other Assets	3.4	6.6	8.6	37.7	378.,2
% of Total Assets	*6%*	*9%*	*7%*	*13%*	*13%*
TOTAL ASSETS/LIABILITIES	**61.5**	**73.6**	**130.6**	**297.2**	**2914.6**
Liabilities:					
Foreign	N/A	24.5	52.2	146	1920.5
% of Total Liabilities	*N/A*	*33%*	*40%*	*49%*	*66%*
Capital & Reserves	N/A	2.9	2.5	22.8	76.8
% of Total Liabilities	*N/A*	*4%*	*2%*	*8%*	*3%*
Life Insurance Fund	N/A	41.8	67.6	112.7	871.2
% of Total Liabilties	*N/A*	*57%*	*52%*	*38%*	*30%*
Other	N/A	4.4	8.3	15.7	46.1
% of Total Liabilities	*N/A*	*6%*	*6%*	*5%*	*2%*

NIA - Data Not Available.

Source: Bank of Guyana *Annual Reports.*

Table 7.6. Guyana: Insurance Companies (Assets and Liabilities) (1991-1995) - Cont'd (G $MN)

	1991	**1992**	**1993**	**1994**	**1995**
Assets:					
Foreign Assets (excluding loans)	2651.4	2792.6	2831.8	2332.5	2382.6
% of Total Assets	*545%*	*53%*	*60%*	*51%*	*44%*
Foreign Loans	1075.3	660.8	1150	1262.2	1244.1
% of Total Assets	*22%*	*12%*	*24%*	*27%*	*23%*
Public Sector Sec	51.8	72.1	109.6	156.6	134.8
% of Total Assets	*1%*	*1%*	*2%*	*3%*	*2%*
Private Sector Sec	10.5	26.9	51.3	135.8	221.2
% of Total Assets	*0.2%*	*1%*	*1%*	*3%*	*4%*
Deposits Local	108.5	36	115.5	87.1	316.1
% of Total Assets	*2%*	*1%*	*2%*	*2%*	*6%*
Mortgage Loans	45.8	42.2	66.5	71.9	84.7
% of Total Assets	*1%*	*1%*	*1%*	*2%*	*2%*
Other Loans	16.4	22.8	25	70.9	53
% of Total Assets	*0.3%*	*0.4%*	*1%*	*2%*	*1%*
Other Assets	977.9	1644.9	367.7	501.8	1007.8
% of Total Assets	*10%*	*31%*	*8%*	*11%*	*19%*
TOTAL ASSETS/LIABILITIES	**4937.6**	**5295.4**	**4717.4**	**4618.8**	**5444.3**
Liabilities:					
Foreign	2588.9	2595.6	2541.8	2889.8	2868.9
% of Total Liabilities	*52%*	*49%*	*54%*	*63%*	*53%*
Capital & Reserves	16.7	28.8	45.4	90.4	349
% of Total Liabilities	*0%*	*1%*	*1%*	*2%*	*6%*
Life Insurance Fund	2299.5	1849.9	2024.7	1439.7	1659.6
% of Total Liabilities	*47%*	*35%*	*43%*	*31%*	*30%*
Other	32.5	785.2	105.5	198.9	566.8
% of Total Liabilities	*1%*	*15%*	*2%*	*4%*	*10%*

Source: Bank of Guyana *Annual Reports*

averaged 18% of total assets between 1970 and 1985, fell to about 4% over the period 1990 to 1995.

The trend has been the same with savings. **Ganga (1995)** explained that since 1980 there had been a trend of declining savings through life insurance companies. He suggested that the growth of national insurance coverage and the certainty of future sources of income from the National Insurance Scheme, contributed to a substantial reduction in the purchase of life insurance as an instrument of protection and savings. He further contended that individuals must have been accumulating foreign assets at the expense of local savings, perhaps to hedge against inflation and devaluation, and that this portfolio adjustment has affected the insurance sector more than any other **(Ganga, 1995)**.

Notwithstanding the negative trends, the insurance sector (life and general companies) continued to be the most important of the non-bank financial institutions in Guyana. What was even more significant was their renewed interest in local securities, which had been increasing as a percentage of total assets since 1993, perhaps because of renewed confidence in the local economy.

7.7. The National Insurance Scheme (NIS)

The National Insurance and Social Security Act No. 15 of 1969 was passed by the national assembly on July 21, 1969, but the NIS came into existence on September 29, 1969. The underlying philosophy of the scheme was to extend comprehensive social security coverage to as many workers as possible in keeping with the concept of an egalitarian society. The NIS is a compulsory insurance scheme for workers and contributions are made by employees and employers alike.

The NIS was an important addition to the list of state organizations established to address the perceived imbalances within the economy. People of small means could now access relief for various reasons through the benefits paid out of their own contributions. In its first two years of operation, 138,144 employees were registered, 90,448 in 1969 and 47,696 in 1970, and since that time annual registration has averaged around 16,000. Total employees registered up to December 31, 1994, amounted to 493,296, but estimates suggested an active membership of 137,000.

The percentage of contribution paid out as benefits, has increased tremendously over the twenty-five year period. At the end of December 1970, benefits of G$536,516 were paid from contributions of G$12,943,308, representing approximately 4% of contributions paid. By 1994, however, benefits represented 53.7% of total contributions of G$1.6 billion, or G$857.0 million. By that time, the NIS was making a significant contribution to its membership.

There has been an interesting shift in the categories of benefits paid out. In 1970 and up to 1980, by far the largest sums were paid out for injury and sickness, but thereafter old age benefits and grants received the lion's share of benefits. Out of a total of G$801,963,384 paid to the four largest categories in 1994: old age; survivors benefit; injury; and sickness, and maternity, old age benefit and grants accounted for 65 percent of the proceeds.

Moreover, the NIS while making such a contribution, remained a very profitable entity with 1994 reserves of G$3.6 billion and an annual surplus averaging around 40% of total income. Its administrative expenses averaged 16% of total income over the period 1970 to 1994 (**Table 7.7**).

The assets of the NIS comprise mainly government long term debentures, treasury bills, shares in financial institutions and cash at commercial banks. Up until 1992, this institution carried only a small percentage of treasury bills, with the bulk of its assets being the longer term security. However, by 1994,

Table 7.7. Guyana: National Insurance Scheme (Selected Years) (1970-1990)
(G $MN)

CATEGORY	1970	1975	1980	1985	1990
Contributions	12.9	20.6	61.4	64.6	190.9
Benefits	0.5	3.1	12.3	19.8	124.1
Surplus	11.8	20.2	64.5	129.2	206.3
Reserves	13.4	87.3	303.1	830.7	1640.0
Investment (at cost)	9.1	75.5	274.6	779.3	1234.6
Liabilities	0.2	1.3	3.3	1.8	16.4
Administrative Expenses	1.1	2.6	4.6	10.7	67.5
TOTAL INCOME	**13.4**	**25.8**	**84**	**159.7**	**397.9**
Ratios:					
Ratio of Surplus to Total Income	88.10%	78.30%	76.80%	80.90%	51.80%
Ratio of Administrative Expenses to Total Income	8.20%	10.10%	5.50%	7.60%	16.90%
Ratio of Beneftis to Contributions	3.90%	15.00%	20.00%	30.70%	65.00%
Ratio of Investments to Reserves	67.90%	86.50%	90.60%	93.80%	75.30%
Ratio of Liabilities to Reserves	1.50%	1.50%	1.10%	0.22%	1.00%

Source: National Insurance Board , *Annual Reports.*

Table 7.7. Guyana: National Insurance Scheme (1991-1994) Cont'd
(G $MN)

CATEGORY	1991	1992	1993	1994	1994/1970
Contributions	351.5	769.8	1108.3	1597.0	125 fold
Benefits	271.7	506.1	658.9	857.0	1700 fold
Surplus	234.6	344.8	509.2	830.7	
Reserves	1874.6	2219.5	2728.4	3559.4	
Investment (at cost)	1381.6	1518.3	1960.4	2775.1	
Liabilities	32.8	37.2	37.7	46.9	234 fold
Administrative Expenses	141.5	208.1	256.0	329.7	300 fold
Total Income	647.8	1059.2	1424.2	2017.4	150 fold
Ratios:					
Ratio of Surplus to Total Income	36.20%	32.50%	35.50%	41.20%	
Ratio of Administrative Expenses to Total Income	21.80%	19.60%	17.90%	16.30%	
Ratio of Benefits to Contributions	77.30%	65.70%	59.50%	53.70%	
Ratio of Investments to Reserves	73.70%	68.40%	71.80%	77.90%	
Ratio of Liabilities to Reserves	1.70%	1.70%	1.40%	1.30%	

Source: National Insurance Board - *Annual Reports* treasury bills superseded the Government ten year debenture for the first time and accounted for over 60% of the NIS investment. This is a good example of a national entity that made and continued to make tremendous progress. It has proven to be a significant contributor to the process of savings mobilization.

7.8. Pension Schemes

According to **Odle (1974)**, the motive for having pension schemes is to hedge against 'excessive' longevity. Pensions are therefore a form of security and a means of providing for those who might not have been able to provide (through personal savings) a reasonable standard of living for themselves after retirement.

The growth of pension funds has been concomitant with the growth of Non-Bank Financial Intermediaries (NBFIs) as a group. The NBFIs have grown both in number and importance, and are considered to be important players in the savings' mobilization process. Pension funds in particular, since the late 1980s, have been increasing very rapidly because of penetration into the private sector, but this has not always been the case.

In Guyana, before 1970, the growth rate of pension schemes was slow. In fact, according to Odle, by 1968 almost one third of total pension contributions were controlled by two firms in the bauxite industry, and by 1970 total contributions of both employers and employees amounted to only EC$3.1 million **(Odle, 1974)**. Since the late 1980s, the absolute size of pension savings had been increasing rapidly as more sectors, industries and firms adopted pension plans. Its popularity had also increased because it is considered to be a form of saving. Pension funds are a fairly compulsory forms of savings, which can adversely affect other voluntary forms of savings at commercial banks and other deposit taking institutions.

Between 1980 and 1985 total assets of pension schemes increased by only 14.7% but a six-fold increase was recorded over the period 1985 to 1990, with a marginally smaller figure (five-fold) over the next five year period (**Table 7.8**). If the entire period, is examined, however, the growth is even more fantastic, with a thirty-eight-fold increase being recorded over the fifteen-year period, 1980 to 1995. The liabilities of the pension schemes comprised mainly pension funds, which accounted for an average of over 90% of total liabilities during the period under review. In terms of its assets, government securities represented the largest proportion, averaging over 50% during the 1990s, followed by liquid assets and shares in private companies. The pension schemes have generally stayed away from risky investments. The annualized geometric growth rate over the period 1970 to 1984 averaged 27%.

7.9. Call Exchange

A call exchange was initially established in 1971 to improve the market for the shares of local public companies by acting as a medium for the bringing together of buyers and sellers. Initially only industrial shares and debentures were traded, and it also provided quotes on government securities. In 1971, the exchange comprised of ten participants including six commercial banks, and the Unit Trust Company. This entity did not remain active for very long and perhaps the nationalization activities of the Government hastened its demise.

After several years of inactivity and consequent to the Government's decision to liberalize the economy and to encourage private investment, both foreign and local, interest was reignited. In January 1994, a new call exchange was established at the Bank of Guyana, as an initial step towards the introduction of a stock market. At the end of 1994, there were 12 members of the exchange including banks, investment companies and stock brokers, and 12 companies were listed. Trading activity has grown slowly and is expected to increase with greater public

Table 7.8. Guyana: Pension Schemes - Assets and Liabilities (Selected Years) (1980-1995) (G $MN)

	1980	1985	1990	1991	1992	1993	1994	1995
Assets:								
Liquid Assets	18.80	36.70	137.80	206.20	702.80	1496.40	751.90	882.90
% of Total Assets	*14.70%*	*25.10%*	*14.90%*	*13.71%*	*31.26%*	*52.53%*	*20.06%*	*18.32%*
Govt Securities Investments	70.10	59.10	187.10	814.20	717.70	1079.90	2557.90	3237.40
% of Total Assets	*54.90%*	*40.40%*	*20.30%*	*54.13%*	*31.93%*	*37.91%*	*68.23%*	*67.19%*
Mortgage Loans	0.50	0.10	-	-	-	-	-	0.00
% of Total Assets	*0.50%*	*0.10%*						*0%*
Shares and Other Securities	5.60	3.80	8.80	14.90	1.80	42.00	92.30	227.70
% of Total Assets	*4.40%*	*2.60%*	*1%*	*1.00%*	*0.08%*	*1.47%*	*2.46%*	*4.73%*
Foreign Assets	56.5	0.6	6.20	1.60	262.20	85.10	63.50	77.40
% of Total Assets	*3.76%*	*0.03%*	*5%*	*1.10%*	*28.41%*	*108.00%*	*2.22%*	*2.06%*
Other	26.40	45.00	327.00	412.30	825.10	167.00	269.40	385.10
% of Total Assets	*20.70%*	*30.76%*	*35.43%*	*27.41%*	*36.70%*	*5.86%*	*7.19%*	*8.00%*
Total Assets/Liabilities	**127.60**	**146.30**	**922.90**	**1504.20**	**2248.00**	**2848.80**	**3748.90**	**4818.20**
Liabilities:								
PensionFund	124.10	144.70	672.30	1480.80	2099.30	2658.70	3748.90	4523.70
% of Total Liabilities	*97.30%*	*98.90%*	*72.85%*	*98.44%*	*93.39%*	*93.30%*	*100.00%*	*93.89%*
Reserves	2.20	0.10	7.00	5.30	114.40	109.20	-	239.80
% of Total Liabilities	*1.70%*	*0.10%*	*0.76%*	*0.40%*	*5.09%*	*3.83%*		*4.98%*
Other	1.30	1.50	235.90	18.10	35.10	80.90	-	54.70
% of Total Liabilities	*1%*	*1%*	*25.56%*	*1.20%*	*1.56%*	*2.84%*		*1.14%*

Average Annual Growth of Pension Liabilities (1980 - 1995): 27%

Source: Bank of Guyana *Annual Reports*

awareness and confidence in the exchange. In order to instil public confidence and trust in the exchange, draft rules were completed with technical assistance from the Inter-American Development Bank.

Despite efforts at developing a call exchange, which was an initial step towards a full-fledged stock exchange, there has been less than sufficient financial market activity. Guyana still has no stock exchange, little trading in stocks and the only known bonds are government bonds.

7.10. Other Financial Institutions

Other financial institutions known to Guyana are trust companies and credit unions. Trust companies operating in Guyana in earlier times were subsidiaries of established banks. While this situation still exists, there are currently other such companies which have been independently established. At the end of 1995 there were four trust companies in Guyana, with total assets of G$4.4 billion, a mere 1.4% of total financial assets. Trust companies take private sector deposits and manage trust funds. Their assets comprise loans and mortgages and government securities.

7.11. Conclusion

Guyana's financial system, like those of all the former British Caribbean colonies, was for most of the period up to the attainment of independence and nationhood, controlled by foreign banks. Indeed, in the post-independence period there had still been a strong presence of foreign financial institutions, especially in commercial banking and the insurance sectors.

In the period immediately following independence, however, it became abundantly clear that the activities of foreign commercial banks were inimical to the economic development and progress of the new nation. The savings of Guyanese were being invested overseas, while local businesses were starved for loans. It was perhaps this reality coupled with a strong desire on the part of the then Government to forge an egalitarian society, which made possible the emergence of local financial institutions whose mandate would be to provide financing to areas neglected by the established agencies.

The year 1970 was a watershed for Guyana, but it did not signal the entry of local financial institutions. The Savings Bank and the Post Office Savings Bank had long been established and had fulfilled their role adequately. Perhaps the most significant reality of 1970 was that it brought new hope and a new way of life to Guyanese. The fact that the country became a Cooperative Republic and the establishment of the Guyana National Cooperative Bank (the first indigenous commercial bank geared towards financing all of the new cooperative ventures which were spawned from the spirit of cooperation) gave people a lot to hope for. For the first time the great grandchildren of slaves and indentured servants could look forward to employment in a commercial bank, from which they were largely earlier excluded, and had the opportunity to access loans to service their credit needs.

In the post-Independence period many local institutions were set up in the hope of providing a better way of life to the population at large; the National Insurance Scheme, development banks, cooperative societies and a host of local insurance companies. The activities of most of the organizations had been circumscribed by the economic hardships which visited the country for most of the 1970s and 1980s but notably the National Insurance Scheme had made, and continued to make, a substantial impact on the lives of employees in particular.

Over the past 25 years, the system endured changes brought about by nationalization, structural adjustment, the liberalization of the financial system, and the re-entry of foreign commercial banks. Since 1990, the Guyana economy has performed well.

Given the expressed government intention to continue attracting foreign investment, modernization for the sector is imminent. Only recently (1995), new financial legislation has been enacted signalling some desire for financial sector reform. In addition, old and new banks alike have been upgrading their activities and making positive technological changes. Perhaps these initiatives are the first stages of what will hopefully become total financial sector reform.

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8

The Evolution of the Financial Sector in Jamaica (1970 -1996)

Pauline Batchelor et al.[1]

This Chapter focuses primarily on developments within the financial sector of Jamaica between 1970 and 1996. Reference is made to prior years insofar as they explain the happenings after 1970. Like the rest of the English-speaking Caribbean, Jamaica has had a long history of British colonization which undoubtedly has had a lasting impact on the country's financial system. Since independence in 1962, however, distinct and varied economic, social and political developments have played determining roles in the growth and importance of the sector.

Jamaica is one of the larger island countries of the Caribbean with an approximate 2.5 million inhabitants. In comparison to other Caribbean territories and developing countries, its financial

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system and infrastructure are well developed. At the end of 1995 the Jamaican financial system comprised a variety of financial institutions, a stock exchange and a number of financial instruments. The financial institutions included a Central bank, 11 commercial banks with a branch network of over 180 branches, 25 merchant banks, four development banks, 29 insurance companies, 36 building societies, seven investment banks, four finance houses and 87 credit unions.

Despite the presence of numerous financial institutions, the system is nonetheless dominated by commercial banks. At the end of 1995 the asset of these institutions represented 55% of total assets held by financial institutions in Jamaica. Further, the dominance of commercial banks is again underscored by their involvement in the non-bank financial institutions. Despite this dominance, the role of commercial banks in the Jamaican economy is relatively less than in other CARICOM territories, with the exception of Trinidad and Tobago.

The financial sector of Jamaica has grown strongly over the past 10 years. The genesis of this growth lies in a series of financial reforms commencing in 1985 and having as a major objective the elimination of distortions in the financial markets. This reform which continued well into the 1990s provided a better competitive environment by allowing the interplay of market forces. Evidence of its success lies primarily in the growth in number and types of financial institutions, the expansion of the range of financial products and services offered, and the new and improved credit and business facilities available. A recent feature of the financial system of Jamaica is the formation of financial conglomerates providing a wide range of financial and non-financial services.

Many financial entities operating in the Jamaican economy are closely integrated into the international financial system, particularly in the United Kingdom and the United States of America. This is evidenced in the overseas branch network of the Jamaican financial entities, the subsidiaries of foreign financial entities operating in Jamaica and the listing of Jamaican companies on overseas stock exchanges. Further, Jamaica is one of the few CARICOM countries which has locally-incorporated financial entities with branch networks in other regional economies.

Despite its growth and the leading role it has played in the regional financial sector, there have been problems in the Jamaican financial sector. Following a down-turn in the economies of Jamaica's leading trade partners, the Jamaican Stock Market crashed in 1993. In the midst of tight monetary controls and liquidity problems many finance houses exhibited signs of weakness. Public confidence in the financial system was affected in 1995 with the collapse of the Blaise Financial Group. This confidence was further affected in 1996, when the Government (GOJ) closed the Century National Financial Group which had over 40,000 local and international depositors. The closure of the institutions was due to severe liquidity problems that was being experienced by the group.

This Chapter outlines the economic, and to a lesser extent political, events which shape the current financial system. Special attention is given to the role of the Central Bank in the monetary management of the economy and to its policies and practices in dealing with the financial system. The Chapter further explains and analyses the institutional and other composition of the sector.

8.1. The Economic Setting

Upon the attainment of political independence in 1962, the general thrust of economic development in Jamaica was towards industrialization, with agriculture, tourism and bauxite being cornerstones of the economy. At that time a liberal economic policy was pursued with the invitation of foreign and local investment. Between 1965 and 1970 the economy experienced a generalized expansion with manufacturing expanding its share in the economy and averaging 5% per annum growth.

In an effort to boost development, the nationalist government provided major fiscal and other incentives for manufacturing, tourism and the mining sectors. Major inflows of foreign capital helped develop the bauxite industry. Exports increased in the early 1970s enhancing the country's foreign reserves position.

By 1973 the economic fortunes of the country began to reverse. A series of factors were responsible for this reversal. The government taking office in 1972, declared its ideology as democratic socialism and soon after embarked on a costly social programme. In addition, like most other developing countries, Jamaica was adversely affected by the world oil crisis. **Chen Young (1989)**, in explaining the Jamaican crises of the 1970s, pointed out that in response to the oil crisis GOJ introduced "a bauxite levy which was regarded by the companies as breach of contract and quasi nationalization."

In its pursuit of socialism and more welfare-type economic policies, higher government expenditure gave rise to increasing fiscal deficits. This was combined with low and stagnating production and exports which provided fertile ground for a deepening crisis. Some of the economic problems of the 1970s and 1980s also included balance of payments deficits, high inflation, severe shortages, capital flight, expanding money supply, a shortage of foreign exchange, a high external debt and a declining real exchange rate. During this period of economic difficulties and international liquidity problems the Jamaican Government sought the assistance of the International Monetary Fund, first in the form of a Standby Agreement, and later, a Structural Adjustment Programme. In response, the IMF insisted on austere measures and stringent demand management. Chen Young explains that towards the end of the 1970s the government discontinued its programme with the IMF and an impasse was created."

New policy initiatives emphasizing private enterprise development and the attraction of foreign investment were brought to bear by the installation of a new government in 1980. The socialist policies were reversed and the international community was seemingly, now, more willing to support the recovery efforts of Jamaica. Relations with the IMF were also renewed and the country made a serious attempt to adhere to new structural adjustment measures which included demand management, external debt management, supply-side and exchange rate policies. Inclusive also were policies for the liberalization and strengthening of the regulatory framework of the financial sector. According to **Peart (1995)**, "the programme of structural adjustment was aimed primarily at creating a more efficient market-oriented economy that was export driven and in which the private sector was the main engine of economic growth."

Positive growth signs began to emerge in the Jamaican economy from about 1986 as both the fiscal and balance of payments deficits narrowed in relation to GDP and an expansion in economic activity was evident, especially in tourism, manufacturing and construction. There was seemingly better resource allocation as bank credit supported economically viable sectors.

The outlook for the year 1988 was very positive until the picture was dramatically altered on September 12, 1988 when Hurricane Gilbert struck the island causing unprecedented devastation. With bilateral and other assistance the economy continued to grow, albeit at a slower pace. During the 1990s the Jamaican economy continued to record gains on its achievements in the late 1980s. Integral to the economic gains, was the financial sector reforms which continued to be implemented into the 1990s.

8.2. The Evolution of the Financial Sector

By 1971, the financial sector of Jamaica comprised the Central Bank, ten commercial banks with a branch network of over 130 branches together with six trust companies, 16 building societies, 127 credit unions, 20 life insurance companies, a development bank and a Government Savings Bank with over 255 branches. A stock exchange was also in operation since 1969. Like other Caribbean countries, the Jamaican financial sector has gone through a period of localization. While this localization started in the 1970s and 1980s in other territories, for Jamaica it began as early as the 1960s. **Chen Young (1989)** explained that of the 10 commercial banks operating in Jamaica at the end of 1970 only the Citibank, Barclays Bank, the CIBC and Bank of Montreal were branches of foreign banks. The Bank of Nova Scotia and the Royal Bank of Canada were at that time localized. Citizens Bank was the first "local" Bank to be established in Jamaica but this institution was not fully locally owned.

Like the commercial banks, the insurance companies also experienced a great degree of localization in the 1960s. Many of the foreign-owned companies either sold their portfolio or invited local participation in their businesses. Government's nationalist policy seemingly supported the localization of the financial sector at that time. Credit unions and building societies were generally locally owned and operated, and primarily catered for the small savers.

Localization, and more particularly, state-ownership of the banking sector deepened in the 1970s in keeping with the espoused socialist ideology. Some foreign-owned banking corporations sold their interest in Jamaica to government while others just terminated their operations in the country. The National Commercial Bank was the first wholly-owned Jamaican commercial bank. Another popular establishment of the 1970s was the Workers Savings and Loan Bank which was previously the Government Savings and Loan Bank. By the end of the 1970s the banking sector in Jamaica was totally transformed from its pre-independence state. It had expanded to include merchant banks, the Jamaica Investment Fund (Unit Trust), the Jamaica Mortgage Bank (JMB), the Jamaica Development Bank (JDB) and the Jamaica Export Credit Insurance Corporation Limited (JECIC). To a large extent the Central Bank and commercial banks supported the financing needs of GOJ throughout the 1970s. Despite expansion, therefore, the banking sector fell captive to the economic and other policies of the government **(Table 8.4).**

As previously mentioned, a new government taking office in 1980 saw the necessity for a movement towards a greater involvement of the private sector (foreign and local) and towards a market-oriented system. Inclusive in the overall structural adjustment programme of the 1980s was a financial sector reform programme which commenced in 1985. **Peart (1995)** explains that the principal objectives of the financial sector reform programme were: "the separation of monetary and fiscal policies, the elimination of distortions in the financial market and the creation of a fiscal and institutional environment which would strengthen the capital market". The reform was also geared towards enhancing the ability of the Central Bank to efficiently implement monetary policy in the new environment. Financial sector reform, therefore, complemented the overall thrust of the economic programme.

Since the implementation of the reform programme, Jamaica has witnessed unprecedented growth in its financial sector. A **Bank of Jamaica report (1996)** in outlining the current state of the financial sector explains that:

> The relatively strong growth in Jamaica's financial sector over the last ten years had its genesis in a series of financial reforms beginning in 1985 with the Financial Sector Reform Programme and the subsequent liberalization of the foreign exchange market in 1991. .... The process of financial reform has contributed to

> the emergence of a more competitive financial system, which encouraged the financial intermediation process and contributed to the establishment of a more sophisticated financial system. ... (BOJ, 1996)

McBain, 1996 points out that commercial bank assets in Jamaica grew by 38% in real terms between 1990 and 1995, while the assets of the building societies doubled in real terms over a four year period from 1990. Financial liberalization has seemingly facilitated an increase in market competition **(Table 8.1).**

Further, the above cited BOJ report outlines that concomitant with the increase in the number of financial institutions has been a significant increase in the range of financial products and services, inclusive of commercial papers, credit card facilities, derivative product, remittance agencies, cambios and overseas subsidiaries, automatic teller machines, self-service banking and payment of salaries. Insurance companies have introduced mutual funds and equity-based insurance services. McBain explains that the growth of non-depository institutions and tradeable securities has become significant over the decade. She points out that the non-depository institutions such as insurance companies, securities, brokers and dealers have

> ...grown over the last ten years to between 100 and 200 companies. They offer investors a variety of instruments with different degrees of risks and returns. Some insurance companies operate unit trust funds as well as mutual funds; the latter are like unit trust funds in that units are invested in various markets such as equities and government securities **(McBain, 1996).**

Further fueling the growth of the financial sector and giving rise to financial deepening, was the removal of some impediments to competition and efficient resource allocation. Jamaica revised its exchange rate system implementing a flexible rate regime; it removed trade and exchange controls and restrictions and moved away from administratively fixed interest rates.

Table 8.1. Jamaica: Evolution of the Financial System (Assets)
(J$Mn)

Institutions	1976	% of Total	1981	% of Total	1986	% of Total	1990	% of Total
Commercial Banks	1,066.1	53.8	2,634.2	63.3	8,240.2	58.5	17,237.5	56.8
Merchant Banks	127.2	6.4	92.7	2.2	636.4	4.5	4,526.9	14.8
Trust Companies	102.9	5.2	162.6	3.9	682.5	4.9	109.1	0.4
Finance Houses	53.5	2.7	59.4	1.4	123.1	0.9	265.8	0.9
Jamaica Mortgage Bank	87.9	4.4	179.7	4.3	428.2	3.0	849.2	2.9
Jamaica Development Bank	103.6	5.2	-	-	-	-	-	
Agricultural Credit Bank	-	-	14.3	0.4	183.7	1.3	679.8	2.2
National Development Bank	-	-	0.5	-	229.8	1.6	592.2	1.9
Building Societies	142.6	7.2	387.6	9.3	1,046.8	7.4	3,058.1	10.0
Credit Unions	52.6	2.7	230.1	5.5	454.2	3.2	803.1	2.6
Life Insurance Company	244.8	12.4	403.2	9.7	2,026.8	14.4	2,072.3	6.8
Trafalgar Development Bank	-	-	-	-	42.7	0.3	214.9	0.7
Total	**1,981.2**	**100.0**	**4,164.3**	**100.0**	**14,094.4**	**100.0**	**30,498.9**	**100.0**

Source: Bank of Jamaica.

Bank of Jamaica reported in 1996 that the country was well on its way to eliminating any remaining factors that impeded the performance of the financial sector. Emphasis was now on "strengthening of the legislative framework underpinning the financial system." **(BOJ, 1996)**. To protect the soundness and integrity of the financial system and to safeguard depositors in the freer environment, new and more internationally accepted legislation has been enacted. The Bank reported that in keeping with new legislation "commercial banks have increased their capital base to accommodate the growth in deposit liabilities. This is consistent with the Basle Committee recommendations of 8.0% of risk weighted assets." **(BOJ, 1996)**. New legislation has also provided a larger information and data base for the supervisory authority.

In the context of liberalization and deregulation, therefore, there was a noticeable reshaping of the financial system. In this regard, the so-called "pure" financial institution, had almost but disappeared by 1995 as institutions sought to diversify their operations in order to remain competitive, viable and relevant. With an expansion in credit card facilities beyond the commercial banking sector to other financial institutions, there had been little difference between these and commercial banks. Indeed there is now a very thin line between a demand deposit and a credit card. This has had significant implications for the conduct of monetary policy, as money supply growth and inflation are strongly influenced through the Central Bank's control of base money (ie. currency issue, statutory cash reserve, current account of banks). Commercial banks do not hold current accounts with the Central Bank, so the ability of the BOJ to affect their credit expansion, is directly through the cash reserve and, indirectly, through the commercial banks in which they hold balances.

8.2.1. The Central Bank

The Bank of Jamaica established by the Bank of Jamaica Law (1960) commenced operations in May 1961. Prior to its establishment, between 1939 and 1961, the currency authority in Jamaica was the Board of Commissioners of Currency. Established under the Currency Notes Law of 1939, the Board had statutory authority for the issue of currency notes of the Government of Jamaica. Prior to the establishment of the Currency Board, commercial banks issued their own notes under the Bank Notes Law (1904) which gave these notes legal tender status. Under Law 9 of 1954 the commercial banks were prohibited from issuing notes in their own name. The rights of Barclays Bank (DCO) were, however, preserved. Law 10 of 1958, demonetized all commercial bank notes circulating in Jamaica.

At the time of establishment of the Bank of Jamaica, the country was experiencing a credit boom and policies immediately sought to address curtailing further credit expansion and increases in imports, without discouraging investment capital flows. The Bank sought to establish its credibility in the local financial sector and to regulate the banking industry in Jamaica. It was assisted in its efforts by the Banking Law (1960) which provided the necessary legal and regulatory framework. The Law made it obligatory for any company wishing to carry on banking business in Jamaica to:

1. Obtain a licence from the Minister of Finance.
2. Fulfill minimum capital requirements.
3. Make available to the public and to the Inspector of Banks any necessary information.
4. Maintain a specific minimum ratio of liquid assets to deposit liabilities.

Together with the Bank of Jamaica Law, the Banking Law had set the stage for the conduct of monetary and exchange rate policies and for the regulation of banking in Jamaica. Despite the all-inclusive nature of these laws the Bank sought initially to influence commercial banks through the conduct of regular meetings with them.

Monetary and Exchange Rate Management: From the commencement of operations, the Bank of Jamaica was cognizant of the small-openness of the economy and its continued ties to the UK and the pound sterling. In the initial stages the Bank was careful to avoid any radical break with the past. In this regard regular meetings were held with the commercial bankers committee and the Bank used moral suasion and a consultative approach to monetary management. The Bank, however, was much concerned with the development of an independent monetary policy with its main objective being the maintenance of the external stability of the Jamaican dollar. This proved somewhat difficult because of the country's close link with the pound sterling. From the beginning of the decade of the 1960s, the Jamaican Bank Rate remained on par with that of the United Kingdom but as the UK adopted restrictive monetary measures and that Rate increased, the Bank of Jamaica had to adopt measures aimed at preventing capital outflows from the economy.

In 1965, the Jamaican Bank Rate was not reduced in keeping with the reduction in the U.K. Rate. Since then, the Bank had to adopt measures to protect the reserves, because of the general weakness of Sterling and the prevailing high rates of interest in the U.K. The automatic link with the pound sterling was removed in 1966, giving the Central Bank and Government freedom to establish an independent par value with the pound sterling and to take into account developments in the economies of other trading partners.

In 1967, the Jamaican dollar was devalued following a devaluation of the pound sterling. In order to ensure that the beneficial effects of the devaluation accrued to the economy and were not absorbed in price increases, the Jamaican Bank Rate was increased from 5% to 6%; the inward commission rate was reduced to 1/16% and the outward rate increased to 3/4%.

The situation changed somewhat in 1968, in that the commercial banks had considerable excess liquidity, due to substantial inflows of foreign funds resulting from the general instability of overseas money markets. With this added complexity, the Bank of Jamaica introduced a wider range of monetary measures to deal with the situation. Notable among these was the establishment of the Special Deposits Fund which allowed commercial banks to make special deposits with the Central Bank.

By 1969, the international monetary situation had once again stabilized and funds once more began flowing out of Jamaica. However, with increasing international interest rates foreign firms operating in the local economy turned to the local economy for credit. Owing to their seeming advantage of possessing better security there was a diversion of funds from domestic enterprises to foreign-owned enterprises. Credit expanded rapidly and foreign reserves declined. This forced the Central Bank to embark on selective credit restrictions aimed at controlling consumer credit and credit to the non-resident firms. Soon, thereafter, liquidity tightened and commercial banks turned to the Bank of Jamaica for credit.

The 1970s was a particularly challenging decade for the Central Bank as significant changes in the international financial system had a direct influence on monetary policy in Jamaica. In 1971, the suspension of automatic US dollar convertibility signalled the impending collapse of the Bretton Woods System of fixed exchange rates. By March 1973, the system finally collapsed giving way to generalised floating exchange rates. The international financial system was further shaken by the OPEC oil crisis. As in the case with many other developing economies, this crisis placed severe pressure on the Jamaican economy and on its external reserves. Since the attainment of independence the nationalist government had placed emphasis on industrialization and on the development of the mining sector. As such major developments had taken place in mining and in the manufacturing sector. Both of these sectors were heavily dependent on imported fuel.

In the light of increasing liquidity difficulties, Jamaica entered into its first Stand-by Arrangement (1 year) with the IMF for SDR 26.5 mn in June 1973. Despite the pressures on the country's external reserves, use was made of only 50% of the resources provided by the Fund. The monetary authority also effected a number of policy changes. These included:

(a) Devaluation of the dollar and the alignment of the currency to the US dollar instead of pound sterling.

(b) Amendment of the Banking Law to expand control over the non-banks (PDA institutions).

(c) Increase in liquid assets.

(d) Increases in the Bank rate and savings rate; and

(e) Tightening of exchange control regulations.

Between 1974 and 1976 the Central Bank utilized additional monetary policy instruments including rediscounting facilities to regulate credit and channel funds into priority areas. Despite these measures there was a substantial expansion in aggregate demand and further deterioration of the external reserves. Monetary aggregates seemingly expanded as a result of government's financing needs.

A dual exchange rate system was introduced in an attempt to stem the deteriorating position of the external accounts in 1977. In the absence of special monetary measures, consonant with the new exchange rate policy, the system failed and was terminated in 1978, with further devaluations of the dollar.

In 1978 Jamaica concluded negotiations for a three-year Extended Fund Facility (EFF) with the International Monetary

Fund. The currency devaluations and demand management measures implemented under this new agreement seemingly brought about some improvement in the reserve position between April and December 1978. During the first year of the programme, Jamaica drew the full SDR 70 mn. entitlement. In addition, SDR 16 mn. was purchased under the Compensatory Financing Facility to augment foreign exchange resources.

Between 1979 and 1980, with continued deterioration of the external accounts and increasing fiscal deficit, the monetary authorities continued to use demand management measures including a voluntary liquid assets ratio (for commercial banks) and interest rate increases, to deal with the situation. The Central Bank also introduced a new deposit scheme for external payment arrears in February 1980. Like earlier in the decade, against a background of a large fiscal deficit, monetary policy objectives were again unrealized.

With tighter control on money supply expansion and a new three year Extended Fund Facility in 1981 providing some SDR 536.5 mn., the monetary authorities continued to grapple with the economic problems. The first year of the 1981 programme was successfully completed. The second year, however, ended with a number of performance criteria being unfulfilled due to shortfalls in programmed external inflows. A waiver was received in March 1983. The problem of foreign exchange reserves was exacerbated by international recession impacting on the bauxite and alumina sector. The Central Bank therefore sought other ways of improving reserves and protecting the value of the local currency. These included the implementation of an auction system through which foreign exchange was accessed.

An Auction System for foreign exchange was established in 1983 and was supported by a new exchange rate policy. The authorities were, however, still faced with a problem of deteriorating reserves and continuing pressure on the exchange rate. With the implementation of an aggressive interest rate policy, the expansion in rediscounting facilities and the introduction of a deposit scheme for payment arrears, external reserves improved by December 1984. The measures implemented in 1984, remained in force throughout 1985 with some success.

In 1985, in order to consolidate the gains of 1984 and continue the policies initiated in the 1984/85 Stand-By programme, a 22 month Stand-by Arrangement for SDR 115.0 mn. was approved by the Fund. The programme involved further tightening of demand management and continued reliance on a flexible exchange rate system with policies designed to promote structural change and economic diversification. With improvement in the international economic situation and higher tourism and non-traditional export receipts, there was significant improvement in the current account of the balance of payments and stability in the value of the Jamaica Dollar.

In 1986, monetary policy was pursued within the broad framework of the financial sector reform programme. The principal objectives of this programme was the creation of an environment which would have been more conducive to efficient intermediation and the strengthening of the Central Bank's ability to influence money and credit variables. Monetary policy in 1987 was informed by the broader macro-economic objective of facilitating real growth within the constraints of improving the external accounts in a low inflationary environment. The Bank, however, at this time remained committed to its reform of the financial system and interfaced this with its demand management programme. Thus, in addition to the use of open market operations (primarily issuing CD's and Treasury Bills to mop up liquidity), interest rates and credit ceilings, the Bank commenced the phasing-out of the non-cash portion of the liquid assets ratio as well as reduction in overall liquid assets ratio of commercial banks and PDA institutions. In addition, rediscounting facilities and liquidity support facilities were re-instated to improve the flexibility of the Central Bank in conducting monetary policy.

Notably, these measures were implemented in the context of a 15 month Stand-By Agreement for SDR 85.0 mn. The agreement expired in 1988 with all performance criteria met.

The Central Bank essentially continued its management of the Financial Sector Reform Programme in 1988 - intensifying its use of open market instruments and interest rate policy in 1989. Importantly, a 20 month Stand-By Agreement for SDR 82.0 mn. signed in September 1988 was affected by the Hurricane Gilbert and the problems of excess demand and less than programmed reinsurance flows. Consequently many performance criteria were breached.

In 1990, with a tightening of foreign exchange inflows and increased balance of payments and inflationary pressures, the monetary authorities were forced to effect far-reaching policy changes. Recognizing that in order to restore price and exchange rate stability, it would be necessary to implement measures that encourage the free interplay of market forces, the authorities embarked on a programme of economic reform. This involved the deregulation of the financial sector an important feature of which was the liberalisation of the foreign exchange system.[2] Integral to the foreign exchange liberalisation was the introduction of an inter-bank foreign exchange system on September 17, 1990, which was also aimed at reducing the build-up of arrears in the system.

Under the new system, the responsibility of purchase and sale of foreign exchange for trade and payments (including CARICOM), was transferred from Bank of Jamaica to "authorized dealers". These dealers were, however, required to surrender a portion of their foreign exchange purchases to the Central Bank.

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[2]There was also the deregulation of the savings rate, effective September 1, 1990.

The exchange rate of the Jamaica Dollar vis-a-vis other currencies was to be determined by demand and supply forces. Effective January 1, 1991, the Bank of Jamaica also eliminated credit ceilings on commercial bank and specified financial institution loans as part of its emphasis on market forces in the allocation of financial resources and to facilitate the process of deregulation.

As a supporting measure and in an effort to regulate liquidity levels in the financial system, the BOJ increased the liquid asset ratio of commercial banks from 32.5% to 33.5% in January 1991. This followed the announcement of a phased equalization of cash reserve and liquid assets ratio of commercial banks and institutions licenced under the Protection of Depositors Act. In addition, a Repurchase Agreement for Treasury Bills was introduced on February 8, 1991, also to facilitate the Central Bank's management of liquidity. It was anticipated that with the implementation of the inter-bank foreign exchange system there would have been a substantial increase in foreign exchange inflows into the banking system. This, however, did not materialize. As a consequence there was accelerated slippage of the exchange rate and further build up in payment arrears. The authorities, therefore, effected further modifications to the foreign exchange market to improve flows.

These amendments related to the sale of foreign exchange to the Bank of Jamaica by authorised dealers; reduction in commercial banks' surrender requirements; removal of commissions and fees charged by commercial banks on purchases and removal of guidelines to enable a freeing up of the forward market. Concurrently, the Monetary Authorities also amended the Jamaica National Retained Accounts (JNRA) by increasing the level of foreign exchange retention by operators in the tourist industry.

In July 1991, in an attempt to further broaden the foreign exchange market, some building societies and PDA institutions were also granted licences as foreign exchange dealers, under the Exchange Control Act. Commercial banks were also empowered to appoint foreign exchange agents to act on their behalf in the buying of foreign exchange outside their premises.

The Central Bank's efforts at liberalizing the foreign exchange market culminated on September 25, 1991 with the implementation of the Exchange Control (Removal of Restrictions) Order. Apart from abolishing retained accounts, it allowed for CARICOM transactions to be settled by exporters or importers themselves; exporters to hold their own foreign currency accounts locally or abroad. This was followed by the Exchange Control (Removal of Restrictions (No. 2)) Order which established the system of 'Authorised Foreign Exchange Dealers' with the sole right to buy and sell foreign exchange, setting penalties and fines for offences against the Act.

With exchange rate and price stability of prime concern, the Central Bank continued to place emphasis on liquidity management in 1991. Consequently, on December 1, 1991, the Bank amended requirements in respect of the foreign currency reserves of Authorized Dealers, in order to ensure the protection of depositors' funds and facilitate the achievement of monetary policy objectives.

Effective December 23, 1991, amendments were made to Section 29 of The Bank of Jamaica Act to provide the Bank with greater flexibility in administering liquid assets requirements with respect to foreign currency deposits. The provision allowed for varying percentages to be fixed for different commercial banks over specific periods. This was intended to facilitate selective absorption of excess liquidity from the larger and very liquid banks and remove the disadvantage from smaller and less competitive banks.

The Repeal of the Exchange Control Act was finally signed on August 17, 1992. Three features of the old Act - the prohibition against trading in foreign currency except by an Authorized dealer; provisions under which the Minister of Finance can issue directions to specified classes of persons as regards the acquisition of foreign currency; provisions relating to offences - were deemed necessary and apendaged to the BOJ Act.

With the repealing of exchange control and deregulation of the financial system, it became evident that existing legislation was inadequate to ensure ordered expansion and development of the sector.

Further, with the growth in terms of numbers and size of institutions the need for adequate supervision was also heightened and it was recognized that there was insufficient flexibility in the old Acts to allow the authority to take remedial action where required. As a consequence, the Bank of Jamaica Act (1960) and the Banking Act (1960) were revised and a new Financial Institutions Act implemented in 1992.

In an attempt to further broaden the official foreign exchange market, new guidelines were established on January 6, 1994 for licensing of new authorized foreign exchange dealers on a limited basis. In addition, on February 2, 1994, a system of 'cambios' was established for the buying and selling of foreign exchange in an effort to marginalise the illegal market. The authorities also established on April 18, 1994, a new financial market arrangement, classifying a number of financial market intermediaries as Primary Dealers. Their role was to provide continuous underwriting support for all issues of BOJ and government securities, thereby providing secondary market liquidity for these same securities through an active two-way market. Essentially, through the trading of repurchase and reverse repurchase agreements, the Central Bank effected its demand management, which was integral to the control of inflation impulses and the maintenance of exchange rate stability.

As the new liberalized and deregulated system became more established, there was continuous 'fine-tuning' of the inter-bank guidelines and general foreign exchange trading regulations in an attempt to improve market efficiency and accountability.

8.2.2. Commercial Banking

The Bank of Jamaica (no relation to the present Central Bank) was the first commercial bank to be established in Jamaica. The bank was established in May 1836 by English merchants with connections in Jamaica. Whereas the House of Assembly granted the bank a charter of incorporation, authorizing a nominal capital of £300,000 and with limited liability, the United Kingdom Government subsequently disallowed the charter. Notwithstanding this, the bank continued to operate and prosper and by 1846 had six agencies in the island.

The Colonial Bank, incorporated in England in 1836, commenced operations in May 1837 and at its inception introduced bank notes into the monetary system alongside the then existing island cheques issued by the Receiver General. In 1839 the Planters bank was established primarily to cater for the needs of the sugar planters and by 1846 had eight branches operating. However, with deteriorating economic conditions and the bank itself over-extended, the institution was forced to liquidate operations in 1848. By 1864, the Bank of Jamaica closely affiliated to the sugar industry, also succumbed to the deteriorating economic conditions and terminated its operations.

With improvements in the economic conditions of the island in the late 1880s and increasing trade with Canada, many Canadian banks established branches on the island, increasing the level of financial intermediation. The influx of new banks however did not seem to result in much competition for deposits. In fact many banks did not seek to mobilize saving and idle balances as they did to finance trade and imports, and for many years approximately 50% of funds raised on current and deposit accounts were by gilt-edged investments. This situation was undesirable as occasionally, substantial amounts were applied directly from profits to write-down the value of investments.

In 1926, The Sterling Bank commenced operations, but failed by 1927. With the failure of banks on the increase, and the lack of provisions to safeguard depositors, the bank laws were subsequently revised.

Up until 1959 there were no American banks operating in the country. In 1960, however, First National City Bank established a branch in Kingston. Subsequently, two other banks with American connections commenced operating in Jamaica. By 1961 commercial banking was well developed in Jamaica. The banks offered current account facilities, time and savings deposit facilities, made advances for a wide variety of purposes and rendered a wide range of services. They were particularly active in financing of export agriculture, imports, hotel development and the provision of working capital for industry. They offered rediscounting facilities (mainly foreign bills).

In the early days, the financial system was characterized by the ease of convertibility of the Jamaican currency with the pound sterling. Commercial banking policies, in the absence of a Central Bank, were determined primarily by their head offices overseas. At the end of 1961, net foreign indebtedness to overseas head offices amounted to US$12.8 mn.

The participation of Jamaicans in the ownership of these foreign banks was, however, non-existent prior to 1967 when a system of "pure" branch banking operated in Jamaica. In December 1966, the Bank of Nova Scotia was incorporated in Jamaica with 25% of its shares sold to the Jamaican public, representing the first local participation in a foreign bank.

At the end of 1969, commercial banks operating in Jamaica were the Bank of Nova Scotia, the Barclays Bank DCO, the CIBC, the Bank of London & Montreal Ltd, the First National City Bank of New York, and the Jamaica Citizens Bank. These banks were branches of international banks and together had 106 branches across the island with main offices in Kingston.

The commercial banks experienced significant growth in the 1970s notwithstanding the economic conditions that prevailed in both the domestic and international environment. By the end of the 1970s there were ten commercial banks operating in Jamaica and the local/foreign ownership structure had altered significantly due to government ownership and government policy in general. With the upsurge in merchant banking, the commercial banks, however, faced competition from these institutions for deposits. This was particularly significant in 1974 when the inflationary effects of the oil crisis had a contractionary impact on real incomes.

In 1995 there were 11 commercial banks offering short and medium term credit to business firms and other customers **(Table 8.2)**. In the process of intermediation they invested funds acquired in Government Securities - Treasury Bills, Local Registered Stocks and Bank of Jamaica Repurchase Agreements.[3] Many banks have been innovative in the terms and conditions of many of their own instruments (term deposits) offering competitive rates of interest for specified amounts of funds. During the late 1980s and early 1990s commercial banks introduced a number of new financial services and products and seemingly kept pace with the competition generated by the development of new and varied financial institutions.

Banking Activities: During the 1970s and 1980s commercial bank credit was constrained by credit ceilings and other selective credit controls of the monetary authorities. These were enforced

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[3]Bank of Jamaica Certificates of Deposits were phased out in March 1995.

Table 8.2. Jamaica: Capital Structure of Commercial Banks' (1976-1990)
(End of Period) (J$mn.)

Banks	1976			1981			1986			1990		
	Foreign	Local	Total	Foreign	Local	Total	Foreign	Local	Total	Foreign	Local	Total
BNS	4.6	2.0	**6.6**	4.6	2.0	**6.6**	35.6	15.2	**50.8**	85.4	36.6	**122.2**
NCB	8.0	-	**8.0**	-	10.0	**10.0**	-	60.0	**60.0**	-	90.0	**90.0**
WSLB	-	-	**2.3**	-	4.1	**4.1**	-	14.6	**14.6**	-	14.7	**14.7**
MSB	2.3	0.8	**3.1**	2.3	1.8	**4.1**	2.4	16.8	**19.2**	-	25.1	**25.1**
JCB	2.7	1.6	**4.3**	-	4.0	**4.0**	-	8.0	**8.0**	0.5	29.5	**30.0**
CIBC	2.5	-	**2.5**	3.5	-	**3.5**	-	8.7	**8.7**	10.7	8.7	**19.4**
CNB	-	-	-	-	-	-	-	-	3.2	-	30.0	**30.0**
CBNA	2.5	-	**2.5**	2.9	-	**2.9**	-	5.0	**5.0**	7.3	-	**7.3**
FJNB	2.0	-	**2.0**	-	2.0	**2.0**	2.3	-	**2.3**	-	5.0	**5.0**
BCCI	-	-	-	-	-	-	-	-	-	2.3	-	**2.3**
ECB	-	-	-	-	-	-	-	-	-	-	30.0	**30.0**
Bank of Montreal	2.0	-	-	-	-	-	-	-	-	-	-	-

Notes:

[1] Barclays
[2] RBJ
[3] FNCB
[4] FNBE

Source: Bank of Jamaica; *Annual Reports* of Commercial Banks.

in the banking system to contain inflationary and balance of payments pressures which accompanied the expansion in money supply. As the economy continued to experience demand pressures these instruments were used to restrict credit in general, and in particular, consumer oriented loans. With increasing balance of payments and inflationary pressures, consumer credit ceilings were re-imposed in the latter part of the 1980s. In 1990, however, broad ceilings were applied to commercial bank and non-bank lending as foreign exchange pressures increased and the current accounts position on the balance of payments deteriorated. This was manifested in successive devaluations of the dollar.

Between 1989 and 1990, credit expansion by the banking system facilitated increased demand for imports and hence foreign exchange. In this regard, monetary policy measures were aimed at reducing credit expansion by the banking system.

These measures included:

(a) Imposition of broad credit ceilings which were adjusted on a quarterly basis.

(b) Phased increases in liquid assets/cash reserve ratio.

(c) Increased penalties on the early encashment of Treasury Bills.

(d) Increased open market operations (CD's and Treasury Bills).

In January 1991, however, broad ceilings on credit were removed by the Central Bank under the 1991 monetary policy programme which sought to facilitate a deregulation of the financial system.

The deposit maturity structure of commercial banks are largely influenced by interest rates and the lending activities of these institutions. Between the latter part of 1989 and early 1990, short term fixed deposits (up to 6 months) have been particularly attractive as rates offered have been in excess of 20% per annum, compared to longer term deposits which earn below 20% per annum. This pattern is influenced by:-

1. Interest rates, maturity structure and yields of Certificates of Deposits (CD's) and Treasury Bills.

2. The volatility of the economy and the emphasis of borrowers on acquisition of foreign exchange for imports.

3. Competition from other financial institutions for deposits - resources.

Savings deposits continued to grow despite high inflation rate. However, the commercial banks had to reduce the range on time deposit rates in order to attract these funds away from merchant banks, particularly in 1974. Whereas savings deposits were maintained primarily by low and middle income earners, time deposits offered attractive investment opportunities to middle income and upper income earners. The gap between rates offered on savings (which remained fixed and determined by the monetary authorities) and fixed deposits widened significantly in the 1980s. For example, whereas at the end 1980, the savings rate was 9%, time deposit rate on maturities 6 months and less than 12 months was 10 1/4% at the top of the range. At the end of 1984, the comparable rates were 13% in respect of savings and 20% at the top of the range, for time deposits. Prior to the increase in savings rate in November 1989, savings at 13% was 9.2% below the top time deposits' rate.

An initial step in the deregulation of the financial sector, was the deregulation of banking hours whereby commercial banks were allowed to establish their own banking time schedules. Effective October 1, 1990, the floor on commercial banks savings rates was removed as the authorities sought to reduce the distortions in the interest rate structure of the banking system. However, as the environment in which the banks were operating became more competitive, these institutions began to venture into other areas in order to improve their viability. The removal of credit ceilings on January 1, 1991 had provided for an expansion in loans and advances by commercial banks. However, given the anticipated opportunities in the foreign exchange market consequent on further liberalization, commercial banks apparently concentrated their efforts in that market.

As a result of a faster growth in expenses attributed in the main, to the higher cost of deposit funds (interest rates) and increased investment in fixed assets particularly real estate, many commercial banks, however, experienced severely weakened profit positions in 1990. Many financial institutions competing for funds were forced to offer interest rates on deposits far in excess of rates earned on their assets, thereby placing strain on their operations. In addition, pressures in the foreign exchange market following the establishment of the inter-bank system also impacted on their overall profitability.

