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ECONOMIC CONVERGENCE AND MONETARY UNION: THE EXPERIENCE SINCE 1991 AND PROSPECTS FOR THE FUTURE

by

Dave Seerattam
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INTRODUCTION

The decision taken at the Meeting of CARICOM Head of Government in 1992 to take steps towards forming a monetary union among CARICOM members was driven by the perceived advantages of a monetary union for the small open economies of the Caribbean. The main advantages are that a monetary union reduces uncertainty with respect to payments and transactions costs which, in the context of supporting wider economic integration, facilitate intra-regional trade and the movement of capital across the region. The viability of the monetary union, however, requires some minimum level of economic convergence. To this end, the monitoring of economic convergence in the Caribbean has therefore been ongoing since 1991. In light of the elapsed time since formal monitoring of Caribbean economic convergence began and, in the context of the impending monetary union in Europe in 1999 and the problems encountered by that region on it part to monetary union, it is useful to appraise the level of progress the Caribbean has made in this area.

This paper therefore represents an attempt to assess the level of convergence or divergence of these economic indicators since 1991. The paper also looks at the reasons some minimum level of economic convergence is preferred when proceeding towards a monetary union, the problems and methods of measuring economic convergence and the challenges that remain in the way of the region's economic convergence and monetary union.

MONETARY UNION AND ECONOMIC CONVERGENCE

As stated by Farrell (1994), "a monetary union is a group of countries linked by a common currency or by permanently fixed nominal exchange rates, with guaranteed convertibility". There can of course be more than one version of monetary union. The nature of these versions depends on the number of currencies and central banks in the union, whether national economic management are coordinated or not and whether capital movements are free or restricted.

Farrell (1994) idebtifies three main types of monetary union. These include weak, semi-strong and strong monetary union dependent on the degree of integration entered into by members, based on the three criteria mentioned above. In the first version, countries have separate national currencies and central banks and, economic policies are not coordinated, however, they also agree to maintain a fixed parity between their nominal exchange rates and place limits on capital flows. This form of union is defined as weak because it is easier for members to exit the union. In the second version of monetary union, there is a common currency and central bank and capital controls are in place, however, economic management is not coordinated. This version is defined as semi-strong because greater costs are associated with exiting the union. In the third version of monetary union, there is one currency and central bank, centralised economic management and the factors of production are free from restrictions.

It is obvious from the above discussion that monetary union, in whatever form, involves the elimination of the exchange rate as a policy tool and a diminished ability to conduct independent monetary policy. These two factors are considered as important costs attached to monetary union. The factors determining the severity of these costs relative to the benefits of monetary union is dealt with in the literature on optimum currency areas as espoused by Mundell (1961) and Mckinnon (1963). The size of the optimum currency area or monetary union also depends on the volume of trade and the factor mobility between potential members. Moreover, the viability of the monetary union depends on the degree of economic convergence among potential members (Hall, Robertson and Wickens 1992).

Convergence is important because it has implications for the willingness of national authorities to relinquish a certain amount autonomy over economic management. That is, the more convergent the economic systems in a region are the more infrequent will be the need of national authorities to depart from a common regional policy stance to correct national economic problems. In a sense, economic convergence helps to equalise the costs and benefits of a monetary union for members (Worrell 1994). The less convergent the economic systems are in the region the more national authorities would need to pursue disparate economic management objectives. They would therefore be less willing to pursue a coordinated approach to economic management, to relinquish control of their exchange rate as a policy tool or to tolerate the decreased autonomy over their national monetary policy.

Monetary union is an extremely complex and difficult process. This has led many economist, businessmen and politicians to be pessimistic about the prospects for monetary union, even in Europe. For example, as reported in the Wall Street Journal, Europe of September 25, 1997, U.S. Federal

Reserve Chairman Alan Greenspan was quoted as saying "the euro will come but it will not be sustainable". In that same issue of the Wall Street Journal, Martin Taylor, the highly-respected Chief Executive of Barclays Bank told a bankers conference that if the exchange rates for the start of the EMU do not reflect true convergence, it will be the duty of speculators to "drive them apart". These statements reflect the many problems that can confront monetary unions and a pessimism that is driven by an understanding of the difficulties involved in forming a monetary union (even for Europe) and the discipline that is required (even if there is convergence of economic fundamentals) to make it work.

The costs attached to monetary union, which exist even in the best of situations, would therefore tend to be prohibitively high for the members of the union whose economic performance was furthest removed from the performance of the "core" countries[1]. This would be so, for example, because it would be extremely costly in terms of output and income, for a high inflation member to emulate the low inflation standard normally required for countries if they are to be part of the monetary union. The rapidly rising unemployment in the former German Democratic Republic after the June 1992 monetary union provided a good example of the costs of ceding monetary independence.

These concerns are the main reasons why monetary union is more of a process than an event, since member countries, over time, need to demonstrate convergence. This is also why it has been

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[1] For example Germany is seen as the apex country within the impending European monetary union and the economic performance of all other member countries are expected to converge around its performance especially in areas such as inflation control and fiscal prudence.

suggested that a "core" group of Caribbean countries (the areas that have most consistently met the criteria for inclusion in the monetary union) should initially form the basis of the monetary union. Thereafter, other members could be included as their economic performance converge on the common standard. It makes absolutely no sense to rush to form a monetary union, no matter how desirable and potentially beneficial this would be, if it will not last.

Economic convergence is therefore critical to the viability of the monetary union, hence the monitoring of convergence indicators which have gone on since 1991. Since 1991, central bankers in the region, and since 1995, the Caribbean Centre for Monetary Studies, have been monitoring a group of general economic indicators, as well as, specific convergence criteria which countries must meet to enter the monetary union. These convergence criteria are now referred to as the 3-12-36-15 criteria which require that countries maintain 3 months of import cover for 12 months, a stable exchange rate for 36 months and a debt service ratio of not more than 15%. Developments such as the adoption of floatation (dirty) exchange rate regimes in four jurisdictions required that the criteria be adjusted slightly. Specifically, the Task Force on Currency Covertibility and Economic Convergence has recently recommended that the definition of exchange rate stability be expanded from one of zero change to one where stability is defined as not floating outside of a 1.5% change band. Moreover, the reserve cover rule should now be either 3 months of import cover or 80% of demand liabilities, whichever is greatest.

THE MEASUREMENT OF ECONOMIC CONVERGENCE

As noted before, the success of the Caribbean community's plans for monetary integration depends upon the degree of economic convergence. Without this, the cost of premature integration could be high. The accuracy of the measurement of convergence is therefore very important. Economic convergence is concerned with the relative long run behaviour of a number of economic time series which, when taken together, indicate convergence in economic performance. The theoretical literature on economic convergence has centered on the convergence of income and economic growth rates among countries or regions. The neoclassical growth models as articulated by Solow (1956) and Barro and Sala i Martin (1991), predict that the growth part of any country or region will converge on a steady state, which assuming labour mobility and public technological knowledge, is the same for every country. This neoclassical prediction that output and income of different countries should converge towards a steady state encouraged advocates of monetary unions since it predicted eventual convergence which was needed for monetary unions to be viable. A number of new growth models (Krugman 1991 and Van der Ploeg and Tang 1992) have, however, emerged which assume some non-convexity in production or some externality arising from the accumulation of human capital that could actually cause economic performance to diverge. Needless to say, this literature has lent support to people who are skeptical about the viability of monetary unions.

In terms of the empirical literature on economic convergence, however, a number of complex issues has arisen in terms of the measurement of convergence. These issues have not been given as much attention as their importance to the process of monetary integration warrants. Generally, we may simply conceptualize if economic convergence as a situation in which the differences between economic variables for different countries become smaller with the passage of time. This can be expressed in mathematical terms as $\lim_{t \to \infty}(GDP_1 - GDP_2) = \propto$ where $\propto$ is some arbitrarily small constant. Since most economic variables are random, this concept of convergence could be strengthened by the concept of stochastic convergence (weak convergence), where the probability that two series differ by a specified amount $\propto$ becomes arbitrarily small with time or $E\{\lim_{t \to \infty} (GDP_1 - GDP_2\} = \propto$.

The methodology for measuring convergence can be further strengthened by considering integrated processes. If the series under consideration is of order one, that is I(1), then it may not be appropriate to expect the difference between these two series to become arbitrarily small. Rather, it may be more appropriate that the absolute difference between the series be of a lower order of integration to the series under consideration. We may also want to extend the definition of convergence to be systematic or general rather that sectoral or partial. For example, exchange rate stability may be achieved but at the expense of high interest rates (to attract capital inflows). This means that real (strong) convergence is not taking place as only part of the system is converging. So, mathematically, if we have a vector of variables x under consideration for countries A and B, strong convergence would be defined as where $E\{\lim_{t\to\infty}(X_A-Y_B)\} = \propto x$ held for all x. Weak convergence would then be defined as where this condition holds only for some x.

The problem lies in implementing these criteria. Some approaches which can be used to implement these criteria are discussed by Hall, Robertson and Wickens (1992). The simplest measure of convergence is a decline in the cross-sectional dispersion (coefficient of variation) of the variables under study. This measure is subject to distortions caused by shocks to the system in particular years which can obscure the underlying trend, especially in short data sets. Other methods includes looking for convergence in the parameters of key economic relations, testing for mean reversion which involves regressing the change of output of a country on its previous level using a data set of time series of a cross-section of international levels of output, cointegration analysis where the long run relationship between various series can be tested and a version of the time-varying parameter technique (which allows for dynamic structural change) used by Haldane and Hall (1991) to test for convergence.

The central point to this discussion on the methodology for measuring convergence, however, is that we must focus less on nominal and sectoral convergence and more on real and systematic convergence. The length of the time series under review (only six years) is also not lengthy enough, regardless of the measurement technique used, to be definitive about whether or not convergence is taking place. The collection of a consistently defined set of indicator series for a longer time period is therefore critical to the accuracy and reliability of the measurement of convergence. Successfully addressing these issues and weaknesses in the measurement process are critical to decerning whether conditions are right for a viable monetary union.

The measurement of economic convergence using some of the methodological constructs advanced by Hall, Robertson and Wickens could therefore be extremely useful for the measurement of convergence in the Caribbean. For the purposes of the paper, however, the paucity of the data set available, the fact that tests by Neven and Couyette (1995) indicated that the various methodologies produced consistent results, this plus the ease of the computations led to a preference for the simple method of observing the trends in convergence indicators buttressed by analysis of the cross-sectional coefficient of variation of convergence indicators over time.

