FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN TRINIDAD AND TOBAGO, 1973-1987

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INTRODUCTION

The relationship between financial development and economic development has been the subject of a hot debate among economists for many years now. Yet, to date, there has not emerged any unanimity of opinion despite a fairly large and growing body of both theoretical and empirical research. The views expressed by these researchers seem to run the whole gamut of opinions. At one extreme are students who believe that financial institutions are neither necessary nor sufficient for economic development, and at the other end are others who assert that financial institutions are not only necessary but sufficient for economic development. Between these two polar extremes are others who assign varying degrees of importance to financial institutions.[1]

Even when it is acknowledged that some relationships exist, another bone of contention is the direction of causality. That is to say, does financial development precede or follow economic development? In the terminology of Patrick,[2] is finance 'supply-leading' or 'demand-following'? Or do the two processes occur simultaneously? Economic growth and development, to be sure, is the net result of many factors (economic, social, political, cultural), of which financial development is only one. Moreover, there are possible feedbacks between financial development and economic development which render the determination of the direction of causality extremely difficult, even if causality in fact exists.

The main objective of this paper is to examine certain aspects of the development of the financial sector in Trinidad and Tobago and to see how far financial intermediation has progressed with economic growth or how economic growth has influenced changes in the financial structure of the country. The paper is structured into four (4) sections. Section I gives a brief review of the literature, highlighting in the process some of the main issues involved. Section II examines some data, in summary form, to investigate evidence of financial intermediation and any relationship between financial development and economic growth. Section III shifts the focus and examines at the aggregate level the way in which financial intermediaries have contributed to, or retarded economic growth. The final Section offers a few concluding remarks.

I. A Brief Review of the Literature and Some of the Major Issues[3]

The intellectual origin of the relationship between financial institutions and economic development has been credited to Joseph Schumpeter who asserts that financial institutions and the availability of entrepreneurship are necessary and sufficient conditions for economic development. Other writers such as Goldsmith (1969) and Patrick (1966) have followed this line, although with different emphases. In a seminal study of 35 developed and developing countries, Goldsmith found empirical evidence of a high positive relationship between financial structure development and real development. Patrick in a very incisive paper in 1966 examined the causal nature of the relationship between financial development and economic growth in a theoretical way, enhancing his contribution by reference to examples in real life. Patrick introduced the concepts of demand-following and supply-leading finance into the literature. According to him, the role that financial institutions play in the process of development are either passive, merely reacting to the demands for financial services (demand-following) or positively active in devising and providing financial services for the real sector in anticipation of demand for them (supply-leading). Other researchers such as Gerschenkron and Cameron et al have looked at the historical economic development of countries to reach some conclusion of the role of financial institutions in development.

In 1967, Gurley, in a study of the development process in socialist and developing countries challenged the Schumpeterian thesis, concluding that the development of the financial system is not a necessary condition for development. Gurley argued that there are alternatives or substitutes for the role of financial intermediation in the process of development, such as taxation, inflation and central planning. He nevertheless admitted that financial institutions might contribute significantly to economic development in a capitalist economic system when there is a decentralization of decision-making, specialization of savings and heavy emphasis on external rather than internal financing of investments. The use of any of the other substitutes for financial intermediation necessitates the existence of centrally controlled planning.

Other writers such as McKinnon and Shaw and other advocates of the financial repression hypothesis assert that the financial system and institutions are growth-inducing except they are repressed. Repressions, they argue, manifest themselves in limited savings resulting from interest rate ceilings on deposits, limited loan resources as a result of loan rate ceilings and sectoral allocation guidelines, and in the existence of financial dualism.

As Bhatia and Khatkhate (1975) noted, the debate about the influence of financial intermediaries boils down to three main issues:

(i) their impact on the growth of savings, especially of the household sector;

(ii) their role in the financialization of these savings, and

(iii) their ability to ensure the most efficient transformation of mobilized funds into real capital.

While the first two issues have been explored and form the basis of most of the policy prescriptions, the latter issue is usually surrounded by ambiguity. It is this third aspect of the financial intermediation process which is crucial for economic growth.[4]

II. Economic Growth and Financial Changes in Trinidad and Tobago

The changes in the financial structure of Trinidad and Tobago induced by economic growth were described and analysed by Bourne (1978) for the period 1966-1978. Bourne (1986) also looked at the relationship from the other direction by examining the influence of financial deepening on economic growth in Trinidad and Tobago for a much longer period, 1953-1981. In this section of the paper, we examine the development of the financial sector resulting from economic growth, for the period 1973 to 1987. Among other things, we look for any relationships between economic growth and financial intermediation over the period.

The approach we have chosen explicitly assumes that the direction of causality, at least for this period, runs from economic growth to financial development. This is not to say, however, that there were not possible feedbacks between economic growth and financial development. Economic growth, once underway, may have given rise to financial changes which, in turn, fed back as a stimulant to real growth.[5] Indeed, the approach taken by Bourne in examining the relationship from both directions is perhaps testimony to the fact that in such matters, causation is seldom unidirectional. Our assumption, however, seems valid for several reasons. First, the major part of the period we are looking at coincides with what has become known as the period of the oil boom (1974-82), a now familiar watershed in the recent economic history of Trinidad and Tobago. Second, and related to the first reason, the oil boom itself was exogenously determined, being occasioned by the two (1973/74 and 1979/80) dramatic increases in the price of oil by the OPEC. Third, as a consequence of the first two factors, the changes in income and real output in the economy during this period were sudden and dramatic, and not the result of a gradual process of wealth accumulation and capital formation, a condition which seems to underlie most of the theorising about the relationship between financial intermediation and economic growth.

It is useful to look at the growth performance of the economy during this time to highlight the backdrop against which financial changes were taking place. Over the period from 1974 through 1982, the economy recorded unprecedented rates of growth, both in nominal and real terms. Real Gross Domestic Product (GDP) rose continuously during the period, with growth peaking at 10.4 per cent in 1980. In the four-year period following the first oil price shock, 1974 through 1977, real GDP rose at an annual average rate of 5.2 per cent compared with a rate of 3.0 per cent in the immediately preceding four years (1970 through 1973). In the next four-year period (1978 through 1981), the rate of growth accelerated reaching an annual average of 7.2 per cent. In the final four years of the period 1984 through 1987, real GDP has fallen at an annual average rate of 3.9 per cent. The annual changes in nominal GDP were even more spectacular. The rate of growth of nominal GDP peaked at 63.5 per cent in 1974, following the first oil shock. In the four-year period, 1974 through 1977, the annual average rate of growth was 32.4 per cent compared with just 13.5 per cent in the previous four year period. Thereafter, the annual average rate of increase decelerated but was still high at 21.7 per cent over the period 1978 through 1981. In 1982, the increase in nominal GDP was still as high as 16.4 per cent but in the immediately ensuing five years, nominal GDP declined steadily at an average rate of 3.6 per cent in the last four years.

Since financial development is essentially a change in financial structure,[6] it is useful to look at changes in the latter over time or at two different points in time. However, the measure of financial structure is itself problematic since, according to Goldsmith (1969), "there is no accepted and tried kit of concepts of measuring financial structure and thus distinguishing clearly and quantitatively changes in structure over time ...." For our purpose, the following indicators are used to gauge changes in financial structure: (i) changes in the number, variety and relative size of financial institutions; (ii) changes in the number, variety and distribution of financial instruments; (iii) changes in the share of financial institutions in the stock of financial assets; (iv) changes in the ratio of total financial assets to GDP, and (v) changes in the financial layering ratio.

