SM/07/320

September 11, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Caribbean—Selected Regional Issues**

The attached paper on selected regional issues in the Caribbean will be discussed in a Board seminar to be held on **Wednesday, September 26, 2007**. Issues for discussion appear on pages 19 and 20. Directors are welcome to submit Gray statements and there will be concluding remarks.

At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Caribbean countries indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Panth (ext. 34253) and Mr. Faircloth (ext. 37469) in WHD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

CARIBBEAN

Selected Regional Issues

Prepared by a Staff Team from the Western Hemisphere and Other Departments

Approved by Markus Rodlauer

September 11, 2007

- **Caribbean macroeconomic performance has been favorable in recent years**. Regional economic growth, which had fallen sharply with the decline in tourism in the wake of September 11, 2001, has rebounded strongly, expanding by 5½ percent on average in 2006. Regional average annual inflation fell to 4½ percent in 2006, down from 9 percent in 2003.
- **Risks, however, remain pronounced and the reform effort recently waned in several countries**. The Caribbean is severely vulnerable to damage from hurricanes and growth remains volatile. With current account deficits mostly in double digits, the region remains highly dependent on external financing. In such circumstances, high public debt represents a major risk. Most countries in the region took advantage of the economic cycle to strengthen fiscal balances early on and debt levels have declined modestly in recent years. However, fiscal deficits deteriorated in some countries in 2006.
- **Regional financial integration can confer substantial benefits but also poses policy challenges**. Integrating the Caribbean's large but relatively underdeveloped and segmented national financial markets can raise economic growth. However, integrated financial markets also allow shocks to spread across borders much more rapidly and pose regulatory challenges, especially in the Caribbean context of large regional financial conglomerates. Strengthened macroeconomic policies can help reduce the risks of shocks. In addition, improved coordination among national regulators and strengthened oversight will remain critical.
- **Tax incentives are prevalent in the Caribbean, but other efforts to attract investments are likely to be more beneficial**. Caribbean countries provide extensive tax exemptions to investors. However, factors such as institutional quality and infrastructure are also important determinants of FDI. Furthermore, tax incentives entail significant economic costs. Revenue losses, in particular, can be large when fiscal positions are already under strain from high debt. Policy-makers should, therefore, consider reducing incentives; step up efforts to improve other determinants of investment, and make remaining incentives more cost-effective. Regional coordination can play a useful role in avoiding a "race to the bottom" with ever more generous tax incentives.
- **Erosion of preferential access to European markets for bananas and sugar entails large costs for some Caribbean countries and calls for comprehensive policy responses**. The value of implicit assistance provided by the preferential trading regimes has amounted up to 11 percent of GDP annually in some instances in recent years, and its loss implies significant output and revenue costs. Furthermore, social costs to rural populations can be large even in cases where the macroeconomic impact is limited. Caribbean countries should use targeted safety nets to help vulnerable populations; raise the efficiency of agriculture where it can remain price competitive under the new trade regimes, and transition away from traditional agriculture where production is no longer economically viable.

Contents Page

I. BACKGROUND

1. **The Caribbean region consists mostly of middle-income countries with open economies and high social indicators**.[1] The region has consistently been among the most open in the world (Figure 1). The integration with the global economy has served the region well—average per capita income is above that for the broader Latin America and Caribbean (LAC) grouping, as well as for all developing countries. Furthermore, an entrenched tradition of democracy has nurtured a strong social commitment in much of the Caribbean to public health, education and protecting the vulnerable. As a result, literacy and life expectancy are high and the region scores well internationally on poverty and income inequality indicators. There are, however, significant intra-regional differences along all of these dimensions, with Haiti, in particular, faring relatively poorly on most measures of development.

Caribbean: Selected Indicators

	GDP per Capita (Thousands of U.S. dollars)	HDI 1/ (Avg. Rank, 2006)	Life Expectancy (Years, 2006)	Illiteracy (Percent, 2006)	Income Inequality (GINI index) 2/	Poverty (Percent)
Caribbean Avg.	7.1	80	69	10	38	28
Best	18.9	31	77	0	10	12
Worst	0.5	154	50	49	65	66
Developing	5.3	101	64	22	42	38
LAC	5.1	79	71	12	51	37
OECD 3/	34.6	20	78	...	33	...

Sources: World Economic Outlook, IMF; World Development Indicators, World Bank; Human Development Report; UNDP.

1/ Human Development Index.

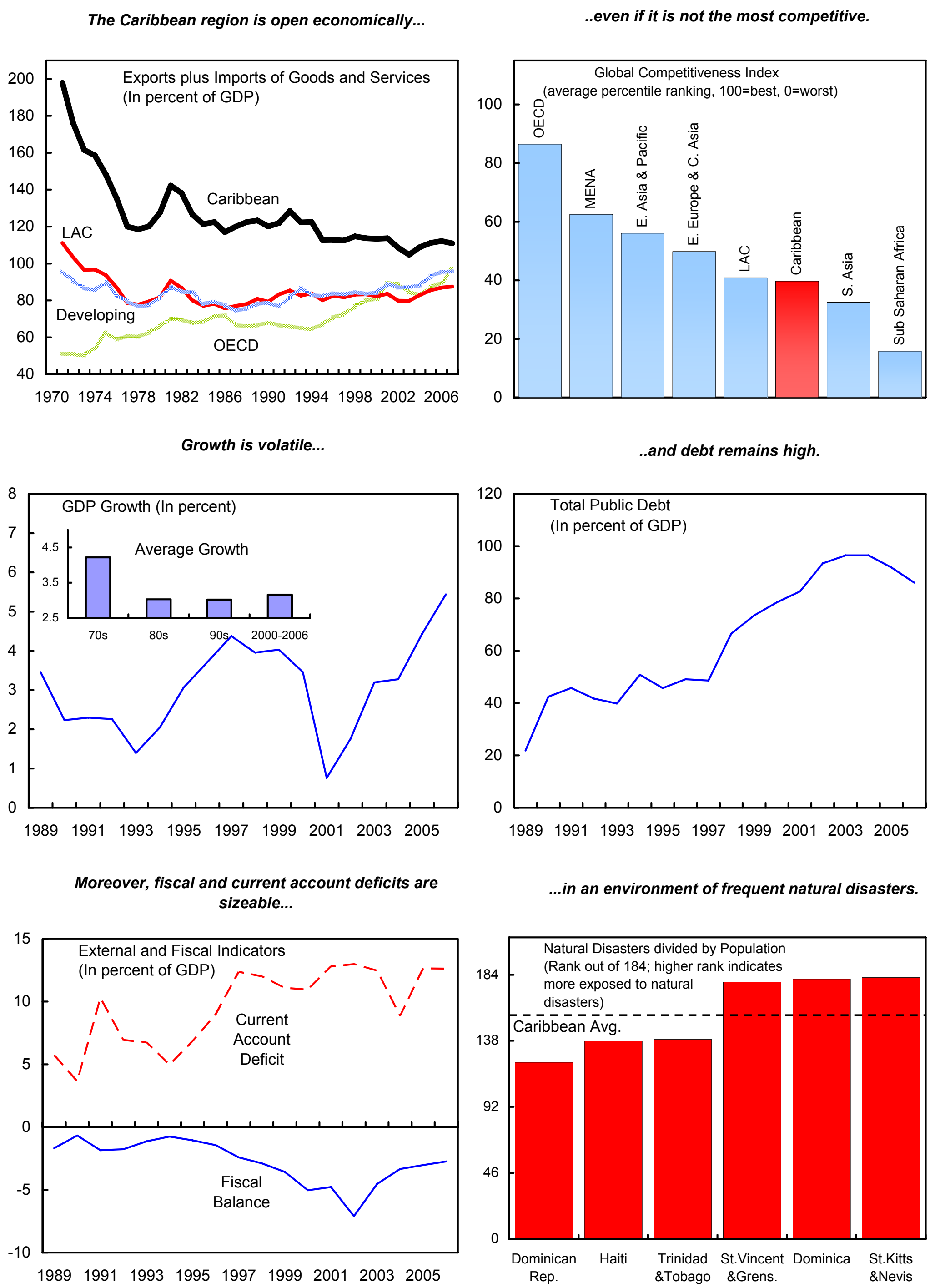
2/ High numbers indicate greater inequality.

3/ For OECD, GINI index is the average for 15 of the 30 OECD members for 2000 data.

2. **The region is highly exposed to the risk of shocks**. The Caribbean is severely vulnerable to damage from natural disasters—in particular, hurricanes. Moreover, small size has often posed constraints on economic diversification, intensifying the impact of swings in the markets for the region's main exports. Consequently, economic growth, which slowed markedly starting in the 1980s, remains volatile (Figure 1). During the 1990s, weak fiscal positions in many Caribbean countries contributed to the emergence of public debt levels that are now among the highest in the world. More recently, rising energy import bills have

[1] Except where noted, the Caribbean refers to the following 15 Fund member countries: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Trinidad and Tobago, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname.

Figure 1. Caribbean: Macroeconomic Context



Sources: World Economic Outlook, IMF; WEF Competitiveness Rankings; and Emergency Disasters Database, WHO.