ECONOMIC CONVERGENCE IN THE CARIBBEAN OVER THE PERIOD 1991 TO 1996

Over the period 1991 to 1996 the region has undergone some significant economic changes. Some countries have emerged from years of stagnant or negative economic growth to robust growth while others have made radical changes to their policy frameworks. This has often lent itself to variable performance between countries and over time. The economic areas we have been monitoring as the basis for the much narrower set convergence criteria include economic growth, inflation, employment and wages, the fiscal accounts, interest rates, foreign exchange reserves and exchange rates, the balance of payments and external debt. Performance in these areas are thought to have a significant impact on countries' ability to meet the 3-12-36-15 convergence criteria. Of course, performance in areas such as the balance of payments and fiscal management are of special importance in terms of meeting the convergence standards because of their more direct impact on the 3-12-36-15 criteria.

General Economic Convergence

In terms of **economic growth**, it seems that countries over the period experienced variable but generally improving growth rates driven primarily by the fortunes of their dominant export sectors such as tourism, mining and agriculture. Many countries have in fact undergone structural adjustment programmes and are only now beginning to reap some of the benefits of the restructuring exercises. From the evidence in Table 1, there is evidence of general convergence in this area. The trend in the cross-section coefficient of variation over time for economic growth (see Table 10) seems to confirm this. However, the highest level of convergence appears to have occurred between countries with similar dominant export sectors, especially The Bahamas and Barbados and to a lesser extent The OECS whose economies are mainly driven by the tourism industry, which rebounded after 1992.

In terms of **inflation,** there does appear to be a general trend for inflation to fall over the period 1991 to 1996 as most countries adopted anti-inflation policy stances (see Table 2). In many cases, this was previously driven by structural adjustment programmes but more and more this discipline is being imposed by the demands of the international capital markets. This convergent trend strengthened after 1993 as most of the floating rate economies adjusted to the new environment (see Table 2). This seems to have been confirmed by the trend of the cross-sectional coefficient of variation (see Table 10). The trend of converging inflation rates is even more pronounced if the high inflation jurisdictions are excluded.

There was not enough information on labour markets to make a judgement about convergence in this area but for countries where data were available unemployment rates have appeared to come down, ostensibly because of better economic growth performances (see Table 3).

In terms of fiscal management, on average, countries appeared to have improved their fiscal accounts on the current account but less so on the overall fiscal balance (see Tables 4A and 4B). The improvement on the current account is primarily as a result of the more prudent approach to fiscal management adopted by most countries. In most cases, this was initiated by adjustment programs and reinforced the discipline of the international capital markets. The less satisfactory performance on the overall fiscal account is largely due long overdue infrastructural upgrading. It could therefore be said that there was some measure of convergence in fiscal management, but mostly on the current account. The evidence provided by the cross-sectional coefficient of variation of these two areas is ambiguous (see Table 10).

When taken together it is unclear whether interest rates in the region are converging (the trend of the cross-sectional coefficient of variation in Table 10 is not clear). Interest rates do, however, appear to have been converging for the fixed exchange rate regime countries (See Table 5). Different monetary regimes, different reserve requirements, the existence or non-existence of capital controls and different levels of development for national capital market may account for the difference between the fixed and floating rate economies.

The foreign exchange reserve position of most countries in the region appeared to have improved over the period driven by improvements in their dominant export sectors and capital inflows (see Table 6). This initial impression seem to be validated by the trend of the cross-sectional coefficient of variation for international reserves (see Table 10). In some cases, however, this improvement has been fueled primarily by capital inflows and in spite of poor performances on the current account of the balance of payments. Improvements on the capital account must be accompanied by improvements on the current account, especially the merchandise trade balance, if this converging improvements in international reserves is to be maintained.

Nominal exchange rate stability has improved to a certain extent in the floating rate economies, especially after 1993 and 1994 in Guyana and Suriname respectively. However, this area still appears to be a problem for Jamaica (See Table 7). The varying performances of these countries over time is reflected in the cross-section coefficient of variation which exhibits no definitive trend (see Table 10). Considerable discipline in the implementation of fiscal policy, careful management of liquidity and controlling dangerous speculative activity will have to be practiced if these rates are to demonstrate a consistent degree of convergence.

In terms of the balance of payments, there were significant variations between countries and over time during the period 1991 to 1996. This is so especially on the current account. There was a little more uniformity in performance on the capital account of the BOP since many countries recorded improvements over the period, as a significant amount of capital flowed into these countries. The sources of this improvement differed somewhat, however, with the improvements in Belize, Suriname and Guyana being generated to a large extent by official flows while most of the other countries' performance was driven by private flows, mostly FDI (see Tables 8A and 8B). One can therefore say there was some level of convergence between countries on the capital account but certainly not on the current account. The cross-sectional coefficient of variation for the current and capital accounts as percentages of GDP showed that there were generally less divergence between countries on the capital account relative to the current account but the convergent trend in these two areas were not clear (see Table 10).

In terms of external debt, there has been some evidence of convergence across countries and over time, as most jurisdictions, except Belize, managed to reduce their debt service ratios (see Table

9). The cross-sectional coefficient of variation seemed to reflect this as it generally tended downwards during the period 1991 to 1996. This trend is also a manifestation of the new discipline of the regions' governments in their macroeconomic policy implementation. This improvement has come about because of better debt management practices, a commitment to reduce the external debt backed by the ability to repay the debt (as the foreign exchange earning sectors in many countries rebounded) and debt forgiveness in a few cases. This trend was motivated to a large extent by considerations of international credit rating, again the discipline of the international capital market.

Specific Convergence Criteria

The Import Cover Criterion

Driven by the recovery of their foreign exchange earnings sectors (tourism in the Bahamas and Barbados, mining in Guyana, Jamaica and Trinidad and Tobago and agriculture in Guyana and Suriname) and increasing capital inflows, gross foreign exchange reserves in most countries increased over the period 1991 to 1996, generally manifesting itself in improvements in import cover (see **Table 6 and Chart 1**). The difference between countries performance (as measured by the cross-sectional coefficient of variation) also seemed to decline over time (see Table 10). In spite of this general improvement, however, there appeared to be some divergence between countries in terms of their rate of improvement. Specifically, the rate of improvement in the import cover of Suriname and Jamaica were much more pronounced relative to other countries. The Bahamas and Belize also appeared to be inclined to a lower import cover than other countries.

As earlier mentioned, this general improvement in import cover was driven primarily by very significant capital inflows during the year (see **Table 8B and Chart 1**). These capital flows were directed at tourism activity in countries like Barbados, the Bahamas, and Jamaica; petrochemicals in Trinidad and Tobago; and mining in Guyana. In Belize, the inflows were driven mainly by government borrowing activity on the international market. The capital account of the balance of payments was, therefore, the driving force behind the indicated improvements in import cover. In some cases (Jamaica and Belize), such improvements occurred inspite of the deterioration in the current account (generally because of the poor performances on the merchandise trade account).

The danger in this situation for the region is that the performance was very dependent on capital inflows, and, even though much of these flows was in the form of foreign direct investment which is typically less volatile than portfolio flows, an over-dependence on these flows as main sources of foreign exchange is never fully advisable. Indeed, without consistently good performances on the current account, chronic external imbalances are bound to emerge in the medium to long term with attendant negative consequence for countries' ability to meet this convergence criteria consistently.

In terms of the import cover convergence criterion that member countries maintain 3 months of import cover for at least 12 months, only Guyana and The ECCB territories have consistently met this criterion over the period 1991 to 1996. Moreover, all territories excepting the Bahamas and Belize, have now met the standard set for convergence. Of the two exceptions, Belize's import cover of 2.6 months just missed out on the standard and the Bahamas should improve its position given the buoyancy of the tourism sector, provided of course that imports (which increased because of increased oil prices and imported construction inputs) could be controlled.