Before examining these indicators, it is necessary to say a few words about the data. Essentially, two sets of data are used. For the last three indicators above, flow of funds data derived from the Central Statistical Office are used for the period 1973 through 1978. These data give, among other things, the total financial assets/liabilities of the community disaggregated according to economic units, institutions, instruments etc. Unfortunately, such data are not available for the period after 1978, so that estimates of total financial savings had to be made for this period. For the other indicators, the source of the data is the Central Bank. Owing to this difference in source of data, the coverage in terms of institutions, instruments etc., particularly with respect to aggregates such as total financial assets, is not always the same.[7] For these and other reasons some of the indicators should be interpreted as pointers rather than definitive measures.

Table 1 shows the number and array of financial institutions in Trinidad and Tobago for the period 1973-1987. The number of financial institutions, including credit unions, rose from 376 in 1973 to 679 in 1987. Growth, however, was not uniform among the different

TABLE 1

NUMBER OF FINANCIAL INSTITUTIONS IN EXISTENCE
(1973-1987)

Institution	1973	1974	1975	1976	1977	1978	1979	1980
Central Bank	1	1	1	1	1	1	1	1
Commercial Banks (branches)	9 (88)	9 (91)	9 (91)	9 (92)	9 (95)	9 (99)	9 (99)	9 (105)
Finance Companies	3	6	7	8	11	12	12	12
Trust and Mortgage Finance Companies	5	5	5	5	6	7	7	7
Development Banks	3	3	3	3	3	3	3	3
Credit Unions[1]	299	297	284	286	288	308	318	420
Insurance Companies	51	55	57	56	57	62	64	60
Thrift institutions	3	3	4	4	4	4	4	4
National Insurance Board	1	1	1	1	1	1	1	1
T & T Stock Exchange	-	-	-	-	-	-	-	-
Unit Trust Corporation	-	-	-	-	-	-	-	-
Export Credit Insurance	1	1	1	1	1	1	1	1
Deposit Insurance Corporation	-	-	-	-	-	-	-	-
Home Mortgage Bank	-	-	-	-	-	-	-	-
TOTAL	376	381	372	374	381	408	420	518

SOURCE: Central Bank of Trinidad and Tobago.
Ministry of Industry, Enterprise and Tourism.
Annual Reports, Supervisor of Insurance.

1 Data represent number of registered societies. The number of active credit unions is much less but data on such institutions are only available for 1979 and 1986.

TABLE 1 (Cont'd)

NUMBER OF FINANCIAL INSTITUTIONS IN EXISTENCE
(1973-1987)

Institution	1981	1982	1983	1984	1985	1986	1987
Central Bank	1	1	1	1	1	1	1
Commercial Banks (branches)	8 (109)	8 (112)	8 (113)	8 (115)	8 (117)	8 (117)	8 (119)
Finance Companies	13	15	15	16	16	12	13
Trust and Mortgage Finance Companies	7	7	8	8	8	8	8
Development Banks	3	3	3	3	3	3	3
Credit Unions[1]	425	425	431	438	446	454	461
Insurance Companies	61	61	59	60	59	56	56
Thrift institutions	4	4	4	4	4	4	4
National Insurance Board	1	1	1	1	1	1	1
T & T Stock Exchange	1	1	1	1	1	1	1
Unit Trust Corporation	-	1	1	1	1	1	1
Export Credit Insurance	1	1	1	1	1	1	1
Deposit Insurance Corporation	-	-	-	-	-	1	1
Home Mortgage Bank	-	-	-	-	-	1	1
TOTAL	525	528	533	542	549	669	679

SOURCE: Central Bank of Trinidad and Tobago.
Ministry of Industry, Enterprise and Tourism.
Annual Reports, Supervisor of Insurance.

1 Data represent number of registered societies.

institutions. The number of commercial banks fell from 9 in 1973 to 8 in 1987 because of government localisation policy. Branch banking, nevertheless, expanded during the period from 88 in 1973 to 119 in 1987. As a consequence, the population per bank office, fell from 12 thousand in 1973 to 10 thousand in 1982. In the subsequent years, the population per bank office rose slightly to 10.2 thousand in 1986 and 1987, as a few branches were closed when the banks sought to rationalize their operations in a situtation of falling incomes and slow deposit growth. Finance companies have shown the strongest growth, from 3 in 1973 to 16 in 1984 and down to 13 in 1987. The growth and development of finance companies is one of the more significant changes to the financial landscape, bringing with them a host of new financial services such as lease/rental and offering credit in areas previously neglected by the commercial banks.[8] Part of the finance companies group is merchant banks, a fairly recent addition to the array of financial institutions. Except for credit unions, the growth of other institutions, in terms of numbers, either stagnated, as in the case of development banks, or was minimal, as in the case of thrift institutions.

In terms of the varieties of institutions, perhaps the most significant change in the financial structure was the establishment of the capital market institutions, that is, the Stock Exchange and the Unit Trust Corporation. The former institution created a mechanism through which the public may buy and sell equities readily on the secondary market, as well as a means whereby companies could raise long-term capital by primary issues. The Unit Trust has enhanced the variety of financial instruments available to the investing public. Two other types of institutions, the Deposit Insurance Corporation and the Home Mortgage Bank were established in 1986.

TABLE 2
INSTITUTIONAL COMPOSITION OF ASSETS OF THE FINANCIAL SYSTEM AT YEAR END
1973-1987
(TT$ MILLION)

	1973	1974	1975	1976	1977	1978	1979	1980
Central Bank	218.0 (12.5)	845.8 (30.4)	1,944.3 (44.0)	2,562.9 (43.9)	3,751.6 (47.3)	4,656.6 (45.8)	5,503.0 (45.1)	7,188.6 (46.5)
Commercial Banks	912.5 (52.5)	1,178.7 (42.3)	1,555.9 (35.2)	2,085.0 (35.7)	2,665.4 (33.6)	3,475.1 (34.2)	4,360.9 (35.8)	5,215.9 (33.8)
Finance Companies	43.1 (2.5)	38.4 (1.4)	79.6 (1.8)	130.9 (2.3)	187.6 (2.4)	309.3 (3.0)	351.6 (2.9)	485.3 (3.2)
Mortgage Finance & Trust Companies	78.5 (4.5)	108.1 (3.9)	158.7 (3.6)	196.2 (3.4)	255.6 (3.2)	382.0 (3.8)	450.5 (3.7)	654.7 (4.2)
Thrift Institutions	37.3 (2.1)	38.6 (1.4)	42.0 (0.9)	33.1 (0.6)	38.3 (0.5)	47.2 (0.5)	50.4 (0.4)	60.2 (0.4)
Life Insurance Companies	304.5 (17.5)	340.3 (12.2)	362.1 (8.2)	444.3 (7.6)	511.3 (6.4)	629.0 (6.2)	655.9 (5.4)	806.1 (5.2)
Development Banks	61.0 (3.5)	97.3 (3.5)	73.9 (1.7)	88.8 (1.5)	123.6 (1.6)	164.5 (1.6)	223.9 (1.8)	297.3 (1.9)
Credit Unions	31.5 (1.8)	35.6 (1.3)	52.7 (1.2)	81.4 (1.4)	112.2 (1.4)	140.1 (1.4)	145.1 (1.2)	210.5 (1.4)
Unit Trust Corporation	- -	- -	- -	- -	- -	- -	- -	- -
National Insurance Board[1]	53.3 (3.1)	99.9 (3.6)	149.9 (3.4)	212.0 (3.6)	285.0 (3.6)	360.0 (3.5)	446.0 (3.7)	530.0 (3.4)
Home Mortgage Bank	- -	- -	- -	- -	- -	- -	- -	- -
Deposit Insurance Corporation	- -	- -	- -	- -	- -	- -	- -	- -
Trinidad & Tobago Stock Exchange	- -	- -	- -	- -	- -	- -	- -	- -
TOTAL	1,739.7 (100.0)	2,782.7 (100.0)	4,419.1 (100.0)	5,834.6 (100.0)	7,930.6 (100.0)	10,163.8 (100.0)	12,197.3 (100.0)	15,448.6 (100.0)

SOURCE: Quarterly Statistical Digest (Central Bank of Trinidad and Tobago).

