Bze
U/F
1169

SEMINAR ON

FINANCIAL SYSTEM DEVELOPMENT IN BELIZE

FINANCIAL SYSTEM OPERATIONS IN BELIZE

ALAN SLUSHER

FORT GEORGE HOTEL

BELIZE CITY
22 JANUARY 1990

FINANCIAL SYSTEM OPERATIONS IN BELIZE

INTRODUCTION

The conventional functions of a capital market involve the complex of activities, instruments and institutions necessary to match the asset-type, maturity-structure and risk-holding preferences of savers, investors and financial intermediaries with the liability-type, maturity-structure and risk preferences of entrepreneurs and other spenders who have not accumulated sufficient financial savings to finance their desired expenditure and investment operations. Reflecting a number of key factors in an economy, including the level and rate of growth of income, the degree of labour specialisation and the extent of monetisation, the structure of production and the composition of output, the distribution of production between tradeable and non-tradeable goods both domestically and internationally, cultural patterns, and a number of institutional factors including the legal and regulatory framework for business transactions, capital and money market structures and activities may range from the rudimentary, with only a few institutions and institution-types offering a narrow range of financial instruments and maturity distributions to savers and being willing to accept a commensurately restricted range of liabilities from borrowers, in either case with limited facility for adjusting maturity structures; to the sophisticated, with broad and deep equity, bond and deposits markets, with the availability of new instruments (like options and futures) and with facilities for the sale and purchase of those instruments and for their conversion into others, with facilities for the ready conversion of currencies, with ease of movement in either direction along the entire maturity spectrum from minute-by-minute arbitrage transactions to overnight placements to very long-term investments, and with little effective restrictions on cross-border transactions.

On this formulation, a capital market in the broad sense exists wherever there are institutional arrangements for a continuing transfer back and forth of financial savings from those who consume less than their money incomes allow to those who wish to spend or invest more than their money incomes plus usable accumulated balances, and where people are in a position to and do take advantage of those arrangements. Whether a particular capital market is at any given point on the spectrum from rudimentary to sophisticated would depend on whatever specific combination of the long list of factors mentioned earlier happened to exist at a particular point in time; and the direction and rate of movement of the market arrangements would depend on the continuing interaction between the objective developments taking place within the system and the perceptions of the participants in that system of those objective developments and their reactions to them.

In the context of an economy like that of Belize, in the short to medium term a considerable number of the factors mentioned above are effectively outside the control of operators in the system, in both the private and public sectors, thus limiting the capacity for consciously directed or unconscious evolutionary change in the structure and functioning of the system; and short to medium term control tends to be limited to some of the institutional factors (including the legal and accounting arrangements and parts of the bureaucratic environment), to the capacity and policy focus and objectives of private and public sector institutions (including intermediating and regulatory institutions), and short-run economic developments. At the same time, however, as the time horizon starts to lengthen, more of the factors become responsive to forces making for change, so that the capacity for conscious manipulation of the environment becomes more pronounced when one takes a longer view. One has to be careful, however, not to overestimate the capacity for manipulating the total environment over the longer term since the total system contains within itself an internal dynamism of its own of which those forces or entities which are trying to guide the system may only be a small portion, and in addition there is the whole complex of forces, social, political and economic, which continuously impact the system from outside.

Where institutional market arrangements in an economy fail in the perception of participants to meet the requirements of savers and spenders, either because of inadequacies involving instruments and maturities or because intermediating institutions are unable or unwilling to absorb or supply financial savings in the volumes required or for other reasons including an unacceptably inflexible regulatory regime, residents tend to attempt to access facilities which may be available in other countries. These attempts will be affected by the stance of the regulatory authorities in the two sets of jurisdictions, credit risk perceptions on either side, the nature of the existing trading and socio-economic links between them, and, in these days of floating currencies, the risks involved in cross-currency transactions. The persistence over time of the need to access external facilities is an indication of fundamental imbalance in the domestic economy and its institutional arrangements. This imbalance may take a number of forms, ranging from a need or desire to borrow from abroad to finance domestic investment because a high rate of domestic consumption results in too low savings to finance desired investment, or where a high savings rate produces an inadequate savings volume relative to the investment requirements as a result of low incomes in the economy, at one extreme, through net placements of financial savings abroad because incomes exceed consumption and investment requirements, at the other extreme, with a number of interesting situations in the middle. One of those would occur where, although consumption may be less than income so that there are savings for investment, the economy is relatively closed and the country's exports are minimal so that the savings are in domestic currency and there is no foreign currency with which to import the specific items of capital goods which are required for the investment projects in the private and public sectors and which unfortunately are not produced locally. There would then be need to access some external capital market to borrow funds in the required currencies in order to purchase the required goods. Another interesting situation would occur where an economy is both a borrower and a lender in international capital markets because of a mismatch between the asset and risk preferences of domestic savers, on the one hand, and the instruments, risk profiles and maturity structures offered by borrowers, on the other, a mismatch which is not bridged by the financial intermediaries either because of their own policy focus or as a result of other institutional obstacles. Please note that I am not including here an important cause of this kind of situation that correcting institutional deficiencies would not necessarily eliminate: I refer to external savings by one group driven by fear of system failure caused by its own perceptions of internal instability or external threat, and borrowing by another group untroubled by those considerations.

