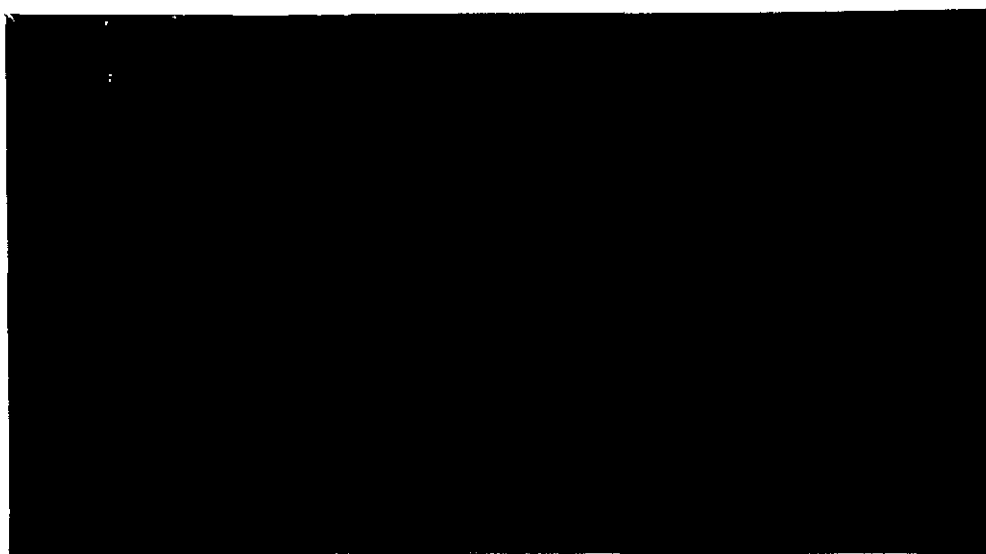




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**A PRELIMINARY REVIEW OF THE
PROPOSED SINGLE CURRENCY ZONE
IN THE CARICOM REGION**

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List of Acronyms

ACP	African Caribbean and Pacific States
BOP	Balance of Payment
CET	Common External Tariff
CSMC	Caribbean Single Market Caribbean Single Market and Economy
Caricom	Caribbean Community
CDB	Caribbean Development Bank
CMCF	Caribbean Multilateral Clearing Facility
CPP	Common Protection Policy
ECB	European Central Bank
EU	European Union
FTA	Free Trade of the Americas
GDP	Gross Domestic Product
LDCs	Less Developed Countries
TOC	Treaty of Chaguaramas
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
OECS	Organization of Eastern Caribbean States
UG	University of Guyana
UWI	University of the West Indies
WTO	World Trade Organization

The 1999 Noble Prizewinner in Economics, Mr. Robert Mondell, predicted that the world would be polarized into three major blocks: "a dollar, euro and yen blocks." (Cato Journal, Volume. 18, 1999). Even though this prediction may not materialize as accurately as he predicted, at least not in the short-run, there is increasing evidence that governments are recognizing that there is 'strength in numbers'. That is, individual economies will derive increased economic, military and other benefits from aligning themselves with other countries with which they share similar geographic, historical, cultural, economic and other ties. For this and other reasons, the impact and performance of the euro (the currency which was adopted by thirteen of the fourteen countries of the European Union) is being closely monitored by several analysts.

Even though several prominent personalities in the Caricom region are supportive of the establishment of the Caricom Single Market and Economy (CSME), many of them are still questioning the wisdom of including a single currency in this program, at least in the short run. The single currency is perceived by its proponents to be able to take the region to the position where member states will derive substantial net benefit from the globalization phenomena.

At the tenth meeting of Heads of Governments of Caricom in Grenada in 1989, an agreement was brokered to establish the CSME. However, due to delays in the adaptation of several Protocols which are necessary for its establishment, February 2001 is the new scheduled date for the commencement of the CSME. The operations of the CSME would be another test to ascertain the level of convergence in the region and it will be a guide for the establishment of policies and programs to foster the further integration of the economic, financial, judicial and other systems in the region. The level of success which is attained in this process would establish tangible evidence which will guide decisions makers on whether or not a single currency zone is feasible, if it should be established in the region and the form it should take in order to foster the sustainable growth and development of the economic, cultural and other aspects of the region.

This paper analyses some of the major issues which will confront the Caricom region as she seeks to establishment a single currency. There are several important issues which becomes prominent when reviewing pertinent issues surrounding the impending implementation of the single currency in the region. They include:

- (a) Is it really necessary for the Caricom Region to adopt a single currency or would it be prudent to at least initially institute measures which would make the currencies of individual Caricom countries freely tradable in the region?
- (b) How prepared are the governments, and in particular the monetary authorities in the region to manage a single currency?
- (c) Is the quest for a single currency in the region synonymous with the phenomenon of conglomerations during the 1980's? It is noted that this system was largely dismantled because of the complexities which are commonly associated with managing an excessively large, highly diversified portfolio.

- (d) What may be the best strategy for determining the exchange rate of the single currency, for example, pegging it to one currency (for example, the US dollar), a basket of currencies or a freely floating system?
- (e) The likely impact of the CSME and in particular the single currency on the macro economy of the region.
- (f) Its impact on economic growth and development in the region and in particular the challenge in managing the globalization phenomenon.
- (g) Since the US dollar is the most widely acceptable currency as a means of payment and a store of value in the region and externally, would it not be prudent to accept the US dollar as the common currency in the region, that is the dollarization of Caricom countries?
- (h) What special provision would be instituted to insulate particularly the Lesser Developed Countries (LDCs) in the region against unfavorable movements of the exchange rate of a single currency?

Reference is made to the methods used by the European Union to establish a single currency and whether or not parallel methodologies can be copied in totality, with little modifications, or whether an entirely new mechanism has to be established in the Caribbean. The acceptance of a single currency will not be an easy decision for the governments and people of many Caricom countries to make, given their level of uncertainty which is commonly associated with its implementation. The European union was established in 1957, some forty-three years ago at the Treaty of Rome, is primarily a group of countries at different stages of development. The European Union, for example, was established their Single Market in 1992, while the single currency, the euro, was issued in 1999 after member states which were desirous of participating in the union attain the agreed convergence criteria. Several measures were adopted and economic indicators were established which member states were expected to at least attain. Most member states were able to achieve many of the targets during this transition period because of the resilience and strength of their economies, and commitment of their governments and people, and their willingness to accede their monetary control to the central authority acting for the community.

