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Publisher's Note

The Economic Review is published three times a year in June, September and December, by the Central Bank of Barbados. It is prepared by the Bank's Research Department and contains articles of research undertaken at the Bank. In addition, we welcome contributions of a non-technical and empirical nature on economic and policy issues in the Caribbean. Book reviews and surveys are also welcome. All submitted papers are reviewed by the Editorial Committee* and external referees.

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Overview

The Barbados economy grew by approximately 4.5% during the first half of 2007, compared to an increase of 3.7% in the corresponding period of 2006. The expansion in real GDP reflected primarily the continued robust performance of the non-traded sectors and a moderate tourism outturn. Despite strong non-traded sector led growth, higher estimated receipts from the upturn in tourism activity in the second quarter contributed to a lower external current account deficit. The improved external current account combined with significant net long-term capital and financial inflows boosted the foreign reserves of the monetary authorities. These inflows strengthened the level of liquidity in the banking system, manifested in strong growth in bank deposits amid a slowdown in new bank lending. Government incurred a sizeable fiscal deficit, the majority of which was financed by domestic lenders.

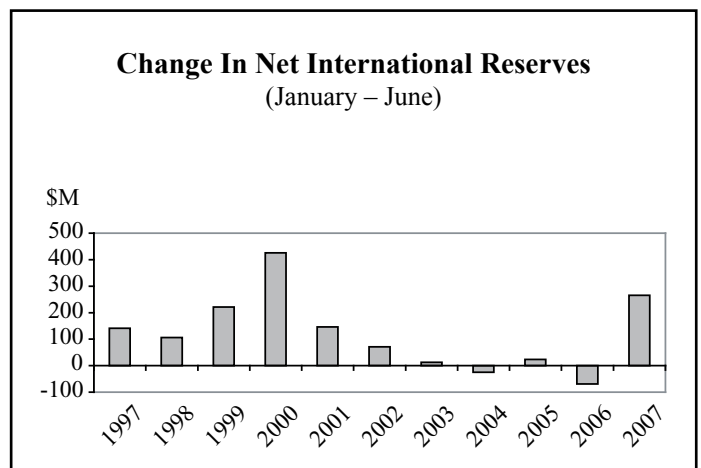
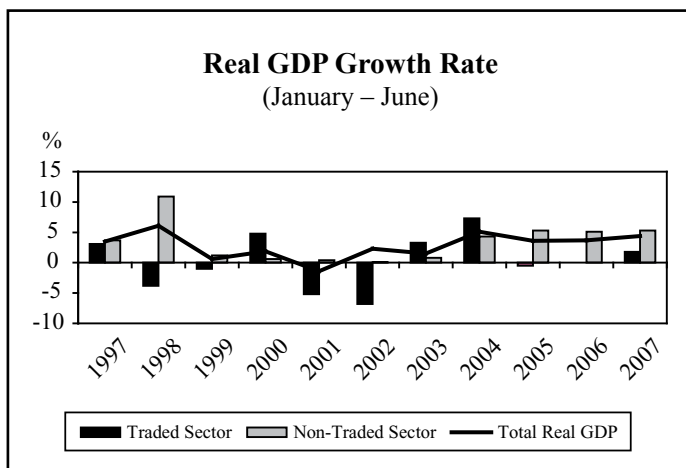
Non-traded sector activity rose by an estimated 5.2%, driven mainly by wholesale and retail, business and other services and construction. The hive of business activity associated with the preparation and the subsequent staging of the Cricket World Cup (CWC) matches contributed to growth in these sectors. Output in the traded sectors grew by 2.5%, fuelled chiefly by tourism, while manufacturing output and the amount of raw sugar

produced were both sluggish. The average unemployment rate for the first quarter fell marginally. In addition, the inflation rate declined moderately, largely reflecting lower prices for housing and transportation.

During the six-month review period, the reduction in the external current account deficit was mainly attributed to higher estimated travel credits, which offset the increase in retained imports and the contraction in domestic exports. In addition, healthy net long-term capital and financial inflows, both for the public and private sectors, resulted in a surplus on the capital and financial account, which was twice the surplus recorded in the first half of 2006. Consequently, for the first six months of 2007, the net international reserves (NIR) of the monetary authorities rose by \$262.3 million, in contrast to a reserve loss of \$69.1 million in the comparable period of 2006.

During the January-to-June period of 2007, there was an increase in excess liquidity in the banking system, following two years of tight liquidity conditions. The build-up of excess liquidity reflected higher levels of capital inflows as well as a sharp expansion in bank deposits, relative to new loans from commercial banks, an indication of the effect of the tighter monetary and fiscal measures implemented since 2005.

Preliminary estimates indicate that after experiencing a surplus of \$3.9 million for the first half of 2006, the Government incurred a deficit of approximately



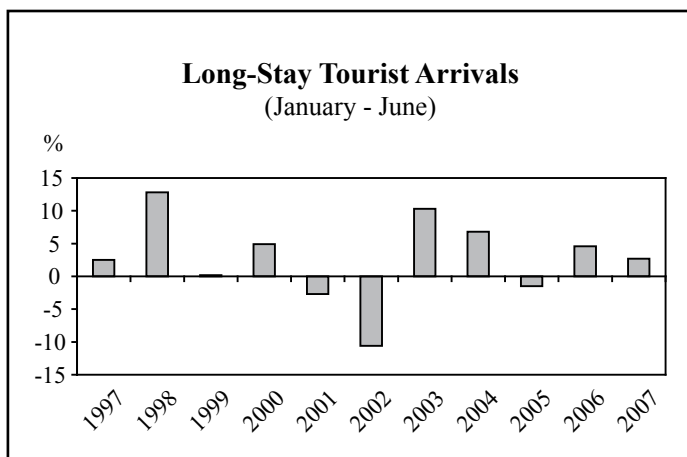
\$100.1 million for the corresponding period of 2007. The deficit occurred mainly because of a comparative slowdown in the collection of tax revenues, and the continued expansion in current expenditure which was slightly offset by lower capital outlays.

Production, Prices and Employment

Tourism

During the first six months of 2007, tourism output rose by an estimated 3.1%, up from an increase of 1.1% for the corresponding period in 2006. The moderately higher expansion in tourism activity may be attributed in large part to the influx of visitors for the CWC matches held in the second quarter. Compared to similar periods last year, tourist arrivals increased by 13.6% in the second quarter, following a 6.8% falloff in the first quarter. The surge in visitors was mainly from non-traditional markets.

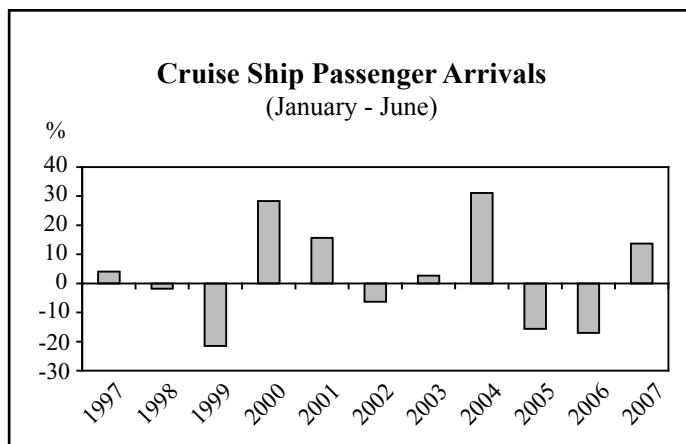
Notwithstanding the spike in visitor arrivals in the second quarter, the total number of long-stay tourists increased by 2.7% during the first six months, which was lower than the overall growth rate of 4.6% for the comparable period in 2006. Arrivals from the traditional markets of the United Kingdom (UK), Canada and the United States expanded by 5.6%, 3.9% and 2.3% respectively, despite being faced with higher costs for air travel. In particular, UK tourists rose by 14.5% in the second quarter, spurred



by the desire to watch international cricket. Visitor arrivals from the rest of the world more than doubled when compared to the corresponding period of 2006.

In contrast, visitors from Germany and CARICOM declined by 32.0% and 20.9%, respectively. Higher airline fares appeared to have negatively affected travel from the region, as persons travelling from Trinidad and Tobago and other CARICOM both contracted by 8.4% and 25.9%, respectively, after these markets had registered consistent growth for the past five years.

The number of cruise ship passengers grew by 13.7% during the first six months of the year, partly reversing the decline of 17% recorded in the similar period last year. The outturn reflected a 5.3% increase in cruise ship calls, as additional vessels were used as temporary accommodation for visitors throughout the CWC event.



Manufacturing

Manufacturing output declined marginally during the review period, in contrast to an increase of 1.7% in the similar period of 2006. The lacklustre performance was primarily the result of the sharp reductions in the production of electronic components (17.8%), garments (9.8%) and non-metallic mineral goods (5.7%), which outweighed the moderate gains in chemicals (6.6%), beverages and tobacco (14.8%) and wooden furniture (0.6%).

Agriculture and Fishing

During the first half of 2007, the amount of sugar produced was estimated at 38,850 tonnes, approximately 0.6% or 200 tonnes higher than the comparable production figure for the first six months of 2006. Non-sugar agriculture is estimated to have also expanded, by around 6.3%, surpassing the marginal performance for the similar period in 2006. Milk production rose by 5.1%, the first half-yearly increase for the past six years. The production of chicken and other meats went up by 8.8% and 1.2%, respectively, following first half-yearly expansions of 3.0% and 5.8% in 2005 and 2006 respectively. In addition, fish catches increased by 23.3%, in contrast to an average decrease of 13.9% in the first six months of the last two years.

International Business and Financial Services

Between January and June of 2007, three hundred and five new licences were issued, compared to two hundred and eighty-nine licences granted in the similar six-month period of 2006, marking the highest first-half increase in new licences issued since 2000. Two hundred and eight new licences were granted to international business companies, 28 more than the number recorded for the similar period of 2006. Ninety-two licences for societies with restricted liability were approved during the review period, more than doubling the 40 issued during the same period last year. Permission was granted for two offshore banks to commence operations. Four exempt insurance companies acquired licences, but no new licences were approved for exempt insurance management companies during the first six months of 2007.

Non-Traded Sectors

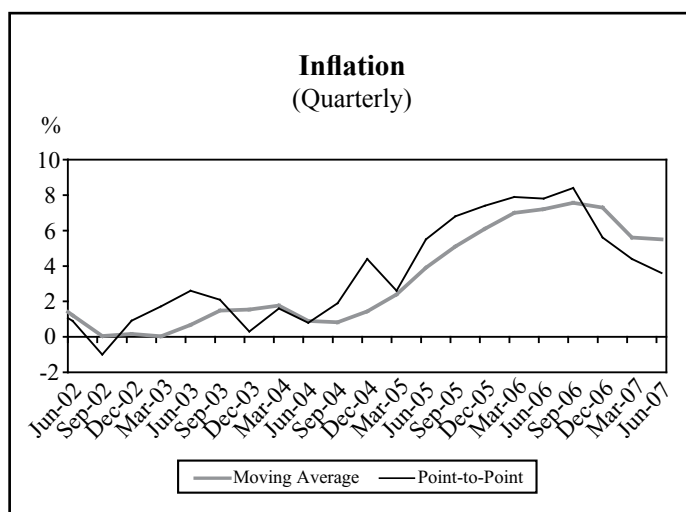
The robust performance of the non-traded sectors continued to fuel economic growth during the first two quarters of the year. The main sources of the expansion in non-traded activity were wholesale and retail trade, and business and other services, which rose by 6.3%, and 5.8%, respectively. In addition, activity in the transport, storage and communications sector went up by 6.5%. Value-added in construction expanded by an estimated 5.2%, compared

to average half-yearly growth of 8.9% for the last two years.

