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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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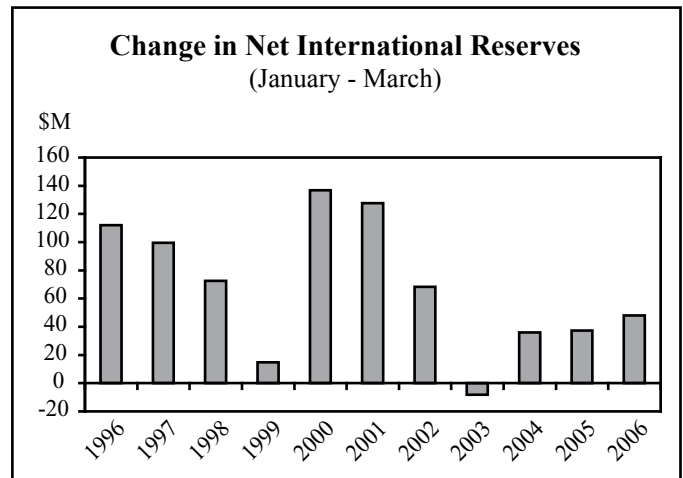
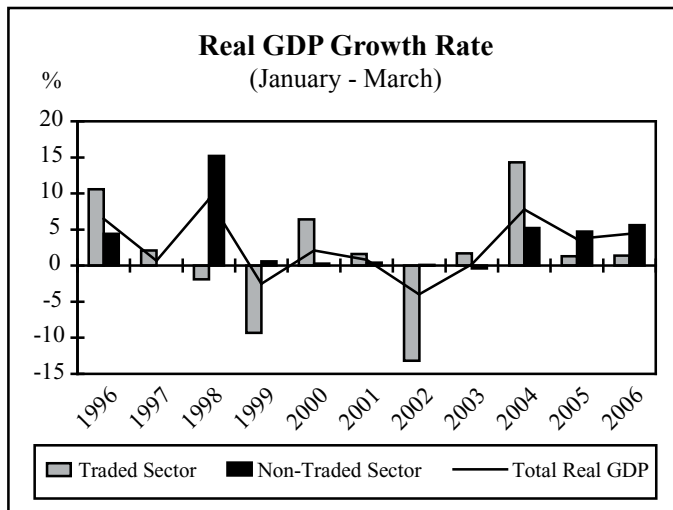
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Review of the Economy

Real economic activity in Barbados rose by an estimated 4.4% during the first quarter of 2006, approximately 0.7 percentage points above the rate for the comparable period in 2005. This gain in output was supported by strong growth in the non-traded sectors and the moderate performance of the traded sectors. Despite advances in the non-traded sectors, import growth slowed and, together with an expansion in travel receipts, led to a contraction in the external current account deficit. Moreover, the combination of a lower current account deficit and higher estimated net long-term capital inflows spurred a modest increase in net international reserves (NIR) for the period under review. In line with the slowdown in imports, commercial bank credit to the non-financial private sector grew at a slower rate than during the first three months of 2005. However, with credit continuing to outpace the gains in domestic deposits, liquidity in the banking system tightened further during the review period. The central government recorded a first-quarter fiscal surplus.

Output of the non-traded sectors expanded by an estimated 5.6% by the end of March, after a growth rate of 4.7% was reported for the first quarter of the previous year. This outturn primarily reflected gains in the wholesale



and retail industry, business and other services. Traded sector output grew by 1.4% in the first quarter of 2006, as the increases in the output of the sugar, non-sugar agriculture and fishing, and the manufacturing industries outweighed the decline in tourism value-added. As a result of higher costs of fuel and light, as well as housing, the rate of inflation was 7.0% by the end of March 2006, approximately 4.6 percentage points above the rate at the end of March 2005. With the improvement in non-traded activity, the rate of unemployment fell to 8.1%, compared to 9.9% at the end of March 2005.

With slower growth in intermediate imports, a contraction in consumer goods imports, and greater travel receipts, the external current account deficit narrowed when compared to the deficit for the first quarter of the previous year. The surplus on the capital and financial account rose above that recorded for the first three months of 2005 because of higher net long-term and short-term inflows. Consequently, the NIR of the monetary authorities increased by \$48.0 million, or \$10.6 million more than the total reported one year prior, resulting in 22.7 weeks of import cover during the review period, slightly down from the 23.8 weeks registered during the corresponding period of 2005.

During the first three months of 2005, credit to the non-financial private sector continued to outpace

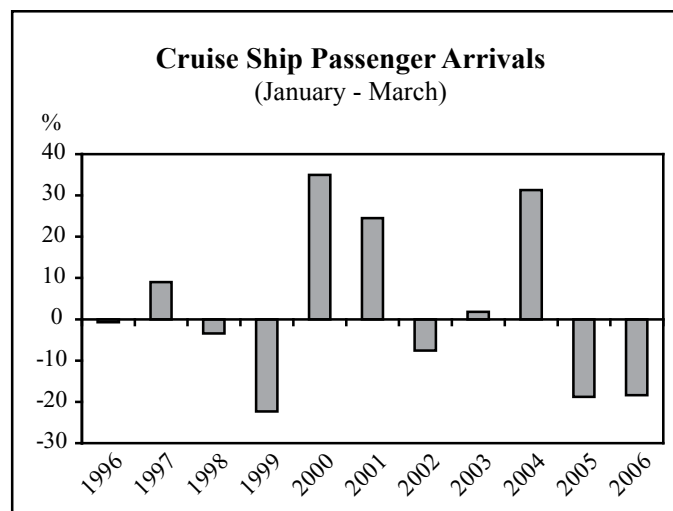
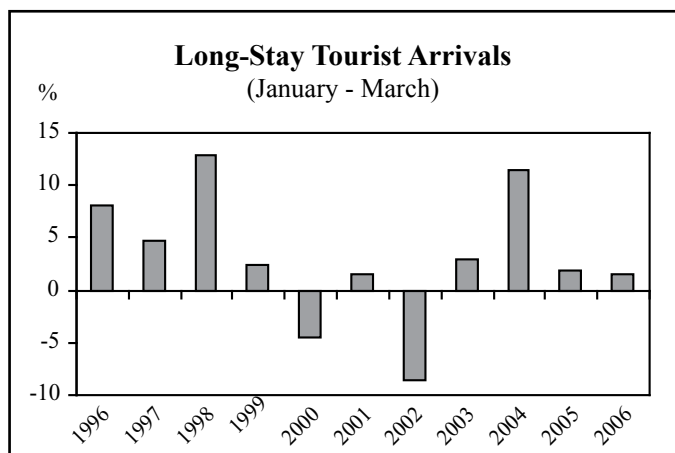
domestic deposits, albeit at a lower growth rate than in the corresponding period of last year. Given this outcome, the liquid asset ratio fell to 7.7%, while the three-month Treasury bill discount rate was approximately 6.2%, which was 2.9 percentage points higher than that reported at the end of March 2005. Additionally, on March 15, 2006, the Central Bank of Barbados raised the discount rate on temporary advances to commercial banks, so as to discourage borrowing from the Central Bank.

Propelled mainly by the gains in corporation taxes of \$65.1 million and the Value Added Tax (VAT) of \$61.5 million, the central government recorded a fiscal surplus of \$99.0 million, a turnaround from the deficit of \$5.5 million a year ago. At the end of the fiscal year (FY) 2005/2006, the central government's deficit was an estimated 2.2% of GDP, compared to 2.6% of GDP during FY 2004/2005.

Production, Prices and Employment

Tourism

During the first quarter of 2006, real tourism value added fell by 1.7%, following a decline of 0.6% one year earlier, as a decrease in cruise-ship passenger arrivals outweighed the expansion in long stay arrivals. The number of cruise-ship passengers contracted by 18.4%, which was similar to the decline for the January to March period of 2005, as cruise liners continued to operate closer



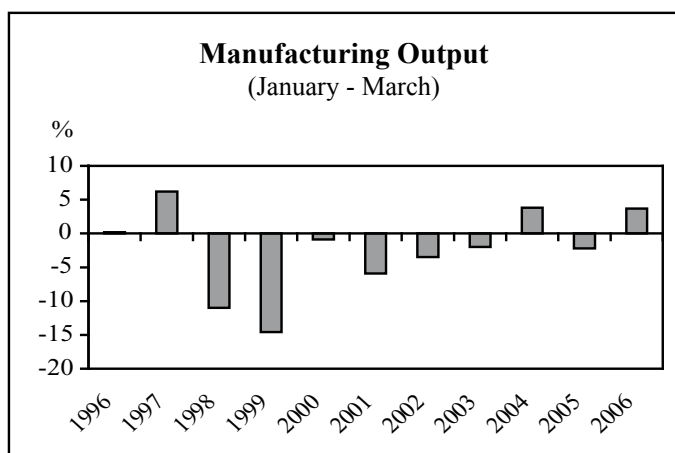
to the United States (US) mainland in the face of rising fuel costs.

Long stay arrivals rose by 1.6%, compared to an increase of 1.9% in the first quarter of 2005, reflecting stronger arrivals out of Canada, which were up by 8.9%, in contrast to a 15.6% decline in the first three months of 2005. Owing mainly to the moderation in the rate of arrivals from Trinidad and Tobago over the review period, growth in arrivals from the CARICOM territories slowed to 6.6% from 16.8% during the previous corresponding period. Arrivals out of the United Kingdom expanded by 1.4%, a turnaround from the decline of 2.8% in the first quarter of 2005. Tourism arrivals from Germany grew by 21.1% (or approximately 2,395 persons) - the highest over the past five years - while the other European markets fell by 5.2%, in contrast to a rise of 3.3% during the January to March period of the previous year. The US and the other international market arrivals were also down for the period under review, falling by 2.4% and 12.1%, respectively, after recording strong performances in the first quarter of 2005.

Manufacturing

Output from the manufacturing sector rose by an estimated 3.7%, in contrast to a decline of 2.2% reported

one year earlier. This turnaround was partially achieved through the increased value added in the non-metallic products sub-sector (20.8%) and higher production of electronic components, which grew by 10.1%, after a reduction of 18.4% during the same period one year ago. In addition, the miscellaneous manufacturing industries accelerated by 5.0%. After registering declines in the comparable period of 2005, chemicals and food processing rose by 4.1% and 2.7%, respectively, in the January to March period of 2006. Conversely, beverages and tobacco decreased by 7.4%, garments contracted by 8.3%, and wooden furniture fell by 9.2% for the quarter under review, in contrast to an 18.6% growth in the first three months of 2005.



Agriculture and Fishing

Following an improvement of 50.7% during the first quarter of 2005, sugar production expanded by 26.1% for the review period. Real value added in non-sugar agriculture increased by an estimated 1.5%, in contrast to an average contraction of 1.1% in the first quarters of the last three years. Milk production grew by 1.2%, a turnaround from a decrease of 6.9% during the first three months of 2005. Fish catches increased by 0.7%, while the growth in chicken production moderated from last year's rate.

International Business and Financial Services

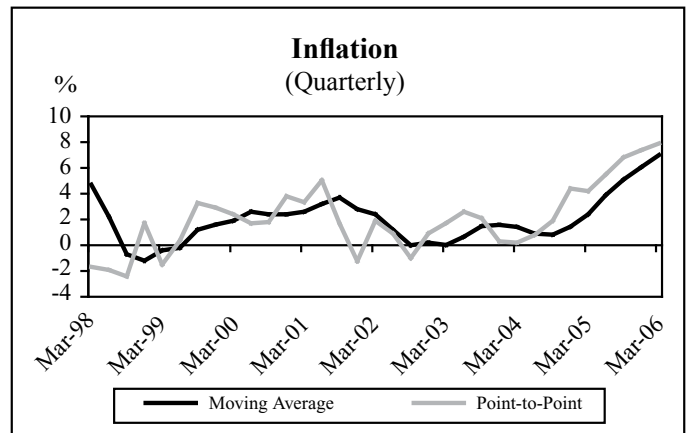
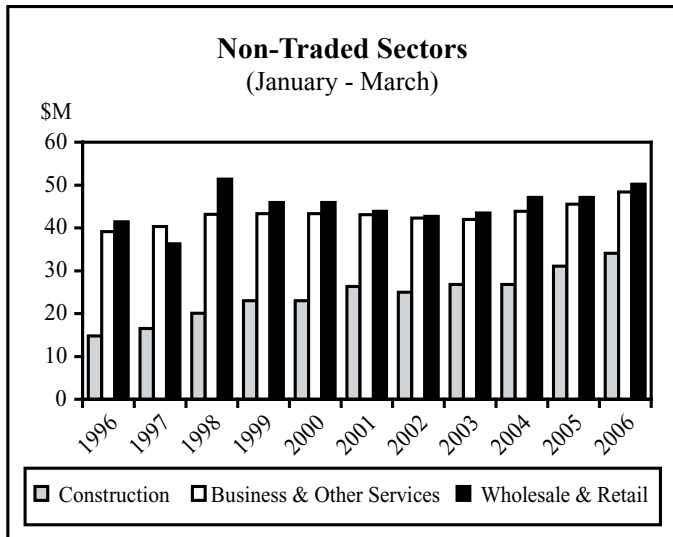
One hundred and eleven new licenses were issued for the first three months of 2006, or one more than those approved between January and March in 2005. There were ninety-one new registrations of International Business Companies, relative to ninety-six during the corresponding period of 2005. New licenses were granted to eighteen societies with restricted liability, compared to ten in the first three months of 2005, while there were two new exempt insurance companies issued with licenses, down from three in the comparable period of 2005. Conversely, no new licenses were issued for exempt insurance management companies and offshore banks.

Construction

Construction value added rose by approximately 9.8% during the first quarter of 2006, on top of the 16.0% increase in the corresponding period of 2005. With construction activity remaining high during the period, domestic consumption of cement grew by 30.2%, or about six times more than the growth for the first three months of last year. However, as a result of a large contraction in wood products imports, the imports of building materials fell by 9.8%, in contrast to an expansion of 64.3% during the comparable period of 2005.