DOMESTIC STRUCTURE

Belize is a small country by almost any measure; population is estimated at about 180,000, land area is about 23,000 km^2, and the value of output (GDP) is estimated at BZ$435 million for 1988 (at 1984 prices) for per capita income of about BZ$2400. The economy is typically small-island Caribbean, although Belize is a mainland territory: narrow range of items in output with a high proportion of the value of output entering international trade; concentration on primary items in production and export; high proportion of exports and imports to total output; low domestic inter-industry and inter-sectoral linkages; high product and market concentration in exports as against diversified products and markets on the imports side; high proportion of Central Government revenue and spending to GDP; Central Government revenue heavily dependent on foreign trade taxes. In addition, although about one-third of the population is concentrated in the Belize City area, the balance is substantially dispersed across the country, resulting in high per capita costs for administration and for the provision of basic infrastructure, and for maintenance. Substantial out-migration of skilled people together with an influx of refugees from other parts of Central America have adversely affected the absolute supply and distribution of skills in the society, particularly management-related skills, and some fears have been expressed over the potential effects of ethnic shifts in the population which appear to have accompanied the movement of people. There has been concern in the recent past over perceived deficiencies in the supply of entrepreneurship. Although incomes are relatively low and there is subsistence agricultural production, the economy is effectively monetised.

The main operators in the financial system in the public sector are the Central Government, the Social Security System, the Central Bank, and the Development Finance Corporation. A Government Savings Bank still operates in a desultory manner; its functions have become very marginal in the financial system. In the private sector there are four commercial banks (two of which are branches of metropolitan institutions; the other two, though locally incorporated, are effectively controlled by owners who reside outside of Belize), a number of insurance companies (some local, some branches of outside companies, with the bulk of the business either carried by the foreign operations or reinsured abroad), a number of credit unions, and a building society (which appears to have remained marginal in its operations). There are sou-sou or syndicate operations, but I have no indication of the extent to which that informal activity takes place. Financial intermediation is dominated by the domestic banking system, with the credit unions using the banking system to hold their surplus funds, although there has been substantial external borrowing by the public sector for development projects (and by the private sector as well, although the extent of outstandings are not known) and although there is movement in private financial holdings outside the country.

The main financial asset forms available to savers in the domestic economy are the generally non-tradeable commercial bank deposits, non-tradeable shares and deposits in credit unions, and life insurance policies, apart, of course, from cash. Other forms of financial assets include shares in public and private companies, and Central Government short-term Treasury Bills and long term debentures.

In relation to cash holdings it is not clear whether individuals in Belize hold large cash balances. While this may not have been the practice in the past, the situation has become somewhat complicated with the arrival of people from the eastern hemisphere with different cultural and business practices, and with the emergence of a more careful attitude towards the acceptance of deposits on the part of commercial banks because of the US stance on the use of funds derived from the sale of illegal drugs. While one would not normally expect money market operations or trading in commercial bank current accounts (which are held for transactions purposes) or in passbook savings accounts (which are operated partly for transactions purposes and partly to hold financial savings generally by the lower income segment of the population), there appears not to have been the emergence of any significant level of activity in negotiable certificates of deposit. One possible explanation for this on the demand side (on the supply side I don't know what the attitude of the commercial banks to the instrument is) is that companies holding fixed deposits and requiring funds for transactions purposes find a tax advantage in retaining the deposit, the interest income from which is not taxed, and using it as collateral for bank borrowing, the interest on which is deductible for tax purposes. Shares in public companies have not in the past been an option of any importance. I think at the present time there are only two public companies in which members of the public might consider purchasing shares, with only one of those companies actively operating. I don't know to what extent the information system for notifying demand for or availability of shares in Belize Telecommunications Ltd is functioning. Similarly, there does not appear to be trading in the shares of the private companies in Belize which account for the overwhelming majority of incorporated institutions in the country; so that equity holdings is not an important financial asset option for most savers. Local private company balance sheets frequently show large amounts of shareholder loans in the equity section: it appears that there is some preference on the part of owners of companies to provide equity capital to companies in the form of shareholder loans rather than via outright share purchase, and it may be useful to explore during the discussions the reasons for this.