Output of electricity, gas and water rose by 4.3%, compared to an increase of 6.5% in the first half of the previous year, in line with the general expansion of the economy. The production of natural gas declined by 15.8% during January-to-June 2007, in contrast to an increase of 10.7% in the similar period of 2006. Over the first two quarters of 2007, total consumption of electricity grew by 4.7%, compared to a rise of 1.6%. In the same period of 2006 commercial and residential usage expanded by 5.0% and 4.2%, respectively, while the electricity for general services surged by 10.5%, caused by additional street lighting in the review period. The depletion of existing onshore oil wells underpinned the 16.7% reduction in oil production. This outcome constrained mining and quarrying output, resulting in a decline of 1.2% in the January-to-June 2007 period, which contrasts with marginal growth in the similar period of 2006.

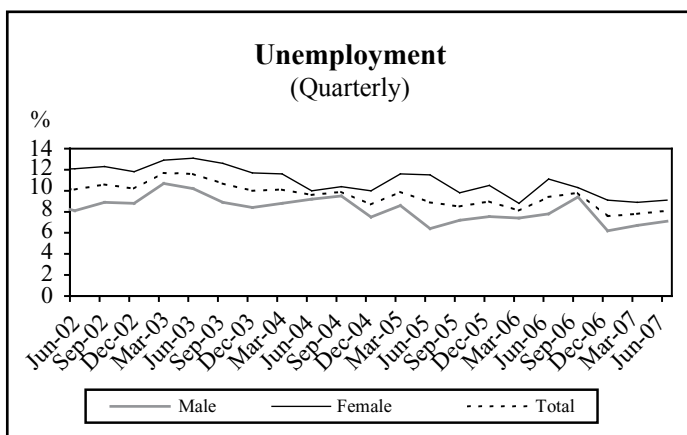
Prices and Employment

At the end of June 2007, the 12-month moving average rate of inflation was 5.5%, about 1.7 percentage points lower than the rate at the end of June 2006. On a point-to-point basis, the percentage change in prices



moved from 7.8% at the end of June last year to 3.6% at the end of June 2007. The contraction in the inflation rate largely reflected the slowdown in the growth rate of prices for housing and transportation, which fell from 11.7% to 8.8% and 10.3% to 0.2%, respectively. The rate of increase in the prices for fuel and light also declined from 11.3% to 1.9%. The total inflation rate is being driven by the rising growth rate of prices for food (from 6.5% to 8.0%), alcoholic beverages and tobacco (from 2.9% to 4.3%), and household operations (from 4.4% to 6.8%).

At the end of the first half of 2007, the average unemployment rate was 8.1%, compared to a rate of 9.4% at the end of June 2006. The unemployment rate for males decreased from 7.8% to 7.1%, while the rate for females declined by 2 percentage points to 9.1%. The sectors

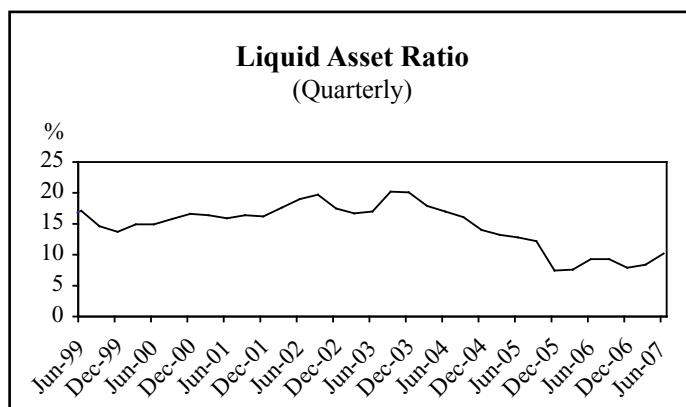


recording increases in new jobs during the period under review were tourism, business services, transport and communication as well as finance.

Financial Sector

Liquidity and Interest Rates

The accumulation of liquidity in the banking system during the review period stemmed from robust growth in domestic deposits, which outpaced the rate of new commercial bank lending to the non-financial private



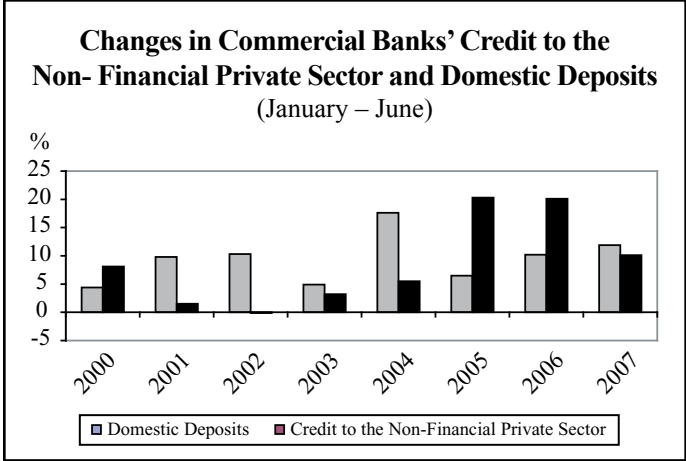
sector. The liquid asset ratio at the end of June 2007 was estimated at 10.2%, up from 7.9% at the end of December 2006.

During the first six months, excess reserves of commercial banks increased by \$227.0 million to \$644.0 million, and the excess cash to deposit ratio rose from 0.6% at the end of December 2006 to 4.2% as at the end of June 2007. The higher level of liquidity in the banking system contributed to a decline of almost one percentage point in the average discount rate on 3-month Treasury bills to 5.74%.

The tighter monetary stance adopted by the Central Bank over the past two years had some impact on interest rates at commercial banks during the review period. At the end of June, the weighted average interest rate on deposits was 5.2%, representing an increase of 11 basis points from the rate at the end of last year, while the weighted average rate on total loans and selected loans fell by 21 and 37 basis points respectively, to 10.66% and 9.41%, respectively.

Credit

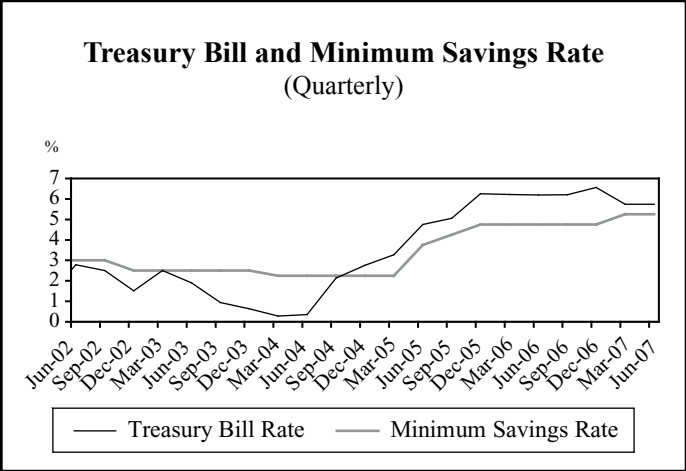
Credit to the non-financial private sector rose by 2.9% or \$123.3 million during the first six months of 2007, compared to growth of around 6% or \$223.5 million in the similar period of 2006. The marked slowdown in the rate of lending by banks occurred mainly because of lower borrowing by the personal sector, which increased by 5.1% or \$109.2 million, after expansions of 8.2%



or \$147.5 million and 10.7% or \$156.5 million during the first half of the last two years. Mortgage lending by commercial banks expanded by \$199 million for the first six months, which was considerably higher than the increase of \$95.1 million recorded for the similar period of 2006. In addition, borrowing by statutory bodies and the construction sector declined, by 8.8% and 3.4%, respectively, compared with last year. On the other hand, commercial bank loans to distribution and the other services sector were up by 2.9% and 4.5%, respectively.

Deposits

Between January and June of 2007, domestic deposits at commercial banks grew by 9.9% or \$653.2 million, eclipsing the increase of 5.5% or \$331.4 million during the similar period of 2006. Deposits of private individuals, which represented the bulk of the expansion in bank deposits, rose by 6.4% or \$227.2 million, while the deposit holdings of statutory bodies increased by 34.5% or \$56.1 million. In addition, financial institutions' deposits were up by \$144.9 million, as both private and public financial institutions registered higher deposit levels. The deposits of the central government fell by \$4.6 million.



Summary Accounts of the Banking System
(\$Million)

	2005				2006				2007 ^P	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Net International Reserves	1,780.8	1,659.2	1,442.4	1,608.4	1,730.2	1,610.6	1,613.1	1,691.2	1,944.7	2,037.2
Monetary Authorities	1,227.9	1,214.1	1,149.6	1,236.5	1,282.5	1,167.4	1,136.4	1,194.1	1,330.0	1,456.4
Commercial Banks	522.9	445.2	292.9	371.9	447.7	443.2	476.8	497.1	611.7	580.8
Net Domestic Assets	3,121.3	3,370.3	3,656.2	3,584.0	3,527.1	3,801.2	3,984.0	4,085.9	3,983.3	4,200.2
Credit to Public Sector	508.4	528.8	625.0	380.4	164.5	331.0	387.6	337.1	161.2	274.1
Central Government (net)	734.1	784.4	902.6	650.5	392.6	603.4	631.8	433.1	391.2	508.9
Rest of Public Sector	-226.0	-255.6	-277.8	-270.1	-228.1	-272.4	-244.2	-95.9	-230.0	-234.8
Credit to Rest of Financial System	260.5	298.4	301.8	312.9	344.1	261.9	339.7	343.2	454.3	359.5
Liabilities to Other Financial Institutions	453.3	475.4	417.2	515.0	551.3	558.7	565.4	597.4	700.7	693.3
Credit to Non-Financial Private Sector	3,185.8	3,395.3	3,513.8	3,791.8	3,890.5	4,015.3	4,098.7	4,292.9	4,311.4	4,416.1
Liabilities to the Non-Financial Private Sector	4,902.7	5,029.5	5,098.5	5,195.0	5,257.3	5,411.9	5,597.2	5,777.1	5,928.0	6,337.4
Currency in Circulation	392.0	403.0	418.9	448.6	436.8	431.8	433.1	465.0	458.3	470.1
Demand Deposits	1,548.0	1,576.5	1,604.3	1,563.3	1,530.9	1,515.6	1,672.2	1,794.7	1,780.1	1,861.7
Time Deposits	343.8	352.4	405.1	491.1	556.0	625.3	584.6	552.7	672.7	784.3
Savings Deposits	2,618.5	2,697.6	2,670.2	2,692.1	2,733.5	2,839.2	2,907.2	2,964.7	3,016.9	3,121.3
MEMO:										
Domestic Deposits	5,638.8	5,763.0	5,832.4	6,019.4	6,112.9	6,350.8	6,494.3	6,586.7	6,953.5	7,239.9
Liquid Foreign Assets	1,233.5	1,218.9	1,157.1	1,254.1	1,293.1	1,286.5	1,280.0	1,307.3	1,452.6	1,578.1
Loans & Advances	3,429.7	3,630.2	3,788.9	4,081.8	4,240.5	4,382.3	4,469.5	4,713.7	4,871.0	4,857.5

Source: The Central Bank of Barbados

P: Provisional

Government Securities

At the end of June 2007, the total amount of Treasury bills outstanding was \$585.8 million, approximately \$97.1 million more than the amount outstanding at the end of December 2006. The sum of Treasury bills held at commercial banks rose by \$45.4 million as at the end of June 2007, while those held by other investors and trust companies increased by \$40.6 million and \$7.1 million, respectively. At the end of June 2007, the nominal value of Barbados Government Savings Bonds was \$99.7 million, approximately \$8.2 million below the figure of one year ago. The total amount of outstanding debentures expanded by \$220.6 million to \$2.6 billion, with the National Insurance Scheme and insurance companies purchasing approximately \$96.0 million and \$32.8 million, respectively, while other investors secured an additional \$64.2 million compared to \$10 million during the corresponding period of 2006.