[1] Data refer to the financial year ending June 30.
[p] provisional .. negligible
Figures in parenthesis represent the percentage share of total assets.

TABLE 2. (Cont'd)
INSTITUTIONAL COMPOSITION OF ASSETS OF THE FINANCIAL SYSTEM AT YEAR END
1973-1987
(TT$ MILLION)

	1981	1982	1983	1984	1985	1986	1987
Central Bank	8,546.1 (44.6)	7,861.2 (36.1)	5,952.5 (26.7)	4,188.5 (19.3)	5,578.2 (23.1)	4,622.1 (22.4)	4,055.2 (19.7)
Commercial Banks	6,472.6 (33.8)	8,553.0 (39.3)	9,607.6 (43.1)	10,059.8 (46.4)	10,165.1 (42.0)	9,913.2 (48.1)	10,744.5 (52.1)
Finance Companies	742.8 (3.9)	1,076.2 (4.9)	1,303.9p (5.9)	1,260.6p (5.8)	1,235.1p (5.1)	573.2p (2.8)	662.6p (3.2)
Mortgage Finance and Trust Companies	943.3 (4.9)	1,030.9 (4.7)	1,382.9 (6.2)	1,593.5 (7.4)	1,856.4 (7.7)	1,897.9 (9.2)	2,055.8 (10.0)
Thrift Institutions	72.2 (0.4)	69.3 (0.3)	80.4p (0.4)	83.6 (0.4)	91.7p (0.4)	90.0 (0.4)	106.9p (0.5)
Life Insurance Companies	1,026.8 (5.3)	1,127.5 (5.2)	1,366.8 (6.1)	1,661.4 (7.7)	2,033.6p (8.4)	n.a (n.a)	n.a (n.a)
Development Banks	409.1 (2.1)	734.4 (3.4)	864.5 (3.9)	945.0 (4.3)	980.4 (4.1)	1,039.7 (5.1)	987.4 (4.8)
Credit Unions	259.7 (1.4)	389.8 (1.8)	544.4 (2.4)	469.4 (2.2)	695.3 (2.9)	798.0 (3.9)	n.a (n.a.)
Unit Trust Corporation	- -	42.1 (0.2)	26.1 (0.1)	21.4 (0.1)	21.3 (..)	32.2 (0.2)	55.2 (0.3)
National Insurance Board[1]	693.0 (3.6)	901.0 (4.1)	1,170.0 (5.2)	1,392.0 (6.4)	1,537.0 (6.3)	1,636.0 (7.9)	1,819.00 (8.8)
Home Mortgage Bank	- -	- -	- -	- -	- -	7.3 (..)	131.7 (0.6)
Deposit Insurance Corporation	- -	- -	- -	- -	- -	- -	7.4 (..)
Trinidad & Tobago Stock Exchange	- -	0.2 (..)	0.3 (..)	0.5 (..)	0.8 (..)	0.9 (..)	1.2 (..)
TOTAL	19,165.6 (100.0)	21,785.6 (100.0)	22,299.4 (100.0)	21,675.7 (100.0)	24,194.9 (100.0)	20,610.5 (100.0)	20,626.9 (100.0)

SOURCE: Quarterly Statistical Digest (Central Bank of Trinidad and Tobago).

[1] Data refer to the financial year ending June 30.
p provisional .. negligible
Figures in parenthesis represent the percentage share of total assets.

The changes in the country's financial structure are also influenced by changes in the relative importance of the different institutions, as measured by their share of total assets of all financial institutions. These shares are shown in Table 2. During the period from 1973 through 1987, there were some perceptible changes in the institutional composition of assets. In 1973 and 1974, commercial banks were the dominant financial institutions accounting for 52.5 per cent and 42.3 per cent respectively, of total assets. Between 1975 and 1981 however, the Central Bank held the major share of the system's assets, owing to the build-up of foreign reserves resulting from massive balance of payments surpluses. It was only in 1982, that the commercial banks regained their position as leader in terms of asset share and in 1987 accounted for roughly 52 per cent of the total assets of the financial systems.

The life insurance companies are the second largest group but their relative share of assets has fallen from 17.5 per cent in 1973 to 8.4 per cent in 1985, the last year for which data are available. Up until 1983, finance companies managed to increase their relative share, partly as a result of the increase in numbers. Their share of total assets rose from 2.5 per cent in 1973 to 5.9 per cent in 1983 and fell subsequently to 3.2 per cent in 1987. Although quantitatively insignificant, finance companies are qualitatively significant because of the nature of their credit activities.[9]

Apart from mortgage finance and trust companies, the relative shares of the other institutions are small and have not changed significantly over the period. The structure therefore, remains narrow and concentrated in a few institutions - the Central Bank and commercial banks - which together accounted for 71.8 per cent of total assets in 1987.

As the financial system underwent changes, the type and distribution of financial instruments have changed over time (See Table 3). In 1973, the main financial instrument held by institutions was loan and advances, followed by government securities. Corporate securities were relatively insignificant in 1973 (1.0 per cent) and even in 1987 accounted for only 10.5 per cent of total financial instruments. From 1974, the start of the oil boom, to 1982, the main instrument was foreign assets. This development reflected the increasing dominance of the Central Bank in the system. With the subsequent fall in the price of oil and the depletion of the country's foreign reserves, the share of foreign assets has fallen correspondingly from 50.2 per cent in 1978 to 9.5 per cent in 1987. Loans and advances are once more the dominant instrument. From the point of view of savers, the main instrument throughout the period was bank deposits. All these changes give credence to the view that financial development was the result of developments in the real sector.

TABLE 3

STRUCTURE OF COMBINED FINANCIAL ASSETS OF FINANCIAL INSTITUTIONS BY TYPE OF INSTRUMENT[1], 1973 - 1987
($ Mn)