It was expected that the inter-bank market and the removal (in May 1991) of the limit on inflows into foreign exchange accounts would facilitate an increase in the level of foreign exchange inflows into the banking system. However, this did not immediately materialize, and instead, the illegal market continued to expand placing further pressure on the exchange rate.

Against the background of the accelerating devaluation of the Jamaica Dollar however, the Jamaica Bankers' Association (JBA) on June 10, 1991 initiated the implementation of standards and procedures for the conduct of the foreign exchange market. It was agreed by members that each bank would set its exchange rate within pre-determined bands on a daily basis, as part of their effort to bring some order to the foreign exchange market. A maturity period of in excess of 30 days was also established for the forward market (changed to Futures Market) with no cash transactions allowed in order to reduce speculation. With further fine-tuning of the foreign exchange market, and with improvement in expertise as well as implementation by the banks of innovative ways to inhibit the expansion of illegal foreign exchange market, many banks returned profit making positions in 1991. The liberalization of the foreign exchange system and the establishment of authorized dealerships, however, highlighted the need for greater monitoring of deposit taking institutions by the Central Bank to ensure the protection of depositors. In this regard, prudential reserve requirements were established for commercial banks which were also required to conform to acceptable standards in respect of foreign exchange exposure. Many institutions, finding difficulty in remaining competitive, partly owing to the nature of their operations and the limitation of their licences, had been forced to broaden their scope through the acquisition of other financial institutions giving rise to the financial conglomerate phenomenon in Jamaica. These developments further emphasized the importance of the supervisory role of the Central Bank and the need for adequate legislations to ensure the protection of depositors.

The Jamaica Banking Act was revised in September 1992, to address greater protection of depositors and provide for greater scrutiny of the activities of these institutions, in the context of deregulation and liberalization of the financial sector. The major provisions that were amended related to the following :

(a) The licensing of banks.

(b) Stipulation of a capital requirement of not less than J$80 mn.

(c) Protection to shareholders and depositors while not attempting to inhibit innovation.

(d) With regards to a Group Treatment, the requirement that where a bank is a member of a group of companies, the bank's responsibilities are not prejudiced by its connections with other members of the group.

(e) Stricter controls on insider loans; and

(f) Provisions for institutions or persons participating in the financial industry to meet managerial and shareholder requirements.

8.2.3. Trust Companies

Trust companies commenced their operations in Jamaica in the early 1960s as commercial bank affiliates. By the end of 1969 only one trust institution (West Indies Trust) operated independently of commercial banks. The development of these institutions in the 1960s coincided with the start of the building boom when there was a high demand for residential mortgages. The resources of these institutions consisted mainly of local deposits, bank borrowing and share capital subscribed by the parent commercial banks. Their lending activities were concentrated in long term mortgages although the lending activities of the non-affiliated company was more varied and included some consumer credit and other short term credit normally provided by commercial banks.

Trust companies, whose services were largely duplicated by the merchant banks, declined in numbers from ten in 1981 to three in 1990, and at the end of 1993, with the revocation of West Indies Trust's licence, ceased to exist in their "purest" form.

Trust companies had their beginnings as off-shoots of the commercial banks. These institutions which were subject to the Money Lending law, also competed with the commercial banks, notwithstanding the fact that they provided mortgage facilities to the customers of their commercial bank affiliates. In 1975, trust companies were also licensed under the Protection of Depositors Act.

Lending activities: With increasing competition from other financial institutions (particularly merchant banks), trust companies attempted to broaden their lending activities beyond the provision of mortgages in the 1970s and 1980s. In order to access additional funding in November 1970, the trust companies argued for, and were successful in gaining, approval from Bank of Jamaica to qualify for rediscounting facilities. As a consequence of institutional limitations, however, growth of the overall group was slower than the other financial institutions.

Following the sharp deterioration in the balance of payments and accompanying economic problems, the Bank of Jamaica on 25th January 1974, also tightened credit restrictions and brought their lending activities under credit controls. Short-term (net) foreign borrowing as well as short-term lending (under 3 years) were restricted. Credit ceilings were also applied to the lending activities of these institutions, restricting credit for the distribution and personal lending categories, although broad restrictions were later abolished. These institutions' lending throughout the 1980s continued to be influenced by the monetary policy measures of the Central Bank and with continued competition from building societies and based on the limitations of their operations, their prominence as mortgage lenders began to diminish. Additionally, their other services were also being efficiently provided by other financial institutions.

Mortgage financing is the principal type of loan activity conducted by the trust companies, accounting for in excess of 80% of total outstanding loans. Prior to January 1, 1991, when credit ceilings were removed, loan activities of the trust companies were also affected by broad credit controls which had an impact on the overall revenue of these financial institutions. Similar to other PDA institutions, trust companies invested significant funds in high yielding short-term securities (CD's, Treasury Bills) in order to increase their profit margins, especially in 1989 and 1990.

Sources of Funds: The competition for deposits with the emergence of merchant banks was a major problem for trust companies in the early 1970s. With the relatively high rates being paid by merchant banks and limits placed on rates charged on loans under the Money Lending Law up to the end of 1970, these institutions also lobbied to be exempted from such provisions.

Competition for deposit resources among financial institutions continued throughout the 1970s as economic conditions worsened. With credit expansion in the second half of 1973 generating serious inflation, the monetary authorities were forced to place restrictions on the operations of financial institutions. As a consequence, guidelines were issued restricting trust companies and other specified financial institutions from accepting deposits at call and up to 7 days. It was noticed, however, that this measure had very little impact as many shifted to '8 day deposits', continuing to rely on the short-term end of the market.

With improvement in economic conditions in the early 1980s, there was a noticeable shift of funds to the longer term end of the market as foreign exchange flows and liquidity levels improved. However, by the latter part of the decade particularly after Hurricane Gilbert in 1988, there was increased demand for imports and foreign exchange and as a consequence, competition for short-term deposits increased. The trust companies, in an effort to compete for funds were also forced to offer higher rates. Additionally, high rates prevailing on CD's and Treasury Bill short-term instruments also had the effect of pushing rates upwards.

Trust companies licensed under the Protection of Depositors Act have their operations regulated by the Bank of Jamaica. The number of these financial institutions, all affiliates of commercial banks, have been on the decline since 1986/87. The services offered have been effectively duplicated by the merchant banks, many of which are subsidiaries of commercial banks. The trust companies, in addition to their trustee services, offer mortgage facilities and though limited, other loan services. However, their licence does not permit lease financing arrangements, which in the current economic scenario, is a major income earner for merchant banks in particular. At the end of 1990 total assets and liabilities of trust companies stood at J$109.1 mn., with deposits at J$86.36 mn. and loans outstanding at J$74.84 mn.

Trust companies, in order to effectively compete with other financial institutions for resources, have offered relatively high interest rates on deposits. However, in view of the fact that their loan activities are primarily long-term, their deposits have been similarly structured, offering higher rates on longer term categories. This has been a negative for these institutions, however, given the highly competitive financial environment which prevails since 1986/87. Generally, customers in their effort to speculate on the value of the Jamaica dollar and with increasing expenditure on imports (primarily consumer goods) have often preferred to save short-term. Notably the prevailing high rates offered on deposits have also implied high lending rates, or more specifically high mortgage rates. As a consequence, many customers have either sought to divert their funds to the more flexible merchant banks or have moved to building societies which offer lower interest rates on mortgages.

8.2.4. Building Societies

The building society movement also expanded significantly during the credit boom period of the early 1960s as demand for mortgage financing grew considerably. Between 1961 and 1969 the number of such institutions grew significantly - notwithstanding a number of mergers of the smaller companies to facilitate expansion in their operations.

The number of building societies operating in Jamaica contracted from 16 at the end of 1971 to five at the end of 1989. The reduction in the number of institutions resulted primarily from mergers of smaller institutions with larger ones in an effort to maintain economic viability and improve services to customers. Notably the bulk of the mergers took place between 1970 and 1978. By the end of 1989, all the societies fell under the umbrella of the Building Societies Association of Jamaica (1959) which requires a certain minimum ratio for liquid funds and reserves, for all members.

The pace of growth of the societies was relatively strong in the early years of the 1970s, growing at an average annual rate of 43.6% by the end of 1976. The rate of savings growth in the 1980s (as was the case in late 1970s) was somewhat stunted by the high market interest rates which tended to surpass significantly, limits imposed on the societies.

In addition, the activities of these institutions were confined to investment portfolios restricted by the Building Societies Act which dates back to 1897. Notwithstanding this, the assets of the building societies grew to J$2,268.1 mn. at the end of 1989 from J$57.4 mn. at the end of 1971. By 1990, there were six building societies operating in Jamaica with assets and liabilities totaling J$2848.8 mn.

All except one building society, had some affiliation with another financial institution (commercial bank or PDA institution) indicating a close relationship in their operations. This situation largely evolved from the competitive financial environment in which these institutions operate which encourages a pooling or expansion in available resources and services to meet the needs of customers.

The building societies are governed by the Building Societies Act which requires parliamentary approval for adjustment of interest rates. Because of the inability of these institutions to adjust mortgage rates, loans offered through these institutions have been cheaper to members than those acquired from other financial institutions. On the other hand, deposit rates have been forced to remain low as dictated by the relatively low lending rates. Notwithstanding the lower deposit rates, these institutions have been very successful in attracting members because of their mortgage facilities. As a consequence, other institutions have expanded their operations to encompass building societies particularly since 1986/87 because of their success in mobilizing savings. This success in mobilizing savings has been supported by the broad base of the institutions in terms of location in Jamaica and overseas, and the traditional record they possess in terms of providing funding for homes at a more affordable rate for Jamaican migrants and residents.

Lending activity: The loan operation of building societies is primarily in the area of mortgage financing for members and traditionally favors the owner-occupied category. Because of the escalating cost of housing since 1983, the average loan size has increased significantly while the rate of growth in the number of loans has slowed somewhat. Whereas other financial institutions have been subject to credit restrictions, these institutions are not directly regulated by the Central Bank monetary policies, a factor which has favored the establishment or acquisition of this type of institution, by other financial institutions.

Deposits: Deposit inflows into these institutions are largely in the form of share-holdings which influence the ability of members to access loans. Interest rates offered on regular share accounts are very low. However, higher rates are payable on fixed deposit accounts. Because of the comparatively low rates that building societies are forced to offer generally on deposits, the availability of funds for on-lending is lessened. However, they generally invest in high interest earning/securities in order to improve income.

8.2.5. *Life Insurance Companies*

A rapid expansion of the life insurance companies also coincided with the boom of the building and construction sector. For example, between 1960 and 1963 total premiums paid on life insurance policies grew at a faster rate than the levels of savings in commercial banks. The insurance companies in turn invested a significant proportion of these savings in government securities and in 1963 were responsible for 18.6% of LRS issued that year. The support of local stock issues by life insurance companies, in particular, provided considerable assistance to the development of the capital market as encouraged by Bank of Jamaica.

During FY 1964/65, GOJ introduced a number of measures affecting the insurance industry in continuation of its policy of strengthening and improving financial institutions. Included in these efforts was the Motor Vehicle Insurance (Third Party Risk) Amendment Act of 1964 which was enforced on July 16, and which required the registration of all motor vehicle insurers in Jamaica.

8.2.6. *Credit Unions*

The first credit union in Jamaica commenced operations in 1941 with 98 members. In 1942, the Jamaica Co-operative Credit Union League was established. By the end of 1969, the number of institutions had grown to 132. The credit union movement was seen as important to the provision of cheap funds to low income earners as well as provide a source of financial advice for small upcoming business entrepreneurs.

The number of institutions which constituted the credit union movement fell from 127 at the end of 1971 to 86 at the end of 1989. This reduction stemmed from a number of closures and mergers which resulted from the competitive financial environment which prevailed in this period. Simultaneously, however, total savings moved from J$9.6 mn. at the end of 1971 to J$582.1 mn. at the end of 1989 with loans moving in a similar direction from J$9.2 mn. to J$555.6 mn. at the end of 1989. At the end of 1989 the membership had grown to 342,144.

The credit union movement in 1990 continued to provide a source of loans for low to middle income borrowers who acquire shares in these institutions. They bring institutional services to rural and urban areas not generally served by major financial institutions. In view of the fact that many of their members are generally new entrants to the financial system, the growth of these savings could reflect increased monetisation of the economy, rather than re-allocations of existing financial balances from one institution to another. Prior to 1987, before there was a change in the taxation regime, saving with the credit unions offered a very attractive incentive, as funds accumulated in these institutions were exempted from income tax. This largely explains the growth in the movement in the 1970s and early 1980s.

The demand for credit from the credit union movement has increased over the years as economic conditions become tighter for the middle to low income earner. Between 1965 and 1972 loans advanced by credit unions rose from J$4.4 mn. to J$13.1 mn. By the end of 1979 loans had moved to J$112.6 mn., increasing rapidly thereafter to J$642.6 mn. at the end of 1990. The interest rate on loans from credit unions are, however, fixed by government and as such, responses to market conditions are slower. As a result the rates are generally lower (12.0% per annum on reducing balance at end of 1990) than those which prevail in other financial institutions. This is, however, seen by the movement as a negative factor which can cripple the movement as economic conditions deteriorate and market rates increase.

Because of the low rates charged on loans, credit unions are generally able to offer only very low rates on deposits. As a consequence, they find it more difficult to compete with other financial institutions for savings. Notwithstanding this, savings have moved from J$2.3 mn. in 1961 to J$57.1 mn. in 1977 and to its current level of J$684.0 in 1990. Whereas growth in the movement in the 1970s and 1980s was influenced by tax incentives, the continued growth in savings can be explained by the growing demand for low interest loans to purchase goods in an increasingly inflationary period. As a consequence, individuals have sought to build-up share accounts in order to qualify for larger loans.

8.2.7. Government Savings Bank

The Government Savings Bank was established in 1870 to control and operate a number of private banks then in existence. The bank, with a great network of branches (later through the postal services), provided a place of safe-keeping for the funds of the many peasants in the early plantocracy.

In 1932, the GSB was organized as a separate government department with its own management and staff appropriate to the needs of a savings bank. By 1957, the investment policy of the bank was altered, enabling it to invest its deposits in Local Registered Stocks issued by the Government of Jamaica instead of other Commonwealth securities.

With the expansion of commercial banking in the 1960s however, the growth of these institutions slowed significantly as the foreign-owned institutions brought with them more sophisticated financial services and improved returns on savings. At March 1960, the level of deposits of the GSB was J$9.5 mn.

while loans and withdrawals were J$10.3 mn. and J$9.2 mn. respectively. By 1968, the level of deposits had only grown to J$11.6 mn. while loans and deposits were J$17.5 mn. and J$11.0 mn. respectively.

8.2.8. Merchant Banks

In the early 1970s, there was an upsurge in merchant bank activity with the first such institution established in late 1969 and increasing to a total of six by 1973. These institutions grew out of the need to provide medium and long term financing for the business sector in particular. In this regard, the development of the money-market was a major part of the functions of merchant banks.

The development of merchant banks was not viewed initially as detrimental to the growth of commercial banks which operated mainly in the short-term market. However, as these institutions increased their borrowing on the short-term market in order to maintain their longer-term lending, the competition with commercial banks became a matter of concern. With a good deal of short-term money seeking the best possible return, the competition for deposits became even more fierce.

With the continued growth in merchant banking, there was a growing need to regulate their activities (particularly in the area of loans), in light of the fact that their operations were not covered under the provisions of the Banking Law of 1960, although these institutions were taking deposits and lending as principals. Thus in January 1975, all merchant bank type institutions were brought under the umbrella of the Protection of Depositors Act and subjected to periodic inspection of their accounts.

The growth in merchant banking in Jamaica has been quite phenomenal between 1986 and 1990 as the number of such institutions grew from eight to twenty-two. A major impetus behind the expansion in merchant banking lies in their lease financing activities, which have been fuelled by increasing costs of goods and services. Of particular interest is the funding of motor vehicles and industrial equipment purchases. Devaluation of the Jamaica dollar have had significant impact on the price of capital equipment and as a consequence many business firms have had to seek assistance in terms of lease financing from these institutions.

Merchant bank operations are governed by the Protection of Depositors Act and their activities regulated by the Bank of Jamaica. At the end of 1990, total assets and liabilities of these institutions amounted to J$4526.9 mn., with deposits at J$2.84 bn. and loans outstanding at J$2.86 bn.

Lending activities: Merchant banks, as money lenders, were expected to operate primarily in the medium and longer-term market, offering financing to the business sector. However, as these institutions grew, they became very involved in the short-term money market offering credit to importers at rates competitive with commercial banks. In 1974, with continuing deterioration in reserves and the breaching of IMF credit guidelines at the end of 1973, partly due to the fact that merchant banks and trust companies were not included in the original projections, the Bank of Jamaica took the decision to restrict merchant bank lending with a maturity of less than three years to amounts outstanding at 31st January 1974.

As the economic conditions in the country continued to worsen, credit ceilings were also imposed on the lending of these institutions, bringing them in line with commercial banks. In the 1980s as the lending activities of merchant banks became more supportive of the import orientation of many business firms, the deposits of these institutions became more concentrated in the short-term financing. This further increased their competition with commercial banks and resulted in higher interest rates prevailing in the financial system.

The lending operations of the merchant banks have also been influenced by monetary policy measures, in particular, credit controls which were effected by the monetary authorities, up until January 1991 when these were removed. Notwithstanding this, instalment credit and lease financing arrangements continue to be a major aspect of the loan operations of the merchant banks. The major areas of loans offered by the merchant banks are:

1. Commercial/private motor vehicle purchases.
2. Real estate.
3. Industrial and agricultural equipment.
4. Local manufactured products.

In view of the fact that their statutory liquid assets requirement have been below that required for the commercial banks (at the end of 1990 liquid assets requirement for PDA 8.0%, commercial banks 33.5%), these institutions generally have available, more resources for lending. Merchant banks now fall under the legislative authority of the new Financial Institutions Act.

Based on the fact that these institutions have been largely involved in the short-term financing, the merchant banks can be seen as competing with or duplicating the services of commercial banks; particularly because many of these institutions are affiliates of the commercial banks. In fact in earlier times, with increasing credit restrictions placed on commercial banks by the Central Bank, funds were often channelled through these institutions as a means of bypassing monetary policy regulations.

As the monetary authorities intensified its regulatory function over these institutions, pressure was placed on them to also adhere to credit restrictions as well as other monetary policy measures which were implemented to contain demand. As a consequence, the incidence of commercial banks limiting the effectiveness of monetary policy through merchant banks have been significantly reduced since the 1980s.

Notwithstanding this, merchant banks have not fulfilled their initial role as players in the medium to long-term market. However, the flexibility of their operations has been limited by their inability to create demand deposits, an issue which is being defended by these institutions. Despite these considerations the number of institutions converting their operations to merchant banking from trust company or finance houses continues to grow. Similar to commercial banks, however, merchant banks also experienced reduced profit positions in 1990, relative to 1989.

Merchant banks, like the commercial banks, also experienced reduced profit positions in 1990 consequent on their intense competition for deposits through high interest rates. Notwithstanding this, the numbers of institutions continued to grow, though more slowly, between 1990 and 1994. The increase in this period, represented not the entry of new institutions into the financial system, but the conversion to merchant banking, by existing trust companies whose activities were steadily being marginalised by the lease financing activities of the merchant banks and, who consequently sought to cross over before the new FIA legislation was implemented.

Against the background of an expansion in the foreign exchange market after liberalization, and, with implementation of the new FIA legislation in 1992, which required greater scrutiny of their operations, there was a noticeable deceleration in the growth rate of overall operations of merchant banks. In fact, it was only those institutions with limited foreign exchange dealership status which appeared to experience improved earnings.

The new Financial Institutions Act applies to near-bank financial institutions (i.e. merchant bank, trust companies, finance houses), which, unlike commercial banks, are not permitted to take demand deposits.

Major provisions relate to the following:

(a) Licensing of merchant banks.

(b) Minimum levels of capital (subscribed capital - J$25 mn. and unimpaired paid-up capital - at least J$20 mn).

(c) Minimum levels of deposit and provisions for possible loan losses.

(d) Greater scrutiny of persons acquiring control of institutions.

(e) Strengthening of the powers of Bank Supervision.

(f) Stricter controls on activities such as insider loans.

(g) Comprehensive mechanism for identifying and dealing with offences.

Deposits: The deposit structure of merchant banks in the period of the 1970s was primarily skewed to the longer-term maturities. With the demand for medium and long-term capital very great, and the supply from domestic resources very limited, the competition for longer-term deposits was very high. In fact it was the view then that unless more foreign capital was brought in, domestic interest rates would soar to uncontrollable heights. With increasing demand for these institutions to lower interest rates, however, members argued that the 10% ceiling under the Money Lenders Law (1938) restricted their flexibility in adjusting rates and argued for greater flexibility.

With the inclusion of these institutions under the Protection of Depositors Act in 1975, the Bank of Jamaica sought to gain greater monitoring of the deposit-taking aspect of their operations. As a consequence, monthly reports on the maturity structure of deposits were requested, the deposit structure being brought in line with that of commercial banks.

Merchant banks have been extremely aggressive in their mobilization of deposits particularly since 1987. Offering very high interest rates, these institutions have continually been able to attract substantial funds to support their lending activities.

The deposit structure of the merchant banks in 1989 and 1990 was largely skewed in favor of short-term flows, the rates offered being influenced by those prevailing from Bank of Jamaica's open market operations.

8.2.9. Government Development Banks

Both the Agricultural Credit Bank (ACB) and the National Development Bank (NDB) were established in 1981. These institutions born out of the Jamaica Development Bank (1969) which commenced winding-down operations soon after, were created primarily to assist small farmers and entrepreneurs through the provision of medium to long-term financing. Funding of these institutions is provided from foreign and local sources with Jamaica government guarantees . Funds acquired are channelled through Peoples Co-operative Banks (PC Banks), commercial banks and PDA institutions.

At their inception, it was conceived that loans secured from the resources of the ACB should be onlent at rates well below market rate as a subsidy to small farmers and small entrepreneurs. Since 1988, these funds onlent by commercial banks and PDA institutions were also exempted from credit controls imposed by the Central Bank.

The ACB and NDB continued to grow in 1990, and at the end of 1990, ACB's assets had moved to J$679.8 mn. from J$183.7 mn. at the end of 1986, while that of NDB moved to J$592.2 mn. from J$1457.7 in 1986. Their expansion was facilitated in 1989 and 1990 not only by restructuring needs following the 1988 hurricane but, by the concessionary rates offered also on loans as well as exemptions of their funding from banking system credit controls. The lending activities of these institutions as of 1991 is expected to be somewhat affected by higher interest based on the requirements of overseas lending agencies which stipulates the application of market determined rates.

8.2.10. The Trafalgar Development Bank

This is Jamaica's first privately owned development bank which commenced operations in May 1985. The Bank offers medium and long term loans, lease financing as well as project development and technical services in the productive sectors (mainly agriculture, manufacturing, tourism). By the end of September 1989, the assets of the company were J$146.4 mn. (J$42.8 mn. in 1986) while loans grew to J$106.0 mn. (from J$16.4 mn. in 1986). At the end of 1990 assets of the company were J$214.9 mn.

The Trafalgar Development Bank also continued to exhibit growth in 1989 and 1990, injecting substantial developmental financing in the manufacturing and tourism sectors, in particular. Attracting significant foreign equity financing as well as other loans from overseas development financiers, this private institution experienced asset growth of J$172.2 mn. between 1986 and 1990.

8.2.11. Finance Houses

These financial institutions have generally been active in the short-term market providing interim financing. Their numbers have, however, been declining since 1986 when nine institutions were in existence. At the end of 1990, six institutions were operational with the numbers falling to five in February 1991.

The services offered by finance houses, also duplicated by the merchant banks, include lease financing and instalment credit (hire purchase) arrangements. Interest rates since the late 1980s have also climbed significantly in these institutions as inflation and other demand related factors have been on the rise. At the end of 1990, total assets and liabilities of finance houses stood at J$265.8 mn.

The loan activities of the finance houses have generally been directed to consumer oriented financing. As has been the case with the other PDA institutions, monetary policy instruments including credit restrictions and adjustments in liquidity ratios affecting such loan expansion have been effective especially between 1985 and 1990. Accordingly, high interest rates featured in the system since 1985 and as conditions tightened with Bank of Jamaica's policy measures to absorb liquidity, interest rates rose even further. Notably, the interest rates on hire purchase are calculated on an add-on basis and hence tend to be even higher than general commercial rates. In addition, because of the high rates offered to attract deposits, lending rates have been further pressured in this period.

The deposit structure of these institutions between 1985 and 1991 indicates a concentration of flows in the short-term categories which offer more attractive rates of interest. These rates have been largely influenced by the rates offered on short-term CD's and Treasury Bills.

With the competition for deposits since mid-1980s, many of these institutions have been forced to find innovative ways to attract deposits. These have included very low interest mortgage saving plans and other special concessions for members.

Many finance houses, notwithstanding their ability under the FIA, to offer lease financing, also converted their operations to merchant banking which, they considered, facilitated a wider scope of operations.

8.2.12. The Jamaica Stock Exchange[4]

Objectives and Administration

The Jamaica Stock Exchange was incorporated as a private limited company in August 1968 and commenced operations on February 3, 1969. Its principal objectives are:-

- to promote the orderly development of the stock market and the Stock Exchange in Jamaica.
- to ensure that the stock market and its broker-members operate at the highest standards practicable;
- to develop, apply and enforce rules designed to ensure public confidence in the stock market and its broker-members;
- to provide facilities for the transaction of stock market business; and
- to conduct research, disseminate relevant information and maintain local and international relationships calculated to enhance the development of the Jamaica Stock Market.

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[4]For this section excerpts are taken, in several cases verbatim, from the Jamaica Stock Exchange Website on the Internet.

The Exchange is governed by a Council/Board of Directors which consists of :

- The Governor of the Central Bank (Bank of Jamaica) or his nominee
- A representative of the Ministry of Finance
- Three persons other than seatholders
- Up to six seatholders representing members

Listings

Three types of securities have over the years been, and are currently, listed and traded on the Exchange. These are:

(a) Ordinary/Common shares, for which there are presently 47 issues

(b) Preference Shares, of which there are presently 14 issues; and

(c) Corporate Bonds, of which there are now two issues.

Government bonds are not listed on the Jamaica Stock Exchange. These are traded by the Bank of Jamaica in an over-the-counter market. For the first time in Jamaica' s history a US dollar share was listed on the Jamaica Stock Exchange on Thursday, July 18, 1996. This was the Citizens Bank US Dollar Convertible Cumulative Redeemable Preference Share. Listing of securities on the Exchange is in the absolute discretion of the Council of the Exchange which may delegate such powers to a duly appointed committee. The minimum requirements for the listing of a company's securities, as at mid-1997, are:

(a) Total issued share and loan capital of $200,000 or more; the share capital portion being not less than $100,000.

(b) In the case of ordinary shares, a minimum of 100 shareholders holding in their own right not less 200% of the issued ordinary capital (such percentage being not less than $50,000 nominal value), excluding the holding of one or more controlling share.

Companies incorporated or registered in Jamaica may be listed by one of the following methods:

(a) Prospectus Issue: an offer to the public by or on behalf of a company at a fixed price;

(b) Offer for Sale: an offer to the public, by or on behalf of a third party at a fixed price;

(c) Offer by Tender: an offer to the public by or on behalf of a company or a third party by tender;

(d) Placing: an offer through broker-members of the Exchange to sell the securities of a company to the public; and

(e) Introduction: where none of the company's securities is being offered to the public.

Listed companies are required to conform to provisions of the Companies Act of Jamaica and to provide the Exchange with annual audited financial statements with certain minimum information and within specific time periods. In addition, listed companies are required to submit quarterly unaudited financial returns.

Table 8.3. Recent Evolution of the Jamaica Stock Exchange (1986-1990)
(Currency in millions; end of period levels)

	1986	1987	1988	1989	1990
Number of Listed Companies					
Jamaica Stock Exchange	40	43	44	45	44
Market Capitalization					
In Jamaica Dollars	2,940	3,470	4,290	6,200	7,320
In US Dollars	536	631	796	957	911
Trading Value					
In Jamaica Dollars	375	400	137	516	230
In US Dollars	68	73	25	90	32
Turnover Ratio	17.0	12.5	3.5	9.8	3.4
Local Index					
JSE Index (Jun. 30 1969=110)	1,499.9	1,515.1	1,439.2	2,075.8	2,539.4
% Exchange in Index	59.3	1.0	-5.0	44.2	22.3
P/E Ratio	-	-	5.7	7.0	7.0
P/BV Ratio	-	-	-	-	-
Dividend Yield (%)	2.5	3.1	2.5	3.4	3.9

Table 8.3. Recent Evolution of the Jamaica Stock Exchange (1991-1996) - Concluded
(Currency in millions; end of period levels)

	1991	1992	1993	1994	1995	1996
Number of Listed Companies						
Jamaica Stock Exchange	44	48	50	50	51	50
Market Capitalization						
In Jamaica Dollars	22,215	76,974	41,879	58,018	50,756	66,116
In US Dollars	1,034	3,227	1,469	1,753	1,391	1,887
Trading Value						
In Jamaica Dollars	1,157	4,678	8,347	5,155	11,560	4,629
In US Dollars	96	386	336	158	341	132
Turnover Ratio	5.2	9.4	19.9	8.9	21.3	-
Local Index						
JSE Index (Jun. 30 1969=110)	7,681.5	25,745.9	13,099.7	16,676.7	14,267.0	16,616.0
% Exchange in Index	202.5	235.2	-49.1	27.3	-14.4	16.5
P/E Ratio	13.4	22.0	7.3	8.4	7.9	-
P/BV Ratio	-	6.8	2.6	2.5	1.4	-
Dividend Yield (%)	2.8	2.6	1.3	3.1	1.8	-

Source: IFC Emerging Stock Markets Factbook, 1996; and the Jamaica Stock Exchange.

Trading

Stocktrading is restricted to broker-members who trade both as agents and as principals. In the latter capacity, certain restrictions apply to transactions between a broker and his own client. Trading is presently done by an"Open Outcry System", under which brokers with the best bids and offers are established. However, the established positions may be changed subject to certain minimum spreads. Dealing takes place across the floor by individual brokers for the accounts of their clients, subject to the participation of other broker-members in quantities above one (1) board lot. Board lots range from 500 - 2000 stock units, depending on price. Transactions are recorded on "floor slips".

A Compensation Fund has been established to indemnify losses to broker-member clients in certain situations. Contributions are made by broker-members based on the consideration for equity and preferred transactions. In order to provide further protection to the investing public, the Exchange can intervene and run and/ or wind-up the affairs of a broker-member in certain situations where clients' interest are in jeopardy.

Table 8.3 sets out the evolution of the Jamaican Stock Exchange over the eleven year period 1986-1996. It would be noticed that new listings have not grown significantly over the period, though growth in market capitalisation has been pronounced, especially in Jamaican dollar terms, but much less so in US dollar terms. Growth in the Index in 1991 and 1992 was particularly strong, and was among the highest in the world, especially in 1992 when the Jamaica Stock Exchange was the best performer globally.

Table 8.4. Jamaica: Calendar of the Evolution of Non-Bank Financial Institutions (PDAs[5])

PDA Institutions	Year Established	Year Initial Operation	Licenced as PDA	Year Converted	Current Operation
Peoples Discount Deposit Company	**1878**	F	1975	-	-
Times Store Limited	**1907**	F	1975	-	F
Fiduciaries Limited	**1953**	F	1975	-	-
Olds Discount[1]	**1955**	F	1975	1974	-
Blaise Trust	**1956**	T	1975	1987	M & T
Investment and Finance	**1959**	F	1975	1990	M
CIBC Trust Company Ltd.[2]	**1960**	T	1975	-	T
Issa Savings & Trust Company Ltd.[3]	**1961**	F	1975	1984	T
Scotia Bank Trust & Merchant[4]	**1961**	T	1975	1989	M & T

Notes:

1. Later combined with International Trust in 1984
2. Formerly Canadian Bank of Commerce Trust
3. Formerly Issa Savings
4. Formerly Bank of Nova Scotia Trust
5. Registered under the Public Depositors Act.

KEY:
F = Finance
M = Merchant
T = Trust

Table 8.4. Jamaica: Calendar of the Evolution of Non-Bank Financial Institutions (PDAs) - Cont'd

PDA Institutions	Year Established	Year Initial Operation	Licenced as PDA	Year Converted	Current Operation
West Indies Trust[8]	**1961**	T	1975	-	T
Jamaica Mortgage Company	**1962**	F	1975	-	-
Mutual Security Trust & Merchant[6]	**1962**	T	1975	1987	M & T
Barclays Finance	**1965**	F	1975	-	F
Jamaica Citizens Bank Trust	**1967**	T	1975	1985	M & T
Daener Limited	**1968**	F	1975	-	-
West India Company of Merchant Banking	**1970**	M	1975	-	M
International Trust & Merchant Bank[7]	**1970**	T	1975	1975	M & T
First Chicago Merchant Bank	**1970**	M	1975	-	-
Solnar Limited	**1970**	F	1975	-	F

Notes:

6 Formerly Royal Bank Trust House

7 Formerly International Trust of Washington

8 Owned by NCB formerly owned by Barclays International

KEY:

F = Finance

M = Merchant

T = Trust

Table 8.4. Jamaica: Calendar of the Evolution of Non-Bank Financial Institutions (PDAs) - Cont'd

PDA Institutions	Year Established	Year Initial Operation	Licenced as PDA	Year Converted	Current Operation
Crown Continental Merchant Bank	**1970**	M	1975	-	-
First National Finance Company	**1971**	F	1975	-	-
Jamaica American Merchant Bankers	**1972**	M	1975	-	-
Caribbean Trust and Merchant Bankers[9]	**1972**	M	1975	1991	M & T
Chase Merchant Bank Jamaica Limited	**1973**	M	1975	-	-
Workers Bank Trust Merchant Jamincorp	**1973**	T	1975	1989	M & T
Jamincorp Merchant[10]	**1978**	M	1978	-	-
Citimerchant Bank	**1984**	M	1984	-	M
Blaise Trust	**1984**	T	1984	1987	M
Dyoll Merchant	**1985**	M	1985	-	M

Notes:

[9] Formerly Caribbean Merchant

[10] Cease operations in 1986

KEY:

F = Finance

M = Merchant

T = Trust

Table 8.4. Jamaica: Calendar of the Evolution of Non-Bank Financial Institutions (PDAs) - Concluded

PDA Institutions	Year Established	Year Initial Operation	Licenced as PDA	Year Converted	Current Operation
Eagle Merchant	1982	M	1982	-	M
Caldon Finance Merchan Bank	1985	M	1985	-	M
NCB Trust and Merchant[12]	1985	T	1985	1989	M & T
Island Life[13]	1987	F	1987	1990	M
Citifinance Limited	1987	F	1987	-	F
Partner Finance	1987	F	1987	1989	M
Tower Merchant and Trust[11]	1987	F	1987	1988	M & T
Billy Craig Finance and Merchant	1988	M	1988	-	M
Century National Merchant Bank	1988	M	1988	-	M
Manufacturers Merchant	1989	M	1989	-	M
Corporate Merchant Bank	1989	M	1989	-	M

Notes:

11 Formerly Tower Investments

12 Formerly Barclays Finance

13 Formerly Lival Investment Finance

Source: Compiled by authors.

KEY:
F = Finance
M = Merchant
T = Trust

9

The Evolution of the Financial Sector in Suriname (1970-1996)

Donna Danns[1]

This study examines the evolution of the financial sector of Suriname between 1970 and 1996. As an integral part of an economy, the financial sector of a country is shaped by the historical, political, social and economic factors which determine its growth and effectiveness. For Suriname as it is for much of the English-speaking Caribbean, the financial sector originated as a European institutional transplant. Suriname's history of Dutch colonization had a lasting effect on its financial system. In addition, Suriname has had political upheavals and economic traumas which have impacted negatively on financial sector growth.

The financial sector of Suriname evolved in ways that manifest significant variations from the Anglophone countries in CARICOM. Whereas other Caribbean countries were former

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colonies of Britain, Suriname was a colony of the Netherlands. As such its financial system reflects its Dutch origin. The various types of financial intermediaries present in the economy today have existed prior to the country's attaining political independence in 1975. Central Banks in the Anglophone Caribbean were established after those countries became independent and in a real sense represent symbols of nationhood. The Centrale Bank van Suriname (CBvS) was established almost two decades prior to its independence as a symbol of necessity. A further significant contrast in the financial sector of Suriname is, whereas in the English-speaking Caribbean there existed an independent monetary currency authority, a commercial bank, De Surinaamsche Bank, functioned as the currency issuing authority up until the establishment of the Centrale Bank van Suriname. This underlines the dominant role commercial banks have played and continue to play in the economy. Commercial banks currently grant between 90% and 95 % of credit to the economy **(IMF, 1994)**

Although it has had observer status for a number of years, Suriname has only recently in 1995 become a full member of the CARICOM group of nations. Its welcomed inclusion provides contrasts and challenges to the wider financial sector in the region. The Colonial Life Insurance Co. Ltd. (CLICO) is the only regional financial institution that Suriname has in common with other CARICOM countries. Herein lies the challenge for a greater integration of the region's financial sector.

As a whole the financial sector of Suriname remains relatively conservative despite some evidence of emergent progressive change in some areas such as its 1994 establishment of a Stock Exchange.

In examining the evolution of the financial sector in Suriname this Chapter:

1. Provides a brief overview of the economy between 1970 and 1995.

2. Focuses on the evolution and performance of the various intermediaries that comprise the financial system.

9.1. The Economic Setting

9.1.1. Economic Growth & Development

By 1970 the Surinamese economy could have been described as one of the more advanced of the developing countries at that time. With a thriving mining sector and consistent aid from Holland and the European Common Market (ECM), Suriname was well poised for continued and significant economic growth and development after it attained independence on November 25, 1975.

With a per capita GDP of over US$3,000 in 1975, the Surinamese population was considered more affluent than neighbours in Guyana and further afield in the Caribbean. The main support of the economy was and continues to be bauxite and its derivative products. The fortunes of the economy therefore were and are intrinsically tied to the events on the world market for those products. Bauxite mining started in Suriname in the early 20th century with the establishment of the Suriname Bauxite Company. Up until 1958 when Suralco signed a contract to produce hydro electricity, bauxite mining, processing and export were its principal concerns. The hydroelectric power plant facilitated forward linkages in the mining sector with the establishment of alumina and aluminum plants outside the capital of Parimaribo. According to the Hakrinbank Annual Report of 1974, the integrated production system of bauxite-alumina-aluminum contributed significantly to the prosperity of the nation. By the beginning of 1975 bauxite and the final product accounted for 80% of all export earnings at that time.

The country had by then attracted three other companies in the industry.

Besides its fortunes from bauxite, Suriname had a thriving agricultural sector, mainly a result of rice cultivation. Rice was a major product of the Nickerie area nearing the border with Guyana, another prominent rice producer in the Caribbean. Much of Suriname's rice production is exported. In addition to rice, bananas and palm oil were other contributory industries to a growing agricultural sector in the 1970s.

Tropical rain forest covers over 85% of Suriname. This facilitated the growth of the timber industry. The country's coastal water provided additional sources of income through the fish and shrimp industries.

National income and export earnings apart, Suriname was the recipient of a constant flow of development grant aid from Holland. This former colony of the Netherlands benefitted from the December 1954 "Charter for the Kingdom of the Netherlands". The countries then comprising the Kingdom of the Netherlands - The Netherlands, The Netherlands Antilles and Suriname pledged mutual aid and co-operation to each other as the need arose. Successive ten-year and five-year plans after 1954 allowed Suriname to access funds from the Netherlands for specific projects and later development programs. This financial association between Suriname and the Netherlands extended past Suriname's independence. In fact, during independence negotiations Suriname secured agreement from the Netherlands for continued development aid for 10-15 years and the Netherlands assumed special responsibility for the economic development and welfare of the country.

Suriname benefitted from preferential treatment of its products into the European Common Market. Industrial products were freely exported to the EEC and much of Suriname's agricultural products entered that market duty free. Moreover preferential treatment of "exports of processed agricultural, semi-manufactured and manufactured goods under the General System of Preferences (GSP) " was received **(Hakrinbank Annual Report, 1974).** Currencies obtained from exports were remitted to the Foreign Exchange Board in Suriname. In 1975, external trade and payments transactions were subject to licensing, but the abundance of foreign exchange permitted the growth of that country's imports.

In general, imports flowed freely into the country with just the requirement of import licenses in place. Payments on international transactions were done through an exchange control system supervised by the Foreign Exchange Board and operationalized by the existing commercial banks and the Central Bank.

Despite the strong economic performance during the 1970s the current account of the balance of payments exhibited structural weaknesses as highlighted by persistent deficits. These were covered by the surpluses on the capital account, a consequence of development aid, helping to maintain a healthy foreign reserves position.

The banking system in particular and the financial sector in general flourished well under the economic conditions of the 1970s. Five of the existing six commercial banks were established much prior to the 1970s. Commercial banks significantly expanded their collective branch network during the decade of the 1970s in response to the very positive economic developments. Sixteen of the 25 bank branches in existence at the end of the 1970s were established during that decade. In addition banks and other financial institutions established agencies and offices during the period. This expansion came to an abrupt halt in the early 1980s as the economic, political and social developments within Suriname took on new and often negative dimensions.

9.1.2. *Political Upheaval and Economic Deterioration*

In 1980 political power was seized from the democratically elected government by a group of military officers who immediately installed a national military council to oversee the administration of the country. Although the mandate of governing was subsequently transferred to a civilian government the domination and oppression of the country by military rule remained for almost eight years. This state of affairs discouraged investment and together with other economic and social factors stymied the growth prospects of the economy for over a decade.

Like many other third world countries, persistent world economic recession during the early 1980s had serious effects on the Surinamese economy. The mainstay of the economy (bauxite mining and processing) was severely affected by steep declines in demand and price drops. During 1982 proceeds from bauxite exports amounted to Sf52.4 million as against Sf110. 0 million in 1981. Notable declines were also recorded for alumina and aluminum during the same period. Without similar contractions in import, the current account of the balance of payments weakened. In addition, amidst human rights and other violations, the Netherlands called an abrupt suspension to its development assistance to Suriname in late 1982. This weakened the overall balance of payments, affected foreign reserves and severely constrained the government's delivery capacity. The authorities resorted to monetary financing of the budgetary deficit and to a regime of trade and exchange restrictions to solve the internal and external imbalances respectively.

Together with the maintenance of a fixed exchange rate and price controls the foregoing created large distortions in relative prices and provided fertile ground for parallel market activities. These economic conditions continued throughout the 1980s and continually hampered economic progress. The International Monetary Fund has estimated that real GDP declined by a cumulative 22% during the 1980s. The banking and financial sectors experienced little real growth during the 1980s. At the beginning of the decade, amidst political upheaval and economic uncertainty the public expressed unusually strong liquidity preferences giving rise to large withdrawals from the banking system. This phase was soon followed by a considerable monetary overhang as the creation of high-powered money continued. Banks resorted to placing ceilings on bank accounts and not accepting new customers.

1988 marked the end of military domination in Suriname. Political power was transferred in a democratic way to a civilian government. Dutch aid was restarted but only by way of commodity assistance at a reduced level. This aid had little impact on an economy already characterized by galloping inflation, huge budgetary deficits, depleted foreign reserves, significant unemployment, a flourishing black market for goods and currencies, increased outward migration of skilled labor, low production and productivity and an overvalued currency. With such a preponderance of economic pathologies effective remedial policy action could only have been achieved through holistic structural adjustment. The Netherlands and the wider international community urged Suriname to adopt such a Structural Adjustment Program. In 1990 with financial aid from the European Union, the firm of Coopers and Lybrand formulated a program for Suriname and a later version was presented by The Warwick Institute in 1992. Suriname's private sector, commercial banks, labor unions and other interested sectors sought to make an input into a proposed structural adjustment program and drew on the experiences of other countries like Guyana, which was at that time undergoing an IMF supported Structural Adjustment Program.

9.1.3. Structural Adjustment

In November 1992 Suriname's Parliament passed a structural adjustment program which covered, **inter alia**, government financing, monetary policy, exchange rate policy, supply side policies and a social safety net. Key measures adopted under this program included the reorganization and rationalization of government expenditure, no further monetary financing of the deficit and the legalization of the parallel market for currency. With respect to the financial sector, the proposed measures involved:

- the reduction of the monetary overhang;
- credit monitoring and control to both the public and private sectors;
- the instituting of open market operations and interest rate policy;
- the revision of existing banking laws and the introduction of new laws;
- changes in exchange rate management and foreign exchange laws and the unification of the exchange rate; and
- acquisition of balance of payments support.

Unlike most other third world countries which seek IMF financing for their structural adjustment programs, financing for Suriname's structural adjustment comes mainly from The Netherlands. In 1995 the transfers from the Dutch for the program came directly to the Central Bank.

After the initial unsteady period following the introduction of the structural measures, the Surinamese economy began in 1995 to show positive signs. Real growth in 1995 was estimated at 4% after an average 2.5% per annum between 1990 and 1992 and declines of 5.7% and 2.3% in 1993 and 1994 respectively. Inflation had slowed drastically in 1995 to 37% per annum following alarmingly high rates of 224.7% in 1993 and 586.5% in 1994. Public finances have improved. The overall balance on

Central Government accounts shifted from deficit positions of 2.3 % and 8.7% of GDP in 1994 and 1993 respectively to a surplus of 5.7% of GDP in 1995. This reflected increased government revenues due to overall heightened economic activity and in particular better world prices for bauxite.

The cumulative economic developments of the 1980s and the early 1990s led to a rapid growth of monetary aggregates, negative real interest rates and a weakened currency. The task of government, the productive sector and the financial sector in 1995 was to collectively rebuild the economy and restore the confidence of investors. The Central Bank at the apex of the financial sector must again function to stabilize the guilder, the value of which moved from Sfl.8 = US$1 in 1975 to Sf412 = US$1 at the end of 1995.

9.2. The Financial Sector

The growth and development of the Surinamese financial sector since independence in 1975 was somewhat limited. In fact many of the existing financial institutions have been in existence prior to 1975. Financial development and growth, like the economy, showed some potential during the late 1970s but lost its impetus as the fortunes of the country declined and the political and social climate became less congenial. Owing to the excess liquidity resulting from Central Bank's financing of the government's deficit and the lack of alternate local investments, average nominal interest rates remained low while real rates were negative for a long period of time. Further, financial repression was evident as the authorities maintained fixed exchange rates and other restrictions throughout a decade of economic crises. Financial intermediation slowly began to take place outside of the formal financial sector. Banks and other financial institutions played a "wait and see" game with the hope that structural changes will bring about economic progress.

The financial sector of Suriname is currently comprised of the Central Bank of Suriname, six commercial banks, a National Development Bank, six finance companies, 12 insurance companies, 29 pension funds, five provident funds and 27 credit unions. The year 1993 marked the establishment of cambios or exchange houses providing a foreign currency exchange service with no intermediation functions. To provide more direct access to funds for business and with an aim of a better allocation of resources, a stock exchange established in 1994 is the latest addition to the financial sector of Suriname.

Commercial bank operations are by far the most dominant form of intermediation in Suriname. The six commercial banks of Suriname account for over 90% of credit extended by the financial system.

Financial instruments within Suriname are limited to demand deposits, savings and time deposits, government debentures, foreign currency deposits and Central Bank gold certificates. The latter two have been recently introduced.

9.2.1. The Central Bank

Unlike its Anglophone counterpart countries involved in this overall study, Suriname's Central Bank (Centrale Bank van Suriname) was established much prior to its attainment of Independence. The Centrale Bank van Suriname was established on April 1, 1957 by the Bank Act of 1956 and after some eight years of preparatory work.

Prior to the setting up of a full-fledged Central Bank, De Surinaamsche Bank, N.V., the first commercial bank established in Suriname was the currency issuing authority for more than 90 years. De Surinaamsche Bank was assisted by the Bank Commission established in 1950 which provided general guidelines for the conduct of monetary policy. On the establishment of the Central Bank such a commission was no longer necessary. The Central Bank's commencement had erased years of a conflict of interest arising from commercial banking entities setting monetary policy goals.

The establishment and early operations of the Central Bank followed very much that of the Netherlands. The Bank was not privately owned nor was it considered government-owned. The Act provided for the bank to have its seat of operations in the capital, Paramaribo, but permitted it to establish branches in other areas of the country upon agreement with the Minister. Since its establishment the only Bank office has been in the capital.

On April 1, 1957 De Surinaamsche Bank surrendered to the Central Bank its gold reserves and the assets and liabilities of government hence facilitating the operations of the Central Bank.

The functions of the Central Bank as conceived at its establishment were, according to the Bank Act 1956, Article (g.):

- To promote the stability of the Surinamese currency called the Surinamese Guilder.
- To issue and monitor the circulation on the Surinamese bank notes and facilitate the payment mechanism within the country.
- To promote the development of a sound banking system.
- To promote and facilitate the foreign exchange payment system.

The Bank Act of 1956 which established the Central Bank has since gone through a number of amendments, the most significant being those of 1968 and 1973 which added more functions.

The 1968 Bank Act amendment taken in conjunction with the Supervision of the Banking and Credit System Act of 1968 had as its main concern the maintenance of stability and confidence in the banking system and the protection of depositors. In sum, another function of the Central Bank was:

- To supervise the banking and credit system of Suriname in accordance with the Supervision of the Banking and Credit System Act of 1968.

  An amendment to the Bank Act in 1981 also added a new function to the Bank's role; and

- To promote the balanced socio-economic development of Suriname.

By 1975, therefore, the Bank had its tasks and scope well defined. The precise intentions of the 1981 amendment were less than clear but it was in keeping with the statements of policy made after the military take-over of 1980. The Hakrinbank Annual Report of 1980 explains that in a statement to the country the government indicated four areas for focused attention "the administrative political order, the social order, the economic order and the educational order" (**Hakrinbank Annual Report, 1980**).

To effectively undertake the tasks at hand, the Central Bank, through its Act, was authorized to engage in open market operations, provide advances to government, trade in precious metals, engage in foreign exchange transactions, utilize discount and rediscount policy, impose credit ceilings and liquidity ratios and to invest funds abroad as it saw fit. In addition, the 1968 Bank and Credit Supervision Act authorized the imposition of reserve ratios by the commercial banks.

As in the case of other Central Banks monetary policy as adumbrated by the Central Bank of Suriname found expression through the Bank's relations with Government, the commercial banks and other financial institutions. In addition, the Bank played a dominant role in exchange control policy and in the overall supervision of the banking and financial sector. These three areas of the Bank's operations will be examined.

The Central Bank and Monetary Policy

The Central Bank of Suriname derives its authority for the conduct of monetary policy from the Bank Act of 1956, its subsequent amendments and the Bank Supervision Act of 1968. First and foremost the Bank was charged with the responsibility of "promoting the stability of the value of the Suriname currency" **(Bank Act, 1956)**. At its disposal it had for most of its existence, the discounting and rediscounting facility, credit limits, liquidity ratios, open market operations and the reserve requirement instruments for use in the conduct of monetary policy. Monetary policy in Suriname found expression in relations between the Central Bank and the Government and the Central Bank and commercial banks. Such policy was conditioned by the economic and, importantly, the political environment in which it operated. Like many third world countries monetary policy, as adumbrated or employed by the Central Bank of Suriname, was conditioned by the fiscal and economic policies of the government. In its early years the Central Bank's policy was geared towards reducing inflationary pressures, encouraging investment and growth and supporting the value of the Surinamese guilder vis-a-vis other currencies. This policy later became overly accommodating as the Bank sought to meet government demands. After 1993 policy was then aimed at correcting the effects of the immediate past years and towards the institutionalization of measures more supportive of a free market economy.

Despite the availability of many monetary policy instruments, the Central Bank between 1975 and 1983 used only direct credit ceilings to control the supply and cost of credit in Suriname. There has been no formal use of the reserve requirement and the discounting facility has been seldomly utilized.

In 1983, in the midst of an economic crisis and a changed political order, the Central Bank severely constrained the money creation role of commercial banks. As of that year banks were prohibited from using demand deposits as loanable funds hence placing a 100% reserve on these deposits. Loanable funds available in any one month were tied to increases in time and savings deposits for that month. On a monthly basis only 90% of any increases in savings deposits, 75% of short-term time deposits and 100% of long-term time deposits could have been extended as additional loans. Loans could not have been extended based on any excess liquidity in commercial banks. In some respects these restrictions were harsher than reserve requirements which took the accumulative funds position into consideration in their calculations. Banks were therefore unable to finance monetarily.

Despite these controls and restrictions on commercial banks, money supply escalated and inflationary pressures on the economy were great. The main source of excess liquidity and inflationary pressures came from the relations of the Central Bank with government.

In delivering a speech to the 10th Anniversary Seminar of the Central Bank of Barbados, Arthur Brown, then Governor of the Bank of Jamaica, spoke of the relationship between central banks and governments. He contended that "the governor and staff of a Central Bank exist within the context of a social structure. No Central Bank can abrogate to itself... the elaboration of policies out of harmony with the mandate of the government in power". In Suriname after the cut off of aid from the Netherlands in 1982 and the reduction of revenue from the bauxite sector, government revenues were severely constrained. Instead of instituting appropriate expenditure measures, the Government increasingly resorted to finance its budgetary deficits through borrowing from the Central Bank of Suriname (**Hakrinbank Annual Report, 1982**). This expansionary policy of government and accommodating stance of the Central Bank created huge monetary overhang and exacerbated economic problems.

Besides its credit restrictions on commercial banks, the Central Bank in November of 1986 issued certificates of deposits through commercial banks to attract and sterilize liquidity in the system. These deposits were of 6 months, 1 year, 2 years and 3 years maturity carrying interest rates of 3%, 3.5%, 4% and 5% respectively. These deposits were fully sterilized by the Central Bank.

In 1990, in a further attempt to contain monetary base expansion, the Central Bank as fiscal agent facilitated the issue of government bonds of Sf500, Sfl,000, Sf10,000 and Sf100,000 denominations. A total of over Sf445 million was garnered from that issue. It was subscribed by private individuals (19.7%); institutional investors (48.5%); private businesses (24.5%) and banks (7.3 %). Some of the Central Bank's certificates of deposits, not yet matured by 1990, were converted into government bonds.

