# ISSUES IN CARIBBAN CENTRAL BANKING

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## Introduction

Central banks in the English-speaking Caribbean region are relatively recent ranging in age from 10 to about 30 years.[1] Nevertheless, the regional central banks have had a variety of relevant experiences which can contribute to the global corpus of knowledge and experience in central banking. The economies of the English-speaking Caribbean range in living standards from the middle-income countries of the Bahamas, Barbados and Trinidad and Tobago, to IDA-level countries in Guyana and the eastern Caribbean states. In all of these countries however, the question of the pace of growth and development remains pointed, in the face of persistent high levels of unemployment and underemployment and unequal distributions of income.

[1] The first central bank to be established was the Bank of Jamaica in 1960, followed by the Central Bank of Trinidad and Tobago (1964), Bank of Guyana (1966), Central Bank of Barbados (1972), The Central Bank of The Bahamas (1974), the Central Bank of Belize (1982), and finally the East Caribbean Central Bank (1983).

bauxite, sugar, bananas, tourism. The dependence of these economies on these agricultural or mineral staples, and tourism, and their inability to exercise any market power, makes them highly vulnerable to the vicissitudes of the international markets for these products and services. As such the Caribbean economies have experienced both boom and recessionary conditions which their central banks have had to assist in managing. The governments of the English-speaking Caribbean have also historically been heavily involved in their economies. Degrees of intervention have varied from state dominance in Guyana, to significant roles in Jamaica and Trinidad and Tobago, to somewhat less intrusion in Barbados and the OECS. As an agency of state, central banks in the Caribbean have often been in the vanguard of state intervention in the financial sectors of their economies. However, state intervention in these economies has declined over the last several years.

The central banks of the English-speaking Caribbean were all established by statute. Their functions include (i) acting as banker to the government and to the commercial banks and non-bank financial institutions, (ii) managing the internal debt, (iii) advising governments on monetary, financial and economic matters, (iv) administering exchange controls on behalf of the governments, and (v) conducting bank supervision on behalf of the government. Generally, the institutional model for the central banks was the Bank of England, although important institutional differences were initiated and some of the characteristics of the currency boards, which were the forerunners of the central banks, were retained. For example, except for the Bank of Jamaica in the early years, the distinction between an issue department and a banking department was not instituted in Caribbean central banks and indeed the Bank of Jamaica abolished this distinction in 1973. However, unlike the Bank of England, the Caribbean central banks were given the power to conduct monetary policy and to implement that policy without obligatory reference to or

formed central banks all had a (partial) foreign exchange cover backing for the currency issue.

There is now a fairly sizable literature on central banking in the English-speaking Caribbean. There was an early survey by Thomas (1972), which had been preceded by analyses of the early experiences of the Bank of Jamaica by Best and McIntyre (1961) and Blackman (1969). William Demas (1974) addressed the first decade of central banking in Trinidad and Tobago, while G. Arthur Brown (1983) did the same for Barbados. Much of Wendell Maclean's monograph (1975) treats with the East Caribbean Currency Authority. More recently, there have been studies by Farrell (1990) on Trinidad and Tobago, Bank of Jamaica (1985) on Jamaica, and Danns (1990) on Guyana, while contributions by Blackman (1989), Rampersad (1988), Bobb (1986), Farrell (1991) have sought to address one or other aspect of the operations of the region's central banks.

It is not possible in a paper such as this to treat with all the various aspects of Caribbean central banking, nor to attempt even a comparative analysis of the operations of the central banks of the area. Instead we will limit ourselves to addressing four (4) key issues viz. (1) growth and development versus stability; (2) instruments of monetary control; (3) relationships with governments, and (4) the role as lender of last resort. In addition, two broad historical periods may be identified-- a foundation period from 1960 to about 1975 and the period of stabilisation and adjustment from 1976 to the present.[2] A third period is now emerging based on the liberalisation of trade and finance, closer regional economic cooperation, a progressive diminution in the role of the state, and new theories of management. The paper concentrates on the experiences of the central banks of Trinidad and Tobago, Jamaica and Barbados which have been richer in relation to the

[2] Clearly some area central banks--East Caribbean, Belize, Bahamas--are still in their foundation phase, though they have had to grapple rather early with problems of stabilisation and adjustment.

experiences of the other area central banks. The paper concludes with some speculations on the future of central banking in the Caribbean.