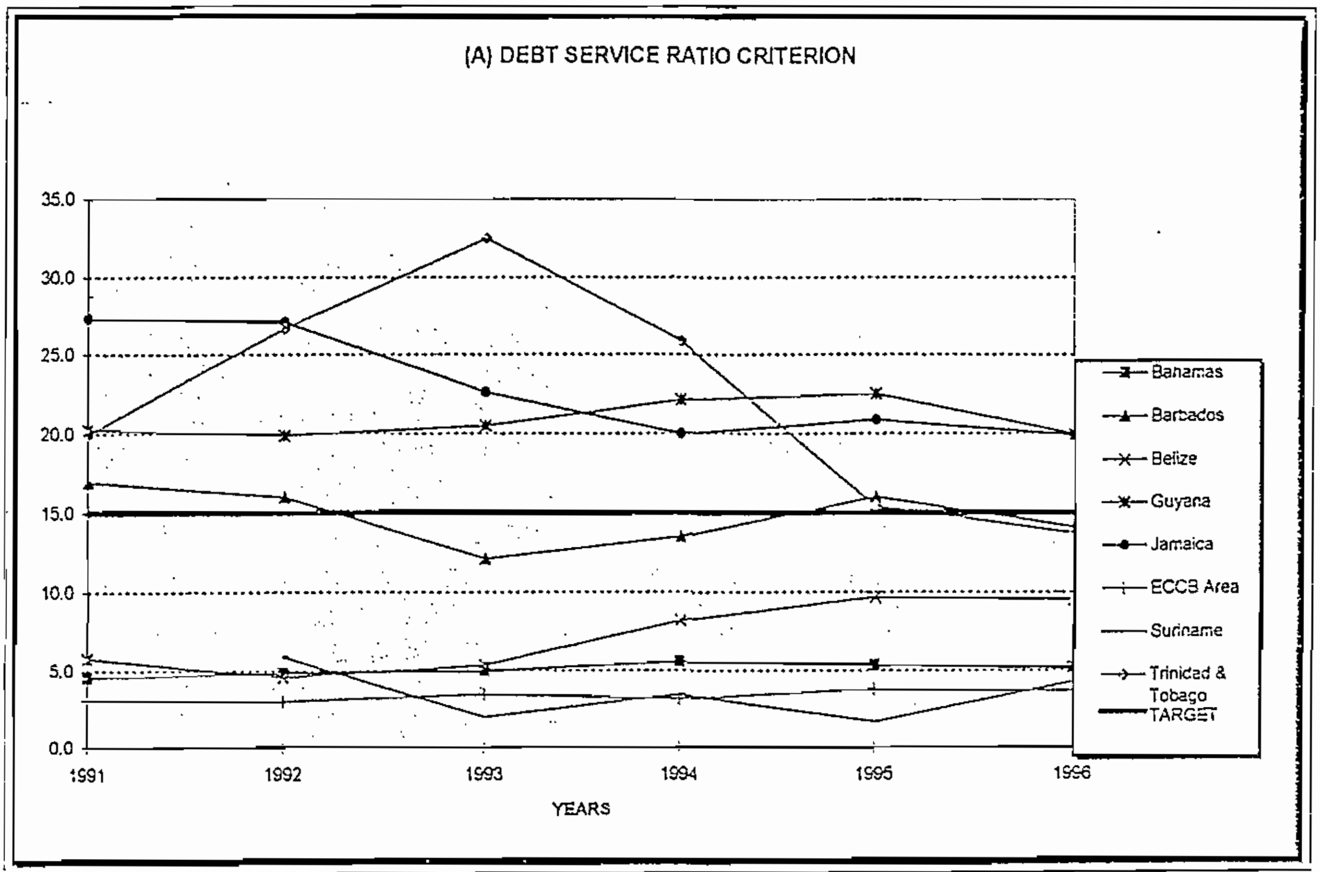
The Exchange Rate Stability Criterion

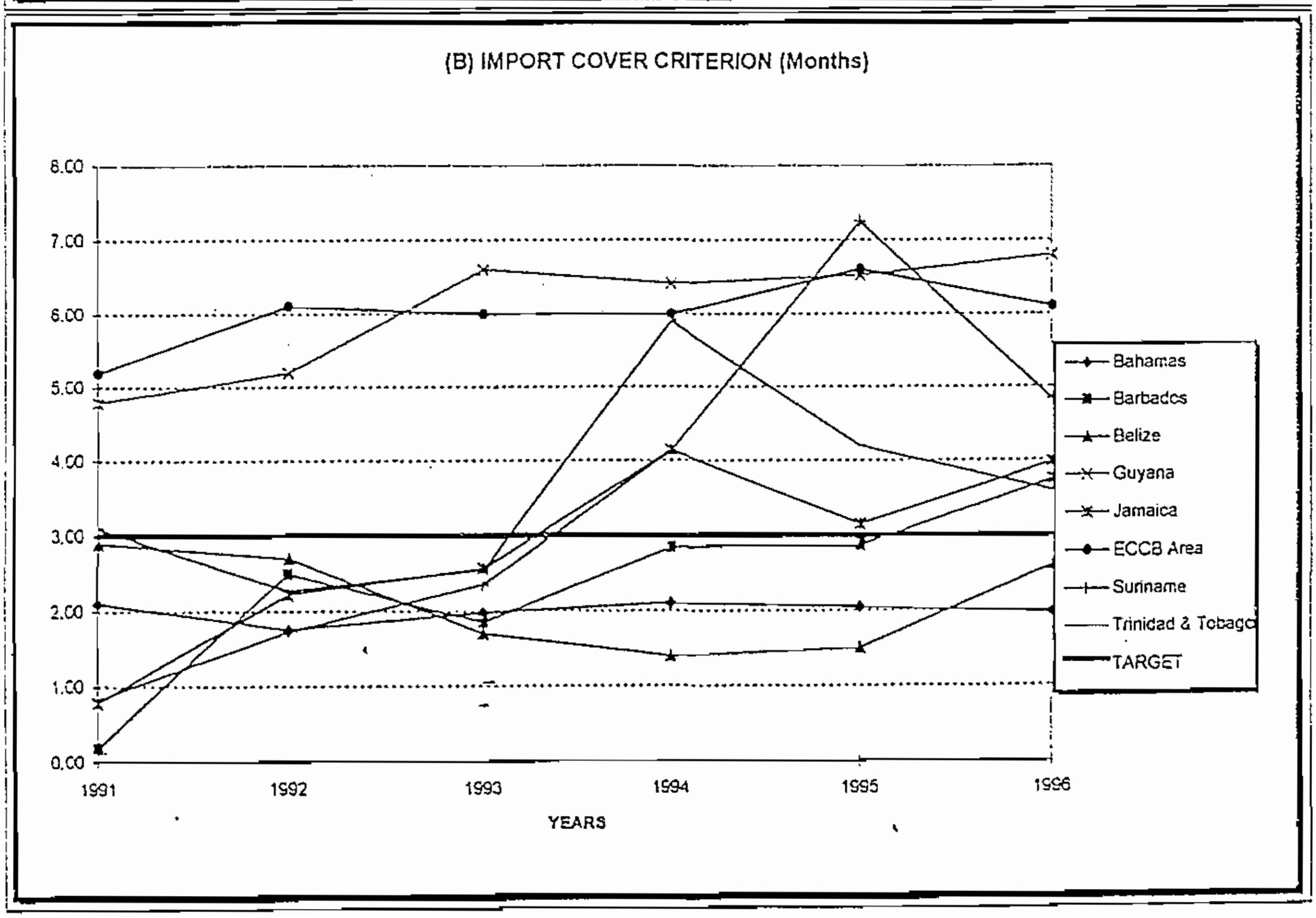
The convergence standard that territories are expected to maintain over a 36 month period, that is zero variance in the rate of fixed exchange rate economies and variances within a 1.5% band for floating exchange rate economies, was met by the fixed-rate economies. For the floating exchange rate regime countries, none have met this convergence criterion. There has, however, been a degree of stability in exchange rates, especially since 1993 when the variability of most of these countries was not far from the required convergence standard. These countries by and large seem to have since adjusted to an exchange rate level from which only small variations in the rate were being generated. Jamaica appears to be the only country which still experience significant (double digit) variations in its exchange rate but this again represents a remarkable improvement over the rate variation in previous years (**see Table 7 and Chart 1**).

The Debt Service Criterion

All fixed exchange rate jurisdictions (excepting Barbados) have consistently met the debt service convergence criteria since 1991. By 1996, all countries, excepting Guyana and Jamaica, had met the debt service standard (**see Table 9 and Chart 1**). The encouraging trend, however, is that the debt service in most countries has been consistently declining in all countries since 1991. This convergence is reflected in the generally declining cross-sectional coefficient of variation for the debt service criterion (see Table 10). Debt re-scheduling in Guyana and a commitment to reducing the external debt stock, in other countries backed by buoyancy in their foreign exchange earning sectors, have led to this favourable situation.

CHART1: CARICOM ECONOMIC CONVERGENCE BEHAVIOUR (1991-96)





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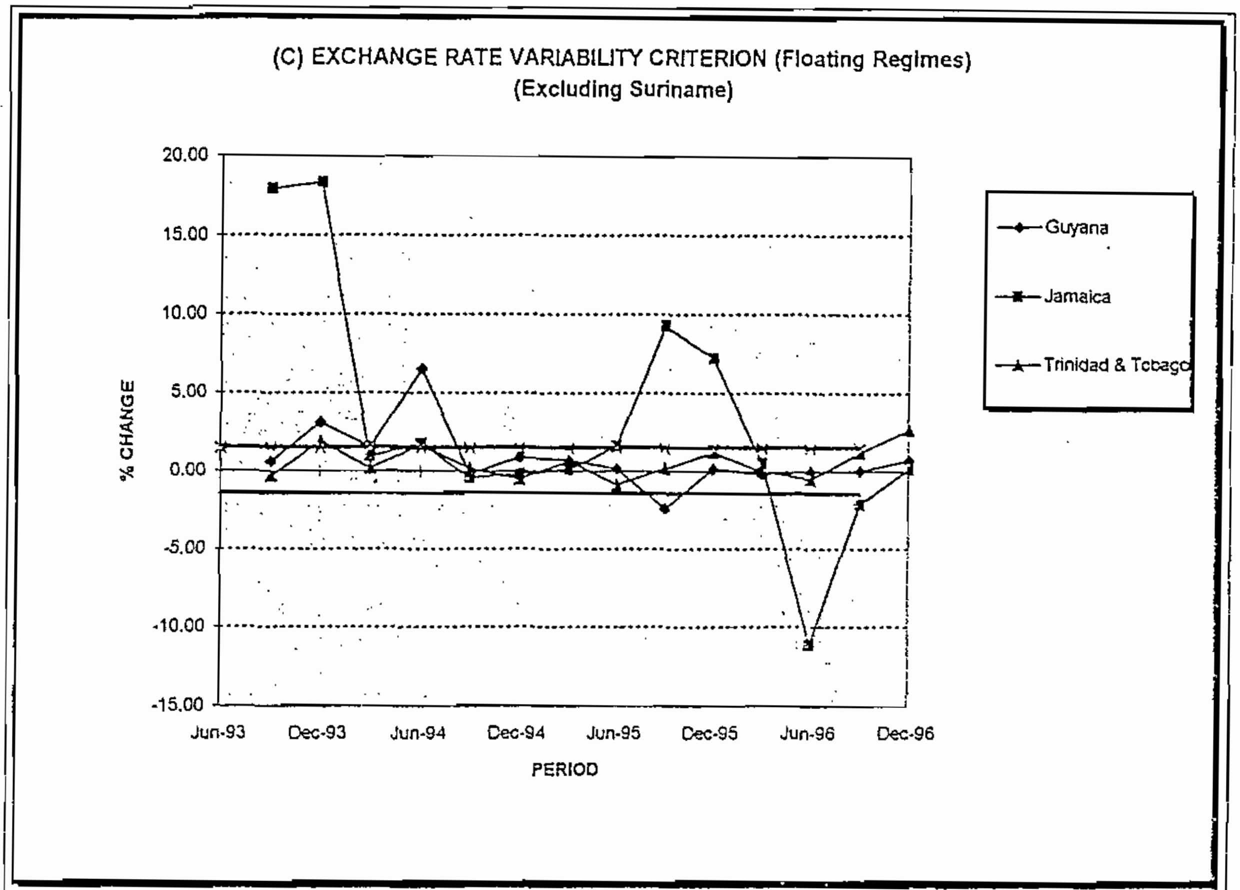

