

**ABSTRACT****Financial Liberalization and Credit Allocation: Implications for Trinidad and Tobago**

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The objective of this study is to show that in a free market system, the financial sector can be engineered in such a way as to provide an appropriate environment that is conducive to sustainable economic growth. Given the fact that commercial banks are the major allocators of savings in Trinidad and Tobago, the study centres on the lending policies of these institutions. To improve understanding of bank credit culture, a quantitative and qualitative study is undertaken. It is found that the pattern of credit allocation by banks, evolves with the pattern of development of the "real-side" of the economy. However, attention to credit allocation is justified, as business credit is found to be supply-leading.

Notwithstanding the supply leading nature of credit allocation, certain socially undesirable outcomes seem to emanate from the use of the market system as an allocator of credit. There is a time lag with which commercial banks react to improved credit opportunities. From the research it can also be gleaned that there is a "natural" tendency for

bank lending to be skewed away from agriculture, micro enterprises and new business prospects.

To attend to these problems, it is suggested that intervention by government is unlikely to be sustainable, unless the problem of credit risks is dealt with satisfactorily. By reducing risks associated with lending to desired enterprises, financial institutions can be encouraged to lend in a direction conducive to sustainable growth. In order to circumvent the problem of risks, it is recommended that attention be given to the development of the information infrastructure, development of innovative contractual devices, and innovations in the financial structure.

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