Public Sector

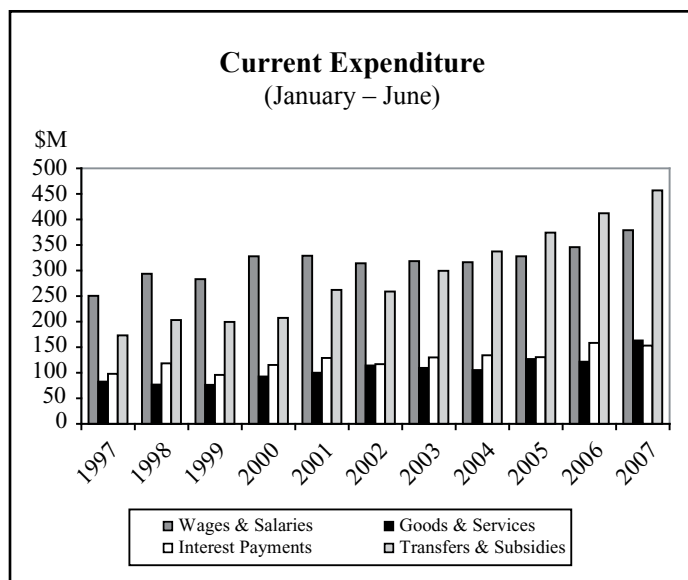
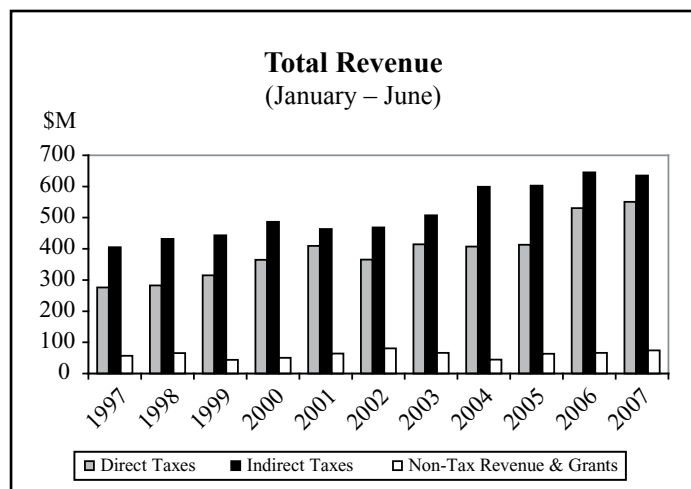
Revenue

Preliminary estimates indicate that during the first six months of 2007, total revenue grew by 1.2% to \$1257.2 million, compared to growth of 15.1% in the first half of 2006. Tax revenue rose by 0.9%, in stark contrast to the 15.8% increase in the January-to-June period of last

year. Value added tax (VAT) receipts declined by 2.8% and excise taxes fell by 19.3%, after these categories grew by 14.6% and 10.6%, respectively in 2006. The contraction in the tax receipts reflects the recording of VAT and excise tax collections for 2005 in the 2006 review period, thus making the tax receipts for 2006 extraordinarily higher. Revenues from stamp and import duties increased by 24.1% and 16.6%, respectively, and other indirect taxes went up by 5.4%. Direct tax receipts were higher by only 3.4%, compared to growth of 28.6% registered in the first six months of 2006. This resulted as Corporation taxes grew by only 6.6%, compared to growth of 36.5% in the first half of 2006. The receipts from personal income and property taxes declined by 0.7% and 2.6%, respectively.

Expenditure

Preliminary estimates indicate that total expenditure grew by approximately 9.7% to \$1357.3 million for the first two quarters of the year, on par with the rate of increase for the similar period of 2006. Current expenditure expanded by 10.7%, compared to a rise of 8.2% recorded last year. For the first half of 2007, expenditure on goods and services and wages and salaries increased by 33.4% (partly related to CWC expenditure)



Government Operations

(January – June)

(\$Million)

	2003	2004	2005	2006 ^P	2007 ^P
Total Current Revenue	987.8	1,051.0	1,078.7	1,241.8	1,257.2
Tax Revenue	921.7	1,006.2	1015.3	1,176.5	1,183.3
<i>Direct Taxes</i>	414.3	407.3	412.8	530.7	548.8
Personal	202.2	189.9	158.8	177.6	176.4
Corporate	161.7	155.7	198.0	270.2	288.1
Levies	4.7	0.0	3.4	0.0	0.0
Property	26.9	32.2	34.3	48.3	47.0
Other	18.8	29.5	21.8	34.6	37.4
<i>Indirect Taxes</i>	507.5	598.9	602.5	644.9	634.5
Consumption	0.0	0.0	0.0	0.0	0.0
Stamp	6.7	8.3	10.3	11.4	14.1
VAT	282.9	315.5	323.1	370.3	359.9
Excises	69.1	107.1	100.5	111.1	89.7
Import Duties	77.3	101.0	102.1	95.6	111.5
Hotel & Restaurant	0.0	0.0	0.0	0.0	0.0
Other	71.5	67.0	66.4	56.5	59.4
Non Tax Revenue & Grants	66.1	44.8	63.4	66.1	73.9
Current Expenditure	857.9	893.3	959.4	1,038.5	1,149.6
Wages & Salaries	318.5	316.2	328.1	346.0	378.1
Goods & Services	109.6	105.4	126.7	121.8	162.2
Interest Payments	130.0	134.4	130.5	158.5	153.0
External	49.8	55.9	45.4	57.8	48.6
Domestic	80.2	78.5	85.0	100.7	104.5
Transfers & Subsidies	299.7	337.2	374.1	412.1	455.9
Current A/C Balance	130.0	157.7	119.3	203.3	109.3
Capital Expenditure	169.0	124.4	134.5	162.0	148.9
Net Lending	0.2	1.6	28.6	37.3	58.8
Total Expenditure & Net Lending	1,027.0	1,019.3	1,122.4	1,237.8	1,357.3
Overall Balance	(39.2)	31.7	(43.7)	3.9	(100.1)

Source: The Central Bank of Barbados and Accountant General

P: Provisional

and 9.3%, respectively. Transfers and subsidies expanded by 10.6%, partly reflecting defense spending related to the CWC. Interest payments decreased by 3.5%, in contrast to an expansion of 21.5% in the first half of 2006. While the rate of increase in current expenditure was higher than last year, capital spending declined by 8.1%, after rising by 20.5% in the first six months of 2006. The slowdown in capital spending reflected to a large extent the winding up of some government-funded projects. During the six-month review period, project funds for Government grew by 7.7% or \$2.3 million, compared to an expansion of 28.9% or \$21 million in the first six months of 2006.

Financing

Government financed the bulk of its fiscal deficit domestically. Financing from the National Insurance Scheme and the Central Bank amounted to \$96 million and \$3.8 million, respectively. Net foreign outflows were approximately \$49.1 million, the difference between

amortisation payments of \$51.4 million and project fund inflows of \$2.3 million during the review period.

Foreign Trade and Payments

Current Account

The external current account deficit for the first six months of 2007 was estimated at \$146.7 million, compared to a deficit of \$210.4 million for the same period in 2006. The improvement in the external account resulted from the faster expansion (10.2% or \$113.1 million) in travel credits, which offset the increase in retained imports and the contraction in domestic exports. Retained imports expanded by 4.7%, in contrast to a decline of 3.3% in the January-to-June period of 2006. Imports of consumer goods rose by 8.7%, after decreasing by 12.1% in the first half of 2006. The main categories that showed significant increases were food and beverages (7.8%), pharmaceuticals (25.4%), motor vehicles (10%) and other manufacturing

Government Financing

(January – June)

(\$Million)

	2003	2004	2005 ^P	2006 ^P	2007 ^P
Domestic Financing	37.5	(3.5)	80.6	20.3	147.4
Central Bank	38.3	(72.9)	(20.4)	129.2	3.8
Commercial Banks	(9.3)	79.4	9.5	(85.6)	71.0
National Insurance Scheme	25.2	20.0	125.6	10.0	96.0
Private Non-Bank	8.4	48.6	115.5	62.7	141.3
Divestment	0.0	0.0	0.0	31.4	0.0
Other Public Sector	0.0	(1.5)	0.0	0.0	0.0
Other	(25.2)	(78.5)	(149.6)	(127.4)	(164.8)
Foreign Financing (net)	1.6	(28.2)	(36.9)	(24.2)	(49.1)
Capital Markets	0.0	0.0	0.0	0.0	0.0
Project Funds	37.2	16.0	7.9	28.9	2.3
Policy Loans	0.0	0.0	0.0	0.0	0.0
Amortisation	(35.6)	(44.2)	(44.7)	(53.1)	(51.4)
Divestment	0.0	0.0	0.0	0.0	0.0
Total Financing	39.8	(31.7)	43.7	(3.9)	98.3

Source: The Central Bank of Barbados and Accountant General

P: Provisional

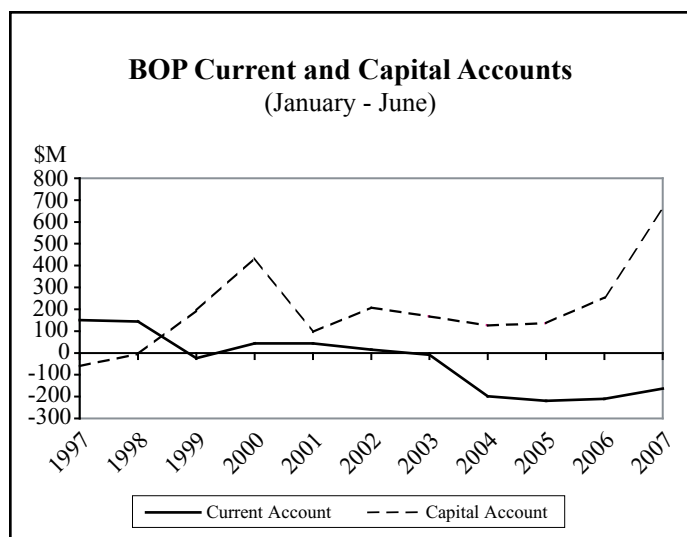
goods (9.9%). Imports of intermediate goods also expanded by 5.0%, mainly because of a 10.2% rise in construction materials. For the first half of 2007, imports of fuel grew by 2.8%, following a reduction of 6.1% in the corresponding period of 2006. Imports of capital goods decreased by 3.9%, after an expansion of 14.8% in the similar period of 2006.

(which includes goods such as orthopaedic appliances and other machinery and transport equipment) fell by 12.9%, in contrast to an expansion of 61.9% during the same period in 2006. Export categories registering significant increases were food and beverages and chemicals, which grew by 31.7% and 5.6%, respectively.

