CARIBBEAN
DEVELOPMENT
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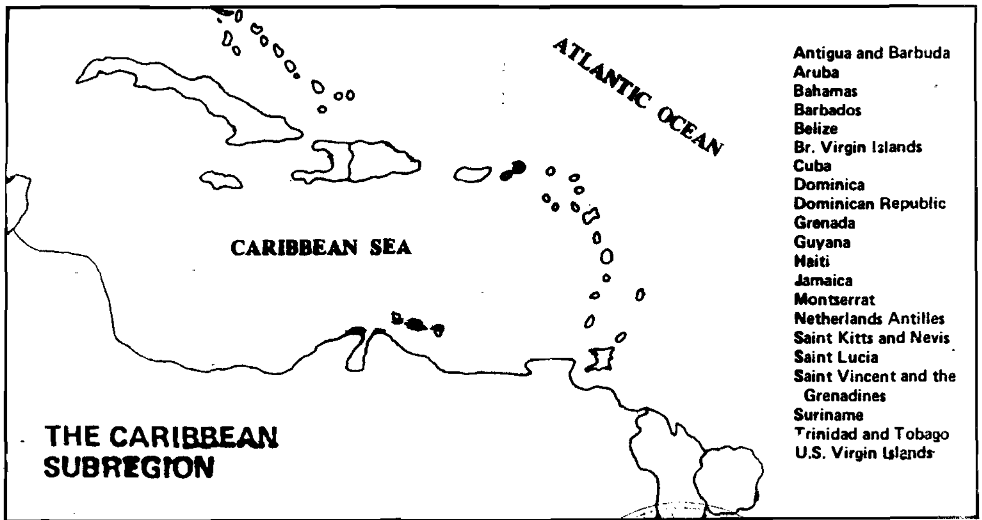
COMMITTEE



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ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE

SAVINGS IN THE CARIBBEAN

UNITED NATIONS

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

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SAVINGS IN THE CARIBBEAN

Introduction

As countries strive for economic growth and attempt to sustain such growth, in the context of economic adjustment and international payments imbalances, the problems of financing have become increasingly important. In fact, they constitute some of the major issues of economic management. At the national level, the financing of capital accumulation, which is considered to be one of the major determinants of economic growth, can only be effected through savings. Internationally, savings contribute a great deal to the process of economic adjustment and the easing of the debt problems presently encountered by many countries.

The problems of development financing became more disturbing over the last few years when the saving rates in both developed and developing countries decreased substantially; a fact, largely reflected in the current account deficits of many countries around the world. The percentage of gross national savings to GNP of industrial countries has declined by about six percentage points from the early 1970s to the early 1980s, while developing countries' gross national savings to GNP have declined by eight percentage points and still seemed to be much less stable than the saving rate in industrial countries[1]. There are, of course, wide differences among the various developing regions of the world as well as among countries within these regions.

The previously normal situation of savings surpluses in the industrial countries going to finance programmes and projects in developing countries changed radically in the 1970s, for various reasons, including the high increase in energy prices and the resulting expansionary fiscal policies. This was one of the many reasons for the dwindling of resource flows to developing countries over recent years. The decline of government savings in the 1970s was one of the major factors contributing to the dwindling of overall savings in developed countries.

The developing countries also implemented expansionary fiscal policies during the same period, reducing substantially their savings and borrowing heavily to cover the wider savings investment gaps resulting from such policies. The fiscal policies followed in the 1970s by both developed and developing countries not only limited government savings but also affected, through various

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[1] Bijan B. Aghevli and James M. Boughton. National Saving and the World Economy. Finance and Development, June 1990.

channels, the levels of private savings. Increased government expenditure on programmes such as health, education and pension benefits have certainly had an impact on the aggregate savings of those countries and the savings behaviour of their populations. In addition, the high rates of inflation in both developed and developing countries in the 1970s might have discouraged savings.

The monetary policies of that period also seemed to have had a negative influence on savings. The low and sometimes negative interest rates were not conducive to an increase in savings rates. Demographic factors reflecting the aging of the population of industrial countries and the youth of the population of developing countries, contributed to the overall decline in savings.

More recently, the international financial reforms aimed at the liberalization of capital markets seemed to have increased the availability of finance to those having access to such global markets for the purchase of durable goods and obviated the need for savings to purchase such goods. Also, recently the tax structures in operation, especially those in developed countries, have largely favoured consumption over savings.

In developing countries, where a large part of income is derived from the sale of primary commodities, the decline in the prices of such commodities has, no doubt, resulted in the decline of their savings rates through a reduction in both public and private incomes and hence savings. Those countries heavily dependent on agricultural primary commodities have seen their savings decrease even more, not only because of the decline in prices and fiscal revenues, but also because of climatic and other natural conditions which have not always been favourable.

The single European market and the European monetary and economic union, which are being established, are likely to introduce new methods of economic management and a new approach to fiscal and monetary policies which are very likely to have profound effects on finance in the world. The free movement of capital among those countries and the co-ordination of monetary and fiscal policies are a few of the new factors likely to impact on savings and investment in the community and throughout the world.

In the present situation of declining savings in industrial countries, new financing needs in Eastern Europe and the Soviet Union and declining resource flows to developing countries, the options open to the less developed economies in need of capital are very limited and amount in fact to putting more emphasis on the mobilization of domestic resources and greater reliance on those resources for economic growth and development. The liberalization of capital markets, which was supposed to enable countries with viable investment opportunities to sustain current account deficits for a much longer period of time, has not benefitted most developing countries and current account deficits continue to be a major constraint on development.

