

DeLisle Worrell: Reflections on financial stability analysis in the Caribbean

Address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the conference on “Financial risk assessment in an integrating region – the Caribbean”, Bridgetown, 25 November 2013.

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Through the Caribbean network of economists, established by the region’s central banks and UWI, and centred at CCMF, the Caribbean nations have kept themselves at the forefront of changing international currents in economic and financial analysis. Financial stability analysis has been no exception. We were early in the field, and we have kept abreast of analytical developments over the years. As a result, three of our central banks now publish financial stability reports with in-depth analysis which is comprehensive, sophisticated and is designed to address the principal areas of potential vulnerability we face. That includes some analysis of regional risks, because our national financial systems are intimately linked, and it is necessary to assess regional (and international) risk exposures, in the search for completeness of national financial risk policy.

Among the earliest papers on financial risk in the Caribbean (or anywhere else) were working papers by Theatin and Polius, under my supervision and in association with Professor Roland Craigwell, which may be found among working papers on the website of the Central Bank of Barbados. We were among the earliest to attempt estimation of the factors affecting risks of financial failure, when such research was in its infancy.

We also have a history of regional financial surveys, reflecting the fact that our financial systems within the region have been interlinked by ownership and financial transactions for generations: the regional financial survey which has for two decades been a standard reference on Caribbean financial systems, has recently been updated under the guidance of Professor Ramesh Ramsaran. Caricom’s investment surveys have included enlightening chapters on regional finance, and there have been surveys by the IMF and others. In my own paper with Cherebin and Polius on regional financial systems, we included quantitative analysis of regional financial risk exposures.

Leah Sahely and Tracy Polius have recently published a multivariate analysis of banking soundness in the ECCU; while Sahely at the ECCU developed a sophisticated and user-friendly template for stress testing. The financial stability department of the Bank of Jamaica, under the entrepreneurial leadership of Dr. Brian Langrin, has produced an impressive stream of technical studies in the area of macroprudential analysis. I have myself made contributions in the field, in collaboration with regional colleagues.

The IMF sponsored two regional workshops on financial risk analysis in the years I worked for that institution, where we were able to bring together the research that had been done in the Caribbean with leading international expertise which the Fund was able to provide.

Out of this effort we now have increasingly sophisticated Financial Stability Reports being published by Jamaica, Barbados and Trinidad and Tobago. They all have a regional dimension, because the intra-Caribbean linkages are so pervasive that a meaningful assessment of financial stability must take account of risk exposures from around the region, as well as those arising locally.

The regional financial architecture is built on this foundation of analysis, as well as the network of cooperation which financial supervisors have established within the Caribbean region. We now have regional associations for the supervision of banking, insurance, securities trading and pensions, as well as a regional group on anti-money laundering.

The task before you is to stitch together the operational and informational arrangements for regional assessment and monitoring of financial stability on an ongoing basis. The outlines of the way forward are set down in the project document on the basis of which the IDB agreed to provide funding for this effort. It envisages that each country (or sub-region, in the case of the ECCU) will have established an overarching framework for financial stability, led by the central bank. The regional architecture then becomes the mechanism which binds together the national and sub-regional financial stability functions. At its apex sits the Committee of Central Bank Governors, with each Governor in their capacity as head of the financial stability function in the area under their jurisdiction. It is the task of the current conference to advance the process of putting that system in place. This is a high priority for the Caribbean region, and we look forward to a speedy conclusion of your work.