Capital and Financial Account

The substantial estimated surplus of \$580.1 million registered on the capital and financial account for the first half of 2007 was more than twice the surplus of \$254.5 million recorded in the comparable period of 2006. During the first two quarters of this year, net long-term public capital inflows amounted to \$99.0 million, in contrast to net capital outflows of \$20.1 million in the corresponding period of 2006. The expansion in public sector capital inflows mainly reflects proceeds from a bond issue on behalf of a statutory corporation in the first quarter. Net long-term private capital inflows registered for the first half of 2007 were \$209.7 million, compared to \$119.6 million during the previous year. These inflows were earmarked principally for tourism-related projects and the purchasing of real estate. In addition, short-term inflows were \$166.6 million, compared to \$132.9 million in 2006, largely reflecting inflows of loans proceeds for the airport project and pre-shipment financing for the sugar harvest.

At the end of June 2007, the available liquid reserves totalled \$1,578.5 million, which represented approximately 18.5 weeks of import reserve cover for goods and services, compared to an import cover of 15.6 weeks estimated at the end of June 2006.



Domestic exports contracted by 5.3%, after rising by 18.7% in the first half of 2006. This outcome resulted primarily from a drop of 52.7% (\$12.9 million) in the exports of electronic components, a reversal from the growth of 53.4% (\$8.5 million) in the corresponding review period in 2006. In addition, the “all other goods” category

Balance of Payments

(January – June)

(\$Million)

	2001	2002	2003	2004	2005	2006	2007
Current Account Balance	43.5	14.4	(8.4)	199.0	219.1	210.4	(146.7)
Merchandise Trade	(664.2)	(626.8)	(749.7)	(932.7)	(1,039.2)	(922.0)	(997.4)
Total Exports (BOP Basis)	244.7	210.9	231.9	239.6	324.1	424.80	439.9
Domestic Exports	200.9	180.1	184.7	187.9	227.3	269.7	255.5
Sugar	44.0	37.7	41.0	44.9	44.0	39.2	37.3
Electronic Components	19.8	13.7	12.5	14.7	15.9	24.4	11.6
Chemicals	21.5	20.9	20.4	20.1	27.4	29.1	30.7
Food/Beverages	44.5	44.8	41.1	40.3	58.0	49.2	64.9
All Other	71.1	63.0	69.7	67.8	82.0	127.7	111.3
Total Imports (BOP Basis)	969.6	889.5	1,036.9	1,229.4	1,387.6	1,400.2	1,490.7
<i>Retained Imports</i>	997.3	926.5	1,075.1	1,280.8	1,419.1	1,372.0	1437.4
Consumer Goods	403.2	388.2	412.8	495.2	571.7	502.4	546.1
Capital Goods	217.8	198.5	240.4	314.1	278.0	318.8	309.4
Intermediate Goods	372.8	336.5	418.5	465.8	564.2	543.9	575.5
Miscellaneous Goods	3.5	3.4	3.4	5.6	5.2	7.1	6.3
Services (Net)	712.5	666.3	775.3	789.9	898.1	909.5	1,051.6
Travel Credits	847.9	772.2	889.5	910.2	1,025.3	1,113.5	1,226.6
Other	(135.5)	(105.8)	(114.2)	137.9	135.1	116.0	142.2
Investment Income (net)	(95.8)	(99.7)	(114.7)	(133.0)	(195.2)	(247.7)	(283.8)
Transfers (net)	91.0	74.6	80.7	76.8	97.2	49.8	82.9
Capital and Financial Account	95.1	203.9	167.7	125.4	135.7	254.5	580.1
Long Term	120.2	132.9	166.6	(68.9)	(39.8)	99.5	308.8
Public Sector	1.2	(25.5)	(4.5)	(64.4)	(5.7)	(20.1)	99.0
Private Sector	119.0	158.4	171.1	(4.6)	(34.1)	119.6	209.7
Other	(21.6)	(5.2)	(88.8)	26.7	(34.2)	22.1	104.8
Short Term	(3.5)	76.2	89.9	242.4	141.2	132.9	166.6
Errors & Omissions	5.8	(146.0)	58.9	220.0	4.0	42.0	162.7
Balance for Official Financing	144.3	72.3	218.2	157.3	(87.4)	2.1	596.1
Official Financing (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve movements (CBB basis)							
(-Increase/+Decrease)	(144.3)	(72.3)	(218.2)	(157.3)	87.4	2.1	(596.1)
Change in NIR (IMF basis)							
(-Increase/+Decrease)	(146.5)	(71.5)	(13.0)	25.1	(23.6)	69.2	(262.7)

Source: The Central Bank of Barbados and Accountant General

Regional Economic Developments

Overview

Most regional economies performed moderately during the first three months of 2007. Preliminary data suggest that economic activity was driven primarily by expansions in the tourism and construction sectors. In The Bahamas, however, tourism output contracted, while Trinidad and Tobago benefited from revenues from the energy sector, despite registering lower crude oil production in the first quarter of this year. Regional agricultural production expanded during the first quarter of 2007, while retail price inflation in most regional territories moderated from the highs last year. The Trinidad and Tobago exchange rate remained virtually unchanged during the review period, but appreciations in the Jamaican and Guyanese-US dollar exchange rates were recorded.

Tourism

Visitor arrivals in several regional destinations declined during the first quarter of 2007 in spite of greater visibility because of the CWC. Long-stay visitors travelling to Jamaica and The Bahamas both declined by 2.1% and 5.0%, respectively, but the number of cruise passengers rose by 1.3% and 3.9%, respectively. In the January-to-April 2007 period, tourist arrivals to St. Vincent and the Grenadines and St. Lucia also fell by 3.9% and 8.9%, respectively, in contrast to strong expansions in cruise passenger arrivals of 42.3% and 44.5%, respectively. The growth in cruise passenger arrivals resulted partly from the moderation in fuel prices in the latter half of 2006. During the first four months of 2007, Belize experienced growth of 2.4% in long stay tourists and 8.7% in cruise passengers.

Agriculture

During the first quarter of 2007, regional agricultural output improved, after poor performances in the comparable periods of the last two years. In Jamaica, favourable weather conditions and increased productivity, stemming from the rehabilitative farming programmes implemented since Hurricane Ivan, boosted agricultural production. Production of crops for domestic consumption

expanded by 3.8%, while exports crops grew by 2.2%. Agricultural output in Guyana registered an increase of 5.5%, while in the OECS agricultural activity rose by 10.8%, in contrast to a decline in the corresponding period in 2006. In particular, the OECS benefited from significant growth in banana production in St. Lucia and Dominica. Additionally, cocoa and nutmeg production in Grenada expanded moderately.

Construction and Mining and Quarrying

The construction sector in Jamaica increased by 7.0% in the January to March period of 2007, as cement and construction materials became more accessible, following the cement shortages that occurred in the domestic market during 2006. In the OECS, construction activity continued at a fast pace, with the completion of many infrastructural projects in preparation for the staging of CWC matches. Construction activity in The Bahamas expanded at a slower pace during the first three months of 2007, owing largely to the contraction in mortgage lending for new construction and repair projects.

During the first three months of 2007, mining and quarrying output in Jamaica grew marginally, in contrast to a decline of 2.1% in the similar period of 2006. Increased production of alumina (up by 0.6%) and of crude bauxite (up by 4.1%) were registered, the latter spurred by increased capacity. In Trinidad and Tobago, crude oil production for exports slowed by approximately 17% to 5,839,283 barrels for the first quarter of 2007, mainly due to the technical problems that occurred at one of the major oil companies. However, natural gas production expanded by 12% during the first three months of 2007, which bolstered revenues in the energy sector.

Prices and Interest Rates

In the first half of 2007, inflation in Trinidad and Tobago was estimated at around 7.3%, down from 8.3% recorded at the end of December 2006, mainly because of lower food prices. The steady reduction in inflation since 2006 reflects the effect of tight monetary conditions and the improved availability of agricultural produce during the first six months of 2007. The Central Bank of Trinidad

and Tobago maintained the repo rate at 8.0% as at the end of June this year. In Jamaica, the consumer price index rose by 2.9% between the January-to-June 2007 period, which was on par with the rate of expansion in the similar period in 2006. The annualised inflation rate at the end of June 2007 was estimated at 5.6%, as Jamaica experienced slight increases in the price of food and drink, housing, fuels and health care during 2007. Retail price inflation in The Bahamas climbed to 2.4% during the first six months of 2007, compared to 1.6% in the corresponding period of 2006, driven by the global effects of higher oil and other commodity prices. In Belize, the inflation rate expanded by 0.7% for the first quarter of 2007, compared to an increase of 1.0% in the equivalent period of 2006. The year-on-year increase was largely on account of higher prices for basic food items, personal care, recreation, education and culture and household goods and maintenance.

During the first three months of 2007, the weighted average interest rate on deposits advanced by 15 basis points to 3.7% in The Bahamas. The weighted average loan rate firmed by 56 basis points to 10.35%, reflecting the impact of tight liquidity conditions for the earlier part of the year. In Jamaica, the overall weighted average lending rate was 17.23% at the end of June 2007, a decrease from 17.59% registered at the end of 2006, owing to the downward trend over the past two years in private sector lending rates. The overall weighted average deposit rate at the end of June 2007 was 4.99%, down from 5.35% at the end of June 2006. In addition, the Treasury bill rate declined from 11.60% at the end of December 2006 to 11.15% at the end of April 2007. At the end of June 2007, the rate on ordinary savings deposits in Trinidad and Tobago remained unchanged at 1.46%, while the basic prime-lending rate went up from 11.00% at the end of June 2006 to 11.75% at the end of June 2007. The average discount rate on 91-day treasury bills increased to 6.90% at the end of June 2007 from 6.74% at the end of December 2006.

Financial Sector

Between January-to-March 2007 in The Bahamas, the ease in domestic demand contributed to the sluggish growth in total credit, compared to growth of 2.6% in 2006,

as lending to the private sector slowed. At the end of May 2007, loans and advances to the private sector in Guyana expanded by 3.5%, which was on par with the rate increase in the comparable period of 2006. Domestic deposits rose by 5.7%, as remittances accounted for a sizeable amount of the deposits in the commercial banks. In Jamaica, credit to the private sector rose by 8.3%, compared to an expansion of 4% in the first five months of 2006, owing primarily to the expansion of credit to the construction and tourism sectors. For the first quarter of 2007, total loans and advances in Trinidad and Tobago expanded by 3.2%, compared to marginal growth recorded in the similar period of 2006, mainly reflecting the surge of 16.4% in credit to the private sector. Total deposits grew by 5.4% during the first quarter of 2007, compared to an increase of 6.3% in the corresponding period of 2006. This outcome was largely attributed to the significant slowdown in the deposits of the private sector during 2007.

Exchange Rates

During the January-to-June 2007 period, the Trinidad and Tobago dollar remained relatively unchanged at TT\$6.3510 per US\$1.00, while the Jamaica dollar rose by 7.9% to J\$68.59 per US\$1.00. The Guyana dollar appreciated by 7% to G\$203.240 per US\$1.00.

Government Operations

In Jamaica, there was a fiscal surplus of J\$0.9 billion during the first three months of 2007, around J\$411.4 million less than was budgeted. In The Bahamas, the overall fiscal deficit widened by B\$10.8 million to B\$35.6 million during the first quarter of this year, as the expansion of 13.1% in revenues was surpassed by growth of 15.3% in expenditure. Tax revenues were buoyed by growth in other stamp tax and real property tax receipts. Current and capital expenditure grew by 15.5% and 15.4%, respectively. At the end of April 2007, the Central Government of Belize generated current and overall surpluses of Bz\$27.6 million and Bz\$22.4 million, respectively. Current revenue rose by Bz\$16.6 million, but current expenditure decreased by Bz\$5.9 million, on account of lower interest payments registered due to the restructured commercial debt.