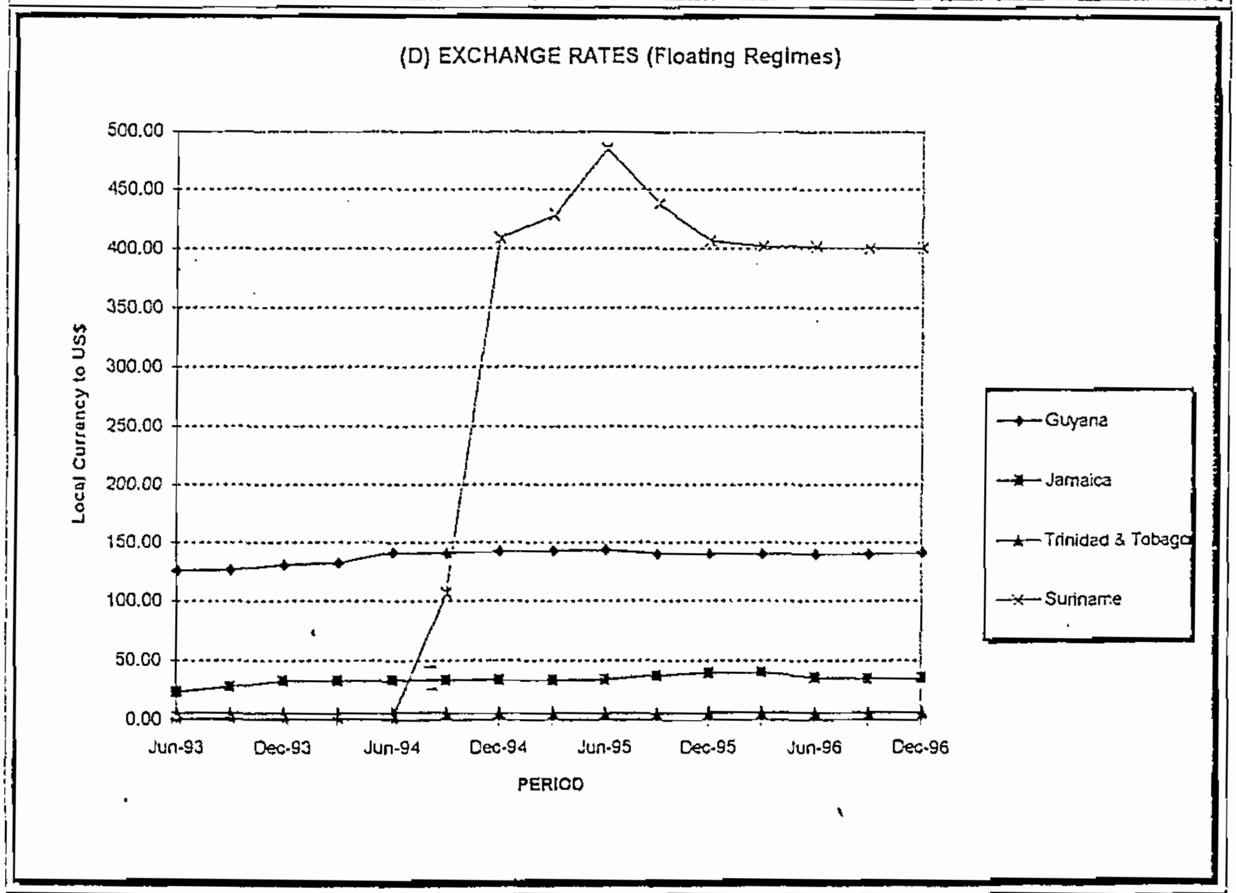

PROSPECTIVE ECONOMIC PERFORMANCE AND CONVERGENCE TRENDS

The thrust of this Chapter is a prospective assessment of the likely performance of CARICOM economies beyond 1996 and the expected outturn of the region's effort at enhanced economic convergence in the context of a possible deepening of monetary integration. While the analysis provides a satisfactory profile of the region's likely direction in these two broad areas, some caution must be exercised in the interpretation of the positions articulated, as in some economies forecasts were at best preliminary, while in a number of countries there was none submitted. Nevertheless, as indicative positions, the analyses in this section of the report, could still represent useful working frameworks for the region's likely future short to medium economic course.

The Macroeconomy

Over the period 1997 to 1999, **economic growth** in Trinidad and Tobago, the Bahamas, Suriname and Barbados is expected to show improvements in the region of 3%-6.8% annually over 1996 levels, with growth slackening slightly in Guyana but maintaining a relatively high rate between 6% and 7%. Jamaica is expected to experience moderate growth in 1997, improving to about 6% by the year 2000. Growth in Belize and the OECS is expected to average between 2% and 3% annually.

Growth in Trinidad and Tobago, in the medium to short term is going to be driven by massive foreign direct investment in the energy sector, particularly petrochemicals, and the construction sector. The growth rate in the construction sector will also be bolstered by massive government capital projects.

In Guyana, growth is expected to be driven by the gold, bauxite and timber industries, although rice exports to the EU are expected to fall-off as quotas are lowered. Similarly, growth in Suriname is expected to be driven by continuing investments in the gold and alumina industries inspite of the expected problems in the rice industry. In the Bahamas and Barbados, growth will continue to be generated by investments in the tourist industry and the attendant activity in the construction sector. Growth in the OECS is expected to be between 2% and 3% because although tourism receipts have been buoyant, deterioration in the agriculture sector will tend to keep growth rates at moderate levels.

In Jamaica, economic growth performance over the period 1997 to 1999 is expected to improve driven by the expansion of the tourism and mining sectors and, as inflation moderates and interest rates fall .

The **floating exchange rates** in Guyana and Suriname are expected to remain close to levels registered in 1996 while Trinidad and Tobago's rate is expected to register a moderate depreciation over the period 1997 to 1999.

The foreign reserve position of the Bahamas, Barbados and Jamaica are expected to improve over the period 1997 to 1999, driven by continuing FDI flows into tourism and mining. The other jurisdictions are likely to maintain current positions or experience smaller improvements.

Performance in the **fiscal accounts** of most countries is likely to experience a slight deterioration as many jurisdictions implement much needed infrastructural improvements and because of likely higher public sector wage bills. **Price increases** are, however, expected to continue to be moderate as a result of improvements in recent years in fiscal and monetary management in several regional economies. The economic performance of CARICOM countries (especially in terms of macroeconomic stability) is expected to continue converging as the authorities in the region adopt broadly similar economic policies and strategies.

The Convergence Criteria

Since monitoring of the region's convergence criteria formally began in 1991, the **import cover criterion** has been met most consistently by Guyana, the OECS and Trinidad and Tobago over the period to 1996. From 1994, Suriname and Jamaica have also routinely met this criterion, with Barbados doing so for the first time in 1996. In the first three countries, because of moderate growth in imports, buoyancy in the foreign exchange earning sectors and capital inflows, it is expected that these countries will continue to meet the standard over the medium term (1997 to 1999), once the current demand management and external competitiveness policies are maintained.

In the case of Trinidad and Tobago, the situation will be maintained primarily because of the expected continuation of capital inflows and recovery of the merchandise trade balance. With respect to Barbados, which has traditionally not met this criterion, it is expected that performance will improve over the next three years, owing to the expected continued buoyancy of the tourism sector and to a lesser extent because of capital inflows.

The undiversified nature of the Belizean economy exposes it to a great deal of uncertainty with regards this criterion. Performance should improve slightly in the medium term with the likelihood, however, that the convergence standard will not to be met by this country. The Bahamas also suffers from the undiversified nature of its economy, but again performance in this area is expected to improve, probably just satisfying the criterion by the year 2000.

In terms of **exchange rate stability**, the floating exchange rate territories have generally established some degree of stability in their rates through economic adjustment (especially on the external account), improved fiscal and monetary policies and as the market has become more accustomed to the new trading systems. The fact that speculative activity appears to be declining has also contributed to this relative stability. Guyana and Suriname have since 1994 been the best performers, with Trinidad and Tobago not far behind. In the last country's case, however, the persistent excess of demand for foreign exchange over supply is cause for some concern. Jamaica's performance in this area has improved over the years primarily because of some success in the containment of speculative activity and the commitment of the authorities to price stability. However, more work needs to be done in the area of the containment of speculative activity and the current account of the balance of payments must be strengthened.

It is therefore expected that the exchange rate stability criterion will not be met by the floating rate regime territories in the next three years, although performance in this area is expected to improve in most cases as agents become more accustomed to their respective new systems. In the medium to long term, this criterion could be met if CARICOM countries continue their commitment to price stability and fiscal prudence, if the banking sector is strengthened and, very importantly, if the current account of the balance of payments is strengthened, through the growth and diversification, of their export sectors.

The fixed exchange rate economies have all met the **debt service criterion** consistently over the 1991-1996 period. In addition, performance in the area of debt service has improved in virtually all territories and this is expected to continue in the short to medium term (next three years). It is very possible, that by the year 2000 Guyana could move its debt service ratio below the convergence standard of 15% through debt forgiveness and better balance of payments performances. If current trends are maintained Jamaica could also meet this criterion in the medium term (three to five years). This criterion could therefore be met by all countries in the medium term.

REGIONAL ECONOMIC POLICY CONCERNS

The sustainability of macroeconomic prudence is essential to the maintenance of current performance standards, particularly in floating exchange rate regime countries. The commitment to reduce the external debt stock should also be maintained. Authorities do, however, have to be careful that escalating wages do not scuttle the improvement in their employment situations (especially in the Bahamas, Guyana and Trinidad and Tobago) engendered by their renewed growth.

There are, however, a myriad of other policy areas to which governments in the region may need to direct their attention and also take remedial action in the near term to avoid adverse development in these areas negatively impacting on their ability to meet the convergence criteria. The most important of these areas would include:

(a) **the management of liquidity** in the financial system (especially in the floating exchange rate economies);

(b) **reduction of the savings gap** to energise the savings/investment nexus;

(c) **the management of the environment** in the region especially since the fortunes of the tourism sector is closely intertwined with performance in this area; and

(d) **export diversification and competitiveness** in a tougher trading environment, made increasingly tenuous by the impending removal of traditional trade preferences in bananas and sugar, the granting of NAFTA parity to Mexico (one of the region's main competitors in Latin America) and the decline in some commodity prices. These are further elaborated below.

Liquidity Management

Recent efforts of some countries to stabilise the exchange rate and protect foreign exchange reserves have in some cases led to increased interest rates and a build-up in liquidity in the banking sector. The paucity of effective low cost policy instruments with which this situation could be managed has not helped. Many of the region's monetary authorities have, therefore, been continually faced with the trade-off between relatively stable exchange rates and supplies of foreign exchange reserves and high liquidity, high interest rates and/or costly bank finance, which often stymies investment.