## Growth and Development Versus Stability

When Caribbean central banks were being formed in the 1960s and 1970s, the dominant paradigm in mainstream Economics was the neo-Keynesian model, extended in the area of Development Economics by the Harrod-Domar growth model.[3] This corpus of views prescribed an active role for the monetary authorities in macro-economic management, and in the monetary sphere, emphasised low interest rates to stimulate investment and economic growth. A concomitant of the need to stimulate investment was the perceived need to curb consumption, and this was to be accomplished by credit ceilings or selective credit controls directed at consumption spending.

The young central banks of the Caribbean were therefore little concerned with the issue of price stability, or more broadly monetary stability. The actual experience of inflation in the English-speaking Caribbean in the 1950s and 1960s was quite favourable. In Trinidad and Tobago for example, inflation averaged 2.7 per cent per annum between 1955 and 1963, and 3.9 per cent per annum between 1964 and 1972. The higher average rate of inflation in the latter period was attributable almost entirely to the price level effects of the 1967 sterling devaluation. This inflation performance, which was in stark contrast to the Latin American experience even at that time, was due to the low rates of inflation prevailing in the industrial countries which were the major source of Caribbean imports, and to the fixed peg to sterling, and free and full convertibility of the local currencies into

3 Another set of influences on Caribbean economic thought came from Lewis' model of unlimited supplies of labour which, although Classical in inspiration, suggested an active role for the state in industrialisation through export promotion.

in that excess domestic money creation would result in an outflow of foreign exchange and a subsequent correction of the money supply along the lines of the Classical price-specie-flow mechanism.[4]

The shift to the monetarist paradigm in the industrial countries in the 1970s, and the consequential focus of their central banks on monetary targets and indicators did not significantly impact the thinking of central bankers in the English-speaking Caribbean. It is true that inflation accelerated somewhat in the post-1973 period, but this was attributable to supply-side shocks (higher oil prices, fiscal actions, mainly increases in indirect taxation), rather than to excessive growth of the money supply. In any event, inflation was by any standards, moderate. For example, the period 1973-1982, inflation in Trinidad and Tobago averaged 14.4 per cent per annum.

Monetary stability did become a matter of some concern to the monetary authorities in the mid 1970s, but this was due to the breakdown of the Bretton Woods system and the dismantling of the Sterling Area, which initiated the period of flexible and highly volatile exchange rates. Between 1972 and 1976, all the Caribbean central banks shifted from a sterling peg to a US dollar peg. However, for countries dependent on non-dollar markets for their exports of sugar, bananas and other agricultural products, the volatility of exchange rates increased their vulnerability to fluctuations in export prices.

Another important factor shaping monetary policy in this period was the recessionary conditions in the world economy. Still dominated by neo-Keynesian thinking, the monetary authorities moved, at first slowly, to attempt fiscal stimulation of their flagging economies, perhaps failing to recognise that structural shifts were in train in

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4 See Thomas (1963)

controls meant that the adjustment process did not work quite as smoothly and automatically to engender monetary correction in the face of developments in the balance of payments. There was also increased resort to external financing in order to maintain consumption and growth, which led to the accumulation of external debt and the current debt crisis.

If therefore, monetary stability was not a primary objective of policy for Caribbean central banks in the 1960s and the 1970s for the reasons outlined above, what then was their primary concern? The statutes of all these central banks stated as one of their functions the pursuit of some objective relating to economic growth and development and in fact the central banks focussed much of their attention on growth and development. This attention took two forms. First, monetary policy was conducted so as to try to keep interest rates low and to direct credit more toward production rather than consumption. Whether or not these were valid objectives and the instruments chosen were appropriate is discussed in the next section. Second, several of the central banks in the English-speaking Caribbean played a leading role in the creation of institutions to foster economic development. As such, central banks fostered stock exchanges, unit trusts, export credit insurance, and secondary markets for mortgages and government securities, in some instances either directly subsidising these activities or operating them as subsidiaries of the central bank.

## Instruments of Monetary Control

Caribbean central banks were invested by their enabling legislation with the tools or instruments of monetary management as practised in the United Kingdom, viz. open market operations, reserve requirement or liquid asset ratio variations, rediscount rate, and

peculiarly British technique whereby the quiet, discreet insistence of the central banks that the commercial banks follow or desist from a particular course of action would produce the desired results without employing the sanction of other statutory instruments of control.