Allow me to say something briefly about the institutions operating in the system. First of all the Central Government. As is normal in Third World countries, particularly those in which the Central Government is sensitive to the development needs of the people, government spending in Belize has generally exceeded revenue collections, and the difference has usually been financed through a combination of local and foreign borrowing and grants from abroad, although grants now form a very small proportion of inflows to the public sector. Foreign borrowing has generally been on concessionary terms (low interest rates and long repayment periods) from foreign governments and international institutions and has been mostly used to finance development projects. Locally-raised financing has been used to finance smaller capital projects and to bridge the gaps that appeared from time to time between total expenditure and total inflows. The main source of domestic borrowing, prior to the establishment of the central banking institution in 1976, was the commercial banking system and the captive Government Savings Bank; since 1977, the establishment of the central bank has facilitated a measure of direct money creation for the financing of Government activity and an expansion in borrowing from the commercial banks through the Treasury Bill/liquid assets arrangements. The establishment of the central bank has facilitated an expansion of the available supply of longer-dated debentures. The main holders of Government securities have been the commercial banks, the Central Bank, the Social Security System, insurance companies, and the Government Savings Bank.

The Social Security Board was set up to provide a measure of financial support to employed and formerly employed persons on an insurance fund basis out of contributions made by those employed persons. Levels of contributions and levels of benefits paid were established on the basis of actuarial assessment, and regular actuarial reviews need to be carried out to ensure that the required information is available to adjust contribution levels and benefit payments for the continued financial viability of the scheme. The Social Security Board has been a net accumulator of funds during the years since its establishment, and as a result has been a major supplier of financial savings to the system. While it holds Government securities and has provided financing for infrastructure and utility development, the bulk of the Board's investment portfolio consists of bank deposits.

The main objective of the Central Bank is to maintain conditions of monetary stability in the economy and to maintain conditions conducive to economic growth and development. It is not primarily a deposit-seeking institution, but it holds required reserves balances for commercial banks, it holds funds on behalf of international institutions and foreign governments lending to Belize (with the funds usually held for short periods pending the satisfaction of disbursement conditions), it holds deposits on behalf of a number of local statutory bodies which transact some of their overseas business through the Central Bank, and it maintains deposit and loan accounts for the Central Government. Depending on the funding needs of the Central Government (the Bank is not allowed to lend to statutory bodies) the Bank may from time to time perform some intermediation by channelling the deposits of others to the Central Government. The Bank has managed the Central Government's Treasury Bill operations since those commenced in 1977. In order to carry out its functions the Bank has been buying and selling Government securities since 1977.

The DFC is a statutory body which borrows resources and re-lends them over the medium and longer term for development projects and for housing. As a Government agency, the DFC has been able to obtain funds from international sources at concessionary rates, and this has allowed it to keep lending rates at relatively low levels. Although its legislative charter now provides for the acceptance of deposits, the DFC has not sought funding from local sources other than in the form of equity from Government or loans from the Social Security Board.

MARKET OPERATIONS

Prior to 1977, the only financial asset instruments available to savers were commercial bank and Government Savings Bank deposits, credit union shares and deposits, and equity in private companies (although this last was, and is, generally available only if one were also involved in running the company). While the Central Government did offer debentures to the general public, the amount sold to households and to the private business sector (including the commercial banks) was small, probably as a result of the combination of the long maturities on offer (typically 15 to 20 years, although the device of quarterly or six-monthly drawings did offer the prospect of earlier payout), the low level of incomes, the absence of special incentives (eg tax exemptions), and general unfamiliarity both with the instrument and with financial trading. As a result, by and large, a saver placed his financial holdings with a branch of a metropolitan commercial bank in a savings or time-deposit account depending on the level of his savings, accepting the oligopolistically determined level of interest rates. Alternatively, the individual placed his surplus funds with a credit union, which then on-lent the bulk of those funds mainly to households, placing the remainder in commercial bank deposits. The entrepreneur financed his business activity with commercial bank loans basically on terms and conditions determined by the banks. Collateral requirements generally were quite strict: in the absence of capacity within the lending institutions or in the rest of the society to prepare or appraise business projects, institutions, in order to protect depositors' and shareholders' funds, sought claims on assets which could be sold to liquidate debt. Any mismatch of funds in the system, eg excess deposits not matched by loan requests from creditworthy borrowers, could be sorted out through operations with the head offices. Excess deposits would be placed with the head office funds managers while excess domestic loan demand could be met through borrowings from the head office. The arrangements were facilitated by the operation of the currency board system which, apart from the commercial banking operation, kept the supply of domestic money and credit linked to the country's foreign asset holdings.