Foreign Sector Developments

In The Bahamas, the external current account deficit widened by an estimated B\$41.8 million to B\$454.9 million during the first quarter of 2007, owing to higher net construction and transportation payments and reduced tourism receipts. The surplus on the capital and financial account rose by approximately B\$46.5 million to B\$308.6 million, mainly on account of a significant increase in private sector investments. In Jamaica, the external current account deficit was estimated at US\$391.3 million for the January-to-April period of 2007, which was US\$108.0 million higher than the deficit for the comparable period in 2006. The expansion in the value of imports stemmed from higher spending on machinery and transport equipment and miscellaneous manufactured goods, while expenditure on fuel imports declined by 13.2% or US\$83.0 million, relative to the same period of 2006. The growth in expenditure on imports was partly offset by increased earnings from exports of mineral fuels, chemicals and crude materials (including alumina). In the capital and financial account, strong net private and official investment inflows were insufficient to finance the deficits on the current and capital accounts. Consequently, there was a contraction in the net international reserves during the January-to-April period. After registering net international reserves of US\$2.32 billion at the end of December 2006, reserves contracted to US\$2.24 billion at the end of June 2007.

International Economic Developments

Overview

The global economy continued to expand at a fast pace during the first half of 2007. Although growth in the United States slowed in the first quarter, recent indicators suggest that the economy regained momentum in the second quarter. Economic activity in the Euro area and Japan grew modestly, underpinned by the expansions in domestic demand, while emerging market economies continued to expand, led by the rapid growth in China and Brazil.

Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)		Unemployment (% Rate)		Inflation (% Rate)	
	2006 Q2	2007 Q2	2006 Q2	2007 ^P Q2	2006 Q2	2007 ^P Q2
Canada	2.8	2.5 ^P	6.8	6.1 ^P	2.2	2.5 ^P
Euro Zone	2.2	2.5 ^P	5.8	6.9 ^P	2.4	1.9 ^P
France	1.7	1.4 ^P	9.9	8.6 ^P	2.2	1.3 ^P
Germany	1.5	0.8 ^P	9.2	6.4 ^P	2.0	2.0 ^P
Italy	1.4	n.a.	n.a.	n.a.	2.3	1.9 ^P
Japan	1.0	1.1 ^P	4.3	3.7 ^P	0.2	-0.2 ^P
United Kingdom	2.6	3.0 ^P	4.7	5.5 ^P	2.1	2.4 ^P
United States	2.5	3.8	4.7	4.5 ^P	3.4	3.6 ^P

Source: Various Central Banks and National Statistical Offices, IMF Estimates

P: Provisional

Q2= Second Quarter

Industrial Economies

Economic activity in the United States grew by approximately 3.8% for the first six months of 2007, despite slowing considerably in the first quarter. The expansion in real GDP primarily reflected positive contributions from personal consumption expenditures for services and federal spending. Between January and June, inflationary pressures were moderate, leading the Federal Open Market Committee to keep the federal funds rate unchanged at 5.25%. The unemployment rate at the end of June was approximately 4.5%, compared with 4.7% in the corresponding period of 2006. The expansion of exports, coupled with lower imports led to a reduction in the external current account balance.

In the first half of 2007, the Canadian economy grew by approximately 2.5%, somewhat above its potential of 2.2%. The demand for exports remained the key driver of economic growth, sustained by firm commodity prices. The consumer price index and core inflation were higher than the 2% inflation target. Therefore, the Bank of Canada raised its key policy interest rate by one-quarter of one percentage point to 4.5% to reduce inflation closer to the target over the medium term. In addition, long-term

interest rates rose and the Canadian dollar appreciated sharply against the U.S. dollar at the end of June 2007.

The Euro area economy increased moderately by 2.5% during the January-to-June period of 2007, compared to a rate of 3.6% in the similar half-year in 2006. This performance may be attributed to the slower pace of expansion in industrial activity, which was partly offset by the combination of a stronger euro and higher interest rates. Nonetheless, robust domestic demand and investments continued to support economic output during the period under review. At the end of June 2007, the unemployment rate was 6.9%, some 1.1 percentage points higher than the rate registered at the end of June 2006. The inflation rate was approximately 1.9% at the end of June 2007, compared to 2.4% at the end of June one year ago. At the end of June 2007, the minimum bid rate set by the European Central Bank was 4.0%, following two separate increases of 25 basis points in March and June 2007.

The United Kingdom economy expanded by 3.0% during the first six months of 2007, stemming from robust domestic demand for goods and financial services. As at the end of March 2007, the unemployment rate was 5.5%, approximately 0.8 percentage points higher than the rate at the end of the first quarter of 2006. During the period under review, producer prices remained relatively stable, as inflationary pressures were modest. At the end of June, the annual inflation rate was estimated at 2.4%, slightly above the rate of 2.1% recorded at the end of the second quarter. The Bank of England kept its policy rate unchanged at 5.5% at the end of the June 2007, following an increase of 25 basis points in January 2007. At the end of May 2007, a modest rise of 1.9% in exports combined with a slight contraction in imports contributed to the lowest external trade and current account deficit in almost two years.

The Japanese economy grew by an estimated 1.1% during the second quarter of 2007, after an increase of 3.3% in the first quarter of this year. Japan's industrial production rebounded in June, ending the worst manufacturing slump in almost two years. Some concerns in the Asian region eased as growth in the world's second-largest economy picked up. The effects of falling prices also contributed

to the modest performance in the Japanese economy, as the consumer price index declined by approximately 0.2% at June 30, 2007. At the end of May 2007, the overall unemployment rate was estimated at 3.7%, approximately 0.6 of a percentage point lower than at the corresponding time in 2006

Emerging Markets

In Asia, economic activity continued to accelerate during the first two quarters of 2007. Ten years after the start of the Asian crisis, the region concentrated on the rebuilding of international reserves, which were exhausted during the year 1997. The region's three trillion-plus dollars of foreign-exchange reserves has given the Asian region tremendous financial global power and also little or no reasons for speculation against the currencies. China's economy grew by 11.1% in the first quarter and preliminary data for June suggest that output growth was almost 12% in the second quarter. Foreign direct investments climbed by an estimated 12.2% in the first half of 2007 when compared to 2006, as China registered a trade surplus that was almost twice the surplus reported at the end of June 2006. The Korean economy grew moderately due to strong exports and industrial activity in 2007. Employment continued to increase at a steady pace and inflationary pressures were subdued during the first six months of 2007. The Bank of Korea kept its overnight call rate at 4.5%, which it has held since August 2006.

Economic activity in Latin America remained buoyant through robust domestic demand in the region and low levels of political disturbances. Brazil's economy and currency remained bullish during the review period, buoyed by favourable interest rate differentials, healthy foreign direct investment inflows and booming exports. The Chilean economy grew at a faster pace, although accompanied by higher inflation of 3.2% as at the end of June 2007. By May 2007, the growth rate of industrial production in Mexico was an estimated 1.1%, compared to growth of 5.7% in May 2006. In Argentina, economic growth rates underperformed during the first six months of 2007 and inflationary pressures continued to be a

Commodity Prices

Commodities	Jun-06 ^R	Dec-06 ^P	Jun-07 ^P	% Change on June 06	% Change on December 06
Total (Index of Market Prices)	214.1	204.1	226.6	5.8	11.0
Non-Fuel (Index of Market Prices)	175.0	188.2	210.1	20.0	11.6
Food (Index of Market Prices)	140.1	141.9	154.0	9.9	8.5
Sugar (US ¢ / lb)	30.6	32.6	33.0	7.9	0.1
Bananas (US \$ / metric ton)	713.8	656.4	779.0	9.1	30.0
Rice (US \$ / metric ton)	305.6	309.3	326.0	6.7	6.2
Wheat (US \$ / metric ton)	195.2	204.3	223.0	14.3	7.7
Soybeans (US \$ / metric ton)	217.0	243.0	303.0	39.6	28.9
Metals (Index of Market Prices)	214.1	204.1	286.6	32.4	15.6
Aluminium (US \$ / metric ton)	2,491.0	2,823.7	2,681.0	7.6	-1.7
Iron Ore (US ¢ / metric ton unit)	77.4	77.4	85.0	9.9	9.9
Copper (US \$ / metric ton)	7,222.8	6,681.0	7,514.0	4.0	6.3
Silver (US ¢ / troy ounce)	1,077.4	1,330.0	1,254.0	16.4	-6.4
Gold (US \$ / troy ounce)	596.2	629.8	650.5	9.1	3.3
Petroleum (US \$ / barrel)	68.3	61.0	68.2	-0.1	15.6

Source: IMF Commodity Prices

P: Provisional

R: Revised

controversial topic, especially with an election scheduled for late 2007.

Commodity Prices

During the first half of 2007, the overall commodity price index rose by 11.0%, led by broad-based growth in non-fuel commodities and metal prices. At the end of June 2007, the non-fuel price index surged by approximately

11.6%, while petroleum prices grew robustly by 15.6%. The price of food commodities expanded by 8.5% as strong increases in the price of bananas, wheat, rice and sugar were registered during the first six months of 2007. In line with the strong demand by industrial countries for copper, zinc and nickel, the metal price index increased by 15.6%.



Regional Stock Exchanges

Barbados Stock Exchange

The Barbados Stock Exchange (BSE) recorded mixed performances for the companies listed during the second quarter of 2007. The Composite Index moved from 945.61 to 949.14, representing a marginal increase of 0.37%, while the market capitalisation for the Composite index decreased by \$3.22 billion, to \$17.38 billion at end-June 2007.

The Local index expanded from 3,597.40 to 3,646.30 over the quarter, as 11 companies advanced, 8 declined and 7 remained firm. Unlike the performance of the Composite Index, market capitalisation for local companies increased by 1.36% to \$9.87 billion at the end of the period. The volume leader in the regular market was Sagicor Financial Corporation, trading 1,055,806 shares. Sagicor Financial Corporation was also the most liquid security for the quarter, accounting for 402 (39%) of the 1,021 trades performed on the BSE. This was followed by the Insurance Corporation of Barbados Limited, the only other company to account for more than 10% of BSE trades for the period.

During the quarter ending June 2007, Sunbeach Communications Inc. recorded the largest share price increase in the junior market. In the regular market, Barbados Shipping & Trading Co. Limited registered the largest price appreciation of 10.2% for the period. Whilst,

the Trinidad Cement Limited experienced the largest price decline of 72% over the quarter, followed by Barbados Farms Limited, with a decrease of 70.5%.