National savings in the Caribbean seem to have followed the worldwide pattern of being generally low and dwindling and the situation seemed to have deteriorated significantly in the 1980s[2]. The continuation of the same consumption patterns from decreasing incomes and the debt-servicing problems are two of the factors which contributed to such a situation.

The purpose of this paper is to review recent developments in balance of payments and economic growth in the Caribbean region, analyze savings patterns in the region for the last 8 to 11 years and recommend policy options to promote the mobilization of savings in the region, with a view to providing a steady source of financing for economic development.

I. Balance of payments, economic growth and financing in the Caribbean

The 1980s in the Caribbean was marked by fiscal and balance-of-payments deficits in most countries (Table I). Some countries experienced more serious deficits than others and various economic policies have been adopted to correct these deficits with minimum negative impact on economic growth and the standard of living of the populations.

These efforts to correct balance-of-payments deficits took place within the context of dwindling or stagnating external finance and were aimed usually at increasing both public and private savings. Some of the countries of the region, such as Jamaica and Trinidad and Tobago, experienced severe deficits which were no longer sustainable under the prevailing international economic conditions. Indeed, both countries, Jamaica much earlier than Trinidad and Tobago, had to resort to the International Monetary Fund (IMF) and adopt deflationary policies in a bid to correct their deficits.

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[2] Commonwealth Secretariat/Caribbean Community Secretariat, "Caribbean Development to the Year 2000: Challenge, Prospects and Policies", June 1988.

Table I

BALANCE OF PAYMENTS-CURRENT ACCOUNT (U.S.$m)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Antigua	-25.4	-40.0	-38.9	-9.6	-2.0	-24.8	-137.2	-84.2	...	-68.4
Bahamas	-33.0	-87.9	-63.2	-34.5	-44.7	-32.0	-24.3	-68.5	...	-160.6
Barbados	-23.9	-115.7	-44.5	-50.6	17.5	53.8	-3.4	-2.6	-0.5	-43.5
Belize	-8.7	-10.2	-13.2	-13.7	-21.6	-17.8	-5.9	-18.4	...	-30.0
Cuba <1>	-46.0	51.0	297.0	263.0	-212.0	-506.0	-1961.0	-1318.4	-380.1	...
Dominica	-33.1	-23.4	-14.6	-10.4	-18.6	-20.7	-8.9	8.0	...	-37.0
Dominican Republic	-669.8	-389.4	-442.6	-417.9	-163.4	-107.6	-162.5	-441.5	-218.4	-283.0
Grenada	-13.3	-25.2	-33.8	-29.4	-27.6	-27.5	-34.9	-25.9	...	-33.8
Guyana	-109.2	-189.2	-152.4	-165.3	-115.4	-156.0	-152.3	-138.9	...	-35.4
Haiti	-107.9	-108.7	-48.9	-82.4	-139.0	-133.7	-144.0	-146.0	-152.0	-179.6
Jamaica	-208.9	-373.2	-453.7	-506.2	-382.6	-421.3	-214.4	-162.6	24.9	-256.9
St. Kitts/Nevis	-2.4	-6.2	-8.9	-18.3	-11.2	-11.0	-15.2	-23.3	...	9.3
St. Lucia	-40.7	-50.0	-36.6	-12.4	-23.8	-18.0	-5.4	-27.4	...	-47.8
St. Vincent	-13.4	-8.0	-15.3	-6.6	-4.5	3.3	-3.0	-7.6	...	-18.1
Suriname	-58.2	-122.6	-153.4	-176.3	-93.6	-53.0	-33.8	...	...	-66.8
Trinidad/Tobago	334.7	445.0	-644.9	-1002.9	-522.5	-92.2	-603.7	-270.8	-151.5	-43.5
Netherlands Antilles	...	54.6	176.2	79.2	138.8	382.3	40.4	-50.5	25.0	-3915.6

Source: ECLAC; IBRD
<1> In Cuban pesos (m). Refers to convertible currency trade only.

Other countries of the region such as Antigua and Barbuda, Saint Kitts and Nevis, Dominica, Grenada and Belize are facing growing fiscal and balance-of-payments deficits which the governments are trying to keep, with some degree of success, within the limits that could readily be filled with external finance. However, indications are that the worldwide decrease in savings and greater competition for whatever finance is available will make it harder for those countries to continue relying heavily on external finance.

Countries such as Guyana, Haiti and Suriname lost their credit-worthiness in the face of persistent payments disequilibria and are now largely dependent on official finance. These countries are, however, attempting to enhance their credit-worthiness with the assistance of the international community.

In terms of economic growth[3], countries such as Guyana, Haiti and Suriname have also experienced very low or negative real growth in the 1980s. Trinidad and Tobago and Jamaica have also registered real negative growth rates in various parts of the 1980s, although these real negative growth rates were more pronounced in the latter part of the 1980s in the case of Trinidad and Tobago than in the case of Jamaica.

The Organisation of Eastern Caribbean States (OECS), as well

[3] Data on economic growth are included in the Annex.

as the Bahamas, the British Virgin Islands and Belize have, on the other hand, maintained reasonably healthy real growth rates throughout the 1980s.

It has been shown in the literature on the subject that there is a strong correlation between savings and investment and that most of the investment in both developed and developing countries is financed by local savings, despite the relaxation of capital controls and the increase in international lending[4].

It is also normally accepted that high levels of investment are associated with high levels of savings and that an efficient system of collecting savings and allocating them to productive use is one of the many factors which influence economic growth and development.

A review of savings and investment rates in the Caribbean region for the period 1977-1988 is to follow and an attempt will be made to review the numerous factors which could have brought about the emerging savings situation in the Caribbean. The interrelationships between foreign savings and domestic savings will be considered later.