The framers of the enabling statutes of Caribbean central banks were however, conscious of the practical limitations that these institutions were likely to face given the structures of the economies and the financial systems. It was clear for example, that open market operations could not be conducted in circumstances where financial markets were rudimentary. Indeed these central banks took as part of their primary initial responsibilities the creation of markets for government short and long term securities. Selective credit controls were not in great favour with institutions like the International Monetary Fund, but found a place in the various pieces of legislation nonetheless. Caribbean central banks also found it expedient to acquire other direct instruments of control, including the power to fix interest rates and of course, there were exchange controls.

In the early years, Caribbean central banks used rediscount rate changes as the main instrument of policy. At that time the countries were part of the Sterling Area and as such exchange controls were ineffective and exchange rate changes were beyond the pale of appropriate policy. Yet the new central banks felt that there was a need to try to insulate developments in their economies as far as possible from external monetary influences. High interest rates in Britain should not necessarily cause high interest rates in the Caribbean countries, which wanted to keep interest rates low as a spur to growth and development. In the absence of effective exchange controls however, variations in the rediscount rate could not have the desired insulating effect.[5]

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5 See Best and McIntyre (1961) and Farrell (1990)

exchange rates forced Caribbean central banks to deploy other instruments of policy. Increasingly active use began to be made of variations in reserve requirements or liquid assets ratios in an attempt to influence credit conditions. With their withdrawal from the Sterling Area and the imposition of exchange controls against sterling, exchange control became a more potent aid to effective monetary management. Direct credit and interest rate controls were more frequently used. Restrictions on borrowing from the domestic banking system by foreign corporations were imposed, consumer instalment credit was regulated. Interest rates on mortgage lending were fixed in Barbados. In Trinidad and Tobago in 1978, the central bank was given the power through the government to fix deposit and lending interest rates, but this power has never been exercised.

In the event the combination of monetary measures and exchange controls as applied proved insufficient to protect the balance of payments of the Caribbean countries from burgeoning fiscal deficits, financed ultimately by money creation. As a result, the exchange rate which had been held almost sacred and as untouchable in the pantheon of instruments, began to be used in those countries with the most serious imbalances.

In addition to several formal devaluations beginning in 1978, Jamaica has experimented with a range of exchange rate regimes-- dual exchange rates, mini-devaluations, a formal parallel market, an auction system, and the current flexible exchange rate. Similarly, the Guyana monetary authorities were unable to maintain a fixed rate regime and have also moved to a flexible exchange rate regime. In both Jamaica and Guyana, there has been substantial depreciation of the currencies over the last few years. Trinidad and Tobago devalued twice, in 1985 and 1988, and experimented briefly with a dual exchange rate regime between December 1985 and January 1987. In April 1993,

stable since the initial depreciation.

The shifts which have occurred in the use of various instruments of policy over the last 15 years have been due in part to changed internal and external environments, but also to the growing influence over macro-economic policy in the Caribbean by the IMF, the World Bank and the Inter-American Development Bank. Generally, these institutions have discouraged the use of direct control measures such as selective credit controls and particularly, exchange controls, and have encouraged the use of the exchange rate and curiously, open market operations, in circumstances which still do not permit the effective use of this technique. As financial markets mature and deepen however, the scope and effectiveness of open market operations will certainly increase. Variations in reserve requirements or liquid assets ratios still remains the most effective instrument of monetary control in these economies, although this instrument has important limitations.

A second point is that over the last 15 years, in the face of a difficult external environment and consequently, difficult internal economic circumstances, the concern of the monetary authorities has shifted progressively from growth and development to stabilisation and adjustment. Central banks therefore, abandoned their concern with low interest rates, and placed a great deal less emphasis on selective credit controls, and have focussed their energies on leaning against the hurricane of poorly controlled fiscal deficits, and managing the external debt and the foreign exchange reserves on a day-to-day basis.

## Relationships with Governments

Most central bankers would readily acknowledge the primacy of the government and its economic policies over the policies of the central bank, since at the end of the day

economic policy. As Fazio has said succinctly "(t)he central bank must coordinate its action and its economic policy interventions in the general context of the state's economic policy".[6] G. Arthur Brown, twice governor of the Bank of Jamaica, has pointed out of a central bank governor that:

> By his training, knowledge and experience, he must show the consequences of various courses of action. He must be free to propose alternatives and spell out the consequences . In operating in this area, the highest standards of discretion and secrecy must obviously be observed. The Governor cannot resort to writing letters to the press or making speeches against government policies. His obligation is to tender advice forcefully but objectively. Like the auctioneer, he will advise once, twice, thrice. But if having done this, the Prime Minister says, ' I have heard you and understand you, but the Government does not agree', he must then see how best the government's decision can be carried out.[7]

Though this basic principle would find ready acceptance, the dynamics of the relationship between central banks and governments have to be understood in the context of the nature of the state, and in the personalities and powers of persuasion of the governors or presidents of the central bank. For example, the extraordinary power of the Bundesbank can only be appreciated in the light of German constitutional history after the experiences of the First and Second World Wars. Recent assaults on the independence of the Bundesbank also have to be understood in the context of the goals of the German state on the question of unification and Germany's role in a European economy.