1/ Caribbean figures are simple averages for Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and Suriname.

widened most Caribbean countries' external current account deficits from already elevated levels. Exposure to swings in global financial market conditions and sentiments, therefore, also remain high.

3. **The Caribbean has a strong tradition of regional cooperation and coordination**. The Caribbean Community (CARICOM), established in 1973, evolved from the earlier Caribbean Free Trade Association.[2] In 1989, CARICOM member states initiated the formation of the Caribbean Single Market and Economy (CSME).[3] The single market component of the CSME was inaugurated in January 2006 and now has a target date of 2008 for its full establishment; the single economy is expected to be phased in by 2015. Additionally, several CARICOM states are long-standing members of two other vehicles for regional cooperation and integration—the Eastern Caribbean Currency Union (ECCU) and the Organization of Eastern Caribbean States (OECS).

4. **Fund surveillance of the Caribbean has increasingly incorporated a regional dimension in recent years, to complement and support bilateral relations**. Regional surveillance staff papers on the ECCU have been prepared since 2003 and the discussions with ECCU regional member countries and institutions were formalized by the Executive Board in early 2006. Fund staff have maintained dialogue with Caribbean policy-makers also in the wider Caribbean context and have increasingly sought to bring a regional Caribbean-wide focus to research and outreach activities. The current Board seminar on the wider Caribbean is a further step in the direction of enriching the Fund's surveillance of Caribbean countries with a regional perspective. Staff intends to make such seminars on the wider Caribbean a regular event, perhaps on a 12–18 month cycle.

II. Recent Economic Developments and Outlook

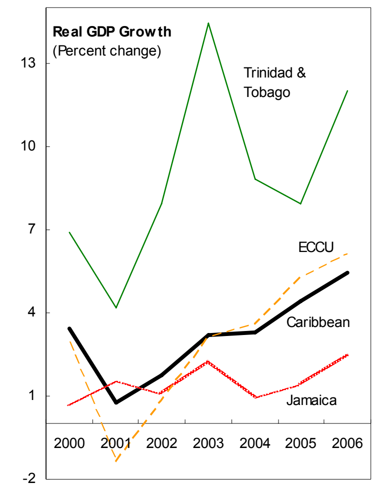
5. **Caribbean growth performance has been strong in recent years**. Regional economic growth had fallen sharply with the decline in tourism in the wake of September 11, 2001. The subsequent economic recovery has been robust—five years into the cycle, regional real GDP expanded by 5½ percent in 2006, the fastest pace in over two decades. Growth in Trinidad and Tobago, the only significant regional energy exporter, has been particularly impressive. Trinidad and Tobago grew by 12 percent in real terms during 2006,

---

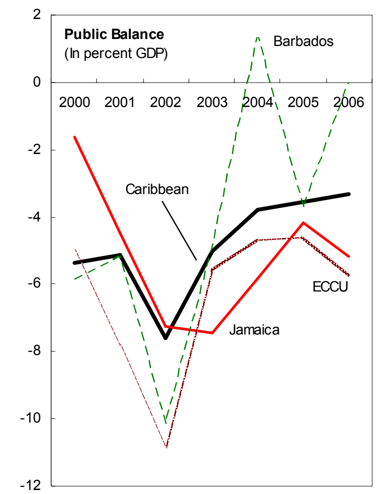
[2] CARICOM currently comprises all of the countries in Footnote 1, except the Dominican Republic, plus Montserrat, which is not a Fund member.

[3] The CSME was formalized in 2001 by the revised treaty of Chaguramas, which so far has been ratified by 12 CARICOM members.

fueled by expanding capacity in the energy sector and a construction boom. The Dominican Republic also registered double-digit growth in 2006 on the back of strong consumption and investment. While economic growth has been lower in other Caribbean countries, performance remains strong. For example, growth in the ECCU area reached 6 percent last year and the outturn in Jamaica, of 2½ percent real growth, was still the best in over a decade.

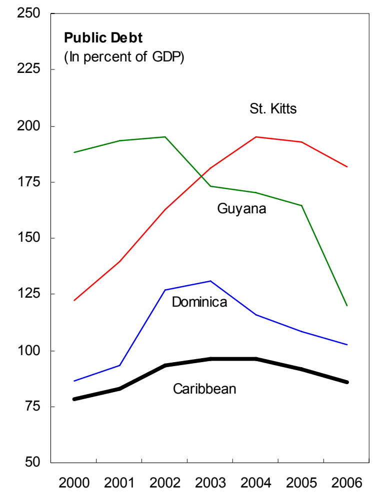


6. **Most countries in the region took advantage of the cycle early on to strengthen fiscal balances**. On average, overall budget deficits improved by 4 percentage points of GDP during 2002–05 due to a variety of policy initiatives. For example, Dominica imposed new taxes, increased rates on other taxes and cut the wage bill after its economic crisis in 2002–03, while Jamaica adopted its own ambitious program of fiscal consolidation under which a range of revenue and expenditure measures were implemented during 2003–04. Several Caribbean countries also embarked on tax modernization initiatives, such as the adoption of a VAT, which has helped strengthen revenue efficiency (Antigua & Barbuda, Dominica, Guyana and St. Vincent & the Grenadines). Moreover, budgets have weathered adverse developments more successfully in recent years because of reforms to enhance fiscal flexibility—for example, Dominica, Grenada, and St. Kitts & Nevis implemented mechanisms to keep domestic petroleum prices more closely aligned with import costs.



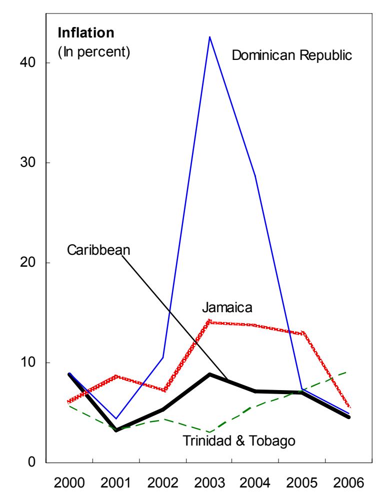
7. **Recently, however, the fiscal picture has become more mixed**. In Barbados, the overall public sector accounts moved from a deficit to balance during 2006. Similarly, in Belize the fiscal primary surplus increased to just under 4 percent of GDP in 2006 following the introduction of a General Sales Tax and extension of taxes to the oil sector. Elsewhere, however, Jamaica's primary surplus declined sharply in 2006 after new agreements were reached with public sector unions, and deficits deteriorated in the ECCU because of spending associated with the Cricket World Club (CWC). Similarly, with continuing high energy prices, Trinidad and Tobago again posted a large overall surplus but the nonenergy fiscal deficit increased further to 15 percent of GDP in 2006.

8. **The earlier efforts at fiscal consolidation, in combination with debt restructurings in some countries, has led to a modest decline in debt ratios**. On average, Caribbean public debt declined by 10½ percent of GDP during 2003–06. Dominica, Grenada, the Dominican Republic and Belize have successfully restructured their debts with official and commercial creditors. Moreover, Guyana continues to benefit from global initiatives (HIPC and MDRI) to reduce the debt of highly indebted poor countries. Nevertheless, the region's debt remains high at 86 percent of GDP on average in 2006, with several countries posting ratios well above 100 percent.

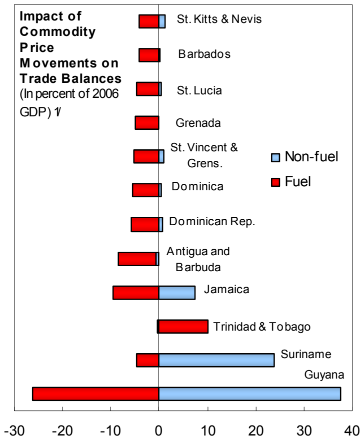


9. **Caribbean countries are continuing efforts to bring debt levels down, although much remains to be done**. In 2006, the ECCU reaffirmed its objective of reducing public debt in all its member countries to below 60 percent of GDP. A revised benchmark for reaching the target by 2020 has been adopted—this is to be followed up by individual countries' annual fiscal programs. Similarly, despite recent slippages, Jamaica remains committed to fiscal consolidation and has aimed for an improved primary surplus target for the current year. Given the risks, Caribbean countries will, however, need to aim at faster debt reduction than recently achieved.

10. **Strengthened macroeconomic policies have broadly contributed to price stability in the Caribbean**. Some price spikes in recent years can be attributed to food supply shocks associated with natural disasters and higher petroleum import prices. The authorities have so far largely succeeded in limiting the impact of these shocks. Skillful conduct of monetary policy enabled Jamaica, for example, to reduce annual consumer price inflation from 19 percent in September 2005 to under 6 percent currently. Similarly, in the Dominican Republic, inflation, which had accelerated sharply in the wake of the banking crisis in 2002–03, was reversed as the authorities regained control over monetary aggregates under the 2003–05 stabilization program. Inflation, nevertheless, remains a concern in Trinidad and Tobago where the positive terms of trade shock and fiscal expansion have led to the emergence of capacity constraints in the nonenergy economy. Inflation pressures for the ECCU countries remain subdued, given their currency board arrangement.