II. Savings in the Caribbean

The saving ratios[5] in most Caribbean countries have been generally low over the period considered and have decreased during the first half of the 1980s (Table II). Within the region, Trinidad and Tobago had the highest saving ratios in the late 1970s, and for the first two years of the 1980s, but from 1983 onwards its saving ratio dropped significantly from 33 per cent of GDP in 1981 to 19 per cent in 1982.

For the first half of the 1980s, the Bahamas registered the

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[4] Feldestein, M and C. Horioka. "Domestic Savings and International Capital Flows", Economic Journal, June 1980
Dooley, Michael, P., Jeffrey Frankel and Donal Mathieson "International capital mobility: What do savings/investment correlations tell us? IMF staff papers, September 1987.

[5] Savings refer to domestic savings and are derived from expenditure on gross domestic product by adjusting the gross domestic investment for the trade balance or adjusting gross domestic product for total final consumption. These savings ratios include an estimated value of the depreciation of fixed capital which, as an example, varied between 61 per cent and 28 per cent of gross capital formation in 1980 and 1988 for Jamaica.

highest average saving ratio in the Caribbean, with an annual saving ratio largely superior to its annual investment ratio during the period 1980-1985[6]. On the other hand, Trinidad and Tobago moved from a situation where its saving ratio was largely superior to its investment ratio to the reverse situation from 1982 onwards, despite a decrease in investment ratios for the latter part of the 1980s.

For the period 1980-1985 Jamaica, Suriname and the Dominican Republic achieved average savings ratios of 10 per cent, 11 per cent and 17 per cent respectively; percentages which are far below their average investment ratios for the same period which stood at 19 per cent, 22 per cent and 21 per cent respectively. The domestic saving ratios of these three countries seemed, however, to be on the rise after 1985.

Table II

DOMESTIC SAVINGS RATIOS IN THE CARIBBEAN

	1977-1979A	1980-1985A	1986	1987
Antigua and Barbuda	26	17	11	13
Bahamas	-	28	35	-
Barbados	11	20	18	16
Belize	-	9	12	-
British Virgin Islands	-	10	8	9
Dominica	-8	-3	16	13
Dominican Republic	-	17	19	24
Grenada	-	-1	2	8
Haiti	-	3	6	5
Jamaica	-	10	16	15
Montserrat	-21	-21	-11	-8
Netherlands Antilles	-	0	-	-
St. Kitts/Nevis	16	2	6	-2
Saint Lucia	18	13	26	24
St. Vincent/Grenadines	-5	4	22	15
Suriname	-	11	17	20
Trinidad and Tobago	36	22	10	13

Source: Calculated from countries National Accounts Statistics and Statistical Yearbook for Latin America and the Caribbean 1989
A = Average

6 Investment ratios are shown in the Annex.

The savings[7] performance of the OECS countries was mixed during the period considered. Antigua and Barbuda, Saint Lucia and Saint Kitts and Nevis achieved lower gross domestic savings in the early 1980s than in the latter part of the 1970s, but still posted higher gross domestic savings than the other OECS countries during 1980/1985 period. Amongst the three countries, Saint Lucia is the only country with a clearly improving savings ratio after 1985. Saint Kitts and Nevis dissaved both in 1987 and 1988.

Dominica and Saint Vincent and the Grenadines have both achieved negative average domestic savings ratios for the period 1977-1979. Both Dominica and Grenada showed a negative average domestic savings ratio for the first part of the 1980s. Saint Vincent and the Grenadines, on the other hand, showed a slight increase in its domestic savings in the early 1980s, compared to the last three years of the 1970s. Despite their weak domestic savings ratios, all OECS countries managed to maintain the highest investment ratios in the Caribbean region. A high proportion of investment in those countries was mainly financed from abroad.

Haiti and Guyana registered low gross domestic savings during the period, with Guyana seeming to be improving its savings performance in the latter part of the 1980s. Both countries' savings were far below their investment rates, but the savings/investment gap was much wider in the case of Haiti than in the case of Guyana.

Suriname and Belize registered low average domestic savings ratios for the first half of the 1980s, a savings performance in stark contrast with fairly high investment ratios. The savings ratios of the Netherlands Antilles were mostly negative during the first half of the 1980s and fell far short of the investment ratios for the same period, despite a steady decrease of the latter ratios. Montserrat was the only country which dissaved throughout the period 1977-1988, notwithstanding the fact that it was amongst the countries with the highest investment ratios throughout the period considered.

It is clear from the above description of savings and investment ratios that Caribbean countries in general have been relying very heavily on external finance to cover their investment needs and achieve reasonably high growth rates. This has especially been the case of the smaller island states (the OECS and

[7] Given the fact that transfer payments in the OECS balance-of-payments statistics are mostly positive, national savings are likely to be higher than domestic savings.

the British Virgin Islands) which, even with negative savings, have managed to maintain or increase their levels of investment. This was mainly due to the fact that most of the external finance of those countries is made up of either official concessional finance or private transfers[8].

The other countries of the region such as Trinidad and Tobago, Barbados and Belize, all registered a decrease in their investment ratios, in line with decreases in their savings ratios, although the decrease in investment was not as pronounced as the decrease in savings.

The use of foreign financing for domestic investment is not necessarily a harmful method of finance by itself, provided that the foreign resources are used efficiently and profitably which evidently has not always been the case. Such a situation makes the sustainability of such financing difficult. In this regard, concessional finance, which is largely determined by the budgetary process of the industrial countries and other non-economic reasons is usually more easily sustained than non-concessional finance, which is largely governed by highly volatile international capital market conditions. The countries which relied mostly on non-concessional finance could not maintain their inflows of foreign capital in the face of hardening terms for such capital.