The Cross-Listed Index moved from 2,015.13 to 2,000.74, representing a quarterly reduction of 0.71%. The delisting of BWIA West Indies Airways Limited during the period resulted in a significant contraction in the market capitalisation for cross-listed companies, from

**Mutual Fund Performance
By Net Asset Value**

Mutual Funds	June 30 '07 (Bds \$)	Mar. 31 '07 (Bds \$)
Roybar Investment Corp	3.870	3.790
Fortress Caribbean Growth Fund	4.490	4.370
Fortress High Interest Fund - ACC	1.364	1.347
Fortress High Interest Fund - DIST	1.013	1.024
BNB Income Fund	1.220	1.210
BNB Capital Growth Fund	1.170	1.180
BNB Property Fund	1.710	1.700
CLICO Balanced Fund Inc.	1.160	1.150
Sagicor Global Balanced Fund	2.100	2.080
Sagicor Select Growth Fund	1.110	1.080
Sagicor Preferred Income Fund	1.030	1.050

Source: Barbados Stock Exchange

**Barbados Stock Exchange Volume Leaders
(April – June 2007)**

Institution	Volume Traded (Millions)
Sagicor Financial Corporation	1.056
Insurance Corporation of Barbados Ltd.	1.048
First Caribbean International Bank	0.586
Fortress Caribbean Property Fund	0.216
Barbados Shipping & Trading Limited	0.215

Source: Barbados Stock Exchange

\$10.86 billion to \$7.48 billion (31.1%). After adjusting for the delisting, the market capitalisation for cross-listed companies decreased by approximately 1.0%.

For the second quarter of 2007, local mutual funds reported growth in eight instances, while three funds declined. This represents an improved performance compared to the first quarter of the year, when only six mutual funds registered increases in their net asset values (NAV) and four contracted.

Sagicor Select Growth Fund recorded the highest quarterly expansion of 2.78%, up from the 1.89% rise recorded in the previous quarter. The fund was closely followed by Fortress Caribbean Growth Fund, which grew by 2.75%, in contrast to the first quarter decline of

0.23%. After registering a significant increase earlier in the year, Sagicor Preferred Income Fund experienced the largest decrease for the second quarter of 1.9%. Declines in the NAV of the various mutual funds were attributed to the reduction in share prices of local equities and dividend payments.

Jamaica Stock Exchange (JSE)

During the second quarter of 2007, there was a significant decrease in trading volume on the JSE, as market volume amounted to 338.0 million units valued at over JAM\$2,692.6 million. The JSE Index declined overall for the second quarter, moving from 90,595.04 at the beginning of the period, to 90,069.93 by end-June 2007, representing a contraction of 0.58%.

Supreme Ventures Limited and Cable & Wireless Jamaica Ltd. exchanged positions during the second quarter with 136,623,681 (40.42% of the market) and 54,912,204 units traded respectively, to be the top two volume leaders for the third consecutive quarter. Jamaica Broilers Limited followed these performances with 26,163,601 units being traded for the quarter.

Over the review period, 14 companies advanced, 23 declined and 5 remained unchanged. The major companies advancing were: Supreme Ventures, which registered the best performance of a 61.90% increase in share price; FirstCaribbean International Bank Jamaica (36.52%); and Trinidad Cement Limited (11.84%). Salada Foods moved from being the best advancing company in the first quarter to record the worst decline in the second quarter - down by 41.82%.

Trinidad and Tobago Stock Exchange (TTSE)

During the second quarter of 2007, the TTSE Index continued on its downward trend, to report a contraction of 1.12%, and closed at 918.79 points. Similar to the first quarter of 2007, the number of companies that declined (totalling 19), outnumbered those advancing (12), and those that held firm (2).

The volume leaders were National Commercial Bank Jamaica with 2,229,467 shares traded (accounting for 14.69% of the market), Trinidad Cement Limited with 1,636,208 shares traded and Sagicor Financial Corporation with 1,603,338 shares traded.

Top-Ten Regional Performers By Share Price Appreciation (%)* Second Quarter 2007

Barbados		Jamaica		Trinidad	
	%		%		%
B'dos Shipping & Trading	10.20	Supreme Ventures	61.90	Readymix (West Indies) Trinidad Limited	45.21
Cable & Wireless (Barbados) Limited	4.24	FirstCaribbean International Bank Jamaica	36.52	Prestige Holdings Limited	12.48
Sagicor	3.49	Trinidad Cement Limited	11.84	ANSA Merchant Bank Limited	10.00
Grace, Kennedy & Co. Ltd	2.78	Hardware & Lumber	8.93	Angostura Holdings Limited	8.67
West India Biscuit Co.	2.50	FirstCaribbean International Bank	6.95	The West Indian Tobacco Company Limited	7.32
FirstCaribbean International Bank	1.71	Jamaica Broilers Group	5.68	Valpark Shopping Plaza Limited	5.26
Barbados Farms	1.52	Pan Caribbean Financial Service	5.50	FirstCaribbean International Bank Limited	4.55
Insurance Corporation of Barbados	1.41	Gleaner Company	5.11	Sagicor Financial Corporation	2.27
Banks Holdings	1.27	Montego Freeport	3.00	Barbados Shipping & Trading Company Limited	2.22
Light & Power Holdings	0.48	Caribbean Cement	2.59	L.J. Williams Limited	1.69

Source: Bloomberg Service

Readymix (West Indies) Trinidad Limited advanced by 45.21% during the second quarter, to take first place in the list of companies advancing for the period. Prestige Holdings Limited followed with 12.48% and ANSA Merchant Bank Limited with 10.00%. The shares of Capital Merchant Bank Limited declined the most, falling by 23.08% for the second quarter of 2007.

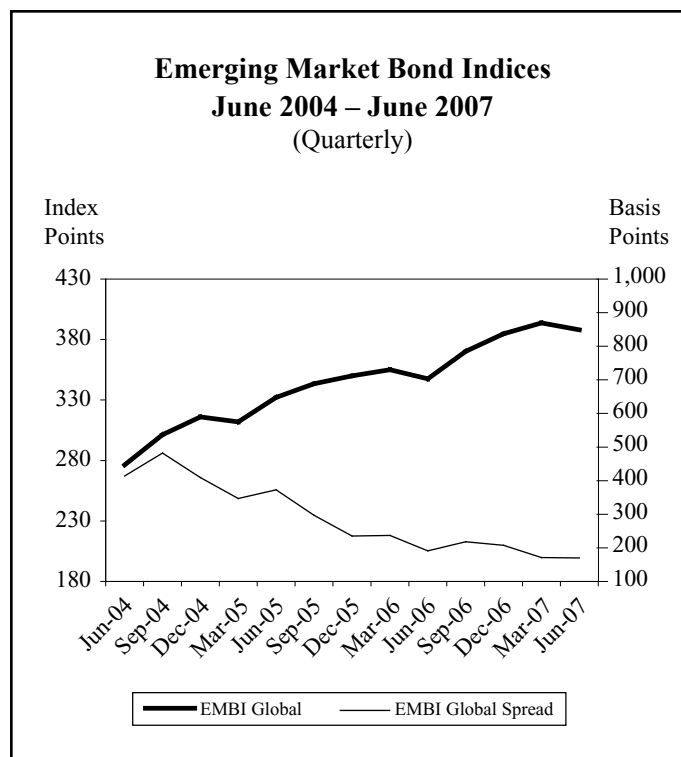
Emerging Markets

Bond Markets

During the January-to-June 2007 period, the returns on emerging market bond indices were mixed, partly the result of the revaluation of asset prices in the first quarter, emanating from geo-political tensions in some energy supplying nations. The performance of bond markets in Latin America improved marginally during the second quarter of 2007, following robust first quarter growth. In Asia, Chinese and other Asian bond markets continued to underperform during the second quarter of 2007, following the slump in asset prices in the first part of the year.

In Mexico, Brazil and Argentina, bond yields remained bullish despite the pass-through effect from the slump in the US economy in the first quarter of 2007. Yields on Mexico's 10-year government bonds appreciated moderately, with these peso-denominated bonds registering sizeable security issuances during the quarter. Brazilian bond yields rose after stronger than expected industrial production for May 2007 upheld speculation that the Central Bank would halt interest rate cuts, which started since September 2005. The yields on Argentine bonds increased marginally during the quarter, as debt service difficulties affected the country's credit ratings. Local and foreign investors in Venezuelan government securities opted not to invest heavily in these assets, as inflationary pressures expanded and disruptive economic developments lingered during the review period.

Bond markets in Asia underperformed during the second quarter of the year, because the appreciation in the Japanese yen and other regional currencies dampened investors' interests for currency-backed securities. This



resulted in an overall decline in the performance of Asian bond markets for the January-to-June 2007 period.

Equity Markets

Latin American equity markets rose by 25.3% for the first two quarters of the year, followed by emerging Asian equities, which expanded by 17.3%. All of the Latin American stock indices under review increased for the period, with the exception of Venezuela's Caracas index, which declined by 24%. The Brazilian Bovespa and the Chilean index recorded the strongest performances, expanding by 22.3% and 28.8%, respectively. All Asian equity indices under review grew robustly for the period.

In Chile, stocks for Alfa and Cemex, led the IPSA equity index, which increased by 28.8% during the period January-to-June 2007. Private and public sector companies in Brazil also registered strong performances; Vale, the Brazilian conglomerate, Electrobras and Petrobras, were some of the best performers for the first half of the year

Emerging Market Equity Indices (Quarterly)

Country/Region	Index	Dec-06	Jun-07	% Ch
Argentina	Merval	1,542.38	1644.85	6.6
Brazil	Ovespa	44,473.71	54392.06	22.3
Chile	PSA	2,693.36	3470.18	28.8
Mexico	PC	26,448.32	31151.05	17.8
Venezuela	Caracas	52,233.68	39698.12	-24.0
Latin America		2,995.67	3754.18	25.3
China	Shanghai	2,675.47	3820.703	42.8
Hong Kong	Hang Seng	19,964.72	21772.73	9.1
India	Mumbai	13,786.91	14650.51	6.3
Indonesia	Jakarta	1,805.52	2139.28	30.4
Malaysia	Kuala Lumpur	1,096.24	1354.38	23.5
Philippines	PSE	2,982.54	3660.86	22.7
Asia		371.46	435.61	17.3

Source: Bloomberg Service

Emerging Market Currencies (Quarterly)

Country/Region	Currency	Dec-06	Jun-07	% Ch
Argentina	Peso	3.06	3.09	1.0
Brazil	Real	2.13	1.93	-9.4
Chile	Peso	533.38	527.55	-1.1
Mexico	Peso	10.82	10.81	-0.1
Venezuela	Bolivar	2,147.30	2147.30	0.0
China	Yuan	7.80	7.61	-2.4
Hong Kong	Dollar	7.77	7.82	0.6
India	Rupee	44.26	40.70	-8.0
Indonesia	Rupiah	8994.00	9025	0.3
Malaysia	Ringitt	3.53	3.45	-2.3
Philippines	Peso	49.01	46.19	-5.7
Singapore	Dollar	1.53	1.53	0.0
South Korea	Won	930.00	923.60	-0.7
Thailand	Baht	35.45	31.70	-10.6
Taiwan	Dollar	32.59	32.85	0.8

Source: Bloomberg Service

on the Brazilian Bovespa index. In Mexico, Vitro led the IPC index to healthy first-half gains. Venezuelan equities were unstable over the quarter, as inflation seemed unmanageable and the nationalising of utility companies continued to plague the private sector. Consequently, the Caracas index plunged by 24% during the first six-months of the year.

Chinese equities were among the best performers in the emerging markets. Shares of Ping An, China's second-biggest insurer, climbed as first-half profits doubled last year's 3.95 billion Yuan (US\$522 million), on account of increased returns from investments and the expansion in its insurance business. Between January-to-June 2007, Chinese banks were the major share price movers, which contributed to the 42.8% growth on the Shanghai index, while in Malaysia and Singapore export companies drove the performance on the respective indices, by registering strong gains. The equity markets in Hong Kong and India, rebounded from the asset-price adjustments that occurred in early 2007, to record growth of 9.1% and 6.3%, respectively.

