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From Economic Contraction to Growth: Caribbean Country Experiences and their Relevance to Dominica's Current Economic Situation

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Abstract

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Beginning in the 1970s, Jamaica and then Guyana obtained assistance from the IMF to address balance of payments imbalances. Since then, Barbados, Trinidad and Tobago, Dominica, Grenada and Belize have accepted IMF stabilization programs as a condition for receiving financing. All these countries suffered periods of contraction but succeeded to various degrees in returning to a path of sustained growth. Fiscal policy proved the most successful in reversing the negative economic growth.

I. Introduction

Financial support is provided to member countries of the IMF under a variety of policies and lending instruments. Such financing is often conditional on the member adopting policy reforms to address the balance of payments problem that gave rise to the request for IMF support. The more widely used financial facility is the Stand by Arrangements (1952) and the Extended Fund Facility (1974)[2]. Stand by Arrangements provide short-term assistance for countries experiencing balance of payments difficulties of a short-term character and the Extended Fund Facility provide longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.

In 1986, the structural adjustment facility (SAF) was established to provide balance of payments support on concessional terms to low-income developing countries. The SAF provides loans to support the medium-term macroeconomic and structural adjustment programs of these countries[3]. A year later, the enhanced structural adjustment facility (ESAF) was established, which provides added assistance to countries but also requires stronger supporting programs. In 1999, the ESAF was replaced by the poverty reduction and growth facility (PRGF), which aims at sustained poverty reducing growth.

The objective of these facilities is to help countries establish the conditions for sustained growth, strengthen their balance of payments position, and facilitate orderly relations with creditors and a reduction in trade and payment restrictions. The amount potentially available to each eligible member under a SAF arrangement is equal to 70 percent of the member's quota. SAF loans carry an annual interest rate of 0.5 percent, with repayments to be made semiannually, beginning 51/2 years and ending 10 years after each disbursement.

By far, the majority of countries seeking IMF support do so on account of unsustainable financial imbalances in the public sector. For the seven Caribbean countries[4] under review, a typical scenario is where large public sector borrowing requirements had led to combinations of heavy domestic and foreign indebtedness, unmanageable external current account deficits, crowding out of private sector activity, reliance on arrears, and high inflation.

External financing difficulties may come about as a result of a combination of factors such as a shift in the terms of trade and large domestic spending programs. Many Caribbean countries are susceptible to these conditions because of a heavy reliance on one or a few export crops or minerals, and on large amounts of external financing through grants or loans. For instance, Jamaica has relied on bauxite and sugar, Guyana on bauxite, sugar and rice, and Dominica on bananas.

This paper seeks to review the experiences of the seven Caribbean countries that have since 1981, secured IMF programs by focusing on the initial conditions, which gave rise to the difficulties and its severity, the type of financial support received from the IMF, the resulting stabilization policies adopted, and where possible attempt to determine the effectiveness of the particular program. The paper will further seek to derive any lessons from these country experiences that can be applied to the current situation in Dominica.

II. Selected Review of Country Experience

Caribbean countries facing balance of payments difficulties and seeking IMF support have generally relied on the stand by arrangements and the extended fund facility (EFF).
Since 1979, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica and Trinidad and Tobago at various times have accessed the IMF financing facilities. Of these, Barbados, Belize and Trinidad and Tobago have accessed only the stand-by facility, while Jamaica and Grenada have accessed both the stand by and the extended fund facility. Dominica has accessed the stand by, extended fund facility and structural adjustment facility, while Guyana have only accessed the extended structural adjustment and poverty reduction facilities. (See Table 1).

In 1979, **Jamaica** became the first Caribbean country to receive IMF balance of payments support. Between 1979 and 1996, the country received almost uninterrupted IMF support agreeing to six stand-by arrangements and three extended fund facilities. Jamaica's initial approach to the Fund in the late seventies resulted from its chronic balance of payments problems. These problems were triggered primarily by the oil crises of the mid seventies, and falling revenues from the bauxite industry that resulted when producers retaliated by cutting production in response to a government imposed levy on bauxite[5]. In an attempt to maintain its previous spending levels, Government responded with rapid increases in borrowing from the central bank and overseas institutions.