The low savings ratios registered by Caribbean countries over the period considered could have been linked to some recent developments which affected incomes in their economies. Countries with debt-servicing problems, like Jamaica, Guyana and Trinidad and Tobago, had a sizeable proportion of their incomes devoted to external payments. These countries' economies have either grown very slowly in the 1980s, or contracted as a result of the severe balance-of-payments disequilibria they experienced recently. Their incomes and their savings have likewise been shrinking.

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[8] According to the World Bank, OECS countries' total gross investment has been largely financed from private sources (78 per cent in the 1977-1979 period, 77 per cent from 1980-84 and over 100 per cent from 1985-87). Within the private sector, net private transfers for all countries averaged about 73 per cent of the total in 1977-79 and about 60 per cent in the other two periods.

Developments in the prices of commodities, from which the countries of the region derive most of their income, have been unfavourable in the 1980s[9]. In general, prices of sugar, have decreased during the 1980s. The same was also true for the prices of minerals such as bauxite and alumina which declined between 1980 and 1985 and which constitute two other main exports of regional economies. The price of oil which increased substantially in the late 1970s and early 1980s, having a negative impact on the economies of the non-oil producing countries of the region, has fallen since then, reducing substantially the exports revenues of Trinidad and Tobago, the only oil-exporting country of the region.

Only two of the main exports of the region, bananas and tourism, have performed well during the 1980s and brought increased exports receipts to the countries of the region[10]. However, these increases in income do not seem to have brought about any significant improvement in savings ratios. The vulnerability of the countries of the region to natural disasters such as hurricanes, had impacted negatively on production and income and contributed to the decrease in savings.

All these factors are thought to affect savings through their effects on incomes. In addition to income, savings are also affected inter alia, by the rate of inflation, the rate of interest and the inflow of external capital.

In the cases of Trinidad and Tobago and Jamaica, the influence of the growth of national income, the expected rate of inflation, the rate of interest on deposits and the ratio of foreign savings on national savings were investigated econometrically. The results of these investigations showed that in Trinidad and Tobago savings rates responded positively to the expected inflation rates, but were negatively related to foreign savings ratios between 1953 and 1982. However, no evidence could be found on the relationship

[9] Non-fuel prices of primary commodities as measured by the IMF price index are almost at the same level in 1989 as they were in 1980. Primary commodities market developments and outlook, World Economic and Financial Surveys, IMF July 1990.

[10] ECLAC. "Sustained Development in the Nineties" LC/CAR/G.290.

between savings ratios and the economic growth rate or the deposit rate of interest[11]. On the other hand, national savings ratios in Jamaica responded positively to growth rates and expected rates of inflation, but negatively to the ratio of foreign savings and the rate of interest on bank deposits between 1955 and 1982[12].

The frequent changes in macro-economic policy in some countries, in an attempt to adjust the economies to changing economic environment, created economic instability which was not favourable to savings and encouraged the flight of capital. Taxation, exchange rates and interest rates policies are amongst the factors which tended to penalize savings in the region.

A. Public savings

Most of the countries of the region have commenced the 1980s with deficits on central governments' current accounts (Table III). Consolidated government fiscal accounts would have shown much larger deficits especially in those countries with large government involvement in the economies.

Haiti and Guyana registered fiscal deficits for every year in the period 1980-1989 while the Dominican Republic, the British Virgin Islands, Montserrat and Cuba maintained positive balance on their current accounts either for the whole period or for most of the period considered. The other countries of the region included in Table III managed to turn their deficits into surpluses in the latter part of the 1980s, except for Grenada which, after positive current account balances in 1982/1983 and 1984, started running a deficit from 1985 onwards. Trinidad and Tobago, which registered Central Government current account surpluses from 1980 to 1985, turned out a deficit for every year after 1987.

These current account deficits are a reflection of attempts by the governments to maintain certain levels of consumption and investment in the face of the interaction of internal and external factors resulting in a reduction in revenues. The rise in interest rates in the early 1980s and declining availability of foreign capital, coupled with falling export revenues, are some of the factors which forced the countries to correct their widening current account deficits.

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[11] Commonwealth Secretariat/Caribbean Community Secretariat "Caribbean Development to the Year 2000: Challenges, Prospects and Policies", June 1988.

[12] Bourne, C. Financial deepening, domestic resource mobilization and economic growth, Jamaica 1955-1982 in Foreign investment, debt and economic growth in Latin America edit. Antonio Jorge and Jorge Salazar, MC Millan press 1988.

Table III

CENTRAL GOVERNMENT BALANCE ON CURRENT ACCOUNT
(In national currency (millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Antigua/Barbuda	-4	-9	-18	-13	-7	-2	12	5	-7	-1
Bahamas	36	38	12	-4	9	23	12	-9	-5	-23
Barbados	46	19	19	54	12	-15	-15	-90	13	-21
Belize	17	8	-8	-12	-10	-8	6	10	18	16
Cuba	...	...	...	3640	2618	2881	2916	2074	...	...
Dominica	-13	-6	-5	0	1	2	4	12	22	16
Dominican Republic	165	154	47	27	147	243	745	1471	2263	3168
Grenada	-2	-1	3	7	2	-25	-29	-46	-10	-41
Guyana	-185	-269	-186	-330	-624	-375	-111	-913	-426	-501
Haiti	...	-136	-837	-696	-700	-375	-309	-1174	-32	-117
Jamaica	-587	-175	-380	-669	-132	311	655	1590	958	2172
St. Kitts/Nevis	...	-2	-5	-5	-4	-8	3	4	4	12
St. Lucia	4	-3	-12	-6	-3	2	16	23	65	52
St. Vincent	-3	2	3	-1	1	5	11	11	13	11
Suriname	20	-51	-81	-202	-217	-314	...	...	...	...
Trinidad/Tobago	3338	3483	1079	325	251	627	-135	234	-397	-365
Br Virgin Is	3	3	4	2	1	0	...	0	...	...
Montserrat	1	3	1	1	0	2	1	1	1	4

Source: ECLAC, derived from country data.