In order to appreciate the relationship between Caribbean central banks and their governments, it is necessary therefore to have some kind of perspective on the functioning of the Caribbean state. First, because the societies and polities are small, the acknowledgement and overt exercise of power is paramount. It is difficult to diffuse,

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6 Fazio, A., Role and Independence of Central Banks, in Downes and Vaez-Zadeh (1991)

7 Quoted in Blackman (1989), p.233

exercising power. Second, patronage is perceived to be important to the retention of power. It is important therefore, for politicians to retain as much scope for patronage as possible. This involves the ability to secure short-term employment, approvals of one kind or another, appointments to public office, or awards or honours. In a word, the Caribbean state may be described as "proprietorial".

Central banks are not usually instruments of patronage, even though they may be seen as powerful in their own right. However, with the exchange control and bank regulation functions vested in them, the scope for patronage becomes larger and especially important to the propertied or business classes in the society who are more directly affected by such regulations. Exchange control did not become a major issue until the mid-1970s. The function was delegated to the central banks and could not be retroceded easily. The central banks of the region therefore occasionally came under severe political pressure in respect of their exercise of their delegated exchange control authorities. Political pressure was also often brought to bear in the exercise of the bank supervision function, particularly as regards the issue of licences for the establishment of new financial institutions, or later on, actions to intervene and close down particular institutions.

The period up to the mid-1970s presented few opportunities for conflict between the central banks and their governments. Central bank governors acquired considerable stature within their local communities and regionally, and by and large served for long periods. In Trinidad and Tobago, Victor Bruce served as Deputy Governor for 3 years and then assumed the governorship and served for some 15 years. In Barbados, Courtney Blackman was the first Governor of the central bank and also served for 15 years. Patrick Matthews in Guyana served for 16 years. Governors maintained good contacts with their central bank colleagues in Latin America and North America through CEMLA, and with

and attitudes were assimilated and helped to create some distance between the central banks and the mainstream civil service in terms of attitudes and standards of efficiency.

The opportunities for conflict between the central banks and governments arose during the post-1975 period which was characterised by a focus on stabilisation and adjustment arising from external shocks as well as internal imbalances caused by weak fiscal policy and the inappropriate financing of the consequent deficits. It is this issue more than any other which tests the independence of the central bank and the mettle of its leadership. In the event, all the central banks which were so tested were found wanting. In Jamaica, the statutory limit on central bank financing of government operations was varied upward and put wholly at the discretion of the government in order to accommodate and validate excessive central bank financing. The same occurred in Guyana. In Trinidad and Tobago, the statutory limit on short term advances has been exceeded, as well as the statutory limit on the holding of government securities and the statutory floor on the foreign exchange cover for the currency issue. In Barbados, the central bank also financed the government excessively in 1981 and again more recently.

Why were the leaderships of the region's central banks unable to resist the pressures for excessive government financing? It can be argued that the "proprietorial" Caribbean states would have brooked no resistance from the central banks, and the leaders of the central banks, being aware of this and given the limited opportunities for their employment otherwise, might have thought it prudent to concede, whatever their misgivings. The fact is that the legislation governing the central banks of the Caribbean, like those of most other countries, gives the government the power to issue directives to the central bank to give effect to its wishes. It is also true that most central bank governors

on their central bank accounts.

There are however, other, perhaps more mundane, but not necessarily mutually exclusive explanations for the observed behaviour. The circumstances of the late 1970s and 1980s were complex and unprecedented in the history of the Caribbean. In the face of the severe external shocks, summed up in sharply declining terms of trade, central banks would have had great sympathy for some attempt to mitigate the worst effects of those shocks by the stimulation of domestic demand, while attempting to protect the balance of payments by tighter exchange controls and/or changes in the exchange rate. They may also have believed that governments would have repaid short-term advances as required by the statute, or stopped issuing securities once these actions were shown to be unsustainable. Having entered the slippery slope of money creation, neither the central banks nor the governments found it easy to recover without the assistance of the international financial institutions.