11. **Recent external developments have both contributed to stability in the Caribbean and posed challenges**. Robust global economic growth has led to increased demand for tourism, increasingly the region's economic mainstay in recent years. At the same time, as net importers of fuel, most Caribbean countries have experienced a large adverse terms of trade shock from the boom in commodity prices associated with the rapid global growth. On average, real exchange rate movements wash out, with the region as a whole currently at about the same level as in 2000—real appreciations in some countries (Trinidad and Tobago, Suriname) have been offset by depreciations in other cases, such as in the ECCU. Overall, external current account deficits have remained volatile, widening sharply in 2005 to almost 13 percent of GDP on average before improving in 2006 from a variety of country-specific factors as well as a temporary boost in tourism receipts from visitors diverted from hurricane-affected Mexican destinations. With the improved prospects for growth in many other developing countries, Caribbean economies are also likely facing greater competition for foreign investment in the more globalized environment.



1/ Impact of change in commodity price movement since 2002 on trade balances in 2006.

12. **Recent global financial market volatility underscores the risks to the region**. A combination of increasingly integrated global financial markets, ample global liquidity, and a search for yields has, over the last several years, enabled Caribbean countries to lower external borrowing costs, albeit at the risk of increased exposure to global volatility. While regional financial markets have, thus far, appeared to withstand the melt-down of the subprime mortgage market in the United States, the overall tightening of global liquidity has led to a widening of spreads on borrowing, broadly consistent with the experience of Latin American and other Emerging Market sovereigns.

13. **Looking ahead, the outlook for the Caribbean will continue to depend on external events as well as domestic policy responses**. Regional growth is expected to slow modestly to 4¼ percent in 2007 but remain above historical norms over the near to medium term. The slowdown is related to the ending of CWC-related activity as well as the return to trends for tourism earnings following the temporary boost in 2006. Overall, the prospects for tourism remain favorable as long as global growth remains strong. In contrast, the outlook for the region's traditional agricultural exports is poor, given increasing competition from more efficient third-party producers. The prospects for continued access to cheap external financing is also more uncertain now given the recent developments in global financial markets. Overcoming the challenges and addressing risks will require policy initiatives at the country-level as well as regional coordination on relevant issues.

III. SELECTED INTEGRATION ISSUES

14. **Caribbean countries have long recognized the benefits that economic integration brings but they are also keenly aware of some of the risks**. Caribbean economies have historically been some of the most open in the world. The quickening pace of globalization in recent years has, however, also led to a pick-up in economic integration and growth elsewhere in the world and the Caribbean needs to ensure that it does not fall behind (Figure 2). Caribbean populations and policy-makers recognize that the key to greater prosperity lies in continuing to seize the benefits that globalization offers, such as access to new markets and options for attracting more investments into the region. At the same time, they also rightly place priority in minimizing the dislocations that can often accompany increased integration. The challenge, therefore, is to use integration to spur economic growth while preserving and building on the region's impressive achievements of social well-being.

15. **Regional cooperation is an integral part of the Caribbean strategy to adapt to, and make the most of, globalization**. Pooling resources helps the Caribbean overcome some of the limitations to economic opportunities imposed by size. Similarly, strengthening regional cooperation enables Caribbean countries to compete on the world stage for investments in a manner that maximizes the benefits to individual countries as well as investors. And, learning from each others' experiences helps countries develop best practices to minimize some of the downsides of globalization, such as the loss of incomes to rural populations dependent on declining and noncompetitive traditional agricultural exports.

16. **Conditions are currently opportune to reinvigorate reforms and advance on integration-related areas**. Regional growth remains strong and the external environment is still favorable in the larger historical context. At the same time, numerous political transitions and renewals have taken place, or are expected to take place, in the region (see Figure 2) that can provide the mandates to implement deep reforms and shore up flagging fiscal and debt-reduction strategies in some instances. This is necessary to reduce risks in a globalized environment as market assessments and sentiments can shift rapidly. The current context also provides a strong basis for advancing on some regional priorities. Three such areas: (i) financial integration, (ii) tax incentives and investment, and (iii) trade preference erosion are considered in detail in the accompanying staff paper, whose main findings and conclusions are summarized below.

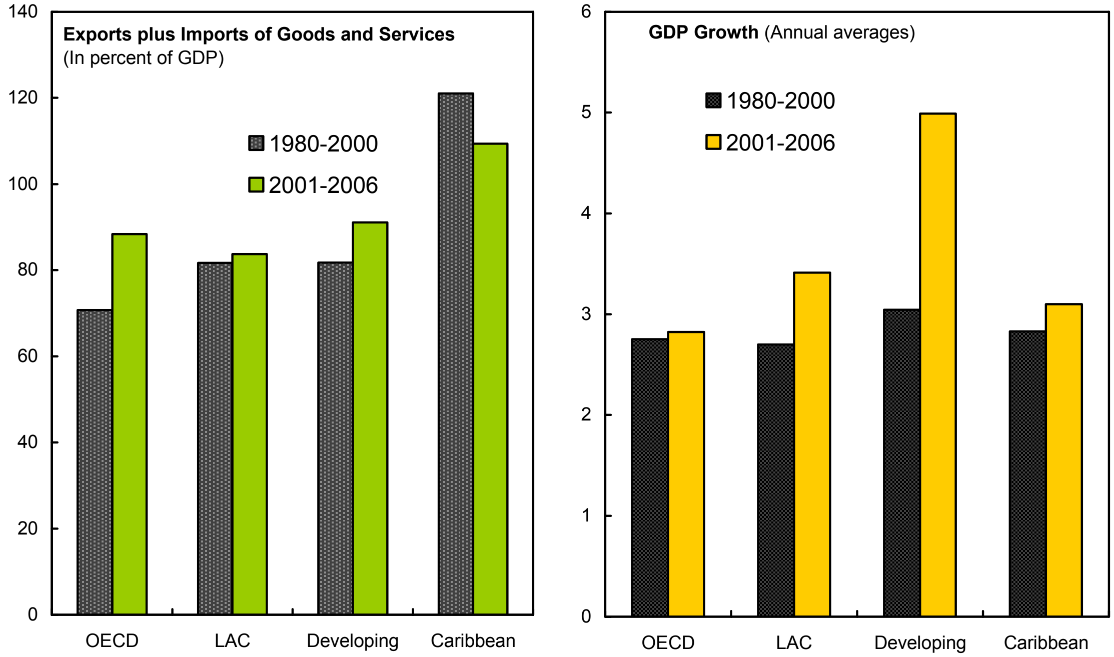
A. Financial Integration[4]

17. **Integrating national capital markets, which are relatively large in the Caribbean, into a unified whole is an explicit CARICOM objective**. Caribbean bank

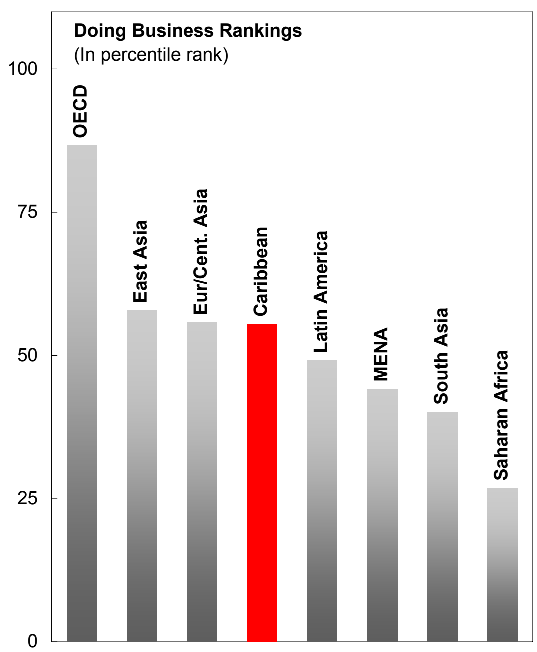
[4] This subsection focuses on the 14 CARICOM countries that are also members of the Fund; hence, unless otherwise indicated, "Caribbean" should also be read as referring to the same grouping.

Figure 2. Caribbean: Integration and Reform

Openess has stagnated... ***..while GDP growth has lagged.***



There is room to improve the business environment



...and elections can provide strong mandates for reform.

	Elections		
	2006	**2007**	**2008**
Bahamas, The		√	
Barbados			√
Belize			√
Dominican Rep.			√
Grenada			√
Guyana		√	
Haiti	√		
Jamaica		√	
St. Lucia	√		
Trinidad & Tobago			√

Sources: World Economic Outlook; Fund staff estimates; and Doing Business Indicators, World Bank.

assets are currently close in magnitude to regional GDP. The nonbank financial sector is even larger than the banking sector in some countries. Total financial sector assets exceed 150 percent of regional GDP and the sector accounts for about 8 percent of annual regional output, above the G7 average of 7 percent (Figure 3), although Caribbean market turnover is much lower in international comparison.[5] Trinidad and Tobago is the regional financial center in the Caribbean—its financial sector contributes to the production of one-tenth of its GDP, a share comparable to that of Singapore, a major international financial hub. The CSME initiative proposes to create a unified regional financial market by removing restrictions on the provision of intra-regional financial services and cross-border capital flows.