Type of Instrument	1973	1974	1976	1978	1980	1982	1984	1986	1987
1. Cash in Hand	39.7 (2.7)	45.4 (1.9)	82.6 (1.6)	140.8 (1.6)	132.4 (1.0)	194.9 (1.0)	318.0 (1.7)	167.2 (1.1)	136.5 (0.8)
2. Reserve Deposits with Central Bank	52.1 (3.5)	179.6 (7.4)	432.5 (8.4)	341.8 (3.9)	773.2 (5.7)	1,770.4 (9.5)	1,411.9 (7.8)	1,181.7 (7.5)	792.6 (4.6)
3. T & T Gov't Securities	226.2 (15.2)	210.3 (8.7)	226.6 (4.4)	336.7 (3.8)	351.1 (2.6)	362.6 (1.9)	528.5 (2.9)	471.7 (3.0)	1,296.6 (7.6)
4. Commercial Bills	11.8 (0.8)	25.6 (1.1)	40.0 (0.8)	43.1 (0.5)	72.0 (0.5)	89.0 (0.5)	75.9 (0.4)	37.6 (0.2)	28.2 (0.2)
5. Loans and Advances	739.8 (49.8)	789.6 (32.7)	1,382.2 (26.8)	2,703.5 (30.7)	4,022.2 (29.7)	6,475.4 (34.6)	7,979.4 (43.9)	7,774.2 (49.0)	8,250.4 (48.0)
6. Mortgage Loans	181.3 (12.2)	218.7 (9.1)	368.1 (7.1)	626.5 (7.1)	1,076.6 (8.0)	1,633.3 (8.7)	2,550.3 (14.0)	2,011.4 (12.7)	2,180.9 (12.7)
7. Private Securities[2]	15.3 (1.0)	59.0 (2.4)	55.7 (1.1)	64.5 (0.7)	280.7 (2.1)	441.9 (2.4)	722.0 (4.0)	1,843.6 (11.6)	1,810.0 (10.5)
8. Foreign Assets	198.7 (13.4)	811.7 (33.7)	2,502.5 (48.6)	4,415.3 (50.2)	6,699.2 (49.5)	7,370.5 (39.4)	3,230.7 (17.8)	1,697.2 (10.7)	1,627.2 (9.5)
9. Other[3]	20.6 (1.4)	71.8 (3.0)	60.2 (1.2)	130.2 (1.5)	127.8 (0.9)	370.2 (2.0)	1,370.8 (7.5)	675.2 (4.2)	1,047.1 (6.1)
TOTAL	1,485.5 (100.0)	2,411.7 (100.0)	5,150.4 (100.0)	8,802.4 (100.0)	13,535.2 (100.0)	18,708.2 (100.0)	18,187.5 (100.0)	15,859.8 (100.0)	17,169.5 (100.0)

SOURCE: Central Bank of Trinidad and Tobago, Quarterly Statistical Digest.

1 Data for Life Insurance Companies are not available for 1986 and 1987.

2 Excludes Private Securities held by Central Bank and Commercial Banks for the years, 1973-1978 as the data are unavailable.

3 Other Assets include other current assets, and balances due from local banks.

Figures in parenthesis are the percentage share of total.

* This table represents combined financial asets, i.e. the intra-institutional claims are not netted out.

Several summary measures are usually employed to gauge the relative importance of financial intermediation in any country. One of these measures is the ratio of total financial assets to GNP or GDP which is akin to Goldsmith's financial interrelations ratio (FIR). According to the relevant theory, one would expect this ratio to rise in the course of economic development. Another measure is the share of financial institutions in the stock of financial instruments, which ratio is also expected to rise in the process of economic development. According to Goldsmith (1966) this ratio is the simplest summary measure of the degree to institutionalization of a country's financial structure. A third measure is the financial layering ratio, that is, the ratio of intra-financial transactions to total financial assets. Using flow of funds data, we employ these three measures as indicators of financial development in Trinidad and Tobago for the period 1973-1978. These indicators are shown in Table ~~5~~ 6, with the values for previous years included for purposes of comparison. The ratio of financial assets to GDP, sometimes used as an indicator of financial deepening, rose steadily from 2.1 per cent in 1969 to 2.7 per cent in 1973 to 4.4 per cent in 1978. The financial intermediation ratio (FIR) which measures the share of financial institutions in the stock of financial assets rose from 29.7 per cent to 38.1 per cent in 1977, before falling slightly to 37.6 per cent in 1978. The final ratio, the financial layering ratio (FLR) has risen continuously throughout the period from 0.8 per cent in 1969 to 2.3 per cent in 1973 to 5.3 per cent in 1978.

For the period following 1978, (i.e. 1979-1987), no data on a flow of funds basis are available. We therefore proceed by estimating the total financial savings of the country by examining the liabilities of each institution and aggregating those values which corresponds to the community's financial savings. These estimates are shown in Table 6 while Table 7 shows the ratio of financial savings to GDP. The data in Table 7 show that except for 1983, the ratio of financial savings to real GDP has increased from 1979 through 1986 and also throughout the entire period from 1973 through 1986, suggesting that there was financial deepening in the economy.

TABLE 4

THE FINANCIAL DEVELOPMENT OF TRINIDAD AND TOBAGO

(Constant Prices: Base Year - 1970)1

($Mn)

YEAR	GROSS DOMESTIC PRODUCT (FC)	FINANCIAL ASSETS								MONEY SUPPLY(1)
			FINANCIAL SYSTEM					PRIVATE NON-FINANCIAL SECTOR		
		TOTAL FINANCIAL ASSETS	CENTRAL BANK	COMMERCIAL BANK	NON-BANK FINANCIAL INTER-MEDIARIES	CENTRAL AND LOCAL GOVERNMENT	REST OF THE WORLD	CORPORATE SECTORS	HOUSEHOLDS AND UN-INCORPORATED ENTERPRISES	
1969	1,587.1	3,312.5	152.2	376.2	396.5	415.7	834.8	357.0	780.1	137.0
1970	1,643.7	3,665.5	139.9	448.8	499.9	472.5	860.3	380.8	863.3	150.7
1971	1,660.8	4,047.4	170.0	539.9	514.4	412.8	1,020.7	374.6	1,015.1	162.4
1972	1,756.8	4,437.7	163.0	656.5	575.3	434.7	1,153.9	398.1	1,056.1	182.8
1973	1,786.7	4,763.1	167.0	644.0	604.1	441.3	1,210.9	596.1	1,099.8	147.3
1974	1,855.9	5,486.4	530.8	674.0	573.1	809.8	1,076.6	702.5	1,119.6	167.4
1975	1,882.1	6,735.3	1,047.4	764.9	609.9	1,239.6	1,079.4	763.9	1,230.2	208.0
1976	2,001.5	7,553.0	1,234.1	916.0	738.3	1,620.5	989.9	608.8	1,445.4	264.8
1977	2,185.5	9,330.6	1,663.4	1,051.7	835.1	2,299.4	1,219.1	706.0	1,555.9	306.9
1978	2,404.3	10,619.5	1,788.4	1,187.0	1,015.0	2,667.7	1,421.8	785.3	1,754.2	367.1

SOURCE: Central Statistical Office

1 GDP is deflated using the 'sector by sector' method carried out by the National Accounts Division. All other items are deflated using the "All Items" Retail Price Index.

TABLE 5

INDICATORS OF FINANCIAL DEVELOPMENT, 1969-1978
(Constant Prices)

Year	Total Financial Assets / GDP	FIC[1] %	FLR[2] %
1969	2.1	28.0	0.8
1970	2.2	29.6	1.3
1971	2.4	30.2	1.2
1972	2.5	31.5	1.7
1973	2.7	29.7	2.3
1974	3.0	32.4	2.8
1975	3.6	36.1	3.1
1976	3.8	38.2	3.7
1977	4.3	38.1	4.1
1978	4.4	37.6	5.3

SOURCE: Central Statistical Office

1 FIC - Financial Intermediation Coefficient
2 FLR - Financial Layering Ratio

TABLE 6

INSTITUTIONAL COMPOSITION OF FINANCIAL SAVINGS
AT YEAR END, 1973-1987
(TT$MILLION)