Other Non-Traded Sectors

Output from the wholesale and retail sector grew by 6.4%, compared to a marginal increase of 0.1% in the similar three-month period of 2005. Furthermore, improved economic activity lifted the growth in transport, storage and communications by an estimated 5.0%, on top of the 4.9% reported in the first quarter of 2005. Value added from business and other services rose by 5.4%, or 1.7 percentage points higher than the expansion in the January to March period of 2005, while electricity, gas and water increased by 2.1%, in contrast to a decline of 2.8% recorded one year ago. However, total electricity consumption fell by 23.4%, on account of a 40.2% decrease in commercial



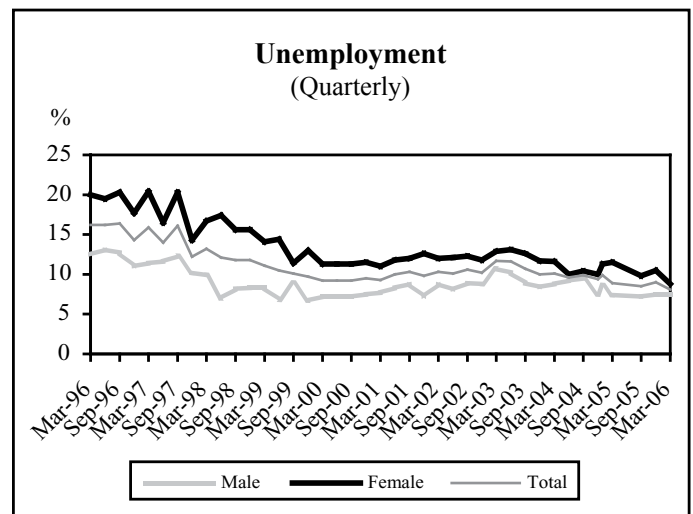
tourism, transport and communications, finance, insurance and business, and general services.

and industrial customer usage as these consumers switched to gas-powered generators. In this category, tourism usage plunged by 43.1%, and business and commercial enterprises reduced their electricity consumption by 37.1% and 31.4%, respectively. General service and street lighting remained relatively unchanged from one year earlier. During the review period, value added in the mining and quarrying industry decreased marginally, owing to a falloff in oil production.

Prices and Employment

On account of the continued high oil prices, the rate of inflation was 7.0 % at the end of March 2006. The main categories that increased during the period were housing (11.8%), transportation (11.2%), fuel and light (9.9%) and food (6.7%), while a decline was registered for clothing and footwear (4.3%).

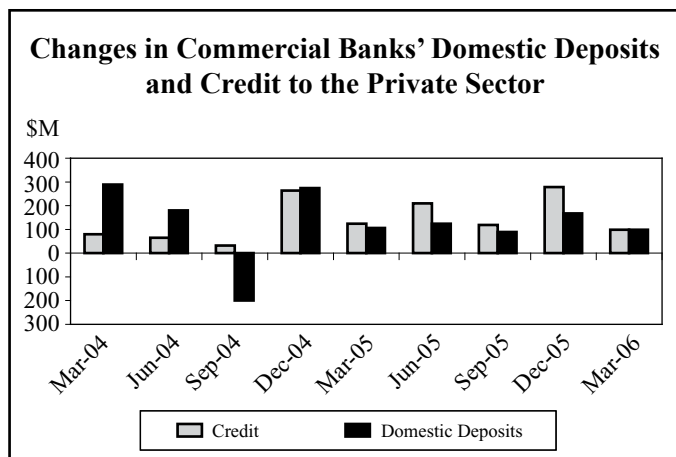
The rate of unemployment at the end of March 2006 was estimated at 8.1%, or 1.8 percentage points lower than the figure one year prior. The average rate for males fell to 7.4%, from 8.6%, while the average rate for females declined to 8.8%, from 11.3% for the corresponding period of 2005. Buoyed by improved economic activity, more persons were employed in construction and quarrying,



Financial Sector

Deposits

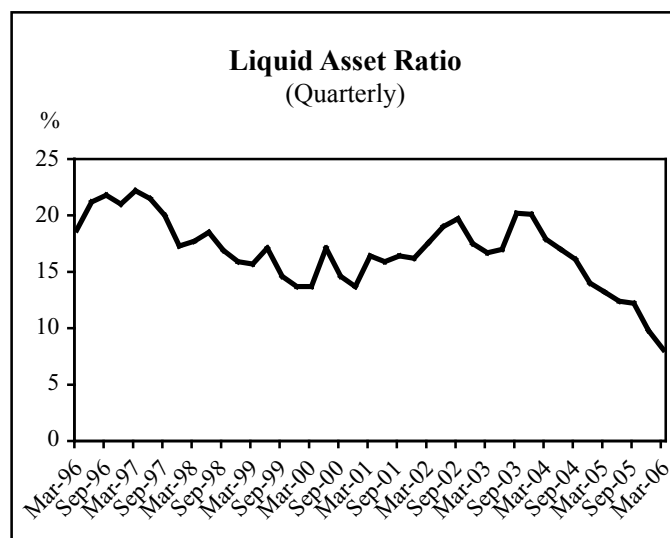
Total domestic deposits at commercial banks grew by \$93.5 million during the first quarter of 2006, compared to \$106.5 million for the corresponding period of 2005. The slowdown in deposit growth resulted mainly from a decline in the deposits of government, business firms and financial institutions. Moderate growth of \$33.7 million was recorded for statutory deposits, compared with an



accumulation of about \$51.8 million in the first three months of 2005, while private individuals' deposits rose by \$51.6 million, compared to an expansion of \$72.6 million one year earlier. In contrast, foreign currency deposits of residents increased by \$43.4 million, after declining by \$13.9 million in the first quarter of 2005. Government deposits contracted by \$17.4 million, after rising by \$34.7 million in the first quarter of 2005. In addition, the deposits of business firms and financial institutions fell by \$21.5 million and \$16.5 million, respectively.

Credit

Credit to the non-financial private sector rose by \$98.6 million during the first three months of 2006, compared to \$123.9 million for the comparable period of 2005. As a result of a \$24 million expansion in borrowing for new residential mortgages, loans to the personal sector went up by \$70.7 million during the review period, relative to \$58.4 million in the first quarter of 2005. Similarly, loans to the construction sector rose by \$41.2 million, compared to a gain of \$2.3 million recorded one year earlier. Other significant increases were reported in other service sectors (\$22.0 million), and the manufacturing sector (\$4.1 million), while credit to the professional services fell by \$23.9 million by the end of March 2006. Credit to the central government and statutory bodies expanded by \$23.0 million to reach



\$313.4 million, and credit extended to financial institutions grew by \$31.3 million, up from \$25.6 million in the same period of 2005.

Liquidity and Interest Rates

With liquidity continuing to tighten, the commercial banks' liquid asset ratio contracted by 2.2 percentage points to 7.7% during the first quarter of 2006. This decrease in the ratio primarily reflected a reduction of \$181 million in holdings of treasury bills.

The treasury bill rate rose from 3.28% at the end of March 2005 to 6.22% at the end of March 2006. The weighted average rate on all loans was 10.52%, compared to 10.63% at the end of December 2005. On March 15, 2006, the Central Bank of Barbados raised the discount rate on temporary advances to commercial banks from 10% to 12%. This change was to discourage banks from using the Central Bank window.

Government Securities

Treasury bills outstanding at the end of March 2006 was \$551.8 million, compared to \$645.9 million for the corresponding period one year ago, with \$317.1 million held by commercial banks and trust companies

Summary Accounts of the Banking System
(\$Million)

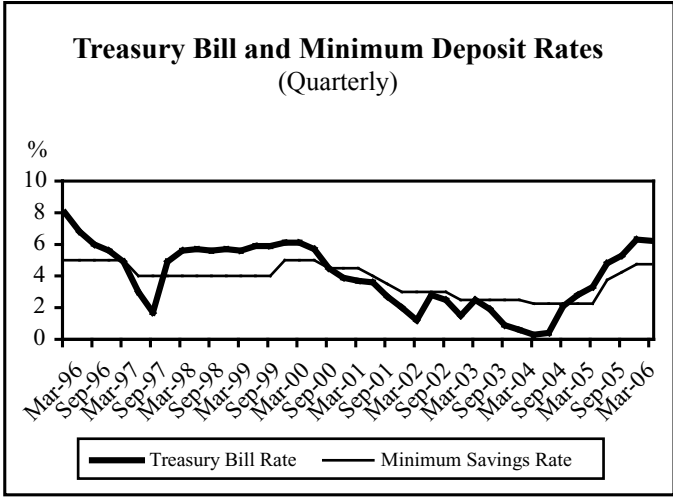
	2004				2005				2006 ^P
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Net International Reserves	2,169.1	2,244.4	1,881.0	1,746.7	1,752.4	1,659.3	1,442.5	1,610.4	1,734.1
Monetary Authorities	1,539.3	1,478.2	1,292.5	1,190.5	1,227.9	1,214.1	1,149.6	1,238.5	1,286.3
Commercial Banks	629.8	766.2	588.5	556.2	524.5	445.2	292.9	371.9	447.7
Net Domestic Assets	2,231.3	2,386.2	2,781.3	3,137.5	3,150.3	3,369.6	3,656.0	3,584.6	3,523.2
Credit to Public Sector	303.4	369.4	798.1	512.2	477.4	479.3	576.4	301.8	159.7
Central Government (net)	659.3	705.3	852.6	737.2	703.7	726.3	847.7	571.8	392.8
Rest of Public Sector	(355.9)	(335.9)	(54.5)	(225.0)	(226.3)	(247.0)	(271.2)	(270.1)	(233.1)
Credit to Rest of Financial System	161.2	160.9	221.0	234.9	260.5	298.4	301.8	312.9	344.1
Liabilities to Other Financial Institutions	412.9	420.0	496.9	394.5	453.4	484.0	423.8	515.0	551.3
Credit to Non-Financial Private Sector	2,702.0	2,766.4	2,798.6	3,061.8	3,185.8	3,395.3	3,513.8	3,791.8	3,890.5
Liabilities to the Non-Financial Private Sector	4,400.4	4,630.6	4,662.3	4,884.2	4,902.7	5,028.9	5,098.5	5,195.0	5,257.3
Currency in Circulation	342.2	345.9	368.0	398.7	392.4	402.5	418.9	448.6	436.8
Demand Deposits	1,273.1	1,432.0	1,399.2	1,537.0	1,548.0	1,576.5	1,604.3	1,563.3	1,530.9
Time Deposits	374.6	362.7	396.3	381.8	343.8	352.4	405.1	491.1	556.0
Savings Deposits	2,410.5	2,490.0	2,498.8	2,566.7	2,618.5	2,697.6	2,670.2	2,692.1	2,733.5
MEMO:									
Domestic Deposits	5,278.1	5,457.7	5,258.6	5,532.3	5,638.8	5,763.0	5,852.4	6,019.4	6,112.9
Liquid Assets	1,533.0	1,480.4	1,298.1	1,193.4	1,233.5	1,218.9	1,157.1	1,253.4	1,297.0
Loans & Advances	2,810.9	2,801.0	2,793.1	2,867.0	3,429.7	3,630.2	3,788.9	4,081.8	4,240.5

Source: The Central Bank of Barbados

P: Provisional

while the Central Bank held \$84.4 million. The nominal value of savings bonds at the end of the review period totalled \$116.2 million. Additionally, Government's total outstanding debentures and treasury notes amounted to \$2,338.8 million, representing an increase of approximately \$43.0 million in securities. The National Insurance Board

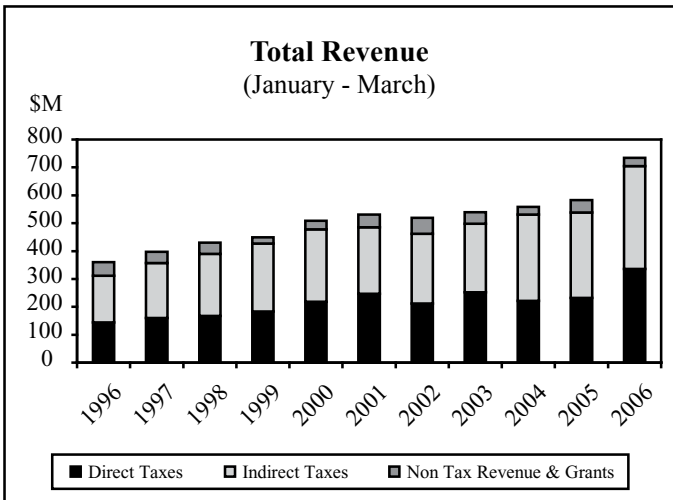
accounted for nearly half of the debentures outstanding, totalling \$1.1 billion at the end of March 2006, while the holdings at Deposit Money Banks and Trust Companies amounted to \$645.2 million, or about \$21 million lower than at the end of the previous review period.



Public Sector

Revenue

Led by a 42.4% increase in direct tax receipts, total central government revenue grew by 25.4% to \$728.8 million during the first quarter of 2006, up from an expansion of 4.1% for the corresponding period in 2005. Despite a reduction in the corporate tax rate, corporate tax revenues accelerated by 55.9% as a result of increased corporate profitability and the inclusion of additional International Business Corporations (IBC's) into the tax base. Property revaluations, coupled with

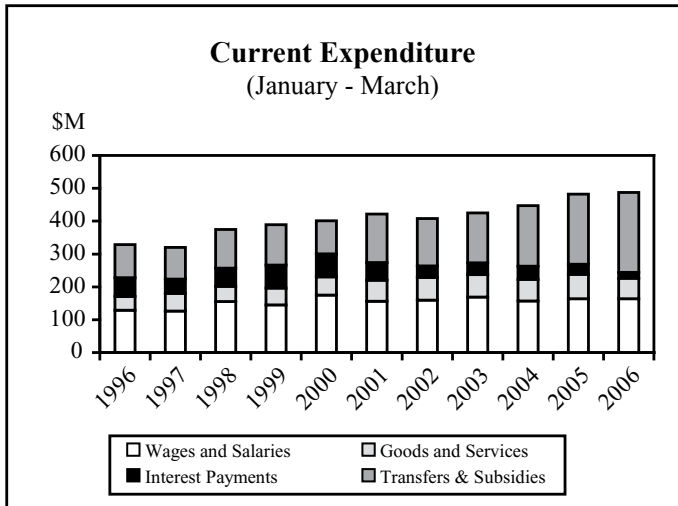


greater tax compliance and an increase in the tax base, boosted property tax proceeds by 66.9% (\$10.1 million) in the face of a downward revision of the land tax rate to 0.45% from 0.60% on properties valued between \$350,000 and \$850,000. Additionally, personal tax collections grew by 11.4%, after registering a decline of 9.2% during the preceding first quarter, in spite of the upward revision of the personal allowance to \$22,500 and the downward revision of the marginal rate of personal income tax (to 35%).