In 1992 a second issue of government bonds followed which yielded only Sf135 million owing to reduced money illusion of the public. Monetary policy issues during the period of structural adjustment were geared towards the reduction of the monetary overhang or excess liquidity, the control and monitoring of credit, the creation of open market operations and the revisiting of existing banking legislation. **Adhin (1995)** pinpoints the following as the main supporting monetary policy measures in the context of Suriname's adjustment programme:

- Use of counterpart funds for the reduction of the government debt with the Central bank

- The sale of state-owned land and property.
- The issuing of government bonds to finance the budgetary deficit and to sterilize excess liquidity.
- the elimination of monetary financing.
- quantitative and selective credit controls.
- the establishment of special guidelines for external funding of the productive sectors.
- the creation of a realistic interest rate policy based on development goals outlined in revision of and addition to existing banking laws.

Since the implementation of structural adjustment, government has made strides in controlling its budgetary deficits despite initial difficulties. In 1993 the budgetary deficit was an equivalent of 8.7% of GDP and was financed in its entirety by Central Bank credit causing a further expansion of liquidity. By 1994 the deficit was 2.3% of GDP and a surplus of 5.7% in 1995. The President of the Central Bank reportedly meets, on a regular basis, with the Minister of Finance to work out ways in which fiscal balance can be achieved and fiscal policy can dovetail with the objectives of monetary and broader economic policies.

With the primary aim of absorbing liquidity and setting a floor for interest rates, the Central Bank in March of 1995 introduced its gold certificate. This certificate is a financial instrument denominated in grams of gold and indexed to the international price of the commodity and carries a 5% interest rate. **Adhin (1995)** points out that the interest received in Surinamese guilders varies with the international price of gold as well as the exchange rate. The Central Bank received an initial enthusiastic response to its gold certificates with the stock reaching an equivalent of US$4 million in the first three months.

Demand declined in the latter part of 1995 after a continued appreciation of the Suriname guilder.

Interest rates: Interest rates during the period under study were freely determined by commercial banks. For many years interest rates remained low in Suriname. In times of economic problems nominal interest rates failed to keep pace with inflation, in part owing to the prior history of stable prices and money illusion. Between the period 1988 to 1992 deposit rates averaged as low as 2.5% as a result of the excess liquidity in the banking system. During this period commercial banks were placing ceilings on deposits and in other ways discouraging such deposits. Commercial bank lending rates for the same period averaged 9.8% while government bonds carried rates of 5% per annum. Inflation rates over this period averaged 20% per annum.

By 1993 average lending rates had risen to 13.2%, escalating to 32.2% in 1994 and 39.1% in 1995. Deposit rates remained very low, effectively increasing the interest rate spreads and profitability of commercial banks. The 1993, 1994 and 1995 average deposit rates were 3.1%, 4.9% and 8.6% respectively.

Exchange Rate Management and Policy

The management of foreign exchange and the adumbration of exchange rate policy are crucial functions of central banks in third world countries. In Suriname, prior to the establishment of the Bank, the authority appointed by law to oversee foreign exchange dealings was the Foreign Exchange Board. The Board granted authority to the Ministry of Economic Affairs to issue licenses for the import and export of goods while the Central Bank was vested with the authority to provide foreign exchange for business transactions. This authority was exercised through some commercial banks described as foreign exchange banks.

The Bank Act of 1956 and some of its latter amendments further concretized the foreign exchange authority vested in the Central Bank. Section III(e) of the Bank Act in explaining the scope of the Bank states that the Bank shall have the task of "promoting and facilitating the system of payments between Suriname and foreign states" **(Bank Act, 1956).** Further the Bank Act states that the Bank shall advise the Minister of Finance in putting forth proposals to Government regarding exchange rate procedures. The Bank is free under its Act to establish exchange rates for foreign currency transactions within Suriname and to temporarily suspend foreign exchange quotations for certain foreign currencies. The Bank acting as fiscal agent also carries out foreign exchange transactions on behalf of government.

As of 1975, the Central Bank and the authorities in general listed the Australian dollar, Austrian shilling, Barbados dollar, Belgian franc, Canadian dollar, Danish crown, German mark, EC dollar, Netherlands guilder, Norwegian crown, Portuguese escudo, Pound sterling, Swedish crown, Swiss franc, TT dollar and the US dollar as convertible currencies, according to the exchange control regulations at that time. Despite the existence of exchange controls and licensing requirements for both import and export, trading in currencies was freely conducted in the 1970s as the economy buoyed.

The Fixed Exchange Rate System: For almost the entire existence of the Central Bank exchange rate policy has been geared towards the maintenance of a fixed exchange rate. First issued in 1865 under Royal Charter, the Surinamese guilder remained officially fixed at a parity of Sf1.9 per US dollar from 1940, when it was pegged to the US$, until December 1971. After 1971 and until July 1994 the official parity was Sf1.8 to US$1.

Despite a deterioration in the terms of trade and numerous economic problems throughout the 1980s, a fixed exchange rate was maintained. As foreign reserves decreased markedly the

Central Bank and other agencies resorted to trade and exchange restrictions. The maintenance of a fixed exchange rate amidst such economic crisis effectively subsidized imports and discouraged exports. Conditions led to a thriving black market for currencies. The rate quoted on the parallel market diverged significantly from the fixed rate as the situation worsened. By the end of 1990 the parallel market rate for the US dollar was approximately Sf17.8 deteriorating to Sf28.9 by the end of 1992 while the official rate remained at Sf1.8 per US$ 1.

The Multiple Exchange Rate System: In an effort to combat the parallel market and deal with the reality of that period, the Central Bank and government in October of 1992 established a multiple exchange rate system differentiating the rates to be applied for certain exports and imports. This system underwent a number of changes in its short experimental life. At the end of 1992 there were four rates exclusive of the parallel market rate which was approximately Sf28.9 to US$1. The other rates were the fixed rate of Sfl.8, the auction rate of Sf19.91, rice rate of Sf10.08 and the banana rate of Sf8.76 to US$1. During the 1993/94 period as many as eight exchange rates inclusive of a "tourist rate", an "other export rate" and the parallel rate existed in Suriname. While most of these exchange rates were administratively fixed the auction rate introduced an element of market-determination into the foreign exchange system. Importers bid through auctions for funds held in a special account in the Netherlands. Despite the seemingly competitive nature of the auctions, potential bidders were restricted to importers of commodities considered necessary. Other international traders and vendors continued to utilize the parallel market to satisfy their foreign exchange needs, developing even stronger bonds with this market as official sources continued to fail them.

The **International Monetary Fund (1995)** pointed out that throughout the existence of the multiple rate system the Central Bank incurred large foreign exchange rate losses due to the fact that its average buying rate was higher than its average selling rate.

The Free Foreign Exchange Market System: In June 1993 the authorities introduced a 'Free Market' system, established a fuel rate for the import of this essential commodity and eliminated the banana, tourist and "other export" rates. The 'Free Market' operated in a manner similar to the free market system established in Guyana during 1987 to deal with a foreign exchange crisis of similar magnitude. In Suriname six commercial banks and five non-bank entities traded legally on the free market. Currencies were bought at prices quite competitive to those of the parallel market and quite freely determined by buyers. There was a sense that market forces operated. However, while currencies were bought freely, the sale of such acquisitions was quite restricted. The Central Bank permitted sale of "free market currency" for the import of the health and education sectors, public utilities, the productive sector and for basic consumer goods and fuel.

Although this system challenged the established parallel market, trading volumes were low. The experience of the parallel market dealers and the loyalties developed during the hard crisis years were pluses for that market and slowed the growth of the free market. It was further inhibited by the extensive reporting done on foreign exchange accounts which were permitted from April 1993 and the general restrictions on the sale of foreign exchange. By the end of 1993 the Free Market rate reached Sf87.2 for US$1 with the parallel market rate at Sf94.0 for US$1.

The Unification of the Foreign Exchange Rate: The Central Bank and Government of Suriname were always committed under the Structural Adjustment Program to the unification of the foreign exchange rate. The multiple exchange rate system, and later the free market system, were therefore only precursors to such a unification. On July 11, 1994 the unified system was established by the introduction of a uniform exchange rate for all transactions. The Central Bank maintained responsibility for managing the exchange rate system and was somewhat prepared for intervention. The published official exchange rate was determined on a daily basis by the Central Bank based on a weighted average of the bank and non-bank cambio rates.

Like the free market system, however, access to the banks and the official market continued to be restricted on the demand side. While banks and cambios were allowed to buy foreign exchange freely, sales were limited only to buyers with import licences and for travelling purposes when tickets and other documents were presented. Currency for travel was limited to the equivalent of US$1,500 per person per annum.

As currency flows to the official market remained scarce and the exchange rate continued to slide a series of departures from the uniformed official rate system were permitted. Commercial banks were allowed to establish special rates for their clients and the Central Bank itself had special rates at which foreign exchange was sold to banks. Some discounts on the official exchange rate were as high as 40%. These departures effectively negated the official unified system.

In the last quarter of 1994 the official rate for the Suriname guilder vis-a-vis the US dollar had deteriorated to an average of Sf345.6 per US$, with the parallel market rate averaging Sf434.9. Significant depreciations totalling about 13% with respect to the US dollar took place during the first five months of 1995, forcing a decisive intervention by the Central bank to stabilize the rate. The Bank's policy enabled it to make sizeable amounts of currency available to the local banks allaying fears of further economic problems.

With a new determination, the Central Bank returned to the unified system in July of 1995 with all legal transactions taking place at the official rate, which continued to be set on the daily basis and remained fairly stable during the second half of 1995. In addition, short-term capital flows and positive economic developments have contributed to a healthier foreign exchange position. Ironically, during the last quarter of 1995 the official rate averaged Sf413.7 to US$1 with the parallel market averaging the lower Sf412.0 per US dollar. As at the end of 1995 flows to the Central Bank originated from the main exporting sectors with the exception of bauxite and from transfers from the Netherlands. Central Bank sales are not made to the general public but to the public sector and commercial banks. Commercial banks and cambios are now meeting the day-to-day demands of the importing sector.

In the context of the Structural Adjustment Program the authority is still faced with the need for a total revision of its existing foreign exchange regulations.

Bank Supervision

As earlier noted, the Central Bank of Suriname gleans its authority for the supervision of the banking and financial system from the Bank Act of 1956, as well as the 1968 Supervision of the Banking and Credit System Act. On its establishment, the Central Bank was charged with the task of "promoting the development of a sound banking and credit system in Suriname".

A 1986 amendment to this act gave the bank the responsibility of "supervising the banking and credit system in Suriname in accordance with the provision of the Act on Supervision of the Banking and Credit system 1968". After this amendment, all incorporated financial institutions came under the supervision of the Central Bank. In addition, as of January 1995 the five non-bank cambios were subject to the Central Bank's supervision.

For a very long period the supervision by the Bank centred around off-site inspection where the balance sheets and other accounts of financial institutions were analyzed. Since 1992 the on-site feature has been introduced ,giving the Central Bank the capacity to inspect commercial banks at least once annually. As in the case of such inspections by other Central Banks, the Central Bank of Suriname targets the credit portfolio, the internal organization and the administrative procedures of the banks. It examines primarily the exposure level of the banks in an attempt to safeguard the depositors, the institutions and the integrity of the banking system.

While commercial banks continue to be the primary focus of inspection and submit statements once monthly, other institutions submit such statements on a quarterly, half-yearly or annual basis.

In Suriname commercial banks' operations are generally sound and well organized. According to an IMF report of 1994, up to that time there had been no need for the Central Bank to institute sanctions against commercial banks but existing penalties include counselling, public exposure, legal action and ultimately liquidations.

While the Central Bank's relationship with insurance companies can be described as sound there are some difficulties in having other financial institutions conform to the supervisory dictates of the Central Bank.

9.2.2. *Commercial Banking*

As in many other CARICOM countries, commercial banks in Suriname are the bastions of the financial sector. The first commercial bank was established in Suriname in 1865 in order to provide trade financing and to serve the financial needs of the planter class. By 1975, and to date, there were and are six commercial banks operating in Suriname namely:- De Surinaamsche bank, Surinaamse Postspaarbank, Hakrinbank, Surinaamse Volkscredietbank, ABN AMRO and Landbouwbank. All but the Landbouwbank were established prior to 1960.

Hakrinbank, Surinaamse Volkscredietbank, Surinaamse Postspaarbank and the Landbouwbank are stateowned institutions; De Surinaamsche bank and Hakrinbank have mixed (state/private sector) ownership, while the ABN AMRO is foreign owned.

Bank Ownership and Structure

De Surinaamsche Bank (DSB): De Surinaamsche Bank is the first commercial bank to be established in Suriname. This bank was established since 1865 and is today the largest commercial banking entity in the economy. Ten percent of De Surinaamsche Bank (DSB) is owned by the government, 49% by the ABN AMRO Bank and 41% by 4,300 shareholders. This current ownership structure is a result of a 51% divestment of stocks owned by ABN AMRO in 1977. Owing to its varied ownership the bank attracts customers from all groups but the main categories are multinationals, large, medium and small corporations, and individuals with some net worth. DSB as the largest bank in the industry occupies between 35% - 40% of the market.

The bank's major activities are in trade financing (32%), industrial credit (27%) and agricultural credit (9%). DSB supports a number of small rice farmers in the major agricultural area - Nickerie - in addition to the relatively larger rice processing mills. It finances also some of the government's activities in the rice sector.

DSB prides itself in being an aggressive competitor. Managers employ the technique of working in the field aggressively seeking clients and understanding their businesses. The bank visits big companies and the small farmers alike. Employees provide relevant assistance to clients in relation to insurance needs, cashflow projections etc. The bank credits its recent history of very few foreclosures to this dynamic strategy.

Like other institutions the DSB was somewhat affected by the restrictive exchange policies during the foreign exchange shortage but has rebounded well. Its management pointed out that the bank led the way in the use of funds from foreign exchange account for the purposes of extending loans to individuals and companies only with a foreign exchange stream of payment. This was done with the consent of the Central Bank.

Across the Caribbean DSB has financial relations with banks in Trinidad and Tobago and in Guyana. The bank operates a cambio and has three subsidiaries - the Surinaamse Trust Maatschappij N.V. (Suritrust), Financierings Maatschappij Paramaribo N.V. (Finapar) and Surinaamse Computer Maatschappij N.V. (SCM). The first two subsidiaries are finance companies specializing in house mortgage financing and motor vehicle financing, while the later is a computer company jointly owned with the ABN AMRO Bank.

DSB is development-oriented and has initiated a number of innovations in the banking system. It currently has eight branches and 17 ATMs, inclusive of those it shares with the ABN AMRO. At the end of 1995 the bank was negotiating with Barbados for the point-of sale system and with Curacao for credit cards.

Hakrinbank: The Hakrinbank, which is today the third largest bank in the Surinamese economy, effectively started operations on the 28th of June, 1936 as a foundation under the name ORG Vervuurts Banking Corporation. This institution started as a small family business and became a limited liability corporation in 1943 and in 1958 became the Vervuurts Bank N.V. The bank grew steadily and developed international linkages. In 1973 this banking institution developed problems with its loan portfolio and a "run" on the bank ensued. At that time the Vervuurts family business was one of the largest borrowers from the bank. The government intervened, closed the bank for a short while and appointed new and strong management in an attempt to protect depositors and maintain the integrity of the banking system. In 1974 the bank's name again changed to Handels-, Krediet-en Industrie Bank N.V. (Hakrinbank) and the government's ownership in the new institution totalled 51%. Other shareholders were the Bank of America N.T & S.A of San Francisco (10%), Cooperatieve Centrale Raiffeisen-Boerenleenbank in Holland (10%) and 19% was owned by the public.

The Hakrinbank's policy has gone through some changes in order to stay more in line with broader economic developments. Bank management explains that the two main sectors supported by the institution are the agricultural sector inclusive of rice processing and trade. Credit of trade and commerce represented 36% of total credit in 1995, while agricultural credit represented 27% and industry 10%. Over the years, between 1975 and 1995, the share of credit to industry gradually declined. This decline was a direct result of the economic climate of the country during the period. Credit to industry declined as those entities experienced difficulties in accessing foreign exchange and in the production of goods. Some financing is currently being done in the gold industry and previously in the state oil industry.

On the liabilities side, the Hakrinbank attracts a number of small depositors. It has, however, some institutional investors and big companies with liquidity. The bank has found that since the implementation of structural adjustment measures, the freer foreign exchange situation and the stability in the exchange rate that large companies are satisfied to keep finances in the local banking system.

Over the past 10 years efficiency of the bank has been enhanced with the use of computers. Innovation to financial products over the past five years include flexible interest deposits, convertible currency loans and foreign currency deposits.

Surinaamse Postspaarbank : The date of establishment of the Postal Savings Bank is often given as April 1, 1904 but the operations of this bank date back to 1880 when it was originally established. It, however, only operated for three days a week. The bank experienced problems during the late 19th century and was closed for some time. The Postal Savings Bank was re-established as a savings bank, one of the two banking institutions operating at that time. The other, the DSB was authorized to issue bank notes and acted as the Central Bank. A very sharp distinction was established and maintained between the savings bank and the commercial bank; the former mobilized the small savings while the latter mobilized commercial deposits. It was only during the 1960s that this sharp distinction faded permitting the Postspaarbank to open deposit accounts for any individual and institution. The Postspaarbank at that time was the only bank that provided loans to the lower income groups. It invested also in foreign securities but continued to be debarred from engaging fully in commercial bank activities.

The history and evolution of this bank and its "ownership" are different and interesting. In fact, it has no real owners in terms of equity financing. The bank restarted with negative equity and up to today the situation has remained unchanged. The bank restarted only with the government guarantee for the provision of funds for savings deposits should the bank ever run into difficulties. In return, the bank transfers to government any reserves it accumulates in excess of 25% of its liabilities. In this way the bank was freer to work for the benefit of its clients and not to provide dividend returns to shareholders.

The year 1975 was a significant turning point in the history of the Postspaarbank. It was in this year that the bank was legally authorized to accommodate and engage in all activities associated with commercial banking. By this time, however, it had lost a lot of ground to other commercial banks that had developed over the years. Prior to 1975, the bank was not a monetary institution. Between 1976 and 1980 the Postpaarbank attracted more deposits, opened chequeing accounts and did business financing but never discouraged the small savers. The guarantee that government provided on the re-establishment of the bank, however, does not extend to its wider commercial banking activities but is rather still confined to saving depositors.

The Postpaarbank in previous years operated through the post offices which acted as branches for the savings bank. This facility was never really abolished. Today, while the post offices are not branches per say, they act in an agency capacity for savers who live in remote areas and small villages. They provide savings and withdrawal facilities. In this way the Postpaarbank continues to serve people in all areas.

The Postpaarbank occupies less than 10% of the commercial banking market in Suriname. Its lending activities are concentrated in the area of agriculture and small trading and commerce. As at 1995 the Postpaarbank had savings deposits representing 36% of its liabilities with a mere 1. 7% representing fixed deposits. The reserves of the bank were at 1995 only 3% of liabilities.

ABN AMRO Bank: The ABN AMRO Ltd. has been effectively operating in Suriname since 1957 through its predecessor the HBU (Hollandsche Bank Unie). The HBU was a Holland-incorporated banking institution which established branch operations in Suriname and in Latin American countries. The HBU was later merged with ABN (another Holland-owned banking entity) and maintained the network in the Dutch territory.

ABN AMRO Holding N.V. was incorporated in Holland in May 1990 with the expressed intention of effecting a merger "on the basis of equality" between the Algemene Bank Nederland NV. (ABN) and Amsterdam Rotterdam Bank (AMRO) by acquiring complete control of the two entities. The holding company thereafter set about acquiring the ordinary and preference shares of the two entities then in issue and accepted joint and several liability for the debts of the ABN Bank and the AMRO Bank. The intention of the merger was the pooling and joint continuation of activities. On the twenty-second of September, 1991 the legal merger between the ABN and AMRO N.V. was finalized creating the ABN AMRO. This new entity maintained a branch network in Suriname as indeed other parts of the Caribbean and South America namely:- Aruba, British West Indies, the Netherlands Antilles, The Virgin Islands, Argentina, Chile, Ecuador, Paraguay, Uruguay and Venezuela. In Central America branches operate in Panama and Mexico.

ABN AMRO also has a 49% share in De Surinaamsche Bank. The ABN AMRO operations in Suriname, though dominant in that country, accounted for a very minute share of the total assets of this international banking institution. In fact when viewed as a whole the total assets of ABN AMRO in Central and South America in 1991 was approximately 1% of the multinational's total assets and has remained at that size up to today.

The ABN AMRO merger itself had little effect on the operations of that banking entity in Suriname. However, the bank has had, like other banking institutions in the country, to respond to the impact of changes in the Surinamese economy during the 1980s and 1990s. The bank stuck through the economic decline and is today the second largest commercial bank in the country.

The ABN AMRO Bank and its predecessor's operations in Suriname have always been centred around the provision of corporate financial services, consumer lending for cars and other durables and in the retail banking market. During the 1970s the ABN AMRO supported through its lending policies the mining industry, trade and the agricultural sector mainly, although lending was done in other sectors and sub-sectors. This policy in a way continued into the 1980s. It was hampered, however, by the restriction placed on some industries and the general foreign exchange situation. In the 1980s the banking sector as a whole experienced great difficulties as licences for imports were cut out for many trading activities. With an originally dominant trade sector in the economy, the bank found that credit demand declined. The ABN AMRO resorted to providing finances for the parallel market for goods and for the importation of equipment etc with the use of "own funds" licences. In this way the bank provided local currency with the expectation that importers will find the foreign currency equivalent for their purchases. Importers in general were freer to utilize the parallel market for currency to obtain the foreign exchange.

The emphasis of the bank in the late 1980s shifted also from lending for the dominant bauxite sector to providing loans for the promising rice industry. In addition, during the early 1990s the bauxite industry agreed with government to secure new investments for the continuation of the industry rather than be dependent on the banking sector. Borrowing limits were imposed on that sector and the ABN AMRO now operates within the confines of those agreements. During the early 1990s it supported the agricultural and fisheries/shrimping industries and quarrying sectors. Tourism, though embryonic as an industry to Suriname is being supported by the ABN AMRO. The bank is currently proactive and successful in locating foreign funds and channelling them to the State Oil Co. It is due to the bank's effort that a refinery is being built by the State company. It is being financed by Dutch Development Aid and the ABN AMRO. This project will lessen the dependence on imported fuel for energy. In addition, the bank is financing a local counterpart of an international gold mining conglomerate exploring the possibilities of opening a mine in Suriname.

As a direct result of the foreign ownership of the ABN AMRO it has been able to be a pace-setter in the automation of the banking industry in Suriname. The bank expressed the view that retail banking was extremely time consuming and costly and had to find ways of cutting transaction time. In 1994 the bank introduced ATMs which have eased the traffic in the bank. Its policy to modernize the banking industry continues.

ABN AMRO has five branches including its Head Office in Paramaribo and one branch in Nickerie. The bank also has two finance companies, Suramij and Surfimij, providing mortgage loans and hire purchase facilities respectively. The activities of these entities are consolidated with those of the broader banking entity.

Surinaamse Volkscredietbank: The Surinaamse Volkscredietbank was established as a state-owned commercial banking entity on December 31, 1948. Ownership of this entity has remained the same since its establishment. During the first year of its establishment the financing for its operations was provided by government in addition to development aid from Holland, De Surinamese Bank and the Postpaarbank. The main goals/objectives as stated in its Articles of Associations are:

- to provide for the credit needs of the lower socio-economic strata in a socially and business-like correct manner, thereby combatting usury; and
- if desired, to provide for assistance and support when co-operative associations are established and during their operations.

The **1988 Annual Report** of the Bank explains further the bank's mandate on establishment thus. "It was established to assist people in financial need who would otherwise have to borrow at very high interest rates." The Volkscredietbank over the years has had a social policy which was expressed in the adumbration and operationalization of its credit policy. It granted small personal loans with short maturities. In addition it extended loans for unforeseen expenditure e.g. sickness and small debts. The bank finances new companies and small businesses which find some difficulty in obtaining credit and long term credit. It extends loans on relatively soft terms and grants credit for housing purposes and for financing durable consumer goods.

The uniqueness of this bank in the Surinamese economy is expressed, too, in its provision of pawn-brokery services. In other ways the bank is similar to the Postpaarbank but is more oriented towards providing credit to businesses.

The bank in 1995 had five branches. Deposits represented 87% of liabilities and share capital - a mere 3%. On the assets side, the bank had 59% of its assets in loans. The bank occupied a 10% share of the commercial banking market in Suriname. The Volkscredietbank is currently involved in several consortium finance dealings with other banking institutions and acts as an agent for insurance companies. It also manages several government funds, for example, a housing fund and a fund for small entrepreneurs.

Landbouwbank: The Landbouwbank or agriculture credit bank was established on April 19, 1972. This is another state-owned entity with a specially expressed goal or objective. The bank was established "to carry on the business of a bank in general and particularly to stimulate the development of agriculture, animal husbandry, fisheries and forestry in Suriname." Over the years the Landbouwbank stuck in large measure to its mandate. It finances also other production and agri-infrastructural activities, provides loans for housing, vehicles etc. and accesses other funds to make its mandate a reality.

In the 1990s this bank has benefited from the unification of the exchange rate. It claims that the liberalization of the foreign exchange regime has positively affected the agricultural sector and so too its business. It feels that in continuing to finance the productive activities of the agricultural sector it is indirectly increasing the foreign earnings of the country.

Commercial Bank Credit and Activity

Commercial banks in developing countries have a significant responsibility to the economy especially where the financial sector is underdeveloped. Besides being monetary institutions they are invariably the one group of financial institutions providing the greatest volume of credit to the productive and service sectors within an economy. They provide personal loans for developmental and well as consumption purposes. In Suriname commercial banks have an onerous task and a key responsibility as they provide between 90%-95 % of the credit to the economy. As such the direction of the economy depends heavily on the behavior of these institutions. Overall, between 1970 and 1995, commercial banks have supported almost all sectors within the economy. However, like all commercial banks, trading activities benefitted most from these institutions. Between 1970 and 1995 lending to trade accounted for between 19% and 49% of total credit extended. In 1970 this level was 48.9% but reached an all time low of 19% in 1985 when scarce foreign exchange permitted little legal trading. By the 1990s commercial banks had started to lend to the parallel market and the percentage rose to 27.6% and further climbed to 37.5% in 1995. **(Table 9.1).** The commercial banks supported the return to an orderly system of importation and general trade between 1993 and 1995.

Besides the trade sector, manufacturing received between 10% to 14% of commercial bank credit and the agricultural sector between 5% and 19% over the years. In 1985 when the trading sector received its lowest percentage of credit, credit to agriculture reached an all time high of 19% as local production was encouraged. There has been a steady 2% lending to the transportation sector and an average 3% to construction, except in 1995, when this percentage rose to 6.2% as the construction industry picked up to mark economic recovery.

Industries less supported by the overall commercial banking system were fisheries and forestry, despite the great potential

Table 9.1. Suriname: Sectoral Distribution of Commercial Bank Credit As a Percentage of Total Commercial Bank Credit (1970, 1975, 1980, 1985, 1990, 1995)

Sectors	As at the end of					
	1970	1975	1980	1985	1990	1995
Agriculture	5.1	6.4	14.3	190.4	13.7	12.2
Fisheries	0.3	2.5	0.1	0.7	0.4	2.4
Forestry	0.1	0.1	0.3	0.1	0.8	0.3
Mining	3.6	5.5	5.0	4.6	4.2	3.2
Manufacturing	15.3	18.7	10.5	8.7	10.6	14.1
Construction	2.8	2.8	4.8	2.5	3.4	6.2
Utilities	2.1	5.7	5.2	2.4	3.4	6.2
Trade	48.9	32.0	31.4	19.0	27.6	37.5
Transportation & Communication	2.4	1.6	2.0	2.0	2.0	3.4
Services	1.3	3.1	3.4	4.7	4.7	6.5
Housing Construction	n.a.	n.a.	n.a.	15.0	12.4	6.8
Other credit	18.1	21.6	23.0	20.9	20.2	7.4
Direct Productive Sectors	29.3	41.7	40.2	38.4	33.1	38.4
Other Sectors	70.7	58.3	59.8	61.6	66.9	61.6

Source: Central Bank of Suriname

Table 9.2. Suriname: Assets and Liabilities of Commercial Banks As a Percentage of Total Assets/Liabilities (1975, 1980, 1985, 1990, 1995)

Assets/Liabilities	As at the end of				
	1975	1980	1985	1990	1995
ASSETS					
Claims on the Central Bank and other liquidity insts.	16.4	11.0	40.3	41.0	36.0
Credit to government	0.0	0.0	4.6	1.5	0.2
Credit to the private sector	47.5	55.7	38.0	39.5	23.6
Capital Market investment	15.5	14.2	11.7	7.8	1.1
Foreign assets	4.9	5.3	3.8	8.8	7.0
LIABILITIES					
Demand and short term deposits	37.0	22.7	36.3	42.2	40.3
Sums due to other banks	4.0	3.4	3.9	1.7	2.3
Long term deposits	41.2	52.8	43.1	36.9	20.5
Foreign liabilities	2.5	4.9	3.3	4.1	21.7
Other domestic liabilities	5.1	6.3	5.4	9.2	10.7
Capital and Reserves	9.9	9.8	7.9	5.9	4.3

Source: Central Bank of Suriname

of Suriname in these areas. Other economic sectors receiving some support from commercial banks are the utilities (gas and electricity), mining and the services industries. Credit to the direct productive sectors has ranged between 30% and 40% over the last 25 years, while other credit averaged between 60% and 70%.

Table 9.2 presents the collective assets and liabilities positions of the commercial banks as at the end of 1975, 1980, 1985, 1990 and 1995. In 1975 and 1980 data show that 16.4% and 11% respectively of total assets represented liquid assets. By 1985 this percentage had risen to 40.3% and remained around that level for over a decade as liquidity built up in the monetary system. By the end of 1995 the commercial banks liquid assets had fallen to 36% in response to efforts to contain monetary expansion.

Credit to the private sector reached as high as 55.7% of total assets in 1980 but experienced gradual relative decline. At the end of 1995 private sector credit represented 23.6% of total assets as foreign assets were built up in response to the new freedom in the foreign exchange market. Foreign assets at the end of 1995 represented 32.6% of total assets up from 1.3% and 1.1% at the end of 1985 and 1990 respectively. This is probably the one most significant shift in the asset structure of commercial banks over the review years of 1975 to 1995.

Capital market investment dwindled relative to other balance sheet items between 1985 and 1995. In 1985 this item represented 11.7% of all commercial bank assets while in 1990 it was a mere 1.1%. The establishment of a stock exchange is a probable cause for this decline.

On the liabilities side short term deposits have in general represented between 30% and 40% of bank liabilities except in the mid-1980s when these deposits were as low as 22%. As a percentage of total liabilities, longer term deposits are becoming of less significance as a source of funds to commercial banks. In 1980 long term deposits represented 52.8% of total commercial bank liabilities. In 1990 they were 36.9% but had further lessened to 20.5% by 1995. In contrast, there has been a shift to foreign liabilities in the 1990s. At the end of 1995 foreign liabilities of commercial banks was 21.7% of total liabilities, compared to 4.1% in 1990. Responsible for this relative and absolute increase was the fact that individuals could now hold foreign currency accounts with banks and saw them as more secure assets than local deposits. Correspondingly banks have been able to increase their foreign currency loans and investments.

9.2.3. Finance Companies

Finance companies were first introduced into the Surinamese economy in the 1960s. By early 1997, there were six finance companies in the economies, some of which perform trust services. These institutions first developed as subsidiaries of commercial banks to perform specific financing. Five of the six finance companies remain subsidiaries of the three largest commercial banks in the economy. These are Suramij and Surfimij, subsidiaries of the ABN AMRO; The Nationale Trust en Financiering N.V. (Natrust), subsidiary of the Hakrinbank; and Surinaamse Trustmaatschappij N.V. (Suritrust) and Financiering Maatschappij (Finapar), subsidiaries of De Surinaamsche Bank. The other finance house is Finatrust established on October 17, 1989 as a privately owned trust and finance company.

The finance companies which are subsidiaries of commercial banks, while operating as separate entities, are very much tied to the banks from which they obtain their finances. The balance sheets of these entities are tied to that of the banks. With the exception of Natrust and Finapar, these companies do not attract their own deposits. Many of the financing companies in general provide mortgage services and hire purchase facilities on cars, trucks and other heavy vehicles. As a group these finance houses have not grown much over time, in terms of the services they offer. A possible reason is that their source of funds is predominantly tied to the commercial banks which themselves provide rival services. As such they are basically specialised extensions of the commercial banks.

Suramij, established in 1960, is a mortgage company providing loans for house construction and purchase. The other subsidiary of ABN AMRO, Surfimij, was established in 1965 and provides hire purchase services. The National Trust provides both estate parcelling services as well as provide hire purchasing financing for cars, buses, heavy equipment, trucks etc. Suritrust of De Surinaamsche Bank provides a combination service which offers mortgage loans as well as trust services. Finapar (DSB's other subsidiary) competes with the National Trust for hire purchase financing.

Finatrust is a local privately-owned trust and finance company providing a wide range of services. This finance company seems freer to operate as a true financial intermediary than are the bank subsidiaries. It accepts deposits from the public and provides loans to businesses and customers. Deposits and saving accounts represent 71% of this company's total liabilities while loans and equity in other companies represent 55% of Finatrust's assets. The company acts as manager, trustee or executor for property. It acquires movable or immovable property, shares and capital. It also operates a cambio.

9.2.4. Development Banking

Two institutions within the Surinamese banking system can be aptly described as development banks. They are the Suriname National Development Bank and the Mortgage Bank. While the former is still in operation, it does appear as though little is currently known about the latter. This study specifically examines the operations of the National Development Bank.

Suriname National Development Bank (Nationale Ontwikkelingsbank N.V.)

The Suriname National Development Bank was established on August 8, 1963. This institution is fully local with a mixed (private/public) ownership. The development bank was born out of a need to promote overall industrial development in the country. Through its lending policies it promotes the establishment of small and medium-sized industries and service companies and helps in the expansion of existing companies . While commercial banks and other financial institutions satisfy working capital and other short term needs the National Development Bank caters for long-term investment in the productive sectors. This institution administers government and foreign funds for productive activities.

This development bank has over the years garnered its funds for lending primarily from its share capital and from long-term liabilities. While these two items together have always accounted for over 85% of the bank's sources of funds their relative importance has changed over time. In the years shortly after 1975 the share capital accounted for over 50% of total liabilities. Long term liabilities (mainly foreign) then accounted for an average of 35%. By 1990 the situation had reversed as local funding dwindled. In 1990 share capital represented 20% of total liabilities with long-term liabilities representing over 62%.

The Development Bank has accessed, managed and on-lent funds originating from the Inter-American Development Bank, the European Community through the LOME agreements and the European Development Bank to name a few. In addition sizeable portions of Dutch Development Aid were channelled to productive sectors through the bank. Most of the foreign loans to the development bank were and are still government guaranteed. Some loans are for specific purposes while some are for general on-lending or as revolving funds.

The lending activity of the development bank has been stymied by the general economic malaise of the 1980s and late 1970s evidenced by the number of loans granted. During 1984 the bank made available 88 loans to a wide cross-section of businesses. In particular it supported the food and beverage, manufacturing, wood products and metal products industries. In 1991 the number of loans granted was only 36. Over the years however the bank has supported small and medium-sized businesses in agricultural and forestry, food and beverage manufacture, textile and leather, wood products, paper products, chemical and petroleum, and metal manufacturing industries.

In the 1990s the Bank's operations were plagued by sizeable arrears on loans granted to businesses. In addition its projects stagnated as a result of non-availability of electricity locally and from decreases in funds from foreign sources. Funding for which the bank was named the executing agency awaited the overall changes in government policies and the implementation of structural adjustment.

The work of the National Development Bank has been given a boost in 1996 with the introduction of an Investment Fund. This Fund comprises a sum of Df1,100 million provided through Dutch Aid and is to be administered by the National Development Bank in collaboration with commercial banks in Suriname. Its purpose is to develop the industrial and business sectors in Surinams. The National Development Bank is the coordinator and manager while commercial banks present the cases for credit for their clients and partially finance them. A committee comprising representatives of the Suriname Bankers Association, the Dutch Embassy, the Association of Businesses and three government ministries approves the projects for funding.

9.2.5. Insurance Companies

The insurance market in the Surinamese economy can be divided into three distinct categories:- life insurance, general insurance and funeral insurance companies. The Central Bank started its supervision of the insurance companies during 1986 but even before that time the industry was sound and operated in a prudent way.

The life insurance companies dominated the overall insurance market for a very long time. According to the Supervision Department of the Central Bank by the end of 1986 there were seven life insurance companies in the economy. Six of these were branch offices of foreign insurance companies while one was incorporated under the Surinamese Company Act. At the end of 1986 the life insurance companies were Eerste Surinaams Nederlandsche Levensverzekerings Maatschappij (ENNA) N.V. incorporated in Suriname and Suriname offices of the AEGON Levensverzekerings N.V., the British American Insurance Co. Ltd. (BAICO), American Life Insurance Company (ALICO), Manufactures Life Insurance Company (MANULIFE), Nationale Nederlanden Levensverzekerings Maatschappij N.V. and Eerste Nederlandsche Levensverzekerings Maatschappij N.V. The general insurance companies in 1986 were the NEN Schadeverzekering N.V., Surinaamse Assurantie Maatschappij "Self reliance" N.V., Fatum Schadeverzekerings N.V. and the N.V. Eerste Surinaamse Verzekeringsmaatschappij "De Nationale". The two funeral insurance companies are the "Hennep Verzogende Verzekeringen" and "Stichting Uitvaartverzekering Hamdard" established in 1991 and 1989 respectively.

The insurance industry has undergone a number of changes during the early 1990s as the market fought to be more cost effective and competitive. In March of 1991 after lengthy negotiations the NEN Schadeverzekering N.V., De Nationale N.V. and ENNA N.V. entered into agreement merging two non-life insurance companies with one life insurance company into one holding company the Assuria N.V. The agreement covering this merger permitted the three entities to conduct their separate businesses and for their respective boards of directors to become the management agency for the new ASSURIA N.V.

Assuria has mixed (foreign and local) ownership and currently has three branches on the local market. This relatively new holding agency occupies an approximate 40% - 50% share of the local insurance market. A major source of funds for this agency is equity which currently represents 73% of the total liabilities. Its investment portfolio which is divided among mortgages, deposits with commercial banks and foreign investment, is currently 81 % of the company's assets. Assuria engages in the life, fire and motor insurance business and is especially strong in pension insurance. Because of this feature it has as its main clients companies with pension plans for employees. Assuria is an institutional investor. Through its investment arm it is a major shareholder in Torarica (an international hotel), a soap and detergent company and a paint company.

In October 1994, a new non-life insurance company the N.V. Paramaribo Schade Assurantie Company was established. It was placed under the supervision of the Central Bank on April 16, 1995. This effectively increased the non-life insurance companies in Suriname to five. This new company is reportedly giving the older established insurance companies some competition through its aggressive marketing strategies. It has reportedly succeeded in taking a sizeable volume of premiums from other dominant insurance companies.

On the 21st of July, 1995 the CLICO Life and General Insurance Co. (S.A.) Ltd established a branch office in the Republic of Suriname after buying over ALICO's operations in that country. ALICO had operated in Suriname for approximately

40 years and sold out its operations reportedly because of a precarious foreign exchange situation and the general economic and political climate over the previous 12 years.

CLICO (Suriname) is a branch of a privately owned foreign entity with its Head Office in Guyana. CLICO (Guyana Ltd.) in turn is a subsidiary of CL Financial Ltd of Trinidad and Tobago. In the Caribbean region CLICO has offices also in Trinidad and Tobago, Barbados, The Bahamas, Grenada and St. Lucia. The significance of CLICO's operation is that it is the only Caribbean incorporated financial entity with such a wide representation in the region. It is certainly the only financial entity in Suriname which has such Caribbean connections.

CLICO entered the local market with the explicit intention of expanding its lines of business and to establish a leading position in the insurance market. It currently has investments in fixed deposits and government bonds. This entity like others in the market extends mortgage loans. It caters to the needs of the middle and higher income individuals, businesses and government officers. Its group-insurance activities attract clients such as the oil companies, embassies, companies in the trade and industrial sector, the armed forces, schools, sport clubs and commercial banks. Its estimation is that it captures about 55% of the life insurance market in Suriname.

In addition to the significant changes on the insurance market during the 1990s, the only shareholder of the FATUM Schadeverzekering N.V., the ING International sold part of its shares to local investors changing the company to a mixed ownership from its previous foreign ownership status.

Up until the end of the 1970s the insurance industry in Suriname experienced generalized growth. In 1981 legislation was introduced making it compulsory for car owners to take out car insurance. Prior to this individuals found that it was difficult to recover costs for damages to vehicles and injury compensation as a result of accidents. This legislative introduction enhanced the premium income for the insurance companies as individuals and other car owners sought coverage. The motor insurance business became quite profitable. This boost to the industry was, however, negated by the problems of the 1980s. Companies found it difficult to increase their volume of premiums as confidence in the industry waned as a result of high inflation. The insurance companies on the other hand were faced with having to pay increased salaries and other costs. Fire insurance also suffered as individuals found difficulty in accommodating this in their personal budgets. Profitability dwindled as the industry grappled with ways of remaining in business.

The early 1990s were particularly interesting for the insurance business in Suriname. The main sources of income were from investment and premiums. The insurance companies being predominantly foreign owned had to deal with the problems of restrictions on the remittance of profit to parent bodies during the foreign exchange crisis. To remit they required licences from the Ministry of Trade and permission from the Central Bank for the purchase of currency. The introduction of cambios is a welcome change to the general economic situation for the insurance industry as foreign companies are now more comfortable with their profit remittances. Moreover, growth is taking place in the area of pension insurance as nominal salaries increase.

9.2.6. *Pension Funds*

Pension funds under the supervision of the Central Bank currently number twenty-nine. Of these pension funds only one was established prior to 1960 and another two were established in the 1960s with six coming into existence in the 1970s. The majority of pension funds now in existence are under

15 years old with 15 having been established in the 1980s and another five in the 1990s. The pension funds are managed by businesses in the economy. For example five of the six commercial banks in Suriname manage their own pension schemes.

Pension funds like other financial intermediaries come under the supervision of the Central Bank but these institutions are less likely than other financial intermediaries to report their financial positions to the Bank. Little is really known about the activities of the funds except by those who manage them. These funds are often reinsured by insurance companies specializing in this area. Many of the pension funds insure their entire sums while others are partly covered. Those at greatest risk and that pose some worry to the supervisory authority are those who have no reinsurance and do their own administration. The pension funds however seem to be prudently managed.

Pension funds are mainly invested in bank deposits, private sector investments and government bonds. Their percentage of bank deposits to total assets, however, declined in the early 1990s as greater advantage was taken of other forms of investment.

According to the Supervision Department of the Central Bank of Suriname, the pension funds that exist in the economy as of December 1995 and their years of establishment were as follows:

Pension Funds	Year of Establishment
St P.F. Margarine & Vettenenfabriek N.V.	1984
N.V. Surinaamse Waterleiding-Maatschappij (SWM)	1955
C. Kersten & Co. (CKC)	1971
ABN AMRO	1993
N.V. Cultuur Maatschappij Ma Retraite	1976
N.V. Scheepvaart Maatschappij Suriname (SMS)	1974
Evangelische Broeder Gemeente in Suriname (EBGS)	1988
Van Alen's Beton Industrie (VABI)	1966
Stichting Tot Ontwikkeling van de Machinale Landbouw in Suriname (SML)	1983
Surinaamse Televisie Stitching (STVS)	1972
Landbouw Bank	1981
HJ De Vries	1984
Billiton Maatschappij Suriname (BMS)	1991
Femandes Verenigde Bedrijven	1982
Centrale Bank van Suriname (CBvS)	1982
Grassalco	1985
Surinaamse Accountants Associatie (SAA)	1988
Surinaamse Luchtvaart Maatschappij (SLM)	1981
De Surinaamsche Bank (DSB)	1985
Verenigde Surinaamse Holding Maatschappij (VSH)	1976
Surinaamse Energie Bedrijven (EBS)	1968
Directie & Stafleden van De N.V. JFD Haenen	1985
Handel Maatschappij Tjon Piang Gi	1977
KKCZ	1987
N.V. Reli	1991
Bruynzeel Suriname Houtmaatschappij (BSH)	1992
Hakrinbank	1994
Surinaamse Postspaarbank (SPSB)	1982
N.V. Cultuur Maatschappij Ma Retraite	1980

9.2.7. Credit Unions

Credit Unions are important financial intermediaries within the context of the more informal institutions. In Suriname, as in other countries, credit unions mobilize small savings within a group context and provide loans to such individuals. Savings are mobilized by issuing share certificates and to a lesser degree deposits. The commonality of the savers is that they belong to a specialized group and, therefore, they tend to know each other. In Suriname the credit unions are bound by law to report to the Central Bank. They, however, do not see this task as an important one. The Central Bank is of the view that in as far as they mobilize savings, intermediate and provide credit they should be monitored. Credit unions, unlike pension funds, do not invest in other entities but rather grant credit to its members.

At the end of 1995, credit unions in Suriname acquired most of their funds (72%) through share capital and deposits (12%). Loans represented over 75% of the assets of credit unions while liquid assets were a mere 8%. The Supervision Department of the Central Bank of Suriname lists the following 27 as credit unions in Suriname existing in 1995 and their dates of establishment.

Credit Unions	**Year of Establishment**
Kooperatieve Centrals van Kredietcooperaties	1963
Celos Werknemers Organiatie	1974
Kredietcooperatie De Schakel GA	1975
Kredietcooperatie Abadoekondre GA	1984
Kredietcooperatie Kersten	1974
Kredietcooperatie Help Elkaar GA.	1983
Kredietcooperatie LVV GA	1961
Kredietcooperatie GMD GA	1961
Kredietcooperatie KOS GA	1988
Kredietcooperatie Jep Makandra	....
Kredietcooperatie SWM GA	1964
Kredietcooperatie Luchtverkeersleiders GA	1982
Spaar-en Kredietcooperatie KOB GA	1985

Credit Unions	Year of Establishment
Spaar-en Kredietcooperatie Zonneschijn GA	1988
Spaar-en Kredietcooperatie C-47 GA	1970
Spaar-en Kredietcooperatie Luchtvaartdienst	1963
Spaar-en Kredietcooperatie YWCA	1978
Spaar-en Kredietcooperatie Broederschap GA	1988
Spaar-en Kredietcooperatie OWT & B GA	1987
Spaar-en Kredietcooperatie Plan/Stat Bureau GA	1988
Spaar-en Kredietcooperatie Span Makandra GA	1986
Spaar-en Kredietcooperatie SOB GA	1983
Spaar-en Kredietcooperatie Vooruit GA	1980
Spaar-en Kredietcooperatie THI GA	1987
Spaar-en Kredietcooperatie ADB	1992
Spaar-en Kredietcooperatie Suriname Timber GA	1975
Hernhutters Onderwijzers Spaarfonds	1965

9.2.8. *Provision Funds*

Provision Funds are similar to Pension Funds. Little is known of such institutions in the English-speaking Caribbean. In Suriname they occupy a minute share of the total assets of financial intermediaries. Their assets are primarily comprised of private sector investments. At the end of 1995 and according to the Central Bank of Suriname (Supervision Department), there were five Provision Funds in the financial sector as follows:

Provision Funds	Year of Establishment
Stichting Voorzieningsfonds Texico Caribbean Inc. Suriname	1980
Voorzieningsfonds Handelmaatschappij A van der Voet N.V.	1974
Stichting Hakrinbank N.V.	1987
Stichting PWS	1956
Stichting Jacques Fernandes	1963

9.2.9. The Stock Exchange

The Suriname Stock Exchange is one of the latest institutional developments in the Surinamese financial sector. Recognizing the need for greater public participation in the business sector, a wider use of direct financing and a more efficient allocation of funds, the Stock Exchange was established in January of 1994 at the initiative of the Assuria Insurance Company. The Managing Director of this Company played a very active role in its organization, having visited similar establishments in the CARICOM region.

Prior to a formal stock exchange and a trading floor, limited trading of stocks was done through two of the larger Surinamese banks - De Surinaamsche Bank and the Hakrinbank. These institutions played mainly brokerage roles for their clients. De Surinaamsche Bank also published information on a regular basis on the prices of stocks but public response was slow and almost non-existent.

The Surinamese Stock Exchange, as currently organized, operates through a working committee which provides its guidelines and meets for trading twice monthly. The working committee enlisted the support of the two broker commercial banks which agreed to stop selling shares through their establishments. To further concretize their support the banks got listed on the stock exchange.

Trading is done through brokers who apply to the working committee for permission to operate. The committee assesses broker applications based on guidelines which include business skills and moral character. By the end of 1994 there were eight approved brokers.

Initially, stock trading was slow but gained momentum by June of 1995. Owing to the fact that trading was almost non-existent prior to the stock exchange, shares of companies were concentrated among a few holders and were grossly undervalued. While the concentration still remains a problem, the value of shares by the end of 1995 were more reflective of their true values, given time and inflationary considerations. There were, at the end of 1995, 11 companies listed on the Suriname Stock Exchange from a small cross section of the business sectors. The companies included two banks, holding companies, an insurance company, a soap and detergent manufacturing company, a departmental store, an electricity gas and water installation company, a brewery, a hotel and a paint manufacturing company.

Table 9.3 shows the percentage of the face values of stocks being traded at December 1994 and June 1995. Stock prices increased for all listed companies, with the exception of the ABN AMRO Holding and ABN AMRO Holding BRC for which stocks were not sold. These generalized increases reflect the inflationary environment as well as increased confidence in the business community. Steep stock price increases were already being experienced in 1996, although deflationary trends were emerging. A fuller expansion of trading hinges on an increased listing of companies and an expansion of government privatization programme.

Table 9.3. Suriname: Companies Listed on the Stock Exchange and Stock Prices as a Percentage of Face Value (Dec 1994 & June 1995)

Name of Company	Dec. 1994	June 1995
ABN AMRO Holding	1,300	1,170
ABN AMRO Holding BRC	1,370	1,370
Assura	2,525	6,000
CIC	5,000	9,200
De Surinaamsche Bank	4,900	11,000
Elgawa	3,300	6,025
Hakrinbank	5,000	9.650
H.J. de Vries	1,950	7,500
Surinaamse Brouwerij	1,400	5,200
Torarica	10,000	12,500
Varossieau	52,000	6,000

9.3. Conclusion

The story of the evolution of the financial sector in Suriname over the past two or more decades, highlights both the underdeveloped nature of that sector and of the economy as a whole. Though there are institutional examples of dynamism, the financial sector as a whole is conservative, technologically limited and overly influenced by a regime of state ownership and control. The significant involvement of the state in commercial banking, for instance, constrains the freedom space of market forces. State dominance of the financial sector has elsewhere led to the politicization of economic activity. The emancipation of the financial sector from state dominance is, therefore, essential for its effective growth and dynamism, as Suriname approaches the twenty-first century.

As the newest member of the CARICOM group of nations Suriname must be prepared to make economic adjustments to accommodate the integration process. The financial sector is a crucial element of the economic system of the country which can spearhead the thrust towards regional economic integration.

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10

The Evolution of the Financial Sector in Trinidad and Tobago (1970-1996)

Penelope Forde, Anne Joseph et al.[1]

In a Caribbean context, the financial landscape in Trinidad and Tobago may be considered fairly well developed in 1996. The growth and transformation which have taken place over the past three decades have changed the system from one in which commercial banks were the most dominant players to one in which insurance companies, mutual funds and pension funds are now also important institutions. **Brown (1989)** traces the development of the financial system in Trinidad and Tobago from the pre-independence period to the late 1980s. Brown suggests that the system developed fairly slowly in the period up to independence and the establishment of the Central Bank. Events thereafter *'took off'* in the 1970s and accelerated in the 1980s and 1990s.

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[1]The principal contributors to this Chapter, edited by Dr. Forde, Chief Economist, and Ms. Joseph, Economist, were a group from the Research Department of the Central Bank of Trinidad and Tobago that included Mss. Cheryl Bruce, Janice Nicholls, Susan Seepersad and Sandra Swan-Daniel and Messrs. Charles DeSilva, Garnet Samuel, Anston Rambaran and Kelvin Sargeant

10.1. The Economic Setting[2]

In very many respects the year 1970 represented a watershed in both the economic, financial and social history of Trinidad and Tobago. The economy which had registered a period of low growth and inflation in the 1960s had begun to feel the effects of growth prospects for petroleum and sugar, the economy's *mono-crop.* Inflation rates which averaged 3% in the 1960s were beginning to creep upwards in response to rising raw material prices. The unemployment rate which averaged 14.2% declined to 12.8% by 1970 **(Table 10.1).**

The economy of Trinidad and Tobago, which grew by 3.4% in 1970, appeared poised for increased economic growth. Aware that petroleum and sugar continued to be the mainstay of the economy, the Government of Trinidad and Tobago (GOTT) embarked on a strategy of import substitution. The manufacturing sector, in particular, responded well to fiscal incentives and to the opportunities presented by the larger market created by the formation of the Caribbean Free Trade Area (CARIFTA). In addition, new marine oil reserves were discovered in 1968/69 as exploration efforts had been encouraged by fiscal incentives, given a declining trend in oil production. The oil sector also played a critical role in the country's external account, as reinvested profits from the foreign-owned oil companies helped to finance the balance of payments deficits in a number of years prior to and including 1970. In 1970, the overall deficit of the balance of payments amounted to $20.6 million primarily due to a trade deficit of $98.7 million. Net official reserves were positive at $106.6 million or 2.3 months of import cover. One seemingly intractable problem, however, was the high level of unemployment which stood at 12.8% in 1970.

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[2]All values expressed in this Chapter are in TT$ unless otherwise stated.

Table 10.1. Trinidad & Tobago: Key Economic Indicators for Selected Years (1960-1970)

Indicator	1960	1965	1970
Real GDP Growth Rate (%)	n.a.	n.a.	3.4
Inflation (%)	2.2	1.8	2.5
Unemployment (%)	n.a.	13.7	12.8
Fiscal Balance/GDP (%)	-0.7	-1.4	-4.4
Current A/c of BOP (TT$M)	-86.4	-156.7	-116.3
Current A/c of BOP/GDP (%)	-9.4	-12.4	-7.1

Source: *Handbook of Key Economic Statistics*, Central Bank of Trinidad & Tobago.