It would be true to say that over the last decade, Caribbean central banks have lost some of their mystique and much of their lustre. The suspension of the CARICOM Multilateral Clearing Facility in 1983 opened the central banks to censure from their governments, especially in Barbados, whose central bank ended in the invidious position of being owed the largest amount by the CMCF, and compromising its foreign reserves holdings. The severe economic difficulties faced by the region's governments would also have prompted them to look for someone to blame, or at the very least, to question the competence and the quality of the advice proffered by their central banks.[8]

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8 See Rampersad (1990). In Jamaica, there have been several changes of the governorship in recent years, coinciding with changes of government. In Trinidad and Tobago, when a new administration took office in December 1986, the incumbent governor's advice was not actively sought and apparently not trusted when proferred, and he resigned 14 months later.

Courtney Blackman has characterised the essence of a central bank as the "infinite liquidity" of its balance sheet. It is this quality which underpins the role of a central bank as lender of last resort. This function, which is often poorly understood, refers to the ability and willingness of a central bank to lend aggressively to commercial banks, on good security, in the context of a liquidity crisis.[9]

In the English-speaking Caribbean, only the central bank of Trinidad and Tobago has had to confront serious problems in its financial system. The problems initially afflicted certain independent non-bank financial institutions, i.e. those not affiliated to a commercial bank, but eventually spread to affect three commercial banks.
The proximate cause of the crisis was the sharp downturn in the economy consequent on the initial fall and then the collapse of oil prices. The more fundamental cause was inadequate management of the financial institutions and the inability of the central bank through the bank supervision process to address the difficulties of particular institutions with appropriate and timely remedial action.

When the first major crisis involving a financial institution broke in 1983, the Central Bank of Trinidad and Tobago was unprepared. It had no previous experience of a run on an institution, there were no Caribbean precedents, and there was no deposit insurance scheme in place. The central bank did well to slow the run, but the confidence of the public in the independent non-bank financial institutions had been thoroughly shaken.[10]

The central bank had to move on several fronts. First, it had to encourage the government to amend the legislation to give the central bank greater powers to act to protect

9 The classic formulation of this principle was by Bagehot in his Lombard Street.
10 See Bobb (1986), Farrell (1988) and Farrell (1991) for accounts of these developments.

providing liquidity support to the ailing institutions until the legislation was put in place. In the event it took over two (2) years to secure the relevant amendments to the legislation, during which time the ailing institutions had to be supported. Some support from the commercial banks was arranged initially, but this was soon exhausted and the central bank was then directly exposed. The ailing institutions had little by way of acceptable security, and the Trinidad and Tobago central bank was constrained to discount loans of dubious value.

In 1989 when the Central Bank of Trinidad and Tobago, now with enhanced powers from the 1986 amendments, intervened a large commercial bank and its subsidiary trust company, it had to undertake a similar bailout. More recently, it assumed control of the largest indigenous bank and effected a merger of the three banks under its control.

In Trinidad and Tobago, deposit insurance is activated only in a liquidation, and therefore once it has been decided for systemic or other reasons, that an institution will not be liquidated, and there are no other willing buyers of the assets and undertakings, there is really no option but for the central bank to fund the rescue.

This role should not be confused with the classic "lender of last resort" role in the context of a liquidity crisis, since, when the central bank has to act to fund a rescue of an insolvent institution, the situation has gone well beyond a liquidity crisis to a solvency crisis threatening the well-being of the entire financial system and with important implications for the fiscal situation.[11] This experience suggests that it may be important to find a way of separating the two roles, perhaps by allowing the Deposit Insurance Fund to be activated in a rescue/recapitalisation and not only in a liquidation.

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11 See Sheng (1991)

There are several factors influencing and shaping the direction and the content of central banking in the English-speaking Caribbean. These are (i) ongoing processes of stabilisation and adjustment under the auspices of the international financial institutions; (ii) the liberalisation of trade and financial services; (iii) the widening and deepening of financial markets in the region; and (iv) impetuses toward greater economic cooperation and integration.