In an attempt to ascertain the level of convergence which has been achieved by Caricom countries, a brief assessment of how prepared the region is to manage the phenomenal task of adopting a common currency. This is in view of the level of underdevelopment and the state of disunity in several important aspects of the integration process of the Caricom Region, for example.

2. Advantages and Disadvantages of a Monetary Union

An important issue which should be considered when reviewing the proposed monetary union in Caricom is the counterfactual in the scenario of a regional economic integration with, or without a common currency. Some of the arguments against joining a regional monetary union included:

- (a) A single regional currency erodes the national sovereignty of individual nations.
- (b) Many persons oppose the single currency since they perceive this as too obvious a strategy which will progress to the 'natural' process of establishing a single government in the region. This loss of the nationhood is seen as a daunting possibility in the near future for many persons.

A important factor which analysts who oppose monetary unions often identify is that unlike symmetric shock such as interest rates which usually affects the entire union in the same way, asymmetric shocks affects them differently. An example of this phenomenon is a significant change in the price of oil, for example, would be a positive effect for producers and a negative for importing nations. Unfortunately, the importing country cannot adopt independent monetary or fiscal policies to contract this unfavorable position in this new arrangement. Thus, asymmetric shocks would lead to migration of workers to take advantage of the increase wage rate in the producer nation, for example.

There are several examples of trading blocks that are very successful without using a single currency. The North American Free Trade Area (NAFTA) which is an integration movement between the US, Canada and Mexico is one of the most successful trading blocks which does not have a single currency. It is felt by several analysts that the work of WTO in lowering tariff barriers, for example, will be far more advantageous to trading blocks than a single currency zones.

The most successful monetary union is to date the nine regions of the United States of America which is an aggregation of the fifty-two states of the country. Each state has its own Federal Government, which have the autonomy to enact state laws. There are also national legalizations which are ratified by the President. There are several reasons why this monetary union has been successful. They include factors such as:

- (a) Most of the states in the US share a common land mass.
- (b) Pension and other benefits accumulated in one state can be transferred to another.
- (c) Labor, capital and other factors of production are highly mobile in the country.
- (d) English is the official language of most states.
- (e) Communication channels between states are efficient.
- (f) Federal laws can supersede state laws in relation to trade industrial relations and other areas.
- (g) The economy is endowed with, and it can attract business entities that are engaged in major export. The economy experience one of the highest GDP in the world.

(h) Federal and national governments usually work in unison to formulate and implement monetary and fiscal policies that have achieved significant success, as reflected in the performance of the economy. The issue of pension is particularly important if the mobility of labor is to be successful. Persons would be encouraged to work in other countries once it is possible to easily transfer their pension and other benefits which would have accrued, when moving from one state to another.

One of the primary negative effects that can occur in a monetary union is the disproportionate distribution of the benefits against countries that are furthest away from the performance of the core countries in the union. The larger, more stable economies will be in a better position to increase their production by attracting local and foreign investment. Governments who are sluggish in managing their economies to derive significant benefit from the union, may experience incidence of high unemployment, inflation and other unfavorable economic and other pressures.

In order to avoid serious economic destabilization among non-core countries, several analysts have suggested that a core group of economies that have consistently achieved substantial economic growth and development over a number of years should spearhead the monetary union. The countries that are initially omitted from the monetary union will be afforded the opportunity to structure their economies to attain and consistently surpass the convergence criteria.

There are three categories of monetary union that have been identified by several authors including Farrell (1994), Mondell (1961) and McKinnon (1963). They are:

- (a) *In the weak union* (stochastic convergence), the countries have separate national currencies and central banks and, economic policies are not coordinated, however, they also agree to maintain fixed parity between their nominal exchange rates and places limits on capital flows.
- (b) *With regards to the semi-strong convergence*; there is a common currency and central bank and capital controls are in place, however, economic management is not coordinated.
- (c) *With the strong monetary union* there is one currency and central bank, centralized economic management and the factors of production are free from restrictions.

Seerattam, D. (1997, pp. 7 & 8) noted that:

"We may want to extend the definition of convergence to be systematic or generic rather than sectorial or partial. For example, exchange rate stability may be achieved but at the expense of high interest rates (to attract capital inflows). This means that real (strong) convergence is not taking place as only part of the system is converging. The simplest measure of convergence is a decline in cross-sectional dispersion (coefficient of variation) of the variables under study. This measure is subject to distortions caused by shocks to the system in particular years which can obscure the underlying trend, especially in a short data set. Other methods include looking for convergence in the parameters of key economic relations, testing for mean variance which involves regressing the change of output of a country on its previous level using a data set of time series of a cross-section of international level of output."

This statement can be substantiated in instances where, for example, individual countries in a monetary union will have little, if any direct control over their monetary aggregates such as interest and exchange rates. As a result they will not be in a position to individually control their inflation, money supply and other macro economic policies. These facets are primarily managed by the policy makers in the central monetary authority as dictated by the interaction of market forces. Possible disadvantages of a monetary union have to be weighed against issues such as the benefit that would accrue to the region due to the credibility of the single currency being used in a large currency zone, relative to individual currencies.

The European Commission has estimated that currency conversion costs among EU countries amounted to about 0.4% of the GDP of the EU per year before the introduction of the euro. It is noted, however, that this figure may also include the cost of transferring the money to another country in addition to the cost of converting to another currency. Thus, a common currency would eliminate a significant amount of trading costs including hedging cost, in the region and significantly increase intra-regional trade, tourism and other economic activities.

Heathcoat-Amory, D. (2000, p.1) noted that there are several prerequisites that must be in place before a single currency will be successful. They include mobility and flexibility of labor, wage and price flexibility and a smooth functioning wage market. These factors would normally contribute to the elimination of differences between the inflation rate in member countries.