The arrangements, at least on the domestic borrowing side were further facilitated by the fact that business firms operating in the country were, where they were not branches or subsidiaries of integrated foreign operations, either proprietorships, partnerships or private companies the owners of which were not particularly interested in broadening the ownership base and opening capital subscriptions to the general public. One consequence of this, although it was not a logical next-step, were that business operations tended to be undercapitalised, with heavy reliance on commercial bank loan financing, generally through overdrafts, to meet capital deficiencies. To the extent that those business operations could continue to function and to produce annual profits under this kind of capitalisation arrangement, to the extent that commercial banks could place funds relatively easily, and to the extent that savers continued to be satisfied with the financial instruments offered by the banks, to that extent operations in the system could continue without significant difficulty. Entities which were branches or subsidiaries of foreign operations could switch between the limited range of asset and liability instruments available locally and the more sophisticated transactions arrangements which could be made through the head office treasury.

The desire to channel the operations of the banking system more directly towards the country's development requirements led to the establishment of the central banking institution in 1976. The institution immediately ran into difficulties with the commercial banks over arrangements for the banks to satisfy the liquid assets requirements, since there was not enough qualifying domestic paper available locally to meet the needs of the banks; and over the need to satisfy the minimum cash balance deposit requirement in the central bank, since the banks proposed to borrow the required funds immediately from the central bank (repaying the loans over the relatively short period they needed to adjust their operations) only to discover that the legislation required such loans to be secured by certain kinds of tradeable paper, which were not available in sufficient quantity.

The commencement of 90-day Treasury Bill issues early in 1977, initially on a quarterly basis, but with a subsequent shift to monthly issues, represented what was hoped to be the first step in the development of a range of instruments that would contribute to the broadening of financial intermediation arrangements in the country. The issuing of the securities provided an opportunity for the phasing-out of the interim liquid assets arrangement (which essentially involved calling non-liquid assets liquid) at the same time that it facilitated an increased flow of financial resources to the Central Government. The volume of Treasury Bills outstanding rose from BZ$3.6m at the end of 1977 to BZ$62.2m at the end of March 1987, the level at which it has remained, partly reflecting the Central Government's cash surplus position.

The hope for the development of market instruments has not been realised, despite the large increase in the outstanding value of Treasury Bills and some increase in the value of longer-dated debentures. Except as mentioned below, no new financial instruments have been created, and although the volume of Treasury Bill trading has grown substantially, the trading remains limited to transactions between the commercial banks and the Central Bank as the former adjust their liquidity positions to maximise earnings. There have been Treasury Bill holdings by the Social Security Board and by some insurance companies, but these holdings have not generally been traded; holdings are merely rolled over every 90 days as Bills mature.

At the same time, evidence of increases in foreign funds holdings by residents together with the increasing number of enquiries at the Central Bank for information on available options for funds placement and the growing need by business firms for increasing volumes of funds to satisfy transactions needs, not to mention private housing finance, suggest that the domestic intermediation system may be failing to meet the needs of savers and users.

Suggestions by the Central Bank for the development of market instruments have been limited to a proposal to convert some of commercial banks' hard-core overdrafts into tradeable paper bearing the acceptance of the bank initially making the loan. One set of effects of such conversion would be to allow commercial banks to substitute higher-yielding liquid assets for Government

Treasury Bills in meeting liquid asset requirements, particularly in periods of tight liquidity, to put pressure on Government to pay market rates for funds and thus provide some restraint on its ability to crowd out the private sector, and to move the system further in the direction where it is market-determined rather than administered. A variation of the proposal would have the most reputable business firms issuing their paper directly to the market, without the bank acceptance.