Table10. 1(b). Trinidad & Tobago: Key Economic Indicators for Selected Years (1975-1996)

Indicator	1975	1980	1985	1990	1996
Real GDP Growth Rate (%)	1.3	12.1	-5.9	-0.1	2.8
Inflation (%)	17.0	17.5	7.7	11.1	3.3
Unemployment (%)	15.0	9.9	15.7	20.0	16.3
Fiscal Balance/GDP (%)	+9.7	+2.4	-7.5	-1.3	1.4
Current A/c of BOP (TT$M)	+715.9	+1,132.3	-263.4	+1,827.5	+421.0
Current A/c of BOP/GDP (%)	+13.5	+7.6	-1.5	+9.5	+0.8

From a political and economic perspective, the year 1970 was part of a period of transition from a colonial dependency to a newly-independent nation. The Government's policy as articulated in its three Five Year Development Plans took cognisance of the need to create an internal dynamic.[3]

However, political and social disturbances erupted in the first half of 1970 which gave further impetus to GOTT's plans for diversification of the economy and for greater control and participation in important sectors including the financial sector. The country's first indigenous commercial bank was established in 1970, when the Government acquired the asets of a foreign-owned bank that was closing down its operations, while the second opened its doors the following year. In addition, GOTT pursued a policy of localisation with regard to the commercial banking system, the objective being to locate decision-making power in and for the benefit of the national economy.

From 1974 to 1982 the economy experienced boom conditions as a direct result of the significant increases in oil prices. The economy was marked by high rates of growth in real GDP averaging 6.3% between 1974 and 1982, high levels of government revenue and expenditure leading to an increased role for government in economic activity, balance of payments surpluses and a strong foreign reserve position. There was also rapid growth in incomes and a significant reduction in the level of unemployment resulting in the majority of the population experiencing an unprecedented improvement in their standards of living during this short period.

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[3] See Government of Trinidad & Tobago, *Third Five-Year Plan* 1969-1973, pg. 3-10.

The financial sector benefitted from these conditions as evidenced by its sustained and rapid expansion. Its share of GDP (factor cost) moved from 2% in 1973 to 5.1% in 1981, and total assets of the sector increased from TT$1,325 million in 1973 to TT$17,138 million in 1981. Consequently, the financial system experienced high levels of liquidity and significant credit expansion particularly to the private sector. These favourable conditions also fostered the growth in the number of non-bank financial institutions.

The origins of the recession which started in 1983 could be traced to the petroleum sector. The change in the terms of trade occasioned by falling oil prices and reduced effective petroleum tax rates implied shrinking government revenues, and hence massive fiscal deficits. Indeed the fiscal deficit grew from 1.4% of GDP in 1978 to 13.1% by 1983. As a result, government expenditure, which acted as a stimulus to the growth of the non-oil sector, began to contract leading to a similar deterioration in the non-oil economy. One of the first casualties of the sustained decline in economic activity were the non-bank financial institutions as the sectors which they supported were hardest hit by the recession. The collapse of several of these institutions sent shockwaves through the financial system shaking public confidence in the sector. The establishment of the Deposit Insurance Corporation in 1986 was a direct consequence of these developments.

Economic conditions deteriorated further in 1986 with the dramatic collapse of oil prices which plunged to a low of US$9.65 per barrel in July 1986. This necessitated another round of cutbacks by both government and the private sector. This, in turn, impacted negatively on employment, aggregate demand and output. The economy which had experienced boom conditions in the late 1970s and early eighties was about to enter a new phase of structural adjustment under the auspices of the International Monetary Fund (IMF). Between 1988 and 1991 the authorities accessed US$204.7 million (SDR 155.8 million) from the IMF under the Compensatory and Contingency Financing Facility (CCFF) and two back-to-back Standby Programmes.

From 1989 to the present, the economy has undergone a stabilization and structural adjustment programme which included the reform of the financial system. The process of reform and liberalisation of the economy which began in 1988 culminated in 1993 with a shift to a regime of flexible exchange rates. This reorganization led to fundamental changes in the conduct of monetary policy and in the way financial institutions did business. It is against this changed background that the financial system in Trinidad and Tobago is now poised to enter the next century.

10.2. Structure of the Financial System

The establishment of central banks in the Caribbean region was the logical sequel to the attainment of political independence. The latter, once achieved, brought the realization that the attainment of genuine economic independence and economic development necessarily required some revamping of the old colonial monetary and financial order so graphically portrayed by **Clive Thomas (1965)** with reference to the former British Guiana.[4]

It is, therefore, not by mere coincidence that the central banks of the region all have as a specific statutory objective the promotion of their countries' economic development.

In Trinidad and Tobago whatever success has been achieved by the Central Bank in this regard has been founded substantially on the twin pillars of localization and diversification

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[4]C.Y. Thomas, *Monetary and Financial Arrangements in a Dependent Economy*, ISER, 1965.

of the financial sector and, more generally, on improvements in the financial institutional environment. Since it is true that monetary policy often operates unobtrusively, particularly during periods of economic and financial stability, it is in the area of financial policy that the contribution of the Central Bank of Trinidad and Tobago to economic and financial development has perhaps been most visible.

Financial development is often seen as consisting of the development of new financial instruments, new markets and new institutions. One of the first initiatives of the new Central Bank of Trinidad and Tobago was to seek to bring some organization to the somewhat rudimentary and informal stock market then in existence. The Bank in 1965 instituted a Call Exchange, the purpose of which was merely to act as a medium for the collection and dissemination of information on capital market transactions. But it was an important first step towards the eventual establishment of a full fledged Stock Exchange as a logical companion to the localization and divestment thrust that would gather momentum later in the 1970s, with particular emphasis on the financial sector.

It was not always the case, however, that institutional changes were introduced in a pro-active way. In fact, for monetary and financial policy makers who are often concerned with the effects of their policies on the real sector, Trinidad and Tobago's experience with non-bank financial institutions (NFIs) has been instructive. Firstly, it provided a vivid example of the reciprocal dependence of the financial sector on developments in the real sector and secondly, it exemplified the dangers of reactive monetary and financial policy, particularly when the policy reaction to real sector development is slow or inadequate.

The proliferation of NFIs in the 1970s was a direct consequence of the then prevailing economic boom, and the failure of several of them in the 1980s was equally a consequence of the end of that boom. The regulatory law passed in 1979 took two years to be effected and in any event did not go far enough. Nevertheless it was a significant measure which placed important restrictions on the deposit and loan operations of the NFIs.

The NFI crisis helped to make the 1980s perhaps the most eventful period of institutional change in the financial sector since the establishment of the Central Bank. Once the inadequacies of the 1979 NFI Act became apparent, with the collapse of some non-banks, the Central Bank initiated sweeping joint reforms of the supervisory provisions of the Central Bank Act and the Financial Institutions (Non-Banking) Act. These were implemented in 1986.

The reverberations of the NFI crisis have persisted in the form of a heightened ongoing concern with regulatory issues and a pro-active new approach to financial regulation and supervision. This approach is made even more relevant in light of structural, technology-based changes in the financial sector such as the proliferation of automated banking facilities and the introduction of credit cards by major banks. In addition, the protective insulation afforded the domestic financial sector through localization has begun to be eroded by these and other developments. Local ATMs now have the capability to process international credit cards, while there has been the re-emergence of fully foreign owned financial institutions.[5]

However, it is in the creation of new financial institutions that the financial policy has been most active, with the Central Bank in the role of 'prime mover'. A Stock Exchange and a Unit Trust were established in 1981 as complements to the localization and divestment policies then in train, while the Deposit Insurance Corporation and the Home Mortgage Bank,

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[5] At present one commercial bank and one merchant bank are fully foreign owned.

were added to the array of domestic financial institutions in 1986. In all this the Central Bank provided critical logistical and financial support, including staffing and contributions to capital.

The growth and development of Trinidad and Tobago's financial system since independence have been rapid and impressive. Trinidad and Tobago now enjoys a relatively diversified and sophisticated financial structure, but it is clear that, perhaps more than ever, the system will now be required to be even more dynamic and adaptive than in the past. This statement is made in light of the growing exposure to external influences via technology, the globalization of finance, and developments such as the dismantling of exchange controls, the regionalization of capital markets and the movement towards currency union within the Caribbean Community. The foundations laid since independence, however, should prove a sound basis for confronting the challenges of the future.

Trinidad and Tobago boasts a relatively modern and sophisticated financial structure, both in terms of the variety of the institutional mix and the range of financial instruments available. The really remarkable feature of financial development in Trinidad and Tobago has been the speed at which it has occurred, much of the growth and innovation taking place within the relatively narrow time frame of 20 years spanning the decades of the seventies and eighties. In fact, it could be claimed that it was the too rapid growth of the non-bank sector relative to the pace of change in the regulatory and supervisory structure which gave rise to the crisis in the financial system during the 1980s.

The financial system as it exists today is comprised of a range of institutions which includes commercial banks, finance companies, merchant banks, trust companies, mortgage finance companies, thrift institutions, development banks, mutual funds, credit unions and insurance companies. Some of these institutions are hybrids, combining the activities of finance companies and merchant banks. In addition to the above there are also Mutual Funds, a Home Mortgage Bank, a Stock Exchange and the National Insurance Board.

Tables 10.2 and **10.4** traces the institutional composition and numerical growth of the financial system over the period 1966 to 1996. The large absolute increase in the total number of financial institutions is ultimately less significant than at first appears. Most of the increase is accounted for by credit unions which as a group have remained proportionately very small in terms of their share of total financial assets. Furthermore, the data measure the number of registered credit unions but a large disparity is known to exist between the number of registered and active credit unions.

The second largest increase is in the number of finance companies (including merchant banks). This is more noteworthy if only because in this case growth was accompanied by some product innovation, and because it turned out to be the source of the greatest threat ever posed to financial stability in Trinidad and Tobago. But what is perhaps most significant about the institutional growth depicted in **Table 10.2** is the addition of four generically distinct new institutions, all within the period 1981-1986. These are the Stock Exchange, the Unit Trust, the Home Mortgage Bank and the Deposit Insurance Corporation. But the institutional composition of the financial system by itself provides only limited insight into the structure of the financial system. **Bourne (1988)** adopts the much more useful approach of examining the relative sizes of the various institutional groups in terms such as their share of total financial assets and liabilities and of financial savings.[6]

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[6] C. Bourne, "Contemporary Financial Structure of Trinidad and Tobago", in Compton Bourne and Ramesh Ramsaran, *Money and Finance in Trinidad and Tobago*, ISER, 1988.

Table 10.2. Trinidad & Tobago: Number of Financial Institutions in Existence, Selected Years (1966-1978)

Institution	1966	1973	1974	1975	1976	1977	1978
Central Bank	1	1	1	1	1	1	1
Commercial Banks	7	9	9	9	9	9	9
Finance Companies & Merchant Banks	2	3	6	7	8	11	12
Trust and Mortgage Finance Companies	3	5	5	5	5	6	7
Development Banks[1]	2	3	3	3	3	3	3
Credit Unions[2]	312	299	297	284	288	308	318
Insurance Companies	-	51	55	57	56	57	62
Thrift Institutions	-	3	3	4	4	4	4
National Insurance Board	-	1	1	1	1	1	1
Trinidad & Tobago Stock Exchange	-	-	-	-	-	-	-
Unit Trust Corporation	-	-	-	-	-	-	-
Export Credit Insurance	-	1	1	1	1	1	1
Reinsurance Company	-	-	-	-	-	-	-
Deposit Insurance Corporation	-	-	-	-	-	-	-
Home Mortgage Bank	-	-	-	-	-	-	-
TOTAL	327	376	381	372	374	381	409

[1] Includes Trinidad & Tobago Mortgage Finance Company.

[2] The data represent the number of registered societies. The number of active credit unions is much less but data on such institutions are only available for 1979, 1986 and 1995.

Table 10.2. Trinidad & Tobago: Number of Financial Institutions in Existence, Selected Years (1979-1996) - Cont'd

Institution	1979	1980	1985	1990	1995	1996
Central Bank	1	1	1	1	1	1
Commercial Banks (Branches	9	9	8	8	6	6
Finance Companies & Merchant Banks	12	12	14	12	10	10
Trust and Mortgage	7	7	8	7	6	6
Finance Companies						
Development Banks[1]	3	3	3	3	2	2
Credi t Unions[2]	318	420	381	400	398	356
Insurance Companies	64	60	57	56	42	43
Thrift Institutions	4	4	4	4	4	4

[1] Includes Trinidad & Tobago Mortgage Finance Company.

[2] The data represent the number of registered societies. The number of active credit unions is much less but data on such institutions are only available for 1979, 1986 and 1995.

Table 10.2. **Trinidad & Tobago: Number of Financial Institutions in Existence, Selected Years (1979-1996) - Concluded**

Institution	1979	1980	1985	1990	1995	1996
National Insurance Board	1	1	1	1	1	1
Trinidad & Tobago Stock Exchange	-	-	1	1	1	1
Unit Trust Corporation	-	-	1	1	1	1
Export Credit Insurance	1	1	1	1	1	1
Reinsurance Company	1	1	1	1	1	1
Deposit Insurance Corporation	-	-	-	1	1	1
Home Mortgage Bank	-	-	-	1	1	1
TOTAL	**421**	**519**	**481**	**498**	**483**	**435**

Source: Central Bank of Trinidad & Tobago; Ministry of Industry, Enterprise and Tourism; *Annual Reports*, Supervisor of Insurance.

Table 10.3 depicts changes in the institutional composition of financial savings between 1980 and 1995 but the data suffer from the same limitation as those presented by Bourne, in that insurance savings are unavoidably excluded.

The data confirm the increasing dominance of commercial banks among institutional mobilizers of domestic savings. This is probably closely related to the banks' more aggressive penetration into various geographical markets, as evidenced by the establishment of an additional 16 branches over the period. The fall in the share of finance companies from their position in the mid-1980s suggests that the institutional failures which occurred in this sub-sector may have taken their toll on public confidence. The dramatic decline in the share of financial savings held by the Central Bank, from a majority of 52% in 1980 to just over 15% in 1995, reflects the equally dramatic decline in fiscal savings. Government deposits in the Central Bank were nearly zero at the end of 1995 compared with $4,678 million in 1980 and $591 million in 1984.

Data on the institutional composition of assets of the financial system are more complete, but the predominance of commercial banks is not seriously challenged even with the inclusion of life insurance companies. The banking system as a whole, that is, including the Central Bank, dwarfs the rest of the financial assets in 1995. However, the distribution is substantially less skewed than ten years earlier when the high level of foreign reserves held by the Central Bank gave it the leading share in total financial assets (46%) and contributed to the overwhelming dominance of banking system assets (84%). Interestingly, although commercial banks have now gained the ascendancy with the single largest group share this has been purely at the expense of the Central Bank, since all other groups with the exception of thrift institutions also enlarged their shares, and by proportionately more than commercial banks. This means that in effect commercial banks have lost ground to the

Table 10.3. Trinidad & Tobago: Institutional Composition of Financial Savings, Selected Years

Type of Institutions	1980		1983		1984	
	TT$MN	%	TT$MN	%	TT$MN	%
Central Bank	5,545.1	52.0	2,974.6	23.0	1,820.1	15.0
Commercial Banks	4,065.2	38.0	7,248.1	56.0	7,639.7	62.0
Finance Companies	319.8	3.0	959.9	7.0	868.0	7.0
Mortgage Finance, Trust Companies	537.5	5.0	1,124.9	9.0	1,338.6	11.0
Thrift Institutions	20.0	0.2	21.4	0.2	21.5	0.2
Development Banks	220.4	2.0	582.4	4.0	639.5	5.0
TOTAL	**10,708**	**100**	**12,911.3**	**100**	**12,327.4**	**100**

[1] Development Finance Ltd. was licensed as a finance house and merchant bank in 1994 and is therefore no longer classified as a Development Bank.

Table 10.3. Trinidad & Tobago: Institutional Composition of Financial Savings, Selected Years (Concluded)

	1990		1993		1995	
Type of Institutions	**TT$MN**	**%**	**TT$MN**	**%**	**TT$MN**	**%**
Central Bank	1,343.8	10.7	1,296.5	9.2	2,795.5	15.3
Commercial Banks	8,490.5	67.8	9,606.5	68.0	11,814.3	64.6
Finance Companies	722.7	5.8	861.2	6.1	909.0	5.0
Mortgage Finance, Trust Companies	1,480.3	11.8	1,925.5	13.6	2,210.3	12.1
Thrift Institutions	19.8	0.2	19.1	0.1	19.9	0.1
Development Banks	456.6	3.6	426.9	3.0	533.7	2.9
TOTAL	**12,513.7**	**100**	**14,135.7**	**100**	**18,282.7**	**100**

Source: *Quarterly Statistical Digest,* Central Bank of Trinidad and Tobago.

[1] Development Finance Ltd. was licensed as a finance house and merchant bank in 1994 and is therefore no longer classified as a Development Bank.

rest of the financial system (excluding the Central Bank), which, incidentally, duplicates the trend seen in the data on savings. The following sections profile some of the institutions which comprise the financial system, including their evolution and aspects of their operations.

10.2.1. Central Banking

The Central Bank of Trinidad and Tobago was established by Act of Parliament, Chapter 79.02 (No. 23 of 1964) on December 12, 1964. The Bank was given an explicit development mandate in Section 3(3) of its enabling legislation which defined its purpose as:

> ... the promotion of such monetary credit and exchange conditions as are most favourable to the development of the economy of Trinidad and Tobago.

To achieve its objective the Bank was endowed with the orthodox tools of monetary policy such as:

(i) reserve requirements, including differential and/or variable reserve requirements;

(ii) use of the rediscount rate; and

(iii) open market operations. The Bank was also given the power to impose selective credit controls.

The establishment of the Central Bank was part of a wave of institutional change which spanned the period 1961-1966, that is, the period immediately prior to and following the achievement of Independence. Among these changes was the introduction of several pieces of legislation (including the Treasury Bill Act) empowering GOTT to mobilize domestic savings through local borrowing. The watershed Finance Act of 1966 and the Insurance Act of that same year represented the culmination of that wave of institutional reform. However, for the moment the colonially inspired Sterling Area arrangements which guaranteed free convertibility into sterling at a fixed parity were left unchanged.

No major legislative overhaul occurred until 1994 when the Central Bank (Amendment) Act, 1994 was passed into law, although the Central Bank Act was amended in 1986 to introduce the Deposit Insurance Corportion. The core function of the Bank was not changed, but certain sections were repealed and others amended to provide for the strengthening of the supervisory and administrative functions of the Bank. Given the many developments in the financial system over the past few years the amendments were deemed necessary in order to allow the Central Bank to operate in a modern financial environment.

Monetary Policy

Early monetary policy focussed heavily on the objective of protecting the domestic economy from destabilizing interest rate changes in the United Kingdom. Participation in the sterling area arrangements left the country highly exposed to interest-sensitive capital movements, imposing the need to maintain competitive domestic interest rates. The level of interest rates dictated from abroad was not always consonant with domestic policy objectives, one of which was the maintenance of cheap and adequate levels of credit for the financing of development. It was this latter consideration that prompted the Central Bank, in introducing the use of its cash reserve requirement in 1966, to set the reserve ratio at the legal minimum of 5%, although the banking system was highly liquid.

Competitive interest rate policy relied heavily on the use of the discount rate which was changed no fewer than six times between 1966 and 1968, and again in 1971. To a lesser extent the Central Bank also relied on manipulation of exchange

Table 10.4. Trinidad & Tobago: Institutional Composition of Assets of the Financial System: Selected Years (1966-1996) (TT$MN)

Type of Institution	1966	1970	1975	1980	1985	1990	1995	1996[P]
Central Bank	73.3	159.8	1,944.3	7,188.6	5,578.2	7,010.6	7,646.0	8,418.0
	(18.3)[1]	(17.5)	(44.0)	(46.7)	(23.0)	(22.0)	(18.0)	(17.9)
Commercial Banks	300.5	491.4	1,555.9	5,215.9	10,165.1	12,178.2	20,053.6	22,960.0
	(75.0	(53.9)	(35.2)	(33.9)	(41.9)	(38.2)	(47.1)	(48.8)
Finance Cos. & Merchant Banks	n.a.	29.2	79.6	485.3	1,235.1	1,172.3	2,090.3	22,040
	(-)	(3.2)	(1.8)	(3.2)	(5.1)	(3.7)	(4.9)	(4.7)
Mortgage Finance & Trust Cos.	n.a.	n.a.	158.7	654.7	1,856.4	1,823.1	3,740.0	4,452.0
	(-)	(-)	(3.6)	(4.3)	(7.7)	(5.7)	(8.8)	(9.5)
Life Insurance Companies	-	162.2	362.1	806.1	2,033.6	3,685.8	n.a.	n.a.
	(-)	(17.8)	(8.2)	(5.20	(8.4)	(11.6)	(-)	(-)
Development Banks[2]	4.1	36.6	73.9	297.3	980.4	1,075.6	1,004.0	993.0
	(1.0)	(4.0)	(1.7)	(1.9)	(4.0)	(3.4)	(2.4)	(2.1)

P provisional (..) - negligible (e) - estimated

1 Figures in parenthesis represent the percentage share of total assets.

2 See Footnote 1 in Table 10.3

Table 10.4. Trinidad & Tobago: Institutional Composition of Assets of the Financial System: Selected Years (1966-1996) - Concluded (TT$MN)

Type of Institution	1966	1970	1975	1980	1985	1990	1995	1996[P]
Credit Unions	13.1	20.8	52.7	210.5	695.3	1,722.4	2,500.0[e]	2,000.0
	(3.3)[3]	(2.3)	(1.2)	(1.4)	(2.9)	(5.4)	(5.9)	(4.2)
National Insurance Board[4]	-	-	149.9	530.0	1,570.0	2,413.8	3,284.0	3,588.0
	(..)	(..)	(3.4)	(3.4)	(6.5)	(7.6)	(7.7)	(7.6)
Unit Trust Corporation	-	-	-	-	21.3	335.0	1,316.0	1,352.0
	(..)	(..)	(..)	(..)	(0.1)	(1.1)	(3.1)	(2.9)
Deposit Insurance Corporation	-	-	-	-	-	66.5	193.0	229.0
	(..)	(..)	(..)	(..)	(..)	(0.2)	(0.4)	(0.5)
Home Mortgage Bank	-	-	-	-	-	283.0	656.0	777.0
	(..)	(..)	(..)	(..)	(..)	(0.9)	(1.5)	(1.6)
Trinidad & Tobago Stock Exchange	-	-	-	-	0.8	2.6	8.9	11.0
	(..)	(..)	(..)	(..)	(..)	(..)	(..)	(..)
TOTAL	**400.8**	**911.9**	**4,419.1**	**15,448.6**	**24,227.9**	**31,871.1**	**42,570.3**	**47,064.0**

Source: Central Bank of Trinidad & Tobago

[P] provisional (..) - negligible ([e]) - estimated

[3] Figures in parenthesis represent the percentage share of total assets.

[4] Data prior to 1990 refer to the financial year ending June 30.

charges on sterling transactions, and on moral suasion. When concerns about the distribution of credit began to emerge, the Bank elicited the voluntary cooperation of financial institutions, and later the business community, in following credit guidelines. The first use of the Bank's power of selective credit control was recorded in 1970 when restrictions were imposed on borrowing by non-residents.

The decade of the 1970s opened on a note of economic crisis characterized by low growth, high unemployment and a critical shortage of foreign exchange reserves. These problems would subsequently be relieved by the oil price revolution of 1973-1974, but initially monetary policy attempted to counteract the slump in the economy by stimulating credit. In 1971 the rediscount rate was lowered to 5%, but subsequent rapid credit expansion and growing inflation caused a reversal of policy. The reserve requirement and the rediscount rate were both raised in 1973, to 7% and 6%, respectively. Later, in 1974, as the petrodollar windfall began to exert its own demand-led pressure on the price level, the reserve requirement was again raised to 9%. Monetary policy then entered a long inactive phase which ended in 1980 with the institution of a marginal reserve requirement of 15% for commercial banks. The rationale for this inertia is unclear since the intervening period was one of unprecedented monetary growth and high inflation.

The beginning of the end of the oil boom was marked by the downturn in petroleum production in 1979, which was, however, masked by a second major increase in oil prices. But as oil prices themselves subsequently began to weaken the economy quickly slipped into decline, and into a pattern of large fiscal and external payments deficits. As economic policy shifted towards stabilization, the Central Bank raised the discount rate from 6.00% to 7.50% in 1983; with the momentum of monetary growth on the wane, the marginal reserve requirement was established and the cash reserve ratio set at 17%. Continuing economic decline led to the adoption of cautiously expansionary monetary policy. In 1986 the Central Bank reduced the cash reserve requirement to 15%, negotiated a reduction in commercial bank interest rates and relaxed installment credit guidelines.

Trinidad and Tobago's attempt to survive its economic crisis through its own stabilization efforts was crushed by the oil price collapse of 1986. The new government which took office at the end of that year judged, after some delay, that recourse to the resources of the International Monetary Fund and to the debt relief that an IMF programme would buy, was unavoidable. The country entered into a Stand-by Arrangement with the IMF in early 1989 and subsequent monetary policy was substantially shaped by the conditionalities and financial liberalization thrust of the programme.

Exchange Policy: Exchange Rate Management[7]

The Central Bank Act enjoins the Central Bank of Trinidad and Tobago to, inter alia, *control and protect the external value of the monetary unit ...'.* However, the determination of the par value of the currency is ultimately a political decision, though one on which the Central Bank may be presumed to have a great deal of influence. Institutional arrangements in the immediate post-Independence era left little or no room for active exchange rate policy. Trinidad and Tobago remained party to the Sterling Area arrangements, key elements of which were free convertibility and the maintenance of a fixed parity with sterling, then the major reserve currency. The government of the day was sufficiently committed to these arrangements to explicitly enshrine them in Section 32 of the Central Bank Act.

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[7] This section is largely excerpted from an internal Central Bank document entitled *'Report of the Exchange Control Review Committee'*, mimeo, 1986.

The link with sterling began to unravel with the sterling devaluation of 1967 which forced a proportional devaluation of the TT dollar. It was further weakened in 1970 when sterling was declared a foreign currency subject to exchange controls, as an outbreak of social unrest prompted fears of capital flight. The international monetary crisis of the early 1970s and the introduction of generalized floating rates marked the beginning of a steep and steady depreciation in the international value of sterling, and consequently in that of the Trinidad and Tobago dollar, given the maintenance of the sterling peg. However, by the mid-1970s the importance of sterling in Trinidad and Tobago's external transactions had long been superseded by that of the US dollar. This factor, together with sterling's difficulties, led to the breaking of the sterling peg in May 1976, in favour of linkage with the US dollar at a rate of TT$2.40 = US$1.00.

Once the break with sterling had been effected the exchange rate ceased to be an issue, not surprisingly in the context of a booming petrodollar economy and a situation of rapidly accumulating foreign reserves. The onset of economic decline in 1983, one year after the emergence of what would turn out to be a long series of fiscal and current external deficits, forced official acceptance of the need for adjustment. With massive balance of payments deficits in prospect, the authorities opted in 1983 for direct import controls in preference to exchange rate adjustment, giving rise to the EC-Zero system of controls in October of that year. The system introduced *ex ante* Central Bank controls over visible imports.

The persistent weakness of oil prices, which together with declining production had precipitated the downturn in the economy, gave rise to some sentiment in favour of devaluation after about one year of import controls. However, it was another year before a devaluation was announced in December 1985, with a dual exchange rate regime. The exchange rate moved to TT$3.60 = US$1.00 for all transactions, except for imports of food, drugs and several other 'basic' items which continued at the old rate.

In 1986, consequent on the collapse of the international price of oil, there was a precipitous decline in foreign exchange reserves to the equivalent of less than two months' worth of imports. A new political administration also assumed office at the end of that year and, while initially repudiating the notion of an approach to the IMF, quickly moved to unify the exchange rate as a critical element of its stabilization programme.

However, the magnitude of the prevailing fiscal and external payments deficits, made it increasingly clear that these could not be successfully addressed outside of the framework of an IMF stabilization programme. This was particularly true of the external deficit as successful balance of payments adjustment was seen to depend critically on external debt rescheduling which, as a practical matter required the adoption of a Fund programme. In what appeared to be a preemptive move, the TT dollar was devalued in August 1988 by 15.3% to a rate TT$4.25 = US$1.00. It is now a matter of record that Trinidad and Tobago entered into a Stand-by programme with the IMF in the first quarter of 1989. Under the IMF programme import controls were dismantled and the country moved closer to a policy of flexible exchange rates. However, there were no further changes in the exchange rate until 1993 when the TT dollar was allowed to float.[8]

The shift to a regime of flexible exchange rates and free movement of capital implies that monetary policy must now target domestic price and exchange rate stability as its primary objectives. Accordingly, the emphasis is on short-term liquidity management through the use of market-oriented policy

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[8] The first year of operation of the new foreign exchange system is described in the supplement to the QEB for June 1994.

management through the use of market-oriented policy instruments. Therefore, in 1995, the legislative framework was enhanced to allow for the inclusion of open-market operations, as part of the Bank's policy matrix, to effect day-to-day liquidity management.

Prior to November 1971, exchange controls in Trinidad and Tobago were governed by the Defence (Finance) Regulations which had come into effect in 1942 during the Second World War. These regulations were re-enacted by the Defence (Finance) Regulations (Re-enactment and Validation) Ordinance of 1959 because the source of the original colonial regulations ceased to exist.

Exchange controls were administered by a Division of the Ministry of Finance. The administration of exchange control was transferred to the Central Bank in October 1967. As a practical matter, however, such exchange controls could not have been particularly effective or significant in the industrial and commercial life of the community because:

(i) prior to the institution of the Central Bank in 1964, there was no agency which had effective control over the foreign exchange earnings of the economy; and

(ii) sterling was not a foreign currency and there was free and full convertibility between the Trinidad and Tobago dollar and sterling at a fixed exchange rate.

The effect of these institutional circumstances was that there was really no effective control on the purchase and sale of foreign currency or the acquisition of external assets.

Control, therefore, came into force with the declaration of sterling as a foreign currency and with the passage of the

Exchange Control Act in 1970 and its proclamation in 1971. Sterling was declared a foreign currency by amendment to the Defence (Finance) Regulations on May 19, 1970. The intent of the Act establishing the Exchange Control function is clear. Trinidad and Tobago had already taken advantage of the transitional arrangements provided by Article XIV status in the International Monetary Fund. It had as well, in the Third Five Year Plan (1969), signalled its intention to effect greater national control of the country's resources and to direct domestic savings to the development of the economy.

Inter alia, the Exchange Control Act

(i) prohibited and otherwise regulated dealing in gold and foreign currencies and required surrender of acquired foreign currency and gold to an authorized dealer in the Central Bank;

(ii) regulated payments to non-residents or on behalf of non-residents and prohibited compensation deals;

(iii) regulated dealings in bearer and registered securities, and settlements between residents and non-residents.

While the authority of the Exchange Control Act was vested in the Minister of Finance, the actual administration of the system and its procedures and policies were delegated to the Central Bank. The Bank delegated to the Ministry of Industry authority to approve remittance of foreign currency for visible imports, while the commercial banks, as authorized dealers, were delegated limited authority in respect of travel, education and advertising fees.

Two important features of the Exchange Control system established at that time and which continued in effect until

October 1983 were:

(i) There was a focus on outflows of foreign exchange, in particular, direct remittances requiring purchase of foreign currency for specific purposes (travel, emigration, education, fees, etc.); and

(ii) there was no *ex-ante* control over visible imports.

There were no major changes in exchange control policy between the proclamation of the Act in 1971 and 1979. In 1977, some restriction had been placed on foreign investment by nationals. In 1979, in view of the comfortable foreign reserves, rising incomes, increasing travel for business and pleasure, and inflation, the delegated limits of the authorized dealers were raised appreciably.[9] In addition, the emigration concession was also raised. During the boom years 1974-1981, the administration of exchange controls became increasingly liberal.

In 1983, in response to the contraction of the economy consequent on the fall in oil prices, the Bank introduced a significant change in the Exchange Control procedures in respect of visible imports. The new system, EC Zero, was an attempt to exert *ex-ante* control over the importation of visible items while at the same time restricting, with the use of ceilings or quotas, the importation of non-essential items, principally consumer goods. The administrative restriction of imports by means of EC Zero was instituted in preference at that time to the alternative of a devaluation or multiple exchange rates.

However, the institution of EC Zero brought to the fore problems inherent in the administration of exchange control.

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[9] *Annual Report*, Central Bank of Trinidad and Tobago, 1979, p. 40.

The absence of clearly articulated commercial and industrial policy inevitably led to inappropriate allocations since the Bank had to devise its own criteria. The system was amended on several occasions largely with a view to simplifying its operation. The major change was the introduction of a trade allocation system in 1988 which assigned an annual allocation in local currency to eligible importers. In 1989, in the context of a commitment given to the International Monetary Fund within the terms of the Standby Arrangement, the system of foreign exchange controls on imports began to be dismantled and was scheduled for complete elimination by the end of 1990.

In April 1993 the Government took the decision to abolish exchange controls on current and capital transactions and to float the Trinidad and Tobago dollar. The value of the TT dollar is now determined within the context of an interbank market whose major players are the commercial banks - the licensed foreign exchange dealers. Although the Exchange Control Act is still on the legislative books most of the sections in the Act have been repealed.

10.2.2. Commercial Banking

Commercial banking began in Trinidad primarily in response to the demand for financing of trade and commerce by the plantation class. The Colonial Bank, later Barclays, was first to arrive in 1837, but by 1950 the number of banks had risen to three and the number of branches to eight, including one in Tobago. The period 1950 to 1966 saw an influx of foreign banks, attracted by the profitable opportunities from expanding trade and investment links with North America. By the end of the 1960s there were seven foreign banks in operation - one British, three Canadian, two from the United States, and one jointly owned by British and Canadian interests.

Fundamental changes to the structure of the domestic banking system began unfolding from 1970. In that year the assets of a foreign branch bank were nationalized, leading to the creation of the fully local National Commercial Bank. One year later the Workers' Bank was established *de novo* with substantial help from the Government, and in 1976 an indigenous savings bank converted to full commercial bank status. Meanwhile, in keeping with an official policy of localization, the foreign branch banks had embarked on a process of divestment of their shares to local investors. During 1993, a number of far reaching institutional changes occurred within the domestic financial system. The Central Bank assumed control of the National Commercial Bank preliminary to issuing a vesting order merging the operations of the country's three indigenous banks. The Stock Exchange also approved an offer by the country's largest bank to take over the operations of a smaller bank.

At present there are six commercial banks operating in Trinidad and Tobago with a total of 121 branches. Five of the banks are either fully or majority-owned by nationals, the other having reverted to full foreign ownership in 1988 when it was allowed to repurchase a previously divested portion of its stock. Collectively the banks hold about 47% of the total assets of the financial system, although banking assets are far from evenly divided. The three largest institutions account for almost two-thirds of the assets of the banking system (**Table 10.5**).

The dominance of the banks is undoubtedly due in part to the wide geographical dispersion of banking offices and the consequent easy availability of banking services to the population. In Trinidad and Tobago there is a bank branch to every 11,000 persons. Moreover, the banks offer a relatively sophisticated range of services, including loan facilities, deposit accounts, letters of credit, bills of collection, customer payments services, credit card services and 24-hour banking. Commercial banks have also introduced a variety of innovative financial products, including individual and group retirement plans

Table 10. 5. Trinidad & Tobago: Commercial Banks at a Glance (1970-1996)

	1970	1975	1980	1985	1990	1995	1996
No. of Banks	7	9	9	8	8	6	6
Branches	81	91	105	117	121	117	121
Total Assets (TT$MN)	**491.4**	**1,555.9**	**5,215.9**	**10,165.1**	**12,178.2**	**20.053.6**	**22,959.9**
OfWhich							
Loans (TT$MN)	324.9	880.9	3,293.4	6,730.9	7,440.3	7,662.9	8,146.9
Government (%)	2.9	8.0	0.4	1.3	0.4	0.4	0.1
Manufacturing (%)	21.9	16.9	15.2	10.6	16.4	15.2	14.9
Distribution (%)	25.7	13.9	13.8	10.8	10.1	9.8	10.6
Consumers (%)	28.1	42.0	35.0	28.3	24.2	29.4	29.3
Deposits TT$MN)	**448.1**	**1,302.1**	**5,065.2**	**7.701.1**	**8.832.0**	**12,349.9**	**12,888.1**
Time (%)	33.8	42.4	42.0	50.5	48.0	25.7	21.8
Savings (%)	43.3	36.4	33.7	32.4	35.4	34.8	33.7
Demand (%)	22.9	21.1	24.4	17.1	16.6	20.9	20.6
For. Currency (%)	-	-	-	-	-	18.5	23.9

Source: Central Bank of Trinidad and Tobago; Authors' Compilation.

[1]Data for the years 1980-1996 represent loans to central and local government while the data for 1970 and 1975 reflect loans to the public sector, as a breakdown was not available.

denominated in both domestic and US currency, deferred annuity plans, offshore equity funds and mutual funds. Partly because of their foreign lineage, the banks have excellent international banking connections. In addition, two of the larger commercial banks have several branch operations in the Caribbean region.

Commercial banks operated under the Banking Act, Chapter 79:01 until August 1993 when this was replaced by the Financial Institutions Act, 1993. The Act requires that they hold a percentage of their deposits as cash reserves with the Central Bank, and report regularly to the Central Bank on various aspects of their operations. Domestic interest rates are competitively determined, although the Central Bank does exert some influence on the variation in interest rates through its conduct of monetary policy.

Commercial Bank Liabilities

Deposits generally account for about 75% of commercial bank liabilities. However, during periods of economic uncertainty and financial stress this proportion may decline to reflect increases in borrowing from the Central Bank and other banks, or prudential increases in reserves. On average commercial bank deposits displayed an annual growth rate of just over 15% over the period 1965-1990, commensurate with the expansionary conditions that characterized the economy for much of that period. More recently, however, growth has slowed considerably, averaging 6.6% between 1990 and 1996.

Deposits are of three types - demand, savings and time - and since 1993 are also denominated in foreign currency. Demand deposits offer their holders the facility of drawing cheques against their accounts, making them the most liquid form of deposits. Time and savings deposits, on the other hand, generally specify maturity or other withdrawal conditions, although some savings accounts now offer chequing facilities.

Maturities can range from 15 days (call deposits) to over five years. Over the years the structure of deposits has changed fundamentally. Time deposits, which was the smallest category of deposits in 1966 was the largest in 1985 (50.5%) before declining to 21.8% of total deposits in 1996. The share of savings deposits fell from 48% to 34% over the same period. Although the share of demand deposits in total deposits fell in the 31 years to 1996, this decline conceals a dramatic rise in the 1990s, from 16.6% in 1990 to 21% in 1996. Since the liberalization of the foreign exchange market, foreign currency deposits have assumed a significant share of overall deposits, accounting for about 24% of total deposits in 1996.

Historically, nearly three quarters of the total deposits of the banking system have been held by individuals. The structural shift in the composition of deposits over time has therefore been largely due to changes in individuals' liquidity and risk preferences towards the holding of time deposits. Demand deposits, traditionally the preferred instrument of the business sector, maintained their status in 1996, accounting for 53% of all business deposits, compared with 40% held in time deposits.

Commercial Bank Assets

Prior to 1960, overseas investments constituted the largest category of commercial bank assets. This was hardly surprising in view of the fact that the banks were at the time all foreign owned, and there existed free currency convertibility at a fixed exchange rate. Subsequently, however, loans (including real estate mortgages) began to dominate the asset portfolio of the banks, rising from a share of 54.9% in 1966 to 61.1% in 1990. Since then, investments have exhibited a resurgence, accounting for over 25% of total assets in 1996. The growth of domestic lending peaked at a rate of 25.8% per annum in the years 1974-1982, before falling sharply to a rate of just 3.2% in 1982-1990, and decelerating to just 1.5% in 1990-1996 **(Table 10.5).**

At one time the distributive trades attracted the largest share of bank credit. Since 1969, however, consumer lending has overtaken all other forms of credit, including credit to the government and to the manufacturing sector. The share of the agricultural sector, always small, has declined over time from 4% in 1966 to 2.3% in 1996.

10.2.3. Non-Bank Financial Institutions (NFIs)

Trust and Mortgage Finance Companies and Finance Houses

The category of non-bank financial institutions (NFIs) technically encompasses the entire range of institutions other than commercial banks engaged in business of a financial nature, the most important of which are the trust and mortgage finance companies and the finance companies. The non-bank sector as it stands at present also includes one mortgage finance company and three merchant banks.

Trust companies were first established in Trinidad and Tobago as branches of Canadian overseas trust companies based elsewhere in the Caribbean. However, the post-Independence localization movement led to their incorporation as subsidiaries of the local branches of their Canadian parent banks. The establishment of the trust companies as institutions separate from the commercial banks preserved a Canadian institutional arrangement which was in fact a legal requirement in that country. It is interesting to note that the only domestic banking institution which now provides trust services internally rather than through a separate institution is a descendant of a British bank.

Trust companies invest heavily in mortgages both for their own account and in their role as trustees. In fact, their own account loan portfolio, which they fund through the taking of deposits from the public, is concentrated exclusively in mortgages. In Trinidad and Tobago the demand for commercial mortgages originates mostly in the middle- and high-income segments of the mortgage market. Much of this demand is met by the trust companies, although two commercial banks have now established separate mortgage finance companies as part of their consolidated financial activities.

However, trust and mortgage finance companies also service the lower end of the market as agents of the National Insurance Board and the National Housing Authority, on whose behalf they originate and service mortgage loans. In addition, they have supported the development of the domestic capital market through the underwriting and managing of share issues of public companies and through the purchase of government and private securities. On a smaller scale they have participated in loan syndication designed to raise funds for corporate customers. Finance companies were also introduced into the local financial environment from abroad. The earliest arrivals were from the United Kingdom and their activities were largely confined to consumer installment lending. However, their operations never attained any significant scale in relation to the financial and credit system as a whole and most of them went out of existence during the decade of the sixties.

The rapid expansion of liquidity in the financial system consequent to the oil boom of the 1970s prompted a resurgence in the establishment of new finance companies, with as many as ten coming into existence between 1973 and 1983. This proliferation was partly motivated by a growing demand for certain non-traditional financial services which the existing institutions were not adequately geared to provide. These services included hire purchase credit, block discounting, trade confirming, leasing, factoring and property holding. Many of the new companies, however, were incorporated as subsidiaries or affiliates of other non-financial enterprises; these companies took advantage of the looseness of the prevailing regulatory framework to channel a disproportionately large share of their total lending to their client-owners or affiliates. With the onset of economic decline in the eighties, and in spite of the belated introduction of controlling legislation several finance companies failed, occasioning some loss to depositors particularly where such failure occurred prior to the introduction of deposit insurance in 1986.

Amendments to the Financial Institutions (Non-Banking) Act (1979) resulted from the experiences of the 1980s. While the original legislation was largely preemptive in its intended effects, the amendments that followed sought to fortify the law in light of the lessons learnt from the crisis. The NFI Act and amendments gathered within their purview all trust companies, finance companies and merchant banks operating in Trinidad and Tobago and provided for the licensing of their operations. Many of the provisions were aimed at ensuring the integrity of the companies' credit portfolios, including the stipulations that NFIs may not:

(i) engage in the taking of deposits or the granting of loans with maturity of less than one year;

(ii) acquire or hold land except for certain approved purposes or under qualified circumstances, and for a limited period only;

(iii) grant unsecured credit facilities to related companies, or to their own officers and employees beyond prescribed prudential limits;

(iv) grant secured credit exceeding 10% of their loan portfolios to any one person.

In 1986, an amendment to both the Central Bank Act and the Financial Institutions (Non-Banking) Act simultaneously strengthened the Central Bank's powers of investigation and intervention into the affairs of financial institutions and provided for the introduction of a system of deposit insurance. A number of finance companies were subsequently wound up under the amended law and their depositors compensated within the indemnifiable limits set out under the deposit insurance system.

The coverage of the NFI Act and the Deposit Insurance Corporation (DIC) extends to the business of merchant banking which has a relatively short history in Trinidad and Tobago beginning only in 1982. In that year the country's first merchant bank was formed as a joint venture between a local commercial bank and an international bank which later relinquished its shareholding in the enterprise. Subsequently, two other foreign banking institutions established merchant banks locally and one mortgage finance company expanded its activities to include the business of merchant banking.

The Financial Institutions Act, 1993 brought the NFIs and commercial banks under the same legislative framework. The new legislation which came into effect on August 11, 1993, repealed and replaced the Banking Act and the Financial Institutions (Non-Banking) Act. Under the new Act the Inspector of Banks was charged with additional responsibilities and his powers were increased accordingly.

The services provided by merchant banks span a range of wholesale banking and financial activities including medium-term lending, project financing, the issuance of letters of credit, equipment leasing, financial advisory services and foreign exchange dealing. Local merchant banks have also assumed a high profile in the domestic capital market, managing and underwriting bond issues on behalf of the central government, statutory authorities and even private corporations. Their presence has not only added a degree of refinement to the capital market but has enhanced the short-term money market as well, since merchant banks are active in the placement of funds with other financial intermediaries and in the inter-bank loans market.

10.2.4. Insurance Companies

As a mobilizer of domestic savings the insurance industry in Trinidad and Tobago is second in importance only to the commercial banks. But unlike the banks which, however, they outnumber by far insurance institutions are not regulated by the Central Bank but mainly by the Ministry of Finance. At the end of 1996 the local insurance sector comprised 46 institutions, including 20 companies engaged primarily in life or long-term insurance, 26 general companies including the specialized institutions, the Export Credit Insurance Company (EXCICO), the Reinsurance Company of Trinidad and Tobago (TRINRE) and the National Insurance Board. In addition there were 233 registered pension fund plans at the end of 1996, 82 of which were self-administered.

The local insurance industry has experienced fundamental changes in legislation, structure and ownership over the past twenty-five years. Industry trends have been particularly sensitive to swings in the economy. Thus the period 1966-1982, which subsumes the period of the oil boom, was characterized not only by dramatic institutional change, but by unprecedented growth in the numerical size and in the financial resource base of the industry.

Prior to the passage of the Insurance Act of 1966 the insurance companies were virtually unregulated. The Act established the office of Supervisor of Insurance and imposed statutory deposit and statutory fund requirements in addition to a minimum local-assets ratio. This last requirement was in fact the first step towards a broader localization thrust that was to follow in the 1970s. Subsequent amendments to the 1966 Act introduced minimum capital requirements - currently fixed at $3 million for life companies and $1 million for others - and provided for the approval of management personnel. Presently several issues are being addressed in regards to the regulation of the industry. These include an increase in the minimum level of capitalization; an increase in the minimum solvency margins for general companies and an introduction of solvency margins for insurance brokers; requirement of annual registration of companies; reduction of the time involved in reporting from six months after the financial year to four months; and increased powers for the Supervisor of Insurance to intervene into the affairs of a company.

During the 1970s the insurance and banking sectors became the focus of efforts to localize the domestic financial sector. The Government initially sought to rely on the use of suasion to achieve this objective, but when insurance companies appeared to be slow in responding, fiscal incentives were introduced in 1975. Today, the industry is predominantly locally owned. Of the 49 companies registered in 1994, 41 were local and another six were regional companies. The majority are joint stock companies and the few mutual companies that exist are predominantly regional, as distinct from local institutions, and are engaged mainly in long-term business.

One of the effects of localization has been a secular decline in the foreign asset component of statutory fund investments. This, of course, was precisely what was intended by the policy of localization. Foreign assets averaged just 4.2% of total assets in 1982-1986 compared with 24.6% in 1973-1977. However, with the flotation of the TT dollar and the liberalization of the financial market, total foreign assets have increased, averaging 17.3% at the end of 1994. Within the domestic asset portfolio mortgages once superseded government securities as the dominating investment asset over time, accounting for fully half of statutory fund investments in the period 1982-1988. However, there has been a resurgence in importance in government securities as this now accounts for 21.6% of total assets. Insurance companies have also been significant investors in company equities but have been constrained in the past by limitations of supply. More recently the equity component of their portfolio has declined as a proportion of total investments. Mortgages and Real Estate represent others area of significant investments, accounting for 15.7% and 10.1% respectively of total assets at the end of 1994.

The local insurance industry is highly concentrated, with the ten largest firms in 1993, accounting for 78% of total assets and the fourteen smallest, all general insurance firms, accounting for just 3% of the total. The dominance of the life insurance companies was briefly challenged during the period of the oil boom when non-life companies experienced much faster growth in their premium income. Since 1982, however, non-life business has actually been declining, and the growth of life business has slowed considerably.

These latter developments bear out the tremendous impact of economic contraction on the industry. However, the problem has not approached the severity of that experienced among other classes of non-banks. The general insurance sub-sector has been most affected and in fact has experienced instances of actual or near failure among some companies. However, the life companies have also witnessed a significant rise in the incidence of lapsed and discontinued policies, simultaneous with a marked decline in new business.

Since 1972 the services of private insurers have been complemented by a social insurance programme administered by the National Insurance Board (NIB). The system is funded by joint employer-employee contributions and provides coverage for sickness, maternity, invalidity, employment injury, retirement, death and survivorship. The NIB has also contributed substantially to domestic capital formation through its investments in mortgages which grew from less than 5% of its portfolio in 1972 to over 60% in 1985. Since then, however, prudential considerations in the context of a soft mortgage market have dictated a reduction in this ratio.

Two other specialized institutions complete the picture of the insurance industry in Trinidad and Tobago - EXCICO and TRINRE. EXCICO, the Export Credit Insurance Company provides insurance cover for exporters against risks involved in the exports of goods. Registered under the Companies Ordinance in December 1973, the company operated within fairly narrow confines in the early stages of existence. Its infancy coincided with the economic boom of the 1970s, when there was little or no emphasis on the promotion and development of non-oil exports. Thus its early years of operation up to 1986 are best described as somnolent.

Since 1986, however, several different factors have led to a change in its fortunes. The most important of these is the fact that EXCICO was appointed to act as an agent of the Central Bank for the discounting of export bills. The company linked the discounting facility to the insurance cover and was able to expand its premium base. The experience gained from this operation placed EXCICO in direct competition for this type of business with some commercial banks. Since 1989 the company has been operating similar type facilities with a number of the commercial banks. EXCICO has been able to write off a number of years of accumulated losses and turn a small profit in 1989. Its future lies, however, in its ability to transform itself from an export credit institution into a fully fledged EXIMBANK.

This process is currently underway and it is expected that the Export-Import bank of Trinidad and Tobago would be formed by the latter half of 1998. An EXIMBANK will allow exporters to take full advantage of non-traditional export opportunities and assist the commercial banking system in ways that will increase fund availability and reduce risks of export-related lending. Concomitantly, the services now provided by EXCICO will be expanded and new ones offered including technical assistance programme.

The Reinsurance Company of Trinidad and Tobago, (TRINRE), was born out of the localization thrust described in the 1975 budget address. At that time government policy enunciated the establishment of an insurance company to broaden the base of the industry, to reduce the substantial sums remitted abroad and to open up employment opportunities. After a great deal of lobbying and reassessment of the position, it was announced in 1977 that a reinsurance company would be set up. The company TRINRE, partly-owned by the Government, began operations in 1978. However, the ownership structure changed in 1995, when the management of TRINRE purchased GOTT's 60% stake in the company. A key element in the operation of the company is the 5% voluntary ceding of business in respect of fire and other insurance. The company operates pools for marine and energy business and recently added the business of life reassurance and the underwriting of international business. At the end of 1994 the company changed its focus somewhat as it began providing direct general insurance services and is now actively competing in the direct market. The company is growing slowly but is still relatively small by international standards (1993: $6.9 million in net premium income).

10.2.5. Development Banking

Development Banking was introduced in Trinidad and Tobago to redress specific short-comings of an immature financial system, dominated mainly by the commercial banking sector. These deficiencies were the inadequate mobilization of local savings and the skewed allocation of this in favour of the distributive and trading sectors, to the neglect of manufacturing and agriculture. Development Banks were intended to encourage the growth of capital markets and to garner savings to be invested in specific targeted sectors.

There were two Development Banks in Trinidad and Tobago with assets totalling $563.5 million at the end of 1994.

The Agricultural Development Bank (ADB) was established by an Act of Parliament in 1968, as a wholly-owned government institution. Its focus is the development of the agriculture and food processing sectors. The ADB superseded the Agricultural Credit Bank, which, because of under-capitalization and its stringent credit policies, was deemed incapable of satisfying the needs of the small and medium sized farmer. In view of the liberalized financial environment, the ADB Act was further amended in 1995 to allow for the strengthening of the Board of Directors and a widening of the powers of the bank. With these amendments, the ADB is now able to offer innovative and personalized products to their customers. Development Finance Limited (DFL), the other development bank in existence, was originally incorporated under the Companies Ordinance in 1970 as a government-owned private company to foster the growth of industrial enterprises. However, in 1994 the company was registered (under the Financial Institutions Act 1993) as a limited liability company to undertake a wide range of financial services, the principal being that of investment banking.

At its inception, the authorized share capital of the ADB was \$20 million, made up of two million shares at \$10 each. This was increased to \$80 million in 1983 and then to \$500 million in 1989. Paid-up capital at the end of 1994 was \$245.4 million with 96.7% being contributed by government and 3.3% by borrowers. This resulted from the passage of legislation in April 1989, authorizing government to purchase all ADB's shares outstanding to the private sector and allowing the conversion to shares of outstanding government advances. The authorized share capital of DFL is \$75 million. Historically, the Government has held the majority of shares in this institution and at the end of 1988 the distribution of its paid-up capital was as follows:- GOTT 97% and the local private sector 3%. From 1989, however, DFL began to receive injections of share capital from foreign financial institutions bringing the ownership of ordinary shares of the institution at the end of 1994 to: GOTT 28.1%, local private sector 32.9% and foreign financial institutions 39%.