Type of Institution	1973	1974	1975	1976	1977	1978	1979	1980
1. Central Bank	147.2	631.8	1403.6	1918.4	3183.1	3795.4	4133.1	5550.1
% of total	10.6	28.4	40.1	40.3	46.4	45.1	41.8	44.0
2. Commercial Banks	758.9	1007.5	1302.1	1728.1	2190.5	2686.3	3557.4	4065.2
% of total	54.5	45.2	37.2	36.3	32.0	32.0	36.0	32.3
3. Finance Companies	13.3	21.1	53.6	83.2	118.3	191.5	226.2	319.8
% of total	1.0	0.9	1.5	1.7	1.7	2.3	2.3	2.5
4. Mortgage Finance and Trust Companies	50.5	74.5	113.9	148.1	196.7	315.6	363.3	537.5
% of total	3.6	3.3	3.3	3.1	2.8	3.8	3.6	4.3
5. Thrift Institutions	21.6	22.9	28.2	19.9	25.0	30.1	29.6	20.0
% of total	1.5	1.0	0.8	0.4	0.4	0.4	0.3	0.2
6. Development Banks	13.8	25.4	35.4	50.0	76.0	124.4	156.9	220.4
% of total	1.0	1.2	1.0	1.1	1.1	1.5	1.6	1.7
7. Credit Unions	n.a.	n.a.	n.a.	69.8	92.3	121.5	157.8	185.7
% of total	n.a.	n.a.	n.a.	1.5	1.3	1.4	1.6	1.5
8. Life and Non-Life Insurance Companies	231.0	238.0	263.0	303.2	409.5	454.9	545.8	632.8
% of total	16.6	10.7	7.5	6.4	6.0	5.4	5.5	5.0
9. Pension Funds	102.5	106.9	147.9	224.0	275.7	325.3	278.3	538.9
% of total	7.4	4.8	4.2	4.7	4.0	3.8	2.8	4.3
10. National Insurance Board[1]	53.3	99.9	150.0	211.9	284.5	360.3	446.4	533.2
% of total	3.8	4.5	4.3	4.5	4.2	4.3	4.5	4.2
11. Unit Trust Corporation	-	-	-	-	-	-	-	-
% of total	-	-	-	-	-	-	-	-
12. Home Mortgage Bank	-	-	-	-	-	-	-	-
% of total	-	-	-	-	-	-	-	-
TOTAL	1392.1	2228.0	3497.7	4756.6	6851.6	8405.3	9894.8	12603.2
TOTAL (% of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 6 (Cont'd)

INSTITUTIONAL COMPOSITION OF FINANCIAL SAVINGS
AT YEAR END, 1973-1987 (Cont'd)
(TT$MILLION)

Type of Institution	1981	1982	1983	1984	1985	1986	1987
1. Central Bank	6326.4	4555.4	2891.6	1844.4	1523.6	1700.5	961.6
% of total	42.4	28.5	17.5	11.3	9.0	9.7	5.3
2. Commercial Banks	4996.9	6613.5	7248.1	7639.7	7701.1	7417.1	7639.0
% of total	33.5	41.3	43.8	47.0	45.5	42.1	42.3
3. Finance Companies	511.0	801.3	959.9[p]	867.3[p]	794.3[p]	329.5[p]	418.0
% of total	3.4	5.0	5.8	5.3	4.7	1.9	2.3
4. Mortgage Finance and Trust Companies	689.8	881.3	1155.1	1338.6	1584.0	1610.2	1631.3
% of total	4.6	5.5	7.0	8.2	9.3	9.2	9.0
5. Thrift Institutions	20.3	20.6	21.4[p]	21.5	21.8[p]	22.4[p]	21.9[p]
% of total	0.1	0.1	0.1	0.1	0.1	0.1	0.1
6. Development Banks	308.1	363.3	582.4[p]	604.3[p]	591.3[p]	626.3[p]	615.1
% of total	2.1	2.3	3.5	3.7	3.5	3.6	3.4
7. Credit Unions	212.9	309.0	430.4	423.9	595.4	755.6	958.8[e]
% of total	1.4	1.9	2.6	2.6	3.5	4.3	5.3
8. Life and Non-Life Insurance Companies	657.7	813.6	1152.4	1318.4	1686.8	1958.9	2100.0[e]
% of total	4.4	5.1	7.0	8.1	10.0	11.1	11.6
9. Pension Funds	517.7	706.7	935.0	836.9	863.3	1509.2	1700.0[e]
% of total	3.5	4.4	5.7	5.2	5.1	8.6	9.5
10. National Insurance Board[1]	693.3	900.0	1123.4	1344.0	1537.0	1634.2	1819.0[e]
% of total	4.6	5.6	6.8	8.3	9.1	9.3	10.2
11. Unit Trust Corporation	-	41.0	30.3	28.4	30.8	41.9	61.5
% of total	-	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
12. Home Mortgage Bank	-	-	-	-	-	-	122.7
% of total	-	-	-	-	-	-	(0.7)
TOTAL	14933.6	16005.7	16530.1	16267.4	16929.4	17605.8	18048.9[e]
TOTAL (% of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Central Bank of Trinidad and Tobago.
National Insurance Board.
Supervisor of Insurance.

[1] As of June 30th.
e - estimated

TABLE 7

RATIO OF FINANCIAL SAVINGS TO GDP AND GNP
(1973-1986)

Year	Financial Savings / Real GDP	Financial Savings / GDP (Current Prices)	Financial Savings / GNP
1973	0.78	0.54	0.58
1974	1.20	0.53	0.62
1975	1.86	0.66	0.68
1976	2.38	0.78	0.78
1977	3.14	0.91	0.97
1978	3.49	0.98	1.00
1979	3.97	0.89	0.95
1980	4.58	0.84	0.89
1981	5.19	0.91	0.94
1982	5.34	0.83	0.84
1983	5.24	0.86	0.88
1984	5.55	0.85	0.89
1985	6.05	0.92	0.95
1986	6.35	1.01	1.06

SOURCE: Central Statistical Office.

Central Bank of Trinidad and Tobago.

It is interesting to examine in more detail the impact of financial growth on financial structure in the post-1973 period. Such diversification as occurred arose not so much from product innovation by existing institutions as from the growth of less traditional institutions moving to capitalize on the inertia of the dominant commercial banks in providing new services.

The case of finance companies is best illustrative of this phenomenon. Their number almost quadrupled over the period, from three in 1973 to eleven in 1986, and had reached as high as fifteen in 1982-1984. The growth of their assets and of their deposits was equally remarkable. Deposits grew at an annual rate of 27.6 per cent over the period, outpacing by far the comparatively pedestrian rate of increase of 17.8 per cent for commercial banks, while their assets grew by 24 per cent per year.

Finance companies flourished in part because they ventured boldly into areas of financing which were either entirely avoided or inadequately serviced by the traditionally conservative and more tightly regulated banking sector. They popularized such activities as leasing and factoring and became heavily involved in the financing of construction. Their agressiveness in the market was facilitated by the absence of controlling legislation. This not only made for ease of entry into the industry, but permitted the virtually unrestricted pursuit of highly lucrative, but correspondingly risky, investments funded by high-cost deposits from the public. For example return on 1-year time deposits offered by finance companies on average exceeded that on similar bank deposits by 27 per cent between 1979 and 1981. The differential rose dramatically in the next three years to an average of 64 per cent, but by this time may have been reflecting the desperate need for deposits by some companies close to involvency.

TABLE 8
FINANCE COMPANIES: SECTORAL DISTRIBUTION OF ACCOUNTS RECEIVABLES AND LOANS, 1981-1986
/Per cent/

	1981	1982	1983	1984	1985	1986
BUSINESS	82.5	82.8	77.3	75.4	75.6	66.3
Agriculture	1.4	1.4	1.7	1.8	1.7	2.3
Manufacturing	9.5	11.5	11.0	11.2	11.8	12.1
Construction	19.5	30.4	26.3	23.2	21.3	12.0
Transportation	16.0	17.5	14.8	12.3	12.9	11.5
Distribution	19.8	16.4	13.0	16.4	13.6	8.6
Other Business Purposes	16.2	5.6	10.5	10.5	14.3	19.8
CONSUMERS	17.5	17.2	22.7	24.6	24.4	33.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

The distribution of credit extended by finance companies illustrates the predominance of business lending, which is a mild curiousity since, as a class of institutions, finance companies are generally associated with consumer lending. An average of 81 per cent of total credit went to business purposes in 1981-1983. The average declined to 72 per cent in 1984-1986 as the economy contracted, but also because of the introduction of controlling legislation. The law effectively compelled finance companies to reduce their credit exposure to certain client groups and, by extension, to certain areas of business activity.