Commenting on the CSME, Ramkisson, Ronald (2000, p.1) noted that:

"There is no doubt that the Single Market & Economy can mean many positive things for the region as indicated in the West Indies Commission's "Time for Action" published in 1992. For example, a single currency can mean *lower costs of doing business* since there will no longer be the need to meet the cost of currency conversion. Further, the price of *goods and services would be quoted in the same currency across the member territories*. This will generate greater price competition and efficiencies among businesses in the region. *Citizens and businesses will be able to invest in any member territory in the region with far less risks and hassle than obtain at present*. Problem free travel across the Caribbean region, facilitated by a common passport, will enhance the success of this initiative and be a great boom to trade and travel.

"On the financial side, as economic performance converges, *interest rates are likely to be lower and closer across the region partly because of the removal of exchange risks*, but also as risks are diversified and lower inflation becomes a major target of a regional Central Bank System. These conditions will not only enhance the efficiency of the existing short-term markets but will foster the development of the long-term capital market as well. This scenario already characterizes the membership of the Organization of Eastern Caribbean States (OECS) and the relative success of the group brings some testimony to bear on the feasibility of a single market.

"A single market and currency is also likely to make for faster growth in trade in the context of an enlarged free trade area. Specially, the impact of the Free Trade of the Americas (FTA) which should be established by the year 2005, is likely to be more favorable to group of countries which

comprise a single market and currency rather than to one which features several tiny territories with different rules, regulations and exchange rates"

3. The Integration Process in the Caricom Region

At the May 2000, at the Third Caribbean Media Conference in Guyana, Prime Minister Owen Arthur of Barbados was among the primary advocates for the liberalization of trade, finance and other resources as highlighted in the CSME as important steps in promoting the integration process in the region. He also advocated the promoting of free movement of labor, capital, goods and services, and the harmonization of trade and functional cooperation in a multiplicity of fiscal, monetary and exchange rate policies.

In order to facilitate the implementation of the CSME, nine Protocols were formulated. Their status is analyzed in the following table:

<i>Protocol</i>	<i>Description</i>	<i>Article of Treaty of Chaguaramas Superseded</i>	<i>Description of Protocol</i>	<i>Status</i>
I	Organs and Institutional Arrangements of the Community	6 - 19	Established the framework governing the new structure and operations of the Caricom Community	Provisionally applied
II	The Rights of Establishment, Provision of Services and Movement of Capital	28 and 24 , Chapter 4 of the Common Market Annex and Articles	Elimination of restriction on the establishment and provision of services and the movement of capital	Provisionally applied
III	Community Industrial Policy	41, 42, 44, 45 and 46	Resource allocation and international competitiveness - aims to implement policy measures backed by sound macro economic framework, investment incentives, harmonized legislation, supportive administrative practices etc.	Being adopted
IV	Trade Policies	Chapters III and IV of the Common Market Annex.	Entitlement of area of origin treatment, free movement of goods, a common policy in respect to third States, prevention of dumping and the management of subsidies, cooperation in customs administration etc.	Provisionally applied
V	Community Agricultural Policy	48 and 49	Transformation of agricultural production	Adopted
VI	Community Transport Policy	-	The management of Maritime and Air Transportation	Adopted
VII	Management of Disadvantaged Countries, Regions and Sectors	Chapter 7 of the TOC	Support of structurally disadvantaged countries as provided for in the Special Regime for the LDCs	Being applied
VIII	Competition Policies, Consumer Protection, Dumping of Subsidies	Articles 11 and 12 of the Common Market Annex	To ensure that enterprises do not indulge in restrictive business practices	Adopted
IX	Dispute Settlements	-	Harmonization of fair practices in the region., the establishment and operations of the Caribbean Court of Justice	Adopted

Source: Caricom Secretariat, Gonzales, A. P. (2000, pp. 2 and 3)

Table 1 - The Nine Protocols of the Caricom Region

There are two stages of the signing of the Protocols; that is, the signature of the head of states of conditions negotiated and secondly, the provisional application, which is an agreement to implement the respective Protocols. The nine Protocols have been signed and at least the preliminary stages of most of them are currently being implemented. Protocols III and IX has received opposition from some member States and the mechanism to implement them has been

protracted. As a result several primary aspects of the Protocols have not been implemented, thus, the CSME is still futuristic.

The importance of the adaptation of the Protocols is in the recognition by the Heads of Governments and people of respective nations that there must be economic, financial, legal and other mechanisms in place, and their mandates must be successfully employed before more complex mechanisms such as a monetary union can be successfully implemented. If the region is unable to adapt policies to promote the growth and development of liberalized trade and free convertibility of the currencies of individual states, for example, it would be difficult to imagine that member states will consistently implement measures to stabilize a common currency.

Prime Minister Owen Arthur of Barbados and Dr. Edwin Carrington, Secretary General of Caricom are two of the primary proponents of the CSME. They have repeatedly reiterated that the CSME will promote national and regional consensus building. The CSME is identified as important in view of the dominance of the North American Free Trade Area, (NAFTA) and the MERCOSUR trading block that are in close proximity to the member states of Caricom.

Protocol II, the mobility of labor, seeks to promote movement of labor (skilled and unskilled) and facilitate the movement of labor to economies where wages are higher and working conditions are better. The principle of demand and supply would normally result in the fall of wages and thus a reduction in the cost of production. It does not seem very likely that there will be a significant movement of labor in other Caricom countries, particularly when there is so much attraction to North American, European and other countries outside of the region. The issues of destabilizing a family and moving to another Caricom country and culture usually demand a high financial and other compensation.

The movement of skills in the region is currently being accelerated as work permits are increasingly being processed for skilled nationals, in the first instance. The movement of capital is also gaining momentum where there are in excess of 150 businesses owned by Caricom nationals from other member states in Guyana, for example. The movement of tourists and other travellers within the region is also increasing appreciably.

The CSME is an important precursor for the establishment of the single currency in the region. To a great extent the establishment of the CSME is a testing mechanism to ascertain the level of convergence of the region and to establish mechanisms to foster the further integration of the economic, financial, judicial, political and other mechanisms.

After the Protocols are adopted, they are forwarded to the World Trade Organization (WTO) for review. The WTO can object to a specific agreement if it contravenes international rules and regulations governing free trade. The issues of dumping; preferential treatment of sugar, rum, banana and other commodities have received much attention by the WTO in recent years. The history of the relationship of Caricom countries and other developing countries with the WTO, World Bank, IMF and other international institutions has been checkered. A common allegation that is leveled against many of these institutions by their critics is that these institutions are primarily protecting the interest of the Developing Countries. The US, for example, heavily

subsidies much of its farming activities and often engages in dumping products in LDCs. However, since the LDCs are usually at the mercy of these international institutions, they are usually 'forced' to comply with their prescriptions and conditionalities before this receives aid and other forms of international financing.