The ADB and DFL are empowered to access funds by various means, while the ADB is also authorized to accept savings and time deposits. In practice, the main source of funding to these institutions has been the Government through loans and advances. Between 1970 and 1990, Government advances to the ADB amounted to $262.6 million and that to DFL, $153.9 million. The copious advances to these institutions were made possible by the large inflow of revenue from the petroleum sector to the Government, especially between 1973 and 1982. Advances made to these institutions have been long-term with maturity periods of between twenty and forty years. Interest rates on loans to DFL ranged between 4 % and 8.5%, while rates on advances to the ADB were never specified. The revision of the Agricultural Development Bank Act in 1989 allowed for outstanding liabilities of $185 million on government advances to the Agricultural Development Bank to be converted to government shares.

The local development banks have made limited use of the other privileges afforded them for garnering funds. DFL issued three bonds between 1981 and 1992, raising a total of $93.2 million. At the end of 1994 bond debt represented 24.4% of total debt. The ADB, although legally authorized to, has never accepted savings and time deposits. One reason for this was its inability to compete with the well entrenched commercial banks in the area of interest rates. Another possibility is that the bank was never in a financial position to engender the confidence of potential depositors. Nonetheless, the bank may have forfeited a valuable opportunity to mobilize financial resources through branch offices strategically placed.

Until recently, foreign borrowing as a method of funding has been used sparingly by both DFL and the ADB. Between

1970 and 1990 the European Investment Bank (EIB) and the International Bank for Reconstruction and Development (IBRD) provided DFL with loans totalling $89.6 million. From 1991 to 1994, however, loans to DFL from foreign institutions exceeded $100 million, concomitant with increased participation by foreign financial agencies in its ownership. Before 1988, ADB's foreign borrowings totalled $5.8 million but this grew to $132.8 million between 1989 and 1994.

The main business of the ADB and DFL is medium and long-term lending. Both institutions also provide short-term loans on a limited scale while DFL makes equity investments. At the end of 1995 loans outstanding to the ADB stood at $115.5 million representing 58.2% of its total assets. The corresponding figures for the DFL at the end of 1994 were $136 million and 36.4%.

The ADB lends to individuals, companies and co-operatives for a range of activities. Before 1987, the ADB provided most of its finance at concessional interest rates. Loans to Agricultural Credit Societies were made at interest rates of 1% and those to individuals at 3% and 6.5% according to the type of activity. The low interest rate policy of the ADB precipitated problems of capital depletion through non-repayment of loans and inflation. In 1987, the ADB moved to bring its rates more in line with market rates by stipulating that its minimum average lending rate would be 8.75%. Since 1993 the interest rate for approved loans averaged 12%. The upward revision of rates became necessary as the institution increased the foreign component of its funding.

DFL provides financing to enterprises in Industry and Tourism for the purchase of fixed assets, working capital and in some instances, for refinancing. Investments are based on the technical feasibility of the project, its financial viability and its contribution to certain socio-economic goals. As a guideline

DFL has adopted a debt-equity ratio of 2:1 and limits its financial commitment to any single enterprise to 15% of its paid-up share capital and reserves. The investment policy of the company is such that interest rates are set in order that the cost of money is recovered, but in practice DFL has tended to charge market rates.

The ADB and DFL have been important sources of financing to Agriculture and Manufacturing, approving since their establishment loans totalling $1,121.4 million and $919.4 million, respectively. At the end of 1996 disbursements by the ADB totalled $764.1 million or 68.1% of approvals, while for DFL disbursements amounted to $853.4 million or 92.8% of approvals at the end of 1994. Approvals and disbursements by both institutions were particularly high between 1974 and 1982 when government advances to these institutions were highest. The ADB and DFL have supplemented the funds channeled into their respective sectors of responsibility by the commercial banks **(Table 10.6).**

The ADB has supported a wide variety of activities within the agricultural sector since its establishment. Often the areas emphasized have varied with and conformed to government's agricultural policy. The ADB lends for crop and livestock production and for non-food purposes e.g. re-financing, forestry and horticulture. Lending by DFL has spanned a range of non-agricultural activities including manufacturing, tourism and industrial services.

10.2.6. Thrift Institutions The Savings Bank

Thrift institutions such as the Post Office Savings Bank (POSB) and Building Societies have been in existence since the nineteenth century. In the case of the early savings banks they were created to encourage thrift among the labouring class, especially as the Colonial Bank did not cater to the needs of small depositors.

Table 10.6. Trinidad & Tobago: ADB and TTDFC (DFL): Loans Approved (TTSMn)

Year	ADB Approvals	ADB Disbursements	TTDFC (DFL) Approvals	TTDFC (DFL) Disbursements
1968	-	-	-	-
1969	2.1	-	-	-
1970	2.4	1.0	0.6	-
1971	4.2	2.4	0.9	0.2
1972	9.6	4.6	3.8	2.2
1973	7.2	6.5	6.3	6.0
1974	7.1	5.4	7.8	6.6
1975	9.9	9.3	15.3	6.5
1976	22.1	9.3	15.3	6.5
1977	39.6	14.5	33.2	18.9
1978	60.5	38.0	32.7	27.8
1979	84.9	42.5	70.2	47.1
1980	87.7	48.6	70.8	49.1
1981	77.4	46.7	94.7	66.8
1982	98.5	61.4	37.7	37.4
1983	25.2	26.4	37.7	37.4
1984	37.1	24.8	57.*	56.7
1985	11.8	24.7	64.6	50.8
1986	29.3	14.2	23.9	69.7
1987	23.9	19.8	31.1	39.2
1988	29.7	19.8	51.0	50.6
1989	36.6	19.9	40.8	50.6
1990	45.4	34.4	48.5	49.0
1991	49.7	54.2	34.5	53.6
1992	60.5	50.5	42.8	53.1
1993	60.9	40.7	66.7	25.8
1994	61.0	72.3	n.a.	n.a.
1995	84.0	39.6	n.a.	n.a.
1996	53.0	37.0	n.a.	n.a.
TOTAL	**1,121.4**	**764.1**	**919.4**	**853.4**

Source: *Annual Reports,* ADB and TTDFC

The first two Savings Banks were established in Port of Spain and San Fernando under Ordinance No. 4 of 1839. Deposits were then limited to £30 per annum and at no time were allowed to exceed £100. Interest on deposits was paid at the rate of 4% per annum. Between 1839 and the early twentieth century many ordinances were passed in an effort to increase the public's confidence in these Banks. By 1935, the Government in order to put the Savings Banks on a sounder footing decided to locate the management and control of these banks in the post offices and under the Postmaster General.

The Post Office Savings Bank, as it operates at present, came into effect on January 1, 1936 under its own Ordinance Ch. 35, No. 5 of 1935 (the Post Office Savings Bank Ordinance). With this in place all former enactments on Savings Banks were repealed. The Savings Bank is managed and controlled by the Postmaster General who on approval from the Minister of Finance can open or close a banking facility at any post office.

All deposits held in the Post Office Savings Bank are guaranteed by government to be repaid together with the appropriate interest. The minimum deposit required to start an account at the Post Office Savings Bank is twenty-five cents. Interest is compounded annually and is payable on deposits of $1 and upwards at a rate of 4%. Depositors are restricted to one account, and where persons are found to hold more than one account, no interest would accrue on any of the deposits.

All deposits at the Savings Banks are held by the Treasury Department of the Ministry of Finance, except for a small portion of these funds which is kept by the Bank to cover the cost of administration. The Treasury Department is responsible for the investment of the surplus on behalf of the Savings Bank and is limited by law to the investment of no more than two-thirds of the total sum deposited in government securities. These securities can be disposed of in order to repay deposits and the Treasury is authorized to advance the necessary funds to the Savings Bank in the interim until the securities could be sold.

The number of branches of the POSB grew from 40 to 73 between 1944 and 1996 with the growth in communities and housing areas **(Table 10.7).** The number of accounts held by the POSB also grew steadily from 75,000 in 1944 to 142,000 in 1980 but since then has remained almost stagnant reflecting some preference for banking facilities at other financial institutions. Given this preference, deposits have fallen significantly from $5.7 million in 1950 to $1 million in 1996. This apparent decline of the participation of the POSB in the financial sector has led to exploratory discussions among government agencies on ways to modernise and upgrade the operations of the Bank. To date no concrete recommendations have been formulated but it is expected that changes would be made in the short to medium term.

10.2.7. Building Societies

Building Societies were established under the Building Societies Ordinance Chap. 8, No. 1, proclaimed on December 31, 1890. This Ordinance provided for the registration of building societies and appointed the Registrar of Friendly Societies as the Registrar of Building Societies.[10]

A Building Society can be established by any number of persons with the prime purpose of raising funds through the subscription of members. The shares held by members are paid dividends and after some time members are granted a mortgage loan to purchase a home. Security for these mortgages is held by the society in the form of freehold or leasehold estate. In addition, Building Societies are also authorized under the

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[10]The friendly society which was introduced by the Wesleyan Church in the 1840s is a type of insurance association to which members subscribed to provide benefits in the event of sickness, distress, death and other unfortunate circumstances.

Table 10.7 - Trinidad & Tobago: Post Office Savings Bank
Selected Data for Selected Years

Years	No. of Branches	No. of Accounts (000)	Total Deposits (TT$Mn)	Total Withdrawals (TT$Mn)	Assets (TT$Mn)	Cash in Hand (TT$Mn)
1944	40	75	4.3	3.3	n.a.	n.a.
1950	49	104	5.7	5.1	11.0	n.a.
1960	56	135	4.9	5.4	13.9	n.a.
1970	61	137	2.0	2.5	9.3	n.a.
1980	61	142	3.0	3.1	5.3	0.13
1981	61	142	2.4	2.9	8.2	0.08
1982	61	142	2.9	3.0	8.3	0.11
1983	61	142	3.3	2.8	14.9	0.83
1984	61	142	2.3	3.4	13.9	0.12
1985	61	142	2.8	2.9	14.1	0.12
1987	73	142	1.7	2.5	1.7.2	0.01
1988	73	142	2.3	2.5	19.0	0.08
1989	73	142	1.3	2.4	17.8	0.02
1990	73	142	1.4	3.1	16.9	0.03
1991	73	142	1.4	3.1	16.9	0.03
1992	73	143	1.9	3.1	16.5	0.03
1993	73	143	1.5	2.2	16.4	0.1
1994	73	143	1.4	2.1	15.3	0.03
1995	73	143	1.0	2.2	15.4	0.04
1996	73	143	1.0	1.5	12.1	0.05

Source: Post Office Savings Bank

Ordinance to raise funds from time to time through the issue of bonds and can also offer interest-bearing time deposits.

The first Building Society to be registered in Trinidad and Tobago was the Trinidad Building and Loan Association which was established in 1891. This was followed in 1957 by the General Building and Loan Association and more recently by the Caribbean Building and Loan Association. In 1891, the Trinidad Building and Loan Association (TBLA) began operations with 2,033 shares subscribed at a value of $17,363.07 and paying a dividend of 6%. In that first year, the TBLA extended $13,137.50 in mortgage loans. By the end of 1995 mortgage loans extended by the association reached $32.7 million with the value of shares and deposits amounting to $25.5 million and $3.5 million, respectively **(Table 10.8).**

As a group, total assets of the three associations amounted to just over $61 million in 1995, 70.7% of which were loans and mortgages. Liquid assets stood at $8.2 million or 13.4% of total assets. With the high incidence of loan delinquency, these institutions have not been immune to the problems of the mortgage market. Despite the adequacy of the security held against such loans, they have had to increase their provisions for bad debts within recent years. In the period 1980 to 1984, the ratio of loans and mortgages to total assets averaged 81.2% and this ratio has declined steadily to average 73.7% for the 1985-1995 period. Depositors' savings for the three associations stood at $7.5 million at the close of 1995, $2.4 million or 47.1% higher than at the beginning of the 1980s. Similarly, the value of shareholders' equity in the three companies in 1995 grew to $36.8 million from $26.9 million in 1980.

Unlike their counterparts in the United Kingdom and elsewhere in the Caribbean, building societies have become somewhat marginalized, as they have not been able to compete successfully with other financial institutions. In part this has occurred because legislation and regulation which govern these

Table 10.8. Trinidad & Tobago: Building Societies: Selected Data (1970-1996) (TT$MN)

			1970	1975	1980	1985	1990	1995	1996
TOTAL ASSETS:	**42.6**	**52.0**	**56.2**	**58.5**	**60.7**	**64.8**	**65.8**	**67.0**	**65.2**
Of Which									
Liquid Assets	5.8	6.5	4.6	5.4	5.3	9.5	10.2	10.2	9.3
Investments	0.82	0.7	0.7	0.68	0.61	0.35	0.35	0.32	0.32
Loans & Mortgages	34.7	42.2	46.2	46.9	49.1	49.7	50.2	50.8	49.8
LIABILITIES									
Of Which									
Deposits	5.1	4.9	7.6	6.2	8.6	7.5	8.3	8.4	8.1
Members	0.6	0.5	0.8	0.5	0.5	0.7	0.7	0.7	0.4
Shareholders	26.9	35.0	36.3	38.6	39.7	43.1	43.4	44.8	43.3

Source: Reports to Central Bank.

institutions have not kept pace with that of the other actors in the financial system. These institutions have not been able to offer their clients the range and variety of services offered by the commercial banks. Their likely future lies in an overhaul of their legislation to provide for more active supervision from the relevant authorities.

10.2.8. Credit Unions

Credit Unions in Trinidad and Tobago first appeared in the 1940s in response to the lack of access to banking services by the underprivileged. The movement was formalized with the passing of the Credit Union Societies Ordinance in 1945 which catered for the registration and control of credit unions. The rapid growth of the movement soon gave rise to the formation of The Credit Union League which was registered in 1952 under the same amendment and the Act which created the Credit Union Bank. The League quickly became affiliated to the international credit union organization CUNA International. The Government established a Cooperative Department in 1949 to provide advice and training to the cooperative sector, including credit unions, and over the years provided financial assistance to the movement. In late 1995, the Board of the Co-operative Development Bank, otherwise known as the Credit Union Bank voted to liquidate the bank because of its insolvency and the erosion of its capital base. In the latter half of 1996, the institution was put into liquidation.

The Cooperative Societies Act of 1971 unified the three separate laws governing various cooperative societies and assigned oversight responsibilities to a single Minister who at present is the Minister with responsibility for labour and cooperatives. The Act, which remains in force, gave power to the Commissioner of Cooperatives to wind up delinquent or mismanaged societies, or to remove the Board of Directors. Reporting requirements were established, but there were no provisions made for penalties.

Credit unions in Trinidad and Tobago are largely of the industrial or community type, but there exist a few church affiliated institutions. In practice, however, the common bond criterion for membership is not strictly adhered to, particularly by community credit unions whose constituency boundaries appear to be very flexible. Organizationally, credit unions are managed by an elected Board of Directors which heads a committee structure, including a Supervisory Committee, a Credit Committee and an Education Committee. They mainly provide loans to members based on their shares and deposits at a rate of interest of 1% per month on the declining balance. However, some credit unions provide social services such as recreational and day care facilities to their membership.

There is relatively little authoritative research or documentation of the credit union movement in Trinidad and Tobago and data on the sector are notoriously deficient and difficult to access. There appears to be several reasons for this, not least of which is the exaggerated sensitivity of traditionalists within the movement to external 'interference'.

Objectively, however, the credit union sector suffers from a number of other problems. There are glaring weaknesses in the existing legislation such as the general absence of penalties for contraventions of the law, short of the ultimate sanction of deregistration. Although there are statutory reporting requirements, non-compliance is typically high averaging well over 40% over the three years to 1989. Management information systems among credit unions are generally weak - the majority of credit unions are not computerized, a problem, which is surprisingly shared by the regulatory agency despite its voluminous data processing requirements. There is a dearth of trained personnel within the movement, with few credit union managers having been exposed to tertiary level education or financial management training.

The problems of the credit union movement are manifested in the high mortality rate or a high incidence of dormancy among credit unions. Over the four years 1987-1990 an average of nearly half of all registered credit unions were listed as inactive. The latest data available from the Commissioner for Cooperative Development also confirmed the high level of inactivity putting the number of active credit unions in Trinidad and Tobago at 165 out of a total of 356 registered societies.

Concern for the proper regulation of credit unions led to the appointment of a Credit Union Task Force Committee in 1992 to review their operations and make recommendations pertaining to these institutions. Consequently, in 1992, the Government transferred the supervisory responsibility to the Ministry of Finance since the Commissioner for Co-operative Development lacked the resources and human capital to carry out adequate supervision. In response to the Government's actions and the difficulties experienced by a number of credit unions, the credit unions decided to create a stabilisation fund to strengthen self regulation. The fund has so far received mixed support from credit unions.

In 1996, a technical co-operation agreement for $10.6 million was signed between the Inter-American Development Bank (IDB), the Government of Trinidad and Tobago and the Cooperative Credit Union League of Trinidad and Tobago. Each party provided a part of the funding: the IDB - $7.6 million; Ministry of Finance - $2.1 million; and the credit unions - $0.9 million. The funds would be used to modernise the sector and make it more responsive to the needs of its clientele. Under the agreement training would be provided for credit union staff and a self-monitoring unit would be established to upgrade the skills of managers and boards of the credit unions. In addition, technical assistance would be given to the Ministry of Finance to help supervise the sector and the legal environment under which credit unions operate would be reviewed.

Credit unions must seek to hasten developments in the sector since in 1996, the Government stated its intention to remove the tax credit of $625 afforded to the net increases in purchases of credit union shares up to a limit of $2,500. This measure is to be implemented in 1997, with the view of leveling the playing field in the financial sector. The credit unions have protested this measure since the tax credit has provided a basic incentive to members and potential members. The sector must therefore seek further alternatives to maintaining and attracting members.

10.2.9. Mutual Funds

The Unit Trust Corporation

The proposal to establish a Unit Trust in Trinidad and Tobago was first mooted in the mid-1970s. A key concern of public policy at the time was the localization and conversion to public ownership of the then substantially foreign-owned business sector, with initial emphasis being placed on the strategically important banking and financial sector. In addition, the Government had itself ventured decisively into the realm of state entrepreneurship, with the stated objective of ultimately divesting, to as wide a public as possible, ownership of the burgeoning state enterprise sector. The search for an appropriate vehicle through which these policies could be effectively carried out led to a decision to establish the Unit Trust Corporation of Trinidad and Tobago by a special Act of Parliament, No. 26 of 1981.

The business of the Unit Trust is essentially that of mobilizing the resources of many small savers and investing these resources in instruments such as equities, bonds and term deposits. Under its Act, the Corporation can establish one or more unit schemes. However, each scheme must be separately identified for investment and general accounting purposes. The Corporation launched its First Unit Scheme on November 29, 1982 with initial capital contributions from the Central Bank

($2.5 million), life insurance companies and the National Insurance Board ($1.5 million) and commercial banks and other financial institutions ($1 million). The Unit Fund of the First Unit Scheme is divided into equal portions or units, the price of which is calculated on a daily basis and is influenced by the value of the underlying securities in which the Fund is invested.

The Unit Trust was intended to provide the small or uninitiated investor with an indirect route to the stock market and other financial markets while substantially minimizing the risks typically associated with direct investment, particularly in equities. The individual investor would also be relieved of the need to contend with the complexities of the market.

Until January 1, 1996 the Unit Trust enjoyed special tax status under the law, both in respect of its own income and that accruing to unit holders. The income of the UTC itself was completely tax exempt while unitholders received a tax exemption on the first $5,000 in distributions under the First Unit Scheme. In addition, the 1986 Budget had introduced a tax deduction for the purchase of units up to a limit of $2,500. This was later modified to a system of tax credits. The strong growth in the Unit Fund following the early decline in sales has been largely attributable to the stimulus provided by the budgetary tax concessions.

However, the dismantling of the tax incentives began in 1994 and continued into the 1996 fiscal year. In 1994, tax credits were allowed only to investors in the First Unit Scheme. By January 1, 1996 the fiscal regime, to which unitholders had become accustomed, and the dividend income allowance from which the First Unit Scheme had benefitted since 1984, had been wholly removed. In addition, a 15% tax is now imposed at source on the gross interest income earned by unitholders' funds in the First and Second Unit Schemes of the Corporation.

Improvements in the Composite Stock Market Index are attributable to the continued high level of liquidity within the financial system, the high number of take-over bids and corporate restructuring taking place on the Stock Exchange. It would appear therefore that the Unit Trust has not only succeeded in attracting the small investor, but has also successfully attenuated the risks that the investor would otherwise have incurred.

The Unit Trust has not been an unmitigated success story, however. Sales of the First Unit Scheme opened strongly in 1982 and reached $36 million in only one month of business. However, in the next two years sales slumped to $3 million and $1.4 million, respectively. Meanwhile, repurchases totalled approximately $14 million and $13 million, respectively, in 1983 and 1984, causing the Unit Fund to decline sharply in those two years, coinciding with a depreciation of around 26% in the value of the unit. The decline in the value of the unit and the sluggishness of sales coincided with the period of economic recession in the local economy. In December 1988, the value of the unit reached a record end-of-year low, representing some 42% below 1982 values. This notwithstanding, sales recovered to grow by over 100% on average between 1984 and 1988, due in large measure to the stimulus provided by fiscal incentives for the purchase of units. After 1988, both the increase in unit values and its sales performance were exceptional. Unit prices of the First Unit Scheme began the year 1996 at $14.50 (offer) and moved to $15.65 (the ex-distribution price) at the close of the year. The increase of $1.15 in the offer price coupled with the reinvestment discount of 5% contributed to the realization of 8% in capital gains. Additionally, on the bid basis the unit price increased from $13.80 to $14.90, an increase of $1.10 per unit. Unit values peaked in 1996 to surpass 1982 values by 58%. Sales in the First Unit Scheme in 1996 fell short of the 1995 level by $57.8 million or 28% to $146 million and accounted for 21% of gross sales **(Table 10.9).**

Table 10. 9. Unit Trust Corporation: Selected Indicators (1982-1996)

Year	Sales (TT$Mn)	Repurchases (TT$Mn)	Bid Prices[1] (TT$)	Offer Prices[1] (TT$)
1982	36.0	0.4	9.60	10.10
1983	3.0	13.9	8.30	8.75
1984	1.4	12.8	7.05	7.45
1985	4.0	1.1	5.95	6.30
1986	12.4	0.6	5.60	5.90
1987	22.7	0.9	6.05	6.35
1988	30.2	5.4	5.55	5.85
1989*	61.3	21.5	6.40	6.70
1990	339.6	172.2	9.05	9.50
1991	446.7	372.3	9.00	9.55
1992	209.7	155.6	7.90	8.30
1993	396.5	226.9	9.60	10.10
1994	467.2	303.1	10.35	10.85
1995	1,014.9	637.0	13.80	14.50
1996	683.6	688.8	14.90	15.65

Source: *Annual Reports,* Unit Trust Corporation

* The Second Unit Scheme was introduced in September 1989

[1]Year-end Prices.

The Unit Trust Corporation in September 1989, launched a Second Unit Scheme, or Money Market Fund aimed at the yield-maximizing investor. The resources of the Fund are invested in high-yielding government and corporate debt instruments as well as in bank deposits. A minimum initial investment of five units or $100, and a maximum of $1 million are stipulated. The Money Market Fund allows the small investor indirect access to a range of money market instruments which would ordinarily be out of reach because of minimum amount requirements, information costs and other barriers to individual participation in the market. In addition, the choice of investment instruments virtually eliminates the risk of capital depreciation and the units are redeemable on demand at face value.

Inspite of its relatively short history, the Second Unit Scheme has shown an encouraging picture. However, after three successive years of sustained increases, sales at the end of 1996 totalled $537.6 million, a decline of 33.7% over the 1995 figure of $811.2 million. This can be attributed mainly to the implementation of new fiscal measures which adversely affected the competitiveness of both products. Unit holders in the Second Unit Scheme were paid an average gross yield of 11.35% per annum in 1995 and an effective annualized rate of return of 8.66% in 1996. The latter, fell below the quoted estimated rate of 9% for three of the four quarterly distribution periods. While this rate fell marginally by 0.72%, in dollar terms, the distribution for the year exceeded that of 1995 by $4.9 million or 9%, up from $57 million to $61.9 million.

Other Mutual Funds

The thrust towards further development of the financial system saw the establishment of another mutual fund in February 1993, through the initiative of one commercial bank as it sought to widen the financial services offered to its customers. The objectives of the new fund were therefore similar to those of the UTC as it sought to attract investors by promoting income growth and capital preservation. The determination of an investment portfolio with a mix of high-quality stocks, bonds and treasury bills would be the responsibility of a merchant bank subsidiary which would act as investment manager.

Other developments have occurred in the Mutual Fund Industry since 1993. In 1995 there was a further widening of the mutual funds industry with the entry of two foreign currency denominated global equity funds, established by commercial banks and domiciled outside of Trinidad and Tobago. Additionally, a new Money Market Fund came into being on February 7, 1996. The fund is operated by a commercial bank and attracted a marginal $0.1 million in investments at the end of the first quarter of the year.

At present, legislation is not yet in place to govern the operation of Mutual Funds in Trinidad and Tobago. However, the Central Bank has established guidelines to ensure their prudent management and adherence to certain disclosure requirements. Appropriate legislation is expected to be in place by the end of 1997.

10.2.10. The Home Mortgage Bank

In 1983, a report by the International Finance Corporation (IFC), an agency of the World Bank, supported the establishment of a Home Mortgage Bank as a way of enhancing the supply of funds to the middle income housing market in Trinidad and Tobago. Legislation was passed in 1985 and in October 1986, the Home Mortgage Bank (HMB) commenced operations under private management with initial capital subscribed by the Central Bank, the National Insurance Board, commercial banks, life insurance companies and the IFC itself.

The broad mission of the HMB is to promote the development of a secondary mortgage market, principally through the buying and selling of mortgage loans. The establishment of the Bank added an important and novel dimension to domestic housing finance as primary lenders now have the facility to convert long-term mortgage investments into liquid resources which they can then channel into the provision of new loans. However, the activities of the Bank are not limited to secondary sales and purchases of existing mortgages. The Bank also issues standby purchase commitments with respect to loans originated by primary lenders for the purpose of new residential construction.

The structure of operations in the secondary mortgage market is such that use is made of the expertise that exists on both sides of the market. Primary lenders continue to service and administer mortgage loans which they have sold to the Bank, including the handling of liquidation and retention of the risk of delinquency or default by the mortgagor. In return they are paid a fee by the Bank, which remains free to concentrate on the business of mobilizing the funds necessary for financing its activities on the housing market.

Apart from its issued capital of $16 million, the Bank's resources have been derived exclusively from the sale of medium- and long-term mortgage-backed bonds. These instruments have proven to be extremely popular with investors because of their competitive interest rates and the fact that interest income from the bonds is entirely tax free. However, there is a legal limit of $600 million on the issue of tax free bonds by the Bank but this is subject to review by the Minister of Finance. At the end of 1996 the total amount raised by the Bank from the sale of tax-free bonds was $715.4 million.

Primary lenders must meet certain criteria in order to do business with the Home Mortgage Bank. They must have a net worth of at least $300 million and a minimum of three years satisfactory experience originating mortgage loans. In any event, the Bank restricts to 20% the proportion of its total mortgage portfolio that can be sourced from any one primary lender.

To qualify for purchase by the Bank, mortgage loans must be for houses which are owner-occupied and whose appraised values fall within the range of $150,000 to $400,000. The mortgage amount should not exceed 90% of the appraised value and the term of the mortgage must be 30 years or less. In addition, the mortgage interest rate should be subject to annual review. The price which the Bank is prepared to pay for a mortgage is determined by such factors as the cost of its debt, the risk of the underwriting loss and the alternative sources of funds available to the primary lender.

One measure of the impact of the Home Mortgage Bank on the local mortgage market is the size of its own mortgage portfolio, which at the end of 1996, amounted to $527.0 million. However, in interpreting its developmental mandate, the Bank has assigned itself a role much larger than that of a provider of resources to the mortgage market; in this regard the HMB has been in the forefront of efforts to standardize mortgage documentation for greater efficiency in processing. The Bank has also set as one of its objectives the maintenance of low and affordable mortgage interest rates; thus its own conservative benchmark rates, both for existing mortgages and new construction, appear to have been decisive in influencing rates downward since the commencement of its operations.

The year 1995 was a *'watershed'* year for the Home Mortgage Bank as assets grew by more than 65% from $397.5 million in the previous year to $655.6 million. Most of this increase occurred in the expansion of the mortgage portfolio, which grew from $288 million at the end of 1994 to $477.4 million at the end of 1995. In July, 1995 the Home Mortgage Bank initiated a new mortgage programme with primary lenders. This new programme carries with it the implementation of a Mortgage Insurance Scheme which apply to all new loans purchased by the HMB. The effect of this has been that the benchmark interest rate for mortgage purchases was reduced from 12% to 11% on the origination of all new mortgage loans **(Table 10.10).**

The year 1995 also witnessed the establishment of the Eastern Caribbean Home Mortgage Bank (ECHMB) - a regional Secondary Market Facility, with its headquarters in St. Kitts. The ECHMB will serve the eight territories comprising the Organization of Eastern Caribbean States (OECS), Grenada, St Vincent and the Grenadines, Dominica, Montserrat, St. Lucia, Antigua, Anguilla/St. Kitts/Nevis. The HMB of Trinidad and Tobago has taken 20% equity stake in the new institution, and together with the International Finance Corporation, will be playing a supporting role in the operationalization and development of this new institution.

10.2.11. Deposit Insurance Corporation

The introduction of deposit insurance was one of a number of major innovations and institutional reforms to take place in the financial sector between 1980 and 1986, perhaps the most difficult period in Trinidad and Tobago's financial history. The onset of economic decline in 1983 and the collapse of the real estate market left many financial institutions, and in particular the non-banks, holding severely impaired asset portfolios. Many were pushed to the brink of insolvency and there was one case of outright failure in 1983. By mid-1985 several other institutions were poised to collapse and had to be sustained by injections of funds from the Central Bank.

Against this unsettled background the Deposit Insurance Corporation (DIC) was established in 1986 by a legislative amendment to the Central Bank Act and the Financial Institutions (Non-Banking) Act. The amendment also considerably strengthened the Central Bank's powers of intervention and supervision of the financial sector. The deposit insurance system administered by the Corporation shares many

Table 10.10. Trinidad & Tobago: Home Mortgage Bank: Asset Composition (1989-1996)

	1989		1990		1991		1992	
	TT$MN	%	TT$MN	%	TT$MN	%	TT$MN	%
Mortgage Loans	165.2	78.5	186.4	65.9	210.9	70.1	239.9	73.9
Construction Loan Advances	1.5	0.7	0.4	0.1	2.9	0.9	5.1	1.6
Deposits	40.4	19.2	92.3	32.6	82.8	27.5	75.9	23.4
Fixed Assets	0.9	0.4	0.9	0.3	0.9	0.2	0.9	0.3
Other	2.5	1.2	2.9	1.0	3.5	1.2	2.9	0.8
TOTAL	**210.5**	**100.0**	**282.9**	**100.0**	**301.0**	**100.0**	**324.7**	**100.0**

	1993		1994		1995		1996	
	TT$M	%	TT%$M	%	TT$M	%	TT$M	%
Mortgage Loans	244.9	70.9	288.4	72.6	477.4	72.8	527.0	67.8
Construction Loan Advances	7.7	2.2	6.1	1.5	3.0	0.5	13.2	1.7
Deposits	90.8	26.3	98.4	24.8	165.2	25.2	223.5	28.7
Fixed Assets	0.9	0.2	0.9	0.2	1.3	0.2	1.3	0.2
Other	1.0	0.3	3.7	0.9	8.6	1.3	12.3	1.6
TOTAL	**345.3**	**100.0**	**397.5**	**100.0**	**655.6**	**100.0**	**777.3**	**100.0**

Source: *Annual Reports,* Home Mortgage Bank of the essential elements of similar systems in other countries, such as the one operated by the Federal Deposit Insurance Corporation in the United States. These elements include:-

(i) the mutual support of all members of the financial system to ensure the viability of the whole system;

(ii) the maintenance of a very close relationship with the Central Bank as primary supervisory authority;

(iii) the protection of depositors up to a certain limit designed to apply to smaller and presumably financially weaker depositors;

(iv) the establishment of a fund, which includes contributions from member institutions for the insurance protection of depositors; and

(v) the ability to intervene in the operations of a threatened institution in order to protect depositors by avoiding its failure.

The DIC extends insurance protection up to a stipulated limit to holders of deposits in any of its member financial institutions in the event the institution is closed by or with the approval of the Central Bank due to financial difficulties. The maximum insurable amount of any deposit is $50,000, which is also the maximum amount payable to any single depositor in any right or capacity.

The DIC is funded on an on-going basis by annual premium contributions from its member institutions, which are determined as a proportion of deposits for each institution. However, its enabling legislation also provided for compulsory initial contributions and, where necessary, for the levying of special contributions. Both initial and special contributions were required to be matched by the Central Bank. Since the

Corporation came into being at the height of a crisis of insolvency in the non-bank sector, it faced an immediate insurance expense of $195.8 million, which exceeded its initial resources by just over $100 million. The deficiency was made good by a loan from the Central Bank and the Corporation was able to successfully discharge its statutory obligations to some 13,800 affected depositors **(Table 10.11)**.

The DIC enjoys a close, even symbiotic relationship with the Central Bank and has the power to recommend to the Bank the suspension of business or closure of a member institution in financial difficulty. To complement this authority the DIC is widely empowered to require from member institutions any information in relation to their business, or the provision of documents or records.

Although the problems which led to the creation of the DIC proved to be transitory the Corporation remains as an important permanent addition to the local financial structure. Membership in the deposit insurance system is compulsory for financial institutions licensed under the new Financial Institutions Act, 1993 and comprised 22 institutions at the end of 1995. The Corporation is administered by a Board of Management, the composition of which includes representation from the Central Bank and the Ministry of Finance, as well as two members chosen for their expertise in relevant professional disciplines. Since 1986, the financial system of Trinidad and Tobago has returned to relative stability. This may be due partly to heightened vigilance and the new pre-emptive thrust of bank supervision, but perhaps more substantially to the restoration of public confidence engendered by the presence of the Deposit Insurance Corporation.

10.2.12. The Stock Exchange

The establishment of a Stock Exchange in 1981 has been one of the major institutional developments to occur in the

Table 10.11. Trinidad & Tobago: Deposit Insurance Corporation: Selected Data (1986 - 1996)

		AT THE END OF										
		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
A.	**No. of Member Institutions**	**25**	**27**	**26**	**26**	**26**	**24**	**24**	**21**	**22**	**22**	**22**
	Commercial Banks	8	8	8	8	8	8	8	6	6	6	6
	Non-Bank Financial Institutions	17	19	18	18	18	16	16	15	16	16	16
	Finance Houses	(7)	(8)	(7)	(8)	(8)	(6)	(6)	(5)	(6)	(6)	(6)
	Trust Companies	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(5)	(4)	(4)	(4)
	Mortgage Companies	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)			(6)
	Merchant Banks	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(6)	(6)	(6)
B.	**No. of Closed Institutions**	**4**	**-**	**-**	**0**	**0**	**2**	**0**	**1**	**0**	**0**	**0**
	Commercial Banks	-	-	-	-	-	-	-	-	-	-	-
	Non-Bank Financial Institutions	4	-	-	0	0	2	0	1	-	-	-
C.	**Deposit Liabilities**											
	a) Member Institutions (TT$BN)	..	9.5*	9.9	10.1	10.7	11.2	10.8	12.4	14.2	14.9	n.a.
	b) Closed Institutions (TT$MN)	..	355.0*	39.0	39.0	39.0	39.0	-	n.a.	n.a.	n.a.	n.a.
D.	**Total Assets (TT$MN)**	..	**61.0***	**31.6**	**56.0**	**66.5**	**79.5**	**104.3**	**123.7**	**156.7**	**193.2**	**230.9**
E	**Insurance Operations**											
	a) Premium Income (TT$MN)	..	94.6*	19.2	19.4	19.2	20.3	21.8	21.3	21.6	23.1	24.7
	b) Net Claims (TT$MN)	..	159.9*	4.2	0.0	0.0	4.0	0.1	5.3	0.05	-	-
	c) Administrative Expenses (TT$MN)	..	1.5*	1.5	1.6	1.7	4.6	4.6	4.3	4.4	4.1	4.7

Source: *Annual Reports,* Deposit Insurance Corporation.

* Data reflect 16 months' operations up to 31.12.87.

financial sector after 1973. The Exchange replaced a rudimentary institutional framework consisting of a Capital Issues Committee and a Call Exchange which regulated the new issues and secondary markets, respectively. It also brought, for the first time, legislative force to the regulation of the securities market in the form of the Securities Industries Act (1981). This Act, among other things, legislated conditions for the issue and listing of securities on the Stock Exchange. In this respect, the Act was established to do away with or reduce as far as possible non-reporting and abuses which arose on the floor of the Call Exchange, but for which there was no proper control.

Two major policy motives underlying the establishment of the Stock Exchange were to facilitate the ongoing localization programme and the planned divestment of some $1 billion of government accumulated shareholding in state enterprises. Largely due to the localization programme the market was extremely buoyant at the time the Exchange began to function. A total of 71.1 million shares had been placed on the market in the five years prior to 1982, at an average issue price of $4.00 per one dollar share. Despite the high premium, demand was heavy, fuelled by opportunities for capital gains.

Yet the establishment of a formal stock market has not resulted in any substantial mobilization of new investment funds. From 1982 to 1986, the first five years of the existence of the Exchange, a total of $52.6 million in new capital was raised, two-thirds of this in its first full year of operation. Between 1986-1990, no new issues of shares were made, however, between 1991-1995, four new issues were made.

The Securities Industry Act was established in 1981 to manage the affairs of the Stock Exchange, which included responsibility for policy making. Its composition included two members appointed by the Minister of Finance, five stockbrokers who were elected by member companies or brokerage firms and two financial directors from among the listed companies.

Decisions of the Board of Exchange were guided by the Rules and Regulations of the Exchange, the Securities Industry Act and the Listing Requirements of the Stock Exchange.

Protection of the investor was a major concern of the Securities Industry Act. Member companies were required to have indemnity insurance and were subject to disciplinary action for violation of the rules of the Exchange. Disciplinary action involved suspension from dealing on the Exchange or cancellation of a member's operating licences. Companies wishing to be listed on the Exchange had to subscribe to the Listing Agreement which placed great emphasis on disclosure requirements. Stockholders were allowed to act for their own account but had to give precedence to clients' orders.

However, the Securities Industry Act (1995) repealed and replaced the Securities Industry Act (1981). This Act forms part of government's overall legislative programme designed to reorganise and streamline the financial system. Over the last few years, reviews were conducted on the structure of the local securities market and the Securities Industry Act (1981). These reports indicated that the legislation was inadequate to meet the needs of the modern economy and to deal with market participants, who were prepared to circumvent the weaknesses of the system. A major criticism of the old Act was that there was no Securities and Exchange Council to overseer the orderly conduct of the market. The existence of such a council would have instilled more confidence in the market by investors. Additionally, criticisms were made over the composition of the Board (of Directors) of the Stock Exchange, whose Directors were largely stockbrokers.

One of the main provisions of the 1995 legislation is the establishment of a Securities and Exchange Commission which will assume the responsibility for regulating the securities market. The Stock Exchange would continue to manage trading in securities on the floor of the Exchange. The Act introduces the concept of a self regulatory organisation which includes the Stock Exchange, an association of securities companies, a clearing agency or any other securities exchange which may be established. Special provisions are made in the Act for the transfer of the assets and liabilities of the Trinidad and Tobago Stock Exchange (TTSE) established under the former Act to the Stock Exchange established under the 1995 Act. Market operators (including the Stock Exchange) belonging to the self-regulatory organisation will have the opportunity and the obligation to develop their own rules and regulations, subject to the approval of the Commission. The Commission is expected to have wide censure, investigative and dispute settlement powers. These are designed to monitor or limit the operations, suspend or revoke the registration of any self-regulating organisation that contravenes its proposed legislation or its rules.

The Stock Exchange began operations late in 1981 with a market capitalization of $3,257.7 million, representing a total of 29 listed companies and 35 listed securities. The number of transactions stood at 5,276 with average share price being $4.11 and the number of shareholders 142,755. Between 1981 and 1982, the performance of the Exchange was strong, surpassing all forecasts. In 1982, the number of transactions rose to 28,736, the market value of shares increased to $566,597, listed companies to 33 and average share price increased to $6.09.

The timing of the arrival of the Exchange was, however, unfortunate in that it coincided with the onset of the downturn in the local economy. By the end of 1986 capitalization had fallen drastically by 58% to $1,343.6 million despite the net addition of listed companies and listed securities. The volume of secondary trading which measured 90.3 million shares in 1982 fell consistently over the next three years before recovering partially in 1986 to 85 million shares. Stock prices also fell sharply as indicated by the decline in the Composite Price Index (1983 = 100) from 71.6 in 1983 to a low of 32.4 in 1988.

In 1996, the volume of shares traded was 121.3 million valued at $645.8 million compared with 131.5 million shares valued at $812.4 million in 1995. During the year 1996, two companies made rights or bonus issues amounting to 73 million shares valued at $698.2 million. There were also two new listings which raised $44.7 million on the Exchange. These activities contributed to the growth of market capitalisation by over 30% to $8,852.2 million in 1996.

The strength of the stock market in 1996 was due in large measure to the high liquidity of the financial system which depressed rates on bank deposits and enhanced the attractiveness of equity investments. The market also responded to enhanced dividend income allowance for individuals and the reduction of the corporate income tax. Additionally, the market was affected positively by corporate restructuring and some take-over bids.

In institutional developments, cross border trading among the three regional Stock Exchanges (Jamaica, Barbados and Trinidad and Tobago) commenced in April of 1991. Initially, trading was heavy such that at the end of 1991, $38.6 million worth in shares was traded across borders. However, by mid-1992, the initial enthusiasm waned, on account of economic uncertainties in the respective economies. There was, however, some improvement in 1994 when Trinidad and Tobago investors purchased $33.8 million worth in shares on the Jamaican Stock Exchange **(Table 10.12).**

10.2.12. Venture Capital Incentive Programme

The most recent development in the financial system of Trinidad and Tobago is the Venture Capital Investment Programme (VCIP) which operates under the Venture Capital Act (No.22 of 1994). This programme was established to stimulate the growth and development of small and medium-sized businesses by facilitating their funding requirements. The

Table 10.12. Trinidad & Tobago: Cross-Border Trading *

Investments on Trinidad & Tobago Stock Exchange (TT$)				
		No. of Shares		Net Capital
Year	From	Bought	Sold	Inflow
1992	Barbados	39,948	207,819	(55,753)
1992	Jamaica	638,129	1,651,742	(3,164,035)
1993	Barbados	716,593	15,820	1,112,611
1993	Jamaica	776,740	218,300	3,054,117
1994	Barbados	2,000,000	800,000	1,900,000
1994	Jamaica	100,000	0	200,000
1995	Barbados	620,003	70,232	1,500,000

* Cross-border trading began on April 8, 1991 among the three regional Stock Exchanges: Jamaica, Trinidad & Tobago and Barbados.

Table 10.12. Trinidad & Tobago: Cross-Border Trading * - Cont'd

Investments on Barbados Stock Exchange (BD$)				
		No. of Shares		Net Capital
Year	From	Bought	Sold	Inflow
1992	Trinidad & Tobago	0	3,512	11,941
1993	Trinidad & Tobago	815	0	(2,531)

* Cross-border trading began on April 8, 1991 among the three regional Stock Exchanges: Jamaica, Trinidad & Tobago and Barbados.

Table 10.12. Trinidad & Tobago: Cross-Border Trading * - Concluded

Investments on Jamaican Stock Exchange (J$)				
		No. of Shares		Net Capital
Year	From	Bought	Sold	Inflow
1992	Trinidad & Tobago	77,946	19,946	(1,023,69)
1993	Trinidad & Tobago	30,466	0	(150,478)
1994	Trinidad & Tobago	6,600,000	0	33,800,000
1995	Trinidad & Tobago	70,123	11,603	200,000

Source: Trinidad & Tobago Stock Exchange.

* Cross-border trading began on April 8, 1991 among the three regional Stock Exchanges: Jamaica, Trinidad and Tobago and Barbados.

VCIPs primary responsibility is to ensure compliance with the Act which provides the legislative framework for the regulation and administration of the venture capital industry. It is proposed that a venture capital company (VCC) would issue common shares to individual and institutional investors in exchange for cash. The VCC would provide managerial and business expertise as well as equity capital to eligible investee companies. Priority would be given to non-traditional business activities with the potential for superior returns in the medium to long-term. Investors in the VCC are eligible for a tax-based incentive equal to the highest prevailing rate of tax for individuals and corporations. In addition, all dividends paid by the VCC are tax-exempt. The VCIP was launched in October 1996 and had registered three Venture Capital Companies by early 1997.

10.3. Summary and Conclusion

Trinidad and Tobago can boast of a relatively modern and sophisticated financial system, both in terms of the variety of institutions and the range of financial products available. The system, at present, includes commercial banks, finance companies, merchant banks, trust companies, mortgage finance companies, thrift institutions, development banks, mutual funds, credit unions and insurance companies. In addition, there are also a Home Mortgage Bank, a Stock Exchange, the National Insurance Board, and the Deposit Insurance Corporation.

The growth and development of the system have been rapid and impressive, spanning a little over two decades, the seventies and the eighties. An indication of this growth is the increase in the number of institutions from 376 in 1973 to 483 in 1995. There has also been phenomenal growth in the assets of the financial system from $911.9 million in 1970 to $42,570.3 million in 1995. The data available confirm the dominance of the commercial banks among the institutional mobilizers of domestic savings, which is probably closely related to market penetration through their branch network.

The economic boom conditions of 1974-1981 period had a profound influence on the financial system. The increases in incomes and aggregate demand fostered the growth of these institutions, including the non-bank financial institutions (NFIs). Were it not for these favourable conditions, it is quite likely that the number of NFIs would have been far less. In turn, these NFIs were better able to meet the needs of a growing economy by supporting certain sectors - specifically construction and distribution. In particular, the NFIs were able to provide financial services not offered by the commercial banks. Ironically, when the economy began contracting, these very sectors were unable to meet their obligations, bringing about the collapse of several of these institutions. The reverberations of the NFI crisis have persisted in the form of a heightened ongoing concern with regulatory issues and a pro-active new approach to financial regulation and supervision.

The formation between 1981 and 1986 of the Deposit Insurance Corporation, the Unit Trust, the Stock Exchange and Home Mortgage Bank were in response to the perceived demands of a developing economy. The Central Bank was the prime mover in the establishment of these institutions. In addition, the Bank has orchestrated several amendments and revisions to various pieces of financial legislation in order to equip the entire financial system to respond to the changing dynamics in the national and global economies. In addition, consistent with this new environment, the antiquated Companies Act of 1929 was replaced by the Companies Act, 1995 and the Companies Amendment Act, 1997 which became law on April 15, 1997. The new legislation seeks to provide up-to-date, comprehensive and practical laws to govern the activities of companies operating in Trinidad and Tobago. It is government's policy to attract direct foreign investment into the country and one of the objectives of these Acts is to provide the appropriate legal foundation in order to enhance the attractiveness of Trinidad and Tobago to foreign investors. The new Acts offer greater protection and powers to minority shareholders while making directors more responsible for safeguarding the interests of the company and its shareholders. There is a two-year period of transition during which the old Companies Ordinance remains in force, giving companies incorporated under the old Act time to register under the new one. It is envisaged that the Act will encourage the formation of new companies by both local and foreign investors.

This study confirms the interlocking relationship between finance and economic growth and development in Trinidad and Tobago and the dependence of one on the other. The financial system has responded fairly successfully to the demands made on it in the past. However, the future presents challenges of its own, in light of the new trends of globalization, liberalization and the rapid advances in technology. But the foundation laid since Independence should prove a sound basis to face the demands of the next century.

PART 3

AN EMPIRICAL ANALYSIS

11

CARICOM Financial Development & Economic Growth: Some Initial Statistical Relationships

Sharri Byron[1]

The relationship between financial development and economic growth has over the years received a great deal of attention, in economic literature and policy analysis and has ranged from one extreme to another. At one extreme, for example, is the Schumpeterian argument that financial institutions and entrepreneurship are necessary conditions for economic development. On the other hand, as was earlier noted in the Preface to this publication, others, especially neo-classical economists, have deemphasised the importance of the financial sector in the process of economic development, relegating money and finance to the role of a 'veil' to real sector activity.

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The purpose of this Chapter is to conduct a preliminary investigation into whether there has been any association between financial development and economic growth for CARICOM countries over the survey period of 1972-1995. In the analysis it is acknowledged that economic growth is caused by a gamut of factors - economic, social, political and cultural, of which financial development is merely one element. Some attempt is made to possibly extricate the specific influences that financial activity could have on real activity.

The Chapter is organized as follows: **Section 11.1** briefly outline the statistical techniques used in the investigation. **Section 11.2** discusses the variables used and highlights the problems encountered with the collection of these data sets. At the first level, the methodology for investigating the relationship between economic growth and financial development is mapped out, against the fundamental premise that this relationship is not necessarily uni-directional. At the second level, a technique for examining bi-directional causality between financial development and economic growth is presented. **Section 11.3** presents the results of the analysis, while **Section 11.4** finally offers some general concluding comments.

11.1. Methodology

A major part of this analysis is an examination of the levels of the time series plots of the financial and economic development variables for any discernible and comparable trending patterns. A series of charts are created from this analysis. Simple linear correlation matrices are then constructed to determine the strength of the relationship which exists between the variables being tested.

A more rigorous analysis of the relationships between financial and development variably is then undertaken, involving causality testing using the Granger methodology **(Granger, 1969)**. To introduce a level of 'econometric correctness' the order of integration (unit roots) of the variables is carried out. This involves a combination of the investigator's judgment and an examination of the Augmented Dickey-Fuller test results, the auto-correlation function (ACF) plots and time series plots of level and differenced series.

Testing for causality between financial development and economic growth, in the spirit of **Granger (1969)** follows from the premise that an economic time series x_t is said to 'Granger cause' another series y_t if by adding the information set containing present and past values of x_t, the forecasts of y_t are improved. This implies that y_t is a better forecast if the information x_t is used, than if this information is excluded. The standard Granger causality test involves specifying a bivariate order system of equations:

$$x_t = \alpha_1(L)^n x_t + \alpha_2(L)^m y_t + \varepsilon_{1t} \qquad (1)$$

$$y_t = \alpha_1(L)^m y_t + \alpha_2(L)^n x_t + \varepsilon_{2t} \qquad (2)$$

where (L) represents the lag operator, m and n are the optimal lag lengths, α_i is the coefficient; ε_{1t}, ε_{2t} are the error terms. The variable x_t represents the economic growth (development) measure; while y_t represents the financial development measure.

Considering the case of **Equation 1**, the optimal lag length n is deduced by choosing the lag length which corresponded to the minimum of the four Final Prediction Errors (FPEs) produced. This Final Prediction Error is given by:

$$\text{FPE} = \frac{\text{T} + \text{L} - 1}{\text{T - L - 1}} \times \frac{\text{RSS}}{\text{T}}$$

where T - is the number of observations used after adjusting for end points

L - is the lag length of the particular regression equation; and

RSS - is the sum of squared residuals from the specific regression equation

On deduction of n, the other variable in **Equation 1** i.e. the financial development measure is added to the regression and the other optimal lag length m is determined in the same manner. A similar procedure is applied to **Equation 2** to test for causality in the reverse direction.

11.2. Data Sources and Measurement

As with all empirical studies in developing countries such as the Caribbean, one of the major constraints remains data related deficiencies, (**Bourne, 1984**). It was difficult to obtain complete and accurate data sets for the seven countries included in the study. The principal problems faced was variation in the lengths of data series - some countries did not have full series for the period under study, 1972-1995. These constraints would undoubtedly affect the accuracy of the results and the conclusions that could be drawn from this exercise (**Watson, 1984**). They, however, do not invalidate some of the very general conclusions that could be reached from the exercise.

The analysis utilises GNP and GNP per capita as variables for measures of economic growth (development). With respect to measures of financial development, several ratios could be employed. The ones selected in this analysis are among the most frequently used: the **Financial Intermediation Ratio**, the **Monetization Ratio** and the **Finance Ratio**. The **Financial Intermediation Ratio (FIMR)**, is the ratio of total claims of financial institutions to the total financial assets (of financial and non-financial sector) of an economy. It is an indication of the degree of 'institutionalization' of the financial system, which comprises both financial and non-financial institutions.

The second ratio used to indicate the level of financial development is the **Monetization Ratio (MR)**. This is calculated as a ratio of broad money to GNP. It is a measure of the extent of the development of the monetary system as it impacts on economic development. Alternatively, it could be viewed as a measure of the portion of GNP that is monetised. As the monetary system deepens, there would normally be a positive effect on economic development.

The third financial measure is the **Finance Ratio (FR)**. This ratio provides more specific information on the importance of the financial system to real sector activity. It is computed as the ratio of the total size of private financial assets to GNP. This affords a further measure of the degree and stage of financial deepening and its impact on the real sector activity. From the use of these ratios in the empirical analysis, evidence of how financial deepening or the financial process affects economic growth should be captured and vice versa.

All the variables in the data set were obtained from one or a combination of the following publications :

1. Statistical publications by the central bank in each country.

2. The IMF publication, **International Financial Statistics** - various year-books.

The countries surveyed in this analysis are the member countries of the Caribbean Community, namely, The Bahamas, Barbados, Belize, Guyana, Jamaica, the OECS, and Trinidad and Tobago; excepting Haiti and Suriname. The data set contains continuous annual observations for the period 1972 - 1995. In instances where there were missing data points within the series, standard interpolation techniques were applied.

11.3 Empirical Evidence

11.3.1. Correlation Analysis

The correlation between the financial and economic variables was first examined (**Table 11.1**). Barbados, Jamaica, the OECS, and Trinidad and Tobago showed high positive correlation levels, with respect to all three pair-wise combinations. Belize and Guyana showed a high correlation between all financial assets and GNP per capita, but low correlation for the other pair-wise combinations. In particular, the evidence suggested that in Belize, there was little or no correlation both between broad money and GNP per capita, and claims against the non-financial sector and GNP per capita.