The parallel growth of trust and mortgage finance companies after 1973 vividly exemplifies Patrick's notion of 'demand-following' financial development. Trust and mortgage finance companies doubled in number from 4 to 8 in 1973-1986. These institutions all had links of common ownership with commercial banks, as did five finance companies. The proliferation of these non-banking institutions could be seen partly as an attempt by the commercial banks to circumvent their own institutional rigidities in response to changes in the market place.

For the most part, however, institutional and structural change has been driven by deliberate policy action rather than by market signals. The Central Bank has played a major role in engineering structural change, pro-actively in the case of the establishment of the Stock Exchange, the Unit Trust and the Home Mortgage Bank, and reactively in the case of the Deposit Insurance Corporation. The Stock Exchange and the Unit Trust were both established against the backdrop of government's localisation policy and the proposed divestment of the government's vast accumulated shareholding in state enterprises. The Home Mortgage Bank was explicitly fashioned to address the shortage of affordable housing finance at middle-income levels.

The Deposit Insurance Corporation (DIC) formed part of a package of institutional and legislative reform which became necessary in 1986 following the failure, actual and impending, of seven finance companies. The crisis among these institutions developed when the belated implementation of controlling legislation in 1981 failed to arrest the deteriorating financial condition of several companies. One company folded in 1983 occasioning substantial loss to depositors, while the establishment of the DIC enabled the Central Bank to successfully seek the judicial closure of four more by the end of 1986 without imposing similar costs.

The experience with finance companies in Trinidad and Tobago has highlighted the fragility and high cost of structural change in the financial sector. The Stock Exchange has delivered just $52.5 million in new capital in seven years of existence and has been in decline since 1983. Low trading volumes have forced three member firms out of business while stockholder wealth has declined by 79 per cent, as measured by the change in the index of stock values. The viability of the Unit Trust, whose establishment was predicated on essentially the same assumptions as the Stock Exchange, has been sustained by fiscal concessions and cost reducing administrative arrangements. The growth of the credit union movement and life insurance companies is similarly attributable to facilitative fiscal policy.

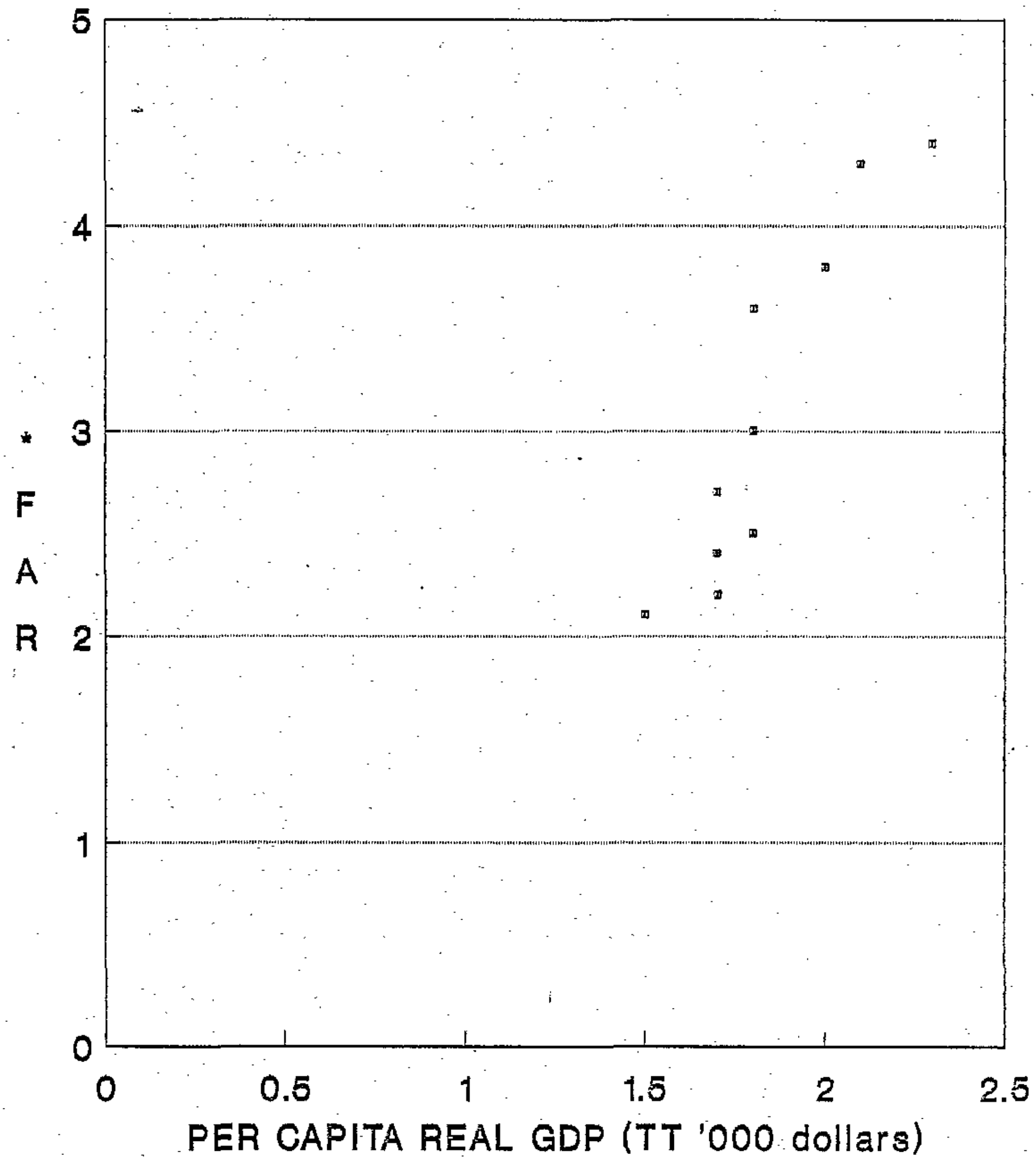
Diversification of the financial sector has therefore been largely induced and sometimes at a pace well in excess of the development of the legislative and regulatory framework. Legislative weaknesses remain even in the face of continuing stresses on the system, as evidenced by increasing delinquency in some sections of the insurance industry, an apparent high mortality rate among credit unions and the loss of savings in some industrial credit unions with the economic demise of the parent firms. In short the recent experience of Trinidad and

Tobago aptly illustrates the qualitative distinction between changes in financial structure on the one hand, and financial development on the other.

So far we have seen evidence of financial development in the economy using the indicators above. We now try to ascertain whether there is any correlation between financial intermediation and economic growth. Following Bhatia and Khatkhate (1975), we depict the relationship between (i) the ratio of total financial assets to real GDP (for 1969-78) and per capita GDP and (ii) the ratio of financial savings to GDP (estimated for 1973 to 1987) and per capita real GDP. Charts 1 and 2 depict these relationships. Chart 1 reveals clear evidence of a positive relationship between financial intermediation and the level of per capita real GDP. In fact, a simple correlation test between the two variables yield an r^2 of 0.92, indicating a high positive correlation. In Chart 2, the first part of the scatter plot, starting from the bottom, suggest a positive correlation but the top of the plot suggest a negative correlation. The overall r^2 for Chart 2 is 0.78 which indicates that, generally there is a fairly high correlation between the two variables.