Three of the major long-term goals of Caricom are:

- (a) Foreign Policy Coordinating,
- (b) Functional Cooperation
- (c) Economic and Trade Cooperation.

(a) **Foreign Policies Coordination**

The foreign policy coordination arm of Caricom focuses the relationship of the region with other trading blocks, individual countries and international institutions. Emphasis is focused on the implementation and maximization of benefits from bilateral and multilateral agreements in which the region is involved. This includes the relationship of the region with the EU, Latin America and other trading blocks. Account is also taken of the relationship of the region with international organizations such as the World Bank and the UN.

An interesting relationship is the linkage that has been forged with individual nations of the region with Cuba, for example. The region also has adopted policies to the management of the electoral system in member states and its involvement in border disputes affecting member states. This was demonstrated in their support for Belize in its border dispute and also its role in promoting a peaceful resolution of the border dispute between Guyana and Suriname, two member states, and between Guyana and Venezuela.

(b) **Functional Cooperation**

The focus of this section is to promote the integration of the region in non-economic activities such as technical assistance, broadcasting, culture and language, science and technology and very importantly the harmonization of the laws and legal systems. The latter issues are of primary importance in view of the current efforts to establish a Caricom Court of Justice. The harmonization of the laws of countries with regard to trade and investment policies of member states has received much attention recently. The integration of some programs in the University of the West Indies (UWI) and University of Guyana (UG) and other education programs are also important to the region.

(c) **Economic and Trade Cooperation**

Several studies on the success of the Common External Tariff (CET) have shown that it has had a significant positive effect on promoting intra-regional trade. Commodities produced in the region are granted duty free concession. However, consumption tax to a maximum of 30% is payable. Both duties and consumption tax is affixed to commodity from sourced outside of the

region. Among the problems of the implementation of the CET is the establishment of the country of origin of commodities and whether or not the value-added component of an item that has one or several inputs from sources outside of the region qualifies for CET concession. These issues have resulted in several conflicts between member states where governments, the management of companies, agencies marketing competing products and also consumers respond in a variety of ways.

A trade war was averted in October 1999 between Trinidad and Tobago and Jamaica, for example. There were also trade disagreements between Guyana, Trinidad and Tobago and other countries because of disputes on the origin of various commodities. The governments of several countries have also complained about other member states dumping commodities in their markets.

There have also been several complaints of member states purchasing commodities from extra-regional sources that could have been secured under better terms and conditions. An example of the latter issue is Jamaica purchasing rice from the USA instead of patronizing the rice produced in Guyana. (A high-level delegation from Jamaica recently visited Guyana in an attempt to correct this deficiency). Notwithstanding these difficulties, statistical evidence has shown that there has been a significant increase in intra-regional trade since the introduction of the CET. This is because of the significant cost advantage attributed to regionally produced goods and services is a primary inducement for member states to trade among themselves. Cognizance must be taken, however, the quality of the goods and services marketed are at a higher standard when compared to those imported from extra-region sources. There has also been increased employment for Caricom and other nationals due to increased production and sale of products from the region.

4. *The Experience of the European Union - the Euro*

On January 1st 1999, eleven nations of the European Union accepted the euro as their common currency and they established an irrevocable agreement to peg their respective currencies to the euro. This was the culmination of a process that was conceived at the Treaty of Rome in 1957. The single European Market was launched in 1992. Thus, bankcards, checks and other financial instruments are now commonly denominated in euro. During the transition period, cash payment in the respective currencies were accepted for the first six weeks, after which they were withdrawn. Persons are allowed to exchange their local currencies for one year, after which they will become obsolete.

Appendix Table 1 shows the exchange rate at which the individual currencies were *irrevocably fixed* as at 31 December 1998. They were based on market rates, and will be used until the euro is fully accepted as the unit currency of the region during the period 1 January 1999 to 31 December 2001. One of the principal functions of the European Central Bank (ECB) is to foster the stabilization of prices and for defining and implementing monetary policies within the euro area. The ECB is managed by a Governing Council consisting of the Executive Board from the central banks participating in the union. (It is noted the table shows the significant disparity in the exchange rates of Germany verses Italy, for example. The disparity is not as significant among Caricom countries). Since the adaptation of a single currency usually would result in a appreciation and depreciation of the value of weaker and stronger currencies, respectively, it must be ascertained who would bear these costs and the effect it would have on respective economies.

This pegging of the exchange rate of the euro in relation to the national currencies was fraught with much disagreements and debates. A primary disagreement was that the movement of the exchange rate of a country is dynamic. However, the dispute was resolved when it was recognized that the movement of the euro was dynamic and thus, the movement of the individual currency will thus be affected. It is noted, however, that the economic and other shocks that would affect the exchange rate of the currency in one nation may not be reflected as quickly in the euro as it would in individual currencies. Conversely the euro should be able to protect individual nations from adverse economic effects as would occur in a single currency.

The Maastricht Treaty which was signed in France was ratified by referendum in 1992, formulated the guidelines for the establishment of the single currency, the euro. On June 19th 2000 at the European Summit in Feira, Portugal, Greece was accepted as the twelfth member of the euro currency regime, which should be in effect by January 1st 2001. The exchange rate of the currency should be 340.750 drachmas = 1 euro.

One of the principles under which the euro operates is that there should be no exchange charge from one EU nation to another, even though handling charges may be deducted. The operations of the EU is managed by the European Parliament and by the European Commission which oversees the legal framework, monitoring economic development and also for making policy recommendations for regional development.

