THE HARMONISATION OF EXCHANGE RATES IN THE COMMONWEALTH CARIBBEAN

by

DeLisle Worrell
Central Bank of Barbados

December 1987

THE HARMONISATION OF EXCHANGE RATES IN THE COMMONWEALTH CARIBBEAN

There is considerable sentiment in favour of exchange rate harmonisation in the Caribbean, based on the desire to reduce uncertainty in regional trade, eliminate the inconvenience of using many currencies, stimulate trade and tourism, encourage capital movements and share the burden of economic adjustment among countries. Clearly, exchange rate management alone cannot serve all these objectives. This paper intends to distinguish the forms of exchange rate co-operation that might fall under the rubric of harmonisation, to determine which claims for the benefits of harmonisation are well founded, to examine how exchange rates may be managed in small open economies and to evaluate the options for harmonising rates in the Caricom region. The analysis is divided into sections on the definition of harmonisation, the objectives of linking exchange rates, exchange rate management, the economic circumstances that influence the rate and the available options.

1. What is Meant by Exchange Rate Harmonisation?

The arrangements which may be considered exchange rate harmonisation can be separated into four categories. All subscribers to the arrangement might agree to adopt a single currency for the entire region; this we will refer to as currency unification (CRU). The value of the CRU unit might be determined by linking it to a major currency or to a basket of currencies, changing its value if necessary by using economic indicators or similar criteria. A second alternative is to maintain members' individual currencies, linking them together rigidly in an unchanging set of intra-regional parities. This we term a joint currency arrangement (JCA) and it may be managed in the same way as for the CRU. A third possibility is to allow countries to set currency values individually, but to allow changes only within agreed margins, an arrangement we refer to as the corridor (COR). The final possibility to be considered is that countries set their own exchange rates, but changes which do not conform to a general consensus are subject to some form of mutually agreed sanction.

1.1 Currency Unification

The unification of regional currencies is achieved by effectively amalgamating all central banks into a single authority responsible for the issue of money and the maintenance of its value in terms of other currencies. The East Caribbean Central Bank (ECCB) is the working model of such an arrangement within the Caricom region. Individual central banks might not necessarily be abolished, but as the example of the US Federal Reserve demonstrates, they would become note-issuing agencies of the central monetary authority (or of the dominant central bank).

Unification is difficult to achieve where economies are of significantly different sizes and levels of development, and where some influential members are subject to serious foreign exchange deficits. In the current circumstances of Caricom, the largest members are chronically short of foreign exchange and their growth rates are lagging behind those of several OECS states and the Bahamas. A CRU would leave the smaller and more prosperous members with a heavily undervalued currency, and would depress their living standards. With any CRU there is an ongoing problem of reconciling monetary, fiscal, trade and intervention policies to the exchange rate.

The key to ECCB's survival is the compatibility in size and performance of its members. Because the economies are of similar size, the adequacy of ECCB's foreign exchange reserves is sustained unless a majority of countries suffer acute shortages. In contrast, any one of the three largest members of a Caricom CRU area might exhaust the entire system's reserves, no matter how adequate they were to begin with. The ECCB may contemplate the insolvency of a member which borrowed beyond its capacity to repay. The individual country's claim on ECCB resources is too small to threaten the convertibility of the EC dollar. (Even so, the ECCB must be able to apply sanctions against over-borrowing by members.)

The limits on credit to members from the ECCB effectively control their ability to expand the volume of money and their claims on ECCB's foreign exchange. They may make foreign payments over their accounts at ECCB only up to their borrowing limit (which puts a limit on their use of ECCB foreign reserves) or by depositing local currency with the central bank (thereby reducing the volume of local money available to the public). The limitations impose a necessary discipline on domestic fiscal, monetary and rationing (price controls, wage controls, exchange controls, credit controls and other rationing devices) policies. They must be managed in ways consonant with the exchange rate for the currency. For example, should fiscal policy fail to contain excessive national spending, the demand for imports eventually exhausts the foreign exchange the country earns or is eligible to borrow from ECCB. In order to honour the country's foreign liabilities ECCB liquidates part of the supply of money to the country. Prices rise and real income declines until the excess spending is eliminated. The cost of over-ambitious policy is economic depression, when the country comes up abruptly against the exhaustion of its supply of foreign exchange.