At the height of the balance of payments crisis, the government ran out of reserves after trying unsuccessfully to ration its supply. In 1977 there were only US$30 million in available reserves from US$120 million in 1975. A series of controls that were imposed and aimed at stemming the outflow of reserves, simply resulted in a large parallel foreign exchange market

Table 1: IMF Balance of Payments Support for Selected Countries
(Amount in USD Millions)

Country	Type of Arrangement	Date of Aproval	Expiration Date	Amount Approved	Amount Drawn
Barbados	Stand-by	Oct 01, 1982 Feb 07, 1992	May 31, 1984 May 31, 1993	30 17	30 17
Belize	Stand-by	Dec 03, 1984	May 31, 1986	7	7
Dominica	EFF Stand-by SAF	Feb 06, 1981 Jul 18, 1984 Nov 26, 1986	Feb 05, 1984 Jul 17, 1985 Nov 25, 1989	7 1.4 2.30	7 0.97 2.30
Grenada	Stand-by	Nov 06, 1979	Dec 31, 1980	0.62	0.62

	Stand-by EFF	May 11, 1981 Aug 24, 1983	May 10, 1982 Jan 23, 1984	2.96 13	2.50 1.1
Guyana	EFF 1/ EFF 1/ Stand-by ESAF ESAF ESAF/PRGF	Jun 25, 1979 Jul 25, 1980 Jul 13, 1990 Jul 13, 1990 Jul 20, 1994 Jul 15, 1998	Jun 24, 1980 Jul 21, 1982 Dec 31, 1991 Dec 20, 1993 Apr 17, 1998 Dec 31, 2001	49 114.3 36 60 37 37	8 39 36 60 37 17
Jamaica	EFF 2/ EFF Stand-by Stand-by Stand-by Stand-by Stand-by Stand-by EFF	Jun 11, 1979 Apr 13, 1981 Jun 22, 1984 Jul 17, 1985 Mar 02, 1987 Sep 19, 1988 Mar 23, 1990 Jun 28, 1991 Dec 11, 1992	Apr 12, 1981 Apr 12, 1984 Jun 21, 1985 Jul 16, 1986 May 31, 1988 Mar 22, 1990 May 31, 1991 Sep 30, 1992 Mar 16, 1996	201 399 62 111 66 64 63 33 79	66 336 62 40 66 32 63 33 63
Trinidad and Tobago	Stand-by Stand-by	Jan 13, 1989 Apr 20, 1990	Feb 28, 1990 Mar 31, 1991	75 65	75 65

Source: International Financial Statistics, IMF
1/ Cancelled prior to expiration date
2/ Cancelled prior to expiration date of June 10, 1981

and the government was eventually forced to devalue the currency[6]. Jamaica therefore entered the decade of the eighties with accelerating inflation, falling output, a severe foreign exchange crisis, and political and social tensions. Between the end of 1987 and May 1988, the Jamaican dollar had been devalued by 95%. In addition, the external debt increased steadily throughout the 1980s reaching US$4.5 billion in 1989, or equivalent to 125% of GDP.

The balance of payments problems persisted into the nineties, and growth generally remained depressed in large part due to falling export levels of bauxite and sugar, the continued reliance on foreign inputs, and expanding import levels. In December 1992, the government signed unto a four year EFF in the hope of reversing or at least controlling the balance of payments situation.

Guyana ended its third ESAF program with the Fund in December 2001 after first accepting an EFF in 1979, which was later cancelled. By the time the first program was in place, the country was facing ballooning external payment arrears, a widening fiscal deficit, repeated devaluation of its currency and various exchange control restrictions. In addition, real output had declined repeatedly and the terms of trade has consistently worsened. Much of the balance of payments

difficulties resulted from the collapse of the international bauxite market, declining agricultural exports, and the oil shocks of the mid-seventies and early eighties.