In September 2000 European Central Bank the Federal Reserve Bank of the USA and the Central Bank of Japan engaged in the purchase of the euro in an attempt to stabilize the euro internationally. Even though Dr. Wim Duisenberg, President of the European Central Bank did not disclose precisely the amount of the intervention was, it is speculated that it was possibly as high as EUR 20 billion (approximately US\$17.2 million). This action was adopted in an attempt to stabilize the euro that had slumped from US\$1.17 at its introduction in January 1999 to its all-time low of US\$0.86 in September 22, 2000. This action is testimony that all is not well with the euro, since these monetary authorities were forced to adopt a consorted effort to stabilize it. Caution must be taken, however, in view of the fact that many institutions and individuals are hesitant to use the euro since it is still in its infancy. With the increasing economic strength and stability of the EU, the euro would most likely become a stronger currency. The Chairman of the

Federal Reserve Bank, Alan Greenspan was one of the many persons who predicted that even if the Euro was established, it would not be sustainable. However, with its introduction, many critics are beginning to recognize that indeed, the euro must be accepted since it is legal tender.

Before a country is accepted into the euro zone, it is expected to fulfil five convergence criteria. The parameters that were used to formulate the five convergence criteria were primarily converge around the performance of the German economy (which is the strongest in the EU). Table 2 compares the performance of the Greek economy in relation to the established standards of three of the convergence criteria for a country being accepted into the Euro Zone:

	<i>Item</i>	<i>Standard</i>	<i>Greece</i>	<i>Difference</i>
1	Inflation rate	2.4%	2%	0.4%
2	Balance of payment deficit as a % of GDP	3%	1.6%	1.4%
3	Foreign debt as a percentage of GDP	60%	104.4%	(64.4%)

Source: European Union, Guyana.

Table 2 - A Comparison of Three of the Convergent Criteria of the EU with the Performance of the Greek Economy Prior to Joining the EU Monetary Zone.

The other two criteria are exchange rate and interest rate stability. Thus, the EU Commission felt that the economy of Greece had showed adequate signs that it was progressing in accordance with the desired stability and growth policies of the EU. Greece has also been a part of the exchange rate mechanism of the EU for the last two years.

It is noted that the governments of other European and other nations have been observing the development of the operations of the euro with a view of joining the monetary union. In November 1999 a meeting was held between the Euro-system (the Central Bank of the 11 euro-zone countries) and the governors of the 12 candidates for membership of the EU (Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia). Among issues discussed were the effect of the euro in the region on price stability and on its convertibility internationally.

One of the most significant deterrents to the rapid success of the euro was the refusal of the UK to join the euro zone. Two of the reasons posited by Tony Blair, Prime Minister of the UK for the abstention of the UK were:

- (a) The loss of national identity, since the Pound Sterling has gained international prominence for centuries, thus, it is one of the pride of the nation.
- (b) The British pound was already internationally convertible, thus, there was not much more economic benefit which can be derived from joining the union.

The British government has repeatedly reiterated it's committed to EU integration. However, they are of the opinion that issues such as the removal of barriers and hindrances to trade,

common tax rates, labor relations, language and the creation of conducive economic conditions to attract investments are more important than the establishment of a single currency. The British Retail Consortium estimates that it would cost retailers more than £2 billion to effect the conversion to the euro. Even if this is so, an evaluation would have to also be made to determine the net benefit which would accrue to consumers from the convergence. Another factor that is important is the fact that the UK, for example conducts more than half of its trade outside of the EU. The British government has also taken cognizance of the fact that countries outside of the region which trade with the UK may be discouraged from trading with the UK if she joins the euro zone. This is because the exchange rate, and thus selling price of exports may be artificially high since it does not reflect the economic conditions of the UK only but that of the entire EU community, for example.

The following quotation is an adaptation of the speech presented by Mr. Christian Noyer, Vice-President of the European Central Bank, at the Royal Institute of International Affairs, London on 26th June 2000:

"Over recent years, the economic and financial structure of the euro area has undergone sweeping changes. Overall, these changes have led to the rapid development of financial markets in the euro area. This trend seems to have been reinforced since the introduction of the euro on 1st January 1999. Over a period of a few years, financial markets in the euro area have grown in size and has come to play a more important role in the economy. The development of financial markets in the euro area is shaped by a set of broad economic trends, all of which are conducive to the development of deeper, more liquid and more efficient markets. Another trend is the solid establishment of price stability in the euro area. As we all know, price stability is beneficial in numerous ways, not only in creating a climate for higher economic activity over the medium term, but also in reducing the economic and social inequalities caused by the asymmetric distribution of the costs of inflation on various economic agents. Furthermore, trading activity expanded, particularly in some segments such as the private bond markets. Hence, in 1999 not only bid - ask spread but also other indicators pointed towards an increase in the depth and liquidity of financial markets in the euro area. In 1999 a number of financial market instruments created a wide array of stock price indices and bond indices covering the euro as a whole. This development has contributed to extending the range of trading and position-taking opportunities available to investors."

It is easy to understand the lure of a weaker economy desiring to join a monetary union where it is likely to benefit from the support of the stronger nations. However, unless an economically strong nation is fully convinced that the union will provide substantial benefits, it may not be readily attracted to the union. At a referendum in September 2000, the people of Denmark voted against joining the euro zone. This decision was viewed as a setback in the integration process in the EU. As a small, but wealthy nation, the Danes pride themselves for their independence. Even though they became the 13th states to join the EU, the majority of the population was in favor of retaining the independence of their national currency and other fiscal and monetary policies.

5. Review of the Economic Parameters of Caricom Countries

A review of the economic indicators performance of a sample of economies of Caricom countries for 1999 are illustrated in Tables 3a and 3b:

Country	Inflation	Exchange Rate for the US\$	Prime Lending Rate	GDP Current Prices (EC\$Mn)	Overall Fiscal Surplus/Deficit (EC\$ Mn)	Foreign Debt (EC\$ Mn)	Import Cover Ratio	Debt Service Ratio
The Bahamas	2.2	1.0	6.7	8,287.2	-8.1	1,062.1	na	Na
Barbados	1.9	2.0	9.88	5,048.3	-49.1	1,124.6	1.99	10.55
Guyana	9.1	141.9	19.07	1,679.6	-54.5	4,149.9	1.65	18.65
Jamaica	25.6	35.4	55.27	14,163.9	289.3	9,320.1	1.44	20.40
Suriname	235.6	412.0	40.20	1,377.0	na	na	na	Na
Trinidad & Tobago	5.3	5.9	15.00	14,530.0	87.8	5,144.0	1.67	14.97
Belize	2.9	2.0	15.69	1,582.5	9.1	497.9	1.31	9.87
Antigua & Barbuda	na	2.7	10.75	1,332.7	-45.7	665.4	1.60	3.56
Domonica	1.4	2.7	9.75	601.2	-23.6	278.2	1.86	7.14
Grenada	2.1	2.7	10.00	746.0	2.5	236.8	2.62	7.39
Monsterrat	4.4	2.7	10.25	162.5	5.4	28.8	2.13	1.60
St. Kitts, & Nevis	2.6	2.7	10.75	622.7	-34.2	146.1	2.33	5.30
St. Lucia	5.9	2.7	9.50	1,495.8	-22.1	313.1	1.84	2.92
St. Vincent & the Grenadines	3.2	2.7	10.25	712.6	-14.7	236.2	1.99	4.84