Table 11.1. Correlation Coefficients for CARICOM Economies (1972-1995)

Country	AFG-GNP	BM-GNP	CL-GNP
Barbados	0.933	0.974	0.965
Bahamas	0.326	0.640	0.672
Belize	0.958	0.316	0.228
Guyana	0.983	0.612	0.611
Jamaica	0.998	0.985	0.986
OECS	0.960	0.957	0.961
Trinidad &Tobago	0.889	0.820	0.746

Notes:- **AFA** denotes All Financial Assets - proxied for Finance Ratio

GNP denotes GNP per Capita -

BM denotes Broad Money - proxied for Monetization Ratio

CL denotes All Claims Against the Non-Financial Sector - proxied for Financial Intermediation Ratio.

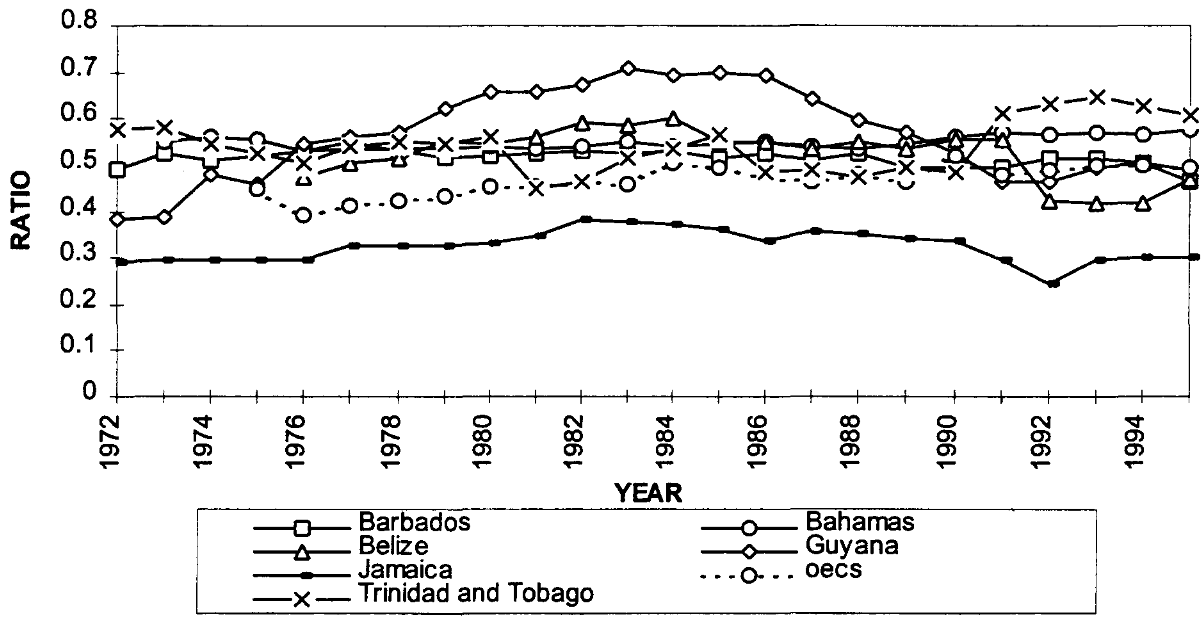
11.3.2. Financial Intermediation

Chart 11.1 presents a plot of the Financial Intermediaton Ratio for selected CARICOM countries. For all the countries, with the exception of Trinidad and Tobago and Jamaica, the FIMR is broadly stable over the range. Jamaica experienced a period of instability between 1990-1993, while for Trinidad and Tobago, major fluctuations occurred between 1978 - 1983. An examination of the trend plots for the other individual countries showed greater variation. In the case of Barbados, there was a steady decline in the FIMR over time. The FIMR for The Bahamas and Trinidad and Tobago increased in a staggering manner, while Belize and Guyana showed tendencies to rise to some maximum level and then decline.

In terms of the absolute values of the FIMR for the region as a whole, these have gently grown on average from about 0.40 in 1975 to just under 0.50 by 1995. At current levels the average FIMR for CARICOM economies is far lower than virtually every one of today's developed countries three to four decades ago, according to **Raymond Goldsmith (1969)**. India and Mexico were also at about today's average CARICOM level three decades ago. What is also interesting is that the FIMR has actually declined over the twenty odd year survey period (1972-1995) for Barbados, Jamaica and Belize, but has risen for all the others, this rise being consistent with past empirical observation **(Goldsmith, 1969)**. The greatest degree of 'institutionalization' i.e. the highest FIMR ratio currently would correctly appear to be Trinidad and Tobago (0.61), which is itself at a level lower than virtually every one of today's developed countries was, except the United Kingdom, three to four decades ago. At that time the range of FIMR values for those countries was typically between 0.65 and in excess of 1.0.

An examination of the scatterplot of GNP per capita to the FIMR for the benchmarked years 1975, 1985 and 1995, indicated a strong positive association/relationship between

CHART 11-1 - FINANCIAL INTERMEDIATION RATIOS FOR SELECTED CARICOM COUNTRIES (1972 - 1995)



economic and financial development **(Annexes 11-1A to 1C)**. This is particularly pronounced for Trinidad & Tobago, Barbados and The Bahamas and to a lesser extent the OECS, for all three bench-marked years. By contrast, a similar result was not evident for lower income regional countries. For example, Guyana's ratios were among the highest, with relatively low levels of incomes experienced in 1985.

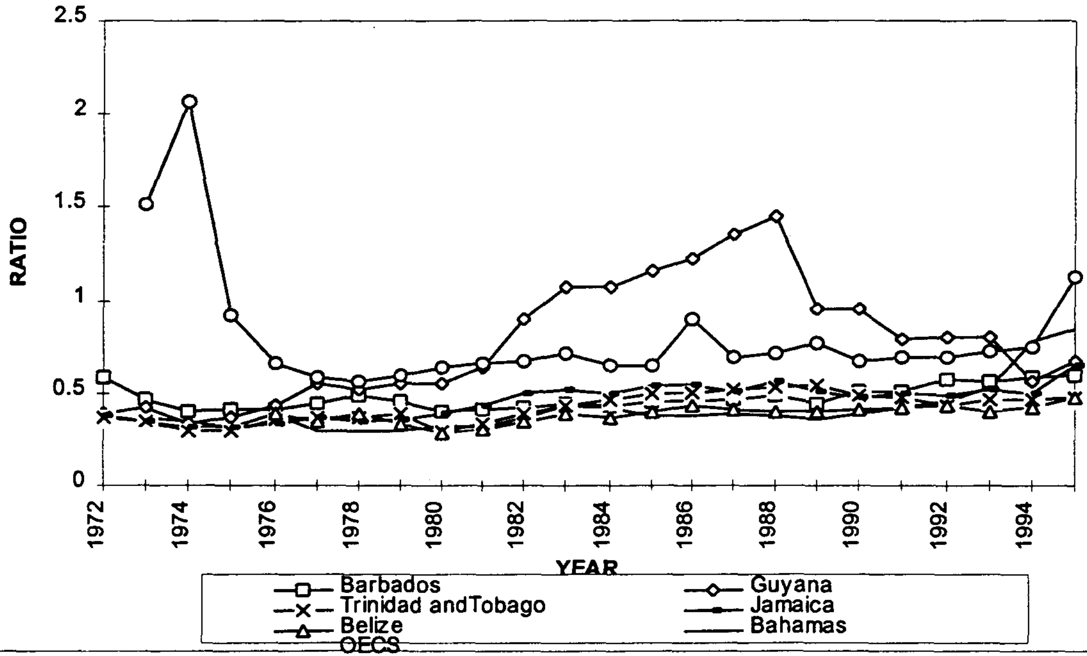
Finally, the correlation analysis of the relationship between the FIMR and the GNP per capita suggested for all countries except Belize, strong positive association, with coefficients ranging from 0.611 to 0.986.

11. 3.3. Monetization Ratio

Chart 11-2 and Annexes 11-2A to 11-2C present the trends and values in the Monetization Ratio for all the countries over the survey period. It was evident that for all the countries, in spite of the variability in their individual ratios, there was a positive trend in this ratio, consistent with theory and past observed behaviour **(Goldsmith, 1969)**. This upward trend indicating monetary deepening was particularly pronounced for The Bahamas, Trinidad and Tobago and Guyana. Belize and Trinidad and Tobago initially experienced a short decline in the MR ratio, but this was counteracted by sustained increases in the post-1980 period.

In numerical terms, the MR for the region as a whole increased significantly over the twenty-odd year survey period from 0.44 in 1975 to 0.69 in 1995, rising uniformly almost over the entire period. As with the FIMR, the level of today's MR for CARICOM countries is in fact much lower than that for virtually all of today's developed countries three to four decades ago, whose values at that time varied in the region of 0.85 to 1.0. In relation to these more developed countries, today's CARICOM countries are still well below the levels presently exhibited by these advanced countries.

CHART 11-2 - MONETIZATION RATIOS FOR SELECTED CARICOM COUNTRIES (1972 - 1995)



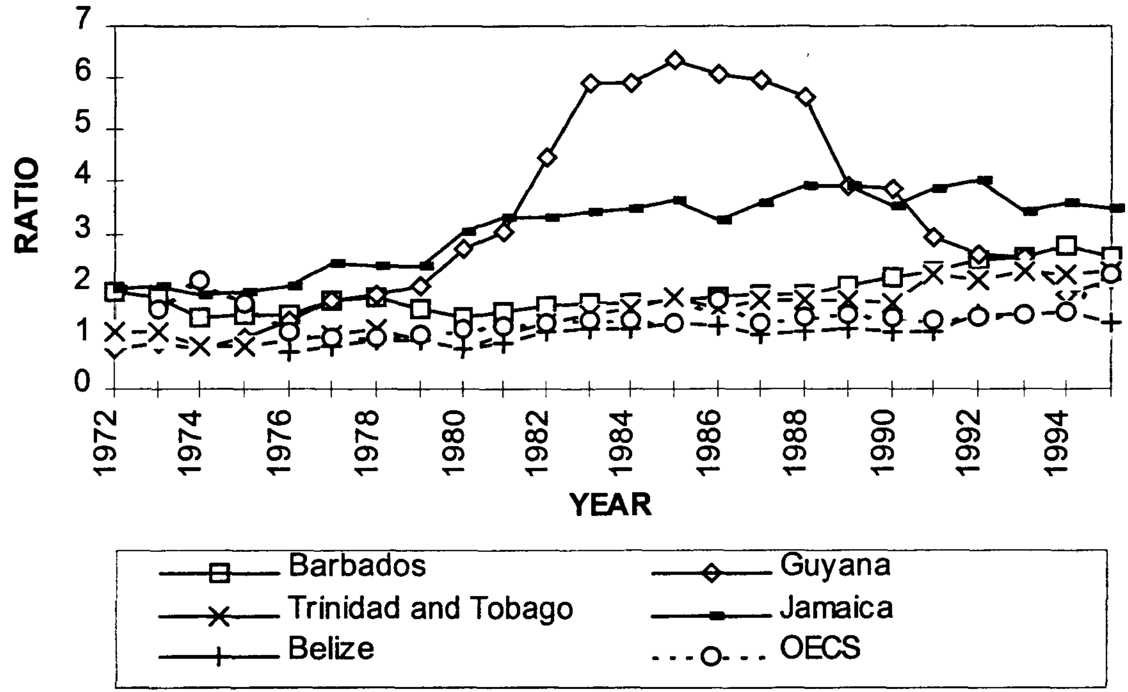
Correlation analysis for the relationship between the MR and the GNP per capita reflected coefficients that broadly corroborated the above empirical results. It confirmed the positive relationship (association) between the level of GNP per capita and this ratio. Particularly strong positive associations were observed for Barbados over the period, partly reflecting the overall balanced evolution of this economy.

11.3.4. Finance Ratio

As in the case of the MR, the results for the Finance Ratio indicated that there was generally an increasing trend in this ratio relative to GNP per capita, clearly confirming financial deepening in the region **(Chart 11-3 and Annexes 11-3A—3C).** This is consistent with theory and observed empirical behaviour in other countries where Financial deepening has been consistent with economic growth and development. The evidence was especially strong in The Bahamas, reflecting the extraordinary size and activity of the financial services industry, especially in respect to off-shore banking. From country to country, the scatter diagrams indicated that the ratio actually varied widely, but the general upward trend for all the countries was quite pronounced. In Guyana, for instance, the ratio increased very sharply over time (1975-1985) but then started to decline in the latter part of 1980s **(Annexes 11-3A - 3C)**.

In terms of the numerical value of this ratio, and its significance, if one were to use this Finance Ratio as a proxy for the **Financial Interrelations Ratio** (the relationship of an economy's financial infrastructure to its real infrastructure), it is striking that the FIRs for CARICOM countries of over two and three currently are well over that of the developed countries, three to four decades ago, which at that time ranged between 0.70 to 1.50 in values. One possible explanation for the marked differences in value is that the FIR calculation uses total national wealth i.e. cumulative stocks of national assets rather than GNP

CHART 11-3 - FINANCE RATIOS FOR SELECTED CARICOM COUNTRIES (1972 - 1995)



-the year's flows of goods and services as denominator. Thus in a sense the ratios are not comparable. It would, however, appear that CARICOM financial economies are still relatively shallow, though upward trends evident over the past two decades, whether driven largely by inflation or not, consistently suggest some deepening.

11.3.5. Granger Causality Tests[2]

The unit roots were identified by making use of the standard unit root tests - the Augmented Dickey-Fuller (ADF) Testing Procedure. There was also an examination of the Autocorrelation Function (ACF plots) and inspection of time series plots of the level and differenced (first differenced) series. The null hypothesis of the ADF test is that there exists at least one unit root, while the alternative is that the series is stationary (the test was done with/ without an intercept and/or drift). The results of the unit root tests on all the variables are presented in **Annex 11-4.**[3]

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[2] The Granger tests were estimated using stationary measures for economic growth and financial development. Since these variables were all I(1), the effect was a specification (i.e. Equations 1 and 2) of the short run dynamics and not the long run relationship between the two measures.

[3] A more complete set of the results from these testing procedures is available.

For the most part, the ADF test suggests that the series were integrated of the first order (I(1))[4] at very high levels of significance (1% or the 5%). An examination of the first difference of the plots of the series as well as the ACF plots supports the above observation that the series were integrated of the first order.

Table 11.2 presents the results from the bivariate causality tests, using the Finance Ratio and GNP per capita as the variables. For the countries examined, the Final Prediction Errors were lower when the measure of financial development was included in the regression **Equation 1**. In other words, the evidence suggests that financial development 'Granger caused' economic growth. **Table 11.3** presents the results of the reverse hypothesis.

These results also give Final Prediction Errors which are lower when the measure of economic growth caused financial development. The results suggests that the nature of the short-run relationship between economic growth and financial development for CARICOM economies surveyed over the 1972-1995 period was bi-directional.

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[4] This suggests that the series needs to be differenced once in order to become stationary

Table 11.2. Causality Results:
Financial Development Causes Economic Growth in CARICOM Economies

	Economic Growth				Economic Growth, Financial Development			
	L	T	RSS	FPE	L	T	RSS	FPE
Bahamas	1	21	0.209873	0.012097942	1	21	0.188482	0.010864877
	2	20	0.184335	0.012469721	2	20	0.182875	0.012370956
	3	19	0.17934	0.014473053	3	19	0.164647	0.013287302
	4	18	0.171796	0.016885932	4	18	0.161079	0.015832551
Barbados	1	22	0.219375	0.011965909	1	21	0.126646	0.007300396
	2	21	0.135292	0.008589968	2	21	0.17847	0.011331429
	3	20	0.118228	0.0088671	3	20	0.102668	0.0077001
	4	19	0.108281	0.009769714	4	19	0.07388	0.006665865
Belize	1	21	0.243456	0.014033805	1	19	0.19042	0.012380248
	2	20	0.20856	0.014108471	2	18	0.151501	0.011783411
	3	19	0.193058	0.015580119	3	16	0.120302	0.012531458
	4	18	0.176375	0.017336004	4	15	0.053278	0.007103733
Guyana	1	22	1.048937	0.057214745	1	22	0.835317	0.045562745
	2	21	0.869463	0.055204	2	21	0.83356	0.052924444
	3	20	0.86298	0.0647235	3	20	0.33218	0.0249135
	4	19	0.641056	0.057839639	4	19	0.628362	0.056694316
Jamaica	1	22	0.308963	0.016852527	1	22	0.308611	0.016833327
	2	21	0.297338	0.018878603	2	21	0.284552	0.018066794
	3	20	0.268147	0.020111025	3	20	0.199078	0.01493085
	4	19	0.210155	0.018961353	4	19	0.197643	0.017832451
Trinidad & Tobago	1	22	0.211418	0.011531891	1	21	0.142099	0.00819117
	2	21	0.146545	0.009304444	2	21	0.136175	0.008646032
	3	20	0.139736	0.0104802	3	20	0.132743	0.009955725
	4	19	0.120133	0.010839068	4	9	0.09699	0.037718333
OECS	1	21	0.545494	0.031444516	1	21	0.533218	0.030736877
	2	20	0.537784	0.036379506	2	20	0.51232	0.034656941
	3	19	0.447689	0.036129288	3	19	0.452352	0.0365056
	4	18	0.41067	0.040365	4	18	0.388817	0.038217056

The measure of financial development utilised was the Financial Ratio, with GNP per capita proxying economic growth (development).

Table 11.3. Causality Results:
Economic Growth Causes Financial Development in CARICOM Economies

	Financial Development				Financial Development, Economic Growth			
	L	T	RSS	FPE	L	T	RSS	FPE
Bahamas	1	21	0.88246	0.050868622	1	21	0.874334	0.050400206
	2	20	0.849317	0.057453797	2	20	0.857917	0.058035562
	3	19	0.732989	0.059153498	3	19	0.770578	0.062186996
	4	18	0.680711	0.066907491	4	18	0.668806	0.065737342
Barbados	1	21	0.199188	0.011482015	1	21	0.040823	0.002353206
	2	20	0.107647	0.007282003	2	21	0.040814	0.002591365
	3	19	0.088748	0.007162119	3	21	0.039338	0.002754762
	4	18	0.76346	0.07504094	4	20	0.026897	0.002241417
Belize	1	18	0.230225	0.015987847	1	17	0.15207	0.011330706
	2	17	0.153889	0.012931849	2	17	0.123241	0.010356387
	3	16	0.150493	0.015676354	3	17	0.116434	0.011063864
	4	15	0.111813	0.0149084	4	17	0.103416	0.011152706
Guyana	1	22	1.005981	0.054871691	1	20	0.481372	0.029417178
	2	21	0.669418	0.04250273	2	20	0.424738	0.028732276
	3	20	0.524774	0.03935805	3	20	0.420969	0.031572675
	4	19	0.483662	0.043638677	4	20	0.317153	0.026429417
Jamaica	1	22	1.005981	0.054871691	1	20	0.521895	0.031893583
	2	21	0.669418	0.04250273	2	20	0.521835	0.035300603
	3	20	0.524774	0.03935805	3	20	0.382426	0.02868195
	4	19	0.493662	0.044540932	4	19	0.367416	0.033150316
Trinidad and	1	22	0.500825	0.027317727	1	20	0.301184	0.018405689
Tobago	2	21	0.35925	0.022809524	2	20	0.301155	0.02037225
	3	20	0.302707	0.022703025	3	20	0.257509	0.019313175
	4	19	0.302668	0.027308391	4	19	0.254835	0.022992632
OECS	1	21	0.611347	0.035240554	1	18	0.20081	0.013945139
	2	20	0.537109	0.036333844	2	18	0.259228	0.020162178
	3	19	0.319316	0.025769361	3	18	0.252485	0.022042341
	4	18	0.260727	0.025627013	4	18	0.246573	0.024235808

11.4. Conclusion

The evidence presented in this preliminary analysis allows for some conclusions to be made about the relationship between financial development and economic growth for CARICOM economies between 1972 and 1995. Given the constraints and the assumptions of the study, the results indicated clear financial and monetary deepening, but mixed results in respect of possible correlation between financial development and economic growth in CARICOM economies. Barbados, Jamaica, the OECS and Trinidad and Tobago broadly reflected positive association, while the other regional economies were mixed. This was supported in varying degrees by the specific analyses of each of the underlying Financial Intermediation, Monetization and Finance Ratios.

The Granger Causality tests provided interesting results for the region. They indicated a bi-causal relationship between financial development and economic growth, at least in the selective short-run, corroborating a similar finding by **Anthony Wood (1993)** for Barbados between 1946 and 1990. These results must, however, be interpreted with caution because they did not take into consideration the long run dynamics of the relationship between the two variables.

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12

SOME CONCLUDING THOUGHTS

Laurence Clarke[1]

As was noted in the **Introduction** to this publication, this is probably the first comprehensive study of the financial development of post-Independence economies of the Caribbean Community to be undertaken. The study has evidenced the broadly similar paths and strategies of monetary and financial deepening pursued by these countries, while noting a few important differences. These differences included some countries' opting for regimes of fixed rates of exchange, with others preferring more flexible ones. Some differences by those with more planned economic structures were also evident compared to those with more market orientations. While the study was able to carefully trace the build up and emergence of the respective financial structures for each of the regional economies, it was not always able to fully explain observed differences in the nature of this evolution, even for countries with broadly similar initial conditions.

Most importantly, although there were for most CARICOM economies, consistently observed positive statistical associations, individually and as a group, between their financial development and broad economic growth profiles, no

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overwhelming evidence of causality could be established in this initial study, nowithstanding the bi-directional causal indications for the most part. It is probably in this regard that the study could be viewed as least helpful to the region's policy-makers.

It is thus the view of those associated with this study that this analysis, though breaking much new ground, must be built on in the near future. A more rigorous effort must be made to establish the specific contribution of finance in the region to the wider process of economic development. Is finance indeed 'supply-leading' as some of the empirical work on the region for the past two decades is suggesting, or more 'demand-following' to use a **Hugh Patrick** term, as the region's mediocre real sector behaviour is wont to suggest? What is the nature of the 'causal ordering' or 'causal interdependence' between finance and investment to use a **'Victoria Chick'** terminology? Are regional transmission mechanisms really working? Has the liberalization process of the 1980s and 1990s fundamentally affected monetary and financial management and its nexus with the real sector in the region? If so in what ways? What are therefore the implications for policy of all of these? Further, much resources were invested from international and regional sources, especially by the Caribbean Development Bank, as noted by Sir Neville Nicholls in his **Foreword.** More recently the Inter-American Development Bank has taken the lead in this regard. How has this significant flow of development finance made a difference, if any?

Finally, market failures, increased competition among new institutions, new markets, too little or excessive regulation, or straight market interventions by regional authorities, have in recent years singly or collectively prompted a wave of financial innovations throughout the region. These have no doubt strongly impacted monetary policy conduct in CARICOM. To what degree and in what special circumstances?

Many of the above issues are in fact already being actively addressed and studied by the Caribbean Centre for Monetary Studies and other regional institutions and private researchers. As a result, the jury is still out, but must be called in sooner rather than later in the region's interest. As the CARICOM nation moves to not only deepen but broaden its wider economic integration efforts, so must be the inevitable insertion of its monetary and financial arrangements, into the wider regional and global network.

Such is the challenge and indeed the imperative that has to be confronted, if the CARICOM region is to survive and itself further evolve into a globally competitive, flexible and effective economic force, in the Twenty-First century and beyond.

Part 4

A Chronology of Financial and Economic Events

THE BAHAMAS
FINANCIAL & ECONOMIC CHRONOLOGIES (1966-1995)

1966	
May	Adoption by the Bahamian Government of a decimal currency with a new monetary unit, the Bahamian dollar, pegged to the dollar at U.S. $0.98 = B$1.00, equivalent to 0.870898 gram of fine gold.
1967	
November	Devaluation of Sterling on November 18, 1967; the exchange rate for the Bahamian dollar against Sterling became one Bahamian dollar equal to eight shillings and two pence; the relationship between the Bahamian dollar and the U.S. dollar remained the same.
1970	
February	Change of the gold parity of the Bahamian dollar from 0.870898 to 0.888671. The rate of exchange of the Bahamian dollar against the US dollar was set at B$1.00 = US$1.00 and against sterling at B$2.40 = £1.00.
1971	
June	Institution of clearing arrangements establishing accounts between each clearing bank and the Bahamas Monetary Authority. These accounts subsequently formed the basis of the statutory reserve established in 1974.
August	Suspension of the U.S. dollar convertibility into gold. The Bahamas Government decided to trade the U.S. dollar at par with the Bahamian dollar, and to allow the pound sterling to fluctuate in

accordance with market forces. The parity of the Bahamian dollar remained unchanged at 0.888671 grams of fine gold.

December Devaluation of the Bahamian dollar following the devaluation of the U.S. dollar a few days earlier. The new parity of the Bahamian dollar was 0.843828 grams of fine gold. The rate of exchange against the U.S. dollar was B$0.97 = U.S.$1.00, and against the pound sterling, B$2.5275 = £1.00.

1972

June Redefinition of the Sterling Area by the UK. The value of The Bahamian dollar was fixed against the US dollar at B$0.97 = US$1.00. The gold parity for the Bahamian dollar of 0.843828 grams of fine gold was retained. Prime rate increased to 9.00%

October Permission granted by the Bahamas Monetary Authority to authorized dealers to maintain a total net exposed asset position in foreign currency against the Bahamian dollar of B$1 million, up from the established $0.5 million long or short position.

1973

February Permission granted by the BMA to temporary residents to deal in investment currency, granting them similar status to Bahamians for the purpose of foreign investments via the Investment Currency Market.

February Collapse of the Bretton Woods system of fixed exchange rates. A further devaluation of the Bahamian dollar by 12.7% on February 15, 1973 after a 10.0% devaluation of the United States dollar. The parity of the Bahamian dollar reduced to 0.736661 grams gold. This eliminated the three cents differential between the Bahamian and United States' dollar. The Bahamian dollar remained at par with the U.S. dollar since then.

Agreement by the BMA and clearing banks to the following US dollar equivalent rates:

	BUY		SELL	
	BMA/Banks	Banks/Public	BMA/Banks	Banks/Public
Balances and Draft	1.0000	0.9950	1.0050	1.0125
Cash		1.0000		1.0050

April Permission granted by the BMA for Temporary Residents to repatriate Bahamian dollars exceeding their immediate local requirements. Resident companies were granted permission to operate foreign currency accounts in The Bahamas, and residents leaving The Bahamas permanently, were permitted to immediately convert up to $25,000 of their Bahamian dollar assets into foreign currency, and the balance, if any, without restriction after a maximum of 4 years.

July Achievement of Independence from the United Kingdom.

August Resetting of the maximum Bahamian dollar open position vis-a-vis commercial banks foreign currency transaction by the BMA to $500,000.

December	Acquisition by the BMA of membership in the International Monetary Fund and the World Bank.
1974	
March	Establishment of the maximum amount of foreign currency cash allowed to be counted towards Liquid Assets as specified in the Central Bank Act, at the equivalent of $250,000.
June	Passage of the Central Bank Act, establishing the successor to The Bahamas Monetary Authority. The statutory reserve ratio, which became effective immediately, was set at 5.0% of total Bahamian Dollar deposits.
October	Passage of the Bahamas Development Bank Act.
1975	
May	Decision by Central Bank to pay interest on balances in excess of 250% of the Statutory Reserve, at the rate of 4% per annum.
1980	
March	Amendment of the Rate of Interest Act of 1948, to remove the existing ceiling of 20.00% (annual simple interest) on loans exceeding $100 and 30.00% on loans of less than or equal to $100 and on all foreign currency loans contracted in Bahamian dollars with banks and trust companies.
1981	
May	Establishment of the secondary reserve ratio (Liquid Asset Ratio). The ratio was set at 20.00% against demand deposits; 15.00% against time and savings deposits and 15.00% against fixed deposits; and borrowing from commercial banks and Other Local Financial institutions.

1983	
October	Establishment of the Bahamas Mortgage Corporation (BMC) Act establishing The Bahamas Mortgage Corporation (BMC) as a public corporation. The BMC's mandate was to provide loans to low and medium income persons enabling them to acquire "reasonable housing accommodation" where such needs were not being met by existing institutions.
1984	
January	Establishment of the Commonwealth Industrial Bank in October 1966, purchased by a consortium of local businessmen (100 percent Bahamian-owned).
	Introduction by the Commonwealth Bank, through its subsidiary, of the first Bahamian dollar credit card, Sun Card.
	Public offering by the Finance Corporation of The Bahamas (FINCO) of 1.33 million shares at a price of $3.00 per share.
1985	
January	Adoption by the Association of International Banks and Trust Companies (AIBT) of a written Code of Conduct for its members, intended to maintain and enhance the reputation of The Bahamas as an international financial centre.
1987	
December	Introduction by Barclays Bank of a Visa credit card, the first domestic bank to do so.
1988	
October	Purchase by the Government of a 51% interest in what was formerly the Bank of Montreal (BOM). Renamed Bank of The Bahamas, it became the second fully-owned Bahamian bank when the remaining shares were acquired in October, 1990.

1989

May	Capital increase of The Bahamas Development Bank from \$5.0 million to \$50.0 million by Act of Parliament.
June	Passage of the Trust (Choice of Governing Law) Act, to reinforce The Bahamas' competitive position in offshore fiduciary and administration business. The legislation recognized and validated decisions of settlors to have their trusts executed under Bahamian laws, regardless of the jurisdiction in which the trust is administered.
September	Introduction by CitiBank of a Visa credit card (not domestic).
December	Amendment to the Banks and Trust Companies Regulation Act to provide for protection of dormant Bahamian dollar deposit accounts, and for upfront disclosure of all bank charges on customer accounts.

1990

January	Passage of the Domicile of Trust Act, allowing individuals residing in countries which do not recognize the concept of trust to establish a trust in The Bahamas, without the possibility of the trust being questioned in the home country.
	Enactment of the International Business Companies Act, which provides for the incorporation or continuation of International Business Companies (IBCs) to operate from The Bahamas but not to carry on business or own property in The Bahamas. Amenities included rapid incorporation, tax and exchange control exemptions and reductions in the required number of directors and shareholders.

April Formation of the Financial Services Secretariat, within the Ministry of Finance. The Secretariat was entrusted with the responsibilities of defining all types of financial services available in The Bahamas, promoting such services (especially the new IBC Act of, 1990) and fostering the overall growth of the financial services sector.

August Amendment of the Central Bank Act to allow the Bank to impose fines for secondary reserve deficiencies. The permissible penalty was set at a maximum of twice the prevailing discount rate – to be applied daily - at the time of the deficiency, which was also to be applicable to primary reserve shortfalls.

September Announcement by the Government of a new Investment Promotion Program (IPP), to encourage capital inflows and the transfer of technology to The Bahamas by tax and other incentives to three categories of high net worth individuals: the investor, the entrepreneur, and the independent specialist.

December Passage of the Development Loans Act allowing the Government to borrow externally or internally up to US$100 million for financing a "general development".

Decision to form a 'Council of Economic Advisors' to be drawn principally from professionals in banking, accounting, and business who will be invited to keep under review matters of fundamental policy which ought to guide government's actions. The Council will advise the Government on general economic strategies.

The Public Treasury Bills Act amended to allow government to borrow up to 25.00% of its annual ordinary revenue, up from the previous limit of 20.00%.

1991

February Amendment to the Financial Administration and Audit Act, raising the ceiling on government advances from banks, insurance companies, and money lending institutions, from 10.00% to 15.00% of the average ordinary revenue or the estimated ordinary revenue, whichever is less.

March The enactment of the Fraudulent Dispositions Act, to discourage the misuse of assets protection trusts for activities such as current financial obligations, guarding against fraudulent disposition of properties whether situated in The Bahamas or elsewhere.

Creation of the Bahamas Investment Authority (BIA), as a "one-stop shop" within the Ministry of Finance to streamline and coordinate procedures governing foreign direct investments, as well as domestic initiatives.

1993

July Issuance by the Royal Bank of Canada of a Visa credit card (Royal Bank Visa).

1994

May Offering of Global (Bahamas) Holdings shares to the public valued at $6.6 million.

September Passage of the Money Laundering (Proceeds of Crime) Bill, making it an offence to use send or deliver to any person or place, any property or proceeds with intent to conceal or convert that property or proceeds knowing that all or part of the property or proceeds was obtained or derived directly as a result of the commission in The Bahamas of an offence under the Dangerous Drug Act.

October	Amendment of the International Business Companies Act to allow the Central Bank to designate majority owned Bahamian firms other than banks, lawyers and accountants to act as registered offices and agents for IBCs.
November	Divestment by the Government of 20% of its interest in the Bank of The Bahamas by selling 2,000,000 shares at $2.00 per share to Bahamians and Bahamian incorporated companies. Expectations were that a further 30% will be sold during 1995. Approval by the Inter-American Development Bank, through its Multilateral Investment Fund, of $2.2 million to assist in the harmonization and modernization of regional stock exchanges - including the development of The Bahamas Stock exchange, scheduled to come on line in late 1997.
December	Passage of the Mutual Funds Act, enabling The Bahamas to provide protection for investors against fraudulent activities in the burgeoning mutual funds industry. Passage of the Securities Board Act, establishing a regulatory agency for the mutual funds industry and for the soon to be established Bahamas Stock Exchange.

Passage of Exempted Limited Partnership Act, allowing for the establishment of exempted limited partnerships and for connected purposes.

1995

February Establishment of the Montagu Securities International, the first Bahamian dollar mutual fund and launching of a group of offshore mutual funds, managed by McDermott International, making it the first time investment managers could use funds marketed from this locale.

May Acquisition by Fidelity Bank of the banking division of British American for an estimated $28.0 million. Issue of $5.0 million in ordinary and $7.5 million preferred shares of Fidelity made available to the public. Subsequently, British American raised $10.7 million from a share offering of 2 million ordinary shares in its banking division (British American Bank)

Passage of the Perpetuities Act, providing unlimited duration for non-profit and individual trusts and a maximum of 80 years for corporate trusts.

July Cable Bahamas offering of $10 million in ordinary $1 shares and $10 million in preferred shares to the Bahamian public. The Bahamas Government, through BaTelCo and BEC acquired 4 million ordinary shares.

Divestment by Government itself of a further 30.00% holding in the Bank of The Bahamas through a share issue, raising $7.0 million in the process.

October Introduction by the Bank of Nova Scotia of its Scotia Bank Visa and Master cards to the Bahamian public.

November Creation of Bahamas Promotional Tour of the Far East and Europe, intended to raise the profile of The Bahamas as both an offshore banking centre as well as a profitable investment opportunity. A similar tour of Latin America was planned for early 1996.

Acquisition by a newly formed subsidiary, CIBC Bahamas Limited of CIBC Canada's branch business in The Bahamas. Shares in the new company expected to be available to the general public at a later date.

BARBADOS
FINANCIAL & ECONOMIC CHRONOLOGIES (1972-1995)

1972	Establishment of Central Bank of Barbados.
1973	Issue of Barbadian Currency.
	Beginning of active monetary policy by the Central Bank; ceilings on interest rates were lifted and then re-established while cash and securities ratios were introduced.
1974	Withdrawal of legal tender in Barbados. The East Caribbean Currency Authority's notes and coins ceased to be legal tender in Barbados.
	Restrictions were placed on foreign borrowing by commercial banks.
1975	Pegging of Barbados dollar to the US dollar at US$1 = BDS$2.
1977	Introduction of Consumer credit controls.
	Caricom Multilateral Clearing Facility (CMCF) agreement signed.
	Barbados borrows from International Monetary Fund's Compensatory Financing Facility.
1978	Establishment of The Barbados National Bank replacing the Barbados Savings Bank. An Agricultural Division of the Barbados National Bank is set up to take over the Sugar Industry

Agricultural Bank. The Insurance Corporation of Barbados is also established by government to provide general insurance services.

The Bank of America, one of four American banks established since 1968, pulls out of Barbados.

1981	Tax Preferences granted to individuals for saving with credit unions.
1982	Signature of Standby and Compensatory financing arrangements by Barbados with the International Monetary Fund.
1983	Collapse of Caribbean Multilateral Clearing Facility.
1984	Establishment of Caribbean Commercial Bank, taking over the portfolio of Citibank.
1986	Sale of assets by the last of the American banks, Chase Manhattan, to Caribbean Commercial Bank.
1987	Collapse of Trade Conformers Ltd.
1987	Establishment of the Securities Exchange of Barbados.
1989	Introduction of first ATM card.
1991	Introduction of global credit limits at the same time that interest rate restrictions on average lending rates removed.

1992	Amendment of global and selective credit ceilings as are limits on mortgage interest rates; phasing out of subsidized credits.
	Signature of Standby and Compensatory Financing Arrangement with the IMF.
1993	Assumption of operations of the Bank of Credit and Commerice International by the local insurance company - The Mutual.
	Take over by CIBC Caribbean of operations of CIBC in Barbados, Antigua and Barbuda, St. Vincent and the Grenadines and St. Lucia.
1994	Introduction of locally issued credit cards.
1995	Cessation of operations by the Barbados Development Bank.

BELIZE
FINANCIAL & ECONOMIC CHRONOLOGIES
(1971-1996)

1971	Local incorporation of Atlantic Bank and commencement of operations.
	Amendment to the Savings Bank Ordinance enacted to increase the rate of interest offered from 2.5% to 4.0%.
1972	Passage of "Exchange Control Regulations Ordinance", which provided for the making of regulations to control and regulate holding, dealing and transactions involving gold, foreign currency, securities, etc.
	Passage of "Development Finance Corporation (Loans) Ordinance", authorizing the Minister to issue Government Debentures for the purchase of shares in DFC.
	Passage of "Treasury Bills Ordinance", to authorize the Minister of Finance to borrow by issuing Treasury Bills, provided that the total value of the issue did not exceed 15% of the estimated revenues of the current financial year.
1973	Passage of "Banking (Liquid Assets) Order", estab-lishing Liquid Assets Ratio for two of the four banks at 20% of average deposit liabilities.
	Passage of "Credit Unions (Amendment) Ordinance" to tighten the auditing requirements of the credit unions.

1976

May 11 Coming into force of "Exchange Control Regulations, 1976", which provided the detailed guidelines for the monitoring and management of daily foreign exchange transactions.

Reestablishment of link of The Belize dollar link with the US dollar. Parity was set at BZ $2.00 to US $1.00.

1977 Launching of "The Monetary Authority of Belize Ordinance" and assumption by the new Authority of the assets and liabilities of the Currency Board. The Authority was given the power to regulate commercial bank operations and initiate monetary policy measures to stimulate the economy, control inflation, and maintain balance of payments stability. Its instruments included varying the cash reserve and liquid assets ratios of the commercial banks, the imposition of selective controls on the volume of credit extended, and open market operations.

Establishment by the Monetary Authority of its discount rate at 7%.

February 1 Repealing by the "Banking Ordinance, 1976" of the 1963 Ordinance.

1977 Signature by the Monetary Authority to the Agreement establishing the CARICOM Multi-lateral Clearing Facility.

June 16 Fixing and notification by the Monetary Authority of licensed institutions on a daily basis of the minimum and maximum selling rates of stipulated currencies.

August 5	Launching of the first issue of Government Treasury Bills. The Authority acted as agent in this process.
1977	Launching by the Development Finance Corporation of the DFC Investment Company, with an offer of 500,000 shares of $1.00 to the public.
1978	
January	Declaration by the Authority, with the approval of the Minister and in accordance with the provisions of Section 18 (3) (j) of the Banking Ordinance, 1976, of the following Liquid Assets for the purposes of Section 18 of the said Ordinance:
(a)	Loans and advances outstanding to government and any public sector entity; and
(b)	Five percentum of other loans and advances outstanding from time to time.
1978	Increase by the Monetary Authority of its discount rate from 7% to 7.5%.
May	Commencement of Monthly Treasury Bills Issue.
October	Establishment by the Authority of correspondent relationships with one of the commercial banks in Ciudad Chetumal, Quintana Roo, Mexico, to facilitate the exchange of Mexican pesos received by Belizeans for payment of re-exports.
October	Signature of Clearing House agreement between the Monetary Authority and commercial banks.

1979	Increase of the discount rate from 7.75% to 10.0%.
	Direction by the Monetary Authority to commercial banks to reduce outstanding credit by 5.0% of the value outstanding as at December, 1979 by March 1980.
1980	Enactment of amendment to Savings Bank Ordinance to increase the rate of interest offered from the existing 4.0% to 6.0%.
1981 ***June***	Coming into effect of the Social Security Scheme.
1981	Establishment of the Social Security Scheme established.
September 21	Attainment by Belize of Independence from Great Britain. Applications were made to the International Monetary Fund and the World Bank for membership status.
1982	Amendment of the "Credit Unions Act" to allow the Minister responsible to vary interest payable on loans, approve increases in credit union borrowing limits. The amendment also enabled shareholders to operate joint accounts.
	Coming into being of the "Central Bank of Belize Act, 1982".
1982 ***January***	Suppression by the Central Bank of its trading in Treasury Bills for the first time, to stem reserve losses and hopes also to stimulate inter-bank trading.
January	Passage of Section (d) of the "Banking (Amendment) Act 1982".

1983	
March	Signature by Government of Belize of an Agreement with the Government of United States of America to provide a US $5.0 mn loan facility to the Central Bank of Belize to establish a Discount Fund.
June 14	Effective date of acceptance of Article VIII of the IMF. Section 2(a) and 3 prohibitted members from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in multiple currency properties or discriminatory currency arrangemnts.
1984	
November	Amendment of Section 40 of the Central Bank of Belize Act of 1982, allowing the Central Bank to grant loans and advances to commercial banks for more than six months, as might be approved by the Minister of Finance.
November	Increase of Cash Reserve Ratio by 2% to 7.0%.
1985	
March	Increase of Cash Reserve Ratio by 2.0% from 7.0% to 9.0%.
March	Increase of commercial banks Liquid Assets requirements by 5% points to 25.0% of average deposit liabilities. Interest rate on CBB's loans to banks raised from 12.0% to 20.0%.
April	Increase in commercial banks Liquid Assets requirements by another 5% points to 30.0% of average deposit liabilities.
April	Raising of the rate on Central Bank lending to commercial banks from 12% to 20% and the

discontinuation of the practice of automatic lending.

1986 Amendment of Treasury Bills Act to limit the outstanding aggregate of Treasury Bills to $65.0 mn.

Amendment of Development Finance Corporation (Amendment) Act, 1986 providing for the share capital of the Corporation to be increased from $4.0mn to $10.0mn. It also provides for the Corporation to operate as a savings institution.

1988

Passage of the "Banking (Amendment) Act, 1988" amending Section 14 by removing the restrictions on commercial banks investment in public companies in which Government held more than 50% of shares.

1989

September Amendment of the Central Bank Act to enable the Bank to obtain loans or grants from domestic or foreign sources for on-lending to banks and financial institutions in Belize.

February Reduction of required Cash Reserve Ratio by 2.0% to 7.0%.

February Decrease of required Liquidity Ratio by 2.0% to 28.0%.

September Amendment of the Central Bank Act to enable the Bank to obtain loans or grants from domestic or foreign sources, for on-lending to banks and financial institutions in Belize.

1990	Passage of the International Business Companies Act 1990.
1991	
February 11	Commencement of operation in Belize of a fifth commercial bank, Banca Serfin SNC of Mexico.
September	Reduction of Cash and Liquid Assets requirements to 6% and 25% respectively.
December	Approximately 10 months after commencing operations in Belize, closure by Banca Serfin SNC of its doors, as part of a global streamlining strategy pending privatization of the Mexican Bank.
1992	Establishment of a Securities Desk at the Central Bank of Belize to carry out such functions of subscriptions, transfer and registrar agent for BTL and BEL.
August	Offering by the Central Bank of Central Bank Building Construction Bonds to the public to finance the construction of a new Headquarters which would house all departments.
October	Increase of : (a) required Cash Reserves Ratio by 1.0% to 7.0%. (b) Required Liquid Assets Ratio by 2.0% to 27.0%.
1993	
November	Increase of approved Liquid Assets Ratio increased by 1.0% point from 27.0% to 28.0%.

The aim was to reduce the level of excess liquidity in the system thereby dampening the demand for foreign exchange and encourage financial institutions to bring in funds from abroad.

1993

November Amendment of Treasury Bill Act, Chapter 65 of the Laws of Belize to increase the amount of Treasury Bills to $70.0 mn and to provide for the issue of Treasury Notes.

November Passage of Central Bank of Belize (Amendment) Act, 1993, in which the maximum level of advances to Government by the Central Bank was increased from "15% of estimated current revenues of Government for its current financial year" to "20% of the current revenues of the Government collected during the preceding financial year, or the sum of fifty million dollars, whichever is the greater".

December Authorization of the Belize Defence Fund Act, 1993 in which the Minister of Finance was permitted to raise up to $25.0 mn in Defence Bonds.

1994

January Floating of the first issue of Treasury Notes. This was a one year issue for $5.0 mn.

September Floating of the first issue of Defence Bonds at 9% interest, to mature on September 1, 2009.

December Floating of the second one-year issue of Treasury Notes for $10.0 mn.

1995

January Reduction of the required Liquid Assets holdings of the commercial banks from 28.0% to 24.0%.

Reduction of Cash Reserves requirements from 7.0% to 5.0%.

August Official introduction of the Inter-bank Market, managed by the Central Bank.

September Floating of the second issue of Defence Bonds at 8% to mature on September 13, 2005.

December Increasing of cash reserves from 5.0% to 7.0% of average deposit liabilities. Liquidity requirements also increased from 24.0% to 26.0% of average deposit liabilities.

1996

Effecting of the new Banks and Financial Institutions Act, thus replacing the 1976 Banking Act.

January Passage of the Central Bank of Belize (Amendment) Act, 1995, widening the powers of the Central Bank to borrow funds for on-lending to banks and financial institutions for development purposes.

EASTERN CARIBBEAN STATES
FINANCIAL & ECONOMIC CHRONOLOGIES
(1965-1995)

1965

January — Establishment of the Eastern Caribbean Currency Authority (ECCA) as a successor to the British Caribbean Currency Board (BCCB), with the withdrawal of Guyana and Trinidad and Tobago. The original signatories were Antigua and Barbuda, Barbados, Dominica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia and St Vincent and the Grenadines. Grenada acceded to the Agreement in 1968. The parity of the currency was fixed at EC$4.80 to the pound sterling. The legal foreign exchange backing for the EC dollar was reduced to 70% from 100% required under the BCCB.

1972

March — Establishment by Barbados of its own Central Bank without formally withdrawing from the ECCA.

1974

March — Formal withdrawal by Barbados from the ECCA, but the Headquarters of the ECCA still remaining in Barbados.

1975 — Transfer of the Headquarters of the ECCA to St. Kitts and Nevis.

Reduction of the foreign exchange cover for the EC dollar from 70% to 60%, thus allowing increased ability to the ECCA to invest in member countries securities, rather than investing solely in British Government securities.

1976 Passage of Article 9 of ECCA Agreement redefining the parity of the EC dollar in terms of sterling, US dollars, or SDRs as the Authority with the approval of the governments, might elect to prescribe.

Shifting of the peg from sterling to the US dollar at a rate of US$1=EC$2.70.

Designation of the ECCA as fiscal agent to the member governments in dealing with international financial institutions like the IMF and World Bank.

1977

June Establishment of CARICOM Multilateral Clearing Facility (CMCF) to centralise the accounting and settlement of intra-regional transactions between CARICOM Central Banks and ECCA.

1981

April Termination of repatriation agreement with Central Bank of Trinidad & Tobago for the return of TT dollars ended.

1982

Establishment of clearings agreement between the ECCA and the commercial banks, which constituted a sub-regional clearing house.

1983

March Suspension of CARICOM Multilateral Clearing Facility.

July Signature of The Eastern Caribbean Central Bank (ECCB) Agreement in Port-of-Spain. The agreement augmented the powers of the Bank to include: the regulation of credit policies; fixing of the rate of interest; the establishment of reserve

	requirements for commercial banks, set at 6 per cent; and bank inspection and supervision.
1983	
October	Official commencement of The Eastern Caribbean Central Bank (ECCB), with Cecil O. Jacobs as the first Governor.
1984	Assumption by the ECCB took of special deposits held by the governments on deposit for commercial banks.
	Establishment of the minimum rate of interest on savings deposits at 4%.
1986	
February	Establishment of the ECCB Area inter-bank market and setting of the rate by the ECCB at 6%.
1987	
April	Accession of Anguilla to the ECCB Agreement.
1989	
November	Succession by K. Dwight Venner of Cecil O. Jacobs as Governor.
1992	Proclamation of Uniform Banking Act in all ECCB member territories. The Act governs the conduct of all institutions which conduct banking business in the ECCB Area. It gives the Central Bank regulators control over all such institutions.
1993	
July	Reactivation of the Inter Bank Market with changed rules to enhance the effectiveness of the market.
April	Reduction of discount rate by 1% to 9%.

1994	
January	Establishment of Money and Capital Markets Unit to give more focus to the development of money and capital markets and the establishment of a single financial space.
March	Calculation of the reserve requirement of commercial banks changed from monthly to weekly. This was intended to give commercial banks more flexibility in the calculation of the reserve requirements.
October	Official inauguration of the new Headquarters Building.
1994	Establishment of Caribbean Assets and Liabilities Management Service (CALMS) to reorganise the loan portfolio of the Bank of Montserrat.
1995	
November	Inaugural Board of Directors Meeting of the Eastern Caribbean Home Mortgage Bank (ECHMB).

GUYANA
FINANCIAL & ECONOMIC CHRONOLOGIES (1971-1996)

1971

January	Receipt of second allocation of SDRs by the Bank of Guyana.
December	Extension of Exchange Control (Amendment) #2 Act 1971 #22, formerly confined to countries outside the sterling area, to all countries on the same basis - Amending the Exchange Control Ordinance #28 of 1958.

1972

January	Receipt of Third Allocation of SDRs.
February	Fifth Article VIII consultation with the Fund. Stand-by Agreement - with the International Monetary Fund (IMF) - SDR 2.8 million.

1974

March	Stand-by Agreement with the IMF - SDR 5 million.

1975

March	Stand-by Agreement SDR - 5 million.

1977

March	Establishment by the Bank of Guyana and Monetary Authorities of the Caribbean Community of CARICOM Multilateral Clearing Facility (CMCF), effective June 16, 1977. Under this facility, payments among participants were effected on a multilateral basis with the Central Bank of Trinidad and Tobago being the agent.

November Consent by Guyana to an increased quota of SDRs from $20.0 million to $25.0 million.

1978

November Increase of quota of SDRs from 25.0 million to 37.5 million.

1981 Establishment of The Export Development Fund (EDF) with an initial sum of US$8 million provided by the World Bank. The EDF provided a revolving loan facility upon which exporters in the non-traditional sectors were able to acquire their imported raw materials, spare parts and intermediate goods without having to make recourse to the normal foreign exchange channels within the banking system.

1983 Establishment of the Retention Account Scheme. It granted permission to some exporters in specified sectors (rice, gold, manufacturing, fishing, sugar, garment, pharmaceuticals) to retain at their commercial banks foreign accounts credited with a specified percentage of their hard currency earnings.

Coming into use of countertrade which, in effect, was a bilateral agreement, as result of foreign exchange problems.

1984

January Changing of the exchange rate from G$3.00 = US$1 to G$3.75 = US$1, a depreciation of 20% and the modification of the basket of currencies to include the pound sterling, the Deutsche mark, the Japanese yen, the French franc and the Netherlands guilder.

October 6 Weekly announcement of the exchange rate of the Guyana dollar. The classification was changed from a system of "flexibility limited in terms of a single currency (US dollar) to one of a "currency pegged to other composite". It was set from this point at G$4.12.

1985 Total assets of the Central Bank: G$3,736.5 million.

1986

June 14 Enactment of the Banking Laws (Amendment) Act 1986. Under this Act, a Bank will not be given a license to operate unless its capital is $10 million or more and whilst the license is in force, a Bank incorporated outside of Guyana, shall keep out of its funds outside Guyana an assigned capital for its branch or branches in Guyana an amount equivalent to 7% or the aggregate of demand and time liabilities arising from banking business in Guyana or one million dollars, whichever is the greater.

June 14 Amendment of the Bank of Guyana Act. In this amendment, minimum reserve requirement was increased from 20% to 25%, or a lower per cent as may be specified by the Bank of Guyana. In the case of a commercial bank incorporated outside of Guyana, it is to be deposited in such foreign currency as the Bank of Guyana may specify from time to time.

1987

January 19 Changing of the central rate for the Guyana dollar from G$4.40 = US$1 to G$10.00 = US$1.

February 2 Establishment of a free foreign exchange market scheme intended to operate at market-related rates at the commercial bands.

1988 Commencement of the Economic Recovery Program (ERP). This program which was incorporated into a Policy Framework Paper (PFP) covering a 3-year period ending September 1991, received the support of the international community.

1989

March 17 Devaluation of the Guyana dollar, moving the rate from G$10 to G$33 per US dollar.

April 1 Movement of the Bank Rate from 14% to 35% and the Treasury Bill Rate from 11.3 to 33.73%.

April 1 Unification of the exchange rate system was, the Bank window rate and special rates for gold and diamond were abolished and the official rate was changed from G$10.00 to $33.00 to the US$.

July 1 Enactment of the Minimum Holdings of Liquid Assets by Banks (Temporary Provisions) Act 1989. This legislation was enacted to freeze the liquid assets of commercial banks at the 15 March, 1989 level for the period 01 April 1989 to 30 September 1989.

November 28 Promulgation of an Act for the licensing of authorized dealers to buy and sell foreign currencies at freely determined rates - The Dealers in Foreign Currency (Licensing) Act, 1989.

December 30 Amendment of an Act by the Minimum Holdings of Liquid Assets (Temporary Provisions) Act 1989. This Act extended the period of the freeze from 30 September, 1989 to 30 June 1990.

March 13 Effecting into operation of the Dealers in Foreign Currency (Licensing) Act 1989, officially establishing the "cambio" system in Guyana.

1990

May 16 Enactment of the Bank of Guyana (Amendment) Act 1990, making it illegal to settle transactions in Guyana in any other currency other than the Guyana currency without prior permission of the Ministry of Finance.

June 22 Introduction of the Bank Law (Amendment) Bill 1990. The Bill sought to:

(1) Increase the penalty imposed on banks (for failure to maintain minimum balance on required reserves) from 1/30 of 1% per day on the amount of the deficiency to 5% above the rate charged by the Bank of Guyana for granting loans to commercial banks.

(2) To change the required level of Liquid Assets to be held by each bank, from the equivalent of the aggregate value of it's liquid assets as at 15 March 1989 to the equivalent held as at 30 September 1989.