One possible way of alleviating this problem would appear to be a more regional outlook to liquidity management. For example, monetary authorities in low liquidity jurisdictions could serve as `official brokers' for the issuing of the securities of local institutions, through the monetary authorities, to institutions in high liquidity jurisdictions. A more developed regional money market would also likely ensue from this approach.

The Savings Gap

The financing needs of the region have traditionally not been adequately met from domestic sources. This has meant that the region has had to depend significantly on external sources (where such sources are often volatile) for the financing of investment. This domestic savings gap needs to be narrowed, especially in smaller jurisdictions in the region. The region as a whole would therefore have to increase its capital mobilisation efforts from both external and internal sources. This would indicate, among other things, that ongoing efforts to improve the money and capital markets in the region must be sustained and intensified.

A related problem, however, seems to be the relatively low level of efficient transformation of such savings into productive investments in some Caribbean countries relative to other countries and regions. This is a growing concern that is at the root of declining and mediocre real sector performances in some regional economies, even in the face of the above average performances in other macro-economic indicators, especially in the financial sector.

The Environment

A policy concern which has generally not been high on the agenda of Caribbean policymakers but which now should be increasingly addressed is the question of environmental degradation. This ought to be important at present, not only for health and esthetic reasons but for sustainable development, since tourism is the driving force behind growth in many of the region's economies and because the environment is crucial to the continued attractiveness of Caribbean destinations to tourists. More emphasis should, therefore, be placed on the conservation of natural resources (beaches, forests and reefs) and, very importantly, on the better management of and disposal of sewage and other waste products, as the growing numbers of visitors place increasing burdens on present infrastructure.

Export Development

Perhaps the most serious concerns for the region, however, might be the sluggishness of its external sector. The relative stability of exchange rates in the region is absolutely essential to its growth and development and, very importantly, to the welfare of its people. In this respect, a more prudent macroeconomic policy stance has helped in the recent past. Nevertheless, a key aspect of stability and improved economic performance in these economies relates to the strength of their balance of payments. As earlier noted, there have been excellent performances on the capital account of the balance of payments in most countries, especially in recent years, driven primarily by significant inflows from foreign direct investments.

The continued weakness on the current account of the balance of payments in many jurisdictions is, however, cause for serious concern. In particular, the merchandise trade balance has performed poorly, as CARICOM countries (excepting Trinidad and Tobago) have consistently registered deficits on the merchandise trade balance. Fortunately, the improving services sector has reduced the adverse effect on the current account caused by this deterioration on the merchandise trade balance, especially in countries such as the Bahamas, Barbados and the OECS. This move into the export of services has been part of the economic strategy adopted by many countries in the region and it has helped. However, the growth in services exports has not been sufficient to redress the decline in merchandise exports. An acceleration in the pace at which services exports develop and merchandise exports grow is, therefore, essential to sustained economic prosperity in the region.

Enhanced export performance, however, should also aim at the size of its base, as the absence of export diversification in the past has had severe negative implications for growth. In fact despite some improvements, many of these economies are still largely dependant on one or two dominant exports **(see Table 11)**. This must be addressed as there are too many examples where negative developments in dominant sectors have virtually wiped out economic growth during periods when those dominant sectors performed badly. These concerns have some urgency for the medium term, as the banana and sugar industries in the Caribbean are likely to face significant challenges as the Fourth Lome Convention expires in 2002. All indications point to the likelihood that the present arrangements will give way to a much more competitive regime. CARICOM countries would, therefore, need to position themselves strategically for this possibility/eventuality by enhancing output quality and efficiency, as well as, by finding new markets for and distilling new products from these traditional outputs.

As noted before many countries have adopted a deliberate policy of moving into services, mostly tourism. However, the other services sectors such as financial and computer-based services should also be actively explored as options for diversification, as these, together with tourism still offer the best prospects as services export from this region. The reduction of the relatively high cost of telecommunications in the region will, however, have to be a critical part of this overall strategy, especially for the financial and informatics services sectors. The upgrading of airport infrastructure in the region must also be an important part of this overall strategy towards a greater services orientation for the region.

Relatedly, fortunes of the now smaller but more efficient manufacturing sector in the region are also critical to the performance of the external sector. The survival and growth of this sector must, therefore, be actively pursued by encouraging fuller exploitation of trading agreements such as CARIBCAN and CBI and by continuing the process of restructuring and retooling of the manufacturing sector in the region.

On this matter of external competitiveness, the key problem seems to be how to diversify the region's export bases, while equally maintaining a competitive edge in traditional export sectors, in the face of intensifying global challenges to the region.

CONCLUSION

Since monitoring of the region's convergence performance formally began in 1991 there has been general improvements in all standards. The import criterion has been consistently met by Guyana, The OECS and Trinidad and Tobago, with both Jamaica and Suriname improving consistently until the standard was met in 1994. Barbados has also consistently improved its performance in this area meeting the standard in 1996. The Bahamas and Belize are the only countries who still have not met this criterion.

In terms of the exchange rate stability criterion, all the fixed rate jurisdictions have met this standard. The floating rate countries have not met this standard but volatility has been decreasing over the period, especially after 1994. In terms of the debt service criterion, all the fixed rate economies (except Barbados) have consistently met this standard over the period while the floating rate countries have not. The debt service ratio in these countries did however trend downwards, which led to Barbados and Trinidad and Tobago meeting the standard in 1996. Belize is the only country in the region whose debt service ratio has tended upwards over the period.

The one serious cause for concern is the persistent softness of the current account of the balance of payments, caused mainly by poor performances on the merchandise trade account. The potential negative implications of this for meeting the convergence indicators and ultimately the emergence of a monetary union, demands urgent attention. This is even more alarming in light of the problems of bananas in OECS territories and rice in Guyana and Suriname. In this regard one, of the main policy concerns for the short to medium term will be the need for re-tooling and continued diversification of the export sector in Caribbean countries. Other important policy concerns relate to the management of liquidity in the banking sectors in the region, the closing of the domestic saving gap, as well as, the improvement of savings and investment performances, and protection of our eco-environment. Micro-planning of our economies and the building up of adequate institutional capacity for enhancing implementation capability within now more propitious macro-economic environments throughout the region, will in a sense, be fundamental to any sustained attempts to revitalise the region's export financial and real sectors.

In terms of the ultimate goal of monetary union, there are some obvious lessons to be learned. Firstly, some minimum level of economic convergence is critical if a monetary union is going to be viable. The measurement of convergence needs to be strengthened by utilizing some of the methods discussed and by developing a much longer set of consistently defined convergence indicators. Secondly, it is also obvious that all countries will not be able to meet the convergence criteria for entry into the monetary union simultaneously. A core group of convergent countries should therefore initially form the union as initially anticipated. Thirdly, there is also the real possibility that countries could start diverging if certain structural weaknesses are not addressed. Lastly, the formulation of the entry requirement may be flawed. In particular, the exchange rate stability criterion may make it virtually impossible for the floating rate economies to meet this criterion and enter the monetary union. A wider band in which flexible exchange rate regime countries are allowed to float may be in order, backed up possibly by a higher foreign exchange reserves requirement which, if met, would allow that particular jurisdiction to successfully defend its currency. These special issues and the general economic performance and convergence issues must be addressed if realistic progress is to be made towards monetary union.

Table 1. CARICOM: Growth Rates of Real GDP (%)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	-2.7	-2.0	1.7	0.9	0.3	3.0	3.0	3.0	3.0
Barbados	-3.90	-5.80	0.80	4.00	2.90	5.20	3.10	3.20	2.70
Belize	3.10	9.50	4.30	1.50	3.80	1.50	2.60	3.00	3.00
Guyana	7.80	7.70	8.30	8.50	5.10	7.90	7.00	5.20	5.20
Jamaica	0.70	1.40	1.40	0.80	0.50	-1.70	1.5	4	5.5
*ECCB Area	1.75	4.16	2.06	2.79	1.39	2.96	na	na	na
Suriname	3.50	5.80	-4.50	-1.20	-3.84	na	na	na	na
Trinidad & Tobago	2.90	-1.10	-2.60	5.20	3.10	2.80	4.1	6.8	6.8

*Details of ECCB Area

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Anguilla	-3.68	7.09	7.46	7.13	-4.15	3.3	na	na	na
Antigua/Barbuda	4.43	1.15	3.66	4.91	-4.45	5.79	na	na	na
Dominica	2.15	2.74	1.86	2.15	1.60	3.71	na	na	na
Grenada	3.62	1.10	-1.22	3.33	3.09	3.10	na	na	na
Montserrat	-23.38	1.73	1.47	-0.04	-7.64	-17.69	na	na	na
St.Kitts/Nevis	3.86	3.49	5.00	5.47	3.74	5.83	na	na	na
St. Lucia	2.85	7.07	2.04	2.14	4.06	1.90	na	na	na
St. Vincent & the Grenadines	0.45	9.06	-0.77	-3.08	8.29	0.95	na	na	na

n.a. = Data not available

Source: National Data

Table 2. CARICOM: Inflation Rates (%)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	7.1	5.7	2.7	1.3	2.2	1.5	na	na	na
Barbados	8.1	3.3	-1.0	0.5	1.9	2.5	7.2	2.4	2.1
Belize	4.5	2.4	1.5	2.6	2.9	6.4	3.4	3.0	3.0
Guyana	70.3	14.2	7.7	16.8	8.1	4.5	4.0	3.7	2.9
Jamaica	51.1	77.3	22.1	35.1	25.6	15.8	8.5	6.0	5.0
*ECCB Area	4.32	3.06	2.11	2.75	3.14	1.39	na	na	na
Suriname	26.0	43.7	143.5	368.5	235.8	-0.7	na	na	na
Trinidad & Tobago	3.8	6.6	10.7	8.8	5.3	3.3	3.8	4.0	4.5