Adding to the foreign exchange problems was the net outflow of private capital as a result of the nationalization policies adopted by the socialist government, which resulted in state control of the sugar and bauxite industries, major financial institutions and consumer and marketing agencies. Unable to service its external debt, the government was unable to source new funding from overseas. This problem was eased somewhat in the mid nineties after a support group of seven countries headed by Canada successfully raised money to pay some of the countries arrears.

From the mid- seventies to the early eighties, **Trinidad and Tobago** benefited immensely from the rise in international oil prices recording current account surpluses in seven of the eight years between 1974 and 1981. At the same time, there was a consequent increase in the level of foreign exchange reserves. However, with the fall in oil prices in the early eighties, the country began experiencing balance of payments difficulties reflected in expanding current account deficits, and the eventual signing of a stand-by agreement with the Fund in 1989. An additional agreement was signed in 1990.

During the oil boom, the public service expanded rapidly leading to a significant increase in government's recurrent expenditure. With the large inflows of oil revenue, the government also invested in major capital expenditure projects. When oil prices deflated in 1981, both the government and private consumption levels continued to increase with a general reluctance for individuals and government to adjust their lifestyles to which they were accustomed. Within a few years, a significant amount of the stock of foreign reserves was depleted.

Between 1982 and 1987, the Trinidad and Tobago economy registered six consecutive years of negative economic growth. Over this period, earnings from the petroleum sector fell by close to one half, and the rate of unemployment more than doubled from 10 to 22 percent. In addition, real GDP in 1987 was 28 percent below the level of 1982, and over US$2.8 billion in foreign exchange reserves was lost.

In February 1981, **Dominica** signed an EFF agreement with the IMF followed by stand-by and SAF agreements in 1984 and 1986 respectively. When Dominica first took a Fund program, the country was reeling from the oil shocks of the 1970's and the devastating effect of hurricane David in 1979, which had virtually destroyed the main foreign exchange earner bananas as well as other agricultural produce. The current account deficit had mushroomed from $10.1 million in 1978 to $38.3 million in 1980. The level of government borrowing had also increased rapidly in

the aftermath of the hurricane in government's attempt to rebuild the infrastructure, which was destroyed.

By the time the SAF agreement was signed in 1986, government spending on wages and salaries to public sector workers had grown from 55 percent of total recurrent expenditure in 1984 to 62 percent in 1985 (approximately 21 percent of GDP). Also in 1985, real GDP growth plummeted to 1.6 percent compared to over 5 percent in 1985. The reduction in the growth rate was due in large part to the combined effects of an 18 percent drop in banana production, and a fall in price. Correspondingly, the current account deficit surged from EC$1.8 million in 1983 to EC$ 7.2 million in 1984, and was recorded at EC$6.4 in 1985. Also, during that time government loan borrowings continued to increase and the level of development aid was used to finance major capital expenditure projects.

In the mid seventies, tourism replaced sugar as the main foreign exchange earner in **Barbados**, with gross earnings from the industry increasing by 234% in current terms between 1978 and 1988. Barbados entered into two stand-by arrangements with the Fund, the first in 1982 and the other in 1992. Both of these arrangements were occasioned by large fiscal deficits combined with falling levels of foreign direct investment. The increase in borrowing to fund capital expenditure projects led to high levels of both domestic and external debt, and a subsequent increase in debt servicing.

III. Characteristics of the Programs

In general, the design of stabilization programs places emphasis on reforming the tax system, making the exchange rate more competitive, liberalizing the trade regime, increasing privatization and reducing the external account and fiscal deficits. By focusing on these issues, policy makers hope to create an environment that is conducive to increasing production and exports.