The ECCB is hamstrung by the fact that the monetary instruments it controls are not standardised among the member countries. Banking laws vary, exchange controls are an individual country responsibility and there are many anomalies

in the legislation and institutional framework governing the financial sector. Furthermore, it has proven difficult to make exchange rate changes, because of the collective decision process. None of these limitations is inherent in the CRU itself and they may be ameliorated by gradual modification of institutional arrangements. The centralisation of exchange controls would be a useful boost to capital movements; lack of uniformity squanders this important benefit of the CRU. Improved contact between the ECCB and national policy makers and financial institutions would also enhance the ECCB's effectiveness, but uniformity of arrangements is not essential.

The ECCB experience suggests that currency unification is practical among countries of similar size and performance. It affords convenience in travel and trade between members (a relatively minor advantage among ECCB members) and it ensures a credible, convertible currency by virtue of the inbuilt controls on money creation. It allows some modest accommodation of individual country economic fluctuations, by virtue of their borrowing rights with the ECCB. Any country may still exceed the limits of prudent borrowing, if it can persuade unwary foreigners to lend, but that country can be made to pay for its indiscretion. The inertia with respect to exchange rate changes is an advantage so long as the ECCB's foreign reserves are protected: the fixed parity maintains confidence in the future value of the currency and removes incentives for capital flight. The inability to alter nominal rates will not be a great loss where the nominal rate proves to be an uncertain policy tool.

Prospects for extending the ECCB's coverage are not readily apparent. Only Belize is of a size that is compatible with the economies of current ECCB members, and its mainland location and spatial separation from the East Caribbean islands make it an unlikely prospect.

1.2 The Joint Currency Arrangement

Compared with a unified currency the JCA allows for separate central banks and currencies, with the possibility of exchange controls and with no limits on national money creation in each country. If member countries are similar in size and performance, there is no effective difference between the JCA and the CRU, except that the former is a little less convenient. An individual JCA member may exhaust its foreign reserves by excessive spending and be forced into adjustment by foreign exchange bankruptcy. Other members would not be much affected and the region's overall reserve stocks would remain adequate to their needs. The adjustment process for the errant member works much as for the CRU, except that indiscreet governments may now over-borrow from their own central bank, rather than from private sources or abroad.

Under the JCA exchange controls are available as an instrument of policy, allowing members to ration foreign exchange. However, in the Caribbean economies only the proceeds

of primary export activities are available for rationing, since they are the only foreign receipts which the central bank does not have to compete away from the private sector. Countries within a CRU often have command of precisely these funds via official export marketing agencies or taxes on exports, and they may ration their use via the government budget. The JCA member armed with exchange control in reality has little scope beyond that available to the CRU member.

The JCA suffers the same disability from disparity of size as does the CRU. A large partner's foreign exchange shortage creates unsupportable pressure for a depreciation of all currencies in the agreement. Either all exchange rates in the JCA would be depreciated or the country in difficulty would have to fall out of the agreement until its exchange rate depreciated sufficiently to restore adequate net inflows of foreign exchange. If all rates were forced downwards, many smaller members would find their currencies heavily undervalued. Imports would become very expensive while the country would have exhausted its capacity to supply the exports which devaluation makes hugely profitable, and real income would fall. The country in deficit might maintain its JCA parity for a while and ration the supply of foreign exchange by controls. However, controls break down after a short while, and rate adjustment is inevitable if the foreign exchange shortage persists.

The JCA appears an inferior option to the CRU. It is no more flexible than the CRU, requiring joint decision about rate changes; in the absence of a central monetary authority its responses might be even more sluggish than for the CRU. The JCA offers no additional policy leverage to make up for the loss of the CRU's convenience, and neither system will work with countries of different size.