CHART 1

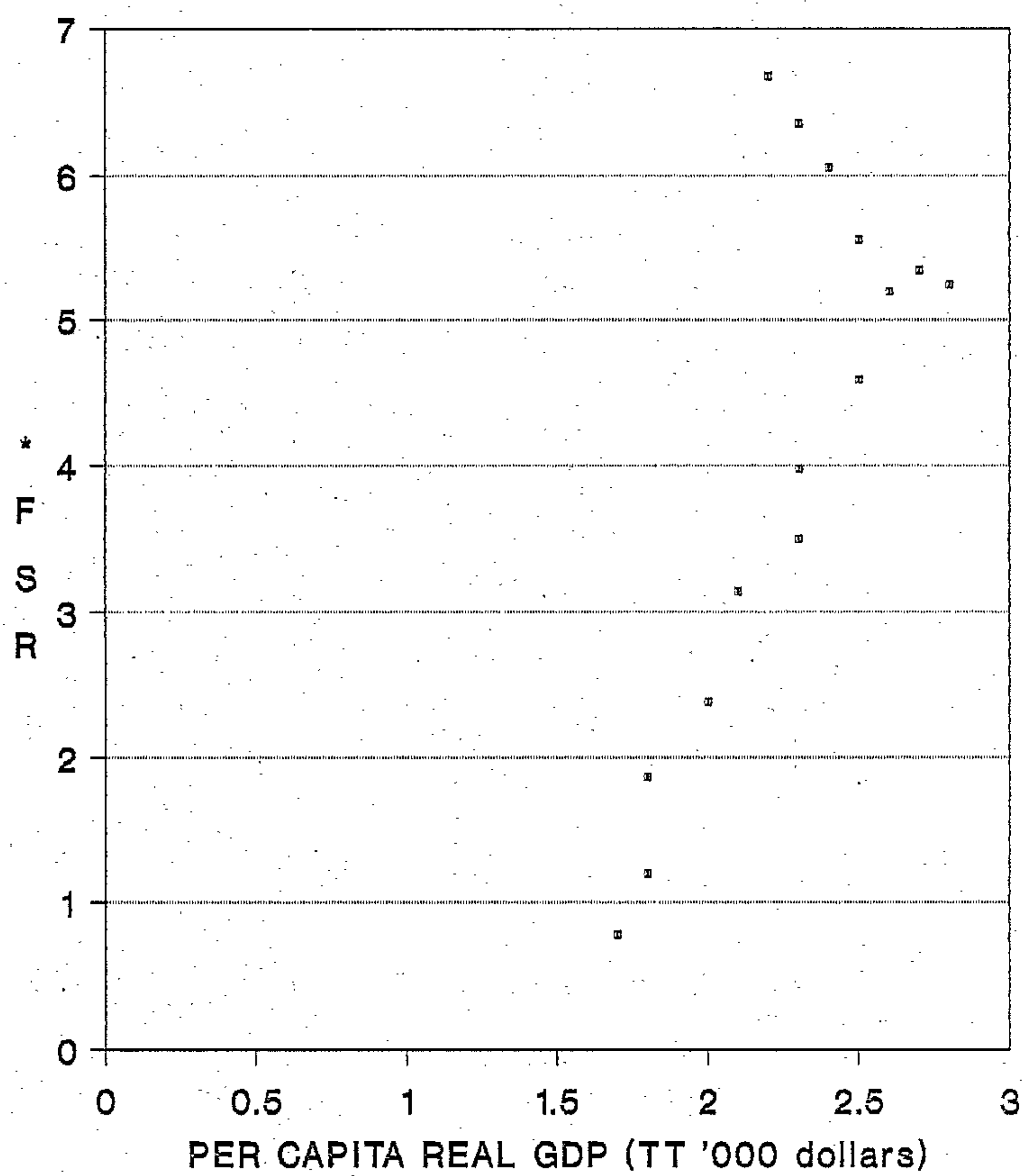
FINANCIAL ASSETS RATIO AND PER CAPITA REAL GDP, 1969-78



* FINANCIAL ASSETS RATIO

CHART 2

FINANCIAL SAVINGS RATIO AND PER CAPITA REAL GDP,1973-87



*FINANCIAL SAVING RATIO

III. Financial Intermediation and Economic Growth

In the previous section, the focus was on changes in the financial structure resulting from changes in the real sector. In this section we examine, at the macroeconomic level, the impact of financial development on economic growth.

As noted earlier, the influence of financial intermediaries on economic growth derives from their impact on the growth of savings, their role in the financialization of those savings and their ability to ensure the most efficient allocation of resources. Indeed, as Brothers and Solis (1968) have observed, among the best indices of the effectiveness of a country's financial system are the rates of domestic savings and capital formation. What has been the experience of Trinidad and Tobago in this regard? Table 8 summarizes the country's record of savings and capital formation for the period 1973 to 1987. The table shows that Trinidad and Tobago was able to maintain a fairly high level of national savings over the period 1974 - 1981. During this period the national savings rate (i.e. the ratio of savings to GNP) averaged 35 per cent. Since 1982, the national savings rate has fallen drastically to 19 per cent in 1982, 10 per cent in 1986 and 14 per cent in 1987. How much of the success in raising the overall savings ratio in the eight-year period, 1974-1981, could be attributed to the effectiveness of the financial system? To answer this question we need to consider the structure of national savings. Table 9 shows the structure of savings with respect to government and private sector contribution. During the period 1974-1981, which roughly coincides with the oil boom, public sector savings accounted for approximately 60 per cent of total savings.

TABLE 9

TRINIDAD AND TOBAGO: GDP, SAVINGS AND INVESTMENT
(1973 - 1987)
($TT Million)

Year	Real GDP (1)	GDP @ Current Prices (2)	GNP @ Current Prices (3)	Gross National Savings (4)	Investment (5)	Savings/ Real GDP (6)
1973	1,786.7	2,564.2	2,384.0	614.0	665.5	0.34
1974	1,855.9	4,192.7	3,606.9	1,321.0	915.2	0.71
1975	1,882.1	5,300.1	5,119.1	2,164.0	1,449.3	1.15
1976	2,001.5	6,090.5	5,826.0	2,114.0	1,495.5	1.06
1977	2,185.5	7,532.8	7,068.7	2,422.0	2,007.5	1.11
1978	2,404.3	8,549.6	8,362.7	2,681.0	2,583.6	1.12
1979	2,490.1	11,045.8	10,434.7	3,126.0	3,213.4	1.25
1980	2,748.4	14,966.1	14,210.1	5,382.0	4,580.3	1.96
1981	2,874.2	16,438.0	15,956.8	5,431.0	4,540.6	1.89
1982	2,990.2	19,175.5	19,021.7	3,552.0	5,417.1	1.19
1983	3,146.9	19,053.8	18,758.4	2,662.0	5,068.7	0.84
1984	2,924.9	19,035.2	18,310.4	3,205.2	4,366.8	1.09
1985	2,793.0	18,426.6	17,690.8	2,909.1	3,141.9	1.04
1986	2,763.8	17,432.3	16,570.1	1,703.8	3,982.2	0.62
1987	2,678.3	16,400.6	15,394.0	2,156.7	3,124.7	0.80

SOURCE: Central Statistical Office.