All the Caribbean countries in this review entered into the arrangements with large fiscal deficits, and adopted stabilization programs that have generally been of a contractionary nature. Typically this involved fiscal measures aimed at reducing the levels of government spending and the broader public sector coupled with measures aimed at stimulating private sector activities, and reforming the tax regime. Jamaica, Trinidad and Tobago and Guyana also undertook privatization or liquidation of public enterprises, and improvements in pricing and efficiency of those that remained.

The countries also relied on monetary policy mainly as a complement to fiscal policies. Some like Barbados and Jamaica instituted credit controls, ceilings on deposit and engaged in open market operations. Jamaica, Trinidad and Tobago and Guyana opted for devaluation while Dominica, Barbados, Belize and Grenada either ruled out devaluation or were not in a position to devalue[7]. The later four all maintained their peg to the US dollar[8].

In the case of **Guyana,** the government reduced the size of the civil service by almost one-half between 1991 and 1998 but did not cut nominal wages. Government further reduced spending on transfers and capital expenditure. In addition, debt service payments were reduced with the successful negotiating of debt relief. A number of tax measures were put in place including reducing the rate of corporation taxes, and abolishing several excise duties and replacing them with a consumption tax. In 1991, the personal income tax threshold was increased and all previous deductions and allowances were withdrawn.

That same year, monetary policy included the lifting of controls on interest rates, but a minimum deposit rate was retained. Also, in April 1991, 80 percent of excess reserves were converted into debentures, and some open market operations were permitted mainly to sterilize capital flows. In an attempt to improve on the external imbalance, the Guyanese currency was repeatedly devalued[9]with a view to improving on the value of exports while reducing import levels. In 1986 it was about G$4.00 to the dollar but had depreciated to about G$39.50 in 1990 and in 1991 was further devalued to G$111.81.

At the beginning of the program in **Barbados**, the government ruled out devaluation and focused almost exclusively on fiscal contraction. In 1992 the government's fiscal deficit was reduced to $278 million from $416 million in the previous year. In late 1991 nominal wages in the public sector was cut by 8 percent and frozen the following year. At the same time, 11 percent of public sector workers were dismissed, and capital expenditures sharply reduced.

On the revenue side, a stabilization tax of 1 – 5 percent was imposed on incomes, consumption tax on basic commodities was increased from 10 to 17 percent, and a 20 percent tax on luxury imports was levied. In addition, water, gas, postal and public transport rates as well as rents on public housing were increased. Shareholdings in various public entities were sold during that period.

Monetary policy as a means of controlling consumer and government access to liquidity was used with some success. Limits were placed on central bank lending to the public sector and the liquid assets and minimum deposit rates were raised while the ceiling on loan rates were removed. The discount rate was increased as a means of discouraging commercial bank lending

from the central bank, and some open market operations were adopted with a view to tightening the availability of liquidity.

In an attempt to encourage private sector investment, broaden the tax base, and simplify the tax system, the government of **Dominica** introduced a major tax reform in FY 1987-88 as part of its stabilization program. Consumption taxes were unified at 20% except for luxury items with a surcharge of 15%. A single customs service charge of 1.5% and a gross receipt tax of 3% were introduced. All allowances with the exception of mortgage interest, were abolished, and a 10% investment credit to business firms and a development levy on banana income were introduced (See appendix).

In 1986 the government of **Trinidad and Tobago** reduced the public sector wage bill by suspending cost of living allowances and merit pay increases and by reducing nominal public sector wages by 10 percent. A voluntary severance program was also introduced aimed at reducing the size of the public sector. The government also reduced its holdings in several energy companies and liquidated many state enterprises. An attempt was also made at tax reform through the abolishing of several taxes and the introduction of a 15 percent value added tax (VAT) covering all goods and services except for exports and some basic commodities.

Selective credit controls, reserve requirements, and limited open market operations were used by the central bank in an attempt to control the availability of credit. For a certain period, banks wishing to lend to certain state enterprises and statutory authorities would have to consult with the central bank before reaching a decision, and the discount rate was increased as a means of reducing borrowings by commercial banks.