Indirect tax receipts rose by 21.1% (\$64.8 million), in contrast to a decline of 0.8% (or about \$2.5 million) for the first quarter of 2005. This was reflective of the expansion in economic activity, which in turn, improved the performance of VAT, import duties and excise tax revenues. VAT receipts increased by 40.1%, in contrast to a contraction of 3.2% during the first quarter of the previous year, as pre-payments made in 2005 were recorded in early 2006. Import duties grew by 9.0%, after falling by 13.8% in the corresponding period of last year, while the yield from excise taxes expanded by 3.9%, slowing from 23.7% one year ago. In contrast, receipts from non-tax revenue and grants contracted by 36.1% during the review period.

Expenditure

During the first three months of 2006, total expenditure increased by an estimated 7.4% to



approximately \$629.8 million. Current expenditure rose by 6.0% or 1.7 percentage points below what was recorded for the same period of 2005. Transfers and subsidies were higher by 14.1%, primarily as a result of supplementaries for the Barbados Tourism Authority and the University of the West Indies. Wages and salaries rose by 3.4%, compared to 4.1% at the end of the first three months of 2005. Reflecting rising local interest rates, interest payments increased by 12.5% as domestic payments moved from \$21.5 million to \$26.9 million. In addition, spending on goods and services contracted by 14.4%, in contrast to a 12.8% growth recorded in the first three months of 2005. On-budget capital expenditure advanced by 3.7%, following growth of 10.2% a year earlier, as Government expanded the capital works programmes related to Cricket World Cup 2007, roadworks and other miscellaneous projects.

Financing

The first quarter fiscal surplus allowed government to make \$99.0 million in repayments on past liabilities, including \$101.4 million to domestic entities. On the domestic financing side, commercial banks reduced their net holdings of government debt by \$138.1 million and government added \$24.7 million in deposits at the Central Bank. In addition, government borrowed \$10.0 million from the National Insurance Scheme and received \$31.4 million in divestment proceeds from the sale of the Insurance Corporation of Barbados. During the review period, net foreign inflows resulted from \$21.7 million in project funds, which offset \$19.3 million of amortization payments.

Government Financing ((\$Million))

	Fiscal Year		January – March				
	2004/05	2005/06	2002	2003	2004	2005	2006
Domestic Financing	192.6	(30.2)	45.3	18.2	5.0	31.9	(101.4)
Central Bank	(18.2)	(26.6)	(40.5)	(19.2)	(105.9)	(101.4)	(24.7)
Commercial Banks	62.6	(279.5)	32.9	7.3	66.4	67.9	(138.1)
National Insurance Scheme	7.5	104.4	29.8	25.1	20.0	47.0	10.0
Private Non-Bank	90.1	261.1	(33.5)	18.3	38.8	31.1	101.2
Divestment	0.0	31.4	0.0	0.0	0.0	0.0	31.4
Other	50.7	(121.0)	56.6	(13.3)	(14.2)	(12.5)	(81.2)
Foreign Financing	(48.3)	182.8	(2.1)	(11.1)	(19.5)	(26.4)	2.4
Capital Markets	0.0	245.2	0.0	0.0	0.0	0.0	0.0
Project Funds	54.0	47.7	23.2	12.4	10.2	4.8	21.7
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	(102.3)	(110.0)	(23.2)	(23.5)	(29.7)	(31.2)	(19.3)
Divestment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Financing	144.3	152.6	43.1	6.9	(14.5)	5.5	(99.0)

Source: The Central Bank of Barbados

Fiscal Year Operations

At the end of FY 2005/2006, central government's budget deficit was estimated at \$152.6 million or 2.0% of GDP, compared to the 2004/2005 fiscal year deficit of

\$144.3 million. Total revenue rose by 13.0% to \$2,168.8 million on the strength of broad-based increases in tax receipts. Corporate tax collections grew by 25.3% as a result of the greater profitability of IBCs and the inclusion

Government Operations (\$Million)

	Fiscal Year		January-March			
	2004/05	2005/06	2003	2004	2005	2006
Total Current Revenue	1,918.3	2,168.8	539.9	558.4	581.1	728.8
Tax Revenue	1,820.3	2,052.0	497.6	531.2	538.8	701.8
<i>Direct Taxes</i>	749.6	865.0	252.2	221.5	231.6	329.9
Personal	303.2	306.4	113.6	102.4	93.1	103.7
Corporate	286.9	359.4	110.2	88.4	116.4	181.5
Levies	0.0	0.0	4.7	0.0	0.0	0.0
Property	112.9	137.5	14.8	19.1	15.1	25.2
Other	46.5	61.7	9.0	11.6	7.1	19.4
<i>Indirect Taxes</i>	1,070.7	1,186.9	245.3	309.7	307.2	372.0
Consumption	0.0	0.0	0.0	0.0	0.0	0.0
Stamp	18.9	22.0	3.5	4.3	5.0	6.2
VAT	598.2	671.4	134.4	157.8	152.7	214.2
Excises	149.4	174.9	34.3	51.9	64.2	66.7
Import Duties	193.0	196.2	34.8	58.2	50.2	54.7
Hotel & Restaurant	0.0	0.0	0.0	0.0	0.0	0.0
Other	111.3	122.4	38.2	37.5	35.1	30.1
Non Tax Revenue & Grants	98.0	117.0	42.3	27.1	42.2	27.0
Current Expenditure	1,838.9	1,987.8	425.3	447.7	482.1	510.9
Wages & Salaries	645.5	681.5	169.4	157.0	163.5	169.0
Goods & Services	213.2	230.6	67.5	65.8	74.3	63.6
Interest Payments	263.4	294.8	36.0	40.0	31.2	35.1
External	103.5	104.7	14.6	19.5	9.7	8.2
Domestic	159.9	190.2	21.3	20.5	21.5	26.9
Transfers & Subsidies	716.7	780.8	152.4	184.8	213.2	243.2
Current A/C Balance	81.1	181.1	114.5	110.7	100.7	217.9
Capital Expenditure	223.5	237.2	120.6	94.6	104.3	108.1
Net Lending	0.3	96.5	0.8	1.6	0.2	10.8
Total Expenditure & Net Lending	2,062.6	2,321.4	546.7	543.9	586.6	629.8
Overall Balance	(144.3)	(152.6)	(6.9)	14.5	(5.5)	99.0

Source: The Central Bank of Barbados

of previously exempted companies. Property tax receipts (21.8%) were sustained by the widening of the tax base, greater compliance, and property revaluations, while the advancements in excise taxes (17.1%) and VAT (12.2%) were principally due to the expansion in economic activity. In addition, personal tax collections increased by 1.1% despite the downward revision of the personal income tax rate.

In fiscal year 2005/2006, total expenditure grew by 12.5% to \$2,321.4 million, compared to 2.9% during the previous fiscal year. Transfers and subsidies were 8.9% higher, while goods and services rose by 8.2% and wages and salaries by 5.6%. In addition, the growth in interest payments was driven by a 19.0% increase in domestic interest payments, resulting from the higher proportion of domestic debt to total debt at the end of the fiscal year. With the preparation of major projects regarding CWC 2007, on-budget capital expenditure expanded by 6.1% in FY 2005/2006 following the 8.3% decline in FY 2004/2005.

During the review period, government increased its foreign debt obligation and made repayments on its domestic liabilities. Net foreign inflows totalled \$182.8 million, principally owing to receipts of \$250 million in Government borrowing from the international capital markets and \$47.7 million in project funds coupled with \$110.1 million in amortization payments. In addition, net domestic financing of \$30.2 million was registered during FY 2005/2006, as government repaid \$279.5 million to commercial banks and \$26.6 million to the Central Bank. Receipts totalling \$104.4 million, \$261.1 million, and \$31.4 million were acquired from the National Insurance Scheme, private non-banks, and divestments, respectively.

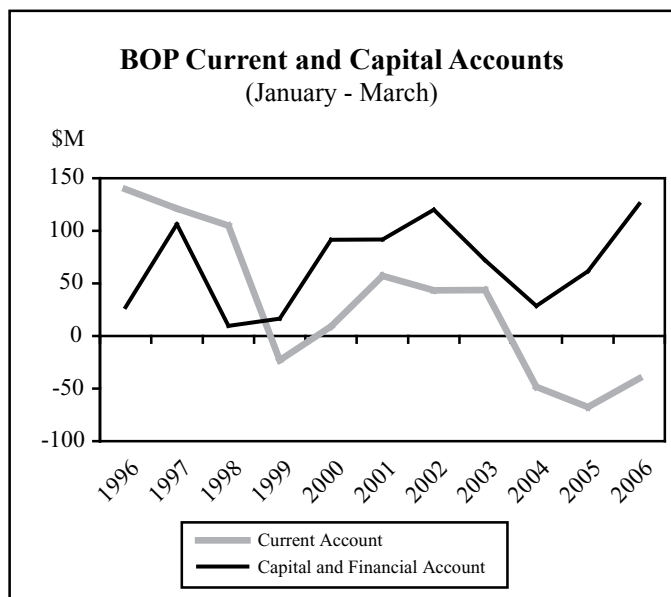
Foreign Trade and Payments

Current Account

During the first quarter of 2006, the external current account deficit narrowed to \$34.8 million, from \$59.0 million for the comparable period of the previous

year and was the third consecutive first quarter deficit. The main factors behind this performance were a pick-up in travel credits, an expansion in domestic exports and a moderation in the growth of retained imports. On account of a slowdown in the growth of intermediate imports and a decline in consumer imports, retained imports grew by 8.2%, compared to 12.9% for the first three months of 2005. Intermediate imports rose by 1.4%, following an increase of 27.5% during the previous first quarter, as a result of a 0.4% decrease in fuel imports and a 9.8% contraction in construction materials imports. The imports of capital goods, spurred by higher machinery imports, climbed by 42.1%, in contrast to a decline of 1.2% one year ago. Conversely, consumer goods imports decreased by 1.5% during the review period, following a 7.7% gain in 2005, as food and beverage imports fell by 1.0%.

During the January to March period of 2006, domestic exports accelerated by 53.5%, compared to 29.8% in the same period of 2005. This upturn was led by a 78.9% (\$31.4 million) increase in miscellaneous outflows, principally on account of a large improvement in other manufactures, which was led by increases in



building cement and contact lenses exports. Moreover, the sales of electrical components doubled the amount recorded during the first quarter of 2005. As a result of an expansion in rum exports (44.4% or \$3.2 million), food and beverage exports increased by 21.5% (\$4.7 million),

while chemical exports rose by 4.4% (\$0.6 million) during the first three months of 2006. Net receipts from services grew by an estimated 5.8 %, as travel receipts expanded by 5.2%, compared to growth of 1.8% during the January to March period in 2005.

Balance of Payments
(January-March)
(\$Million)

	2002	2003	2004	2005 ^P	2006 ^P
Current Account Balance	43.3	43.9	(48.4)	(59.0)	(34.8)
Merchandise Trade	(311.5)	(368.6)	(462.9)	(507.6)	(516.5)
Total Exports (BOP basis)	97.4	107.7	102.9	139.7	138.9
Domestic Exports	72.0	74.9	64.5	83.7	128.4
Sugar	0.0	0.0	0.8	0.0	0.0
Elec. Comp	6.4	6.4	7.0	8.0	16.1
Chemicals	11.3	9.8	9.7	14.1	14.7
Food/Bev	20.0	21.5	16.1	21.8	26.5
All Other	34.3	37.3	30.9	39.8	71.1
Total Imports (BOP basis)	425.4	496.9	586.6	672.0	683.5
<i>Retained Imports</i>	440.9	511.9	604.6	682.8	738.9
Consumer Goods	193.2	191.3	246.5	265.5	261.6
Capital Goods	90.6	109.9	132.7	131.2	186.4
Intermediate Goods	155.4	208.9	222.7	284.0	288.0
Miscellaneous Goods	1.7	1.8	2.7	2.1	2.9
Services (Net)	381.5	442.5	453.8	501.8	531.1
Travel Credits	445.0	512.6	524.6	534.0	561.6
Other	32.9	39.8	53.0	96.7	107.0
Investment Income (net)	(54.8)	(61.6)	(68.5)	(82.3)	(86.8)
Transfers (net)	28.1	31.6	29.2	29.0	37.4
Capital and Financial Account	120.0	72.1	28.5	47.6	105.8
Long Term	84.0	63.1	(81.5)	66.4	96.5
Public Sector	6.4	(24.2)	(42.0)	(31.4)	0.3
Private Sector	77.7	87.3	(39.5)	97.8	96.2
Other	0.4	(33.0)	16.1	(43.4)	(38.5)
Short Term	35.6	42.1	93.9	24.6	47.7
Errors & Omissions	(72.1)	113.2	101.9	17.0	52.8
Balance for Official Financing	91.2	229.0	82.0	5.7	123.8
Official Financing (net)	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0
Reserve movements (CBB basis)					
(-Increase/+Decrease)	(91.2)	(229.0)	(82.0)	(5.7)	(123.8)
Change in NIR (IMF basis)					
(-Increase/+Decrease)	(69.9)	8.1	(36.0)	(37.4)	(48.0)

Source: The Central Bank of Barbados

P: Provisional

Capital and Financial Account

The capital and financial account registered an estimated surplus of \$105.8 million, more than twice the surplus for the first three months of 2005. Net long-term inflows amounted to \$96.5 million, compared to \$66.4 million in the comparable period a year prior, on account of lower public sector outflows of \$0.3 million. Short-term financial inflows increased by \$23.1 million, mostly in the form of pre-shipment financing for the sugar harvest. In addition, miscellaneous outflows were reported at \$38.5 million, following outflows of \$43.4 million for the corresponding period of 2005.

Regional Economic Developments

Overview

During 2005, most regional economies recorded improved levels of economic activity as construction value-added spurred growth in Jamaica, Guyana and the Organisation of Eastern Caribbean States (OECS); the Bahamas benefited mainly from increased tourist arrivals; and Trinidad and Tobago continued to enjoy the gains associated with the rise in worldwide oil prices. Furthermore, consumer price inflation was higher for the majority of Caribbean countries, and mixed performances were reported in the public and foreign sectors. Credit and deposit growth were generally stronger, and exchange rates depreciated slightly among the three floating exchange rate regimes in the region.