Initially, the proposals were not accepted at all. Two reasons were put forward. Firstly, the Government stamp duty on promissory notes would have made the paper costly both for the issuer and the holder, more so if the paper were issued four times a year to keep it within the 90-day liquid asset limit. Secondly, the banks indicated that their borrowing customers would not take kindly to other banks or institutions becoming aware of their use of banking system resources. With the removal some years ago of the stamp duty on promissory notes, one objection has been removed, and one institution has been attempting to create tradeable paper via the acceptance route.

The proposals, however, are not seen as having any immediate impact on the longer end of the market, nor are they seen as necessarily affecting residents' financial asset holdings abroad. Information regarding the composition of these holdings suggests that the bulk of the US component is in the form of deposits in commercial banks and S & Ls, with a very small proportion invested through brokerage houses. If this is in fact so, then the transfer of financial savings from Belize to the US (which is thought to be the main locus of foreign financial asset holdings by residents of Belize) may reflect concerns which are not necessarily related to the performance of the domestic intermediation system, except to the extent that deposits are refused by domestic institutions or to the extent that financial asset holders are sufficiently interest-sensitive to react to positive interest rate differentials between the US and Belize in favour of the US. The Central Bank is not aware of instances of deposit refusal by domestic institutions except for a brief period during 1988 when the banking system was very liquid and except in relation to funds from sources thought to be related to narcotics trafficking; and interest-sensitivity would suggest that flows of funds into Belize from the US would occur when interest differentials run in favour of Belize, as they have done for most of the period since 1980 for deposits in excess of US$25,000. The indications are that foreign asset holdings of residents of Belize have risen rather than fallen during the last few years.

On the matter of longer-term activity in the domestic system there are a number of considerations which may be of some interest.

Firstly, as indicated earlier, the commercial banks remain the principal provider of financial assets to savers, with credit unions playing a much smaller role. Government of Belize Treasury Bills are nominally available to all comers, but the complications of the tender procedure and the general unfamiliarity with money and financial market operations on the part of the households sector have apparently combined to discourage participation in this area of activity. In any case, except for credit union shareholdings (which themselves are withdrawable if the saver leaves the credit union), the assets offered are medium-term at longest, since commercial banks appear not to wish to lock themselves into high interest rates for long periods, since householders do not want to lock themselves into low rates for long periods, and since longer-term Government debentures have always been directed to institutions rather than households and no mechanisms exist for reliable maturity conversions to cover situations where holders may need to convert holdings into shorter-term assets or into cash.

Secondly, business operations remain private, in the sense that business ownership continues to be mainly family-based. Not more than three companies are public companies at the present time, and of these only in one case - that of the recently privatised Belize Telecommunications Ltd - has there been any response worth noting from the public in response to a share-sale offer. There is no organised market for shares, although it is increasingly likely that some informal operation will come into being to provide information to the public on offers to sell and on offers to buy shares. So far as the private, family-based companies are concerned, the market for these shares is likely to remain small regardless of institutional developments so long as shareholders' equity in these companies remains small as a result of the tendency to finance fixed capital requirements with a combination of bank loans and shareholders' loans. There have been no serious attempts by entrepreneurs to float public issues to finance investment operations; there have been a small number of attempts at private issues, but little information is available for obvious reasons.

Thirdly, the commercial banks argue that they are primarily short-term institutions, and that the nature of their funding operations makes it risky for them to extend long-term credits. The argument is easy to understand from the point of view of the banking prudence stipulation that requires institutions to match the maturity structures of loans and deposits: an institution could find itself in a liquidity difficulty if it financed 15-year term loans with 2-year deposits and then discovered that deposits were not being renewed at maturity. The argument is not so easy to understand in the context of continued growth in total deposits in an institution, particularly where long-term loans would constitute only a small portion of the total portfolio. This latter case is the situation in Belize. The argument is even more difficult to understand when it is realised that commercial bank revolving overdrafts, which are nominally short-term credits to businesses, in many cases form a substantial part of the permanent capital of those operations. While the overdrafts are technically repayable after one year, such repayment would force drastic contraction in operations or even liquidation of some businesses.

A fourth consideration in the long-term credits issue involves security and the capacity of institutions to prepare and appraise investment projects. As indicated earlier, commercial banks in Belize generally do not have installed capacity to appraise projects and as a result have tended either not to contemplate financing them or have done so on the basis of creditworthiness criteria only partly related to the specific project. It should be noted, however, that in recent times, reflecting the build-up of liquidity in the system, there has been an increasing volume of medium term project financing together with some relaxation of strict collateral requirements. It is perhaps useful to note in this context that there have been some loan losses on a very small number of projects.