1.3 Individual Currency Determination, Subject to Limits

Each member in this arrangement, which we term the corridor (COR) sets its currency value independently of the others, provided it does not deviate more than a prearranged amount from a central rate. If any country needed to alter its exchange rate beyond the allowed limits a realignment of its currency with respect to the standard would be necessary. All members' currencies might be revalued vis-a-vis a numeraire so as to give the required adjustment for the country requesting a change. Alternatively a new parity might be set for this country's money in terms of those of all other members, which would remain unchanged.

The discretionary bands for exchange rate adjustment might be set in relation to the change in competiveness that firms might be able to absorb in the short run without danger of bankruptcies or widespread industrial dislocation. Once it becomes necessary to exceed the bands the arrangement becomes equivalent to the JCA.

The COR is an improvement on the JCA if exchange rate adjustment within the band allows a country to relieve a foreign exchange shortage without seriously affecting its competitive position in the grouping. In most Caribbean circumstances the relative insignificance of regional trade suggests that exchange rate changes which are innocuous on a regional level will be too miniscule to have a detectable effect on the overall market for foreign exchange. Any rate change which is large enough to correct an overall balance of payments disequilibrium is likely to alter patterns of regional competition quite significantly. Allowing a corridor for discretionary changes would not give countries enough additional leverage in adjusting the balance of payments.

1.4 No Formal Exchange Rate Link, Compensatory Policies

The effects of exchange rate changes on trade and growth depend on the fiscal, monetary and other policies which accompany it. It may be possible to arrive at the same outcome by several different combinations. If exchange rates may be managed jointly within the region, other econmic objectives may be served by the remaining policy instruments. Conversely, if exchange rate harmonisation is unattainable or undesirable, trade and payments objectives may be secured by use of fiscal and financial policies. An alternative to explicit links between exchange rates is mutual agreement on domestic policies that a member country is allowed to implement to protect its regional transactions from adverse effects of exchange rate movements. Examples of such policies include subsidies for firms whose competitors gain a sharp advantage from a devaluation or surcharge on the sales of firms that gain from a devaluation. However, it might be difficult to gain a consensus on appropriate offsets and to effectively police their implementation.

1.5 Combinations

Several combinations of CRU or JCA with COR or individual exchange rates are possible. Currently there is a CRU within Caricom (i.e. the ECCB area), while all other rates are determined independently. It is possible to maintain multiple rates, with a JCA or COR for Caricom transactions, and separate rates for extra-regional payments, or other similar arrangements.

2. Why Harmonise Exchange Rates?

We now discuss whether sentiments in favour of exchange rate harmonisation are well founded. The expected benefits include convenience in regional payments, predictability of exchange values, confidence in future currency values, sharing of adjustment costs among members and promotion of regional trade and tourism.

2.1 Convenience

Currency unification (CRU) offers a considerably more convenient form for regional payments than any alternative. It eliminates the bank charges and other costs of converting from one currency to another and removes the nuisance of quoting

values in two or more currencies. It also simplifies the task of extra-regional firms which do business in the area. No other currency arrangement offers such convenience.

2.2 Predictability

The CRU and the JCA provide known unchanging values of regional money. Producers, investors and traders must deal with uncertainty arising from innovations in their product lines, shifts in the market, the emergence of new competition, and changes in taxes and regulations. Uncertainty of regional exchange rates aggravates the problem and serves as a disincentive for intra-regional transactions. A CRU or JCA helps to reduce this barrier to intra-regional trade. However, the joint arrangement may divert investment from extra-regional activity, where exchange values remain subject to uncertainty. The COR is less likely to provide a predictable pattern of exchange rates, but if it is managed in a stable fashion over time traders may eventually repose confidence it its dependability.

2.3 Confidence

Perhaps the greatest obstacle to successful exchange rate management in the Western Hemisphere has been the flight of domestic capital triggered by lack of confidence in the management of the exchange rate. If harmonisation were to provide a more convincing exchange rate strategy its contribution to balance of payments stability would be decisive. Unfortunately, it is not the case that a larger economic base makes for a more credible currency. The Caricom region as a whole does not constitute a more convincing base for an independent currency than does the island of Montserrat. The reverse may well be true. Within a harmonised Caricom exchange system, the well-managed currencies may well be tainted by the unstable.