In addition to the fact that public savings are themselves part of the overall savings of the countries, they also influence in a large measure both corporate and household savings. The composition of government revenues and expenditure constitute two of the main factors determining the savings decisions of households and enterprises. For instance, taxes on capital income and savings have negative effects on savings.

B. Private savings

Private savings comprise the savings of both companies and households, the latter being more often than not the surplus producing units in the economies. Corporate savings depend largely on companies' sales and profits which are in turn linked to the economic conditions prevailing globally. Government policies with regard to exchange rates, tax rates and interest rates have a major influence on the conduct of business in the countries. Also, productivity influences in no small way the profitability of private firms.

In recent years economic recessions in Trinidad and Tobago and Jamaica have affected companies' profits and in some cases the very existence of some private businesses. Guyana and Haiti are two of the countries where the business environment has not been favourable for sometime, due to a variety of reasons including economic stagnation and instability.

The other component of private savings is household savings. These savings and their rate of growth are thought to correlate positively with income and its rate of growth as well as with transitory income. Income distribution is also thought to affect savings. The highest income earnings are generally held to be the highest savers, but they are also usually those with the highest propensity to send their savings abroad. A more equitable distribution of income could also improve households' savings through the mobilization of additional savings from former low income groups which are now in a position to save.

The expansion of credit in the late 1970s and early 1980s allowed households to acquire assets in advance of saving the money necessary to pay for them. Borrowing was largely encouraged through both lower interest rates, sometimes even negative interest rates and lower taxes. The required deposits on the purchase of assets, such as houses, were lowered and a sizeable amount of interest on mortgage payments was tax deductible.

On the other hand, interest earned on savings was subject to taxation, making savings much less attractive than borrowing. Even interest payments on some consumer goods were tax deductible. The end result of these policies was a decline in households' savings ratios and an increase in the debt/income ratios. The rise in the property values in the early 1980s, an asset widely purchased on favourable credit terms, has increased the net worth of many households decreasing thereby their desire to save.

Two other factors which influence savings are inflation and interest rates. The effects of these factors are not clear-cut and can be either positive or negative depending on the behaviour of the savers and their perception of such factors. When interest rates rise, the savers could either elect to decrease their savings because higher interest rates reduce the amount of savings necessary for a desired future income level (income effect) or increase their savings in order to buy more future consumption in terms of present consumption (substitution effect). The broad result of the literature on the subject of the effects of interest rates on savings is that interest rates do have a positive effect on savings but that the link is not very strong. There is, however, strong evidence that financial savings are strongly responsive to the real deposit rate[13].

Inflation effect on savings is also ambiguous and could be either positive or negative. Inflation erodes income and wealth and could bring about an increase in savings in order to attempt to maintain a certain level of future consumption. The uncertainty on the rate of return on savings could, on the other hand, have a depressing effect on the desire to save. Inflation also might bring about a shift in assets away from currency to real estate.

A number of tendencies are also at work in the case of the effect of social security on savings. Planned savings might decrease because of the certainty about a minimum income after retirement. They might also increase savings because of the desire to increase income after retirement.

In addition, demographic factors play an important role in the accumulation of savings. Retired people and young people below the working age save very little. The dependency ratio which measures the ratios of youth and old people to the working population are extremely high in the Caribbean and contribute to the low levels of savings (see Table IV). In Saint Lucia, for example, the dependency ratio stood at over 100 per cent in 1989, the same level as in 1980.

It is undeniable that there are people in the Caribbean whose income is barely sufficient to allow them to survive and are, therefore, in no position to save. There are also types of savings, (i.e. tangible assets) especially in the rural areas which are not recorded in the national accounts, but which do constitute substantial amounts of those people's incomes. These savings do not go through any intermediation process and are invested where they are mobilized. Additionally, there are certain amounts of savings which circulate within the informal sector whose functioning is not usually well known. Finally, there have been streams of savings going abroad mostly illegally in search of better returns.

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[13] World Development Report, 1987 World Bank, chart 7.2 P.119

Table IV

DEPENDENCY RATIOS OF SELECTED CDCC COUNTRIES

Countries	Year 1970	1980	1985	
Bahamas	88.9	74.3		
Barbados	83.0	68.3	60.0	56.0 <5>
Belize	115.6	103.1	100.4 <3>	
British Virgin Is.	79.8	66.7		
Grenada	112.7	85.2 <1>		
Jamaica	103.2	90.3 <2>		70.2 <6>
Montserrat	102.2	80.0	76.0 <2>	
St. Kitts/Nevis	126.2	88.3	79.7	76.5 <4>
Saint Lucia	121.8	100.4	96.5	100.4 <6>
Trinidad and Tobago	83.2	66.3	64.6	61.8 <5>

Source: National Data

<1> 1981 <2> 1982 <3>1986 <4> 1987 <5> 1988 <6>1989

III. Domestic and foreign savings

The relationship between domestic and foreign savings has been the subject of much investigation in which attempts were made to find out how the supply of foreign savings affected domestic savings. One position on this subject holds that foreign savings add to the pool of domestic savings in the countries, raising thereby the amount of resources available for capital accumulation in those countries. The contribution of external finance is, therefore, positive as it contributes to the development efforts of developing countries[14].