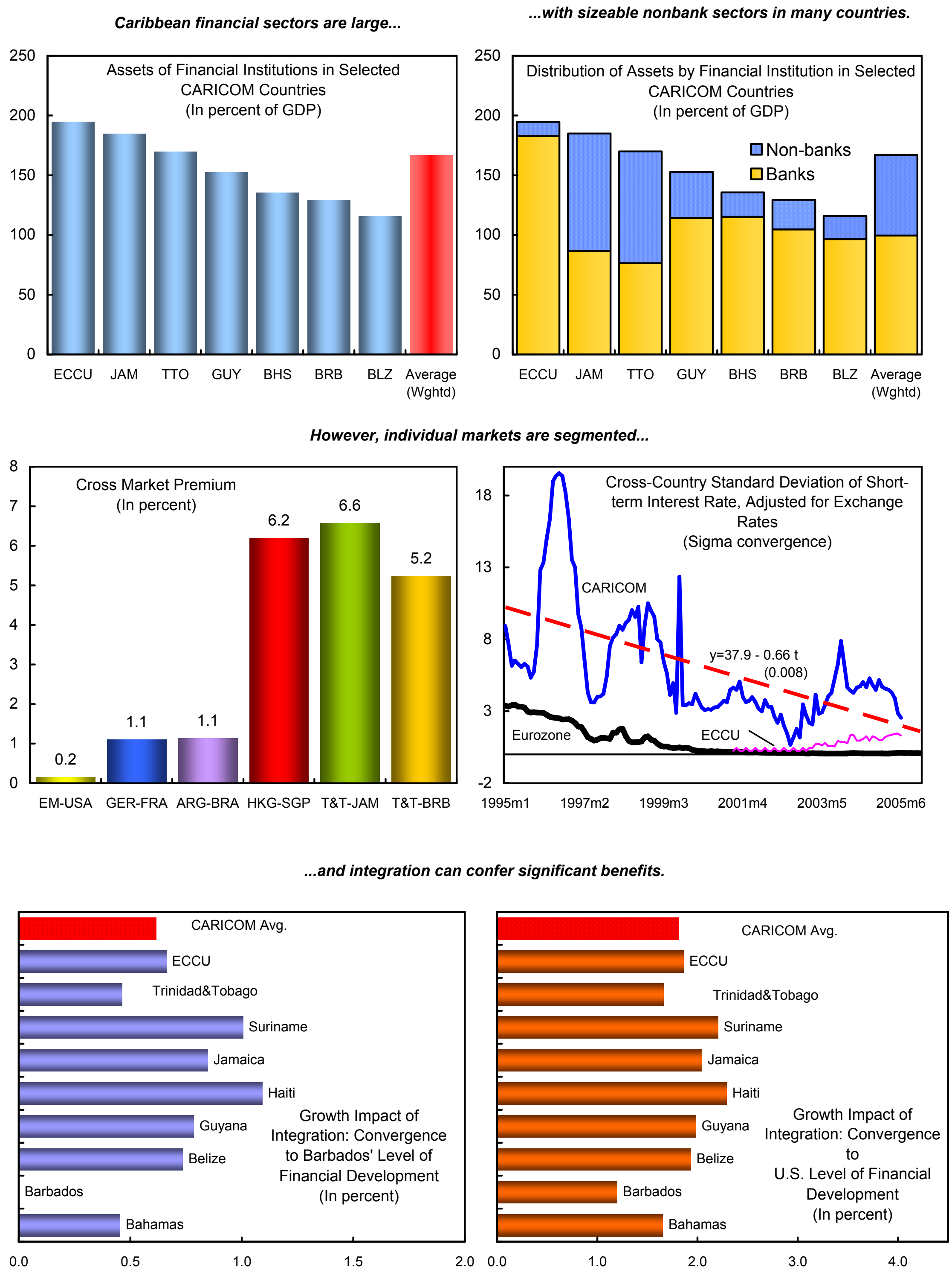
18. **Regional financial conglomerates play a large role in Caribbean national markets, but these markets are still underdeveloped despite their size**. The combined assets of the nine largest financial conglomerates (some of which also have mutual cross-holdings) is almost the size of regional GDP. The conglomerates, typically comprising commercial banks, merchant banks, building societies and security dealers, operate simultaneously in multiple Caribbean countries in markets that have not yet fully realized their potential. For example, corporate bond issuances are rare in the Caribbean with the result that regional primary bond markets are dominated by government securities and secondary markets are almost non-existent. Even in Jamaica, where trading of government bonds is significant, an outdated settlement and custody system contributes to market illiquidity. As regards stock markets, while there are six exchanges in CARICOM, market turnover remains low by international standards. Similarly, some financial derivatives are popular but are limited to purchases in over-the-counter markets, given the absence of secondary markets.

19. **Integrating segmented national financial markets can spur financial development and improve Caribbean growth**. While regional financial integration has increased in recent years, cross-border banking activity is still limited in the Caribbean despite its large offshore sector linked to global markets, and regional cross-border borrowing remains relatively small. Further evidence of segmentation is provided by uncorrelated interest rates and large and persistent price differences for cross-listed stocks (see Figure 3). There is significant theoretical and empirical support for integrating such segmented markets. Integration can increase the availability of capital, especially to small firms and countries; reduce the cost of capital all around; and spur improvements in financial regulations and standards. All of this, in turn, leads to higher economic growth and improved living standards—the ultimate objectives of integration. Staff's illustrative calculations suggest, for example, that CARICOM growth rates could increase by an average of 0.6 percentage points per year if, as a result of regional integration, all countries had access to financial markets as developed as those of Barbados.

---

[5] Excludes Haiti and Suriname due to data limitations.

Figure 3. Caribbean: Financial Integration



Sources: Fund staff estimates; and country authorities.

20. **As Caribbean countries pursue greater regional financial integration, they will, nevertheless, have to remain mindful of some potential pitfalls**. Integrated financial markets allow shocks (including sudden stops or reversals in capital flows) to spread across borders much more rapidly. There is also a danger that an excessive focus on the regional dimension of integration can lead to increased inward-orientation. Pursuing integration opportunities at the global level, therefore, also remains key—staff estimates suggest, for example, that CARICOM growth rates could increase by an average of 1.8 percentage points per year, if all regional countries had access to financial markets as developed as those of the United States. Finally, integration poses a special set of challenges to national regulators, who on their own lose significant control over developments in their markets with increased integration. Integration, therefore, requires greater coordination among national regulators.

21. **Strengthening macroeconomic policies and institutional capacity will help to avoid some of the pitfalls and improve integration prospects**. Strengthened macroeconomic policies and conditions help reduce the adverse consequences of shocks. This is especially relevant in the Caribbean context of high debt and large current account deficits. Intra-Caribbean capital account liberalization, a central component of financial integration, also requires greater dexterity on the part of the monetary authorities. Countries, need, in particular, to ensure that their market-based monetary policy instruments, such as discount and open-market policies, are effective to manage liquidity in an integrated environment. Finally, strengthening infrastructure and simplifying trading rules can reduce transaction costs and market segmentation.

22. **Strengthening regulatory oversight, in particular over regional conglomerates, deserves added emphasis**. Financial integration poses special challenges for supervisors. Integration can introduce risks that are not yet known and more generally, render the assessment and management of risks more difficult. As regional conglomerates become increasingly organized less along jurisdictional lines and more along functional lines, regional supervisors will, in particular, be challenged to ensure that "blind zones" do not emerge from segmented knowledge and/or jurisdictions. While Caribbean countries are taking steps to strengthen oversight, a number of issues merit greater priority in the regional context: continuing with efforts to improve supervision at the national levels; strengthening crisis management preparedness; and improving regional coordination on safety net and resolution issues for regional banks or groups.

B. Tax Incentives and Investment[6]

23. **Policymakers across the Caribbean have long recognized the benefits of foreign direct investments (FDI) and actively sought levers to attract them**. Foreign investment is

[6] In this section, the "Caribbean" refers to the same group of countries as in footnote 1.

deemed necessary to generate jobs and promote economic development, and incentives are considered critical to attracting new investment. The perception of increased global capital mobility has also put pressure on regional governments to avoid reducing existing incentive schemes unilaterally, out of fear that other regional and extra-regional competitors will attract away investments. As a result, special investment incentives have proliferated throughout the region, most typically in the form of tax holidays, which provide exemptions from corporate income taxes and import duties for up to 25 years.

24. **Despite the widespread existence of incentives, the pattern of investment in the Caribbean is uneven, suggesting that other factors are also at play**. Overall, FDI in the Caribbean has grown both as a share of GDP and in absolute terms over the past two decades. However, the region's share in global FDI has been volatile and has declined somewhat during the same period (Figure 4). The intra-regional distribution of FDI is also uneven—while the largest economies receive the bulk of the investment flows, the smaller ECCU countries stand out as the largest recipients of FDI when measured relative to GDP. Furthermore, FDI flows are highly persistent over time in individual countries and tend to be concentrated in key export sectors, reflecting natural endowments.