Tourism

Despite the adverse impact of the hurricane season in 2004, tourism activity across the region continued to grow in 2005 buttressed by long-stay tourist arrivals, following improvements in the economies of the major source markets. However, regional cruise visitor arrivals fell below the total recorded in 2004. Total visitor arrivals to the Bahamas rose by 0.9% while cruise visitors declined by 0.3%. In Jamaica, tourism activity expanded in 2005

despite the adverse impact of the hurricane season during the second half of 2004. The increase in stopover visitors (4.4%) was mostly due to an aggressive marketing campaign by the Jamaica Tourist Board, new airlift capacity and the diversion of visitors from Mexico on account of bad weather during the first half of 2005. However, visits to the OECS member countries were lower in 2005, as there was a marginal decline in long stay arrivals and cruise arrivals resulting from the lingering impact of Hurricane Ivan on the economy of Grenada.

Mining and Quarrying

Performances in the mining and quarrying sectors of the region were mixed in 2005. The contribution from the energy sector in Trinidad and Tobago rose on account of higher crude oil production, which grew by 10.9% in 2005, compared to 7.9% in 2004. In Jamaica, value added in the crude bauxite production expanded by 21.4%, while alumina output increased by 1.6%, or 3.0 percentage points lower than the growth recorded in the previous year. In contrast, the outturn from the Guyana bauxite industry decreased by 1.6%, after a 12.9% downturn in Metal Grade bauxite production in 2004.

Construction

During 2005, construction activity across the region was generally higher than in 2004. In Jamaica, construction value added increased by 7.7%, primarily as a result of on-going road works, hotel construction and post hurricane reconstruction projects. In addition, construction output in the Bahamas grew by 15.9%, compared to 11.2% recorded one year earlier. This movement reflected the sustained high levels of residential mortgage lending, hurricane repairs as well as an improvement in foreign investments in tourism-related products. However, in Guyana and the OECS, the upturn in construction activity was mostly due to infrastructural developments pertaining to Cricket World Cup 2007.

Agriculture

Regional agriculture output decreased during the review period, as most of the countries were affected by unfavourable weather conditions. In Jamaica, agriculture output contracted by 7.1%, compared to a fall of 5.3% in 2004, as a result of heavy rainfall during the harvest season and droughts in the planting season throughout 2005. During 2005, Guyana's sugar industry suffered a 24.3% decline in sugar output, partly due to industrial action and floods. Moreover, the latter also led to a 14.7% decrease in rice production. Forestry rose by 6.0%, and fish catches remained unchanged from a year prior. Due to the weak performance of the traditional export crops (bananas, sugar, nutmeg and cocoa), a sharp reduction was registered for agriculture output in the OECS during 2005. In Belize, poor weather conditions at various points in the year contributed to declines in the outturns of sugar (13.8%) and banana production (4.2%) but did little to hamper the output of citrus crops.

Prices and Interest Rates

Consumer price inflation continued to increase in 2005 for most of the countries in the region. On account of the surge in international oil prices, the inflation rate in the Bahamas was 2.2%, up from 1.0% in 2004, while prices in the OECS rose by 3.5%. However, the rate of inflation in Trinidad and Tobago expanded from 3.7% to 6.9% by December 2005 as a result of higher food prices. In Jamaica, consumer prices moderated despite the adverse impact associated with bad weather throughout the majority of the year, while the consumer price index in Guyana increased by 7.0% during 2005.

With the exception of Trinidad and Tobago, interest rates throughout the region trended downward in 2005. In the Bahamas, downward adjustments were made to the Central Bank's discount rate and the commercial banks' prime rate – down 50 basis points to 5.3% and 5.5%, respectively – in the face of tighter levels of liquidity throughout the financial system. Furthermore, the weighted average loan rate fell by 93 basis points to

10.3%; the weighted average deposit rate decreased by 61 basis points to 3.2% and the average 90-day treasury bill rate moderated by 41 basis points to 0.1%. As a result of expansionary monetary policy in Jamaica, interest rates on loans and deposits fell on three separate occasions and the weighted average 90-day Treasury bill rate declined to 13.3% by the end of December 2005 from 13.8% at the end of 2004. In Guyana, the average 90-day treasury bill discount rate depreciated slightly to 3.7% from 3.8% recorded one year earlier, and the weighted average prime lending rate was registered at 15.2%, compared to 15.7% at the end of the similar period in 2004. Conversely, in an attempt to stem excess liquidity conditions, the Central Bank of Trinidad and Tobago raised the “repo” rate on four occasions to reach 6.0% by December 31, 2005. The effect of these changes was limited, prompting the Central Bank to increase its level of open market operations in an effort to absorb excess liquidity.

Financial Sector

Credit in the region rose in 2005 as most commercial banks lowered their interest rates. Domestic credit in the Bahamas increased by 12.9%, reflecting an expansion in private sector demand for mortgages. Loans to the private sector in Belize reached BZ \$62.7 million, while loans and advances to the private sector in Jamaica went up by 19.2%, or 2.7 percentage points higher than in 2004. By the end of 2005, commercial bank loans to all sectors in the OECS increased, while consumer credit moderated in Trinidad and Tobago. Moreover, domestic credit in Guyana grew by 6.3% by the end of 2005, slowing from a growth rate of 48.4% recorded at the end of December 2004.

Total deposits in the region expanded during 2005. Deposits in the Bahamas grew with larger demand and savings deposits – up by 9.9% and 13.1% respectively. In Belize, deposit accumulation rose by 9.5%, while the deposits in commercial banks in Jamaica increased by 7.9%, albeit at a slower rate than in 2004. In Guyana, commercial bank deposits expanded by 7.9%, or 0.5 percentage points above that of a year earlier. Furthermore,

advancements were registered in deposits in the OECS (10.7%) and Trinidad and Tobago (15.8%) as a result of higher incomes.

Exchange Rates

At the end of December 2005, the Jamaica dollar depreciated by approximately 4.6% to J\$64.58 per US\$1.00, as the foreign exchange market was subject to bouts of instability owing to the after-effects of the hurricane season in 2004. The selling rate between the Trinidad and Tobago dollar and the US dollar remained relatively stable, ending at TT\$6.29 to US\$1.00, while the Guyana dollar fell by 0.3% to G\$200.25 to US\$1 by the end of December 2005.

Government Operations

The majority of regional governments managed to record improvements in their fiscal positions. Trinidad and Tobago's fiscal surplus grew to TT\$4.9 billion, compared to a surplus of TT\$1.9 million for 2004, on account of a decline in expenditures coupled with higher growth in tax revenues. In the Bahamas, the central government's fiscal deficit narrowed to B\$162.9 million in 2005 as a result of larger tax collections associated with the growth in consumer demand and property tax receipts. During the first nine months of FY 2005/06, the fiscal deficit in Belize improved to BZ\$66.5 million from BZ\$98.3 million in the corresponding period of FY 2004/2005, reflecting higher tax receipts and lower capital outlays. In contrast, during the first half of 2005, the surge in capital outlays in the OECS led to a consolidated fiscal deficit of EC\$147.4 million, approximately EC\$11.4 million above the deficit for the similar period of 2004. In Guyana, the central government recorded a budget deficit of G\$19.4 billion in 2005, compared to G\$7.6 billion reported in the prior year.

Foreign Sector Developments

Due to the presence of global imbalances resulting from higher oil prices, the external current accounts of the regional economies weakened during 2005. However,

most regional economies registered surpluses on their capital accounts. In the Bahamas, the current account deficit deteriorated to US\$622.8 million, as a result of the increased prices for imported fuel and robust growth in consumer demand for imports in 2005. Conversely, there was a surplus on the capital account following an increase in foreign investments during the period. The current account deficit in Belize widened to US\$151.6 million while the surplus on the capital and financial account grew as a result of an expansion in foreign direct investments. By December 2005, the current account deficit in Guyana amounted to US\$149.9 million from US\$69.8 million one year ago, emanating from a significant increase in the value of oil imports together with the declining demand for exports. The capital account surplus grew to US\$180.6 million, compared to US\$38.9 million reported during the corresponding period in 2004. In Jamaica, the current account deficit worsened by US\$465.6 million to US\$975 million, following improvements in 2003 and 2004. This was blamed on elevated oil prices and an increase in the demand for food imports, occasioned by the depletion of domestic agricultural produce attributed to the active hurricane season in 2004.

International Economic Developments

Overview

Buoyed by improvements in industrial production, services and international trade, the global economy grew during the first quarter of 2006, quickening from the pace set in the first three months of 2005, but moderately lower than the expansion in 2004. The United States led the economic expansion while Japan's output also trended upwards and there was evidence of a recovery in the UK. With China contributing the largest proportion of output, growth in the emerging economies remained solid during the first three months of 2006. By the end of March, the current account deficit in the United States had widened further, while large surpluses continued to be recorded in Asia and other emerging economies. Consequently, the US dollar continued to depreciate against industrial and

emerging market currencies. Although there were sharp increases in global oil prices in 2005, during the January to March period of 2006 worldwide inflation was marginally higher than one year ago.

Industrial Economies

In the United States, real GDP grew by an estimated 5.3% for the first three months of 2006, compared to 3.6% during the corresponding period of last year. This outcome can be attributed to the stronger levels of corporate profits and government spending associated with reconstruction in the aftermath of Hurricane Katrina. Consumption growth, however, slowed as a result of a moderation in the housing market and the gain in oil prices. Exports from the US fell and, coupled with stronger import demand, led to a further deterioration of the trade deficit during the period. The federal funds rate was raised by 25 basis points to 4.75% in order to temper consumer import growth, while the unemployment rate fell in the first quarter of 2006, down to 4.8%, compared to 5.4% in the same period in 2005. The inflation rate rose to 3.4% by the end of March 2006, compared to 3.1% during the corresponding period of a year ago, as ongoing productivity gains and strong foreign competition offset the pass-through effect of increases in gasoline prices.

Between January and March 2006, an improvement in the terms of trade resulted in an estimated growth of 3.1% in real GDP in Canada. Private consumption remained robust, as evidenced by higher asset prices, a pick-up in business investment and a lower unemployment rate (6.4%) during the review period. The rate of inflation in Canada remained low by the end of March 2006 at 2.4%, compared to 2.1% for the previous first quarter. With regard to monetary policy, Canada's overnight rate was raised by 50 basis points to 3.8%.

Euro area real GDP expanded by 2.6% in the first quarter of 2006, a marked improvement from the 0.5% growth recorded in the comparable period in 2005. At the end of March 2006, the unemployment rate fell to 8.1%, moderating from 8.3% three months earlier and

reflecting the improving job market in the Euro area. In addition, consumer prices rose by 2.2%, compared to 2.1% reported one year earlier, and principally resulted from strong pressures exerted by commodity prices that filtered through to consumer costs during the period. The Euro Area external current account deficit worsened to \$11.3 billion euros at the end of January 2006, largely resulting from a rising oil trade deficit due to higher oil prices in the global economy.

In the United Kingdom, real economic activity grew by 0.6% in the first three months of 2006, as a result of improved levels of private consumption and net trade. Labour market conditions, however, weakened as the unemployment rate rose to 5.2% - or 0.5% higher than one year earlier - and average wage rates moderated. By March 2006, the inflation rate was 2.4%, compared to 3.2% during the previous corresponding period, as food prices continued to decline.

The Japanese economy continued to accelerate in the first three months of 2006. Preliminary first quarter data indicate that real output, led by an improvement in private sector domestic demand, increased by 3.1%, or about 1.7 percentage points higher than a year earlier. As a result of a slight rise in the inflation rate (0.3%) after a

Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)*		Unemployment (% Rate)		Inflation (% Rate)*	
	Mar-06	Mar-05	Mar-06	Mar-05	Mar-06	Mar-05
Canada	3.2	3.2	6.7	7.4	2.2	2.3
Euro zone	2.6	0.5	8.1	8.8	2.2	2.1
France	1.5	1.6	9.5	10.1	1.5	1.9
Germany	2.9	-0.5	8.8	10.1	1.8	1.8
Italy	n.a.	-0.5	n.a.	7.8	2.1	1.9
Japan	3.1	1.4	4.4	4.8	0.3	-0.2
United Kingdom	2.2	1.9	5.2	4.7	1.8	2.0
United States	3.5	3.6	4.8	5.4	3.4	3.1

Source: Various Central Banks and National Statistical Offices

*Percentage change from same period of previous year

lengthy period of deflation, the Bank of Japan was able to maintain its easy monetary policy in order to support the pickup in the economy.

Emerging Markets

In Asia, economic growth expanded rapidly over the first three months of 2006. However, net exports slowed, while domestic demand improved and inflationary pressures were contained somewhat in most countries in the region. In China, real value added increased by 10.2% in the January to March period of 2006, as a result of stronger investment flows. The trade surplus narrowed, and the rate of inflation on consumer prices moderated to 0.8% despite the upward pressure on the cost of inputs. In South Korea, real GDP growth also increased in the first quarter of 2006, to 6.1% from 2.7% one year earlier, while

inflation remained low. During the first quarter of 2006, real output expanded by 8.5% in Singapore, or about 4.8 percentage points higher than in the comparable period in 2005.

Activity in Latin America rose in the first quarter of 2006. Value-added in Brazil expanded by 5.4% as the economy staged a recovery during the period. The inflation rate slowed to 3.4% and this prompted the monetary authorities to cut interest rates to 16.5%. In Mexico, industrial production grew by 5.3% during the review period, while retail price growth continued to moderate. Economic activity remained robust in Argentina, as a result of a 7.5% increase in industrial production during the first three months of 2006. However, the inflation rate was recorded at 11.1% and remained a source of concern within the economy.

Commodity Prices

Commodities	Mar-05	Dec-05	Mar-06	% Change on on Mar-05	% Change Dec-05
Total (Index of Market Prices)	188.7	208.1	221.8	17.5	6.6
Non-Fuel (Index of Market Prices)	108.5	114.0	121.5	12.0	6.6
Food (Index of Market Prices)	101.7	98.8	102.5	0.2	3.7
Sugar (US cents / lb)	31.6	28.9	28.9	-8.5	0.0
Bananas (US \$ / 40lb)	817.0	568.2	880.7	7.8	55.0
Rice (US \$ / metric ton)	295.0	277.3	297.7	0.9	7.4
Wheat (US \$ / bushel)	151.0	164.4	174.4	15.5	6.1
Soybeans (US \$ / metric ton)	233.2	216.5	212.7	8.8	1.8
Metals (Index of Market Prices)	136.8	159.8	176.1	28.1	10.2
Aluminum	1,987.5	2,250.9	2,432.5	22.4	8.1
Iron Ore (US \$ / metric ton)	65.0	65.0	65.0	0.0	0.0
Copper (US ¢ / lb)	3,378.9	4,577.0	5,123.7	51.6	11.9
Silver (US ¢ / oz.)	726.8	868.7	1,037.5	42.7	19.4
Gold (US \$ / oz.)	433.9	510.1	557.1	28.4	9.2
Petroleum (US \$ / barrel)	50.9	56.5	60.9	19.6	7.8

Source: IMF Commodity Prices

Commodity Prices

The overall commodity price index rose by 17.5% during the first quarter of 2006, as a result of the sustained growth in oil prices. The price of Brent crude continued to trend upwards, owing to stronger oil demand, supply constraints and geopolitical uncertainties in some oil producing economies. Petroleum prices accelerated by 19.0%, while the price of non-fuel commodities rose by 12.0%. The price of food commodities increased by 0.2%, as expansions for wheat, soybeans and bananas were offset

by a contraction in sugar (8.5%) and a moderation in the cost of rice (0.2%). Moreover, with the exception of iron ore, the prices of metals grew during the first quarter. Owing to increased industrial production in most countries, the prices of copper and aluminium rose by 51.4% and 22.4%, respectively, while iron ore prices remained the same as at the end of March 2005. The prices of silver and gold, in terms of US dollar denominated currency, increased by 42.7% and 28.4%.