(3) To extend to 30 September 1990, the period during which the new required level is to be maintained.

1990

June Setting of the rediscount rate for Treasury Bills at 1% point above the Treasury Bill rate to promote the development of an inter-bank market.

September Acquisition by the Government of support of the Paris Club for further refinancing, rescheduling or negotiating of debt relief on exceptional terms.

1991

February Unification of the official and cambio exchange rates takes place at US$1 = G$101.75. The official exchange rate was set every Friday at the weighted (by volume of transaction) average of the exchange rate prevailing in the cambio market in the week ending on Wednesday.

March Requirement for commercial banks to convert 75% to 80% of their excess reserves into variable-interest rate debentures with a maturity of three years.

March Enactment of the Banking Laws Act 1991 mainly to authorise the issue to banks by the Minister of Finance or specially authorised persons, of fixed date debentures at a variable interest rate, paid quarterly and without any provision being made in the sinking fund for such redemption. Debentures were to be included as part of the Liquid Assets of banks.

July 13 Repealing of the Minimum Holding of Liquid Assets by Banks (Temporary Provisions) (Repeal) Bill 1991. This Bill sought to repeal the Minimum Holding of Liquid Assets by Banks Temporary Provisions Act 1989, No. 5 of 1989.

February 26 Enactment of the "Banking Laws (Amendment) Act 1992" amending the Banking Laws Acts 1991. This Bill sought to repeal Section 4 of the Banking Laws Act 1991, so as to remove debentures from within the meaning of Liquid

	Assets under Section 17 (4) of the Banking Act, Cap. 85:01.
August	Agreement by Government with Trinidad and Tobago, after initiating partial payments in line with payments made to Paris Club creditors, regarding the servicing of its obligations falling due for the period through December 1994.
1992	
October	Agreement by Government with other CARICOM members to the phased reduction of the Common External Tariff (CET) rate structure over a four-year period, commencing 01 January 1993.
December	The use by Guyana of average market rates for government transactions gives rise to a multiple currency practice subject to approval under Article VIII, Section 2 (a) and 3. Granting by the IMF of approval for this practice until December 31 1993, or the completion of the next Article IV consultation with Guyana, which ever was earlier.
1993	
April 23	Effectiveness of the issue of longer-term treasury bills, 6 months and 1 year, with a view to offering financial instruments with longer term maturity.
May	Granting to Guyana by Paris Club creditors of a rescheduling of debt obligations falling due from 01 August 1993 through 31 December 1994 under enhanced concessions.
July	Cancellation by the United Kingdom of £53 million of Guyana's debt obligation.

1994	Decision, with effect from January 1994, to hold the auction of 91-day Treasury Bills every fortnight instead of once a month.
1995	Enactment of new Bank of Guyana Act.
	Total assets of the Central Bank: G$176,847.6 million.
March	Passage of the Financial Institutions Act No.1 of 1995 in the National Assembly.
May	Effectiveness of the Financial Institution Act (FIA), with initial implementation focusing on capital adequacy, licensing, inspection fees, branching, loan portfolio review, single borrowers limit and acquisition and control of licensed depository institutions.
May 22	Passage in the National Assembly of the Cooperative Financial Institutions (Amendment) Bill No.8 of 1995; the Dealers in Foreign Currency (Licensing Amendment) Bill No.7 of 1995; and the Banking Laws (Amendment) Bill No.6 of 1995.
May 25	Effectiveness of the Companies (Amendment) Bill No. 13 of 1995.
May 26	Passage of the Bank of Guyana Bill No. 9 of 1995 in the National Assembly. Aproval of the Company (Amendment) Bill No. 13 of 1995 in the National Assembly and the Capital Issues (Control) Bill No. 12 of 1995.
May 29	Effectiveness of the Financial Institutions Act No.1 of 1995.

October 25 Securing by the Government of Guyana of a US$400,000 grant through the World Bank to support the Public Sector Investment Programme and debt management.

1996 Strengthening of the Bank Supervision Department in its off-site surveillance capacity during 1996, with total staff complement at the technical level increasing to fourteen. The off-site surveillance system primary concern was to enable the Department to monitor compliance with the FIA and its implementing regulations, as well as to analyse the financial conditions and results of operations of each licensed financial institution.

JAMAICA
FINANCIAL & ECONOMIC CHRONOLOGIES
(1961-1996)

1961	Establishment of Bank of Jamaica by BOJ Law No. 32 of 1960, opened for business in 1961.
1970	
April	Establishment of swap facilities between Bank of Jamaica and commercial banks to provide short term coverage against short term (temporary) sterling borrowing. Swap facilities extended to include US$ in conjunction with sterling.
1970	Amendment of Exchange Control Regulations (Defence Finance Regulations). Exchange control approval required for all foreign payments (except to Trinidad and Tobago).
	Commencement by Life of Jamaica Insurance Company of operations with capital of J$ 3.5 mn.
	Increase in financing by BOJ in respect of loans for specific projects of national importance (e.g. public utilities) and to finance exports of manufactured goods to CARIFTA.
October	Passage of Legislation regulating the operation of unit trust schemes by the House of Representatives.
1970	Establishment of The Jamaica Investment Fund by Jamaica Unit Trust.
November	Assumption by Bank of Montreal (Jamaica), subsidiary of Bank of Montreal, of banking

	business of the Bank of London and Montreal Limited in Jamaica.
December	Passage of Money Lending (Amendment) Act 33 of 1970, to empower minister to declare specified transactions made by specified persons to be exempted from provisions of the Money Lending Law under certain conditions.
1971	
January	Establishment by The First Chicago Merchant Bank (Jamaica) Limited of subsidiary of First National Bank of Chicago (Jamaica) Limited.
February	Passage of The Insurance Act by House of Representatives to regulate insurance business in Jamaica.
1972	
June	Decision by The UK and Jamaica to float respective currencies - Bank of Jamaica to sterling at £1, = J$2.00.
September	Establishment of Jamaica Export Credit Insurance Scheme to service the industrial sector, with particular emphasis on the non-traditional manufacturing sector.
1972	System of acceptance by Bank of Jamaica of US and Canadian dollar notes against payments in Jamaican dollars extended to rural branches of Barclays Bank.
1973	Suspension of Exchange Control dealings in foreign exchange of gold. Re-establishment by Jamaica of fixed parity for the Jamaica Dollar:

(a) Jamaican dollar no longer to float with pound sterling;

(b) Jamaican dollar fixed at J$1 = US $1.10 (6.5% devaluation) -to improve competitiveness of exports - Jamaica still a part of the sterling area, but US dollar replaced pound sterling as intervention currency; and

(c) Transfer of Bank inspection duties previously undertaken by Ministry of Finance to Bank of Jamaica. Bank of Jamaica appointed inspector of banks.

Approval of The United States dollar as foreign currency for trading.

Effecting of Bank (Amendment) Act 1973 into operation.

1974
October Effecting of Hire Purchase Act passed in April. Act repealed the Hire Purchase of 1945, and sought to provide better protection for parties to a vending agreement in light of the growth of commerce since 1945.

1975 Establishment of Technical Assistance Fund for Exporters (TAFEX), with funds from the World Bank, to provide consulting services to Jamaican exporters of non-traditional goods and services destined to non-CARICOM markets. Funds administered by Jamaican Export Credit Insurance Corporation (JECIC).

1976
April Amendment of Banking Act to provide that calculations of Liquid Assets be based on the average daily balances for each month.

December	Closure of the foreign exchange market.
December	Implementation of new rules governing sale of foreign exchange.
1977	
April	Adoption of multiple exchange rate system. Rate applicable based on transactions. Rates set by the Trade Administrator and the Bank of Jamaica.
	Limiting by Incomes Policy of pay increase in wage contracts to no more than 15% per annum for a two year period.
	Establishment of Caricom Multilateral Clearing Facility (CMCF), in replacement of the Inter-Regional Settlement Agreement.
1978	
May	Discontinuation of a dual exchange system and implementation of single rate.
1978	Establishment of Deposit Scheme for external payment arrears, in view of a foreign exchange shortage.
1979	Establishment of The Export Development Fund (EDF) to provide funds for non-traditional exports to Caricom. Fund to be administered by the Jamaica Export Credit Insurance Corporation.
1980	
May	Introduction by CMCF of travellers cheques.
1983	
January	Implementation of a parallel foreign exchange market, establishing two rates of exchange:-
	(a) Official - for official debt transaction.

(b) Parallel - for other transactions including business travel.

1984 *March*	Introduction and determination of a new foreign exchange system to be held by auction twice weekly. Bids conducted within prescribed band within range: J$3.25 per US$1.00 - J$3.5 per US$1.00.
1986	Termination of interest paid on current account balances held by commercial banks with Bank of Jamaica, up to a maximum of 3% of prescribed liabilities, at the same rate currently paid on current accounts.
	Introduction of penalty rate of 10% above discount rate (buying) for discounting of Treasury Bills at Bank of Jamaica, prior to maturity date.
1987	Introduction of Export Rebate Scheme, whereby, exports of manufactured goods to third country markets outside of CARICOM became eligible for an export tax rebate of 7.5%.
1989 *November*	Fixing of the exchange rate of the Jamaica dollar to the United States dollar at J$6.46 buying and J$6.50 selling. Suspension of the auction mechanism through which the exchange has been determined.
November	Amendment of the operating policies and procedures of the Export Development Fund to improve its effectiveness as a provider of foreign exchange to the non-traditional export sector.

1990

January Establishment of a Foreign Exchange Retained Accounts scheme for non-traditional exporters, covering:

(a) Exporters of non-traditional goods (i.e., all exports excluding bauxite, alumina, sugar and bananas) to third country or hard currency markets; and

(b) Export services including data entry for the overseas market.

August Replacement of a new J$1.00 coin by a J$1.00 note.

September Determination of the exchange rate of the Jamaica dollar to the United States dollar by "prevailing market rates", i.e. commercial banks now authorised dealers, and will specify from time to time, the buying and selling rates for the United States dollar.

October Deregulation of savings rates. Authorisation of commercial banks to set their own rates. Empowerment of commercial banks to operate Foreign Currency "B" Accounts on behalf of residents and non-residents.

1991

September Implementation of "Exchange Control (Removal of Restrictions) Order", ushering in sweeping exchange control liberalization.

October Enactment of Exchange Control [Removal of Restrictions (No.2) Order 1991, further liberalizing the foreign exchange markets.

November	Reduction of Cash Reserve Ratio of commercial banks from 20% to 19%.
December	Effecting of new reserve requirement measures against foreign currency reserves.
1992	
May	Increasing of Cash Reserve Ratio of commercial banks from 19% to 21%. Liquid Assets Ratio of commercial banks adjusted to conform with schedule as provided for individual banks.
June	Increase of Cash Reserve Ratio of commercial banks from 21% to 23%.
July	Increase of Cash Reserve Ratio and Liquid Asset Ratio of PDA institutions from 11% to 12%. Cash Reserve Ratio of commercial banks increased from 23.0% to 25.0%.
August	Repealing of The Exchange Control Act and amendment of the Bank of Jamaica Act in a schedule to the Bill to reflect those provisions.
1994	
April	Creation by Bank of Jamaica of a new system of 'Primary Dealership' to provide continuous underwriting support for all new issues of Government of Jamaica Treasury Bills and LRS issues and all BOJ Certificates of Deposit, thereby providing secondary market liquidity for these securities through an active two-way market.
1995	Reduction of commercial banks' Cash Reserve Ratio for foreign currency liabilities from 22% to 20%.
	Requirement for building societies to hold a Cash Reserve Ratio of 1% of deposits and withdrawable shares and a Liquid Assets Ratio of 5%.

Requirement for commercial banks to hold in foreign currency, cash reserves of 20% in relation to average Foreign Currency 'A' Accounts, and other relevant foreign currency deposits.

SURINAME:
FINANCIAL & ECONOMIC CHRONOLOGIES (1957-1996)

1957	
April 1	Establishment of the Central Bank of Suriname and handing over of the money issuing function by De Surinaamsche Bank. Surrender also of gold reserves and assets and liabilities of government.
1968	Amendment of Bank Act.
1970	Existing commercial banks are: Hollandsche Bank Unie (1957), De Surinaamsche Bank (1856), Surinaamse Volkscredietbank (1948), Surinaamse Postspaarbank (1904), Vervuurts Bank (1936).
1971	
December	Movement of official parity with US dollar moves from Sf 1.9 = US$1 to Sf 1.8 = US$1.
1972	
April 19	Establishment of the Landbouwbank or Agriculture Credit Bank. Government has 100% share in this entity.
1973	Development of operational problems by the Vervuurts Bank NV, leading to a run on the bank. The bank was closed at the intervention of government.
1974	Reopening of Vervuurts Bank under the name Handels Krediet-en Industrie Bank (Hakrinbank). Government owns 51% of its shares, Bank of America NT & SA of San Francisco (10%), Co-operatieve Centrale Raiffeisen-Boerenleenbank of Holland (10%), the public (19%).

1975	
November 25	Attainment of Suriname's political Independence from the Netherlands. The Netherlands agrees to a con-tinuation of financial aid to Suriname.
1975	Legal authorisation to the Postpaarbank to engage in all activities associated with commercial banking.
1977	Divestiture by ABN of 51% of the 100% ownership in De Surinaamsche Bank: New ownership structure - 49% ABN, 10% Government, 41% held by 4,300 shareholders.
1980	
February 25	Seizure of political power by a group of military officers from a democratically elected government.
1981	Amendment of the Bank Act to add a new role to the Bank - "to promote balanced social-economic development of Suriname".
1981	Passage of legislation making it compulsory for car owners to take out car insurance. This promoted a boost to the insurance industry.
1982	
December	Abrupt suspension by the Netherlands of development assistance to Suriname compounding already existing economic problems.
1983	
February	Emergence of parallel market in foreign currency. Restriction by the Central Bank of the money creation role of commercial banks. Prohibition by banks from using demand deposits on loanable funds, effectively placing a 100% reserve on these deposits. In addition, on a monthly basis, only

	90% of any increase in savings deposits and 75% of short-term deposits were loanable.
1986 *November*	Issuance by Central Bank of savings deposits through commercial banks to sterilize liquidity in the economy.
1988 *November* 25	End of military rule in Suriname.
1988	Restarting of Dutch aid to Suriname by way of commodity assistance. Between 1985-1988 only humanitarian aid received from the Netherlands.
1989 *October 17*	Establishment of Finatrust (A private finance company).
1990 *December*	Climbing of parallel market rate of US$ to Sf 17.8 = US$1, while official rate remained at Sf 1.8 = US $1.
1990	Issuance by the Central bank of government bonds of Sf 500, Sf 1,000, Sf 100,000 denominations to constrain monetary base expansion. Over Sf 445 million garnered from this issue.
1990	Partial conversion into government bonds of Central Bank's savings deposits not yet matured.
1990 *December*	Formulation by Coopers and Lybrand, with financial aid from the European Union of a Structural Adjustment Programme for Suriname.
1991 *September*	Legal merger between ABN and AMRO (Both of the Netherlands), creating the ABN AMRO; Branch of ABN in Suriname is renamed ABN AMRO.

1991 *March*	Merger of the NEN Schadeverzekering N.V., De Nationale N.V. and ENNA N.V. merged into one holding company, ASSURIA N.V., to continue insurance business in Suriname.
1992 *May*	Permission to residents to hold foreign currency deposits at commercial banks. Revised version of SAP presented by Warwick Institute.
1992	Introduction of on-site inspection of financial institutions.
1992 *October*	Establishment by the Central Bank of Suriname and government of a multiple exchange rate system. Four rates operated: Official rate Sf 1.8; auction rate Sf 19.91, rice rate Sf 10.08; banana rate Sf 8.76; to US$1.
1992	Commencement of auction bidding by importers, for funds held in special accounts held in the Netherlands.
1992 *November*	Passage by Suriname's Parliament of Structural Adjustment Programme. Programme covered fiscal, monetary, exchange rate and supply side policies as well as social policies.
December	Movement of parallel market rate of US$ climbs to Sf 28.9=US$1.
1993 *June*	Creation of a free market for foreign exchange. Six commercial banks and five non-bank entities trade in foreign currencies. Foreign currencies are bought at competitive prices from residents

	and non-residents. Sale of currency, however, remained restricted. Trading volumes low.
1993	
April	Permission for the holding of foreign currency accounts at commercial banks.
December	Movement of the Free Market rate to Sf87.2, while parallel market rate is Sf 94 to US$1.
1993	Rise of average lending rate to 13.2% and average deposit rate to 3.1%.
1994	Rise of average lending rate to 32.2% and average deposit rate to 4.9%.
July 11	Unification of the Exchange Rate established.
January	Establishment of a Stock Exchange at the initiative of the ASSURIA Insurance Company.
October	Establishment of a non-life insurance company, N.V. Paramaribo Schade Assurante.
1994	Introduction of ATMs.
1995	Thirteen percent depreciation of Suriname guilders within first five months of 1995.
March	Introduction by the Central Bank of its gold certificate. This Gold Certificate (The Powisi) denominated in grams of gold was indexed to the international price of gold and carried a 5% interest rate. In first 3 months of issue stock of gold certificate reached US$4 million. This monetary policy instrument was aimed at setting a floor for interest rates in an effort to stablize the exchange rate.

May 11	Initiation of Central Bank interventions on the foreign exchange market. The Surinamese guilder appreciated considerably in the following months.
July	Return of Suriname to a unified system of exchange rates. Exchange rate set on a daily basis.
July 21	Establishment by CLICO Life and General Insurance Co. (SA) Ltd with Head office in Guyana of a branch office in Suriname, after buying over ALICO's Suriname's branch.
November	Stabilization of exchange rate owing to Central Bank interventions.
Last Quarter	Demand for gold certificate declined after appreciation of the Suriname guilder.
	Real growth of 4% recorded after a sustained period of economic decline and low growth.
	Average lending rate reached 39.1% and average deposit rate 8.6%.
1996	Establishment of an investment Fund of Dfl 100 million. The Fund provided through Dutch Aid is administered by the National Development Bank.

TRINIDAD AND TOBAGO:
FINANCIAL & ECONOMIC CHRONOLOGIES (1964-1994)

1964

December Establishment of Central Bank by Act of Parliament (12/12/64). Authorized Capital - $5m; Paid up Capital - $2m.

Pegging of TT Dollar to sterling and convertible into sterling at par; at least 50% of currency issues was to be covered by foreign assets.

Bank empowered to be the sole issue of notes and coins in Trinidad and Tobago;

December Non-proclamation of other enabling Sections of Act. Central Bank made its first issue of notes (14/12/64).

1965 Institution of Call Exchange (December).

1966

June First issue of coins by Central Bank (31/6/66).

August Proclamation of remaining Sections of Central Bank Act (1/8/66).

August Setting of rediscount rate for first time at 6% (1/8/66).

Assumption of responsibility for repatriation of the notes of other Caribbean countries, by Central Bank.

1967 Assumption of responsibility by Central Bank for:

(i) Issue and management of government Treasury Bills;

(ii) Main government accounts from Barclays Bank D.C.O.;

(iii) Exchange Control function from Ministry of Finance;

(iv) Issue and management of government securities other than Treasury Bills. The Government requested the foreign commercial banks and insurance companies to incorporte locally.

January Devaluation of TT Dollar by 14.3% (22/1/67).

The Central Bank persuaded the commercial banks to hold a voluntary secondary reserve in the form of Treasury Bills.

1968 Accession by Trinidad and Tobago to the Basic Facility whereby an agreement was reached to hold 80% of external reserves in the form of sterling.

1969
December Institution of the Intra-Regional Payments Arrangements.

The Agreed Minute on Exchange Market Procedures enjoined commercial banks to sell all foreign exchange in excess of their established basic positions to the Central Bank or other commercial banks and pegged commercial bank buying and selling rates to the Central Bank's selling rate.

1970

November Designation of Sterling as a foreign currency, subject to exchange control. Passage and Proclamation of Exchange Control Act (proclaimed in November 1971).

July Formation of Capital Issues Committee.

1972

February Revision of Exchange Market procedures. Combined basic position of commercial banks was reduced and banks were no longer allowed to exceed their basic position nor increase their basic position without prior approval.

1973

Devaluation of the U.S. Dollar by 10% (13/2/73). Continued floating of TT Dollar with the pound sterling.

Institution of Rediscount facility for loans by commercial banks to agricultural enterprises and of procedures for the rediscount of export bills. Raising of credit ceiling for Regulated Borrowers raised slightly.

Revision of minimum down payments and maximum repayment period for consumer credit.

1974 Expiry of Sterling Area Agreement (31/12/74) and diversification of external measures.

1976

May Severance of link with pound sterling. TT Dollar pegged to US Dollar.

1977	
June	Replacement of Intra-Regional Payments Arrangements by CARICOM Multilateral Clearing Facility.
1978	Amendment to Central Bank Act, giving the President the power to fix the level of interest rate.
1979	
December	Passage of Financial Institutions (Non-Banking) Act (No.52 of 1979).
	Increasing of limits on the amount of foreign exchange commercial banks, as authorized dealers, could release for imports of services.
February	Institution of selective credit controls; commercial banks were asked to restrict non-business loans to no more than 25% of incremental credit as of September 30 (November). Demonetization of $50 note, introduced in June 1977.
1980	Setting of Reserve Requirement for NFS at 3%.
1981	
February	Proclamation of Financial Institutions (Non-Banking) Act (No. 52 of 1979)).
April	Withdrawal of facility for repatriation of Trinidad and Tobago currency from CARICOM.
1982	
February	Amendment to the Exchange Control Import and Export order, making it illegal for persons to leave or enter Trinidad with local currency exceeding TT$200, without approval of the Central Bank.

December	Revocation by the Central Bank of the authority of the commercial banks to approve gift allowance.
1983	
March	Suspension of the operations of the CARICOM Multilateral Clearing Facility (CMCF) and reversion by participants to bilateral trading arrangements.
October	Introduction by the Central Bank of direct measures to control the purchase of foreign exchange for imports .
1984	
April	Establishment of a financial support facility for NFS experiencing difficulties.
March	Placement into receivership of International Trust Limited on petition of the Central Bank.
1985	Passage of Home Mortgage Bank Bill.
December	Devaluation of the TT Dollar and institution of a dual exchange rate regime on 17th December, 1985.
1986	Establishment of Deposit Insurance Corporation.
February	Assumption by Central Bank of control of a commercial bank (February).
December	Liquidation of four NFIs.
July	Termination of the financial support facility for NFIs.

1987	Unification of the dual exchange rate system. Imposition of a limit of TT$730 in foreign currency for travel for one-day duration.
1988	
August	Devaluation of the TT Dollar, effective 17th August, 1966.
July	Raising of the rediscount rate to 8.5% (effective 20/7/88).
November	Approval of the IMF loan to Trinidad and Tobago under the Compensatory Financing Facility (18/11/88).
1989	
May	Suspension of the business of one commercial bank and its trust company (April, 1989) and formation of a new bank.
January	Accession by Trinidad and Tobago to a Stand-by Arrangement with the IMF (effective January, 1989).
1991	Suspension by the Central Bank of business of three NFIs. Two were subsequently put into liquidation.
April	Termination by Trinidad and Tobago under a formal IMF Agreement (effective April, 1991).
1992	Appointment of Dr. Terrence W. Farrell as Deputy Governor (effective February 1992).
1993	
May	Suspension and winding up the business of one NFI in August 1991.

August	Effectiveness of the Financial Institutions Act, 1993.
September	Effectiveness of the merger of the country's three indigenous banks into the First Citizens Bank Limited, with the four wholly-owned subsidiaries of the three banks becoming subsidiaries of First Citizens Bank Limited.
October	Merging of the operations of two of the subsidiaries of First Citizens Bank Limited.
April	Repealing of the Central Bank (Amendment) Act 1993, certain provisions of and statutory instruments of the Foreign Control Act .
April	Changing of the system of exchange rate determination from a fixed to a floating rate system.
	Exemption of the imports and exports of currency notes of a certain amount from the provisions of Section 22(1) of the Exchange Control Act.
July	Effectiveness of an Agreed Minute on the Operation of the Foreign Exchange Market under a floating exchange rate regime.
1994	
January	Effectiveness of Supplement No.1 to the Agreed Minute on the Operation of the Foreign Exchange Market.
July	Issuance of a Code of Conduct for the guidance of all market participants in foreign exchange dealings.

ANNEXES

Annex 1.1

Report of a Survey of Financial Practitioners in Selected CARICOM Economies (1996)

1. Background

As an integral part of this study and an important means of testing the temperature and mood of the financial sector of CARICOM economies, a survey of financial practitioners was conducted by the Caribbean Centre for Monetary Studies in 1996 throughout the region over a six-month period. Questionnaires were sent to the eight CARICOM central banks for administration and on-passing to financial institutions within their respective countries/area. Of the eight, five central banks (Suriname, Belize, The Bahamas, Trinidad & Tobago and the ECCB) were instrumental in soliciting responses from financial institutions. A total of 73 financial institutions responded, comprising: 27 commercial banks; three building societies; four development banks; three finance companies; 19 insurance companies; three mortgage companies; two merchant banks; two savings banks; nine trust companies; and other two financial institutions. This constituted a fair response and a decent sample of the region's financial sector universe.

The questionaire was structured into five broad areas, requesting financial institutions to provide information on their:

(a) background and structure (origin; ownership, branching; cross-regional network);

(b) activities of their institutions (legal and regulatory environment; institutional goals and objectives;

nature of key operations; sources and uses of funds; types of customers);

(c) key financial sector developments i.e. the environment that conditioned their operations over the previous ten years (within industry, sector, economy);

(d) institutional impact (on industry, economy, region), and general prospectives on the operational and environmental constraints facing institutions, including their prospects for growth; and

(e) general perspectives of the operational and environmental constraints facing institutions.

Below sets out the essence of the findings of the 1996 survey.

2. Commercial Banking Within the Region

A total of 27 commercial banks from Trinidad & Tobago, the Eastern Caribbean Area., The Bahamas and Suriname provided responses to questionnaires sent through their regional central banks. Commercial banks responding had dates of establishment ranging from 1837 in the case of Barclays Bank PLC in Antigua to 1993 in the case of CIBC (Caribbean) Ltd. Respondent banks reported local, foreign and mixed, as well as private, governmental and mixed ownership structures.

Banking Structure: Survey data point to a definite trend in branch networking within banks operating in the CARICOM region. Almost 80% respondent banks report having a branch network in their country of operations. Banks in Trinidad and Tobago report having a wider branch network when compared with other countries. The Republic Bank of Trinidad and Tobago, for example, has 34 branches while the Royal Bank of Trinidad and Tobago and Bank of Nova Scotia report totals of 20 and 21 branches respectively. It is significant that in an era when savings banks seem to have lost their appeal and clientele in the CARICOM region as a whole, the Post Office Savings Bank of Trinidad and Tobago report a total of 73 branches. Besides sizeable branch networks reported for the Trinidad and Tobago commercial banks, the Bank of Nova Scotia (Bahamas) Ltd. report a 22 branch network. Other banks report branches of between two to fifteen.

Almost 50% of the respondent banks indicate having sister branches in other CARICOM countries. Commercial banks with parent companies outside of the region are, however, more likely to have a fully regional branch network. Some examples of these are the Royal Bank of Canada, the Bank of Nova Scotia and Barclays Bank PLC, each with branches in over eight Caribbean territories. A possible reason for this trend is the long history of these banks in the region. Banking corporations such as the Hong Kong and Shanghai Banking Company; Lloyd's Bank International; Nordfinanz Bank (Zurich) and Coutts and Co. of the Netherlands, have offshore and other operations in The Bahamas and the Cayman Islands.

Among the banks with Head-Offices in the Caribbean region and a branch network in other CARICOM countries, are the Republic Bank Ltd. of Trinidad and Tobago, with branches in Trinidad and Tobago and Grenada; the Royal Bank of Trinidad and Tobago with branches in Trinidad and Tobago, St. Vincent and the Grenadines, St. Lucia, Antigua and Barbuda, St. Kitts and Nevis; CIBC (Caribbean) Ltd. with branches in St. Lucia, Antigua and Barbuda, St. Vincent and the Grenadines, Barbados, Trinidad and Tobago and Jamaica. CIBC, while having its Caribbean Head Office in Barbados, has its ultimate parent body in Canada. Trinidad and Tobago commercial banks are seemingly one of the pace-setters in what can be termed the "regionalisation of local banks". Jamaican banks, although not included in this survey, are known to have branch networks in other CARICOM countries (e.g. Citizens Bank in Guyana).

Goals: Survey findings reveal that popular among the goals of commercial banks operating in the region, is the provision of quality financial and general banking services. Some banks identify their major goals as savings mobilization, providing assistance to small industries and the development of agriculture while others list the provision of innovative solutions to customers' needs, investment management and the garnering of non-resident deposits as goals. One banking corporation operating in The Bahamas has its main objective as that of becoming the leading international bank in the Caribbean.

Operations: When asked about their major activities, respondent banks predominantly report the traditional lending and deposit-taking activities. They report also foreign exchange trading as a significant part of their operations. In addition, some banks identify corporate financing, trust services, trade financing, mutual fund assessment, securities trading, investment analysis, estate planning, credit card issuing and capital market transactions as their main activities. Other related business activities not forming the core of bank activities are merchant banking, entrepreneurial development services and in one case even pawn-brokery.

These data confirm that over time commercial banks in the Caribbean, like their counterparts in more developed regions, are moving away from their traditional role, contributing to a blurring of the divide between banks and non-bank financial institutions and with real implications for the future conduct of monetary policy in the region.

A majority of banks surveyed report their main clients as "individuals and businesses", suggesting a continued predominance of retail banking in the region's commercial banking sectors. Some banks report specific areas of concentration, for example, the manufacturing sector, government, upper and middle income earners, professionals, the trade sector, lower income earners, multinational enterprises, public corporations, the hotel industry, the petroleum industry and the housing sector. Data, therefore, point to some degree of specialization in lending and other activities among commercial banks.

Developments Affecting the Financial Sector: Respondent banks were asked about the events of happenings that affected, either negatively or positively, their businesses, the banking industry and the financial sector in general over the past ten years. Bankers point to a number of such developments. Common developments that impact positively on the banking and financial sector across Caribbean countries are liberalization and improved legislation. Economic decline, recession or stagnation are common events having negative impacts on the financial sectors.

For Trinidad and Tobago, bankers see economic liberalization, the removal of exchange controls and flotation of the TT dollar, privatization, improved communications, advancements in technology and better legislation as impacting positively on their individual businesses over the past ten years. On the other hand, they identify the economic downturn as the main factor negatively affecting their businesses, while also listing the lack of foreign exchange, the tax system, money laundering, increased regulation, high reserve requirements and weak credit demand.

In similar vein, banks in Trinidad and Tobago see improved legislation, liberalization, improved communications and the floating of the TT dollar as positives for the entire banking and financial sectors of that economy. In addition, some bankers suggest that government's divestment programme and the increased activity in the petroleum industry has had a positive impact on overall sector growth and development. Over and beyond the negative impacts identified for their own business, bankers view the failure of some financial institutions, mergers, high liquidity and credit ceilings as negative developments for the entire industry.

Unlike Trinidad and Tobago, bankers in Suriname see very few positives for their individual businesses or the overall financial sector, based on the experience of the past ten years. In the main, they identify the unification of the exchange rate and economic liberalization as positive developments. On the other hand, the Surinamese bankers see inflation and a generally poor purchasing power of individuals, as having seriously negative effects not only on their businesses but on the entire banking sector.

For the OECS countries, from the point of view of bankers, the positives are liberalization and political stability, while negatives include the devastating effects of hurricanes, declining tourism and the reduction of aid.

Several Bahamian bankers point to an increase in the tourist industry and foreign investment as positive developments impacting on their businesses and the financial sector as a whole. Like their Trinidadian, Surinamese and OECS counterparts, Bahamian bankers see liberalization and improved legislation as positive developments. In addition, for the banks operating in The Bahamas, better fiscal management, advances in technology, an improved perception of the country, have also served as positives for the industry and the financial sector. Listed among the negatives to the Bahamian banking and financial sector are crime, unemployment, down-sizing of industries, the import duty structure, high interest rates and factors generally associated with economic recession.

Impact: On an overall basis, regional commercial bankers currently see their businesses as contributing to the financial sector and the economy as a whole. Survey data reveal that a significant number of bankers rank highly their institutions' contributions as innovators. They see their institutions as setting standards for the financial sector as well as the overall economy. Bankers list their contributions as also providing jobs, financial security and training, supporting the manufacturing and agriculture sectors and stimulating investment, commercial activity and general economic growth within regional economies.

3. Non-bank Financial Institutions Within the Region

The Caribbean economies have a history of non-bank institutions that date almost as far back as commercial banks. The first real non-bank institutions were savings banks established just prior to or after the abolition of slavery. These were established as depository institutions to "inculcate habits of thrift in the freed men and women". These provided little more than a safe-keep for funds. The inadequacies of these institutions were always recognized and savings banks are today almost defunct in the Caribbean economies. Some have had their assets taken over by commercial banking entities which provide a wider range of services.

Beside the savings banks, insurance companies have had a long history in the Caribbean economies with establishments dating back to the mid-nineteenth century. Other non-bank financial intermediaries have developed over the years mainly from the 1960s.

Structure: The importance of non-bank financial institutions in the Caribbean economies vary significantly across countries. In Trinidad and Tobago which has the greatest proliferation of non-bank financial intermediaries, there is much evidence of NFI growth within the financial intermediation process. In 1993 these institutions accounted for some 40% of total financial assets, compared to just under 30% in 1970. They have been competing fiercely with commercial banks which in the 1970s had a 54% share of total assets compared with a 40% share in 1993. It would appear that in Trinidad & Tobago the proliferation of NFIs in the 1970s is related to the then prevailing economic boom and the evolution of NFIs within the wider region itself.

A total of 45 non-bank financial institutions from Belize, Trinidad and Tobago, the ECCB area, Suriname and The Bahamas provided responses to questionnaires sent through the regional central banks. These institutions comprise: three building societies, 40 development banks, 18 finance companies, three mortgage companies, two merchant banks, two saving banks, nine trust companies, and two other financial institutions.

Goals: Respondent non-bank financial institutions report on the goals of their institutions that the provision of quality of financial services is paramount. The building societies and development banks would appear to exhibit through their goals a seemingly greater social responsibility than other financial institutions. Respondent development banks are concerned about industrial and agricultural development, the establishment of small industries and expanding existing industries and assisting cooperative societies. Building societies are concerned primarily with the promotion of savings and making home ownership a possibility to many.

Besides the more popular goals of providing health, life, accident and other types of insurance, regional insurance companies hold profit maximization, cost effectiveness and growth as significant objectives. Some insurance companies report that they strive to be pre-eminent in the industry or to increase their market shares, while others seek diversification as a major goal.

The other financial institutions are less direct in pinpointing their primary goals. Mortgage companies, trust companies and merchant banks pinpoint the provision of quality financial services and innovative financial services as principal goals.

Operations: The NFIs involved in the survey, name as their main activities general insurance, investment management, project financing, garnering offshore deposits, hire purchase, granting mortgages, investing pension funds, leasing and trade financing. One mortgage company operating out of The Bahamas and a building society in Trinidad and Tobago list their main activity as investment in government bonds. The trust activities in the Caribbean are seemingly not confined to trust companies as some savings and mortgage companies report undertaking trust activities. In similar vein, some trust companies report their main activity as mutual funds promotion.. The merchant banks, while reporting their major activities as trade financing, also report leasing and debt financing. Data on the whole point to a variety of main and related activities undertaken by NFIs, in many cases crossing traditional institutional barriers. The institution of wider legislation seemingly allow non-bank institutions to engage in a number of activities.

NFIs name their sources of funds as equity, loans, share capital, short term and long term deposits, insurance premiums and mutual funds. Their customers and clients' base is as wide as those of the commercial banks and includes companies' pension plans, students, mutual fund promoters, religious organizations and unincorporated enterprises.

Environment: When asked about positive developments in the economy that impact on the financial sector, non-bank respondents, across the region identify economic liberalization and improved legislation. For Trinidad and Tobago, insurance companies identify the capacity to do international reinsurance, as a definite positive for the industry. Other financial institutions name the ability to introduce, and have accepted, new products as being positive for the financial sector.

Donna Danns
June 1997

ANNEX 1.2 (a): THE BAHAMAS B$ MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1972-1995)

	YEAR	1972	1977	1982	1987	1992	1995
1.	**Broad Money**	204.5	283.3	553.1	905.5	1387.6	1904.0
2.	**Insurance Reserves**						
	Private	-	-	-	-	-	-
	Government	-	-	-	-	-	-
3.	**Pension Funds**	-	-	-	-	-	-
4.	**Finance Cos. Bonds & Debentures**						
	Other Local Financial Institutions	-	1.2	3.4	9.9	0.6	10.6
	Commercial Banks	-	22942.9	29482.2	34818.6	26107.3	25845.8
5.	**Other Financial Institutions Paper**						
	Other Local Financial Institutions	-	9.2	13.5	22.2	34.9	10.1
	Commercial Banks	-	667.4	460.4	299.1	745.4	558.0
6.	**Claims Against Financial Institutions**	**204.5**	**23904**	**30512.6**	**36055.3**	**28275.8**	**28328.5**
7.	**All Short Term Credit**						
	Commercial Banks	-	5650.9	3649.6	6502	6577.8	7871.5
	Other Local Financial Institutions	-	0.4	0.5	30.1	-	-
8.	**All Long Term Credit**						
	Other Local Financial Institutions	-	64.9	141.8	341.1	364.4	282.6

Notes: - No data available

ANNEX 1.2 (a): THE BAHAMAS B$ MN (Selected Years) (Con't)

	YEAR	1972	1977	1982	1987	1992	1995
9.	**Investments**						
	Treasury Bills	-	15	40	50	109	124
	Long Term Government Securities	-	85.8	141.1	296.8	642.4	866.4
	Other Local Securities	-	4.5	7	3.4	5.4	7.9
	Claims on Investments	-	1.3	0.3	0.4	0.1	0.1
10.	**Other Claims**						
	Other Local Financial Institutions	-	29.7	27.3	70.8	52.4	71.6
	Commercial Banks	-	21575.9	32220.2	34295.2	27293.5	29461.6
11.	**Claims Against Non-Financial Sector[a]**	**0**	**27428.4**	**36227.8**	**41589.8**	**35045**	**38685.7**
12.	**All Claims**	**204.5**	**51332.4**	**66740.4**	**77645.1**	**63320.8**	**67014.2**
13.	**Stock Market Capitalisation**	-	-	-	-	-	-
14.	**Equity of Financial Institutions**						
	Commercial Banks	-	106.7	262.3	-942.2	-1332	51.5
	Other Local Financial Institutions	-	38	20.7	59	77.6	98.6
15.	**Total Equity**	**0**	**144.7**	**283**	**-883.2**	**-1254.4**	**150.1**
16.	**All Financial Assets/Instruments (Estimated)**	**204.5**	**51477.1**	**67023.4**	**76761.9**	**62066.4**	**67164.3**

Notes: - No data available

[a] Including Central Bank

ANNEX 1.2 (a): THE BAHAMAS B$ MN (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS (Selected Years)

YEAR	1972	1977	1982	1987	1992	1995
17. Gross National Product (GNP)	-	955	1502	2312	3059	2252
18. GNP per CAPITA (B$)	-	4777.0	6826.4	9632.1	11765.8	8339.3
19. Monetization Ratio[b]	-	0.29653	0.36829	0.39170	0.45360	0.84562
20. Finance Ratio[c]	-	53.88015	44.62871	33.20582	20.28910	29.82959
21. Financial Intermediation Ratio[d]	-	0.532827	0.540525	0.541803	0.564637	0.575986

Notes:
- \- No data Available
- [b] Monetization Ratio = Broad Money / GNP
- [c] Finance Ratio = All Financial Assets / GNP
- [d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Central Bank of The Bahamas, *Quaterly Statistical Digest* and ***Quaterly Econmic Review***

THE BAHAMAS
Notes to Financial Instruments and Ratios

1. **Finance Cos., Bonds and Debentures:**
   Consolidated Liabilities
   Commercial Banks -
   Balances due to Local and Foreign Institutions
   Other Local Financial Institutions -
   Balances due from Local Banks

2. **Other Financial Institutions Paper:**
   Other Local Financial Institutions - Other Liabilities
   Post Office Savings Bank - Other Liabilities
   Development Banks - Other Liabilities
   Commercial Banks - Other Liabilities
   (Local and Foreign)

3. **Short Term Credit:**
   Commercial Banks - Loans and Advances
   * Other Local Financial Institutions (OLFIs) -
   (Foreign and Local) Hire Purchase

4. **All Long Term Credit:**
   OLFIs - Mortgages and Other Local Investments

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* Other Financial Institutions include Barclays Finance Corp, Finance Corp of the Bahamas Ltd., Workers Bank Ltd., Bahamas International Trust, Bank of Nova Scotia Trust, CIBC Trust, Royal Bank of Scotland, Cititrust Ltd, Lloyds Bank, Morgan Trust Co., Swiss Bank Corp (Trust), Euro Canadian Trust, Pictet Overseas Trust Corp and Chase Manhattan Trust Corp Ltd.

5. **Investments:**
Bonds - Registered Government Stock
Debentures - Balances due from Other Local Financial Institutions in and Outside the Bahamas for the Bahamas Development Bank

6. **Other Claims:**
OLFIs - Other Assets, Balances with OLFIs and Net Foreign Assets
Commercial Banks - Balances with Central Bank, OLFIs, Other Assets and Other Foreign Securities

7. **Equity of Financial Institutions:**
Commercial Banks - Capital and Surplus (Foreign and Local)
Bahamas Development Bank - Capital plus General Reserves plus Surplus and Other Reserves
OLFIs - Capital and Surplus
Post Office Savings Bank - Savings Deposits used as a proxy for members' shares

8. **GNP per Capita:**
GDP/Population used due to non-availability of GNP figures.

ANNEX 1.2 (b): BARBADOS - BDS$MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1972-1995)

	YEAR	1972	1977	1982	1987	1992	1995
1.	**Broad Money**	236.3	391.9	840.5	1366.0	1813.3	2130.1
2.	**Insurance Reserves**						
	Government	8.5	16.1	35.4	26.9	6.6	49.6
	Private	-	-	26.1	55.3	96.0	-
3.	**Pension Funds**	-	-	-	-	-	-
4.	**Finance Cos. Bonds & Debentures**				**6.4**	**14.8**	**9.9**
5.	**Other Financial Institutions Paper**	**66.5**	**114.4**	**213.2**	**493.4**	**382.7**	**440.7**
	Trust & Mortgage Finance Companies	0.4	1.9	11.2	25.7	50.7	101.3
	Barbados Mortgage Finance Co.	7.1	15.0	42.1	61.9	84.3	81.9
	Development Banks	3.0	22.2	54.6	120.6	104.6	103.2
	Commercial Banks	56.0	75.3	105.1	279.0	124.0	122.2
	Thrift Institutions:						
	Barbados Savings Bank	0.0	-				
	Credit Union & Cooperatives			0.2	6.2	19.1	32.1
	SIAB/B'dos National Bank Agric Div.	2.0	42.8	71.1	85.0	95.7	-34.8
6.	**Claims Against Financial Institutions**	**311.3**	**522.4**	**1115.2**	**1948.0**	**2313.4**	**2630.3**

Notes: - No data available

ANNEX 1.2 (b): BARBADOS - BDS$MN (Selected Years) (Con't)

YEAR	1972	1977	1982	1987	1992	1995
7. All Short Term Credit						
Commercial Banks	226.3	372.2	680.2	960.0	1217.8	1533.1
Thrift Institutions						
Barbados Savings Bank	-	-				
Credit Union & Cooperatives			6.2	53.3	148.8	165.6
8. All Long Term Credit						
Commercial Banks		21.5	32.2	40.3	35.4	43.8
Finance Companies & Merchant Banks				32.2	39.5	36.9
Barbados Mortgage Finance Company	7.2	16.7	43.2	70.3	95.1	96.9
Trust & Mortg. Finance Cos.	2.8	25.9	127.6	231.7	387.1	424.7
Insurance Companies	14.7	34.2	101.5	195.7	401.4	-
Development Banks	4.4	25.1	63.0	102.7	91.0	70.3
SIAB/B'dos National Bank Agric. Div.	2.4	43.6	88.2	148.7	185.5	10.0
Credit Unions			0.0	0.8	7.7	16.6
Barbados Savings Bank	25.4	1.5				
9. Investments						
Treasury Bills	11.6	114.4	265.6	423.9	635.2	504.4
Bonds:						
Trust & Mortgage Finance Cos.	0.5	0.4	0.5	2.0	0.4	5.5
Insurance Cos.	10.5	14.3	35.3	61.6	91.5	-
Debentures	48.6	121.9	137.8	234.9	411.1	1132.8

Notes: - No data available

ANNEX 1.2 (b): BARBADOS - BDS$MN (Selected Years) (Con't)

YEAR	1972	1977	1982	1987	1992	1995
10. Other Claims						
Finance Cos. & Merchant Banks				7.7	21.9	18.8
Trust & Mortgage Finance Cos.	2.0	2.3	6.5	6.0	15.9	6.3
Barbados Mortgage Finance Co.	0.0	0.0	0.1	0.2	3.3	3.1
Development Banks	0.1	0.8	3.9	19.5	13.9	5.8
Thrift Institutions:						
Barbados Savings Bank	1.5	12.0				
SIAB/B'dos National Bank Agric. Div	0.0	0.4	2.5	8.9	36.0	98.3
Credit Unions			-	5.4	11.2	21.9
Insurance Cos.	8.4	21.0	61.0	103.5	173.5	-
11. Claims Against Non-Financial Sector[a]	**366.4**	**828.2**	**1655.3**	**2709.3**	**4023.2**	**4194.8**
12. All Claims	**677.7**	**1350.6**	**2770.5**	**4657.3**	**6336.6**	**6825.1**
13. Stock Market Capitalisation					518.3	988.8

Notes: - No data available
[a] Including Central Bank

ANNEX 1.2 (b): BARBADOS - BDS$MN (Selected Years) (Con't)

YEAR	1972	1977	1982	1987	1992	1995
14. Equity of Financial Institutions						
Development Banks	2.5	5.6	15.7	22.0	48.1	50.4
Finance Companies				2.5	5.5	3.0
Trust & Mortgage Finance Cos.	1.5	1.8	3.5	4.8	4.9	5.1
Thrift Institutions						
Barbados Savings Bank	6.5	15.7				
SIAB/B'dos National Bank Agric. Div.	2.0	2.3	0.4	1.3	0.0	0.0
Credit Unions	-		5.9	51.0	145.5	155.7
Barbados Mortgage Finance Cos.	1.2	1.7	2.1	9.4	16.8	20.4
Government Insurance	28.7	88.8	208.5	385.2	546.4	638.6
Commercial Banks	32.3	40.4	124.4	159.4	221.4	390.4
15. Total Equity	**74.7**	**156.3**	**360.5**	**635.6**	**1506.9**	**2252.4**
16. All Financial Assets/Instruments (Estimated)	**752.4**	**1506.9**	**3131.0**	**5292.9**	**7843.5**	**9077.5**

Notes: - No data available

ANNEX 1.2 (b): BARBADOS - BDS$MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

	YEAR	1972	1977	1982	1987	1992	1995
17.	Gross National Product (GNP)	407.0	890.0	1990.0	2914.0	3171.0	3557.0
18.	GNP per Capita (BDS$)	1695.8	3560	7960.0	11656	12196.2	13680.8
19.	Monetization Ratio[b]	**0.58059**	**0.44034**	**0.42236**	**0.46877**	**0.57184**	**0.59885**
20.	Finance Ratio[c]	**1.84865**	**1.69315**	**1.57337**	**1.81637**	**2.47351**	**2.55201**
21.	Financial Intermediation Ratio[d]	**0.48698**	**0.54961**	**0.52868**	**0.51187**	**0.51293**	**0.46211**

Notes: [b] Monetization Ratio = Broad Money / GNP
[c] Finance Ratio = All Financial Assets / GNP
[d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Central Bank of Barbados *Annual Statistical Digest*

BARBADOS
Notes to Financial Instruments and Ratios

1. **Broad Money:**
   Source: IFS Statistical Yearbook 1995

2. **Insurance Reserves:**
   Government - Used 'Balance' Figure
   Private - Reserves & Estimated Liabilities for Outstanding Claims and Other Reserves

3. **Finance Cos. Bonds and Debentures:**
   Other Liabilities & Balances due to Banks and OLFIs

4. **Other Financial Institutions Paper:**
   Trust & Mortgage Finance Cos. -
   Other Liabilities & Balances due to OLFIs

   Development Banks - Other Liabilities and Total Long-term Borrowings

   Commercial Banks - Foreign Liabilities and Balances due to Local Banks and Central Bank

   Thrift Institutions:
   Barbados Savings Bank -
   As of April 1, 1978, figures were included under Commercial Banks where the 'surplus' figure was used.

   Credit Unions - Other Liabilities

   SIAB / B'dos National Bank
   Agricultural Division - Long-term Borrowing

   Barbados Mortgage Finance Co. -
   Long-term Borrowings and Other Liabilities and Balances due to Local Banks

5. **Short Term Credit:**
Commercial Banks - Loans and Advances

Credit Unions - Loans Outstanding

Finance Cos. - Loans

6. **Long Term Credit:**
Commercial Banks - Mortgage Loans

Barbados Mortgage and Finance Cos. -
Mortgage Loans

Agricultural Bank - Long-term borrowings

All Insurance Cos -
Mortgage Loans and Real Estate

Barbados Savings Bank -
Foreign and Local Investments

SIAB / Barbados National Bank
Agricultural Division - Loans

Credit Unions - Investments

Trust and Mortgage Finance Cos -
Total Loans

Development Banks - Long-term Loans

7. **Treasury Bills, Bonds and Debentures:**
Bonds - Trust and Mortgage Finance Cos. -
Government Securities
Insurance Cos. - Bonds and Debentures
Treasury Bills Oustanding

8. **Other Claims:**
Finance Cos. and Merchant Banks -
Local Securities, Other Assets and
Balances with Banks and Institutions

Trust and Mortgage Finance Cos. -
Balances with Banks and Institutions

Barbados Mortgage Finance Co. - Other Assets

Development Banks -
Local Investment and Other Assets

Barbados Savings Bank -
Balances due from Other Local Banks

Agricultural Bank -
Other Assets & Foreign Investments

Credit Unions - Other Assets

Insurance Cos. -
Balances at Financial Institutions and
Other Investments

9. **Equity of Other Financial Institutions:**
Commercial Banks - Other Liabilities

Development Banks - Capital & Surplus

Finance Cos. and Merchant Banks -
Paid up Capital (Local and Overseas)

Trust and Mortgage Finance Co. -
Paid up Capital (Local and Overseas)
Thrift / Savings Bank - Surplus

Barbados Mortgage Finance Co. -
Capital Issued & Surplus

Credit Unions -
Share Capital, Reserves and Undivided Surplus

Government Insurance - Capital

SIAB / Barbados National Bank
Agricultural Division - Capital and Surplus

10. **Stock Market Capitalisation:**
Market Capitalisation

11. **GNP / Capita:**
GDP / Capita is used as a proxy

ANNEX 1.2 (c): BELIZE - BLZ$MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1977-1995)

	YEAR	1977	1982	1987	1992	1995
1.	**Broad Money**	73.4	125.1	241.7	411.5	544.3
2.	**Insurance Reserves**					
	Private	-	-	-	-	-
	Government	-	-	-	-	151.0
3.	**Pension Funds**	-	-	-	**323.4**	-
4.	**Other Financial Institutions Paper**					
	Commercial Banks	7.2	19.6	24	33.4	25.8
	Finance Cos. Bonds & Debentures	-	24	38.7	37.3	32.8
5.	**Claims Against Financial Institutions**	80.6	168.7	304.4	805.6	753.9
6.	**All Short Term Credit**					
	Commercial Banks	59.5	132.3	165.1	373.2	414.9
7.	**All Long Term Credit**					
	Development Finance Corporation	-	25.8	36.7	36.8	46.1
8.	**Treasury Bills, Gov't Securities etc.**					
	Treasury Bills	3.7	19.0	62.2	64.2	70
	Gov't Securities					
	Commercial Banks	0.5	0.2	0	0	10
	Other Shareholdings in Belize	-	1.8	1.4	1.5	1.5

Notes: - No data available

ANNEX 1.2 (c): BELIZE - BLZ$MN (Selected Years) (Con't)

	YEAR	1977	1982	1987	1992	1995
9.	**Other Claims**					
	Commercial Banks	24.5	47.8	60.3	103	134.4
	Development Finance Corporation	-	4.3	13.0	8.3	7.8
10.	**Claims Against Non-Financial Sector[a]**	**88.2**	**231.2**	**338.7**	**587**	**684.7**
11.	**All Claims**	**168.8**	**399.9**	**643.1**	**1392.6**	**1438.6**
12.	**Stock Market Capitalisation**					
13.	**Equity of Financial Institutions**					
	Commercial Banks	5.4	8.4	13.4	28.4	38.2
	Development Finance Corporation	-	4.7	5.7	-1.5	2.6
14.	**Total Equity**	**5.4**	**13.1**	**19.1**	**26.9**	**40.8**
15.	**All Financial Assets/Instruments (Estimated)**	**174.2**	**413.0**	**662.2**	**1419.5**	**1479.4**

Notes: - No data available
[a] Including Central Bank

ANNEX 1.2 (c): BELIZE - BLZ$MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

YEAR	1977	1982	1987	1992	1995
16. Gross National Product	212	359	589	961	1156
17. GNP per Capita	1511.429	2390.0	3461.8	4805.5	5503.333
18. Monetization Ratio[b]	0.34688	0.34895	0.41071	0.42816	0.47097
19. Finance Ratio[c]	0.82325	1.15202	1.12523	1.47695	1.28009
20. Financial Intermediation Ratio[d]	0.50631	0.55981	0.51148	0.41353	0.46282

Notes:
- \- No data available
- [b] Monetization Ratio = Broad Money / GNP
- [c] Finance Ratio = All Financial Assets / GNP
- [d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: **Central Bank of Belize *Quarterly Review***

BELIZE
Notes to Financial Instruments and Ratios

1. **Investments:**
   Finance Cos., Bonds and Debentures - Foreign Liabilities

2. **Other Financial Institutions Paper:**
   Development Finance Corporation - Other Liabilities, Grants and Trust Funds
   Commercial Banks - Balances due to OLFIs and Other Liabilities

3. **Long Term Credit:**
   Development Finance Corporation - Loans and Advances and Other Shareholdings in Belize.