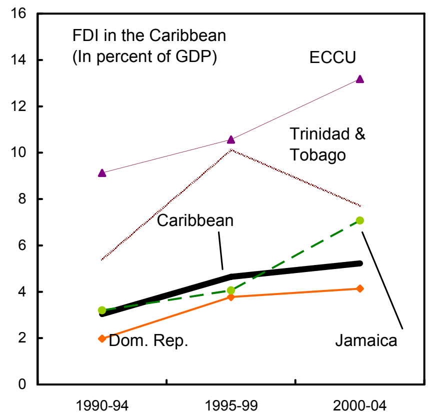
25. **A new study by staff confirms earlier findings emphasizing the importance of factors other than incentives in attracting investments**. The study shows that while FDI is sensitive to various measures of tax policy, other factors such as institutional quality, infrastructure development, governance, openness and FDI restrictions are also important determinants of FDI flows. Furthermore, controlling for the persistence in FDI flows reduces the measured impact of taxes and other variables on attracting new investments. Notably, FDI incentives do not appear to have a significant effect on FDI flows in a large developing country sample, although incentives are found to matter when the sample is restricted to Caribbean countries.

26. **There is also the need to consider the costs of incentives, which can be large**. The widespread use of tax incentives entails a number of economic costs, including (i) eroding the tax base; (ii) distorting resource allocation; (iii) increasing administrative costs; and (iv) creating opportunities for rent seeking. While a thorough cost analysis is precluded by data limitations, an indicative measure of the revenue impact of tax incentives can be obtained from the gap between annual revenues implied by statutory rates and actual collections—this figure is large, at upwards of 10 percent of GDP on average, for the Caribbean (see Figure 4). It should be noted that in addition to investment incentives, the gap reflects other exemptions as well as inefficiencies in tax administration. It is, nevertheless, indicative of the broad scope of the losses involved from exemptions.

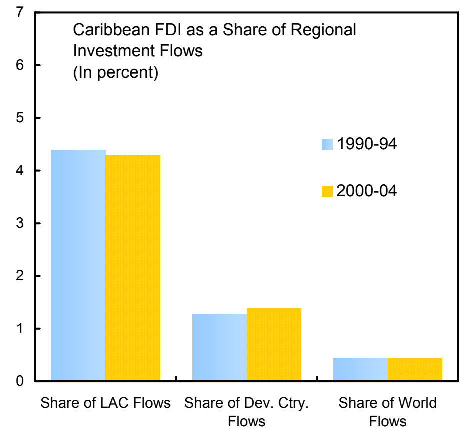
27. **Policy-makers should, therefore, consider reducing the scope of tax incentives**. Diverting savings from reducing tax incentives into efforts to improve other determinants of investment, such as better infrastructure and institutions could, on a net basis, improve the

Figure 4. Caribbean: Tax Incentives and Investment

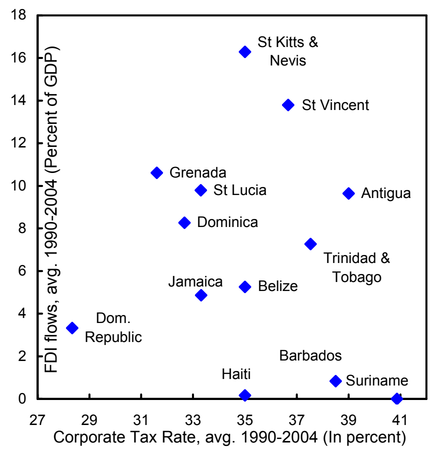
While FDI is rising in the Caribbean...



...it is stagnant in relative terms.



Taxes are only weakly correlated with investments...



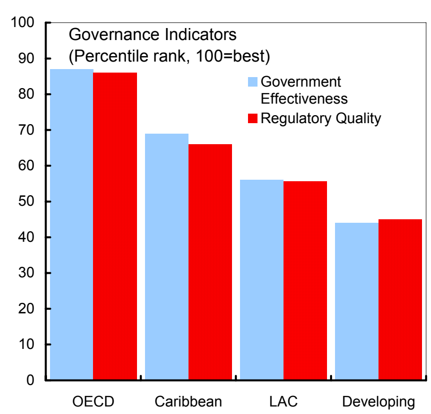
...but incentives are costly.

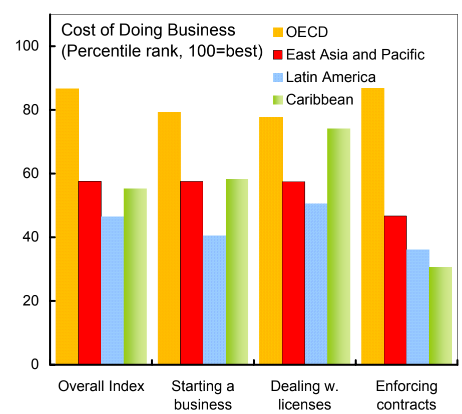
Potential less Actual Taxes (1995-2004)
(in percent of GDP)

	Corporate income taxes	Import-related taxes	Total
Caribbean (avg.)	**5.6**	**5.3**	**10.9**
Dom. Rep.	4.0	3.9	7.9
Trinidad	3.3	2.4	5.7
Jamaica	6.2	3.9	10.1
ECCU	5.4	5.8	11.2
Other	6.1	5.7	11.8

Source: IMF staff calculations.
1/ Assumes corporate sector represents 1/4 of total GDP.

Other factors may be more effective in attracting investments.





Sources: Fund staff estimates and country authorities; Doing Business Indicators, World Bank; Governance Indicators, World Bank.

prospects for attracting investment. Lowering statutory tax rates, which also feed into investors' decisions, while broadening the tax base is also advisable on efficiency grounds as investors do care about the marginal cost imposed by high statutory tax rates, regardless of investment incentives. In addition, streamlining incentives could provide governments the additional revenues to consolidate their fiscal positions and reduce debt to more comfortable levels.

28. **To the extent that incentives are continued to be viewed as necessary, they should be made more cost-effective**. Reform efforts should focus on: (i) consolidating incentives in the legal code based on objective criteria and removing discretion in granting exemptions; (ii) phasing out tax holidays and replacing them with accelerated depreciation allowances; (iii) avoiding the extension of incentives to new indirect taxes; (iv) improving certainty by introducing time limits as well as grandfathering of investors eligible for incentives being repealed; and (iv) estimating the cost of incentives and publishing it to improve transparency.

29. **Advancing tax incentive reform may require coordination at the regional level to overcome the collective-action problem**. Countries are likely to continue to have difficulties in reducing tax incentives unilaterally. The experience of other regions, such as Central America, suggests that harmonization, e.g. through a regional code of conduct, should follow some basic principles: protecting the tax system in each country; maintaining moderate and predictable taxation; avoiding tax discrimination and tax competition; and respecting national sovereignty. The success of such codes will depend on countries' commitment to the harmonization effort as well as the existence of effective enforcement mechanisms. The development of a code of conduct is a time intensive process, involving actions that must be carefully sequenced to ensure reaching a successful agreement. However, by refocusing countries' competitive efforts to attract investment to areas that are less costly to them (such as improving the overall business environment), regional coordination efforts can confer significant benefits to both countries and foreign investors.

C. Trade Preference Erosion[7]

30. **The benefits of preferential access for Caribbean banana exports to the European Union have been declining steadily**. The removal of internal trade barriers in the European Union (EU) in 1993 exposed traditional Caribbean exporters to the United Kingdom to greater competition, although preferences were retained under the new common EU banana regime. Thereafter, the elimination (in 1998) of country-specific banana quotas for all countries continuing to enjoy preferential access to the EU enabled more efficient

[7] The 11 Caribbean countries examined in this sub-section include: Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines, and Suriname (for bananas); Barbados, Guyana, Jamaica, St. Kitts and Nevis and Trinidad and Tobago (for sugar) and Belize (both bananas and sugar).

African countries to compete more directly with Caribbean producers, although barriers on imports from even more efficient, largely Latin American countries, were retained. Finally, in 2006, the EU eliminated quotas for Latin American bananas, further increasing competition. This process has led to a substantial reduction in the effective export prices for Caribbean bananas.

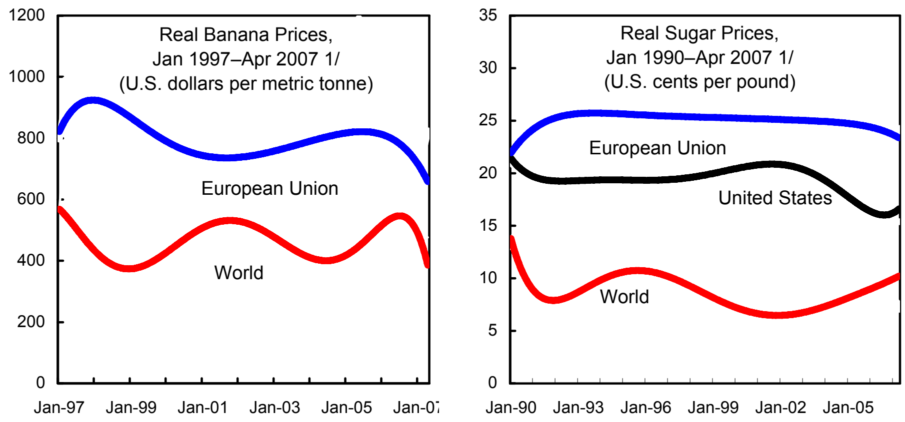
31. **Prices obtained by Caribbean sugar exporters to the European Union are also expected to decline substantially over the medium term**. In 2005, the EU announced a four-year, 36 percent phased price reduction for internal sugar prices. This implies a cut of a similar magnitude for import prices from countries, including those in the Caribbean, continuing to enjoy access to the EU sugar market at above world-market prices (Figure 5).