Only with the fullness of time will it become clear the extent to which the Washington-based international financial agencies have influenced policy formation, and in particular the conduct of central banking in the region. In Jamaica, which has had the longest sustained experience of Fund- and Bank-supported adjustment programmes, there is anecdotal evidence to suggest that the mind-set of the policy makers, including those at the central bank, has conformed to that of the multilateral agencies in major respects. In effect policy makers in the Caribbean have been losing the capacity for independent thought and action. There has been an almost total pre-occupation with stabilisation and adjustment, reflected in the day-to-day management of scarce foreign exchange reserves, and flying visits to Washington to secure or preserve external financing flows, to the virtual exclusion of attention to longer-term development goals and to the quality of economic growth.

The practical effects of the intervention of these agencies has been a demonstrable shift toward the use of market instruments of control and away from direct controls. For example, the use of selective credit controls and credit ceilings has diminished, while greater use is being made of interest rate policy either through so-called 'open market operations' or through active use of the Bank or discount rate. The use of exchange

repealed its exchange control statute, while Trinidad and Tobago in 1991 removed exchange controls over visible imports which had been in place since 1983, and finally in April 1993, eliminated all exchange controls in respect of both current and capital transactions. The Central Bank however, remains in control of the operation of the foreign exchange market through its licensing of authorised dealers.

The pace of financial development over the last 20 years has been relatively quick in that banks have expanded the range of their products and services, including the expansion of merchant banking and off-balance sheet transactions, and, with tax incentives or subsidies from the central banks, new institutions, such as the stock exchanges, secondary mortgage market institutions and unit trusts, have grown up. While the region's financial systems are no longer rudimentary, they are certainly not yet very sophisticated. The developments which have occurred have however, added to the complexity of monetary policy formation, if only because of the greater variety of interests and players in the financial markets. Central banks have to respond to these developments by further enhancing their intelligence capabilities, including the speed with which information is captured and analysed to inform policy. This means in effect, that central banks have to make full use of information technology in support of monetary policy formulation.

Over the last two years, central banks of the region have been examining the issue of Caribbean monetary union. The impetus for this came from the Heads of Government Conference of CARICOM, which was concerned about the move toward a Single European market and the impending formation of the North American Free Trade Area, and determined that the CARICOM countries were likely to be better placed to deal with the threats and opportunities presented by these developments if CARICOM moved toward a single market and if a monetary union were formed. The Report presented to the Heads of

Monetary Authority before the end of the decade. Such an institution would seek to remedy many of the deficiencies of the existing national central banks in their relations with governments and the financing of fiscal deficits. It remains to be seen whether this initiative will bear fruit.

The environment within which central banks will have to operate is therefore undergoing substantial change. This means that central banks themselves have to undergo significant change and adjustment both in terms of their internal organisation and operations and how they project their influence in the market place. The weaknesses displayed by central banks when put to the test during the period of stabilisation and adjustment will impact their ability to respond to the emerging environment. Governments have reacted to these weaknesses by finding ways of reining in the central banks, though there is no immediate danger of re-absorption. Paradoxically, an appropriate requires that central banks be given more latitude, not less, more independence, not less.

## Concluding Remarks

Like so many other institutions of Caribbean society, the region's central banks are undergoing a period of crisis. The recent scandal in Jamaica in respect of the foreign exchange market as revealed in the Report of the Barber Commission, bears witness, although much of the crisis is quiet. Changes to either their banking legislation or the central bank statute or both have been made or are pending in Jamaica, Barbados and Trinidad and Tobago. The East Caribbean Central Bank is also pushing through uniform banking legislation for the territories for which it has responsibility. These legislative

respect of prudential regulation and supervision.

However, legislative changes are not likely to provide all of the answers to the problems affecting the region's central banks. While it may clarify the role of lender of last resort, and sharpen instruments of control and supervision, no statute can fully address the capacity to manage a rapidly changing financial and economic system or the complex relationship between the leadership of the central bank and the political directorate. It is this relationship, perhaps more than the provisions of legislation which determine the effectiveness of a central bank at the end of the day. The political directorate must be self-confident enough and sufficiently seized of the importance of the functions of the central bank to appoint leadership to the central banks who are of a sufficiently independent cast of mind.

It is also the case that much of the progress made in the development of a research and economic intelligence capability and in the knowledge of the conduct of monetary and fiscal policy under conditions of stabilisation and adjustment might well be lost if the central banks of the region are no longer able to attract and retain the better minds with the relevant skills.

Caribbean societies have few institutions which are capable of taking a long view and which have the resources to make a difference to how these societies function. The central banks have to be counted among these, and it is therefore imperative that they be preserved and enhanced.

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