2.4 Shared Costs of Adjustment

The economies of Caricom member countries are sufficiently diverse that changes in the markets for export commodities, in the terms of trade and in the technologies of production will hurt some countries more than others and may be to the advantage of some. (One example is an increase in the price of oil.) Transfers among members of finance or of resources such as capital, labour or products might cushion the adjustment for the worst affected. Exchange rate harmonisation is not a central instrument in achieving the required transfer; it requires a regional payments system with credit facilities for members, together with specific provisions for eliminating barriers to the movement of capital and labour. However, exchange rate harmonisation plays a supporting role by sustaining regional trade flows which might be interrupted by abrupt changes in parity. Intra-regional parity changes in effect shift part of the devaluing country's adjustment costs onto its partners, by displacing their exports on its home

market and elsewhere where its own products gain a price advantage from devaluation. This often seems predatory and invites retaliation. Harmonisation allows these adjustment burdens to be shared in a pre-arranged, less abrasive fashion.

It may seem that exchange rate harmonisation would facilitate regional capital flows, but in fact the prospects both for harmonisation and for capital mobility depend on the incentives for capital flight. Until each country procures sufficient confidence in its own money market so that residents are not attracted to foreign financial assets neither exchange rate harmonisation nor regional capital mobility is a realistic prospect.

In order to share costs of adjustment among countries an adequate pool of foreign exchange is required. If exchange rates are linked in some way a country with a foreign exchange deficit may not be able to devalue its currency as far as its circumstances dictate (that is to say, by an amount which, together with fiscal, monetary and other policies, serves to eliminate the excess demand for foreign exchange). The country would borrow from the regional reserve pool to make up the remaining foreign reserve deficiency. Borrowings from the reserve pool would be subject to agreed conditions for economic performance (in particular, the achievement of balance of payments targets) and borrowers would be penalised for failure to attain targets, if necessary by suspension from the regicnal payments, exchange rate and credit arrangements. Unless firmly enforced conditions are put in place the arrangement will work to the detriment of smaller, more able members.

2.5 Promoting Regional Trade and Services

Exchange rate harmonisation cannot insulate firms against underlying changes in the economies of the region. If a country's production costs are rising more quickly than its partners', or if their productivity is increasing more rapidly, demand for the country's exports will slacken and tourists will go elsewhere. Moreover, the ability to buy has been more important than the relative price of competitive goods as an explanation of the trends in intra-Caricom trade. (Demonstrated for a selection of Caricom countries in my study 'The Effects of Devaluation on Competitiveness and Trade', Central Bank of Barbados, September 1986, attached as Appendix A.)

Nevertheless, exchange rate harmonisation may serve to ensure orderly adjustment to changed economic circumstances. It may shield firms from abrupt changes in competitive position which expose them to bankruptcy because of transactions in process or commitments arising from binding contracts. Successful firms are geared to gradual changes in markets and processes, but no firm can afford to insure against the effects of a sharp devaluation which is sprung very infrequently and without warning. Harmonising exchange rates provides some

credibility of exchange rate policy. Rationing of imports may also be employed for a short time.

Any combination of policies yields a net supply of foreign exchange which indicates where the nominal exchange rate should lie. If the net supply is negative a devaluation is needed; no change is necessary if the net supply is positive and of a modest size. If the net supply is positive and very large, and continues over several years, a currency appreciation is indicated.

Alternatively, one may adjust other policies to maintain an existing exchange rate. This is an attractive option in the Caribbean, where the US dollar is the prevailing standard of value. The dollar's value in terms of yen, sterling, deutschemark or other major currencies has no effect on its magnetism for wealth-holders in the Caribbean and Latin America. A country which succeeds in stabilising the value of its currency in terms of the US dollar (while maintaining currency convertibility) is considered well managed; capital flight tends to diminish and the investment climate improves. Therefore, if the supply of foreign exchange threatens to become negative, it behoves Caribbean countries to use fiscal policy to raise the prices of tradables and to reduce domestic costs, to borrow abroad to cover temporary foreign exchange shortfalls and to buy time during the gestation of new investment. If there is evidence of short-term capital outflow these policies might be supported by raising domestic interest rates relative to rates for US dollar denominated assets. Conversely, massive excess supply of foreign exchange suggests the desirability of more expansionary fiscal policy.