TABLE 9 (Cont'd)

TRINIDAD AND TOBAGO: GDP, SAVINGS AND INVESTMENT
(1973 - 1987)
($TT Million)

Year	Savings/ GDP Current (7)	Savings/ GNP (8)	Investment/ Real GDP (9)	Investment/ GDP Current (10)	Investment/ GNP (11)
1973	0.24	0.26	0.37	0.26	0.28
1974	0.32	0.37	0.49	0.22	0.25
1975	0.41	0.42	0.77	0.27	0.28
1976	0.35	0.36	0.75	0.24	0.26
1977	0.32	0.34	0.92	0.27	0.28
1978	0.31	0.32	1.08	0.30	0.31
1979	0.28	0.30	1.29	0.29	0.31
1980	0.36	0.38	1.67	0.31	0.32
1981	0.33	0.34	1.58	0.28	0.28
1982	0.18	0.19	1.81	0.28	0.28
1983	0.14	0.14	1.61	0.27	0.27
1984	0.17	0.18	1.49	0.23	0.24
1985	0.16	0.16	1.12	0.17	0.18
1986	0.10	0.10	1.44	0.23	0.24
1987	0.13	0.14	1.17	0.19	0.20

SOURCE: Central Statistical Office.

TABLE 10

SECTORAL COMPOSITION OF NATIONAL SAVINGS, 1973-1987

Year	Savings/GNP	Contribution of Government to National Savings %	Contribution of Private Sector to National Savings %
1973	0.26	-4.6	104.6
1974	0.37	59.0	41.0
1975	0.42	44.1	55.9
1976	0.36	64.0	36.0
1977	0.34	78.7	21.3
1978	0.32	53.8	46.2
1979	0.30	47.9	52.1
1980	0.38	58.0	42.0
1981	0.34	69.6	30.4
1982	0.19	29.7	70.3
1983	0.14	22.8	77.2
1984	0.18	13.7	86.3
1985	0.16	-12.7	112.7
1986	0.10	-66.5	166.5
1987	0.14	-29.7	129.7

SOURCE: Central Statistical Office.
Ministry of Planning and Mobilisation estimates (1986-1987).

The remarkable savings performance of the public sector was largely due to the increased revenues arising from the petroleum sector. The overall increase in the savings ratio in these years, therefore, may be attributed largely to the performance of the public sector and is hardly a measure of the effectiveness of the financial system in mobilizing internal resources. Nonetheless, various institutional developments such as the growth of occupational pension schemes, the increase in long-term personal savings through the life insurance industry, the proliferation of finance companies and more widespread investment in equities impacted positively on the level of financial savings.

The third influence of financial intermediaries is their ability to ensure the most efficient transformation of mobilized funds into real capital. This constitutes the crucial link in determining the effectiveness of these institutions as contributors to economic growth.[8] How effective were financial intermediaries in Trinidad and Tobago in this regard? Table 8 also shows the country's investment performance over the period 1973-1987. The rate of investment (i.e. the ratio of investment to GDP) rose rapidly during the boom years, from 25 per cent in 1974 to a peak of 31 per cent in 1980. While data on the relative shares of the public and private sector are not readily available, it is known that the greater part of capital formation, particularly from 1978, was due to the public sector investment. More importantly, however, such investments were largely financed by the fiscal surplus which arose from the oil windfall rather than from domestic savings which were mobilized and transformed by financial intermediaries.

Even where financial intermediaries may have mobilized and transformed funds, it is questionable whether the allocation was the most efficient. According to Bhatia and Khatkhate (1975), "the whole rationale of allocative and efficiency features of the financial intermediation process hinges critically on the asset management policies of the financial intermediaries in less developed countries." They argue that there are several aspects of these policies which militate against economic growth.

In Trinidad and Tobago as we have seen, the main financial intermediaries in terms of assets and the quantum of funds mobilized are commercial banks. The largest component of the commercial banks' asset portfolio is loans and advances. Table 10 depicts the structure of loans and advances of the commercial banks for the period 1973-1987. It is clear from the data that the preference of the banks is for safe, self-liquidating loans to individuals. For instance, while loans to individuals accounted for 29.5 per cent of total loans in 1973, loans to the productive sectors of manufacturing, mining and refining and agriculture, collectively accounted for only 23.1 per cent. While the proportion of loans to individuals fell to 16.9 per cent in 1987, loans to the three productive sectors also fell to 18.8 per cent. From the viewpoint of the banks, this distribution of loans may be the most efficient but from the standpoint of the economy, such an allocation is not the most efficient since it retards the accumulation of capital in the productive sector and hinders economic growth.

TABLE 11

SECTORAL COMPOSITION OF BANK LOANS AND ADVANCES, 1973-1987
(Per Cent)

SECTOR	1973	1974	1976	1978	1980	1982	1984	1986	1987
Government	13.5	10.3	4.1	3.5	6.9	10.4	12.6	16.6	19.4
Manufacturing	18.2	18.4	14.6	17.7	14.4	10.8	11.7	15.7	16.3
Mining and Refining	2.4	2.2	3.7	3.4	1.9	2.0	1.6	2.0	1.4
Agriculture	2.5	2.7	2.2	2.5	2.6	1.2	1.2	1.1	1.1
Construction	2.9	3.2	6.8	4.3	9.5	8.6	7.9	6.1	5.4
Transport	1.9	2.1	1.8	2.4	3.8	4.1	3.7	1.7	1.4
Distribution	16.9	15.6	11.1	13.5	13.1	10.0	10.8	13.3	13.5
Finance[1]	3.5	2.8	1.3	2.5	2.3	2.2	2.0	11.2	10.5
Hotels and Entertainment	0.6	0.7	0.6	0.6	0.9	0.8	0.9	0.6	0.7
Real Estate	3.8	4.4	4.6	4.0	5.1	7.7	8.9	8.0	7.9
Professional Services	2.3	2.3	2.2	4.7	4.5	2.0	1.7	2.6	2.0
Personal	29.5	33.6	44.5	40.4	33.2	34.5	29.1	17.7	16.9
Miscellaneous	2.0	1.7	2.5	0.5	1.8	5.7	7.7	3.4	3.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Central Bank of Trinidad and Tobago

1. 1973-1984 - this category was called financial institutions.
   1986-1984 - this category included finance, insurance and real estate.

IV. Conclusion

This paper has examined the progress of financial intermediation resulting from economic growth over the period 1973-1987. The level of financial intermediation has certainly increased since 1973 as judged by several indicators. The total financial assets of the system has increased both absolutely and relatively. The data has shown a definite positive correlation between economic growth and financial development at least between 1973-1982. While changes in the real sector clearly impacted on the financial system, it is not clear to what extent financial intermediaries may have, in turn, aided the growth process through their ability to allocate savings efficiently to the most productive sectors of the economy.

NOTES

1. See Adewunmi (1).

2. See Patrick (15).

3. The review of the literature is deliberately brief and is largely based on a summary of Adewunmi's (1) work. For a more in-depth and comprehensive review see, for example, Adewunmi (1) and Fry (11).

4. See Bhatia and Khatkhate (2).

5. See Patrick (15).

6. See Goldsmith (12).

7. For example, the flow of funds data include among financial institutions such institutions as the Industrial Development Corporation (I.D.C.), the National Housing Authority (N.H.A.), the Sugar Industry Labour Welfare Fund. These institutions are not numbered here. The Central Bank, however, is included to be consistent with the definition in the flow of funds data.

8. For an excellent analysis of the growth and development of finance companies, See Bourne (5).

9. See Bourne (5).

10. For an elaboration of this approach, See Bourne (6).

11. See Bhatia and Khatkhate (2).

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