Source: Caricom Secretariat

The demand liquidity for a number of countries were unavailable

Table 3a - A Sample of Statistics of Caricom Countries for 1995

Country	Inflation	Exchange Rate for the US\$	Prime Lending Rate	GDP Current Prices (EC\$Mn)	Overall Fiscal Surplus/Deficit (EC\$Mn)	Foreign Debt (US\$ Mn)	Import Cover (EC\$Mn)	Debt Service Ratio
Bahamas	1.3	1.0	6.75	na	na	1,025.6	na	na
Barbados	-1.3	2.0	9.25	6,448.8	-70.5	1,004.4	5.52	5.22
Guyana	4.6	150.5	16.64	1,938.6	-157.8	3,229.7	-1.89	18.83
Jamaica	7.9	36.5	38.80	18,946.5	-411.0	8,927.3	1.80	21.64
Suriname	19.0	406.0	na	2,849.9	na	na	na	na
T & T	5.6	6.3	16.50	16,306.1	217.6	3,860.5	2.81	9.92
Belize	-0.8	2.0	16.50	1,684.5	41.6	703.9	na	9.94
Ant & Barb	na	2.7	11.00	1,404.9	-67.9	619.2	1.29	1.51
Domonica	1.4	2.7	9.75	693.6	-18.7	242.2	2.02	5.66
Grenada	1.3	2.7	10.00	770.2	-36.3	247.2	2.34	3.56
Monsterrat	0.9	2.7	10.00	92.5	2.6	28.5	9.09	1.59
St. Kitt/ Nevis	0.9	2.7	11.25	652.0	-42.5	307.7	2.64	7.38
St. Lucia	3.6	2.7	10.00	1,425.7	-39.1	374.6	1.99	3.23
St. Vinc/Gren	3.3	2.7	11.25	724.2	-25.0	265.4	2.00	6.36

Source: Caricom Secretariat

Noes: St. Vinc/Gren = St. Vincent and the Grenadines

St. Kitt/Nrvis = St. Kitts & Nevis

The demand liquidity for a number of countries were unavailable.

Table 3b - A Sample of Statistics of Caricom Countries for 1998

The above tables show that there are significant disparities in the economic performance of Caricom countries. Thus, the benefits that will be derived by individual nations from the common currency will vary significantly across the region, particularly in the short-run. One of the first issues that have to be addressed is to formulate parameters which governments can realistically achieve over the transition period to the single currency. It is easy for government officials to provide verbal support to the adaptation of policies to achieve the prescribed targets. However, the adaptation of policies and legislation, particularly if they are likely to decrease their popularity with their electorates and thus decrease their possibility of re-election, is a totally different matter. For this reason respective governments usually publicize the benefits, advantages and possible disadvantages of joining the monetary union and conduct a national referendum to solicit the view of the voting populace before joining or rejecting the monetary union.

Since 1991 the Council for Financial Planning and the Governors of the Central Banks of the region has been monitoring the convergence criteria that has been popularized as the policy framework of 3-12-36-15. This is explained as follows:

- (a) Countries should maintain at least 3 months of import cover (or 80% of demand liabilities, whichever is greatest) for 12 months
- (b) A stable exchange rate for 36 months
- (c) A debt service ratio of not more than 15%.

The cost of convergence is very high for any region. Some of the common costs are:

- (a) The establishment of institutions such as the Caribbean Central Bank to manage the operations of the system.
- (b) The printing of new currency and destroying the old ones.
- (c) Changing of labels on commodities, signs, advertisements etc.
- (d) The loss of foreign exchange earnings, particularly for stronger currencies that have been in effect 'devalued.'
- (e) Excessive strain on economies which are forced to significantly increase exports in the short run in order to maintain the convergence criteria. This may take the form of a government granting highly concessional terms in order to attract local and foreign investment. This may be to the long-term detriment of an economy.

The following table is a comparison between the two existing monetary unions, the EU, the OECS and the proposed single currency regime of Caricom.

<i>Parameters</i>	<i>EU</i>	<i>OECS</i>	<i>Caricom</i>
Number of countries	14	7	14
Population (millions)	370	0.6	5.3
Date of establishment of single Market	1992	1980	na
Date of establishment of Single Currency	January 1999	1981	na
Name of Currency	euro	EC Dollar*	
Economic classification of most countries	DC	LDCs of Caricom	LDCs
Primary Export	Secondary Products	Primary Products	Primary Products

Source: Caricom Secretariat, EU Commission, Georgetown

Notes: EC = Eastern Caribbean

Table 4 - A Comparison Between the EU, Caricom and the OECS

7. Recommendations of the Way Forward

Worrell, D. (1991, p.1) advocated the establishment of a regional currency that is pegged to the US dollar and backed with ample reserves of foreign exchange. The issuing authority would be constitutionally debarred from issuing money not backed by foreign exchange above a modest limit. This system is tantamount to the Caribbean joining the US dollar currency area. The Central banks of most countries would authorize nationals and foreigners to operate a foreign exchange account in commercial banks, primarily if they consistently receive large amounts of foreign exchange. In most instances the foreign account is denominated in US dollars. The US dollar is also the most common foreign currency that is exchanged for local currencies and it is freely traded in most countries. The US dollar is also the most popular currency that is used as a measure of value of commodities, as a store of value, a hedge against inflation, unfavorable foreign exchange loss and other transactions. In addition, a number of currencies in the region are pegged to the US dollar. There is thus ample reason for the single Caricom currency to have a close relationship to the US dollar.