As a result of the relative unresponsiveness of the financial system to the satisfaction of longer-term credit needs, particularly in relation to start-up ventures, smaller agricultural projects, and housing in the lower-middle and middle-income segments of the population, the Development Finance Corporation has come to play an increasingly important role in channelling funding from abroad and to a lesser extent in redeploying local financial savings. It is a little difficult to assess at this point how successful the DFC has been and what its future role is likely to be since, although there have been both project successes and failures, pressures on the DFC in the past to extend loans that probably should not have been made and to reduce the vigour of collection efforts in respect of non-performing loans, have resulted, in the context of an inadequate flow of human and financial resources to the Corporation, in substantial difficulties for the DFC and, in consequence, in a review that is presently in progress of the DFC's operations and future. As a result there has been some reduction in the flow of external financial resources to the DFC, and a hold has been put on a proposal for the DFC to mobilise domestic deposits to supplement its external funds raising activities.

The National Development Foundation of Belize has been providing financial assistance to small entrepreneurs who have been unable to interest either the commercial banks or the DFC. The nature of NDF's operations indicate a need for funding on a grant basis or on very concessionary terms, and it has been receiving such funds, though probably not in the quantum required. The Foundation's management indicates that the NDF has a good repayment record on its lending activities.

Liquidity in the banking system in Belize has generally tended towards tightness since the establishment of the central banking institution in 1977 and the accompanying step-up in the public sector's use of banking system resources. In 1984, following a period of worsening balance of payments developments and public finance difficulties, a standby arrangement was agreed with the IMF as part of a general economic stabilisation programme. The programme included both monetary and fiscal restraint measures, including ceilings on outstanding bank credit, upward movements in interest rates to discourage borrowing and encourage saving, and tax hikes. Since 1985, there have been substantial net inflows into the domestic system reflecting favourable developments on the trading accounts (higher earnings from agricultural exports as a result of increased volumes and prices), increased inflows from tourism, increased services inflows, declines in payments for petroleum products, declines in unit prices for imports with the switch in sourcing to Mexico for household items, and increased public and private sector foreign borrowing. As a result, there has been some build-up of excess liquidity in the banking system since 1987, at the same time that domestic interest rates continued to reflect the stabilisation requirements.

Initially, the liquidity build-up was regarded as a temporary phenomenon, and there was some reluctance on the part of the authorities to take action, particularly in view of the existing tightness in the fiscal accounts, because a breakdown in the Treasury accounting system made it difficult to project central government financing requirements, and because of the importance attached by the authorities to the financing of government operations (at the same time that the Bank continued to press for a reduction in the locally financed fiscal gap). The excess liquidity situation persisted, however, with the available data suggesting that the growth in deposits at least partly reflected the attractive interest rates being paid. The authorities took the view that given the difficulties normally encountered in Third World countries in raising the savings rate, it might be more productive to encourage "supply-led" operations and attempt to utilise the financial savings being generated in the system rather than to take action to induce equilibrium by reducing the incentive to save (encouraging consumption) or by encouraging the flow of financial savings abroad.

The excess liquidity pressure encouraged the commercial banks to become more active in seeking out lending opportunities, and this had the effect of broadening lending portfolios with increasing concentration in export agriculture, in tourism, and in residential construction - all three areas representing lending with maturities noticeably longer than previous averages. The excess liquidity pressure on the commercial banks has been maintained, and activity in the financial system has broadened and deepened, only to the extent that the Central Bank has been able to prevent the commercial banks from holding excess funds abroad.

Despite the movement that has taken place, however, the structure of the system has remained basically unchanged, with limited availability of instruments on both sides of the market, and with no institutional mechanism to convert maturities and to provide liquidity to the system except by way of support to existing intermediaries. It has been argued that the Central Bank has perhaps been too preoccupied with the maintenance of monetary stability aspect of its objectives, has been obsessed with maintaining the external value of the currency, and has as a result paid too little attention to economic growth and development. In response the Bank can only state that while monetary stability and the maintenance of external currency value have featured quite heavily as operational objectives, particularly so given the continuing examples of Jamaica and Guyana, the Bank has been mindful of the development objective and has been involved with a number of development-related activities, most of which have utilised much more of the Bank's resources than this seminar, which is one of the activities. We would like to argue that in working to maintain conditions of monetary stability, we are providing one of the necessary conditions under which, with your help, we can identify obstacles and opportunities for financial system development, formulate an action plan to eliminate the obstacles and take advantage of the opportunities, and, most important, implement the plan.