

Abstract

The Fragility of Commercial Banks in the English-speaking Caribbean

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Bank fragility refers generally to a situation where a bank is structurally weak and inefficient in terms of intermediating transactions. The phenomenon presents a case for investigation, as banks provide certain key functions such as financial intermediation, payments system administration and maturity transformation in Caribbean economies.

The thesis examines a few cases of failed or restructured banks in an attempt to delineate some of the causes of bank failure. Discriminant analysis, a multivariate data technique, is applied to data from a sample of commercial banks within CARICOM in an effort to determine some of the major factors which contribute to bank fragility and failure.

The analysis reveals that a combination of microeconomic and macroeconomic factors, including the nominal exchange rate, the treasury bill rate, the quality of management, the level of efficiency and the level of non-performing loans influence the health of a commercial bank.

It is proposed that a multifarious approach based on a combination of prudential and market regulation be used in order to improve the microeconomic elements, such as capital adequacy, the quality of management and level of efficiency. It is also suggested that macroeconomic policy formulation and management consider the possible effects of the policy mix on the banking environment. In order to avoid the reoccurrence of fragility problems within restructured banks, it is suggested that these banks be recapitalized, and new ownership and management introduced. bank fragility, and provided the data for this exercise.

Keywords: Tracy Dora Polius; bank fragility; Caribbean; discriminant analysis; microeconomic and macroeconomic factors; prudential regulation; market regulation.

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