Harmonisation of exchange rates may be attained only if member countries adopt fiscal and monetary policies which make the net supply of foreign exchange positive at exchange rates which remain in the neighbourhood of their neighbours'. Each country would need to find a set of policies to produce a positive net supply of foreign exchange at existing rates or at some other combination that seems more suitable (perhaps because the existing rates would require fiscal policies that were too draconian). These rates might then be managed together by any one of the joint measures discussed above. All countries would be committed to changes in monetary and fiscal policies needed to maintain a net supply of foreign exchange at these rates. The whole system would need the back-up of a large store of foreign exchange reserves to establish its credibility.

4. The Potential for Exchange Rate Harmonisation

The considerations of the foregoing section suggest indices of the potential for exchange rate harmonisation among Caricom countries. Evidence on the net supply of foreign exchange, which determines whether the current exchange rate is sustainable, is an obvious indicator. It is measured by the change in the country's net foreign assets, taking account of

severity of foreign exchange rationing which the country maintains. Strict rationing indicates an unsustainable rate, even if the loss of foreign assets is not startling. The supply of exports of goods and services is another helpful indicator, since Caribbean nations may not sustain economic growth without expansion of exports. It is possible to maintain an exchange rate unchanged in the face of declining imports, but it involves a loss of real income, and may meet with resistance which causes overspending and a depreciation of the rate in the end. A slowdown in foreign investment or a net outflow of short-term capital is often an early sign of impending pressure on the foreign exchange reserves.

Fiscal policy is the most powerful instrument government has at its command for influencing the net supply of foreign exchange. A country's success in maintaining a desired exchange rate often depends on the leeway available for contractionary fiscal policy. The size of government deficit relative to GDP is an indicator of the government's room for manoeuvre. It should be evaluated in light of the country's economic growth and the strength of its balance of payments. A relatively high ratio may not be much of a problem if foreign reserves are growing and the economy is expanding, but the same ratio implies severe adjustment pains for a stagnant economy with external payments arrears.

have been growing over the last three years, foreign exchange reserves have risen and exports are on the increase. Capital inflows appear to have been significant for the Bahamas and Belize, and for some, though not all, OECS states. All the countries carry very modest fiscal deficits, allowing scope for expansion or contraction as may be necessary. Guyana stands at the other extreme, with arrears of foreign payments one and a half times the GDP (and growing because of accumulated interest charges), a foreign exchange deficit which has persisted for over ten years, massive fiscal deficits and a large outflow of 'voluntary' capital (although the balance of payments records a net capital 'inflow' made up entirely of unpaid amortisation.) It is not clear what exchange suits the performance of the Guyanese economy. Barbados' net foreign assets have ceased to grow despite sustained capital inflows, and exports of goods and services have begun to falter. The fiscal ratio, hitherto relatively low, is poised for a substantial increase, and the growth rate remains sluggish. The indices for Trinidad and Tobago point to a weaker position for that country, with falling foreign assets, declining exports and a very large fiscal deficit. However, there are no arrears and foreign capital inflows remain positive. The Jamaican exchange rate appears relatively weak despite an improving export performance. There has been no significiant gain in foreign reserves and arrears have yet to be paid off, while the fiscal deficit remains large and net capital inflows are still negligible.

The prospects for harmonisation also depend on the proportion of regional to total imports for each country and on the composition of trade with the region. For example, suppose a country decides on fiscal contraction to secure an exchange rate target. The implications for the country's trade balance with Caricom will be larger the greater the share of its imports which derive from Caricom services. Also, those Caricom countries which supply non-essential goods will suffer a greater loss than those which supply petroleum. Although Caricom imports are less than one-third of all imports for every member, the propostion varies significantly, indicating a further difficulty in harmonising rates.