[14] H.B. Chenery and A.M Stout. "Foreign Assistance and Economic Development", American Economic Finance, Vol 56 (1966).

Another view on this subject is that the effect of foreign savings on domestic savings is negative. In this case foreign savings are thought to bring about a decrease in domestic savings and inefficiencies in investment decisions. This is thought to occur when recipient governments abandon their savings efforts, mainly because of the external finance received which they use to finance both their consumption and investment expenditure[15].

The broad conclusion of many other investigations of this subject is that foreign savings do affect domestic savings but whether that effect will be negative or positive will depend on the type of external finance extended, the terms of such finance and the macro-economic policies of the recipient country.

IV. The intermediation system in the Caribbean

The financial institutions existing in the Caribbean vary from country to country, but it is the larger islands such as Jamaica and Trinidad and Tobago which have the most diversified system of financial institutions, both public and private. These institutions include commercial banks, merchant banks, building societies, unit trusts, insurance companies, pension funds, credit unions, development banks and stock exchanges. It is also those countries with a diversified financial structure which have the largest selection of financial products and investments opportunities. The smaller countries of the region have fewer financial institutions and a limited number of financial products.

Capital markets are in their early stages of development in Jamaica, Trinidad and Tobago and Barbados' and present only a limited variety of investment opportunities. The companies quoted in the stock exchanges of these countries are small in number and their ownership is highly concentrated. The preference of companies for bank financing is a tendency which is likely to discourage an increase in the trading of companies' securities and preserve the existing ownership concentration. In general, the private financial institutions in the Caribbean concentrate on the provision of short-term funds and provide very little in terms of equity and long-term bonds and loans[16].

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[15] K. Griffin. "Foreign Capital, Domestic Savings and Economic Development", Oxford Bulletin of Economics and Statistics, Vol.32, 1970.

[16] ECLAC. "A study of capital markets and Caribbean trade", LC/CAR/L.244(SEM.1/1). A consultant paper presented at an Ad-Hoc Group of Experts Meeting on Trade Finance, Bridgetown, Barbados, 17-19 May 1988.

The commercial banks, which account for a large part of the resources of the financial sector of the region, still seem to concentrate a substantial part of their lending to consumption expenditures. Moreover, transactions costs in the financial institutions are thought to be high[17]. There is, therefore, need to improve both the operational and allocation efficiency of the financial institutions in the region. In addition, there is need to develop further the existing financial institutions and instruments and to create new ones to cater for the various preferences of investors.

However, the functioning of the financial system is influenced in a large measure by taxation, interest rates, inflation and exchange rates which are determined by government economic policies. Also, governments are usually borrowers on the local financial markets and sometimes crowd out private borrowers. Intervention in the domestic markets to put a ceiling on interest rates or to direct credit towards certain investments might distort the allocation of resources without fulfilling the intended purpose, which is usually to provide cheap credit to certain sectors of the economies.

V. Conclusions

The objective of transforming the productive systems of Caribbean countries into more efficient and competitive systems will require increased financing. It is clear that the greater part of the capital accumulation in most of the countries was financed by external sources, because domestic savings have not been sufficient to finance the desired rates of growth. It should be borne in mind, however, that the reliance on external finance is only a temporary relief from the constraints of low savings and foreign exchange. Such reliance could have disruptive effects on the economies, especially in the case of debt-creating finance, when they have to achieve financial surpluses devoted largely to loan repayments, rather than the financing of domestic investment.

The promotion of domestic savings should not in any way mean the abandonment of foreign sources of finance, but rather the need to pay increased attention to the mobilization of local resources, especially in these times of dwindling external resources. Given the generally low levels of savings in the region, the countries

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[17] Commonwealth Secretariat/Caribbean Community Secretariat, "Caribbean Development to the Year 2000: Challenges, Prospects and Policies", June 1988.

should engage in an active policy to mobilize savings. Typically, such policy should include an improvement in public savings through fiscal restraints. Most of the countries have already implemented policies to reduce their fiscal deficits with some success, but it is imperative that those policies continue.

Given the essential role of governments in the development process, the importance of the budget in the functioning of the economy and the complex interrelationships between the budget, savings, investment and economic growth as well as the diversity of the economies of the regions, it is difficult within the confines of this paper to define a set of measures to be adopted for budget deficit reduction.

In general terms, however, this will require that the operations of the central and local governments, as well as those of public enterprises, be made more efficient with a view to holding down government expenditure. The public sector investment programmes will need to be properly evaluated to ensure that the economies derive maximum benefits from the projects to be implemented. Nevertheless, the simplistic view that expenditures on health and education are consumption expenditures and are, therefore, prime targets of budget-cutting exercises ought to be reversed. Both health and education are essential components of human resources development in the countries and require favourable treatment as far as financing is concerned. It is, however, necessary to improve the efficiency of these crucial sectors of the economies. Also the maintenance and improvement of the economic infrastructure is essential for the efficiency of both public and private investment and ought to receive favourable treatment from both governments and private enterprises.

On the revenue side, appropriate tax reforms designed to widen the tax base and improve revenue collection will greatly augment government revenues. It is to be noted, however, that some of the countries of the region have a narrow tax base which puts a limit on the amount of revenue which could possibly be raised in these countries. The taxation policies implemented by governments have an influence on the levels of savings of both households and private enterprises and will need to be oriented towards the promotion of savings rather than consumption.