*Details of ECCB Area

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Anguilla	6.0	3.0	3.1	4.9	1.4	3.6	na	na	na
Antigua/Barbuda	na	na	na	7.1	-0.6	2.5	na	na	na
Dominica	5.6	4.4	1.7	-0.2	1.4	2.0	na	na	na
Grenada	2.3	4.6	3.5	1.8	2.1	3.2	na	na	na
Montserrat	11.0	8.2	0.7	-3.7	4.4	6.2	na	na	na
St. Kitts/Nevis	4.2	1.5	1.4	1.3	2.6	3.1	na	na	na
St. Lucia	6.1	2.5	0.7	5.9	4.6	-2.3	na	na	na
St. Vincent & the Grenadines	5.9	3.1	4.5	0.4	3.2	3.6	na	na	na

n.a. = Data not available

Source: National Data

Table 3. CARICOM: Labour Market - Unemployment (%)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	12.3	14.8	13.1	13.3	11.1	10.6[e]	10.6	10.6	10.6
Barbados	20.0	25.1	22.1	21.8	19.7	15.8	na	na	na
Belize	13.8	11.9	9.8	9.0	12.5	13.7	13.0	13.0	13.0
Guyana	na	na	11.7	na	12.0	na	na	na	na
Jamaica	15.4	15.8	16.2	15.4	16.8	16.1	na	na	na
ECCB Area	na	na	na	na	na	na	na	na	na
Suriname	na	17.3	14.6	na	na	na	na	na	na
Trinidad & Tobago	18.5	19.6	19.8	18.4	17.2	16.3	16.1	15.5	15.0
	Wage Indices								
Bahamas	na	na	na	na	na	na	na	na	na
Barbados	184.4	181.1	184.0	181.0	na	na	na	na	na
Belize	na	na	na	na	na	na	na	na	na
Guyana	46.3	57.0	78.4	100.0	116.0	na	na	na	na
Jamaica	na	na	na	na	na	na	na	na	na
ECCB Area	na	na	na	na	na	na	na	na	na
Suriname	219.0	268.0	429.0	1891.0	na	na	na	na	na
Trinidad & Tobago	421.5	433.7	440.6	424.9	481.9	519.9	na	na	na

n.a. = Data not available
Source: National Data

Table 4A. CARICOM: Current Fiscal Balances (In Millions of National Currency)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	14.5	2.6	3.7	63.0	60.9	32.9	28.1	na	na
Barbados	92.9	72.6	92.7	69.7	122.0	51.6	128.8	148.1	139.9
Belize	73.8	59.6	40.3	31.2	20.0	39.1	35.0	35.0	35.0
Guyana	-6559.3	-5301.2	1099.2	4058.9	7265.9	9428.6	9509.1	na	na
Jamaica	1872.0	3912.6	463.1	1519.5	6177.9	6015.8	na	na	na
[1]ECCB Area	90.4	127.6	156.3	134.0	103.1	125.7	na	na	na
Suriname	-655.4	-405.8	-1997.3	-274.0	3816.6	na	na	na	na
Trinidad & Tobago	651.7	-196.0	238.3	401.4	619.8	952.8	na	na	na

Countries	Current Balances % of GDP								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	-0.5	0.1	0.1	2.1	2.0	1.0	0.8	na	na
Barbados	2.7	2.3	2.8	2.0	3.4	1.3	3.1	3.4	3.1
Belize	10.4	6.9	4.5	3.4	2.0	3.8	2.8	2.8	2.6
Guyana	-0.3	-0.1	0.02	5.4	8.2	9.4	12.0	na	na
Jamaica	4.2	5.3	0.5	1.2	3.7	3.0	na	na	
[2]ECCB Area	2.4	3.2	3.9	3.2	2.4	2.9	na	na	na
Suriname	-17.6	8.0	-18.9	-0.4	2.0	na	na	na	na
Trinidad & Tobago	2.9	-0.8	1.0	1.4	2.0	3.4	6.0	4.8	5.3

1. Details of ECCB Area (ECC$mn, 1996): Anguilla (1.7), Antigua & Barbuda (16.7), Dominica (4.78), Grenada (16.4), Montserrat (-20.8), St. Kitts & Nevis (-8.6), St. Lucia (67.3), St. Vincent & the Grenadines (28.9)

2. Details of ECCB Area (% in 1996): Anguilla (1.2), Antigua & Barbuda (4.0), Dominica (1.1), Grenada (3.0), Montserrat (-58.1), St. Kitts & Nevis (-4.7), St. Lucia (6.2), St. Vincent & the Grenadines (5.6)

Table 4B. CARICOM: Overall Fiscal Balances In Millions of National Currencies (Absolute)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	-113.70	-88.10	-85.10	-20.00	-23.20	-64.92	104.5	na	na
Barbados	-69.40	-24.90	-15.10	-81.30	39.0	-119.9	-144.3	-34.1	-48.7
Belize	-42.50	-50.20	-69.10	-65.20	-46.90	-11.70	-34.00	-21.00	-5.70
Guyana	-9165.70	-7993.80	-4001.20	-1149.10	-1880.30	-3115.00	-2079.80	na	na
Jamaica	-2961.00	-7339.5	-1849.6	-12946.7	-27866.4	-35546.4	na	na	na
[1]ECCB Area	-65.60	-78.1	-84.2	-80.5	-113.5	-105.0	na	na	na
Suriname	-618.0	-266.4	-1699.6	-1512.9	716.6	na	na	na	na
Trinidad & Tobago	-53.20	-627.60	-39.80	-6.30	53.30	447.20	na	na	na

Countries	Overall Fiscal Balances (% of GDP)								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	-3.70	-2.80	-2.80	-0.60	-0.70	-1.90	2.9	na	na
Barbados	-2.00	-0.80	-0.50	-2.30	1.1	-3.1	-3.5	-0.8	-1.1
Belize	-6.00	-6.10	-7.70	-7.00	-4.80	-1.10	-2.80	-1.70	-0.50
Guyana	-0.20	-0.20	-0.07	0.02	-0.02	-0.03	-2.61	na	na
Jamaica	-2.2	-2.8	-2.1	-1.3	-0.4	-8.3	na	na	na
[2]OECS Area	-1.7	-2.0	-2.1	-1.9	-2.7	-2.4	na	na	na
Suriname	-16.6	-5.2	-16.1	-3.3	0.4	na	na	na	na
Trinidad & Tobago	-0.20	-2.70	-0.20	0.00	0.20	1.6	1.8	1.4	1.2

1. *Details of* ECCB Area (ECC$mn, 1996): Anguilla (-1.7), Antigua & Barbuda (-14.4), Dominica (-10.2), Grenada (-22.2), Montserrat (0.5), St. Kitts & Nevis (-29.1), St. Lucia (-28.1), St. Vincent & the Grenadines (10.2)

2. Details of ECCB Area (% in 1996): Anguilla (-1.1), Antigua & Barbuda (-3.4), Dominica (-2.4), Grènada (-4.1), Montserrat (1.3), St. Kitts & Nevis (-15.8), St. Lucia (-2.6), St. Vincent & the Grenadines (2.0)

Source: National Data

Table 5. CARICOM: Interest Rates

Commercial Bank Weighted Ave. Loan Rates (%)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	15.35	15.33	14.88	14.22	13.26	12.56	na	na	na
Barbados	15.00	12.60	11.30	11.50	11.80	11.90	na	na	na
Belize	14.30	14.40	14.60	15.00	16.30	16.20	na	na	na
Guyana	33.20	29.76	18.66	19.62	20.66	19.27	na	na	na
Jamaica	35.78	53.42	49.60	45.79	48.56	43.51	na	na	na
[1]ECCB Area	12.20	12.20	12.80	12.70	12.30	12.20	na	na	na
Suriname	7.50	9.4	11.1	32.3	39.6	34.9	na	na	na
Trinidad & Tobago	11.77	12.76	13.08	13.85	13.36	14.24	na	na	na

Countries	3-Month Deposit Average (%)								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	7.11	6.11	5.20	4.50	4.75	5.10	na	na	na
Barbados	7.50	5.00	2.80	5.00	5.00	5.00	na	na	na
Belize	6.40	6.00	6.00	6.10	7.20	6.20	na	na	na
Guyana	29.20	18.20	10.90	12.80	12.90	10.49	na	na	na
Jamaica	24.73	32.98	37.95	26.71	25.98	21.93	na	na	na
[2]ECCB Area	5.50	4.50	4.00	4.00	4.20	4.20	na	na	na
Suriname	5.2	5.6	6.1	14.7	24.6	11.3	na	na	na
Trinidad & Tobago	5.70	7.79	7.79	7.19	6.31	6.44	na	na	na

1. Details of ECCB Area (% in 1996): Anguilla (12.02), Antigua & Barbuda (12.69), Dominica (11.99), Grenada (12.21), Montserrat (-13.10), St. Kitts & Nevis (11.38), St. Lucia (13.07), St. Vincent & the Grenadines (11.78)

2. Details of ECCB Area (% in 1996): Anguilla (3.38), Antigua & Barbuda (4.00), Dominica (2.75), Grenada (3.00), Montserrat (3.0), St. Kitts & Nevis (3.50), St. Lucia (4.50), St. Vincent & the Grenadines (3.50)

Source: National Data

Table 6. CARICOM: Foreign Exchange Reserves

Gross International Reserves (US$M)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	173.8	146.0	164.3	173.60	170.60	163.00	188.20	229.60	246.00
Barbados	87.3	139.9	150.3	195.20	219.0	299.90	374.3	438.9	512.0
Belize	56.4	59.0	38.3	34.10	37.4	57.8	na	na	na
Guyana	123.0	191.1	246.3	269.20	268.80	331.60	na	na	na
Jamaica	110.43	310.82	389.85	737.54	676.29	875.00	897	1032	1081
ECCB Area[1]	436.2	508.2	514.0	529.3	614.5	600.4	na	na	na
Suriname	21.7	36.3	38.8	61.5	163.2	148.4[1]	na	na	na
Trinidad & Tobago	340.1	207.7	231.8	354.40	360.10	546.3	na	na	na

Countries	Import Cover Ratio (months)								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	2.1	1.75	1.98	2.10	2.05	1.98	2.28	2.78	2.98
Barbados	0.20	2.50	1.85	2.85	2.88	3.77	4.62	5.07	5.72
Belize	2.9	2.7	1.7	1.4	1.5	2.6	na	na	na
Guyana	4.80	*5.20*	*6.60*	*6.41*	*6.52*	*6.80*	*na*	*na*	*na*
Jamaica	0.80	2.22	2.57	4.15	3.15	3.98	3.75	4.0	4.0
ECCB Area	5.2	6.1	6.0	6.0	6.6	6.1	na	na	na
Suriname	0.83	1.73	2.35	4.13	7.25	4.83[1]	na	na	na
Trinidad & Tobago	3.10	2.28	2.55	5.90	4.20	3.6	4.4	4.3	4.3