5. Evaluating the Options

The options for exchange rate harmonisation include various ways of combining the schemes outlined in section one, as well as the choice between them. Apart from establishmemt of a CRU, JCA or COR, we may envisage dual (or multiple) rates combining any one of these (strictly for transactions among Caricom members) with individual exchange rate setting for transactions with the rest of the world. Alternatively one might consider a temporary COR to accommodate any small change, with some other arrangement if movements were too large. The final alternative would be agreed sanctions on exchange rate movements above a stated magnitude, but no other formal link.

5.1 The CRU, the JCA and the COR

The three formal joint arrangements are all unattainable under current circumstances because of the great disparities of size and of economic performance as suggested by the indicators of section four. There are no sanctions on countries' fiscal and monetary policy to compel them into line with any chosen alignment of exchange rates. No large pool of foreign exchange reserve is available; instead, the largest countries have foreign exchange deficits of major proportions.

The Caricom countries may wish to work towards the formalisation of jointly managed rates as a long-term goal. Individual countries may work towards this end by instituting monetary, fiscal and balance of payments policies which produce a sustained supply of foreign exchange. When a large foreign reserve is available, a joint arrangement might be concluded among those countries which have contributed by ongoing reserve accumulation. No country could be admitted to the union until it met this criterion.

Access to the reserves pool would be subject to conditions on fiscal and monetary policy with performance monitored by a regional exchange rate authority. Errant members would face suspension, an essential rule in order to protect the integrity of the exchange rate, to maintian the reserve at adequate levels and to ensure the convertibility of regional currency. The jointly managed exchange rate might be adjusted

by the authority, which would have to be capable of swift, informed decision making. The regional exchange rate authority, which would manage the reserve pool, would also be the logical manager of the regional payments system, the subject of a companion paper.

5.2 A Combination of Exchange Rate Mechanisms

It is possible to combine a jointly managed exchange rate (CRU, JCA or COR) for transactions among Caricom member countries with an option for each country to set a second rate for extra-regional transactions, where this were deemed necessary or desirable. However, the multiple rate strategy proves unsustainable in the long run. Profits may be had by buying foreign exchange at the Caricom rate, if that rate is cheaper, and selling at the rate for extra regional trade. Where such transactions are made illegal (as they invariably are with exchange controls) extra-legal devices will be set up to evade controls. The most common is to set up institutions for the transfer in some location outside the jurisdiction of the exchange control authority.

However, a dual exchange rate arrangement may well serve as a temporary expedient, since the devices for avoidance take some time to appear. In the short run dual rates might provide insurance for firms against sudden changes in their competitive position and allow for gradual adjustment to the new price relationships imposed by a member country's devaluation. The system would limit the extent to which a member might change its rate of exchange for Caricom business. If it were necessary to make a large exchange rate change, two rates would be declared: a rate for Caricom trade, at the maximum of the allowed leeway for change, and a second rate for extra-regional trade, on which there would be no restriction. There would be guidelines for adjusting the rate for the region to the general rate over a period of time. In arriving at a reunified rate all Caricom rates might be adjusted so as to minimise the movement of rates among Caricom members, or only the devaluing currency might change in value, in relation to all others. The latter option would avoid the necessity for all members to take offsetting monetary and fiscal measures in light of the unwanted change in the value of their currencies.

5.3 Individual Rates, with Sanctions

Because transactions between Caricom countries are a small proportion of their trade, the countries affected by a member's devaluation may compensate by relatively minor adjustment of fiscal and monetary policy. Caricom members might agree in advance the defensive measures any member is entitled to introduce in the face of sharp devaluation by any other. Defensive measures need not be subversive of regional trade, though the reactions to Jamaica's deep devaluations have had that effect. They have also reduced the welfare of consumers in the

countries retaliating, limiting the choice of goods, raising their effective prices and encouraging smuggling and other forms of 'rent-seeking'. However, temporary subsidies and tariffs, with automatic eligibility for products affected by a member's devaluation and with a fixed duration (of perhaps six months) is a feasible alternative to the temporary dual exchange rates just described.