Caribbean Stock Markets

Barbados Stock Exchange

Barbados Stock Market indices showed marginal declines over the first quarter of 2006. The Local index decreased by 0.1% at the end of March 31, 2006, while the cross-listed index fell by 0.65%. Overall the composite index moved from 1,034.4 at the end of 2005 to reach a total of 1,030.22 at the end of March, a contraction of 0.4% over the period.

Barbados Stock Exchange Statistics
(Quarterly)

Index	2006		
	Jan.	Feb.	Mar.
Local	3,934.1	3,927.8	3,923.9
Cross-Listed	2,296.7	2,283.9	2,283.9
Composite	1,034.7	1,030.7	1,030.2
Market Cap. BDS(\$M)			
Local	10,978.1	11,058.9	10,929.8
Cross-Listed	11,905.3	11,810.3	11,810.4
Composite	22,883.4	22,869.2	22,740.2

Source: Barbados Stock Exchange

Market capitalisation for local companies declined by 0.4% to close at \$10.93 billion, while cross-listed companies decreased by 0.03%, to record a total of \$11.8 billion by the end of the quarter. Overall market capitalisation in the Composite index dipped by 0.2% to close the review period at \$22.7 billion.

Cave Shepherd and Company Limited was the top traded company for the period by volume and value, registering trades of 837,393 shares for a total value of \$6,646,728.40.

The other top performers in terms of volume were: Sagicor Financial Corporation, 680,037; Jamaica Money Market Brokers, 345,284; BS&T and Company Limited,

293,409 and FirstCaribbean International Bank (Barbados) Limited, which traded 286,523 shares over the quarter.

In relation to the value of shares traded, Sagicor Financial Corporation was runner-up to Cave Shepherd and Company Limited, with a total value of \$2,843,826.46. Other top performers were: McEneaney Alstons with a value of \$2,537,148.00, BS&T and Company Limited with a value of \$2,057,369.90 and FirstCaribbean International Bank (Barbados) Limited totalling \$1,224,347.46.

Barbados Stock Exchange Volume Leaders
(January - March 2006)

Institution	Volume Traded (Millions)
Cave Shepherd & Company Limited	0.837
Sagicor Financial Corporation	0.680
Jamaica Money Market Brokers	0.345
BS&T and Company Limited	0.293
FirstCaribbean International Bank Barbados Limited	0.287

Source: Barbados Stock Exchange

Barbados Mutual Funds

Over the first quarter of 2006, six local mutual funds reported average growth of 1.6%. Fortress High Interest Fund-DIST. and Sagicor Preferred Income Fund recorded the highest quarterly increases of 1.98% and 1.94%, respectively, for the period. These were closely followed by BNB Gift Trust Fund, which registered an expansion of 1.89% for the first quarter.

In contrast, six mutual funds declined over the first three months of 2006. BNB Capital Growth Fund recorded the most significant reduction (10.2%) for the period, compared to a fall of 4.9% for the previous quarter at the end of 2005.

Jamaica Stock Exchange (JSE)

During the first quarter of 2006, the Jamaican Stock Exchange market decreased by approximately 17%,

Mutual Fund Performance

Mutual Funds	DEC. 31 NAV (Bds\$)	MAR. 31 NAV (Bds\$)
Roybar Investment Corp.	16.00	15.97
Fortress Caribbean Growth Fund	3.93	3.99
Fortress High Interest Fund - ACC	1.25	1.27
Fortress High Interest Fund - DIST	1.01	1.03
BNB Income Fund	1.28	1.23
BNB Capital Growth Fund	1.37	1.23
BNB Gift Trust Fund	1.06	1.08
BNB Prop. & Unlisted Sec. Investment Fund	1.67	1.68
CLICO Balanced Fund Inc.	1.25	1.23
Sagicor Global Balanced Fund	2.07	2.03
Sagicor Select Growth Fund	1.06	1.05
Sagicor Preferred Income Fund	1.03	1.05

Source: Barbados Stock Exchange

moving from 104,510.39 points to close at 86, 896.10 points for the period. The JSE Select Index declined by 515.67 points (down 18.0%) to end at 2,243.92, while the JSE All Jamaican Composite also fell by 19,145.48 points (down 18.2%) to end at 85.79 points. Overall Market activity resulted from trading in 43 stocks of which 6 advanced, 34 declined and 3 traded firm. Market volume amounted to 365,725,263 units, valued at over \$4.5 billion comprising the following: National Commercial Bank of Jamaica Ltd, 54,244,750 units (14.8%), Cable and Wireless with 43,647,275 units (11.9%), Supreme Ventures Limited, 31,861,194 units (8.7%), Bank of Nova Scotia-Jamaica with 26,118,821 units (7.1%) and Life of Jamaica with 19,635,953 units (5.4%).

The declines have been attributed to profit taking in the respective markets. In the JSE there has been a number of Initial Public Offerings (IPO's), with these presenting particular challenges in that market, with some persons cashing out profitable investments and going into other new investments.

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

Barbados	%	Jamaica	%	Trinidad	%
Insurance Corp. of Barbados	26.9	Salada Foods	99.8	Grace Kennedy & Company Limited	121.7
Cave Shepherd	19.7	Goodyear (Jamaica)	12.3	One Caribbean Media Limited	8.3
Jamaica Money Market Broker	10.0	Caribbean Metal Products Ltd.	8.3	Agostini's Limited	5.5
ANSA McAL. Barbados Ltd.	7.9	FirstCaribbean Int'l Bank Ltd.	5.5	Valpark Shopping Plaza Limited	5.3
Trinidad Cement Ltd.	2.1	Jamaica Producers Group	1.4	Readymix (West Indies) Trinidad Ltd.	2.6
FirstCaribbean International Bank Ltd.	0.5	Mobay Ice Company	—	Flavourite Foods Limited	2.0
Bico Limited	—			Trinidad Publishing Company Ltd.	1.3
Fortress Caribbean Property Fund	—			West Indian Tobacco Company Ltd.	1.0
Neal & Massey Holdings Limited	—			FirstCaribbean International Bank Ltd.	0.1
West India Biscuit Company	—			Furness Trinidad Limited	—

Source: Barbados, Jamaica and Trinidad and Tobago Stock Exchanges

* Based on share price appreciation during the first quarter of 2006

Trinidad and Tobago Stock Exchange (TTSE)

For the first quarter of 2006, the Trinidad and Tobago stock market contracted by 11.7% to close at 1,168.32 points. Overall for the period, 9 companies advanced, 22 declined and 3 remained unchanged. The major advancers were Grace Kennedy & Company Limited (121.7%), One Caribbean Media Limited (8.3%) and Agostini's Limited (5.5%).

Interest Rates

United States

In the first quarter of 2006, the Federal Reserve further increased its Funds rate to 4.8% marking the fifteenth consecutive rise. The Fed Funds futures pointed to a 5% rate by the end of the second quarter before the Fed terminates this current tightening cycle.

The economy continued to expand, core inflation remained subdued, and there were expectations that the Fed was nearing the end of its tightening regime. US equities returned 4.2%, but by contrast, US bonds lagged equities, posting a 2.8% return in the first quarter. The 10-year Treasury yield ended the quarter at 4.8%. It is expected that this trend will continue and for 2006, stocks will continue to outperform bonds.

With rising interest rates and stable inflation forecasts, it is expected that the boost behind household spending – namely the increase in debt and decreasing savings - will be contained over the short-term.

In 2005, the interest rate differential between the US and Europe and Japan rose steadily as the Federal Reserve continuously raised interest rates, hence the resurgence in the dollar and the yen. This year the interest rate differential has started to narrow, and this trend is set to continue and the dollar may weaken as a result.

Canada

The Bank of Canada (BoC) raised its target for the overnight rate by a quarter of a percentage point to 3.8%, leading to speculation that there would be moderate rate

hikes and most forecasts now point to the overnight rate peaking at 4.3% by the end of the year. Consequently, bond yields have been generally rising. The 10-year government bond yield expanded from 4% at the start of this year to 4.4% by the end of the quarter.

The projected pace of growth over the next two years is expected to stabilise the unemployment rate close to its current rate of 6.4%, suggesting a labour market operating close to capacity. This poses some upside risk to inflation, but there will however be some offset provided through the recent appreciation of the currency and relatively lower oil prices. CPI inflation, at 2.3% in the fourth quarter of 2005, was lower than expected, but as anticipated, core inflation remained stable at 1.6% - close to expectations. However, stronger oil prices during the review period may lead to a rise in CPI and core inflation back to the BoC's 2% target by the first half of 2007.

Europe

During the quarter, the European Central Bank (ECB) pushed its key refinancing rate by a quarter point to 2.5%. This move in March followed a similar one in December, which was the first interest rate increase in five years.

Most forecasts for economic growth in the eurozone were lower at the end of the last quarter as interest rates, the euro and oil prices strengthened. The EU's economic sentiment indicator at the end of March pointed to an overall economic confidence level that is at the highest level since mid-2001. The European economy appears to be on an upward trend, with business confidence at a 15-year high in Germany, and rising in other countries, and with industrial and services sectors expected to strengthened in the first three quarters of 2006.

Towards the end of the year, it is anticipated that eurozone growth could lose some momentum due to an expected stronger euro, some moderation in global growth, still elevated oil prices, inflation concerns and higher interest rates. Of major concern is the rise in inflation. Inflation rose above the ECB's target of close to, but less than, 2%. It is widely acknowledged that interest rate

increases are the ECB's chief tool in controlling higher prices.

Such data and forecasts lent weight to expectations for the ECB to remain cautious about raising interest rates too rapidly, and maintaining a steady, but slow pace. It is expected that there will be expansions during the year, but there is widespread speculation over the timing of these increases. Despite rate hikes in the US, the euro, on expectations of rate increases by the ECB closed the quarter higher at 0.825 cents to the US dollar.

United Kingdom

Following the quarter point decline in August – the only change during the eighteen months to March, the Bank of England's (BoE) policymakers held the cost of borrowing in Britain at 4.5% for the eighth consecutive month amid steady economic growth.

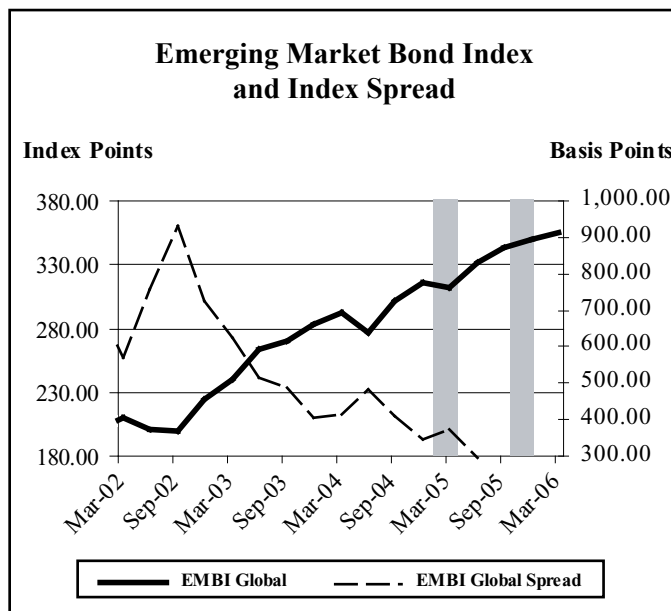
With inflation slightly below target and first quarter GDP growth around trend, there seems little immediate pressure to change interest rates. Still, pressure from slowing inflation and sluggish consumer spending may eventually force the BoE to reduce rates, especially if the property market slows in the second half of the year.

Many expect that house prices will expand by only about 3% nationwide in 2006, broadly in line with inflation and in spite of the rapid increases of the first quarter. Further, it is the general impression that the seemingly renewed strength in the housing market remains a key reason the Monetary Policy Committee (MPC) has delayed any response to weakness in other parts of the economy through another rate cut. The apparent pick-up in house price inflation will leave the MPC reluctant to lower interest rates for fear of igniting another borrowing boom.

Emerging Markets

Bond Markets

In spite of a negative return during the month of March 2006, the J. P. Morgan EMBI Global Diversified



Index posted a fairly strong overall return during the first quarter of 2006, on the basis of improved economic fundamentals across territories. In addition, emerging market debt performed well, benefiting primarily from strong demand and higher commodity prices. The best performing region was emerging Asia, with the Latin American market close behind.

Equity Markets

In the first quarter of 2006, emerging equity markets recorded their seventh consecutive quarterly increase, growing by 12.1%. Latin America, rebounding after a weak fourth quarter for 2005, was the best performing region for the first three months of the year, buoyed by the continued demand for energy and materials. Venezuela, which was the only country to lose ground in 2005, registered the most significant index growth of 51.4% for the first three months of 2006. The Brazilian Bovespa advanced by 13.4% for the period, on account of higher commodity prices and the continued strengthening of the Real.

The emerging Asian markets performed fairly well, increasing by 9% during the quarter, as steady global

demand for high-tech products continued to spur the expansion of Asian technology exporters. The Chinese, Indonesian and Indian markets all recorded double-digit growth rates during the review period, as a result of strong GDP growth in 2005. In contrast, the South Korean and Taiwan indices were the weakest during the quarter, partly as a result of sluggish export growth.