Currency Market

Most Latin American currencies depreciated during 2007. The Brazilian *Real* declined by 9.4% as the Central Bank bought dollars in the spot market to slow the rallies in the *Real* - in an effort to make the export market more competitive, since a stronger currency makes the prices of domestic products more expensive on the international market. The *Peso* in Chile and Mexico dipped by 1.1% and 0.1%, respectively, despite inflation projections remaining moderate during the first six months of the year.

The Asian currency rallies during the first half of 2007 were mostly offset by interventions by the monetary authorities in the region. The South Korea *Won* gained 0.7% during the first six months of 2007, rebounding slightly from the rapid disposal of emerging market equities early in 2007. In contrast, Taiwan's dollar depreciated by 0.8%, in spite of the Central Bank raising interest rates twice during the first half of the year, to counter the rate at which funds were placed offshore to gain higher returns. The

Singapore dollar was one of the few Asian currencies that remained unchanged at \$1.53/US dollar for the January-June 2007 period, as the Singapore monetary authority continued to closely monitor its floating exchange rate. However, low interest rates in Singapore resulted in the decline of its dollar for the second quarter of 2007, despite strong economic conditions.

Most other Asian currencies strengthened over the period *vis-à-vis* the US dollar. The Philippines *Peso* gained on high economic growth projections and strong remittances. Despite pressure stemming from a sizeable current account surplus, Thailand's *Baht* improved based on increased demand for local currency by nation exporters on the onshore baht market.

International Interest Rates

United Kingdom

The Bank of England (BoE), with year-on-year prices surging, and seemingly little effect from the three increases in borrowing costs since late-2006, raised interest rates by 25 basic points to a six-year high of 5.5% in May 2007. It is expected that this most recent rate hike should be sufficient to maintain balance within the British economy, as there are signs of weakening in key economic variables.

With the risks to inflation on the upside in the short-term, there was much speculation that the BoE might push interest rates by a half-point – an unprecedented move in its 10-year history. However, another new factor that has seemingly predicted a hold on further rate hikes during the remainder of the year has been the weakening of the US economy, and the Monetary Policy Committee will be alert to the risk that a slowdown in the US will have spill-over effects on the UK economy.

The BoE also believes that inflation will revert from the current 3.1% recorded at the end of the second quarter, as 2007 progresses and will be back to its 2% target by the end of the year. It is also anticipated that the housing market will continue to slow further since rates have risen one percentage point within the past nine-months.

Canada

During the second quarter, the Bank of Canada (BoC) maintained its target for the overnight rate at 4.25%. Despite the continued weakness in the US market, forecasts point to the continued robustness in the global economy, which should continue to fuel the Canadian economy. However, the slowing U.S. economy has had a moderating effect on growth in Canada, leading to projections that domestic demand will become the main driver of growth in Canada, and that net exports to the US should exert a slightly greater drag on growth in 2007.

United States

Despite having grown better-than-expected in the first quarter of 2007, the US economy expanded at its weakest pace in over four years, while inflation also grew. Nevertheless, during the quarter ending June, the Federal Reserve (Fed) kept its benchmark Federal Funds rate unchanged at 5.25%, while maintaining a key concern over rate of the inflation. Despite recent volatility in the credit markets, it is expected that both growth and inflation pressures will remain the key variable influencing the Fed's decisions during the second half of the year, although it is not expected that the Fed will change interest rates in early 2008.

Although capital remains readily available and relatively inexpensive for a broad range of investment opportunities, the volatility in the debt markets stemming from the collapse of the sub-prime mortgage market, is beginning to affect borrowing costs and terms. There is sufficient worry over the possibility of a credit crunch, and a housing-led downturn in the economy, that a rate cut in Q1 2008 is already being reflected in the Fed Funds futures contracts. Given the relatively strong reading of recent economic data, the market continues to predict that interest rates are likely to stay at 5.25% till the end of 2007.

Eurozone

On the back of a strengthening Eurozone economy, the European Central Bank (ECB) raised its key benchmark rate by 0.25%, to 4% during the second

quarter of 2007. This marks the eighth, twenty-five basis point rise since December 2005, when the ECB started its tightening phase. Euro zone interest rates last peaked at 4.75% in October 2000, and 4% is widely viewed by market participants as the neutral rate, and thus unlikely to impact on the strengthening economy.

Further increases are expected later in the year, to counter inflationary pressures as economic growth passes a ten-year high. During the April – June period, Eurozone inflation remained below the ECB target of 2%. Nevertheless, the money markets continue to discount a further rise in interest rates this year, with the 3-month Euro rate trading at 4.50%.



CARICOM-Canada (CARIBCAN) Trade Relations: The Likely Benefits of a Mature Bilateral Agreement with Canada

Overview

In spite of the apprehension among some countries within the Caribbean Community (CARICOM) about their vulnerability, there is an ongoing effort to liberalise markets, with a particular emphasis on trade liberalisation because of its perceived benefits. As a consequence, there is a plethora of trade agreements governing CARICOM relationships with several of its major trading partners. This paper explores one such relationship, namely CARICOM-Canada. Over the years, most CARICOM states and Canada have been involved in varying trade and economic relations, which are covered under a number of instruments: CARIBCAN, a non-reciprocal preferential agreement granted by Canada for goods; the 1979 CARICOM-Canada Trade and Economic Co-operation Agreement and its Protocols, including the 1998 Protocol on Rum and Bilateral Investment Treaties with both Barbados and Trinidad and Tobago.

Established in 1986, CARIBCAN's main objectives were to increase Commonwealth Caribbean trade and export earnings, promote new investment opportunities, improve economic development and stimulate a more advanced economic integration and co-operation between the Caribbean and Canada. The most important feature of CARIBCAN was the unilateral extension by Canada, which provided for duty free access to the Canadian market for most commodities originating from Commonwealth Caribbean countries. Thus, under the CARIBCAN trade agreement, eighteen territories were eligible to receive duty-free access.¹ This agreement, however, was issued

with a World Trade Organisation (WTO) waiver, which expired on the 31st of December 2006. Presently, there are ongoing discussions with the view of revitalising this agreement.

As a result of recent developments with regards to Canada's increasing market liberalisation through various trade agreements negotiated with other trading partners, CARIBCAN's relative value has decreased when compared to competing agreements. Consequently, at the 25th CARICOM Heads of Government Meeting held in July 2004, a mandate was issued to negotiate an improved trade agreement with Canada, building on the existing CARIBCAN commitments. The focus will be primarily on four areas: (i) market access; (ii) investment; (iii) services and (iv) institutional arrangements and dispute settlements. The immediate intentions will be to improve market access for CARICOM exports of goods and services, broaden the country coverage to include all CARICOM states and stimulate increased flows of Canadian investment into the region where possible.

Having been in existence for 20 years, CARIBCAN is slated to be replaced by an enhanced and more mature Caribbean-Canada Free Trade Agreement, with equal reciprocal access for Canadian companies to the Caribbean market as well, with a WTO waiver granted up to 2011.²

In light of these recent developments, an examination of the likely benefits of a more mature free trade agreement with Canada is important. The remainder of this article will explore the recent developments in CARICOM-Canada relations, focusing on the impact of past trade developments and the benefits of an improved free trade arrangement.

CARIBCAN Trade Arrangement and Recent Trade Developments

Canada has remained a key market for trade, recording annual consumption of almost US\$377 billion of commercial goods and services and reporting annual growth of 10% between 2001 and 2005. However, while Canada only accounts for a small proportion of CARICOM trade relative to the other trading partners, it is, nevertheless, important to the region.

¹ These are Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago and the Turks and Caicos Islands.

² www.crn.org: CRNM Private Sector Trade Brief, Volume 21 May-June 2007.

The rules of origin criteria indicate that goods will only be eligible for duty-free entry into Canada if at least 60 percent of the ex-factory price is derived from any of the eighteen regional beneficiary territories. This price also includes production costs, overheads, profits and export packaging. Additionally, the exported goods must come directly from the Caribbean to Canada without any further work being carried out at foreign transshipment points. Moreover, CARIBCAN does not exempt exporters from the varying taxes and regulations that govern the sale or importation of goods in the Canadian market, such as sales and excise taxes, and excise duties where applicable, packaging and labelling regulations, product standards and safety regulations, as well as health and standard regulations. Furthermore, items like textiles/apparel, footwear, luggage/handbags, leather garments, lubricating oils and methanol are exempted from all duty-free status under the CARIBCAN arrangement.

Traditionally, exports from CARICOM to Canada included aluminium oxide, non-monetary gold, methanol, sugar, bars and rods of non-alloy steel, urea, rum and tafia, articles of apparel and clothing accessories, petroleum oils and oils obtained from bituminous minerals. In 2005, the Regional Negotiating Machinery (RNM) discovered that there were noticeable reductions in the exports of methanol, raw sugar and apparel and clothing accessories. In contrast, there was growth in exports of vegetables, roots, tubers, and other edible vegetable products, fish, sauces, mixed condiments and seasonings.

Despite the decline of some exported products from CARICOM to Canada, merchandise trade is still on the rise. In 2002, the total two-way merchandise trade between CARICOM and Canada reached C\$1.2 billion, of which C\$335 million accounted for exports to Canada from CARICOM. Moreover, in 2005, two-way merchandise

trade was US\$1.3 billion, while Canadian investment into the region amounted to US\$25 billion, making Canada CARICOM's third most important source of investment after the United States and the United Kingdom. The largest growth in exports stemmed from the services and investment sectors. Growth in direct investment from Canada to CARICOM arises from the fact that a substantial number of the corporations operating within the Caribbean region are resident in Canada.

As more emphasis is placed on these areas – mostly in services and investment – along with further reductions of trade restrictions and re-negotiation of the rules of origin governing CARIBCAN, it is likely that greater benefits from an improved free trade agreement would be accomplished. This has long been the view and interest of CARICOM countries and their representatives. At the CARICOM Exploratory Group on CARICOM-Canada Trade Negotiations Meeting in 2004, the Chief Trade Officer in the Ministry of Foreign Affairs and International Trade in Grenada, Mr. Oliver Joseph, shared this keen interest when he said, “it is in services where Grenada has the greatest potential, and stands to benefit most”.³ Therefore, not only do the Most Developed Countries (MDCs) of CARICOM stand to benefit from CARIBCAN, but also the OECS and the Lesser Developed Countries (LDCs) like Belize.

Conclusion

Negotiations have not commenced largely because Canadian officials have not yet received any further negotiating mandate from their government. Although both parties have expressed a keen interest in negotiating a more advanced Free Trade Agreement, Canada is still evaluating the best way to improve its hemispheric bilateral and investment relations, while the Caribbean is also currently negotiating with the European Union (EU) for an Economic Partnership Agreement (EPA). In light of the importance of this agreement to the region, greater emphasis needs to be placed on accelerating CARICOM-Canada negotiations.

³ www.crmn.org: RNM News Release CRMN-PR 14/04, May 28th 2004.



Building the Economic Resilience of Small States,
Edited by Lino Briguglio, Gordon Cordina and Eliawony J. Kisanga
A Review by Andre Burgess*

Introduction

Issues surrounding the economic resilience of small states, in view of their high vulnerability to external shocks, have prompted many publications and international discussions. One such forum was the Mauritius International Meeting on the 10-year review of the Barbados Programme of Action, held in January 2005. This meeting recommended additional research and also called for the international community to give due consideration to the development of a resilience index. In light of this, the Commonwealth Secretariat and the Small States Institute of the University of Malta collaborated to conceptualise a book entitled “Building the Economic Resilience of Small States”. Lino Briguglio, Gordon Cordina and Eliawony J. Kisanga edited the text, with contributions from professional economists and researchers from all over the globe. The book gives an in-depth account of the economic resilience capacities of small open economies and their response to shocks and macroeconomic instability. Most college and undergraduate students can understand the literature and empirical analysis used in this book. In addition, it can offer graduates, professionals and policymakers greater insight into issues surrounding economic resilience and vulnerability.