4. **Other Claims:**
   Commercial Banks - Foreign Assets, Balances with OLFIs and Other Assets
   Development Finance Corp - Foreign Assets, Balances due from Banks and OLFIs and Other Assets

5. **Equity**
   Commercial Banks - Capital and Reserves
   Development Finance Corporation - Capital Reserves

ANNEX 1.2 (d): GUYANA - G$ MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1972-1995)

	YEAR	1972	1977	1982	1987	1992	1995
1.	**Broad Money**	222	579	1159	3464	30760	52532
2.	**Insurance Reserves**						
	Private						
	Government		52.3	86.2	223.8	1849.9	1659.6
3.	**Pension Funds**	-	-	1.3	3	35.1	54.7
4.	**Finance Cos. Bonds & Debentures**						
5.	**Other Financial Institutions Paper**						
	Trust Companies		0.4	8.6	17.8	393.7	2261.5
	Development Banks			47	218.3	4290.9	3803.2
	Thrift Institutions:						
	Post Office Savings Bank	0	-	-			
	The New Building Society	0.2	2.5	4.7	27.1	285.3	877.1
	Guyana Credit Corporation	2.6	-	-	-	-	-
	Guyana Coop Mortgage Finance Bank		-	16.9	14.7	37.2	29.6
	Consolidated Domestic Insurance Cos.		35.4	91.3	371.8	3864	4052.6
	Commercial Banks	23.9	71.5	146.4	393.6	3523.7	3094.5
6.	**Claims Against Financial Institutions**	**248.7**	**741.1**	**1561.4**	**4734.1**	**45039.8**	**68364.8**

Notes: - No data available

ANNEX 1.2 (d): GUYANA - G$ MN (Selected Years) (Con't)

	YEAR	1972	1977	1982	1987	1992	1995
7.	**All Short Term Credit**						
	Commercial Banks	96.8	234.4	627.1	1382.5	9896.4	22189.6
	Thrift Institutions:						
	Guyana Credit Corporation	12.4					
	New Building Society	0.1	2.1	2	1.1	0	1.3
	Post Office Savings Bank	0.2					
	Hire Purchase Credit of Comm Firms	12.2	14	-	-	-	-
	Life Insurance Cos.		5.4	15.4	17.9	32.9	67.5
	Trust Companies	-	0.6	0.7	8.7	236.3	587.9
8.	**All Long Term Credit**						
	The New Building Society	11.8	35.5	57	63.7	236.3	1861.4
	Trust Cos.	-	9	51.1	129.6	615.0	1150.7
	Domestic Insurance Companies		26.5	60.6	170.1	740.7	1394.9
	Pension Schemes	-	-	0.4	5.2	0	0
	Guyana Co-Operative Mortgage Fin. Bank		-	33.3	47.6	45.2	35.3
	Guyana Agric. & Industrial Dev. Bank			64.2	160.0	3366.0	4898.7
9.	**Investments**						
	Treasury Bills		587.5	2033.4	4587.6	12296.9	22572.7
	Debentures	0.2		642.2	2222.5	5755.7	7597.5
	Government Bonds	1.9	2.8	13	17.7	24.5	27.6

Notes: - No data available

ANNEX 1.2 (d): GUYANA - G$ MN (Selected Years) (Con't)

YEAR	1972	1977	1982	1987	1992	1995
Government Securities:						
Commercial Banks	6.4	16.5	13	88.8	-	-
Post Office Savings Bank	9.4	-	-	-	-	-
Domestic Insurance Cos.	-	-	1.4	2.8	22.8	1
New Building Society	0.1	1.3	1.2	9.6	9.2	9.1
Trust Companies	-	0	0	5.2	212.1	13.3
Pension Schemes	-	-	1.8	0.1	30.7	0
Private Securities:						
Domestic Insurance Cos.	-	-	9.5	14	37.3	375.6
Pension Schemes	-	-	2.8	0.6	1.8	227.7
10. Other Claims						
Commercial Banks	12.7	29.1	111.3	304.4	6169.2	10283.6
Trust Companies	-	0	2.6	8.4	89.2	2259.5
Guyana Agric. & Industrial Dev. Bank	-		15.5	27.4	928.3	853.9
Thrift Institutions:						
Post Office Savings Bank	2.6	-	-	-	-	-
The New Building Society	1.9	3.4	3	29.1	209.1	433.9
Guyana Credit Corporation	2.8					
Guyana Coop Mortgage Finance Bank		-	2.6	2.4	10.3	9.1
Pension Schemes	-	-	61.6	77.8	882.4	470.2
Domestic Insurance Cos.		35.4	64.9	324.0	4745.4	3576.0

Notes: - No data available

ANNEX 1.2 (d): GUYANA - G$ MN (Selected Years) (Con't)

	YEAR	1972	1977	1982	1987	1992	1995
11.	**Claims Against Non-Financial Sector[a]**	**171.5**	**1003.5**	**3891.6**	**9708.8**	**46593.7**	**80898**
12.	**All Claims**	**420.2**	**1744.6**	**5453**	**14442.9**	**91633.5**	**149262.8**
13.	**Stock Market Capitalisation**						
14.	**Equity of Financial Institutions**						
	Commercial Banks	-	-	-	-	4044.8	5391.9
	Guyana Agric. & Industrial Dev. Bank	-	-	38.5	91.2	362.4	364.9
	Guyana Coop Mortgage Finance Bank	-	-	21.6	25.2	30	15.8
	Thrift Institutions:						
	Post Office Savings Bank	0.5					
	The New Building Society	12.8	46.0	92.1	375.2	2220.5	4766.5
	Guyana Credit Corporation	13.7					
	Trust Companies	-	0.5	0.9	7.8	115.6	256.5
	Pension Schemes	-	-	165.0	207.6	2213.7	4763.5
15.	**Total Equity**	**27**	**46.5**	**318.1**	**707.0**	**8987**	**15559.1**
16.	**All Financial Assets/Instruments (Estimated)**	**447.2**	**1791.1**	**5771.1**	**15149.9**	**100620.5**	**164821.9**

Notes: - No data available

[a] Including Central Bank

ANNEX 1.2 (d): GUYANA - G$ MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

	YEAR	1972	1977	1982	1987	1992	1995
17.	Gross National Product (GNP)	577	1058	1290	2551	38447	78824
18.	GNP per CAPITA (G$)	769.33	1306.17	1675.32	3229.11	47465.43	96126.83
19.	Monetization Ratio[b]	**0.38475**	**0.54726**	**0.89845**	**1.35790**	**0.80006**	**0.66645**
20.	Finance Ratio[c]	**0.77504**	**1.69291**	**4.47372**	**5.93881**	**2.61712**	**2.09101**
21.	Financial Intermediation Ratio[d]	**0.383507**	**0.56027**	**0.67433**	**0.64085**	**0.46306**	**0.490821**

Notes: [b] Monetization Ratio = Broad Money / GNP
[c] Finane Ratio = All Financial Assets / GNP
[d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Bank of Guyana *Annual Statistical Bulletin*

GUYANA
Notes to Financial Instruments and Ratios

1. **Broad Money:**

   Money plus Quasi money.
   Source: IFS Statistical Yearbook 1995.

2. **Insurance Reserves:**

   Private - Consolidated Domestic Insurance Cos - Life Insurance Fund.

3. **Other Financial Institutions Paper:**

   Trust Cos. - Loans Received & Other Private Sector Liabilities.

   Guyana Coop Agricultural and Industrial Bank (GAIBANK) - Foreign Liabilities and Other Liabilities.

   New Building Society -
   Other Liabilities

   Guyana Credit Corporation -
   Other Liabilities

   Guyana Coop Mortgage Finance Bank -
   Other Liabilities & Foreign Liabilities

   Pension Schemes - Other Liabilities

   Consolidated Domestic Insurance Cos -
   Foreign Liabilities and Other Liabilities

   Commercial Banks -

1972-1987:

Other Liabilities

1988-1995:

Foreign Sector
(Balance due to Banks and Other Liabilities),
Other Liabilities and Bank of
Guyana Liabilities

4. All Short Term Credit:

Commercial Banks - Loans and Advances
Guyana Credit Corp - Loans and Advances
Hire Purchase Credit - Total Credit Outstanding
New Building Society - Other Loans excluding
Mortgages
Domestic Insurance Cos. - Other Loans
Trust Cos. - Private Sector (Other Loans and
Advances)
Post Office Savings Bank - Net Balances due from
Treasury

5. All Long Term Credit:

Commercial Banks - Mortgages (1978-1986 'Housing'
under Households)
New Building Society - Mortgages
Trust Cos. - Mortgages

Domestic Insurance Cos. - Mortgages to Private Sector

and Loans to Foreign Sector

Pension Funds - Mortgages

Guyana Mortgage Finance Bank - Mortgages

GAIBANK - Public Sector and

Private Sector Loans and Advances

6. Investments:

Private and Public Bonds (Securities) - Commercial Banks

New Building Society,
Post Office Savings Bank (1972-74)

Domestic Life Insurance Cos., Pension Schemes

1976-84:
Domestic Life Insurance Co.

1986-94:
Consolidated Domestic Insurance Cos.

Debentures - New Building Society,

Domestic Life Insurance Co., Pension Schemes
(1980-1995: Total Amount Outstanding)

Treasury Bills - New Building Society, Domestic Life

Insurance Cos., Pension Schemes, GCMFB

(Mortgage Finance Bank)
(1980-1995: Total Amount Outstanding)

7. Other Claims:

Commercial Banks -

1972-1980:
Other Assets

1981-1995:
Balances due from Foreign Banks,
Other Foreign Assets and Other Public Sector Assets

Trust Companies - Other Assets (Private Sector)

GAIBANK - Other Assets and Interest Received from Sub-borrowing

Post Office Savings Bank - Foreign Assets and Other Assets

New Building Society - Other Assets & Foreign Assets

Guyana Credit Corporation - Other Assets

Guyana Coop Mortgage Finance Bank - Other Assets

Consolidated Insurance Cos. -
Foreign Assets and Other Local Assets

8. Equity of Other Financial Institutions:

Development Bank - Government Contribution

Guyana Coop Mortgage Finance Bank -

Government Contribution

Post Office Savings Bank - Other Liabilities

The New Building Society - Shares and Reserves

Guyana Credit Corp - Total Advances and Reserves

Trust Cos. - Capital Stock and Trust Fund

Pension Schemes - Pension Fund and Reserves

9. GNP per Capita:

For 1994, GNP was used

ANNEX 1.2 (e): JAMAICA - J$MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1972-1995)

	YEAR	1972	1977	1982	1987	1992	1995
1.	**Broad Money**	528	1044	2773	7527	34299	86396
2.	**Insurance Reserves**						
	Private	-	-	-	-	-	-
	Government	-	-	-	-	-	-
3.	**Pension Funds**	-	-	-	-	5081.9	-
4.	**Other Financial Institutions Paper**						
	Commercial Banks	583.1	1121.8	503.9	2163.6	12845.4	28311
	Finance Houses & Trust Companies	4.2	28.7	45.5	151.3	141.2	291.7
	Merchant Banks	17.7	70.5	51.5	196.5	3613.4	8098.4
	Thrift Institutions:						
	Gov.t Savings Bank	4.0					
	Building Societies	-	-	5.6	6.1	135.6	-
	Capital Development Fund	-	15.7	60	-	758	2022.3
5.	**Claims Against Financial Institutions**	**1137.0**	**2280.7**	**3439.5**	**10044.5**	**56874.5**	**125119.4**

Notes: - No data available

ANNEX 1.2 (e): JAMAICA - J$MN (Selected Years) (Con't)

YEAR	1972	1977	1982	1987	1992	1995
6. **All Short Term Credit**						
Commercial Banks	420	658.7	1963.1	4895.9	14095.1	45864.2
Merchant Banks	23.4	60.5	65.6	674.8	4662.6	-
Thrift Institutions:						
Gov/t Savings Bank	1.4					
Credit Unions	-	-	219.5	404.6	965	2830.6
Instalment Credit (Private Dealers	13.5	20.5	32.9	103.5	323.6	-
7. **All Long Term Credit**						
Finance Houses & Trust Companies	14.5	63.1	172.8	402.9	186.3	205.5
Capital Dev. Fund: -						
Loans to Statutory Bodies etc.	-	66.9	115.3	-	68.6	246.5
Building Societies	4.3	5.4	358.3	680.2	2884.2	-
8. **Investments**						
Treasury Bills	44.8	199.7	490.0	1439.0	6461.0	10466.6
Gov't of Jamaica Local Registered Stock	190.4	1040.3	2825.3	6728.2	11962.9	37049.4
Certificates of Deposit	-	-	-	1666.0	3491.7	-
9. **Other Claims**						
Commercial Banks	63.1	119.8	315.1	1124.7	13235.9	32941.4
Finance Houses & Trust Companies	4.2	6.2	33	31.2	111.3	246.3
Merchant Banks	2.1	14.8	16.3	239.0	2821.2	5955.3

Notes: - No data available

ANNEX 1.2 (e): JAMAICA - J$MN (Selected Years) (Con't)

YEAR	1972	1977	1982	1987	1992	1995
Thrift Institutions:						
Building Societies	-	-	138.8	673.5	5852.8	-
Credit Unions	-	-	58.2	-	315.7	-
Gov't Savings Bank	0.1	-	-	-	-	-
Capital Development Fund	-	22.8	187.4	-	1764.7	2782.1
10. Claims Against Non-Financial Sector[a]	**781.8**	**2278.7**	**6991.6**	**19063.5**	**69202.6**	**138587.9**
11. All Claims	**2700.6**	**6838.1**	**17422.7**	**48171.5**	**195279.7**	**402295.2**
12. Stock Market Capitalisation	-	-	-	**3470**	**76974**	**50756**
13. Equity of Financial Institutions						
Commercial Banks	-	-	-	-	-	-
Finance Houses & Trust Companies	2.2	7.3	14.9	47.4	26.2	137.6
Merchant Banks	1.9	5.4	6.9	69.7	741.5	2368
Thrift Institutions:						
Building Societies	-	-	491.5	1347.6	8601.4	-
Credit Unions	-	-	53.2	73.5	209.9	581.2
Capital Development Fund	-	136.7	332.4	-	1322.4	1718.8
14. Total Equity	**4.1**	**149.4**	**898.9**	**5008.2**	**87875.4**	**55561.6**
15. All Financial Assets/Instruments (Estimated)	**2704.7**	**6987.5**	**18321.6**	**53179.7**	**283155.1**	**457856.8**

Notes: - No data available
[a] Including Central Bank

ANNEX 1.2 (e): JAMAICA - J$MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

	YEAR	1972	1977	1982	1987	1992	1995
16.	Gross National Product (GNP)	1414	2862	5578	14731	70149	132826
17.	GNP per Capita	732.6	1369.4	2547.0	6268.5	29351.0	52500.4
18.	Monetization Ratio[b]	**0.37341**	**0.36478**	**0.49713**	**0.51096**	**0.48894**	**0.65044**
19.	Finance Ratio[c]	**1.91280**	**2.44147**	**3.28462**	**3.61005**	**4.03648**	**3.44704**
20.	Financial Intermediation Ratio[d]	**0.28905**	**0.32611**	**0.38160**	**0.35847**	**0.24440**	**0.30269**

Notes: [b] Monetization Ratio = Broad Money / GNP
[c] Finane Ratio = All Financial Assets / GNP
[d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Bank of Jamaica *Annual Statistical Digest*

JAMAICA
Notes to Financial Instruments and Ratios

1. **Broad Money:**
   Money plus Quasi Money

2. **Insurance Reserves:**
   No Insurance Cos. Reported

3. **Other Financial Institutions Paper:**
   Trust and Finance Houses - Balances due to Banks and Institutions in Jamaica, Foreign Liabilities and Other Liabilities (1982-1986 - Trust Cos. alone)

   Merchant Banks - Balances due to Banks and Institutions in Jamaica, Other Liabilities and Foreign Liabilities

   Building Societies - Other Liabilities

   Capital Development Fund - Other Liabilities

   Gov't Savings Bank - Balances with Bank of Jamaica and Foreign Assets

4. **All Short Term Credit:**
   Commercial Banks - Loans and Advances
   Finance Cos. and Trust Cos. - Loans and Advances
   Merchant Banks - Loans and Advances
   Credit Unions - Loans Outstanding / Installment Credit Outstanding (Private Dealers)

5. **All Long Term Credit:**
   Capital Development Fund -
   Loans to Statutory Bodies (1978-90,
   Investments {Subsidiaries and Others} (1992-1994).

   Building Societies -
   1972-1979: Total Mortgage Loans
   1980-1994: Total Loans (Net)

6. **Treasury Bills, Government of Jamaica LRS, Certificates of Deposit Outstanding:**
   Certificates of Deposit - Merchant Banks, Capital Development Fund
   Treasury Bills - Treasury Bills Outstanding

7. **Other Claims:**
   Merchant Banks - Other Assets and Foreign Assets
   Commercial Banks - Other Assets and Foreign Assets

   Finance Houses and Trust Cos. - Other Assets and Foreign Assets

   Building Societies - Other Assets

   Credit Unions - Other Assets

   Capital Development Fund - Other Assets

   Gov't Savings Bank - Other Assets

8. **Equity of Other Financial Institutions:**
   Commercial Banks - Other Liabilities

   Finance house and Trust Cos - Capital and Reserves

   Merchant Banks - Capital and Reserves

   Capital Development Fund - Bauxite Production Levy (Net)

   Building Societies - Capital and Reserves and Savings Fund

   Credit Unions - Capital and Other Liabilities

9. **GNP per Capita** - an estimation

ANNEX 1.2 (f): OECS - EC$MN (Selected Years)
(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1972-1995)

	YEAR	1972	1977	1982	1987	1992	1995
1.	**Broad Money**	300.8	544.0	1061.3	1874.3	3518.5	4783.8
2.	**Insurance Reserves**						
	Private	-	-	-	-	-	-
	Government	-	-	-	-	-	-
3.	**Pension Funds**	-	-	-	-	-	-
4.	**Other Financial Institutions Paper**	-	-	-	-	-	-
5.	**Claims Against Financial Institutions**	300.8	544.0	1061.3	1874.3	3518.5	4783.8
6.	**All Short Term Credit**						
	Commercial Banks	-	357.6	867.13	1484.4	1941.2	2365.3
7.	**All Long Term Credit**						
	Commercial Banks	-	-	-	-	1239.5	1863.1
8.	**Investments**						
	Treasury Bills	0.4	11.0	27.0	28.3	81.8	100.9
	Other (Bonds)	0	0	5.1	57.6	64	292.2
	Debentures	7.1	14	14.3	44.7	75.1	78.3
9.	**Claims Against Non-Financial Sector[a]**	**7.5**	**382.6**	**913.5**	**1615.0**	**3401.6**	**4699.8**
10.	**All Claims**	**308.3**	**926.6**	**1974.8**	**3489.3**	**6920.1**	**9483.6**
11.	**All Financial Assets/Instruments (Estimated)**	**308.3**	**926.6**	**1974.8**	**3489.3**	**6920.1**	**9483.6**

Notes: - No data available
[a] Including Central Bank

ANNEX 1.2 (f): OECS - EC$MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

	YEAR	1972	1977	1982	1987	1992	1995
12.	Gross National Product (GNP)	-	926	1577	2717	5076	4269
13.	GNP per Capita	-	1779.8	3504.2	5127.0	9952.5	8369.6
14.	Monetization Ratio[b]	-	0.58779	0.67303	0.68977	0.69319	1.12072
15.	Finance Ratio[c]	-	1.00118	1.25235	1.28411	1.36335	2.22176
16.	Financial Intermediation Ratio[d]	0.02433	0.41290	0.46259	0.46284	0.49155	0.49557

Notes: - No data available

[b] Monetization Ratio = Broad Money / GNP

[c] Finane Ratio = All Financial Assets / GNP

[d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Eastern Caribbean Central Bank and *International Financial Statistics, IMF*

ANNEX 1.2 (g): SURINAME SF MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1988-1994)

	YEAR	1988	1992	1994
1.	**Broad Money**	3087.7	5615.3	28279.3
2.	**Insurance Reserves**			
	Private	48.57	97.24	208.46
	Government	-	-	-
3.	**Pension Funds**	-	-	-
4.	**Finance Cos. Bonds & Debentures**			
	Commercial Banks	49.45	57.44	1290.69
	National Development Bank	0.62	3.66	3.68
	Pension Funds*	86.69	223.14	190.38
	Insurance Companies	-	-	-
5.	**Other Financial Institutions Paper**			
	Commercial Banks	128.87	254.41	13166.99
	Insurance Companies	88.47	281.05	619.67
	National Development Bank	3.91	7.07	96.96
	Thrift Institutions:			
	Credit Unions**	1843.6	4602.2	6957.7
6.	**Claims Against Financial Institutions**	**3273.03**	**5996.78**	**29972.51**

Notes: - No data available
* Pension fund data pertains to 7, 11 and 6 funds for 1988, 1992 and 1994
** Credit Union data pertains to 7, 5 and 4 credit unions for 1988, 1992 and 1994 respectively.

ANNEX 1.2 (g): SURINAME SF MN (Selected Years) (Con't)

	YEAR	1988	1992	1994
7.	**All Short Term Credit**			
	Commercial Banks	860.18	2268.07	6616.39
	Pension Funds	2.42	8.11	13.96
	Insurance Companies	8400.24	111.33	292.5
	Thrift Institutions:			
	Credit Unions	3087.5	712.2	10309.5
8.	**All Long Term Credit**			
	Mortgages (Commercial Banks)	155.5	304.76	302.2
	Pension Funds	23.76	48.25	36.78
	Mortgages (Insurance Companies)	56.28	127.26	201.76
	National Development Bank	60.61	104.65	291.28
	Thrift Institutions:			
	Credit Unions	16303.1	37219.9	44990.1

ANNEX 1.2 (g): SURINAME SF MN (Selected Years) (Con't)

YEAR	1988	1992	1994
9. **Investments (Treasury Bills, Bonds, Debentures)**			
Commercial Banks	0.86	86.17	82.14
National Development Bank	0	1.5	1.5
Pension Funds	2.81	121.2	96.72
Insurance Companies	220.4	496.24	1118.75
10. **Other Claims**			
Commercial Banks	135.69	353.55	9218.08
Pension Funds	66.84	83.22	248.51
Insurance Companies	73.24	91.92	822.4
National Development Bank	4.34	6.03	27.17
Thrift Institutions:			
Credit Unions	1363.3	812.2	2137.7
11. **Claims Against Non-Financial Sector[a]**	**30817.07**	**42956.56**	**76807.44**
12. **All Claims**	**34090.1**	**48953.34**	**106780**

Notes: [a] Including Central Bank

ANNEX 1.2 (g): SURINAME SF MN (Selected Years) (Con't)

YEAR	1988	1992	1994
13. Stock Market Capitalisation		**518.3**	**1035.4**
Commercial Bank	23.75	32.86	64.64
National Development Bank	50	50	50
Insurance Companies	8.67	8.66	7.74
14. Equity of Financial Institutions			
Commercial Bank	1.98	3.94	1.5
National Development Bank	1.88	1.87	1.71
Pension Funds	12.94	54.52	221.75
Insurance Companies	13.33	13.34	12.97
Thrift Institutions:			
Credit Unions	970.5	2527.2	6044.2
15. Total Equity	**1083.05**	**3210.69**	**7439.91**
16. All Financial Assets/Instruments (Estimated)	**35173.15**	**52164.03**	**114219.9**

ANNEX 1.2 (g): SURINAME SF MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

	YEAR	1988	1992	1994
17.	Gross National Product (GNP)	2306.47	4989.97	52550.62
18.	GNP per Capita	5812	12373	127457
19.	**Monetization Ratio[b]**	**1.33871**	**1.12532**	**0.54857**
20.	**Finance Ratio[c]**	**15.24978**	**10.45378**	**2.21568**
21.	**Financial Intermediation Ratio[d]**	**0.87615**	**0.82349**	**0.67245**

Notes: [b] Monetization Ratio = Broad Money / GNP
[c] Finane Ratio = All Financial Assets / GNP
[d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Centrale Bank van Suriname

ANNEX 1.2 (h): TRINIDAD & TOBAGO - TT$MN (Selected Years)

(a) EVOLUTION OF FINANCIAL INSTRUMENTS - SOME ESTIMATES (1972-1995)

	YEAR	1972	1977	1982	1987	1992	1995
1.	**Broad Money**	722.9	2359.8	7394.9	8497.5	9221.9	12890.2
2.	**Insurance Reserves**						
	Private	-	-	779.8	2089.3	3479.2	-
	Government	-	-	-	-	-	-
3.	**Pension Funds**	-	-	-	-	-	-
4.	**Finance Cos. Bonds & Debentures**	17.2	25.1	103.4	57.1	26.9	28.4
5.	**Other Financial Institutions Paper**	24.1	158.8	628.8	1706.4	1640.8	2239.9
	Trust Companies	1	13.8	37.8	68.4	20.8	216.1
	Development Banks	15.9	88.7	396.0	781.0	639.3	799.2
	Thrift Institutions	0.9	0.8	-	24.3	4.9	7.8
	Commercial Banks	6.3	55.5	195	832.7	975.8	1216.8
6.	**Claims Against Financial Institutions**	**764.2**	**2543.7**	**8906.9**	**12350.3**	**14368.8**	**15158.5**
7.	**All Short Term Credit**						
	Commercial Banks	506.8	1670.7	4888.5	7412.6	6792	6741.4
	Finance Companiees	37.9	158.8	882.1	374	729.5	767.9
	Thrift Institutions	28.2	27.6	50.9	84	54.2	57.4

Notes: - No data available

ANNEX 1.2 (h): TRINIDAD & TOBAGO - TT$MN (Selected Years) (Con't)

	YEAR	1972	1977	1982	1987	1992	1995
8.	**All Long Term Credit**						
	Commercial Banks	12.7	78.5	406.9		1194.5	921.5
	Finance Companies	-	-	-	52.4	594.9	677.5
	Trust & Mortg. Finance Cos.	26.1	201.1	803.2	1736.6	2057.9	3297.3
	Development Banks	40	223.9	638.7	916.7	1210.3	1134.5
9.	**Investments**						
	Treasury Bills	99.8	101.2	101.2	-	975.0	983
	Bonds	433.3	956.4	1997.3	-	10616.2	15183.2
	Debentures	-	-	-	-	-	-
10.	**Other Claims**						
	Commercial Banks	74.3	240.8	936.2	1910.8	1905.9	6971.9
	Finance Companies	-	0.4	-	141.2	109	579.1
11.	**Claims Against Non-Financial Sector[a]**	**1259.1**	**3659.4**	**10705**	**12628.3**	**26239.4**	**37314.7**

Notes: - No data available
[a] Including Central Bank

ANNEX 1.2 (h): TRINIDAD & TOBAGO - TT$MN (Selected Years) (Con't)

	YEAR	1972	1977	1982	1987	1992	1995
12.	**All Claims**	**2023.3**	**6203.1**	**19611.9**	**24978.6**	**40608.2**	**52473.2**
13.	**Stock Market Capitalisation**	**27.9**	**36.7**	**3257.7**	**1397.9**	**2184.8**	**6750.7**
14.	**Equity of Financial Institutions**						
	Commercial Banks	74.3	394.0	513.5	1163.5	1029.2	1389.4
	Development Banks	32	58.1	315.9	103.2	394.8	191.2
	Finance Companies	14.1	51.9	-	-	136.6	262.8
	Mortgage Finance Companies	-	16.4	-	-	-	-
	Thrift Institutions	14.4	12.6	-	-	-	-
	Trust Companies	2.8	-	-	158.2	196.5	296.0
15.	**Total Equity**	**165.5**	**569.7**	**4087.1**	**2822.8**	**3941.9**	**8890.1**
16.	**All Financial Assets/Instruments (Estimated)**	**2188.8**	**6772.8**	**23699.0**	**27801.4**	**44550.1**	**61363.3**

Notes: - No data available

ANNEX 1.2 (h): TRINIDAD & TOBAGO - TT$MN (Selected Years) (Concluded)

(b) FINANCIAL RATIOS AND INDICATORS

	YEAR	1972	1977	1982	1987	1992	1995
17.	Gross National Product (GNP)	1946.0	6340.0	18881.0	16269.0	21188.0	27327.0
18.	GNP per CAPITA (TT$)	1853.3	6096.2	16858.0	13445.5	17087.1	21517.3
19.	**Monetization Ratio[b]**	**0.37148**	**0.37221**	**0.39166**	**0.52231**	**0.43524**	**0.47170**
20.	**Finance Ratio[c]**	**1.12477**	**1.06826**	**1.25518**	**1.70886**	**2.10261**	**2.24552**
21.	**Financial Intermediation Ratio[d]**	**0.57525**	**0.54031**	**0.45171**	**0.45423**	**0.58899**	**0.60809**

Notes: [b] Monetization Ratio = Broad Money / GNP
[c] Finane Ratio = All Financial Assets / GNP
[d] Financial Intermediation Ratio = Claims Against Non-Financial Sector (Including Central Bank) / All Financial Assets

Source: Cental Bank of Trinidad & Tobago *Monthly* and *Quarterly Statistical Digest* and *Annual Reports of the Supervisor of Insurance*

TRINIDAD & TOBAGO
Notes to Financial Instruments and Ratios

1. **Broad Money:**
   Money plus Quasi Money.
   Source: IFS Statistical Yearbook 1995.

2. **Insurance Reserves:**
   Total Liabilities of Life Insurance Cos.
   Source: Supervisor of Insurance Annual Reports.

3. **Finance Companies Bonds and Debentures:**

1988-1971:	Finance Cos. and Merchant Banks
1972-1974:	Balances due to Local banks & Foreign Balances due abroad
1975-1983:	Other Items (Net)
1984-1995:	Borrowings and Balances due to Banks

4. **Other Financial Institutions Paper:**
   Trust Companies

1972:	Balances due to Local Banks and Balances due from abroad.
1973-1983:	Balances due from abroad & Other Items (Net)
1984-1995:	Borrowings and Balances due to Banks

   Development Banks -
   Foreign Liabilities and Public Sector Credit
   Thrift Institutions (include Post Office Savings Bank and Three Building Societies)

1972-1977:	Balances due to Local Banks and Abroad & Debentures
1978-1995:	Other Items (Net) & Foreign Liabilities

Commercial Banks -
1972-1981: Foreign Liabilities
1982-1995: Borrowings

5. **All Short Term Credit:**
Commercial Banks - Loans and Advances

Finance Companies -
1972-1985: Private and Public Sector Credit and Balances due from Local Banks and Other Local Financial Institutions (OLFIs)
1986-1995: Loans & Balances due from OLFIs

Thrift Institutions - Net Domestic Credit

6. **All Long Term Credit:**
Development Banks -
1972-1981: Loans and Advances & Real Estate Mortgages
1982-1995: Private Sector Credit

Commercial Banks - Mortgages

Finance Houses -
Loans less Loans Excluding Mortgages
Trust and Mortgages Finance Cos -
1972-1983: Private Sector Credit
1984-1995: Loans and Investment

7. **Investments:**
Treasury Bills - Treasury Bills
Outstanding Bonds -
1972-1991: Outstanding Short, Medium and Long Term Bonds Totaled from the 'Size and Structure of Central Government Debt' 1972-1976
1991-1995: Other Securities (Internal) & External Debt Outstanding

8. **Other Claims:** Commercial Banks-

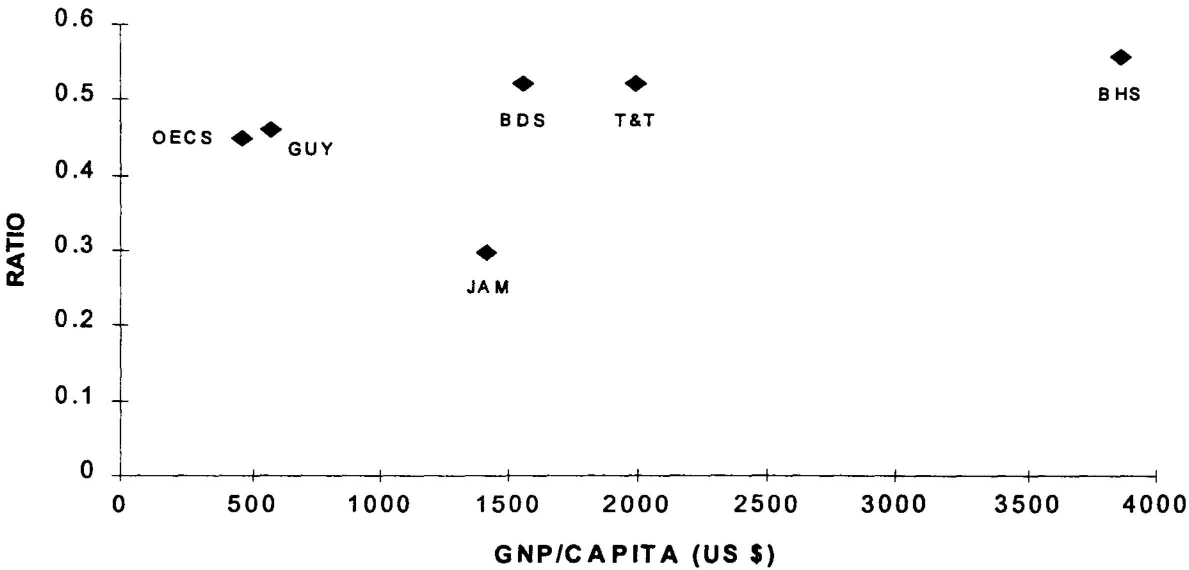
1972-1978:	Commercial Bills, Foreign Assets, Other Assets including Fixed Assets
1982-1988:	Foreign Assets, Other Current Assets & Investments
1989-1995:	Domestic Credit (Other)

9. **Stock Market Capitalisation:**
Source: Trinidad and Tobago Stock Exchange (yearturn) 1982-1996. For 1972-1980, the Market Value of Shares Sold on the Call Exchange is used.

10. **Equity of Other Financial Institutions:**
Development Banks - Capital and Reserves
Commercial Banks - Other Liabilities including Capital and Reserves
Finance Cos. - Other Liabilities including Capital
Mortgage Finance Cos. - Share Capital and Reserves
Thrift Institutions - Other Liabilities including Capital Reserves
Trust Cos. -

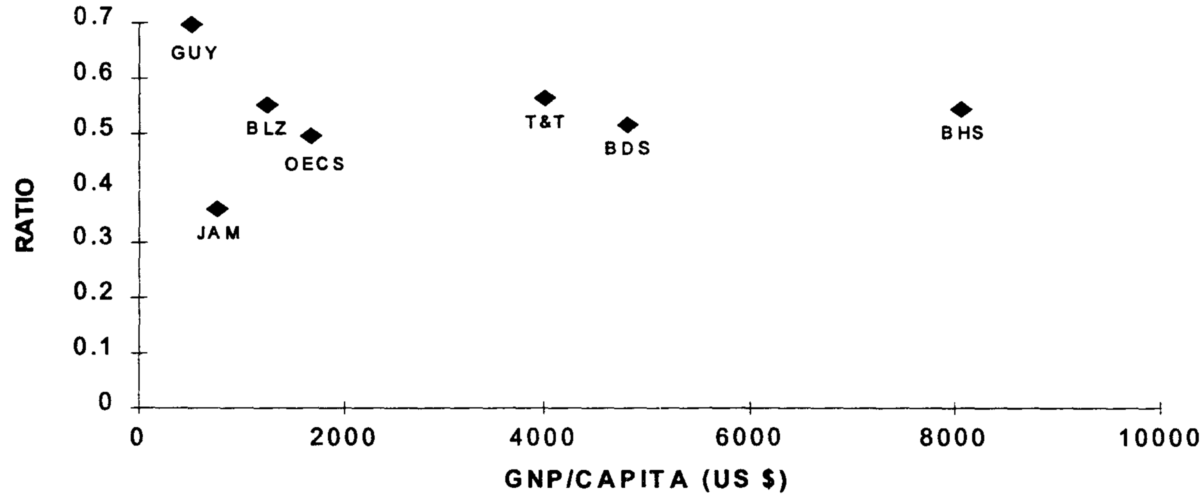
1972-1983:	Other Liabilities including Capital and Reserves
1984-1995:	Capital and Reserves

ANNEX 11-1A - SCATTER DIAGRAM OF THE FINANCIAL INTERMEDIATION RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1975)



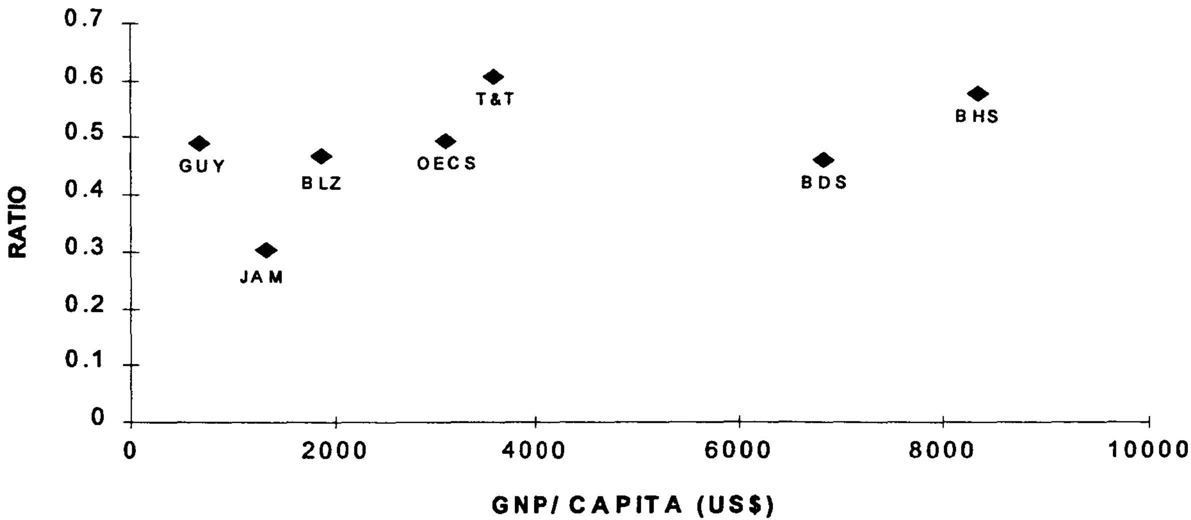
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-1B - SCATTER DIAGRAM OF FINANCIAL INTERMEDIATION RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1985)



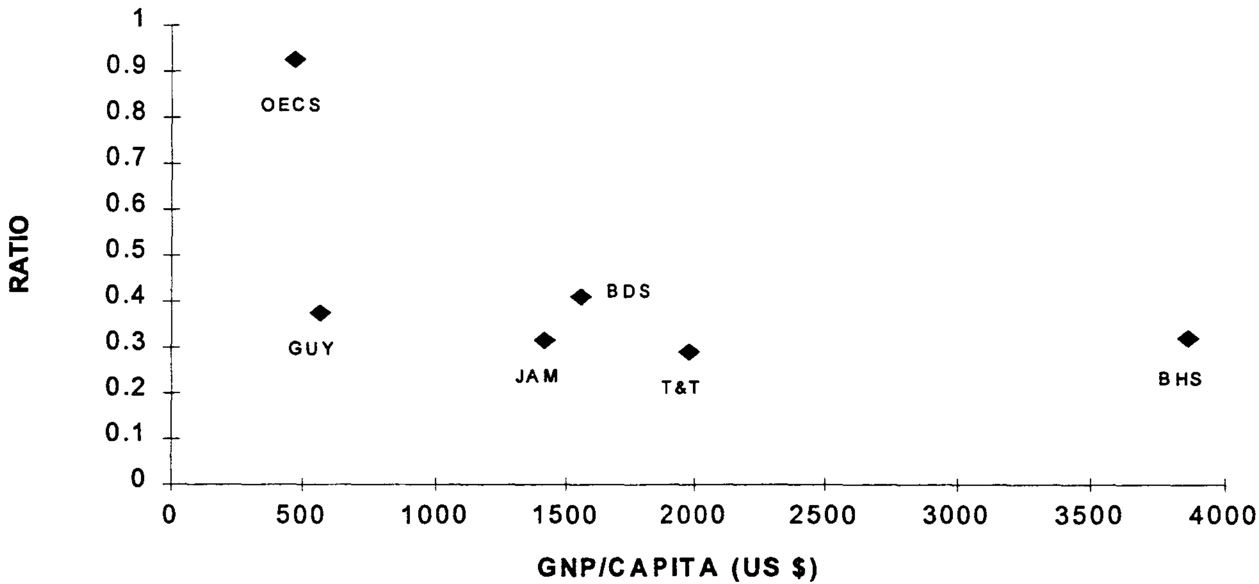
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-1C - SCATTER DIAGRAM OF THE FINANCIALINTERMEDIATION RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1995)



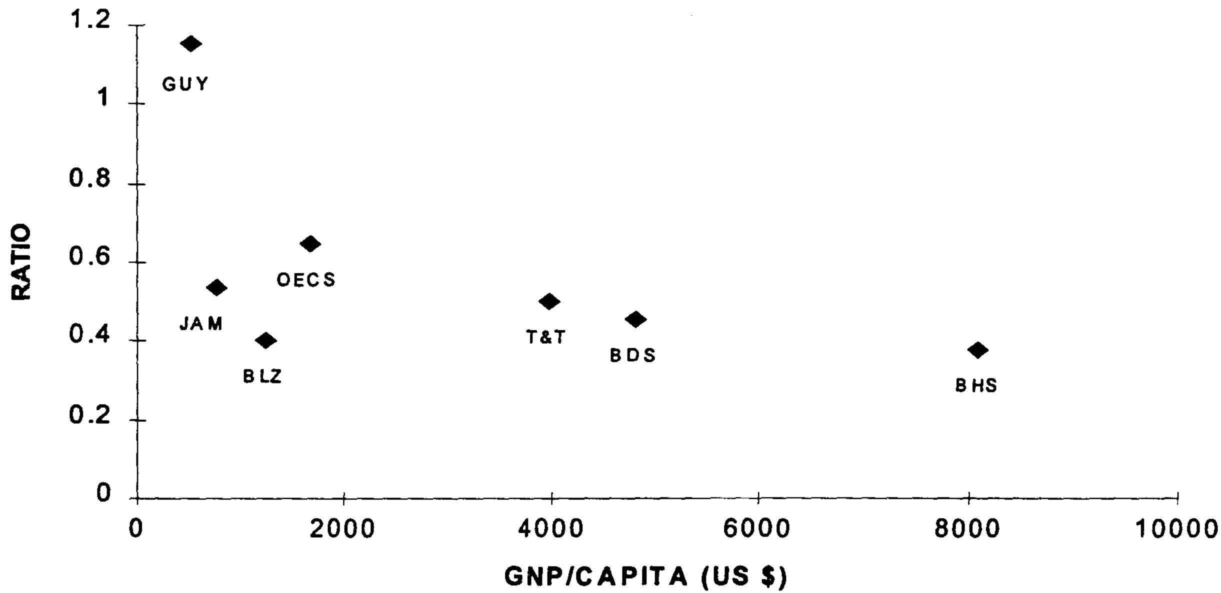
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-2A - SCATTER DIAGRAM OF THE MONETIZATION RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1975)



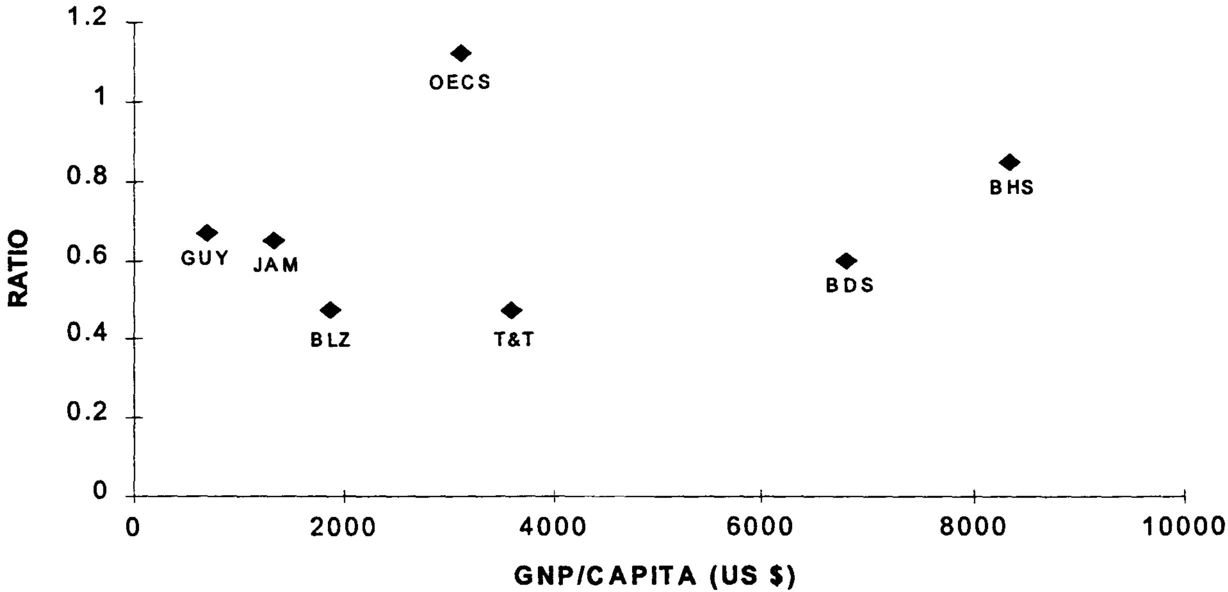
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-2B - SCATTER DIAGRAM OF THE MONETIZATION RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1985)



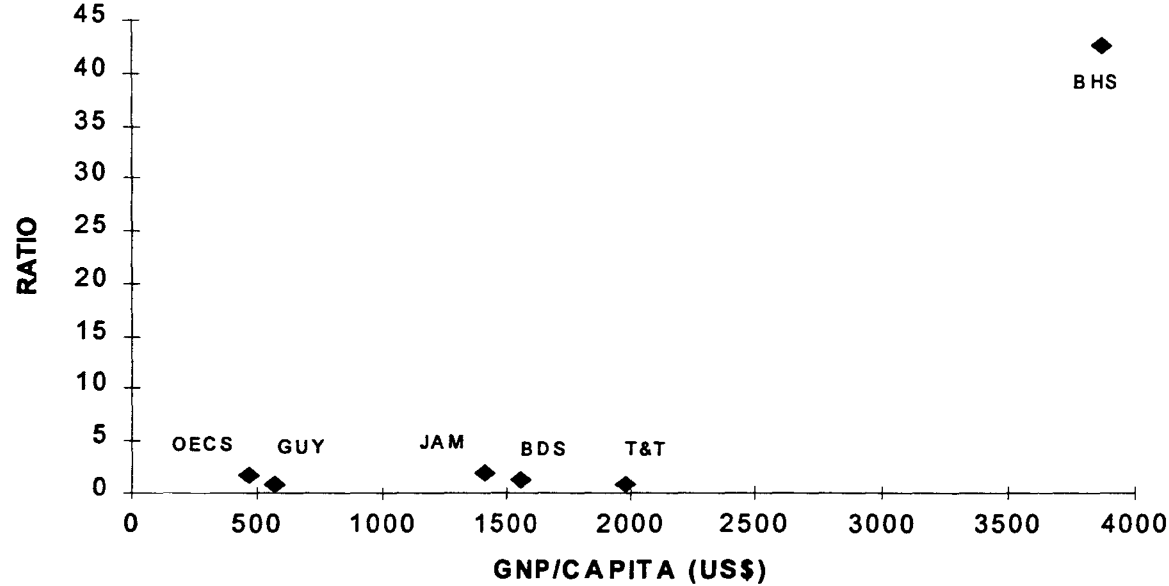
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-2C - SCATTER DIAGRAM OF THE MONETIZATION RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1995)



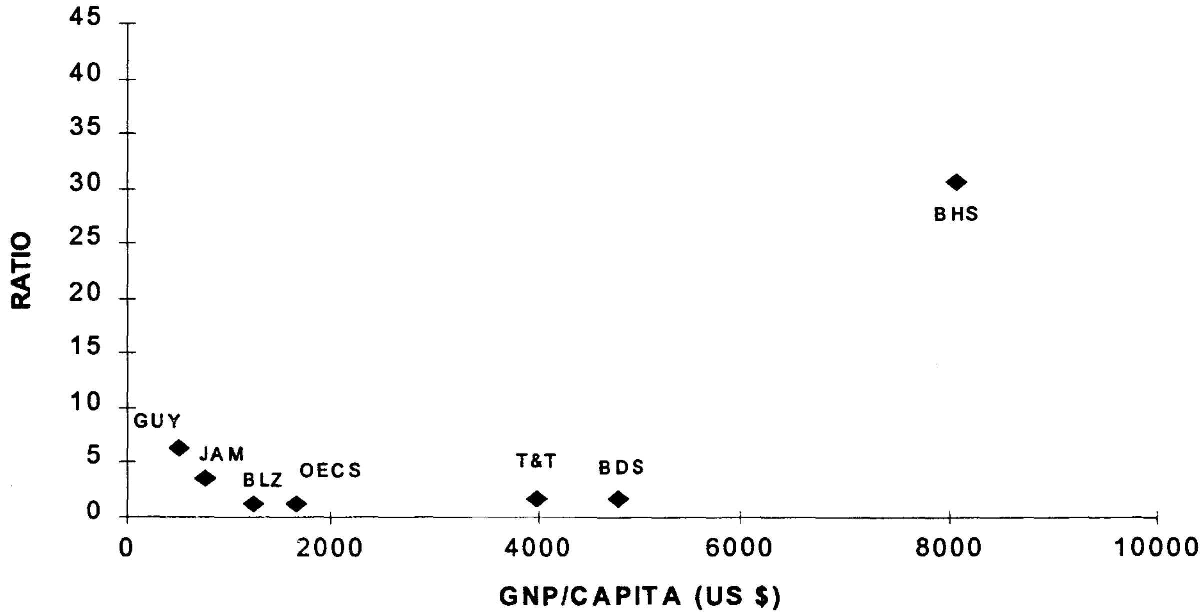
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-3A - SCATTER DIAGRAM OF THE FINANCE RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1975)



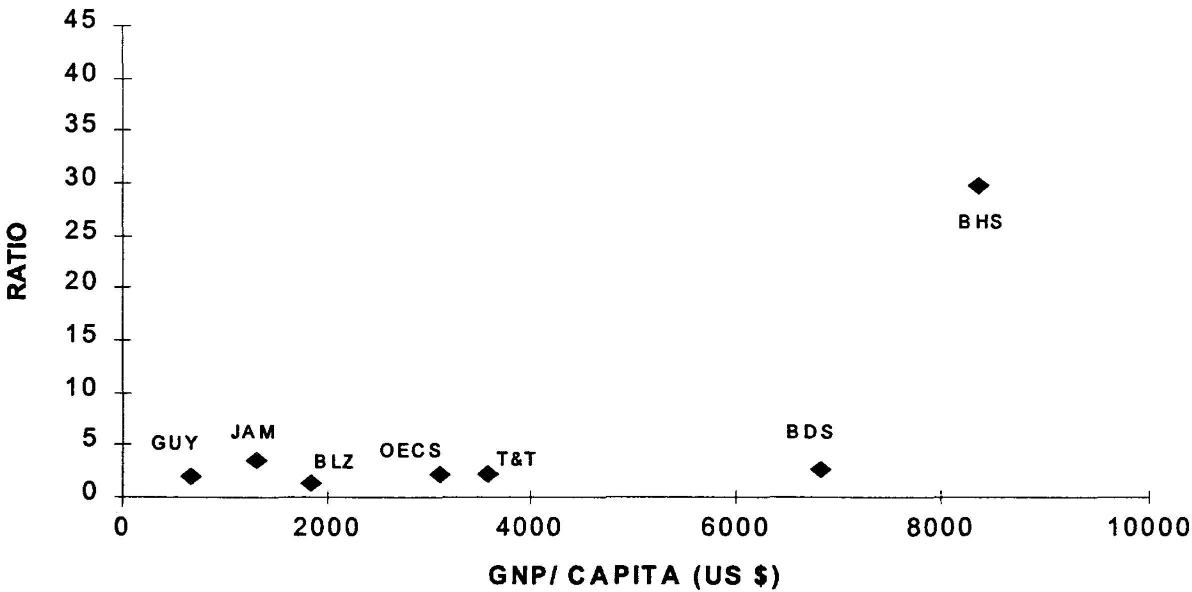
Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-3B - SCATTER DIAGRAM OF THE FINANCE RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1985)



Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11-3C - SCATTER DIAGRAM OF THE FINANCE RATIO AND GNP/CAPITA FOR CARICOM COUNTRIES (1995)



Blz - Belize BDS - Barbados BHS - Bahamas GUY - Guyana JAM - Jamaica
T&T - Trinidad and Tobago OECS - Organisation of Eastern Caribbean States

ANNEX 11.4. UNIT ROOT TESTS

		Level		First Difference	
fr	bdos	0.97	(0)	-3.39** *	(0)
fr	bhs	-0.29	(0)	-4.75***	(0)
fr	blz	-0.52	(0)	-3.61***	(0)
fr	guy	-1.55	(1)	-2.86***	(0)
fr	jam	0.82	(1)	-5.05***	(0)
fr	tnt	1.15	(0)	-4.77***	(0)
fr	oecs	-2.71	(1)	-4.55***	(0)
g	bdos	1.04	(0)	-1.94*	(0)
g	bhs	-1.74	(1)	-3.20***	(0)
g	blz	3.33	(0)	-3.22***	(0)
g	guy	4.05	(0)	-2.82***	(0)
8	jam	4.07	(0)	-2.67***	(0)
g	tnt	-1.47	(0)	-2.06***	(0)
g	oecs	0.96	(0)	-3.03***	(0)
fr	is Finance Ratio				
g	is GNP per capita				

Notes: The series were lagged before these tests were carried out.
The lag lengths are contained in brackets.
*** indicates significance at a 1% level,
** indicates significance at a 5% level,
* indicates significance at a 10% level