6. Conclusion

The joint management of Caricom exchange rates, by means of the CRU, JCA or COR, is neither feasible or particularly useful in the present circumstances of Caricom countries. The disparities of size and performance are too great, there is no possibility of imposing penalties on countries with wayward policies, and there are insufficient foreign exchange reserves to lend credibility to a jointly managed rate. A joint rate would not serve to restore regional trade, because the losses mainly reflect declining real income in the largest buying countries. There will be no improved confidence or greater certainty of investment so long as foreign exchange reserves are seen to be under threat.

However, there is urgent need to provide insurance against sudden exchange rate movements which might bankrupt firms engaging in regional trade. The mechanisms available are temporary dual rates and automatic offsetting policies, for a short period. Dual rates require a devaluing country to set a separate Caricom rate, within a stipulated distance of the pre-devaluation rate, and then to follow guidelines for unifying the Caricom and extra-regional rates. Alternatively, temporary taxes and subsidies might be allowed to protect firms which are adversely affected by devaluation.

Joint exchange rate management is worthwhile as a long term goal, mainly because of the careful economic policies required to make it feasible, rather than as an end in itself. If all Caricom member countries attain policies that combine balance of payments equilibrium and adequate foreign reserves with economic growth, a regional exchange rate authority might serve to provide a more flexible response to external shocks, by providing for flows of capital among members. Exchange and trade controls among members could be abolished, a regional foreign reserve pool established and a credit facility provided to which members would have access on agreed terms. Joint exchange rate management might reinforce these arrangements by eliminating the danger of sudden, ruinous relative price changes among competitors in the regional market.

DeLisle Worrell
December 1987

Table 1

Antigua

Year	Foreign Exchange Earnings (US$M)	Short-term Capital Movements (US$M)
1976	N.A.	N.A.
1977	31.6	-3.7
1978	42.2	-0.5
1979	51.0	7.0
1980	106.9	-8.6
1981	107.1	-5.9
1982	113.5	10.9
1983	111.3	-7.7
1984	148.4	-0.8
1985	N.A.	N.A.

Table 2

Belize

Year	Net Foreign Assets (BZ$M)
1976	12.9
1977	15.5
1978	25.8
1979	20.0
1980	24.5
1981	20.3
1982	19.3
1983	10.2
1984	-0.6
1985	7.3
1986	28.5

Table 3

Dominica

Year	Net Foreign Assets (EC$M)	Real GDP 1980 Prices (EC$M)
1976	3.2	139.3
1977	6.0	144.1
1978	5.2	161.4
1979	19.8	136.0
1980	8.0	159.1
1981	-12.1	171.9
1982	-16.1	177.5
1983	-27.1	N.A.
1984	-8.4	N.A.
1985	-16.6	N.A.
1986	-2.6	N.A.

Table 4

Grenada

Year	Net Foreign Assets (EC$M)	Foreign Exchange Earnings (EC$M)	Long-term Capital Flows (US$M)	Short-term Capital Flows (US$M)	Other Capital Movements (US$M)	Real GDP 1980 Prices (EC$M)
1976	18.1	N.A.	N.A.	N.A.	N.A.	198.1
1977	16.0	29.2	0.6	-3.2	-2.6	209.4
1978	19.1	33.6	-3.5	-1.0	-4.6	226.4
1979	24.5	43.2	2.2	-0.5	1.8	231.8
1980	27.2	41.0	1.3	-1.8	-0.5	232.2
1981	21.1	40.9	4.8	-3.0	1.8	236.1
1982	16.4	39.7	11.4	-0.2	11.2	246.6
1983	17.5	40.6	14.6	6.0	20.6	N.A.
1984	21.8	N.A.	N.A.	N.A.	N.A.	N.A.
1985	44.8	N.A.	N.A.	N.A.	N.A.	N.A.
1986	48.5	N.A.	N.A.	N.A.	N.A.	N.A.