32. **The preferential trading arrangements, while globally inefficient, have contributed significantly to the national income of countries enjoying special access**. Removing trade preferences allows more efficient production at the global level. However, by reducing the prices obtained by some producers, it reduces the implicit transfers being provided by importing countries to the preferred exporters. Staff calculations suggest, for example, that the value of implicit assistance provided by the EU banana regime has averaged about 8 percent of GDP annually for the Windward Islands of the Caribbean (except Grenada) during 1977–2005 and close to 3 percent of GDP for Belize and Suriname during the same period. These estimates are subject to several assumptions but are indicative of the broad magnitudes involved. Similarly, implicit assistance from the sugar regime has averaged nearly 10 percent of both GDP and export receipts for Guyana and 2–4½ percent for Belize.

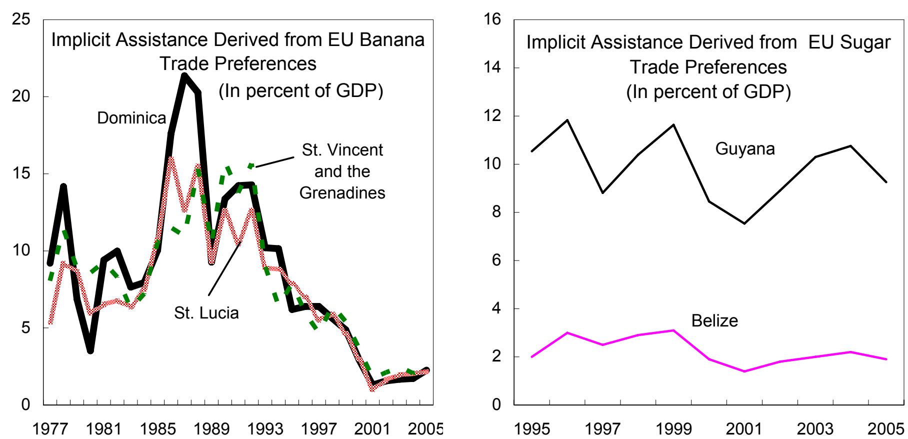
33. **The macroeconomic and social costs of the erosion of EU trade preferences is likely to be substantial for some Caribbean countries**. The staff study finds a significant adverse effect on the trade balance, output, and the overall fiscal balance for several countries from the erosion of trade preferences for bananas. Several factors, including limited suitable terrain for alternate crops, employment opportunities for ageing farmers, and resources for adjustment have made transition to other activities difficult. The most severe impact is likely to be on St. Vincent and the Grenadines and St. Lucia, where the erosion of preferences is expected to lower output over the medium term by 1½–2 percent of 2005 GDP. Similarly, the decline in sugar trade preferences is expected to engender a cumulative output decline of up to 6½ percent of GDP for Guyana and around 2 percent of GDP for Belize by 2010. Even in countries where the macroeconomic impact is less, the social costs can be severe, given the adverse impact on the incomes and employment prospects for poor rural households. The EU is making some financial assistance available to Caribbean countries to help adapt to the loss in preferences, but disbursements have so far been limited.

Figure 5. Caribbean: Trade Preference Erosion

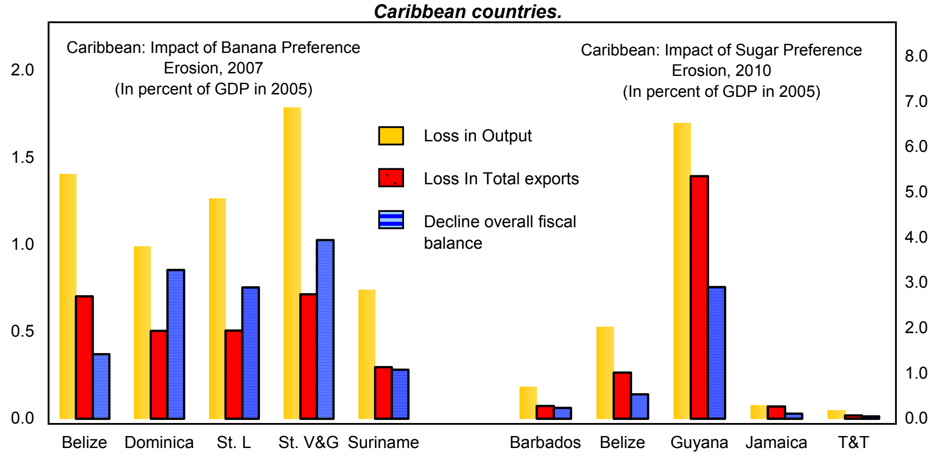
Caribbean exporters have enjoyed preferential access to high-price European markets...



...which has engendered substantial implicit transfers to the Caribbean.



The macroeconomic impact of the preference erosion is therefore large in a number of Caribbean countries.



Sources: Country authorities; and Fund staff estimates.
1/ Fitted trend line.

34. **Adaptation strategies will need to reflect individual country circumstances**.

- **Targeted safety nets and other steps to assist affected populations are important elements of adaptation strategies**. Transition measures are critical to help vulnerable agricultural workers cope with the decline in incomes associated with preference erosion. Such measures could include establishing well targeted income transfer schemes within overall fiscal constraints, allowing workers to continue participation in national pension schemes with lower or no self contributions, and providing job searching and retraining opportunities where feasible.

- **Some countries should continue efforts to raise the efficiency of agriculture**. In some instances, remaining price competitive under the new trade regimes appear feasible but will likely require undertaking new investments. This can be challenging given the high debt and limited fiscal space. Privatization efforts and external investors can play useful roles in this regard.

- **In other instances, transitioning away from traditional agriculture will be the only feasible option**. Where it is clear that these agricultural crops are no longer economically viable due to high production costs and lack of scope for productivity gains, governments should facilitate the shift of resources to other economic sectors. Indeed, St. Kitts and Nevis and Trinidad and Tobago have already entirely (or largely) closed their once-prominent sugar industries. In the long run, some other preference-dependent Caribbean countries will need to transition away from agriculture to sectors that are more competitive, which will require continuing efforts to improve the investment climate, lower business costs, and enhance labor skills.

IV. Issues for Discussion

35. **Directors may wish to reflect on the following issues in the course of their discussions**:

- **Recent Developments and Outlook**. Do Directors agree that despite improved growth and fiscal outcomes in recent years, key challenges and vulnerabilities remain?

- **Risks**. In view of the continuing high exposure to risks for the region, what do Directors see as policy priorities to strengthen resilience and reduce vulnerabilities?

- **Financial Integration**. Do Directors agree that regional financial integration may confer many benefits but must be underpinned by policies to shore up macroeconomic, supervisory, and regulatory frameworks?

- **Tax Incentives**. What scope do Directors see for Caribbean countries to cooperate on harmonizing tax incentives, and how do they balance the importance of being as attractive-as-possible tax destinations while protecting against the risks of destructive tax competition?

- **Preference Erosion**. How do Directors view the role of policies in affected countries, as well as of partners, in helping cope with preference erosion?

- **Regional Surveillance**. Would periodic seminars on the wider Caribbean, like the current one, be useful ?

Table 1. Selected Regional Economic Indicators 1/

	2000	2001	2002	2003	2004	2005	2006
Real sector							
Real GDP growth, in percent 2/	3.5	0.8	1.8	3.2	3.3	4.4	5.4
Investment, in percent of GDP 2/	29.6	29.6	29.1	29.8	30.2	32.5	35.3
National saving, in percent of GDP 2/	19.3	16.2	16.6	17.8	21.1	19.9	23.0
GDP, in billions of U.S. dollars 3/	52.7	55.0	55.6	53.0	58.4	74.4	82.7
Prices and monetary sector							
Broad money growth, in percent 2/	18.8	9.9	9.3	15.7	14.4	9.7	11.8
Consumer prices, end-of-period, in percent 2/	8.9	3.3	5.4	8.9	7.1	7.0	4.5
Real effective exchange rate, 1990 = 100 index 2/	108.6	112.7	107.3	102.5	106.4	109.3	110.7
Public sector							
Primary central government balance, in percent of GDP 2/	-1.3	-0.8	-2.9	0.1	1.4	1.3	1.2
Overall central government balance, in percent of GDP 2/	-5.4	-5.2	-7.6	-5.0	-3.8	-3.6	-3.3
Public debt, in percent of GDP 2/	78.6	82.7	93.5	96.5	96.5	91.9	86.0
Public external debt, in percent of GDP 2/	46.0	49.2	55.9	57.6	56.5	51.9	46.9
External sector							
Current account balance, in percent of GDP 2/	-11.0	-12.8	-13.0	-12.5	-8.9	-12.7	-12.6
Exports, f.o.b., in billions of U.S. dollars 3/	14.3	13.5	13.0	14.9	17.2	21.0	24.8
Imports, f.o.b., in billions of U.S. dollars 3/	22.6	21.8	22.1	22.0	24.0	29.0	33.0
Stock of international reserves, in billions of U.S dollars 3/	4.9	7.0	6.2	5.8	7.7	10.5	12.1
Stock of international reserves, in months of imports of goods 2/	3.3	4.3	4.3	3.9	4.2	3.8	4.1

Sources: Country authorities; and Fund staff estimates.