In 1988 faced with a renewed decline in international petroleum prices and a significant bunching of external debt service payments, the government adopted a more comprehensive adjustment program. The program included a 15 percent devaluation resulting in a cumulative depreciation in real effective terms of over 40 percent since the beginning of 1985, sizeable reductions in government expenditure, and increases in the central bank lending rate.

Between 1984 and 1986, the government of **Jamaica** initiated deep cuts in the level of public expenditure by laying off approximately 10,000 public sector workers, and reducing the level of subsidies. On the revenue side, public utility rates and national insurance contributions were increased, and public enterprises privatized.

In the early eighties, the Jamaica government relied on interest controls, selective credit and liquid asset requirements, but later introduced credit ceilings and the use of open market operations as a means of curbing the availability of domestic credit. In addition, the currency was

repeatedly devalued in an effort to improve on the competitiveness of domestic exports. Several government owned entities including banks, hotels, transport, and communications was privatized and the efficiency of others improved.

IV. Conclusions and Lessons for the future

A. Lessons from the Country Experiences

The success with stabilization programs in the Caribbean has been mixed. Overall, based on the experiences of the Caribbean countries that have embarked on stabilization programs in support of their financing arrangements with the IMF, in the short term, growth is always contractionary, but leading to sustainable growth in some instances as the economies seek to adjust to the various incentives and proposals of the various adjustment programs.

Barbados and Belize appear to have succeeded more quickly than the others in getting the economy back on a footing of sustained growth. Dominica also succeeded in returning to positive growth, and was able to sustain such growth as long as bananas remained profitable. Jamaica and Guyana on the other hand appears not to have been successful in restoring the economies on a growth path, while Trinidad at first stumbled but then was successful in restoring growth and strengthening the balance of payments position.

In **Guyana**, in spite of successive devaluations, real output in 1988 was estimated to be 22% below that of 1980. The significant devaluations have resulted in high rates of inflation and a fall in real wage levels. Since the mid-1970s the country has suffered from a persistent trade and current account deficit. The traditional exports of bauxite, sugar and rice continue to perform poorly. However, there have been increased inflows of foreign direct investment, and the country have received a significant amount of debt forgiveness.

In the year the SAF program was introduced in **Dominica**, the rate of real GDP shot up to 6.8 percent and two years later to over 7 percent. Most of the momentum for this growth was driven by increasing levels of banana exports, which also had the effect of improving the current account balance. However, in 1989 as banana production dropped on account of adverse wind conditions, real GDP turned negative and the balance on current account

Table 2: Selected Indicators of Economic Performance

	1982	1985	1988	1991	1994	1997	2000
Barbados							
Reserves (US$)	120.73	137.39	131.91	86.53	195.69	264.85	406.58
Exchange Rates	2.0	2.00	2.00	2.00	2.00	2.00	2.00
Current Acc Balance (US$)	37.1	51.3	43.45	-27.1	133.6	-49.95	-145.5