Important issues that must be established before the single currency can be implemented in Caricom countries include:

- (a) A mass education on nationals of issues surrounding the likely positive and negative effect of the CSME.
- (b) The free convertibility of the currencies of member states.
- (c) The establishment of an autonomous Caricom Central Bank and the establishment of legislations to enforce the compliance of member states to the directive by the Caricom Central Bank to hasten the financial integration process. The establishment of a Caricom Stock Exchange with linkage with the other stock exchanges and the establishment in other states.
- (d) An expansion of the process which currently occurs where Barbados, Jamaica and Trinidad and Tobago are engaging in cross listing of shares on each other stock exchange.
- (e) Government must be committed to adopt policies and implement measures that will promote their adherence to the directives of the monetary authorities.
- (f) The effective functioning of the CCJ of the prerequisite authority to enforce legislation to ensure the adherence of nationals and policies of trade liberalization policies.
- (g) The establishment and/or expansion of regional fiscal and other mechanisms such as the CET to support the economic growth and development of the region.
- (h) Member states should give priority to inter-regional trade in support of goods and services produced in the region. Of course the increased benefit which will be derived from cheaper cost of production and the availability of a ready market must be compensated with features such as:
 - (1a.) Increase in productivity, thus lowering cost of production, and increasing the standard of the finished products (ISO certification),

(1b.) A wider range of products, efficient marketing techniques, cheaper prices and other benefits to industries engaged in value added production and also consumers.

- (i) The acceleration of the CSME regime and other processes that supports the speedy integration of the program.
- (j) Popularizing the importance of member states compliance to the policy framework and formulate the prerequisite Protocols to implement the program.
- (k) Government must implement prudent prescriptions by international organizations such as the World Bank, IMF and WTO that are consistent with the growth and development of the region. There may be issues where representation has to be made to prevent the implementation of policies that are inconsistent with the policies and programs of the region.
- (l) The establishment of harmonized Social Security, Pension, medical services and other programs to promote the free movement of labor within the region.
- (m) Poorer economies among the regional bodies must be granted special privileges such as concessional finance to boost the export thrust of their countries.
- (n) A rigorous scrutiny of the exchange rate of individual countries must be conducted to ensure that the currency of individual nations is correctly valued to reflect the prevailing economic performance. A dummy single currency can be computed and this can be evaluated over a number of months to simulate the effect it would have on respective economies.
- (o) Mechanisms must be formulated to synchronize differences in the business cycle of different countries to reflect in the exchange rates, interest rates and other parameters to the advantage of the region.
- (p) An expansion of trade relationship between other regional bodies such as the EU, ACP and with the MERCOSUR.

The Courier (2000, p.10) identifies the following as important parameters which should be adopted as the region battles the 'uphill climb' to establish the CSME:

"Governments will have to agree and implement measures such as maintaining international reserves to provide at least three months import cover. They will also be required to maintain debt service ratio below 15%, and to ensure exchange rate stability for periods of at least three years. This will not be easy in such an economically disparate community: the per capita income of Barbados (7,500 US\$) is three times that of Jamaica and 30 times that of Haiti, for example."

Several analysts have used statistical models to measure the degree of economic convergence in the Caricom region. Even though most of the available studies are not current, the overwhelming finding is that there has been a significant amount of convergence in important areas in the region. These results can be substantiated when a review is made of the significant increase that has occurred in inter-regional trade, the movement of nationals in the region and the degree of collaboration that has ensued in managing international affairs which affected the region. Examples of the latter issue include the support of member states against the WTO ruling on the abolition of preferential markets for banana and the financial and other support that were provided to the people of Montserrat after the last volcanic eruption on their island. With the adoption of the nine Protocols, the stage is set for the implementation of measures that will accelerate the convergence process.

In reviewing the 3-12-36-15 formula, it is observed that

- (a) *Three months of import cover*; there has not been a consistent pattern in the achievement of this target in the region since from 1995 to 1998. The countries that have consistently attained this target are Barbados and Trinidad and Tobago which has been successful for each year with the exception of 1995. After attaining the target in 1996, Guyana experienced a negative cover for 1997 and 1998. Apart from Monsterrat that achieved 9.09% in 1998, all the other countries did not achieve this target for each year, even though most of them were not very far away.
- (b) *Exchange rate stability*; the exchange rates of most currencies have been relatively stable over the period. Guyana and Suriname have been the most erratic in the region due to the poor performance of their primary export commodity internationally.
- (c) *Debt service ration*; with the exception of Trinidad and Tobago in two of the four years and Guyana and Jamaica for each of the four years, all the other countries have attained the debt service ration. Both Guyana and Jamaica have been negotiating rescheduling and debt write arrangement with the Paris Club and other agencies to whom they are indebted. Even though information on Suriname is presently unavailable, indications are that they also have a low debt service ration.

Much of the above data indicates that most of the territories of Caricom would satisfy some of the convergence criteria at face value. The question of sustainability, however, is questionable. Guyana and Jamaica in particular have been delinquent in several areas.

8. *Discussion and Conclusion*

The Single Market and Economy has been successfully employed in the OECS, even though these nations are relatively small. They have established the Eastern Caribbean Central Bank and which have been using a single currency since 1981. There is tangible evidence that the use of a single currency in the extended region can also be successful employed. The legal framework has been established the nine Protocols there is ample evidence that there is a commitment by member states to implement the mandates of the CSME.

A major obstacle that may prevent the successful operation of the CSME includes the self-seeking attitude of some governments, business entities, groups and individuals who prioritize

individual gains over that of the region. However, it is increasingly being recognized that the collective gain of the region far outweighs that of individual entities. The Region must guard itself against negative infiltration by external agencies that seek to destabilize the integration process. The continual dumping of goods by superpowers, the granting of discriminatory trade and other concessions by the USA, Venezuela and other nations continues to plague the integration process.

It was interesting to observe the response of the governments of a number of Caricom countries over the Caracas Oil Accord which was offered by the government of Venezuela to ten Caribbean and Latin American countries. Cuba, Jamaica, St. Lucia, Haiti and other countries were offered oil on credit and other concessionary terms. Guyana was excluded from this facility since she was not a signatory of the Accord even though Guyana has been purchasing oil and other products from Venezuela for decades. Prime Minister Lester Bird of Antigua publicly denounced this overture by Venezuela and has called for other nations in the region to support a boycott of the offer. The government of Venezuela has however stated that Guyana is free to commence negotiations to join the Accord. The management of such situations is testimony of how mature the region is to implement the mandates of the CSME and concomitantly the Single Caricom Currency.