[1]ECCB Reserves do not equal summation of individual territories
n.a. Data not available
Source: National Data
Note: 1. Fiscal Half of Year Figures

Table 7. CARICOM: Exchange Rates
Selling Rate (National Currency per US$)
(End of Period)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Barbados	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Belize	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175
Guyana	122.75	126	130.75	144.52	141.65	142.67	na	na	na
Jamaica	21.53	22.2	32.7	33.37	39.8	34.87	na	na	na
ECCB Area	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Suriname	1.8	1.8	mes	419	402	396	na	na	na
Trinidad & Tobago	4.3	4.3	5.8	5.9	5.9	6.2	na	na	na

Countries	Period Average								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Barbados	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Belize	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175	2.0175
Guyana	111.8	125	130.16	140.14	143.42	141.84	na	na	na
Jamaica	14.02	23	25.06	33.34	39.5	34.94	na	na	na
ECCB Area	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Suriname	1.8	1.8	mes	205.4	442.2	397.8	na	na	na
Trinidad & Tobago	4.3	4.3	5.3	5.9	5.9	6	na	na	na

n.a. Data not available   mes: multiple exchange rate system   Source: National Data

Table 8A. CARICOM: External Current Account (US$M)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	-179.4	37.5	70.5	-18.6	-128.5	-205.0	-219.3	-141.7	-128.6
Barbados	-23.4	145.5	65.4	123.8	89.2	76.5	66.3	39.9	86.6
Belize	-26.6	-29.1	-49.0	-22.6	-1.9	-2.5	na	na	na
Guyana	-118.0	-146.7	-136.4	-100.8	-94.9	-59.9	-35.5	na	na
Jamaica	-225.8	10.9	-194.2	18.3	-215.0	197.0	na	na	na
[1]ECCB Area	-250.9	-200.5	-213.7	-230.3	-223.5	-361.2	na	na	na
Suriname	-94.9	-25.0	21.0	52.7	62.7	-28.6[1]	na	na	na
Trinidad & Tobago	-20.7	32.5	-107.8	221.4	269.9	70.3	na	na	na

Countries	External Current Account (% of GDP)								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	-5.8	1.2	2.3	-0.6	-4.0	-6.0	-6.0	-3.7	-3.1
Barbados	-1.3	9.2	4.0	7.1	6.0	4.7	3.8	2.2	4.5
Belize	-7.4	-7.1	-10.9	-4.9	-0.4	-0.5	na	na	na
Guyana	na	na	na	-0.18	-0.15	-0.08	-0.04	na	na
Jamaica	-7.5	0.3	-6.5	0.5	-6.2	na	na	na	na
[2]ECCB Area	-17.8	-13.6	-14.3	-14.9	-14.3	-22.5	na	na	na
Suriname	-4.8	-1.0	29.5	34.7	13.5	na	na	na	na
Trinidad & Tobago	-0.4	0.6	-2.3	4.5	5.2	1.3	-1.8	-1.5	0.2

1. Details of ECCB Area (ECC$mn, 1996): Anguilla (-69.6), Antigua & Barbuda (-157.0), Dominica (-135.7), Grenada (--155.0), Montserrat (-2.8), St. Kitts & Nevis (-180.1), St. Lucia (-199.4), St. Vincent & the Grenadines (-130.6)

2. Details of ECCB Area (% in 1996): Anguilla (-47.0), Antigua & Barbuda (-37.3), Dominica (-31.9), Grenada (-28.5), Montserrat (-7.8), St. Kitts & Nevis (-98.1), St. Lucia (-18.2), St. Vincent & the Grenadines (-25.2)

n.a. Data not available.
Source: National Data

Table 8B. CARICOM: External Capital Account (US$M)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	169.5	-7.8	-0.1	62.6	90.7	130.8	244.5	183.1	145.0
Barbados	-1.8	-101.2	-1.9	9.2	-66.4	57.2	60.1	24.7	-13.5
Belize	22.0	29.1	43.3	1.8	-7.0	25.5	na	na	na
Guyana	52.0	123.6	78.1	22.9	28.0	80.4	na	na	na
Jamaica	172.2	308.1	255.1	354.7	238.2	469.6	na	na	na
[1]ECCB Area	207.5	244.5	210.7	189.9	203.0	312.6	na	na	na
Suriname	51.8	21.8	0.1	-16.7	0.3	31.0[1]	na	na	na
Trinidad & Tobago	-261.9	-172.5	91.5	-32.5	-27.5	136.7	na	na	na

Countries	External Capital Account (% of GDP)								
		Actual					Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	5.5	-0.3	0.0	2.0	2.8	3.8	6.7	4.7	3.5
Barbados	-0.1	-6.4	-0.1	0.5	-3.7	3.0	2.9	1.1	-0.6
Belize	6.1	7.1	9.7	0.4	-1.5	5.0	na	na	na
Guyana	na	na	na	0.04	0.05	0.11	na	na	na
Jamaica	5.1	9.7	8.5	9.1	6.8	na	na	na	na
[2]ECCB Area	14.7	16.6	14.1	12.3	13.0	19.4	na	na	na
Suriname	2.5	0.8	16.5	-3.1	0.1	na	na	na	na
Trinidad & Tobago	-4.9	-3.2	2.0	-0.7	-0.5	2.5	6.2	2.7	1.4

1. Details of ECCB Area (ECC$mn, 1996): Anguilla (114.0), Antigua & Barbuda (221.1), Dominica (150.7), Grenada (134.1), Montserrat (-16.0), St. Kitts & Nevis (90.4), St. Lucia (194.7), St. Vincent & the Grenadines (79.3)

2. Details of ECCB Area (% in 1996): Anguilla (76.9), Antigua & Barbuda (52.7), Dominica (35.4), Grenada (24.7), Montserrat (-44.7), St. Kitts & Nevis (49.2), St. Lucia (17.8), St. Vincent & the Grenadines (15.3)

n.a. = Data not available

Table 9. CARICOM: External Debt Outstanding (US$M)

Countries	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	412.3	440.5	453.4	410.4	393.4	357.8	395.9	436.2	403 5
Barbados	466.6	480.1	447.4	441.7	358.8	362.9	405.8	391.7	294 6
Belize	150.6	145.6	167.9	184.0	184.3	216.9	228.1	234.9	232.5
Guyana	1855.4	1967.2	1953.5	2004.0	2059.0	1499.0	na	na	na
Jamaica	2874.3	3678.0	3687.2	3651.8	3451.9	3231.9	na	na	na
ECCB Area	633.6	644.7	639.6	670.3	699.2	707.1	na	na	na
Suriname		145.1	163.0	202.9	177.3	162.5	na	na	na
Trinidad and Tobago	2438.1	2215.0	21'02.1	2063.5	1905.2	1911.0	1861.0	1806 0	1738 0

Countries	Debt Service Ratio								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	4.6	4.9	5.0	5 6	5.4	5.2	na	na	na
Barbados	17.0	16.0	12.1	13.5	16.0	14.2	10.0	8 4	7.3
Belize	5.8	4 6	5.4	8.2	9.7	9.5	na	na	na
Guyana	20.3	19.9	20.5	22.2	22.6	20.0	na	na	na
Jamaica	27.3	27.1	22.6	20.0	20.9	19 9	na	na	na
'ECCB	3.0	3.4	3.4	3.4	3.8	3.5	na	na	na
Suriname		5.9	2.0	3.5	1.7	4.3	na	na	na
Trinidad and Tobago	20.0	26.7	32.5	25.9	15.4	13.7	18.0	10.2	8.9

Countries	Debt/GDP Ratio (%)								
	Actual						Projections		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
Bahamas	13.3	14.2	14.7	12.9	12.1	10.5	10.0	11.5	10 2
Barbados	27.5	30.3	27.1	25.4	26.7	23.9	19.2	16 0	13 0
Belize	41.4	35 7	37.5	39.0	37.4	42.3	38.5	37.4	34.9
Guyana	350.4	569.0	479.0	367.7	331.0	209.0	na	na	na
Jamaica	119.6	115.4	91.8	72.8	74.2	59.2	nan	na	na
ECCB Area	42.8	40 5	38.6	45.6	47.7	48.5	na	na	na
Suriname	na	na	na	na	45.0	30.6	na	na	na
Trinidad and Tobago	67.0	62 6	71.2	61.9	57.6	36.4	34.5	31.7	28.4

1. Details of ECCB Area (% In 1996): Anguilla (1.5), Antigua & Barbuda (1.5), Dominica (6.0), Grenada (5.0), Montserrat (1.2), St. Kitts & Nevis (4 8), St. Lucia (3.4), St. Vincent & the Grenadines (6 5)

n a. Data Not Available
Source: National Data

Table 10

The Cross-Sectional Coefficient of Variation for Selected Economic Indicators for the period 1991 to 1996

GROWTH ATES OF REAL GDP (%)

	1991	1992	1993	1994	1995	1996
Bahamas	-2 7	-2	1 7	0 9	0 3	3
Barbados	-3 9	-5 8	0 8	4	2 9	5 2
Belize	3 1	9.5	4.3	1 5	3 8	1.5
Guyana	7 8	7.7	8 3	8 5	5.1	7.9
Jamaica	0 7	1.4	1.4	0 8	0 5	-1 7
ECCB	1.75	4.16	2 06	2 79	1 39	2.96
Suriname	3.5	5.8	-4 5	-1 2	-3.84	-
T&T	2.9	-1.1	-2 6	5 2	3 1	2 8
MEAN	1 64375	2.4575	1 4325	2.81125	1.65625	3.094286
STD	3 694536	5 250594	3.922593	3 046991	2.765667	2.976838
COEF	2 247627	2.136559	2.738285	1.083856	1 669837	0.962044

CARICOM: INTEREST RATES (%)

	1991	1992	1993	1994	1995	1996
Bahamas	15.35	15 33	14.88	14 22	13.26	12.56
Barbados	15	12.6	11.3	11.5	11.8	11 9
Belize	14.3	14.4	14.6	15	16 3	16.2
Guyana	33 2	29.76	18.66	19.62	20.66	19.27
Jamaica	35 78	53.42	49 6	45.79	48 56	43 51
ECCB	12.2	12 2	12.8	12.7	12.3	12 2
Suriname	7.5	9.4	11.1	32.3	39 6	34.9
T&T	11.77	12.76	13.08	13.85	13.30	14.24
MEAN	18.1375	19.98375	18 2525	20.6225	21 98	20.5975
STD	10.41587	14.85981	12 89256	12.161	14.13528	11.96321
COEF	2 247627	2.136559	2.738285	1.083856	1.669837	0.962044