1/ Includes Bahamas, Barbados, Belize, Dominican Republic, ECCU countries, Guyana, Haiti, Trinidad and Tobago and Suriname. ECCU includes Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

2/ Arithmetic average of all fifteen countries (including the six ECCU countries).

3/ Regional sum.

Table 2. Selected Real Sector Indicators by Country

	2000	2001	2002	2003	2004	2005	2006
				(In percent)			
GDP real growth (average) 1/	**3.5**	**0.8**	**1.8**	**3.2**	**3.3**	**4.4**	**5.4**
Bahamas	1.9	0.8	2.3	1.4	1.8	2.7	3.4
Barbados	2.3	-2.6	0.6	2.0	4.8	4.1	3.9
Belize	13.0	4.9	5.1	9.3	4.6	3.5	5.8
Dominican Republic	7.3	3.6	4.4	-1.9	2.0	9.3	10.7
ECCU	3.4	-1.5	0.2	2.4	3.3	5.3	5.0
Guyana	-1.3	2.3	1.1	-0.7	1.6	-1.9	5.1
Haiti	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3
Jamaica	0.7	1.5	1.1	2.3	1.0	1.4	2.5
Trinidad and Tobago	6.9	4.2	7.9	14.4	8.8	8.0	12.0
Suriname	-0.1	6.8	2.6	6.0	8.1	5.5	5.8
				(In percent of GDP)			
Investment (average) 1/	**29.6**	**29.6**	**29.1**	**29.8**	**30.2**	**32.5**	**35.3**
Bahamas	38.6	34.7	32.9	31.3	30.7	36.1	44.6
Barbados	22.7	19.6	20.8	20.7	23.6	24.1	21.7
Belize	33.3	27.2	22.3	21.5	19.0	23.0	18.0
Dominican Republic	24.0	23.1	23.2	23.1	23.8	19.8	22.0
ECCU	36.6	35.8	35.4	36.7	37.6	40.8	46.2
Guyana	22.6	20.4	21.0	21.0	20.6	31.1	31.3
Haiti	27.3	25.9	25.1	30.7	27.3	27.4	28.9
Jamaica	26.6	29.1	31.6	29.7	30.6	31.7	33.2
Trinidad and Tobago	17.1	19.4	19.2	17.0	18.9	18.2	20.9
Suriname	12.4	29.2	27.7	31.6	32.5	31.8	32.0
				(In percent of GDP)			
National savings (average) 1/	**19.3**	**16.2**	**16.6**	**17.8**	**21.1**	**19.9**	**23.0**
Bahamas	19.3	15.2	19.7	18.0	17.1	17.8	16.9
Barbados	17.0	15.3	14.0	14.4	11.2	11.7	13.3
Belize	12.7	4.7	2.0	3.3	4.2	8.5	16.0
Dominican Republic	18.8	19.6	19.4	29.1	29.9	18.4	18.7
ECCU	22.3	17.2	14.9	14.4	21.8	19.1	21.9
Guyana	9.7	6.4	21.0	21.0	14.4	15.6	13.8
Haiti	26.3	23.8	24.2	29.1	25.7	30.1	28.9
Jamaica	20.5	16.9	16.0	19.0	22.9	18.3	22.6
Trinidad and Tobago	23.7	23.6	20.8	25.7	31.9	42.1	46.6
Suriname	8.6	14.0	22.2	20.8	28.4	20.9	36.9
				(In billions of U.S. dollars)			
GDP (total) 2/	**52.7**	**55.0**	**55.6**	**53.0**	**58.4**	**74.4**	**82.7**
Bahamas	5.0	5.1	5.4	5.5	5.7	6.0	6.3
Barbados	2.6	2.6	2.5	2.7	2.8	3.1	3.4
Belize	0.8	0.9	0.9	1.0	1.1	1.1	1.2
Dominican Republic	19.9	21.7	21.3	16.5	18.4	29.1	31.6
ECCU	2.7	2.7	2.8	2.9	3.1	3.4	3.7
Guyana	0.7	0.7	0.7	0.7	0.8	0.8	0.9
Haiti	4.0	3.6	3.5	3.0	3.5	4.3	4.8
Jamaica	7.9	8.1	8.5	8.2	8.8	9.7	10.4
Trinidad and Tobago	8.2	8.8	9.0	11.2	12.7	15.1	18.1
Suriname	0.9	0.8	1.1	1.3	1.5	1.8	2.1

Sources: Country authorities; and Fund staff estimates.

1/ Caribbean average is the arithmetic average of all fifteen countries (including the six ECCU countries). ECCU data reflects the simple average and therefore may differ from data in the text calculated as a weighted average.

2/ Regional total.

Table 3. Selected Central Government Indicators by Country
(In percent of GDP)

	2000	2001	2002	2003	2004	2005	2006
Public sector balance (average) 1/	**-5.4**	**-5.2**	**-7.6**	**-5.0**	**-3.8**	**-3.6**	**-3.3**
Bahamas	1.0	-1.4	-2.2	-2.1	-2.7	-1.4	-1.6
Barbados	-5.9	-5.2	-10.1	-5.0	1.3	-3.7	0.0
Belize	-9.8	-9.9	-5.6	-10.6	-6.4	-5.5	-3.5
Dominican Republic	-2.1	-1.2	-1.4	-8.7	-7.6	-3.1	-3.5
ECCU	-6.9	-7.9	-11.5	-5.3	-4.8	-3.9	-5.1
Guyana	-6.3	-6.7	-5.9	-8.7	-4.5	-13.6	-11.4
Haiti	-2.2	-2.4	-3.0	-3.5	-2.4	-0.6	-0.8
Jamaica	-1.6	-4.5	-7.3	-7.4	-5.8	-4.2	-5.2
Trinidad and Tobago	0.3	-2.2	-3.2	2.1	2.1	4.4	6.5
Suriname	-12.7	3.7	-5.8	-0.1	-2.3	-2.2	0.1
Primary public sector balance (average) 1/	**-1.3**	**-0.8**	**-2.9**	**0.1**	**1.4**	**1.3**	**1.2**
Bahamas	3.3	1.1	0.2	0.3	-0.3	1.0	0.6
Barbados	-2.2	-0.6	-5.3	-0.3	5.5	0.8	4.5
Belize	-7.4	-6.8	-2.4	-5.9	0.8	2.0	3.9
Dominican Republic	-1.3	-0.1	-0.4	-4.7	-1.4	1.6	0.4
ECCU	-2.0	-3.8	-6.7	-0.1	0.2	0.8	-0.5
Guyana	-4.8	2.2	2.0	-3.0	0.4	-9.2	-7.5
Haiti	-1.3	-1.5	-2.3	-2.6	-1.6	0.0	0.0
Jamaica	10.9	8.7	7.2	10.3	11.6	11.5	8.9
Trinidad and Tobago	6.6	2.1	0.9	6.0	5.2	7.2	8.8
Suriname	-11.7	6.1	-3.5	1.9	-0.6	0.2	1.9
Public debt (average) 1/	**78.6**	**82.7**	**93.5**	**96.5**	**96.5**	**91.9**	**86.0**
Bahamas	40.2	40.4	43.6	46.5	47.4	47.3	49.1
Barbados	73.3	83.9	87.8	86.0	87.4	89.0	87.0
Belize	75.8	85.2	89.0	102.3	100.2	98.9	92.9
Dominican Republic	25.9	23.6	26.8	56.2	53.1	45.0	44.2
ECCU	83.2	90.7	112.0	117.0	121.0	114.8	111.1
Guyana	188.0	193.1	195.1	173.2	170.3	164.3	119.8
Haiti	30.3	35.2	36.9	45.7	38.6	34.0	33.1
Jamaica	107.2	125.6	140.7	141.0	139.7	134.7	134.8
Trinidad and Tobago	54.9	56.5	59.1	53.4	45.7	38.7	32.2
Suriname	83.6	52.6	50.5	41.1	38.8	37.0	30.4
Public external debt (average) 1/	**46.0**	**49.2**	**55.9**	**57.6**	**56.5**	**51.9**	**46.9**
Bahamas	7.0	6.4	5.7	6.6	6.1	5.6	5.2
Barbados	22.9	29.4	28.5	27.1	27.1	27.7	26.8
Belize	65.6	75.8	85.8	96.7	91.2	91.6	84.9
Dominican Republic	18.6	19.3	21.5	36.5	34.7	23.8	24.4
ECCU	47.1	54.3	67.4	71.4	72.6	64.4	60.4
Guyana	167.8	171.7	172.5	145.5	136.2	132.5	91.0
Haiti	28.7	32.0	33.6	42.1	36.2	30.9	29.3
Jamaica	46.5	50.8	55.2	55.9	56.2	56.5	59.9
Trinidad and Tobago	20.5	18.9	17.2	13.8	10.7	8.5	7.2
Suriname	30.4	7.6	13.8	10.8	13.4	15.4	12.0

Sources: Country authorities; and Fund staff estimates.