Table 5

Guyana

Year	Net Foreign Assets (G$M)	Foreign Exchange Earnings (G$M)	Long-term Capital Flows (US$M)	Short-term Capital Flows (US$M)	Other Capital Movements (US$M)	Real GDP 1980 Prices (G$M)
1976	-59.3	294.7	N.A.	-23.7	-23.7	1,591
1977	-105.3	275.6	N.A.	-1.3	-1.3	1,515
1978	-64.2	313.7	N.A.	35.8	35.8	1,489
1979	-188.0	22.2	28.2	-7.2	21.0	1,479
1980	-469.7	410.5	34.0	-11.5	22.5	1,508
1981	-603.7	372.4	38.7	-75.1	-36.4	1,576
1982	-885.5	264.3	-39.9	3.4	-36.5	1,380
1983	-1,215.5	225.2	-57.0	-16.4	-73.4	1,248
1984	-1,888.6	246.4	-27.7	-13.7	-41.4	N.A.
1985	-2,219.5	262.0	-36.0	-5.8	-41.8	N.A.
1986	-2,495.5	N.A.	N.A.	N.A.	N.A.	N.A.

Table 6

Jamaica

Year	Net Foreign Assets (J$M)	Fiscal Deficit/GDP	Foreign Exchange Earnings (US$M)	Long-term Capital Flows (US$M)	Short-term Capital Flows (US$M)	Other Capital Movements (US$M)	Real GDP 1980 Prices (J$M)
1976	213.9	-0.16	942.9	N.A.	8.2	8.2	5,176.5
1977	261.6	-0.15	1,007.0	N.A.	-22.6	-22.6	5,090.9
1978	754.0	-0.17	1,169.8	N.A.	24.5	24.5	5,073.0
1979	1,036.5	-0.15	1,220.9	N.A.	-15.5	-15.5	4,998.7
1980	1,321.4	-0.21	1,421.6	140.3	-60.8	79.5	4,750.1
1981	1,893.5	-0.17	1,499.8	39.6	8.5	48.1	4,868.5
1982	1,980.5	-0.15	1,371.1	224.4	60.5	284.9	4,915.8
1983	5,035.3	-0.14	1,332.2	70.8	-74.0	-3.2	5,015.2
1984	6,186.2	-0.14	1,335.2	390.0	96.5	486.5	4,995.5
1985	8,544.4	N.A.	1,090.4	-273.5	235.9	-37.6	N.A.

Table 7

St. Lucia

Year	Net Foreign Assets (EC$M)
1976	14.0
1977	15.3
1978	18.2
1979	21.9
1980	17.7
1981	7.8
1982	14.9
1983	16.7
1984	20.6
1985	38.3
1986	67.8

Table 8

Trinidad & Tobago

Year	Fiscal Deficit/GDP	Foreign Exchange Earnings (US$M)	Long-term Capital Flows (US$M)	Short-term Capital Flows (US$M)	Other Capital Movements (US$M)	Real GDP 1980 Prices (US$M)
1976	0.08	1,451.0	N.A.	N.A.	N.A.	12,386
1977	0.10	1,625.5	N.A.	N.A.	N.A.	13,452
1978	0.04	1,689.7	N.A.	N.A.	N.A.	14,205
1979	-0.01	2,227.5	N.A.	-56.4	N.A.	14,587
1980	0.07	3,371.2	335.9	-25.7	310.2	15,284
1981	0.03	3,488.3	327.1	-133.0	194.1	15,337
1982	N.A.	3,146.2	614.0	-7.1	606.9	15,403
1983	N.A.	2,575.9	192.2	-504.4	-312.2	15,004
1984	N.A.	2,581.6	100.7	-636.1	-535.4	13,379
1985	N.A.	2,601.6	107.4	185.7	293.1	N.A.

Table 9

St. Vincent

Year	Net Foreign Assets (EC$M)	Foreign Exchange Earnings (US$M)	Short-term Capital (US$M)
1976	12.6	N.A.	N.A.
1977	13.9	N.A.	N.A.
1978	14.2	29.4	-3.2
1979	24.0	33.4	4.7
1980	18.9	39.6	1.8
1981	19.6	50.1	-2.3
1982	14.1	53.5	-0.8
1983	13.1	63.7	-1.5
1984	22.8	N.A.	N.A.
1985	41.0	N.A.	N.A.
1986	69.8	N.A.	N.A.