External Debt(BDS$)	286.9	444.0	789.7	787.6	714.4	700.24	1021.86
Public Sector Balance(BDS$)	-99.88	-140.4	-205.85	-69.87	-81.17	-39.21	-71.20
Growth (%)	-5.0	1.0	3.5	-4.0	4.3	2.9	......
Inflation	10.3	3.9	4.9	6.3	0.08	7.7	2.4
Belize							
Reserves (US$)	8.38	12.73	49.06	50.17	29.72	54.53	115.82
Exchange Rates	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Current Acc. Balance(US$)	.....	9.05	-2.6	-25.8	-40.06	-31.93	-139.45
External Debt(BE$)			123.9	177.1	285.8	332.1	......
Public Sector Balance(BE$)		14.2	44.9	-27.7	-70.8	-32.5	
Growth (%)	-7.6	11.3	10.8	7.4	3.0	2.5	8.8
Inflation (%)	6.8	4.2	5.3	2.2	2.6	1.0	0.6
Dominica							
Reserves (US$)	4.04	3.26	13.31	17.74	15.4	23.88	29.36
Exchange Rates	2.7	2.70	2.70	2.70	2.70	2.70	2.70
Current Acc. Balance(US$)	-8.24	-6.43	-12.3	-34.19	-37.55	-26.2	-68.93
External Debt(US$)			69.4	80.7	84.2	89.1	165.2
Public Sector Balance(EC$)	.276	-.636	-.249	-1.255	-.720	-.154	
Growth		1.7	7.4	2.2	2.2		
Inflation	4.3	3.7	2.9	5.6	0.02	2.4	0.08
Grenada							
Reserves (US$)	9.22	20.8	16.92	17.47	31.2	42.66	57.66
Exchange Rates	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Current Account Balance	-17.71	2.22	-27.77	-48.07	-26.93	-67.15	-79.1
Public Sector Balance (GR$)				-12.23	-7.86		
Inflation (%)	7.8	2.5	4.0	2.6	3.8	1.2	1.0
Guyana							
Reserves (US$)	7.70	6.47	4.04	123.0	247.05	315.31	295.81
Exchange Rates (GY$/US$)	3.00	4.25	10.0	111.81	138.29	142.4	182.43
Current Acc. Balance (US$)	-142.31	-96.62		-146.2	-124.9		
External Debt(GY$)	2037.90	3414 .0	12335.0	227 750	284 928	222 436	
Public Sector Balance (GY$)	-957.7	-740.4	-1308.9	-9165.8	-5092.4	-6611.20	
Inflation (%)						2.7	6.1
Jamaica							
Reserves (US$)	104.7	161.3	147.2	106.0	735.9	681.9	1053.6
Exchange Rates (JA$/US$)	1.78	5.56	5.49	12.12	33.09	35.4	42.7
Current Acc Balance (US$)	-17.71	2.22	-27.77	-48.07	-26.93	-67.15	-79.10
External Debt							
Growth (%)	1.2	-4.7	2.1	0.08	0.08	-1.8	0.06
Inflation (%)	6.6	25.6	8.2	51.1	35.1	9.6	8.2
Trinidad and Tobago							
Reserves (US$)	2 892.8	873.5	127.1	336.5	352.3	706.2	1386.2
Exchange Rates (TT$/US$)	2.4	2.45	3.84	4.25	5.92	6.25	6.3
Current Acc. Balance (US$)	-599.46	-47.88	-88.56	-4.66	217.81	-613.61	
Public Sector Balance (TT$)	-2346.7	-917.4	-983.7		117.5		
Growth (%)	4.5	-6.3	-4.6	2.7	3.6	3.1	
Inflation (%)	11.6	7.6	7.7	3.8	8.8	3.6	3.6

Source: International Financial Statistics, IMF

ballooned from a deficit of US$12.3 million to US$45.54 million. The attempt at tax reform in Dominica proved successful with revenues from indirect taxes increasing by 41 percent one year after the reforms were introduced compared to one year before the reforms.

Largely as a consequence of the stabilization measures undertaken by the government of **Trinidad and Tobago**, the public sector deficit was reduced to 4.8 percent of GDP in 1989 compared to 6.4 percent in 1988. The balance of payments strengthened in 1989 largely on account of an increase in petroleum export earnings and increased capital inflows. However, economic activity still declined during that year, and unemployment rose slightly to above 22.4 percent.

In 1990 and 1991 the country returned to positive economic growth of 1.5 and 2.6 percent respectively. The oil shocks of 1992 however seriously undermined growth prospects and negative real GDP was recorded in that year and also in 1993. From 1994 onwards, the economy stabilized and real growth rates of well over 3 percent was realized from that point on.

The effort at stabilizing the **Jamaican** economy by introducing huge cuts in expenditure, successive devaluations, and privatization of several government owned entities, had the effect of attracting new investments and increased external financing of government projects.
By 1997 the level of inflation had been reduced to less than 10 percent from about 58 percent in 1992. However, there was slow growth and rising unemployment as the high real interest rates suppressed lending and led to falling output.

