

THE ECONOMY & YOU

Balance of Payments and Economies in ECCB Arrangement

Every year thousands of transactions take place across our boundaries. Private individuals, companies, and governments buy goods and services from all over the world, and they also sell goods and services to the rest of the world. We receive monies from overseas in the form of loans, development aid and foreign investment. In turn, outflows from the ECCU include loan repayments and dividends. In addition some residents receive income from relatives or other sources abroad. All these transactions are reflected in the balance of payments of ECCB member countries.

From the balance of payments we can see how “open” the economies are. This simply means how dependent they are on the outside world for generating activity within the economy. One measure of the intense degree of openness of the ECCB area economies is the following: In the 1990’s, imports of goods and services roughly 70 per cent of the GDP in some countries. GDP stands for gross domestic product and is the value of all that is produced in the country.

The balance of payments also allows us to determine how competitive the country’s exports are over time. Are our products cheaper than those of our competitors? Can we maintain our export markets and thereby our existing standard of living? If our products are competitive this would improve the balance of payments as we would earn more than we spend overseas. Our standard of living would improve. However, if our goods and services become more expensive without an improvement in quality, then we would lose our overseas markets and our standard of living would get worse.

Another aspect of the ECCB area economies is that payments for imports of goods by far exceed receipts for exports. So that in 2001 for example the Eastern Caribbean currency union had a negative trade balance of 2.7 billion dollars. We spent more on cars, clothes, food and other imports than we made from selling our bananas, sugar and other exports.

Tourism is the most important source of foreign exchange for several of our countries. However net receipts from tourism and other services are generally not large enough to eliminate the trade deficit. Private transfers, or monies sent from abroad, are also very important to the ECCB area. Workers remittances, which represent monies sent home by nationals working abroad are estimated to be a sizeable proportion of private transfers. But even after we take into account these inflows, the result is that we pay out more than we take in. This is what is called a **“current account deficit”** in the balance of payments.

How is this possible? How do countries finance this gap? Developing countries like the ECCB territories have been able to run “current account deficits” as long as they receive inflows of investment capital and loans to supplement their own resources. In addition, countries can finance a deficit by using previously accumulated foreign exchange reserves, that is, foreign savings.

However, as we know from our everyday lives, loans have to be repaid, with interest; and dividends must be paid on investments. From the accounts, we can tell the size of these payments at present. The accounts also direct us to prepare for these payments of foreign exchange in the future.

We hope you have found that the balance of payments can reveal an intriguing tale about our economies. In order to tell the tale, data must be provided on the wide range of transactions mentioned at the beginning of this programme. You need to

play your part in filling in the details of our balance of payments transactions with the rest of the world, which will help us to better manage our economic and financial resources.