CARICOM: EXCHANGE RATES (%) P A

	1991	1992	1993	1994	1995	1996
Bahamas	1	1	1	1	1	1
Barbados	2	2	2	2	2	2
Belize	2 0175	2.0175	2 0175	2 0175	2 0175	2 0175
Guyana	111.8	125	130.16	140.14	143 42	141 84
Jamaica	14 02	23	25.06	33 34	39.5	34 94
ECCB	2.7	2.7	2.7	2 7	2 7	2 7
Suriname	1.8	1 8	MES	205 4	442.2	397 8
T&T	4 3	4.3	5.3	5 9	5.9	6
MEAN	17.45469	20 22719	24.03393	49 06219	79 84219	73 53719
STD	38 3528	42.96008	47.55816	79 04277	154 3296	139 5784
COEF	0.574273	0.743595	0 706345	0 589696	0 643097	0 580809

CARICOM: INFLATION RATES (%)

	1991	1992	1993	1994	1995	1996
Bahamas	7.1	5 7	2 7	1 3	2 2	1 5
Barbados	8.1	3 3	-1	0 5	1.9	2.5
Belize	4.5	2 4	1 5	2 6	2.9	6.4
Guyana	70 3	14 2	7.7	16 0	8 1	4 5
Jamaica	51 1	77 3	22.1	35 1	25 6	15.8
ECCB	4 32	3.06	2.11	2.75	3 14	1.39
Suriname	26	43.7	143 5	368 5	235.8	-0.7
T&T	3.8	6 6	10 7	8.8	5.3	3 3
MEAN	21.9025	19.5325	23 66375	54.54375	35.6175	4.33625
STD	25 52566	27.08857	48 9747	127.3914	81.2655	5.102347
COEF	1.165422	1 386846	2.069609	2.335583	2.281617	1.176673

3-MONTH DEPOSIT AVERAGE (%)

	1991	1992	1993	1994	1995	1996
Bahamas	7.11	6.11	5 2	4 5	4.75	5.1
Barbados	7 5	5	2 8	5	5	5
Belize	6.4	6	6	6.1	7 2	6.2
Guyana	29.2	18.2	10 9	12 8	12 9	10 49
Jamaica	24 73	32.98	37.95	26.71	25.98	21.93
ECCB	5 5	4.5	4	4	4.2	4.2
Suriname	5.2	5 6	6.1	14.7	24 6	11.3
T&T	5.7	7.79	7.79	7.19	6.31	6.44
MEAN	11.4175	10.7725	10 0925	10.125	11.3675	8.8325
STD	9.701845	10.00837	11.51966	7.77712	9 020837	5.893267
COEF	0.849735	0 929067	1.141408	0.768111	0.793564	0.667225

EXTERNAL CURRENT ACCOUNT (% OF GDP)

	1991	1992	1993	1994	1995	1996
Bahamas	-5 8	1 2	2.3	-0 6	-4	-6
Barbados	-1 3	9 2	4	7.1	6	4 7
Belize	-7.4	-7.1	-10 9	-4 9	-0 4	-0 5
Guyana	na	na	na	-0 18	-0.15	-0 08
Jamaica	-7.5	0 3	-6.5	0 5	-6 2	na
ECCB	-17.8	-13.6	-14.3	-14 9	-14.3	-22 5
Suriname	-4 8	-1	29.5	34 7	13 5	na
T&T	-0.4	0.6	-2.3	4.5	5.2	1.3
MEAN	-6.42857	-1.48571	0.257143	3 2775	-0 04375	-3 84667
STD	5.731409	7.158312	14.5024	14 3202	8.48854	9.772465
COEF	-0 89155	-4.81809	56.39821	4 369244	-194 024	-2 5405

CARICOM: CURRENT FISCAL BALANCES

	1991	1992	1993	1994	1995	1996
Bahamas	-0 5	0.1	0 1	2.1	2	1
Barbados	2.7	2.3	2 8	2	3.4	1.3
Belize	10.4	6.9	4.5	3 4	2	3 8
Guyana	-0 3	-0.1	0.02	5.4	8 2	9 4
Jamaica	4 2	5.3	0 5	1 2	3.7	3
ECCB	2 4	3 2	3 9	3 2	2 4	2.9
Suriname	-17 6	8	-18.9	-0.4	2	-
T&T	2.9	-0 8	1	1 4	2	3.4
MEAN	0 525	3.1125	-0.76	2.2875	3.2125	3 542857
STD	7.542836	3.130271	7 045829	1.622835	1.99025	2.580065
COEF	14.36731	1 005709	-9.27083	0.709436	0 619533	0.728244

GROSS INT'L RESERVES

	1991	1992	1993	1994	1995	1996
Bahamas	173 8	146	164.3	173 6	170.6	163
Barbados	87.3	139 9	150 3	195.2	219	299.9
Belize	56.4	59	38.3	34.1	37.4	57.8
Guyana	123	191.1	246.3	269.2	268 8	331.6
Jamaica	110 43	310.82	389 85	737.54	676.29	875
ECCB	436.2	508 2	514	529.3	614.5	600.4
Suriname	21.7	36.3	38.8	61.5	163.2	148.4
T&T	340.1	207.7	231.8	354.4	360.1	546.3
MEAN	168.6163	199.8775	221.7063	294.355	313.7363	377.8
STD	135 6802	141.6922	154 0704	224.2259	210.5228	258.4853
COEF	0 004716	0.708895	0.69493	0.761753	0.671018	0.684185

EXTERNAL CAPITAL ACCOUNT (% OF GDP)

	1991	1992	1993	1994	1995	1996
Bahamas	5 5	-0.3	0	2	2 8	3 8
Barbados	-0.1	-6 4	-0 1	0 5	-3.7	3
Belize	6 1	7.1	9.7	0.4	-1.5	5
Guyana	NA	NA	NA	0.04	0 05	0.11
Jamaica	5.1	9 7	8 5	9.1	6 8	NA
ECCB	14.7	16 6	14 1	12.3	13	19.4
Suriname	2 5	0 8	16.5	-3.1	0.1	NA
T&T	-4.9	-3.2	2	-0 7	-0 5	2 5
MEAN	4.128571	3 471429	7 242857	2 5675	2.13125	5 635
STD	5.612668	7.441527	6 250676	4 948171	5 036674	6 331703
COEF	1.35947	2.14365	0 864117	1.927233	2.363249	1.123638

OVERALL FISCAL BALANCES (% OF GDP)

	1991	1992	1993	1994	1995	1996
Bahamas	-3 7	-2 8	-2 8	-0 6	-0.7	-1.9
Barbados	-2	-0 8	-0.5	-2 3	1.1	-3.1
Belize	-6	-6.1	-7.7	-7	-4 8	-1.1
Guyana	-0 2	-0.2	-0 07	0 02	-0.02	-0 03
Jamaica	-2 2	-2.8	-2.1	-1 3	-0 4	-8.3
ECCB	-1 7	-2	-2 1	-1.9	-2.7	-2.4
Suriname	-16 6	-5 2	-16 1	-3 3	0.4	-
T&T	-0 2	-2 7	-0 2	0	0 2	1.6
MEAN	-4 075	-2 025	-3 94625	-2 0475	-0 885	-2 17571
STD	5 052413	1 872685	5 134099	2 15935	1 858748	2 89099
COEF	-1 23906	-0 66289	-1.30101	-1 05463	-2 10029	-1.32875

IMPORT COVER RATIO

	1991	1992	1993	1994	1995	1996
Bahamas	2.1	1.75	1.98	2.1	2.05	1.98
Barbados	0.2	2 5	1.85	2 05	2.00	3.77
Belize	2.9	2 7	1.7	1.4	1.5	2.6
Guyana	4.8	5 2	6.6	6 41	6.52	6.8
Jamaica	0 8	2.22	2.57	4.15	3.15	3.98
ECCB	5.2	6.1	6	6	6.6	6.1
Suriname	0.83	1.73	2 35	4.13	7.25	4.83
T&T	3 1	2 28	2 55	5 9	4 2	3 6
MEAN	2 49125	3 06	3 2	4 1175	4 20875	4.2075
STD	1.740269	1 543673	1 820124	1 769165	2 066559	1.534833
COEF	0.690553	0.504468	0 568789	0 42967	0 491141	0.364809

DEBT SERVICE RATIO

	1991	1992	1993	1994	1995	1996
Bahamas	4 8	4 9	5	5 6	5 4	5 2
Barbados	17	16	12.1	13 5	16	14 2
Belize	5 8	4.6	5 4	8 2	9.7	9.5
Guyana	20.3	19 9	20.5	22 2	22 6	20
Jamaica	27.3	27.1	22 6	20	20 9	19.9
ECCB	3	3 4	3 4	3 4	3 8	3.5
Suriname		5 9	2	3 5	1.7	4 3
T&T	20	26 7	32 5	25 9	15 4	13 7
MEAN	14	13 5625	12 9375	12 7875	11 9375	11 2875
STD	8 768287	9 482344	10 39448	8 367711	7 427007	6 266007
COEF	0 626306	0 699159	0 803437	0 654366	0 622154	0 555133

Table 11
Dominant Exports as Percentage of Total Exports of Goods and Services
of Selected CARICOM Countries

The Bahamas						
Year	1991	1992	1993	1994	1995	1996
Merchandise Exports	11.9	11.6	9.8	9.6	10.0	10.6
Travel (Tourism)	74.9	77.0	79.0	78.0	76.1	76.9
Off-shore Companies	4.9	4.8	6.1	6.3	6.5	4.9
Other	8.3	6.6	5.1	6.1	7.4	7.6
Jamaica						
Mining	na	na	na	22.8	22.8	22.0
Agriculture	na	na	na	4.3	4.6	4.9
Transport	na	na	na	8.7	8.9	9.0
Travel (Tourism)	na	na	na	34.4	33.1	35.0
Other	na	na	na	29.8	30.6	29.1
Trinidad and Tobago						
Petroleum related products	57.4	54.0	41.5	45.6	49.2	57.0
Iron and Steel	5.4	6.4	5.8	6.0	7.2	7.0
Non-Factor Services	16.9	19.5	14.5	12.1	12.2	15.9
Others	20.3	20.1	38.2	36.3	31.4	20.1

Source: National Data