Bearing in mind that the nexus between vulnerability and resilience in small economies may vary, the book appropriately categorises the different islands according to attributes such as the uses and the effects of macroeconomic policies. For instance, as financial liberalisation and globalisation increase, small states gain new opportunities but at the same time, struggle with macroeconomic stability and the need for market reform. Hence, the book addresses what the authors consider to be the most pressing issues that make small states more vulnerable to exogenous shocks than other economies.

The volume also inferred that all small states are not necessarily inherently vulnerable, since some have relatively high levels of GDP per capita, or have proven themselves to be resilient to the vulnerability they face. Another important facet of the book, which is particularly evident in chapter fourteen, is that it was one of the first to suggest the building of an economic resilience index based on measures of good governance, social resilience, economic resilience and the environmental aspects of resilience.

The book is divided into three parts: “Economic Resilience and Economic Policy”, “Social, Political and Environmental Aspects of Resilience Building”, and “Towards the Development of an Economic Resilience Index”. These sections are now discussed in turn.

Economic Resilience and Economic Policy

This section began with a paper entitled “Macroeconomic Reform and Resilience Building in Small States” written by T. K. Jayaraman. His main thesis is that “Sound macroeconomic policies are key requirements for building economic resilience in small states to enable them to withstand the impact of exogenous shocks, including weather related disturbances.” It was also mentioned that the Singapore model, with its high degree of resilience to shocks, was not easily replicable by most small states because of their unique country specific needs and geographical characteristics. However, despite some handicaps, many small states have managed to forge ahead economically, relying on preferential trading arrangements with the European Union (EU) and the United States (US). Now, with the advent of Globalisation, small states face new challenges such as the restructuring of their economies to compete with larger countries in the export of primary products such as bananas and sugar. Then there are structural adjustment issues relating to their relatively high fiscal and external current account deficits and thin financial sectors. In addition they face challenges surrounding the movement towards regional integration, as well as plans for the preparation and management of disasters. As a result, it is increasingly difficult for these states to encourage Foreign Direct Investment (FDI). This

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chapter puts forward a number of policy prescriptions to alleviate some of these problems, such as fiscal consolidation and financial liberalisation.

Chapter Three, authored by Satish Chand, explains how and why microstates should minimise the volatility in unemployment. He laments the notion that macroeconomic stabilisation could be achieved by freer mobility of labour between small states and the rest of the world. The paper also points to the use of economic polices “in facilitating labour by improving skills and providing information”. He later concludes that microstates are more vulnerable to external shocks than their larger counterparts because of the limited capacity to use demand management for stabilisation purposes following adverse macroeconomic shocks.

Delisle Worrell, Harold Codrington, Roland Craigwell and Kevin Greenidge, in Chapter four, discuss the institutional arrangements for exchange rate targeting in Barbados, and the critical role they played in the policy response to the balance of payments crisis of 1991- 92. The article also highlights the collaborative effort between the Central Bank and the Ministry of Finance in implementing a mixture of supportive monetary and fiscal policies to maintain the exchange rate peg to the US dollar. The paper used graphical analysis of indicators of growth, inflation, the external current account balance and the international reserve levels over a period of time to explain the causes and the resolution of the crisis. The Barbados adjustment programme relied heavily on fiscal arrangements to maintain adequate reserve levels, reduce imports and “to contain inflation through a temporary contraction of real output and expenditure”.

The paper by Chandan Kheswar Jankee, presented in Chapter Five, argues that there are advantages and disadvantages of maintaining an exchange rate peg and that policymakers have to weigh these pros and cons to determine which exchange rate mechanism is in the best interest of their country. For example, financial liberalisation has resulted in Small Island Developing States (SIDS) being more susceptible to exogenous shocks; but has also led to the modernisation of the financial sector. Hence, further growth can be gained

as this sector develops and also through institutional development. The Mauritius Experience is a case in point.

In Chapter Six, Andrew Downes associates market reform with resilience, highlighting how it facilitates adjustment to external shocks. He argues “ that the market mechanism can fail in certain circumstances due to the presence of externalities in both production and consumption, asymmetric information on the part of market participants, limited competition owing to scale and scope economies over relevant range of production, indivisibilities and the existence of risk and uncertainty.” In essence, Downes states that the nature of market reform depends on policy measures that reflect the present institutional factors, market failures, government failure and the use of structural adjustment policies. He also examined the market reforms in several SIDS to determine their level of economic efficiency, promotion of economic growth and social costs of government intervention. This was achieved by evaluating the institutional frameworks of the SIDS. He concludes that the global and regional environment often force SIDS to reform their economies to become more competitive and achieve higher growth rates. However, the lack of human and financial resources makes these reforms difficult to implement.

The final chapter in this section was by Harvey W. Armstrong and Robert Read. The authors employed two methods to discuss the determinants of economic performances of small territories. Firstly, they examined the openness and vulnerabilities to external shocks, and then considered additional factors such as geographical variables and non-economic influences, downplayed in traditional trade theories such as the Lewis model. Armstrong and Read found that the size of these small states amplified the economic challenges that influence the growth rate. Hence, greater attention must be paid to sectoral structures, trade, remoteness, location of small states, and the design of economic policies in relation to good governance. More so, factors of climate, mountainous areas and remoteness, all influence the cost of imports and trade, which then make these territories more vulnerable and less resilient to external shocks.

Social, Political and Environmental Aspects of Resilience Building

Mahendra Reddy is the author of Chapter eight. Like the preceding writers, he viewed SIDS as having inherent constraints to economic growth because of their size and insularity. He also noted that SIDS face self-inflicted constraints because of poor governance, inefficient resource allocation and capital flight. These attributes are fundamental to economic growth and development. In addition, the chapter analysed the prevalence of corruption and good governance in SIDS. He concluded that good governance positively affects allocation and use of resources, and serves to boost investor confidence. Therefore, issues of governance must be observed closely.

The next article written by David Carment, Stewart Prest and Yiagadeesen Samy, also looked at governance, but as it relates to issues of government failure. The authors felt that state fragility and economic development are inextricably linked. SIDS have vulnerabilities associated with governance, which are estimated by a set of risk indicators that show that SIDS, relative to other economies, fall in the medium range of risk. The paper also discusses the causes of state failure by examining the current themes on early warning and risk assessment. In conclusion, the authors point to the need to examine further interrelationships between the literature on economic vulnerability (e.g. that Briguglio et al. (2005) used to operationalise their index), and the literature on state fragility and conflict (e.g. that informs the Country Indicators for the Foreign Policy (CIFP) risk index).

Cletus Springer's paper entitled "Economic Resilience and Social Cohesion: The Case of Small Island States in the Eastern Caribbean", looks at evolving theories on resilience and vulnerability. Social vulnerability, social development and social cohesion were developed separately in the chapter through the conceptual framework explaining the ideas of vulnerability. In addition, the article evaluates the threats to social cohesion in the Organisation of Eastern Caribbean States (OECS) such as poverty, unemployment, education, health and so on. The chapter highlights functional linkages between economic

resilience and social cohesion at the national and regional levels. A comparison with the framework from Canada and the European system was also provided.

Godfrey Baldacchino, in Chapter Eleven, viewed small states as being exposed to "vagaries of the transnational". The external effects of the international environment can influence the national statistics in the small state, but endogenous policy plans can be used to counteract the inherent openness of the economy. The local economy, the nation, the household and the individual all make up a larger system, and through awareness, empower the different entities within the system to identify the position of resilience and survival of small states. These entities also explain the aspects of vulnerabilities of these states.

In Chapter Twelve, John L. Roberts focuses on the economic and social realities of the AIMS group of SIDS as well as on the building of resilience in these groups of countries. The acronym AIMS stands for Atlantic Ocean, Indian Ocean, Mediterranean Sea and South China Sea. Some of the recommendations for building economic resilience in the AIMS group rely heavily on environmental factors, which also influence social and economic realities. Environmental sustainability and the management of natural capital and government are important. Hence Roberts concludes that: "Environmental management cannot be sustained unless it is an integral part of the resource development, linking the value and potential of natural resources to the process of building economic resilience."

The Exclusive Economic Zones (EEZs) and how they may be used by small states to diversify their economies were examined in the next chapter written by Tishaka H. Fraser and Espen Ronneberg. SIDS depend heavily on imported goods and inefficient export industries. Although SIDS have vast EEZs in proportion to their land area and population size, they do not generally enjoy a fair share of the proceeds. Several limitations of EEZ management exist in fishing, mining and oil exploration industries. Hence, there must be a strengthening of resource allocation in these areas for SIDS to become resilient to external shocks.

Towards the Development of an Economics Resilience Index

Lino Briguglio, Gordon Cordina, Nadia Farrugia and Stephanie Vella developed a conceptual and methodological framework for the analysis and measurement of economic resilience in the only chapter in this section. Most small states have a high GDP per capita compared to other developing countries. Nevertheless, the likelihood of external shocks on these economies are imminent and the authors referred to the Singapore paradox where a high GDP per capita ratio was maintained in the face of high external shocks. The authors also found that studies on economic vulnerability provide evidence to support the resilience index, which is based on export earning conditions and the openness of the economies. Therefore, both a vulnerability index and a resilience index are needed. These two indices give an overall risk indicator, which is important to all policy instruments.

The resilience index may be useful to decision making through highlighting the importance of resilience building, the need for integrated action and the dissemination of information about resilience. In this chapter the authors pinpoint macroeconomic stability, microeconomic market efficiency, governance and social development, as the key areas of resilience. They further conclude that the high level of GDP per capita of small states and islands may not be explained by an inherent vulnerability or resilience to the vulnerability they face. In fact, per capita GDP was found to be more sensitive to resilience variables than to vulnerability variables.

Concluding Remarks

Institutions such as the University of Malta and the Commonwealth Secretariat have made great strides in

conducting research on small states and prescribing relevant development policies. Additional research work is required to better equip small states with alternative workable fiscal and monetary policy strategies to buffer against external shocks, as well as to contain micro and macroeconomic instability. This volume is useful in suggesting alternative policies that would help SIDs to boost their economic resilience in the face of global economic shocks. Throughout each chapter the rationale for the development of a resilience index is explained. Several aspects of vulnerability and resilience were proposed by the authors to give the readers detailed and relevant information on the subjects.

Evidently, Caribbean institutions were not proactive in the past in terms of addressing vulnerability issues in the Caribbean. However, work towards the building of economic resilience indices has started in the Caribbean, more specifically, with the publication of the first Sub-regional Human Development Report (HDR) 2002, which also coincided with the new strategic plans of the OECS Secretariat that included Social and Human Development policies. The report assessed how the nine OECS member states could achieve competitiveness and maintain growth, and also analysed several aspects of vulnerability. Eventually, the indicators of resilience, sustainability and disadvantage, went towards the adjustment of the United Nations Development Programme Human Development Index. Therefore, volumes such as the OECS HDR and the review book offer robust policy proposals and analysis which could prove useful in the future development of a resilience index, especially when the Caribbean remains vulnerable because of small size, trade imbalances, environmental degradation and natural disasters.