Barbados was successful in restoring its levels of international reserves, and returning to positive economic growth with low inflation. In addition, its debt-to-GDP ratio fell significantly. The country obviously benefited from a rigid fiscal adjustment program that was followed through by the authorities.

B. Policy Considerations

- It is of critical importance that countries in deciding on the type of program to adopt make a determination on whether the balance of payments problems are of a temporary or permanent nature. This will determine whether the emphasis should be on financing or adjustment measures. For short-term balance of payments problems, countries may seek to access increased levels of financing, but with more retractable problems, especially in the context of a permanent shock, an emphasis on adjustment measures would be more appropriate.

- In situations where governments opted for measures over which they had more complete control, such as moving to aggressively reduce the level of government spending by slashing the public sector and imposing other cut cutting measures[10], the effect on reversing the negative economic trend was more apparent. In the case of Barbados, when government moved to reduce the public sector, and slash the budget deficit, the economy was able to return to a path of growth much more quickly compared to Guyana where attempts were more tentative, and the situation simply escalated.

- The role of fiscal policy should not be limited to government spending but should also involve attempts at encouraging private sector activity, and initiating tax reform when necessary.

- In the context of reducing government spending there should be a system of prioritization and sequencing. Although capital projects are often the easiest to cut, care should be taken not to get rid of projects which have the best growth potential.

- Public debt imposes a burden on adjustment programs and prudent policies should include measures aimed at reducing the debt burden.

- Countries that are solely dependent on one or two major crops or resource are extremely vulnerable to external shocks over which the country usually has very little control.

- Monetary policy should not be used in isolation, but should work best when used in conjunction with fiscal policy.

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[2] Other facilities include the supplemental reserve facility, the contingent credit line, compensatory financing facility, emergency assistance for natural disasters and post conflict, and the poverty reduction and growth facility (PRGF) targeted to low income members.

[3] These countries are usually eligible for World Bank assistance through the International Development Association (IDA), and often have protracted balance of payments problems.

[4] The seven countries are Barbados, Belize, Dominica, Grenada, Guyana, Jamaica and Trinidad and Tobago. However, the analysis in this paper focuses very little on Grenada and Belize, while focusing in detail on Dominica, Jamaica, Guyana, Barbados and Trinidad and Tobago.

[5] At that time, bauxite along with sugar provided the bulk of the export receipts for the country.

[6] In 1973 the Jamaican dollar was pegged to the US dollar at a rate of J$0.9091 to US$1.00, and remained unchanged until 1977 when a dual rate system was adopted. The 1973 rate (basic rate) applied to certain essential imports and transactions of the government and bauxite sectors, and a special rate (J$1.25=US$1.00) was applied to other transactions. The dual rate was abandoned in May 1998.

[7] In the case of Dominica and Grenada, their membership in the Eastern Caribbean Central Bank meant they could not on their own agree on a devaluation.

[8] After the Barbadian dollar was removed from being linked with sterling in July 1975, it was revalued against other currencies and pegged to the US dollar at a rate of Bds$2.00 = US$1.00. Similarly, the Belizean dollar was delinked from the British pound in May 1976 and pegged to the US dollar at BLZ$2.00 = US$1.00. The Eastern Caribbean dollar after been linked to sterling at EC$4.80=£ 1.00 from 1965 to July 1976 was pegged to the US dollar at a rate of EC$2.70 = US$1.00.

[9] Since October 1984, the official exchange rate has been officially determined on the basis of a fixed relationship to a basket of currencies consisting of the pound sterling, the deutshemark, the French franc, the Netherlands guilder, and the Japanese yen. In reality however, the Guyanese dollar is adjusted to maintain a certain level against the US dollar.

[10] These measures have included cutting the public sector wage bill, reducing on the size of the public sector through layoffs and voluntary retirement, and reducing public sector investment.

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