1/ Caribbean average is the arithmetic average of all fifteen countries (including the six ECCU countries). ECCU data reflects the simple average and therefore may differ from data in the text calculated as a weighted average.

Table 4. Selected External Indicators

	2000	2001	2002	2003	2004	2005	2006
			(In percent of GDP)				
Current account (average) 1/	**-11.0**	**-12.8**	**-13.0**	**-12.5**	**-8.9**	**-12.7**	**-12.6**
Bahamas	-10.4	-7.8	-8.6	-8.6	-5.4	-13.2	-25.1
Barbados	-5.7	-4.4	-6.8	-6.3	-12.4	-12.5	-8.4
Belize	-20.6	-22.5	-20.3	-18.2	-14.8	-14.4	-2.0
Dominican Republic	-5.2	-3.5	-3.8	6.0	6.1	-1.4	-3.2
ECCU	-15.6	-18.6	-20.5	-22.3	-15.7	-21.6	-24.2
Guyana	-14.1	-15.7	-13.4	-8.8	-11.0	-15.5	-17.5
Haiti	-6.6	-6.5	-4.8	-6.2	-4.4	-5.0	-7.9
Jamaica	-4.9	-10.7	-10.3	-9.4	-5.8	-11.1	-11.1
Trinidad and Tobago	0.4	5.9	1.6	8.8	13.0	23.8	25.7
Suriname	-3.8	-15.2	-5.6	-10.8	-4.1	-10.8	5.0
			(In billions of U.S. dollars)				
Exports of goods (total) 2/	**14.3**	**13.5**	**13.0**	**14.9**	**17.2**	**21.0**	**24.8**
Bahamas	0.46	0.42	0.42	0.43	0.48	0.55	0.69
Barbados	0.29	0.27	0.25	0.26	0.29	0.38	0.46
Belize	0.28	0.27	0.31	0.32	0.31	0.33	0.43
Dominican Republic	5.74	5.28	5.17	5.47	5.94	6.14	6.44
ECCU	0.34	0.30	0.29	0.30	0.33	0.35	0.35
Guyana	0.51	0.49	0.50	0.51	0.59	0.55	0.60
Haiti	0.33	0.31	0.27	0.33	0.38	0.46	0.49
Jamaica	1.55	1.45	1.31	1.39	1.60	1.66	1.90
Trinidad and Tobago	4.29	4.30	3.92	5.20	6.40	9.67	12.10
Suriname	0.51	0.45	0.53	0.64	0.87	0.93	1.39
			(In billions of U.S. dollars)				
Imports of goods (total) 2/	**22.6**	**21.8**	**22.1**	**22.0**	**24.0**	**29.0**	**33.0**
Bahamas	1.91	1.76	1.75	1.76	1.90	2.40	2.62
Barbados	1.03	0.95	0.96	1.07	1.26	1.46	1.46
Belize	0.48	0.48	0.50	0.52	0.48	0.56	0.61
Dominican Republic	9.48	8.78	8.84	7.63	7.89	9.87	11.23
ECCU	1.28	1.22	1.19	1.40	1.45	1.65	1.83
Guyana	0.59	0.58	0.56	0.57	0.65	0.78	0.89
Haiti	1.09	1.06	0.98	1.12	1.21	1.31	1.55
Jamaica	2.90	3.07	3.18	3.33	3.55	4.25	4.68
Trinidad and Tobago	3.32	3.51	3.62	3.91	4.89	5.72	6.84
Suriname	0.50	0.43	0.48	0.67	0.70	1.04	1.30
			(In months of imports)				
Stock of international reserves (average) 1/	**3.26**	**4.32**	**4.31**	**3.91**	**4.16**	**3.85**	**4.13**
Bahamas	2.15	2.13	2.56	3.31	4.21	2.89	2.29
Barbados	5.64	8.91	8.58	8.47	5.65	5.07	4.93
Belize	2.84	2.62	2.57	1.75	0.99	1.25	1.87
Dominican Republic	0.81	1.58	0.86	0.44	1.25	2.35	2.41
ECCU	3.20	3.82	4.56	4.17	4.85	3.97	4.62
Guyana	6.07	5.86	5.96	5.69	4.17	3.85	3.76
Haiti	2.46	2.58	2.17	1.69	2.05	2.10	2.60
Jamaica	4.34	7.44	6.20	4.31	6.37	6.13	5.00
Trinidad and Tobago	5.06	5.86	5.84	6.16	6.23	8.42	9.00
Suriname	0.30	4.90	2.56	1.82	2.30	1.84	2.44

Sources: Country authorities; and Fund staff estimates.

1/ Caribbean average is the arithmetic average of all fifteen countries (including the six ECCU countries). ECCU data reflects the simple average and therefore may differ from data in the text calculated as a weighted average.

2/ Regional total.

Table 5. Selected Price and Monetary Indicators

	2000	2001	2002	2003	2004	2005	2006
			(End of period, in percent)				
CPI inflation (average) 1/	**8.9**	**3.3**	**5.4**	**8.9**	**7.1**	**7.0**	**4.5**
Bahamas	1.0	2.9	1.9	2.3	2.0	1.2	2.3
Barbados	2.4	2.6	0.6	0.3	4.3	7.4	5.6
Belize	1.0	0.9	3.2	2.3	3.1	4.2	3.0
Dominican Republic	9.0	4.4	10.5	42.7	28.7	7.4	5.0
ECCU	1.6	1.5	1.1	2.1	2.2	4.4	2.6
Guyana	5.8	1.5	6.1	5.0	5.5	8.3	4.2
Haiti	15.3	11.5	11.4	37.8	21.7	14.8	12.4
Jamaica	6.1	8.8	7.3	14.1	13.7	12.9	5.8
Trinidad and Tobago	5.6	3.2	4.3	3.0	5.6	7.2	9.1
Suriname	77.1	4.9	28.4	13.1	9.1	15.8	4.7
			(In percent)				
Broad money growth (average) 1/	**18.8**	**9.9**	**9.3**	**15.7**	**14.4**	**9.7**	**11.8**
Bahamas	7.5	3.6	3.5	5.7	11.6	9.8	5.3
Barbados	8.3	5.6	10.3	6.5	17.4	6.9	3.1
Belize	22.3	16.5	2.1	4.7	7.5	5.9	17.3
Dominican Republic	11.4	23.1	14.3	95.8	22.8	18.0	13.5
ECCU	11.4	5.4	6.5	7.7	13.1	5.9	10.2
Guyana	10.9	8.9	5.5	8.3	7.8	8.3	15.9
Haiti	36.2	5.2	17.2	39.8	9.1	20.3	10.0
Jamaica	13.0	8.6	12.0	10.5	14.0	9.2	11.4
Trinidad and Tobago	5.9	12.6	2.7	2.0	18.8	19.6	17.7
Suriname	98.8	32.8	32.3	15.9	28.5	11.7	21.1
			(Percentage change)				
Nominal exchange rate (average) 1/	**10.2**	**2.3**	**3.2**	**9.2**	**3.2**	**-1.7**	**1.5**
Bahamas	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barbados	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Belize	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dominican Republic	1.4	3.2	11.5	64.3	37.9	-27.8	9.7
ECCU	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Guyana	2.8	2.5	1.9	1.3	2.7	0.8	0.4
Haiti	17.7	21.4	13.6	49.4	-1.9	-1.8	6.3
Jamaica	10.1	7.0	5.3	19.3	6.0	1.8	5.7
Trinidad and Tobago	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suriname	120.6	0.0	15.4	4.4	3.4	0.9	0.5
			(1990 = 100 index)				
Real effective exchange rate (average) 1/	**109**	**113**	**107**	**103**	**106**	**109**	**111**
Bahamas	111	114	113	107	102	99	98
Barbados	103	102	98	91	88	95	97
Belize	100	101	100	96	93	96	94
Dominican Republic	103	105	92	69	106	100	97
ECCU	101	102	99	94	91	94	93
Guyana	102	101	100	95	91	99	95
Haiti	101	95	75	85	110	110	122
Jamaica	97	101	98	86	90	97	93
Trinidad and Tobago	90	95	97	95	94	97	101
Suriname	218	262	245	247	275	285	307

Sources: Country authorities; and Fund staff estimates.

1/ Caribbean average is the arithmetic average of all fifteen countries (including the six ECCU countries). ECCU data reflects the simple average and therefore may differ from data in the text calculated as a weighted average.