In addition, specific savings policy objectives need to be adopted, with the aim of increasing the volume of savings, transforming their structure and orienting their allocation towards productive investment[18]. To increase the volume of savings will require policies seeking to increase the rates of savings of

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[18] Kesler D. et Ullmo P.A. Rapport du Colloque d'Experts, organisé à Paris les 28, 29 et 30 mai 1984, Epargne et Développement, Economica Paris, 1985.

households which have already developed certain savings habits, as well as, to reduce the number of households who do not save at all. An improvement in the structure of savings will consist of an increase in the investment of savings in financial assets as opposed to physical assets. The orientation of savings to productive investment will allow a better contribution of savings to the economic and social development of the countries.

To achieve the above objectives, it is essential that the countries adopt macro-economic policies which seek to promote a non-inflationary type of economic growth. Foremost among these policies is a commitment to the maintenance of good fiscal and balance-of-payments positions, since both balance-of-payments and budget deficits could absorb a large part of domestic savings, diverting them away from the financing of crucial sectors of the economies. Also, monetary policy designed to keep inflation down would contribute to a climate favourable for the promotion of savings. For these policies to succeed, they have to be seen by the population as continuous policies, to which the governments are committed on a long-term basis.

Typically, policies designed to promote savings ought to be based on a better knowledge of the savings behaviour of the population. Surveys to gain such knowledge should reveal the savings practices in the countries and any obstacle which might have discouraged such savings. A better understanding of these savings practices and obstacles to increased savings should lead to the creation of financial products adapted to the needs of the population. This approach is especially important for the small entrepreneur and rural household, who, more often than not, either do not find the financial products suitable for their needs or do not have access to the market because of various reasons including the limited network of savings institutions. This is one of the main reasons for the existence and development of an informal financial sector in the less developed areas of the countries.

The improvement of the existing intermediation systems and the creation and diversification of the financial products, based on the investment needs of the population, will form a sound basis for better mobilization and allocation of resources. However, the small size of the economies of some Caribbean countries limits the potential development of diversified financial and capital markets and it is, therefore, imperative that regional markets are established. The recent move towards a regional stock exchange is a step in that direction.

The returns on savings constitute an important element in any savings promotion policy. These returns have been negative in the late 1970s and early 1980s in most countries, because of high inflation rates. An interest rate policy which reflects the supply and demand of capital is required, in order to ensure a fair return to the savers and avoid distortion in the allocation of resources.

Savings moving abroad as capital flight, which the Caribbean countries have experienced since the 1970s and which are in search of a more diversified portfolio, better returns and a hedge against the devaluation of national currencies ought to be considered in the context of savings policies. Monetary, fiscal and exchange rate policies designed to ensure a stable currency, low inflation, competitive interest rates and a climate favourable for investment, could halt the capital flight or even reverse the flow of local savings invested abroad. In a recent effort, partly to reverse capital flight, Jamaica has attempted to attract the savings of its expatriate citizens and others through the freeing of the exchange rate, the liberalization of exchange controls and the authorization of the opening of accounts in foreign currency. Although this is a recent experience whose results cannot be assessed yet, it certainly removes some of the causes of capital flight.

The change from a strategy of economic growth, heavily dependent on external finance, to one which is mainly dependent on the mobilization of local resources constitutes a difficult task. It will result in a reform of the domestic financial structure which is essential if the countries are to establish a sound basis for economic growth and development in the context of stagnating or dwindling external resource flows.

ANNEX I

Savings, Investment and Growth

Antigua and Barbuda

Year	GDP in EC$mn	Savings %	Investment %	Real Growth %
1977	179	16	21	
1978	202	17	19	
1979	249	46	35	
1980	297	12	31	6.7
1981	336	16	43	-
1982	372	27	40	-
1983	414	26	21	6.9
1984	468	12	24	7.5
1985	541	10	28	7.7
1986	637	11	36	8.4
1987	740	13	42	8.8
1988	-	-	-	-
1989	-	-	-	-

Bahamas

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1980	1475	20	13	6.7
1981	1588	38	16	-
1982	1653	23	19	-
1983	1744	33	18	3.2
1984	2018	26	16	6.4
1985	2258	26	17	5.2
1986	2250	35	17	1.4
1987				
1988				
1989				

Barbados

Year	GDP at market prices	Savings %	Investment %	Real Growth %
1977	994	8	24	
1978	1112	13	23	
1979	1348	13	24	
1980	1658	19	25	4.3
1981	1904	18	27	-
1982	1990	20	23	-
1983	2113	21	20	0.4
1984	2303	21	16	3.6
1985	2500	26	15	1.2
1986	2646	18	16	5.1
1987	2914	16	16	2.5
1988	3099	18	17	3.5
1989	3414	14	19	-

Belize

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1980	340	13	26	2.4
1981	362	9	23	-
1982	331	5	22	-
1983	348	4	19	0.8
1984	365	6	17	0.8
1985	390	8	18	2.3
1986	425	12	16	1.5
1987	-			
1988	-			
1989				

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1987	-			
1988	-			
1989				

British Virgin Islands

	GDP in USmn	Savings %	Investment %	Real Growth %
1980	54	13	41	14.0
1981	59	12	44	-
1982	70	10	41	-
1983	79	10	42	5.9
1984	86	7	41	5.6
1985	90	7	40	0.2
1986	98	8	41	4.2
1987	117	9	39	16.0
1988				
1989				