Emerging Equity Market Indices (Quarterly)

Country/Region	Index	Dec-05	Mar-06	% Ch
Argentina	Merval	1,331.8	1,399.2	5.1
Brazil	Bovespa	33,455.9	37,952.0	13.4
Chile	IPSA	1,964.5	2,182.0	11.1
Mexico	IPC	17,802.7	19,272.6	8.3
Venezuela	Caracas	20,394.8	30,882.5	51.4
Latin America		2,150.0	2,469.4	14.9
China	Shanghai	1,161.1	1,298.3	11.8
Hong Kong	Hang Seng	14,876.4	15,805.0	6.2
India	Mumbai	9,397.9	11,280.0	20
Indonesia	Jakarta	1,162.6	1,323.0	13.8
Malaysia	Kuala Lumpur	899.8	926.6	3
Philippines	PSE	2,096.0	2,196.0	4.8
Singapore	Straits Times	2,347.3	2,533.4	7.9
South Korea	Seoul	1,379.4	1,359.6	-1.4
Thailand	SET	713.7	733.3	2.7
Taiwan	Weighted	6,548.3	6,614.0	1
Asia		286.2	311.9	9.0

Source: Bloomberg Service

Currency Markets

During the first quarter of 2006, most Asian currencies with floating exchange rates continued to appreciate against the US dollar. The Indonesian Rupiah registered the largest change during the period, primarily on account of increased foreign investment, reduced spending and favourable monetary policy. Conversely, most of the major Latin American currencies depreciated, with the exception of the Brazilian Real. The Real appreciated because of trade surpluses, abundant liquidity in the international market place and the variation between high domestic and low international interest rates.

Emerging Market Currencies (Quarterly)

Country/Region	Currency	Dec-05	Mar-06	% Ch
Argentina	Peso	3.0	3.1	-1.7
Brazil	Real	2.3	2.2	7.3
Chile	Peso	512	526.4	-2.8
Mexico	Peso	10.6	10.9	-2.2
Venezuela	Bolivar	2,147.3	2,147.3	0.0
China	Yuan	8.1	8.0	0.7
Hong Kong	Dollar	7.8	7.8	-0.1
India	Rupee	45.1	44.6	0.9
Indonesia	Rupiah	9,830.0	9,070.0	7.7
Malaysia	Ringitt	3.8	3.7	2.6
Philippines	Peso	53.1	51.1	3.8
Singapore	Dollar	1.7	1.6	2.9
South Korea	Won	1,010.0	971.7	3.8
Thailand	Baht	41.0	38.9	5.2
Taiwan	Dollar	32.8	32.5	1.1

Source: Bloomberg Service



A Review of Cariforum-Eu Regional Economic Partnership Agreement Negotiations to Date

Beginning with the 1957 Treaty of Rome, and continuing through the various Yaoundé (1963 – 1975) and Lomé (1975 – 2000) conventions and the Cotonou (2000 – 2020) Agreement, the framework for relations between African, Caribbean and Pacific (ACP) and European Union (EU) countries has sought to promote ACP states' integration into the global economy. In keeping with this objective, the two groupings made a commitment in the current Cotonou Agreement to conclude WTO-compatible trading arrangements known as Economic Partnership Agreements (EPAs) between the EU and six ACP regions by mid-2007.

Within this context, the Caribbean Forum (CARIFORUM)¹ region of the ACP launched EPA negotiations with the EU in April 2004. The resulting EPA is intended to go further than traditional trade agreements by incorporating special and differential treatment (S&DT) provisions and a development dimension. Thus, CARIFORUM countries would benefit from EU support to build up their export capacity and infrastructure, thereby stimulating trade and investment flows between the EU and CARIFORUM.

State of Play

The negotiations were divided into four phases: (1) establish priorities for negotiations (April – September 2004), (2) agree on a strategic approach to CARIFORUM

integration (September 2004 – September 2005), (3) negotiate specific trade issues to be included in draft texts (September 2005 – December 2006) and (4) finalise and consolidate results (January – mid-2007). The two regions are currently in the third phase, involving technical discussions on four specific areas: market access for goods, services and investment, trade related issues and legal and institutional issues. During this phase, the two sides aim to consolidate the results of the discussions in the previous phase on approaches to regional integration and to agree on the structure of an EPA agreement and a common approach to trade liberalisation.

However, the Caribbean Regional Negotiating Machinery (CRNM), which has responsibility for negotiating with the EU on behalf of CARIFORUM governments, has highlighted a number of difficulties encountered during the negotiations to date: *“For the Caribbean, the treatment of key issues by the EU as they relate to the Region’s economic interests is far from satisfactory... of particular concern is the approach taken by the EU regarding tariff liberalization in goods, the regional integration dimension, the scope and ambit of commitments in certain areas, funding the costs of EPA implementation and adjustment and, allied to this, the place of the development dimension in on-going talks”*.² While full details of these issues are not publicly available, a recent publication³ provided certain insights, citing sources close to the negotiations.

These sources indicate that *“... the EC [European Community] approach to have current applied tariffs of CARIFORUM members translated into a single starting line for tariff liberalisation reflects its continued desire for the Caribbean to form a single trade regime despite the fact that CARIFORUM has three integration processes being pursued at varied pace and depth... In each area of the negotiations, the EC advanced the notion that it expects non-discrimination of the EC compared to the treatment granted by CARIFORUM countries to other developed country partners...”*

¹ The fifteen Caribbean countries comprising CARIFORUM are Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago.

² RNM UPDATE 0608, Caribbean Regional Negotiating Machinery, May 3, 2006, www.crnmm.org

³ Trade Negotiations Insights Vol. 5 No.2, International Centre for Trade and Sustainable Development and European Centre for Development Policy Management, March-April 2006, www.icstd.org

A “single starting line” for tariff liberalisation could have very negative implications for many Caribbean countries. If all CARIFORUM members are forced to converge to the low tariff levels applied by the Dominican Republic and Haiti, this will have serious effects on the fiscal sustainability of the other members, who are all somewhat dependent on revenues from import taxes, albeit with varying degrees of dependency. Furthermore, the application of the principle of non-discrimination could constitute a problem, in that the Dominican Republic gives preferential treatment to the United States under its Free Trade Agreement with the United States and Central American countries (DR-CAFTA). Again, if all CARIFORUM countries are required to give similar concessions to the EU this would imply a pace and degree of tariff liberalisation that would be unsustainable for the majority of CARIFORUM countries.

Also, as the above quote indicates, the three integration processes being pursued within CARIFORUM — namely the Caribbean Community (CARICOM), the Caribbean Single Market and Economy (CSME) and the bilateral CARICOM-Dominican Republic Trade Agreement (CARICOM-DR) — are all proceeding at different speeds towards different levels of integration and therefore cannot be simply amalgamated into one regime, as the EU is proposing.

The aforementioned sources also indicate that “... a major fault line in the negotiations is that each time the Caribbean raises the issue of the need for support for capacity building, institution building, or to address supply side constraints, the EC unambiguously states that these are trade negotiations and that EPAs are a trade agreement and they are not in a position to negotiate capacity building support within EPA Negotiating Groups. EPAs, they maintain, are linked to the development cooperation ... and delivering the development objectives of EPAs goes beyond the provision of financial support... the EC’s approach to seek to insert binding commitments on sustainable development and good governance in an

EPA seemingly inconsistent with the EC approach of not including binding commitments on trade capacity building support...”

These and other issues have prompted Caribbean Trade Ministers to articulate their concern about the direction the negotiations are taking. In a recent statement, “Ministers expressed disappointment that the EU continues to resist the Region’s proposals for timely and assured market opening, and is instead proposing that the Region commit to immediate and aggressive market opening in the EU’s favour. Ministers asserted that this would have the effect of damaging production in the Region’s small, vulnerable economies and thwarting their development efforts. Further, Ministers noted that this was compounded by the fact that the EU’s vision of CARIFORUM regional integration does not appear to fully respect the objectives and reality of the Region’s integration process.”⁴

Prospects

A formal and comprehensive review of the EPAs is scheduled for this year (2006) to look at the progress thus far and identify any problems arising out of the negotiations. CARIFORUM negotiators are optimistic that this will provide a welcome opportunity to raise their numerous concerns, particularly relating to the development dimension, and hopefully have them addressed.

In addition, 2006 is the year in which non-Least Developed Countries in the ACP (most Caribbean countries, for example) have committed themselves to notifying the EU as to whether they will actually be in a position to sign an EPA or if they will seek an alternative arrangement with the EU. Indeed, Article 37.6 of the Cotonou Agreement commits the EU to “examine all alternative possibilities, in order to provide these countries with a new framework

⁴ Ministerial Statement issued at the recent 16th Special Session of the Council for Trade and Economic Development (COTED) held in Barbados on April 29, 2006, http://www.crnw.org/documents/press_releases_2006/Caribbean_Ministerial_Statement_29_April_06.pdf

for trade which is equivalent to their existing situation and in conformity with WTO rules". A recent study⁵ commissioned by two non-governmental organisations (NGOs), Oxfam International and Both ENDS, explores a range of options available to ACP countries in this regard.

Overall, therefore, the year 2006 should be a challenging one for CARIFORUM countries in the trade policy arena. Indeed, EPA negotiations are taking place in the context of an already demanding negotiating schedule. The culmination of the Doha Round of World Trade Organisation (WTO) negotiations and the implementation of the CSME and DR-CAFTA, along with the possibility of new CARICOM bilaterals, such as the mooted CARICOM-Canada agreement, will further stretch the region's limited negotiating resources.

⁵ Policy Management Report No. 11, "Alternative (To) EPAs: Possible Scenarios for the Future ACP Trade Relations With the EU", Sanoussi Bilal and Francesco Rampa, European Centre for Development Policy Management (ECDPM), February 2006.



Non-Interest Income at Commercial Banks in Barbados: An Empirical Note

by Roland Craigwell and Chanelle Maxwell*

Abstract. This study discusses the trend and determinants of non-interest income in the Barbadian banking industry during the period 1985 to 2001. The results suggest that the incidence of non-interest income declined over the period, contrary to the findings in other countries of the Caribbean and the wider developed world. A review of the literature and a panel data regression model confirm that this result may be attributed to the absence of some of the factors that were central to the generation of non-interest income in developed countries, such as deregulation and technological change, especially for the development of loan securitisation and credit scoring. The empirics support bank characteristics and market developments like the ATM technology as the most influential factors shaping the trend of non-interest income in the banking industry in Barbados.

Key words: Non-interest income, panel data

JEL: C23, N2

1. Introduction

This note has two purposes: (i) to provide some stylised facts about trends in commercial banks' non-interest income in Barbados over the period 1985-2001, and (ii) to identify the factors that shaped these trends using casual observation of the literature and panel data econometrics. It is motivated by the recent comments of banking analysts and other commentators that, given the current low interest rate environment, the high profitability prevailing in the Barbadian banking system¹ may be attributed to the

growth in non-interest income, mainly occasioned by the entry of new technologies and opportunities available to banks (PricewaterhouseCoopers, 2004). In addition, there is a school of thought (see, for example, references in DeYoung and Rice (2003)) that non-interest income generating activities should be encouraged since they could

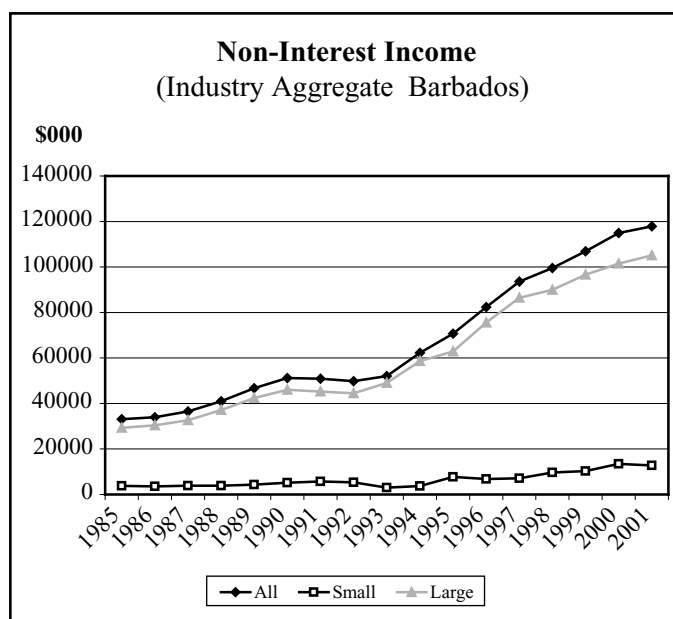


Figure 1

reduce risks through increased diversification and are more stable because they are absolved from credit or interest rate risks.

2. Trends in Non-Interest Income in Barbados

The sample period covered in this study ends at 2001 because of the possible empirical complications in dealing with the mergers and acquisitions that occurred after that year.

There was an overall increase in the level of non-interest income in the Barbadian commercial banking industry during the period 1985 to 2001. In 1985 aggregate

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¹ During the period covered in this study, the commercial banking system in Barbados basically comprised seven banks. Two of the seven banks were categorized as small banks, that is, their average assets over the last 10 years (1992 - 2001) is less than \$500,000. Additionally, on average, five of the seven banks were foreign owned.

Table 1a: Non-Interest Income (Percentage of Assets and Operating Income) in Barbados

	Aggregate Banks		Small Banks		Large Banks	
	Non-interest Income		Non-interest Income		Non-interest Income	
	% of Total Assets	% of Operating Income	% of Total Assets	% of Operating Income	% of Total Assets	% of Operating Income
1985	2.45%	39.4%	3.51%	60.1%	2.35%	37.7%
1986	2.24%	35.6%	1.87%	37.7%	2.29%	35.4%
1987	2.12%	34.4%	1.81%	32.8%	2.16%	34.5%
1988	2.13%	34.3%	1.51%	30.7%	2.22%	34.7%
1989	2.36%	33.4%	1.69%	28.8%	2.46%	33.9%
1990	2.35%	36.3%	1.94%	33.1%	2.41%	36.7%
1991	2.36%	33.7%	2.18%	35.6%	2.38%	33.5%
1992	2.20%	31.5%	2.45%	33.0%	2.17%	31.3%
1993	2.26%	35.8%	1.12%	29.8%	2.41%	36.2%
1994	2.35%	35.1%	1.23%	25.4%	2.49%	36.0%
1995	2.32%	34.2%	2.52%	31.1%	2.30%	34.7%
1996	2.21%	36.6%	1.88%	34.2%	2.25%	36.9%
1997	2.32%	37.8%	1.82%	30.1%	2.37%	38.6%
1998	2.31%	32.4%	2.39%	32.0%	2.30%	32.4%
1999	2.25%	32.8%	2.39%	33.5%	2.24%	32.8%
2000	2.34%	34.3%	2.88%	38.8%	2.28%	33.8%
2001	2.18%	33.5%	2.35%	36.3%	2.16%	33.2%

Source: Central Bank of Barbados

Notes: Commercial banks are classified as small if their average assets over the last 10 years (1992 – 2001) is less than \$500,000; banks whose 10 year average assets exceeds \$500,000 are classified as large

non-interest income of commercial banks was approximately \$33.1 million, and by 2001 this total had grown to about \$117.9 million. Figure 1 shows that, in general, the rise in non-interest income was more pronounced after 1993. Additionally, large banks experienced a stronger overall growth between 1985 and 2001, while the smaller banks registered the bigger average annual rate of increase.