Opportunities exist for the Region to expand its parameters to include and/or forge closer economic and other relationship with, Cuba and other nations and trading blocks. The economic future of the Caricom Region seems brighter with the implementation of the CSME, however, like a human marriage, each partner must:

- (a) Be fully committed to make compromise when it is prudent to do so,
- (b) Be accommodative to the weaknesses and straights of each others,
- (c) Accentuate each other's strengths which at the same time working astutely to assist each other to overcome weaknesses.
- (d) Share the spoils from the integration process to promote the economic growth and development of the entire region.
- (e) Protect the union from unwanted infiltration from self-seeking parties who attempt to destabilize rather that promote growth and development of the region.

There are several measures that must be introduced before the single currency can be successfully introduced, as observed during the period of transition in the European Union from the use of their individual currencies to the euro. These include:

- (a) The legal framework (Protocol) must be established and governments must be committed to implement them.
- (b) There should be unanimity and an urgent sense of commitment by heads of governments and citizens of the respective countries to implement the CSME.
- (c) Their respective populace must be well informed of the possible positive and negative impact of the CSME.

- (d) There must be a collective effort by all member states to implement monetary and fiscal policies and programs that will promote the stabilization of their economies and to ensure sustainable long-term economic growth and development.
- (e) The establishment of a creditable Regional Central Bank, Regional Stock Exchange and other monetary authorities which will promote the continuous harmonization of the monetary policies of the region and the implementation and execution of prudent monetary policies.
- (f) Special assistance and concessions must be given to smaller states and countries with weak economies to enable them to develop rapidly at least in the medium and long run so that they can also derive significant benefits from the single currency. This can take the form of the granting of concessional finance, economic and other assistance as a means of promoting their sustainable economic growth and development.

There are several challenges that confront heads of governments as they debate the issue of whether or not it is prudent to institute the CSME. They include:

- (a) What will happen if an incumbent government decides to rescind on the terms and conditions of the CSME or any other major regional agreement (since there must be conditions under which a country can rescind on the agreement)?
- (b) There is tangible evidence that significant strides has been made by individual nations and the regional body to actualize many of the programs which are the foundation for the establishment of the single market and currency in Caricom.
- (c) Harmonization of the fiscal and monetary policies to foster efficient coordination of trading and other agreements.
- (d) The introduction of a larger number of prudent financial instruments to make the financial market of the region broader and deeper.

Undoubtedly, the region stands to gain far more economically from a well-structured CSME which has been carefully organized and implemented, which grants special concessions to the poorer nations and also emphasizes on promoting gender and other human rights issues. The mandate of the CSME does not only focus on trade and other aspects of the economic relationship of Caricom member states. It also places a premium of uniting the people, institutions, culture, capacity building, and the development of institutions. Emphasis is also focused on promoting progress in the region through the forging of closer ties between governmental bodies, the NGO community, private sector and other agencies in areas such as health, education, sports, consumer and environmental protection. It is projected that as the region integrates in non-economic undertakings, there will be a progression of a higher level of understanding in non-economic activities.

Issues surrounding the implementation of the CSME, and particularly the single currency zone in Caricom have resulted in much controversy and seriously conflicting views at several forums. There are analysts who are passionate for, as well as there are those who are against the introduction of the single currency (as it is expected at this Conference). The overriding view seem to be that the single currency will be introduced and fully operational within two years, even though there may not be unanimity among member states in ever mechanism which will be employed to achieve this goal.

The introduction of a single Caricom currency seems to be more controversial than most other mandates of the CSME. It is envisaged that a number of states will implement the program with other joining as the benefits of the union overrides any initial negative traits as a result of the authorities developing the expertise of managing the system. It may not be difficult for countries such as the OECS, Barbados, Belize and the Bahamas, for example, to enter the monetary union since their currencies are already pegged to the US dollar. However, it is likely that many governments will not readily accept the relinquishing of the autonomy of their central bank and other authorities from managing their monetary and financial policies. This is so because there is much divergence between Caricom countries in areas such as financial and capital structures, labor market productivity rate, language, industrial specialization.

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9 Appendix

<i>Euro Currency at 31/12/1998</i>			<i>Caribbean Currencies at 31/12/1999</i>		
<i>Country</i>	<i>Currency</i>	<i>Exchange Rate: 1 euro =</i>	<i>Country</i>	<i>Currency</i>	<i>Exchange Rate to US\$</i>
Belgium	Franc - BEF	40.3399	The Bahamas	Bahamina \$	1.0
Germany	Mark - DEM	1.95583	Barbados	Barbadian \$	2.0
Spain	Peseta- ESP	166.386	Guyana	Guyana \$	177.1
France	Franc -FRF	6.55957	Jamaica	Jamaican \$	39.2
Ireland	Punt - IEP	0.787564	Suriname	Gilders	995.0
Italy	Lira - ITL	1936.27	Tri. & Tobago	Trin & TS	6.3
Luxembourg	Franc - LUF	40.3399	Belize	E/ Car Dol.	2.0
Netherlands	Guilder - NLG	2.20371	Antigua & Bar.	E/ Car Dol.	2.7
Austria	Shilling - ATS	13.7603	Domonica	E/ Car Dol.	2.7
Portugal	Escudo - PTE	200.486	Grenada	E/ Car Dol.	2.7
Finland	Mark- FIM	5.94573	Monserrat	E/ Car Dol.	2.7
			St. Kitts Nevis	E/ Car Dol.	2.7
	June 2000		Saint Lucia	E/ Car Dol.	2.7
Greece	Dracha - GRD	340.750	St. Vin& G'des	E/ Car Dol.	2.7

Source European Union Commission of Guyana and Caricom Secretariat.

Notes: St. Vin &G'des (St. Vincent & the Grenadines), Bar (Barbuda), Trin (Trinidad),

Appendix Table 1 - The Exchange Rate of European Countries After the Converted to the Euro and the Currencies of Caricom Countries.