Dominica

Year	GDP at market prices	Savings %	Investment %	Real Growth %
1977	98	2	21	
1978	122	0.82	23	
1979	120	-27	35	
1980	160	-20	50	16.5
1981	179	-12	32	-
1982	193	-05	28	-
1983	211	7	27	3.0
1984	230	4	39	5.0
1985	266	5	29	1.7
1986	303	16	22	6.8
1987	339	13	23	6.8
1988	396	11	27	5.6
1989	414	-4	30	-

Dominican Republic

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1980	6631	15	24	6.0
1981	7267	19	22	-
1982	7964	15	19	-
1983	8623	18	20	4.6
1984	10355	19	21	0.3
1985	13972	18	19	-2.6
1986	15780	19	19	2.0
1987	19425	24	26	8.1
1988	28270	23	23	
1989				

Grenada

Year	GDP at market prices	Savings %	Investment %	Real Growth %
1980	202	-5	26	-
1981	217	-4	42	-
1982	239	-1	45	-
1983	253	5	42	1.4
1984	275	1	29	5.4
1985	311	1	31	4.9
1986	350	2	33	5.5
1987	406	8	35	6.0
1988	449	10	36	
1989	541	13	39	

Guyana

Year	GDP at market prices	Savings %	Investment %	Real Growth %
1977				
1978				
1979	1326	7	31	
1980	1508	18	30	
1981	1597	13	33	
1982	1446	9	26	
1983	-	-	-	
1984	-	-	-	
1985	1964	10	21	1.0
1986	2219	15	26	0.2
1987	3382	21	33	0.7
1988	4138	17	21	-3.0
1989	6907	31	50	-

Haiti

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1980	7183	5	17	6.7
1981	7397	-2	17	-
1982	7425	3	16	-
1983	8148	3	16	0.6
1984	9082	4	16	0.4
1985	10047	6	17	0.5
1986	11177	6	14	0.5
1987	9929	5	15	0.5
1988	9729	1	15	0.1
1989	-			

Jamaica

Year	GDP at market prices	Savings %	Investment %	Real Growth %
1977				
1978				
1979	4293	18	19	
1980	4773	10	14	-5.4
1981	5307	9	18	-
1982	5867	8	20	-
1983	6993	12	20	2.3
1984	9358	11	21	-0.9
1985	11203	9	23	-4.7
1986	13500	16	18	1.9
1987	16017	15	22	5.2
1988	18441	25	26	1.5
1989				

St. Kitts and Nevis

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1977	81	22	38	-
1978	93	16	27	-
1979	108	11	34	-
1980	130	8	38	3.9
1981	150	1	30	-
1982	159	3	34	-
1983	158	-7	38	-1.1
1984	186	-2	31	9.0
1985	201	8	32	5.6
1986	243	6	28	6.3
1987	266	-2	30	6.8
1988	316	-7	30	-
1989				

Montserrat

Year	GDP in EC$mn	Savings %	Investment %	Real Growth %
1977	31	-0.26	32	
1978	35	-29	40	
1979	43	-33	47	
1980	65	-28	42	9.4
1981	73	-25	47	
1982	81	-22	40	
1983	86	-19	30	-5.3
1984	94	-16	27	2.8
1985	98	-16	27	5.4
1986	111	-11	34	5.1
1987	130	- 8	38	10.8
1988	146	- 1	47	12.1
1989				

Netherlands Antilles

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1980	1874	5	15	
1981	2074	2	14	
1982	1919	-0.3	8	
1983	1910	-3	5	
1984	1929	-4	2	
1985	1966	-2	4	
1986				
1987				
1988				
1989				

Saint Lucia

Year	GDP in EC$mn	Savings %	Investment %	Real Growth %
1977	184	14	48	
1978	220	25	67	
1979	268	16	51	
1980	305	17	59	-1.0
1981	346	9	57	-
1982	361	6	43	-
1983	374	16	31	4.1
1984	413	11	35	5.0
1985	460	18	35	6.0
1986	509	26	38	5.9
1987	538	24	44	2.0
1988	-	-	-	-
1989	-	-	-	-

St. Vincent and the Grenadines

Year	GDP at market prices	Savings %	Investment %	Real Growth %
1977	98	-9	35	
1978	123	4	28	
1979	143	-11	34	
1980	160	-11	39	3.3
1981	196	0.5	32	-
1982	227	-2	29	-
1983	255	0.3	24	5.8
1984	277	14	27	5.3
1985	304	22	28	4.6
1986	343	22	30	7.2
1987	383	15	33	5.7
1988	433	23	31	8.4
1989	-	-	-	-

Suriname

Year	GDP in local currency at market prices	Savings %	Investment %	Real Growth %
1980	1602	21	21	-6.6
1981	1798	17	27	
1982	1849	12	28	
1983	1787	1	20	-4.1
1984	1745	8	18	-1.9
1985	1741	6	17	-2.3
1986	1790	17	17	-2.0
1987	1923	20	-	-6.6
1988				
1989				

Trinidad and Tobago

Year	GDP in local currency	Savings %	Investment %	Real Growth %
1977	7533	39	27	
1978	8550	35	30	
1979	11046	35	29	
1980	14966	36	31	-6.5
1981	16438	33	28	-
1982	19175	19	28	-
1983	18719	14	27	5.2
1984	18828	16	23	-7.1
1985	18077	16	17	-4.5
1986	17242	10	23	-1.0
1987	16571	13	19	6.1
1988	15973			-4.7
1989				

Source: National accounts statistics prepared by the countries and statistical Yearbook for Latin America and the Caribbean ECLAC 1989 Edition. The growth rates are taken from LC/CAR/G.278 "The impact of external sector developments on Caribbean economic performance 1983-1988".