However, despite the rise in aggregate levels of non-interest income in Barbados, various measures of the incidence of non-interest income (Table 1a) suggest that its relative importance in the commercial banking industry has actually diminished. Specifically, industry non-inter-

est income-to-assets fell by 0.27 of a percentage point during the period to 2.18% in 2001. The data reveals that for large banks, non-interest income as a percentage of total assets exhibited relatively less fluctuations than for smaller banks throughout the period. For large banks this ratio decreased from 2.35% in 1985 to 2.16% in 2001, while for small banks the ratio shrank from 3.51% in 1985 to 2.35% in 2001². Industry non-interest income as a percentage of operating income also fell between 1985 and 2001, by 5.9 percentage points to 33.47%. For large banks, non-interest income-to-operating income dropped from 37.7% to 33.1%, while smaller banks experienced a more substantial contraction from 60.1% to 36.3%.

With regard to the composition of non-interest income in the commercial banking industry, Table 1b clearly shows that fee income represents the most significant component of non-interest income in Barbados, even though the overall industry ratio of fee income to non-interest income decreased from 88.5% in 1985 to 83.3% by 2001, while the portion of non-interest income arising from other non-fee sources grew to 16.7%, up from 11.5% in 1985. At small banks, fee income was the sole source of non-interest income between 1985 and 1994, but its contribution gradually decreased thereafter to 58.4% in 2001, as other non-fee sources expanded to 41.6% of total non-interest income. The ratio of fee income to non-interest income at large banks fell only marginally over the period to 86.3%, with other non-fee income providing about 13.7% of total non-interest income. Further division of fee income across the industry reveals that small banks saw a rise in the proportion of non-interest income attributed to service charges on deposit accounts, but registered sharp declines

² If 1985 is excluded from the data set, the ratio of non-interest income to assets for small banks would have increased from 1.87% in 1986 to 2.35% in 2001. The decline in the ratio of non-interest income-to-asset for small banks between 1985 and 1986 coincides with the period when a small bank took over the operations of another bank.

Table 1b: Composition of Non-Interest Income in Barbados

	Aggregate Banks					Small Banks					Large Banks				
	Composition of Non-interest Income					Composition of Non-interest Income					Composition of Non-interest Income				
	Fee Income				Other Non-interest Income	Fee Income				Other Non-interest Income	Fee Income				Other Non-interest Income
	Foreign Ex. Charges	Service Charges	Other Fees	Total Fee Income		Foreign Ex. Charges	Service Charges	Other Fees	Total Fee Income		Foreign Ex. Charges	Service Charges	Other Fees	Total Fee Income	
1985	58.7%	8.5%	21.3%	88.5%	11.5%	51.2%	2.3%	46.5%	100.0%	0.0%	59.6%	9.4%	18.0%	87.0%	13.0%
1986	60.0%	9.1%	20.6%	89.6%	10.4%	50.3%	3.3%	46.5%	100.0%	0.0%	61.1%	9.8%	17.6%	88.4%	11.6%
1987	64.0%	11.6%	13.9%	89.5%	10.5%	57.4%	5.2%	37.4%	100.0%	0.0%	64.7%	12.3%	11.2%	88.3%	11.7%
1988	62.4%	8.4%	19.7%	90.5%	9.5%	58.4%	5.2%	36.3%	100.0%	0.0%	62.9%	8.8%	17.9%	89.6%	10.4%
1989	63.4%	9.3%	18.0%	90.7%	9.3%	61.6%	6.5%	31.8%	100.0%	0.0%	63.6%	9.6%	16.5%	89.7%	10.3%
1990	64.6%	9.4%	15.8%	89.8%	10.2%	61.0%	6.0%	33.0%	100.0%	0.0%	65.1%	9.8%	13.9%	88.7%	11.3%
1991	57.9%	11.0%	19.9%	88.8%	11.2%	56.7%	7.2%	36.1%	100.0%	0.0%	58.1%	11.5%	17.8%	87.4%	12.6%
1992	50.8%	12.0%	26.5%	89.2%	10.8%	62.9%	8.1%	29.0%	100.0%	0.0%	49.3%	12.4%	26.2%	87.9%	12.1%
1993	51.2%	12.5%	30.4%	94.1%	5.9%	47.5%	13.0%	39.5%	100.0%	0.0%	51.4%	12.5%	29.9%	93.8%	6.2%
1994	53.2%	9.9%	27.2%	90.3%	9.7%	50.9%	17.1%	32.0%	100.0%	0.0%	53.4%	9.4%	26.9%	89.6%	10.4%
1995	53.3%	9.8%	21.7%	84.8%	15.2%	48.0%	12.4%	26.6%	87.0%	13.0%	54.0%	9.5%	21.1%	84.6%	15.4%
1996	48.7%	10.7%	23.0%	82.4%	17.6%	31.0%	11.9%	11.0%	53.9%	46.1%	50.3%	10.6%	24.0%	84.9%	15.1%
1997	47.2%	9.5%	25.9%	82.7%	17.3%	30.9%	12.5%	19.8%	63.1%	36.9%	48.6%	9.3%	26.5%	84.3%	15.7%
1998	49.1%	8.5%	25.9%	83.5%	16.5%	27.9%	10.3%	18.0%	56.2%	43.8%	51.3%	8.3%	26.7%	86.4%	13.6%
1999	47.3%	9.3%	21.9%	78.5%	21.5%	21.4%	9.7%	22.4%	53.5%	46.5%	50.1%	9.3%	21.8%	81.2%	18.8%
2000	46.1%	11.8%	25.7%	83.6%	16.4%	16.2%	9.1%	30.3%	55.6%	44.4%	50.0%	12.1%	25.1%	87.3%	12.7%
2001	44.0%	11.8%	27.5%	83.3%	16.7%	16.0%	12.0%	30.5%	58.4%	41.6%	47.4%	11.8%	27.2%	86.3%	13.7%

Source: Central Bank of Barbados

Notes: Commercial banks are classified as small if their average assets over the last 10 years (1992 – 2001) is less than \$500,000; banks whose 10 year average assets exceeds \$500,000 are classified as large.

in the contribution of foreign exchange charges and other fee income. Additionally, although less pronounced, large banks recorded movements similar to those of small banks in the share of non-interest income provided by foreign exchange and service charges. However, in contrast to small banks there was a noticeable increase in the percentage of non-interest income derived from the other fees category at large banks.

3. A Comparison With Other Banking Systems

Table 2 shows a comparison of banks' non-interest income as a percentage of total assets for various countries in 2001. Barbados ranked in the upper range, 6th out of 19 countries. However, it is below the Caribbean islands of Trinidad and Tobago and Jamaica who topped the standings, even above the developed industrial countries in Europe

Table 2: A Comparison of Banks' Non-Interest Income as a Percentage of Total Assets for various Countries in 2001

Country	Non-interest Income (%)
Australia	1.5
Belgium	0.9
Canada	2.2
Denmark	1.3
Finland	3.1
France	1.7
Germany	0.7
Italy	1.1
Netherlands	1.2
New Zealand	1.2
Norway	0.8
Spain	0.9
Sweden	1.5
Switzerland	1.7
U.K.	1.4
U.S.	2.6
Average	1.5
Jamaica	10.5
Barbados	2.2
Trinidad & Tobago	3.5

Sources: Central Bank of Barbados, Central Bank of Trinidad and Tobago, Robinson (2002), Hawtrey (2003).

and North America. Hence, Caribbean countries appear to be generating more non-interest income per dollar of assets than other major countries in the world.

Table 3, which focuses on the Caribbean countries, reveals that, unlike Trinidad and Tobago and Jamaica, non-interest income at the end of 2001 constitutes a smaller proportion of banks' financial flows in Barbados. In addition, Hawtrey (2003), among others, reports an increasing trend for non-interest income in the developed countries, reflecting rising revenue from wealth management and financial market operations rather than retail banking fees. Table 4 shows that fee income is undoubtedly the main source of

non-interest income for both Barbados and Trinidad and Tobago; however, investment income is by far the largest contributor to non-interest income in Jamaica. It is also apparent from Table 4 that while reliance on fee income declined somewhat in Barbados and Jamaica during the period 1985 to 2001, it expanded in Trinidad and Tobago due largely to a notable increase in fees associated with loans. In the United States, according to Stiroh (2004), the biggest expansion in non-interest income between 1980 and 2000 was in fees and other income, although the other categories (fiduciary income, service charges and trading revenue) showed sizeable growth as well.

Table 3: Non-Interest Income (Percentage of Assets and Operating Income) in the Caribbean

	Barbados		Trinidad		Jamaica	
	Non-interest Income		Non-interest Income		Non-interest Income	
	% of Total Assets	% of Operating Income	% of Total Assets	% of Operating Income	% of Total Assets	% of Operating Income
1985	2.45%	39.4%	1.54%	22.6%	n.a.	n.a.
1986	2.24%	35.6%	1.46%	21.9%	n.a.	n.a.
1987	2.12%	34.4%	1.37%	22.6%	n.a.	n.a.
1988	2.13%	34.3%	1.45%	24.1%	n.a.	n.a.
1989	2.36%	33.4%	1.45%	23.7%	6.50%	73.9%
1990	2.35%	36.3%	1.32%	23.6%	6.49%	69.1%
1991	2.36%	33.7%	1.67%	28.0%	7.55%	69.9%
1992	2.20%	31.5%	2.09%	29.9%	9.49%	85.4%
1993	2.26%	35.8%	3.07%	42.1%	9.10%	76.6%
1994	2.35%	35.1%	2.43%	39.2%	10.15%	76.3%
1995	2.32%	34.2%	2.20%	38.2%	9.04%	75.2%
1996	2.21%	36.6%	2.42%	42.3%	8.76%	74.2%
1997	2.32%	37.8%	2.28%	37.2%	6.75%	67.3%
1998	2.31%	32.4%	2.08%	33.2%	11.55%	106.5%
1999	2.25%	32.8%	2.64%	36.9%	11.78%	111.9%
2000	2.34%	34.3%	2.53%	35.1%	11.47%	115.1%
2001	2.18%	33.5%	2.77%	39.0%	10.45%	112.7%

Source: Central Bank of Barbados, Central Bank of Trinidad and Tobago, Robinson (2002)
n.a.: Not Available

Table 4: Composition of Non-Interest Income in the Caribbean

	Barbados				Trinidad				Jamaica			
	Non-interest Income				Non-interest Income				Non-interest Income			
	Fee Income			Other Non-interest Income	Fee income	Foreign Exchange Profit/(Loss)	Dividend, Rental, & Trust Services Income	Other Non-interest Income	Fee Service Charges, Commissions	Investments	Foreign Exchange Gains	Other Non-interest Income
	Foreign Exchange Charges	Service Charges	Other Fees									
1985	58.7%	8.5%	21.3%	11.5%	40.6%	n.a.	n.a.	59.4%	n.a.	n.a.	n.a.	n.a.
1986	60.0%	9.1%	20.6%	10.4%	47.8%	32.2%	7.19%	12.8%	n.a.	n.a.	n.a.	n.a.
1987	64.0%	11.6%	13.9%	10.5%	54.5%	29.2%	8.20%	8.0%	n.a.	n.a.	n.a.	n.a.
1988	62.4%	8.4%	19.7%	9.5%	41.9%	35.7%	7.92%	14.5%	n.a.	n.a.	n.a.	n.a.
1989	63.4%	9.3%	18.0%	9.3%	53.5%	23.9%	6.97%	15.7%	14.3%	61.5%	9.8%	14.4%
1990	64.6%	9.4%	15.8%	10.2%	58.7%	25.4%	7.62%	8.2%	13.1%	58.7%	15.5%	12.7%
1991	57.9%	11.0%	19.9%	11.2%	53.5%	20.0%	7.58%	18.9%	11.3%	39.7%	37.2%	11.9%
1992	50.8%	12.0%	26.5%	10.8%	48.7%	18.2%	9.50%	23.6%	9.4%	61.7%	16.4%	12.4%
1993	51.2%	12.5%	30.4%	5.9%	40.5%	41.7%	3.49%	14.4%	10.6%	63.7%	16.6%	9.1%
1994	53.2%	9.9%	27.2%	9.7%	46.9%	35.7%	4.82%	12.6%	10.5%	73.0%	10.9%	5.6%
1995	53.3%	9.8%	21.7%	15.2%	52.5%	33.3%	4.60%	9.6%	14.7%	68.9%	12.1%	4.2%
1996	48.7%	10.7%	23.0%	17.6%	54.0%	26.0%	4.27%	15.7%	13.6%	69.6%	6.0%	10.7%
1997	47.2%	9.5%	25.9%	17.3%	56.7%	21.0%	5.21%	17.1%	18.3%	66.0%	7.9%	7.8%
1998	49.1%	8.5%	25.9%	16.5%	59.4%	23.2%	7.16%	10.2%	10.5%	83.9%	4.1%	1.5%
1999	47.3%	9.3%	21.9%	21.5%	55.2%	24.2%	5.10%	15.5%	9.4%	85.7%	3.2%	1.7%
2000	46.1%	11.8%	25.7%	16.4%	56.8%	21.6%	7.84%	14.1%	9.7%	85.1%	4.2%	1.0%
2001	44.0%	11.8%	27.5%	16.7%	56.7%	21.9%	8.13%	13.3%	11.4%	82.9%	4.6%	1.1%

Source: Central Bank of Barbados, Central Bank of Trinidad and Tobago, Robinson (2002).
n.a. Not Available

4. Why Has the Incidence of Non-Interest Income at Banks in Barbados Not Increased?

The best way to answer this question is to review the factors that have increased non-interest income in the rest of the world and compare them with the situation in Barbados. Hawtrey (2003) provides an interesting discussion of these issues. He sets out five main factors that may have influenced the growth of non-interest income in the international arena: (i) deregulation; (ii) expanding consumer needs; (iii) technology; (iv) supervision, and; (v) globalisation.

The type of deregulation of the financial sector in the United States and other developed countries and its consequential increased competition has not really taken

place in the Barbadian banking system and therefore the steady narrowing of net-interest margins has not occurred in Barbados (see Craigwell and Moore (2002)). With respect to expanding consumer needs, there appears to be no significant new types of bank activity in Barbados. For instance, there still seems to be the heavy reliance on past book accounts rather than superannuation which is particular to funds management. Technology change can impact non-interest income in three different ways; namely, through loans securitization and credit scoring, disintermediation and new delivery channels. In Barbados, there is little evidence of loans securitization and credit scoring. Additionally, although other financial institutions have been growing, banks are still the dominant force in the financial sector in Barbados (see Belgrave, Craigwell

and Moore (2004)). Hence, disintermediation does not appear to be a major factor affecting non-interest income in Barbados. New delivery channels like automated telling machines (ATMs), have provided more choice and convenience for customers for additional fees (see Parris (2002) and Coppin, Craigwell and Moore (2003)). With regard to bank supervision, Basel I and II have not really been finalised in Barbados and it is doubtful that banks have looked at pricing the assets on their books differently as a result of these regulatory requirements. Finally, globalisation has created some mergers and acquisitions and this might have encouraged Barbadian banks to fall in line with world pricing benchmarks and international practices, affecting fee income in the process. In summary it seems that most of the major factors that cause banks in the developed world to generate more non-interest income have not been fully realised in Barbados.

5. An Empirical Model of Non-Interest Income

The model used here is based on DeYoung and Rice (2003) where non-interest income as a percentage of assets (NIIRATIO) is written as a function of bank efficiency, technology change, bank strategy, bank size and organisation as well as the bank external environment. Formally

NIIRATIO = f(Bank efficiency, Technological change, Bank strategy, Bank size and organisation, Bank external environment)

The task now is to find appropriate indicators for these determinants. This is difficult because of the unavailability of some of the data and because the chosen proxy may have more than one interpretation. With these caveats in mind the indicators of the determinants will now be given. Bank efficiency is measured by each bank's relative financial performance, calculated as the bank return on assets minus the average return on assets of the other banks. The sign on the coefficient of this variable is likely

to be ambiguous since it is not clear that well managed banks will generate lower or higher amounts of non-interest income per dollar of assets. However, the evidence from North America suggests that this sign should be negative as non-interest income is fairly volatile and the return from non-interest income is not large enough to justify the added risk (see DeYoung and Rice (2003)).

Technology change is captured by a dummy variable reflecting the introduction of ATMs. The number of ATMs per capita and the number of cashless transactions per capita would have been preferable but they were not available. As DeYoung and Rice (2003) argue, this type of technology advance and adoption is expected to increase non-interest income at banks by generating new fee income that more than outweighs the losses of fee income related to the reductions in cash balance depositors need to hold in checking and other liquid bank accounts.

Several indicators were tried to capture the strategic responses of banks. From the lending side, the loan-to-asset ratio, the composition of the loan portfolio (real estate, consumer and commercial and industrial loan share), and the riskiness of the loan portfolio (allowance for loan-losses-to-assets ratio, loan concentration Herfindahl index) were all included. High levels of loan-to-assets are indicative of an intermediation-based lending strategy in which banks rely on interest income. Therefore, the sign on this variable should be negative. The a priori impact of the composition of the loan portfolio will depend on the peculiar features of the respective loan categories in generating fee income. In Barbados, for example, real estate lending may provide more opportunities for fee income at banks than other types of loans since for the majority of customers banks are the first and primary choice for the acquisition of land and home ownership. In this case, the sign on the parameter of the real estate variable is expected to be positive while that on other consumer loans, where there may be several lending alternatives, is likely to be negative assuming a fixed supply of funds. With respect to the riskiness of the loan portfolio, standard finance theory argues that the more risky the banking sector portfolio

the greater non-interest income should be to compensate banks' shareholders for risk.

Apart from the lending side of the banks' strategy, this study also incorporates a core deposits-to-assets ratio to capture the traditional relationship banking, a dummy variable for credit card banks to reflect the effects of the non-traditional banking strategy and the ratio of full-time employees to deposits to represent personalized services. Banks with large amounts of core deposits funding tend to generate high levels of non-interest income per dollar of assets, suggesting that close relationships with depositors provide ready customers additional fee-based services and/or allow banks to take advantage of inelastic demand (due to switching costs) and increase the prices of these services. Non-interest income should be positively related to credit card banking. The sign of the coefficient on the personalized service variable is expected to be positive, implying that customers are willing to pay higher fees to banks that offered increased levels of personal service. DeYoung and Rice (2003) noted that this variable could also represent inefficient spending on labour.

The logarithm of assets and a dummy variable reflecting the difference between foreign and local banks, respectively, captures bank size and organisation. Although the literature generally suggests that it is large foreign banks that tend to generate more non-interest income, there is no a priori reason why small local banks cannot use non-interest income to boost their revenue streams.

The bank's environment is measured in this paper by economy wide job growth. This sign on this variable is expected to be positive since greater job growth should be associated with increased income and banking activity.

The definitions of all of these variables along with the descriptive statistics are given in the Appendix.

6. Methodology and Results

Eviews 5 is the econometric software programme utilised for all the computations. The model is estimated for 7 banks using pooled least squares (heteroscedasticity

Table 5a: Pooled Least Squares Regression Results

Dependent Variable: NIIRATIO1_?
 Sample: 1985Q1 2001Q4
 Included observations: 56
 Cross-sections included: 7
 Total pool (unbalanced) observations: 204
 Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.013616	0.005713	2.383202	0.0182
RELROA_?	0.017790	0.022197	0.801435	0.4239
FTERATIO_?	0.434228	0.177634	2.444511	0.0154
LNASSETS_?	-0.002120	0.000607	-3.490553	0.0006
FOREIGNBHC_?	0.000201	0.000947	0.212500	0.8320
LOANRATIO_?	0.002177	0.000851	2.557950	0.0113
RESHARE_?	0.007591	0.001730	4.388007	0.0000
CCBANK_?	0.002562	0.000654	3.915479	0.0001
ATM1_?	0.002616	0.000724	3.615198	0.0004
CISHARE_?	0.007559	0.002470	3.060155	0.0025
LOANCONC_?	-2.26E-07	2.45E-07	-0.924045	0.3567
CONSHARE_?	0.010193	0.001990	5.121667	0.0000
CORERATIO_?	0.000534	0.001613	0.330959	0.7411
JOBGROWTH_?	0.000441	0.002021	0.218402	0.8274
Fixed Effects (Cross)				
1--C	0.003957			
2--C	-0.001578			
3--C	-0.000456			
4--C	0.000876			
5--C	-0.002218			
6--C	-0.002765			
7--C	0.000289			
Weighted Statistics				
R-squared	0.894887	Mean dependent var	0.006532	
Adjusted R-squared	0.884033	S.D. dependent var	0.002823	
S.E. of regression	0.000961	Sum squared resid	0.000170	
F-statistic	82.44725	Durbin-Watson stat	1.673070	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.781789	Mean dependent var	0.005878	
Sum squared resid	0.000181	Durbin-Watson stat	1.443590	

adjusted) on an unbalanced panel with fixed effects over the quarterly period 1985-2001. The F-test suggests that this model is preferable to the pooled version. It seems to

fit the data pretty well with an R square of about 90 per cent. Almost all of the coefficients are significant and have economic reasonable signs (see the regression results in Table 5a, b).

Table 5b: Pooled Least Squares Regression Results

Dependent Variable: NIIRATIO1_?
 Sample: 1985Q1 2001Q4
 Included observations: 56
 Cross-sections included: 7
 Total pool (unbalanced) observations: 204
 Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.015018	0.004764	3.152444	0.0019
FTERATIO_?	0.374900	0.158320	2.367983	0.0189
LNASSETS_?	-0.002368	0.000518	-4.573214	0.0000
LOANRATIO_?	0.002266	0.000788	2.874247	0.0045
RESHARE_?	0.008609	0.001331	6.468123	0.0000
CCBANK_?	0.002604	0.000605	4.303137	0.0000
ATM1_?	0.002768	0.000687	4.028407	0.0001
CISHARE_?	0.007109	0.002195	3.238272	0.0014
CONSHARE_?	0.011154	0.001726	6.464231	0.0000
Fixed Effects (Cross)				
1--C	0.004321			
2--C	-0.001658			
3--C	-0.000454			
4--C	0.000999			
5--C	-0.002342			
6--C	-0.003323			
7--C	0.000349			
Weighted Statistics				
R-squared	0.904500	Mean dependent var	0.006705	
Adjusted R-squared	0.897426	S.D. dependent var	0.003022	
S.E. of regression	0.000968	Sum squared resid	0.000177	
F-statistic	127.8615	Durbin-Watson stat	1.675618	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.779967	Mean dependent var	0.005878	
Sum squared resid	0.000183	Durbin-Watson stat	1.442127	

It appears that the relative performance of banks is not significant in explaining non-interest income in Barbados. This is contrary to the findings in the United States where banks' relative performance was shown to be a significant and negatively related variable.

The technology variable behaved as anticipated indicating that technology is vital to the generation of non-interest income in Barbados. Hence, banks with more advanced technology tends to generate higher levels of non-interest income per dollar of assets.

The loan-to-assets indicator does not carry the a priori sign, which implies that for commercial banks in Barbados high levels of loans-to-assets give high levels of non-interest income. The results also suggest that banks which focus on consumer lending create more opportunities to sell fee-based services and this is at odds with the a priori expectation discussed earlier. Likewise, banks that expend resources on real estate lending, as well as commercial and industrial lending, tend to earn more non-interest income. These results are against the evidence found in the United States where it is argued that consumers tend to shop for mortgages and other loans beyond the commercial banks. With respect to the riskiness of the loan portfolio, the insignificance of the parameter on the Herfindahl index suggests that risk is not a major determinant in generating non-interest income in Barbados. Allowance for loan-losses-to-assets ratio was also included as a measure of loan quality but was omitted because it resulted in a singular matrix and consequently least squares estimates could not be obtained.

The variable representing the traditional relationship of banking is not significant, suggesting that banks have not been able to take advantage of the close relationships with depositors to encourage them to undertake additional fee-based services and/or pay more for these services given

customers' inelastic demand (due to switching costs). The credit card variable has the expected positive sign, while the coefficient on the personalized service variable implies that customers are willing to pay fees to banks that offer higher levels of personalized services.

The bank size and organisation indicators are significant but the sign is contrary to the empirical evidence found in the United States. That is, the level of bank size is associated with lower non-interest income and foreign banks generate less non-interest income per dollar of assets than local banks. This could be an indication that small local banks provide more personalized service to customers than their large foreign counterparts; hence they benefit from the positive relationship between personalized service and non-interest income.

Finally the bank environment indicator, measured by growth in employment, is insignificant, suggesting that non-interest income is not affected by the external environment of the banks.

Conclusions

This paper discusses the trend and determinants of non-interest income in the Barbadian banking system. It finds that the incidence of non-interest income declined over the period 1985 to 2001, contrary to other countries in the Caribbean and the wider developed world. Apparently, most of the major factors that cause banks in the developed world to generate more non-interest income, like deregulation and technological change for the development of loan securitization and credit scoring, have not yet taken sufficient root in Barbados, as to generate substantially higher non-interest income. Bank characteristics as well as market developments like the ATM technology seem to be the most influential factors shaping the pattern of non-interest income in the banking industry in Barbados, results confirmed by an empirical model using panel data. Further research could be done to ascertain whether non-interest income reduces risks via diversification.

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Appendix

Variable Definitions

Variables	Definition
NIIRATIO1	Non-interest income divided by total assets.
RELROA	Bank <i>i</i> 's relative performance over the last quarter: return on assets of bank <i>i</i> in period <i>t</i> -1 minus the average return on assets of all banks in period <i>t</i> -1.
LOANRATIO	Total loans divided by total assets.
CISHARE	Commercial and Industrial loans (Manufacturing and Mining, Commerce and Trade, and Construction loans) divided by total loans.
CONSHARE	Consumer loans divided by total loans.
CORERATIO	Transactions deposits (demand & savings) plus time deposits divided by total assets.
FTERATIO	Number of bank employees divided by transactions deposits.
RESHARE	Mortgage loans divided by total loans.
LNASSETS	Natural log of bank assets deflated by RPI based in 2001.
LOANCONC	Loan concentration Herfindahl index, based on share of Consumer, Commercial and Industrial, Agriculture and Fishing and All Other loans.
CCBANK	Dummy = 1 if more than 5% of bank assets are held in credit card loans.
FOREIGNBHC	Dummy = 1 if bank is an affiliate of a bank holding company headquartered in a foreign country.
ATM1	Dummy = 1 if bank has ATM machines.
JOBGROWTH	Growth in employment in Barbados.
LOANQUALITY	Reserve for bad debt divided by total assets.

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Observations
NIIRATIO1	0.006	0.006	0.019	0.001	0.002	0.907	6.799	351.480	476
LNASSETS	8.273	8.419	9.423	6.018	0.655	-0.838	3.320	57.734	476
RELROA	0.000	0.000	0.013	-0.015	0.004	-0.114	4.329	36.037	476
CORERATIO	0.805	0.830	1.043	0.310	0.102	-0.845	3.468	54.894	428
LOANRATIO	0.430	0.422	1.434	0.085	0.202	1.503	7.908	657.121	476
CONSHARE	0.427	0.377	0.854	0.039	0.194	0.368	2.406	17.756	476
CISHARE	0.452	0.403	0.952	0.094	0.224	0.453	2.110	31.959	476
RESHARE	0.056	0.000	0.559	0.000	0.120	2.706	9.773	839.317	268
LOANCONC	5170.983	5024.500	9073.000	3178.000	1326.896	0.652	3.140	34.153	476
JOBGROWTH	0.021	0.024	0.089	-0.087	0.034	-0.858	4.420	98.425	476
CCBANK	0.015	0.000	1.000	0.000	0.121	8.001	65.015	45804.990	268
FOREIGNBHC	0.782	1.000	1.000	0.000	0.414	-1.363	2.856	147.690	476
FTERATIO	0.002	0.001	0.008	0.001	0.001	2.566	11.836	1444.492	332
ATM1	0.555	1.000	1.000	0.000	0.498	-0.220	1.048	79.380	476
LOANQUALITY	0.014	0.011	0.208	0.000	0.018	4.485	44.623	25078.930	332