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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.

Articles and correspondence regarding the Review should be addressed to:

The Administrative Editor
Economic Review
Central Bank of Barbados
P.O.Box 1016
Bridgetown
Barbados
Tel: (246) 436-6870
Fax: (246) 427-1431
E-mail: cbb.lib@caribsurf.com
Website: www.centralbank.org.bb

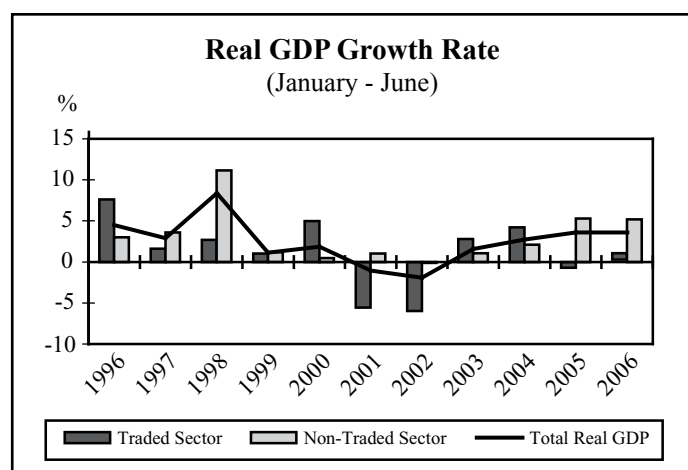
***The Editorial Committee**

Dr. Daniel Boamah
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Review of the Economy

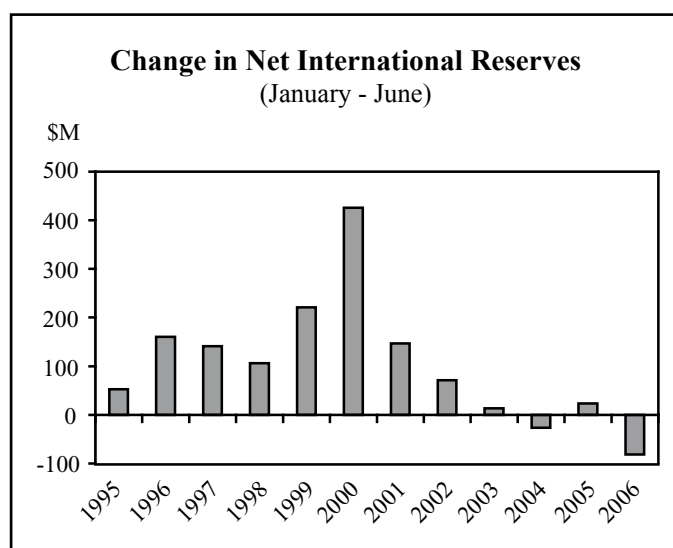
The Barbadian economy grew by approximately 3.7% during the first half of 2006, moderately higher than the rate of increase in the same period one year earlier, primarily on account of continued robust growth in the non-traded sectors. Higher outlays on imports of fuel and capital goods, together with increased debt service payments, led to a decline in the net international reserves (NIR) of the monetary authorities in the six months under review. When commercial banks foreign currency deposits with the Central Bank and second tier reserves are included there was an increase in available foreign exchange reserves of \$35.9 million. In addition, rising income levels contributed to a strong build-up in deposits, which boosted commercial bank liquidity. At the end of June, the liquidity ratio was slightly lower than the comparable figure for 2005. Government recorded a fiscal surplus in the first half of 2006, after incurring a deficit in the corresponding period in 2005.



During the review period, real output in the traded sectors grew modestly (1.0%), in contrast to a 0.2% decline one year earlier, with the improvements in tourism and manufacturing overshadowing a contraction in the sugar industry. Conversely, there was continued broad-based

expansion in the non-traded sectors, led by growth in the construction industry. While the increase in non-traded activity resulted in a lower rate of unemployment, rising international oil prices contributed to increased domestic costs, which translated into a higher inflation rate for the review period.

Despite the momentum provided by the non-traded industries, consumer and intermediate goods imports declined slightly and this led to a small contraction in total retained imports in the first half of 2006. Nevertheless, the value of retained imports still outstripped the receipts from domestic exports and net services. This, along with higher interest payments, resulted in the fourth consecutive first-half external current account deficit. At the same time amortisation payments were higher and there was a substantial accumulation of net foreign assets at commercial banks. Consequently, the net international reserves (NIR) fell by approximately \$68.1 million, in contrast to an expansion of \$23.6 million in the comparable period of 2005. The available liquid foreign reserves at the end of June, inclusive of the foreign currency deposits of commercial banks, amounted to \$1,290.1 million, leaving the reserve cover at 15.4 weeks of imports of goods and services (or 23.1 weeks cover for goods). This ratio rises



to 16.5 weeks for goods and services when the second tier reserves are included.

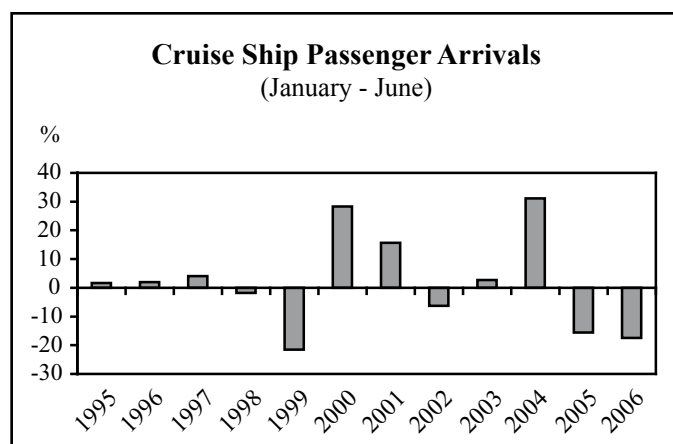
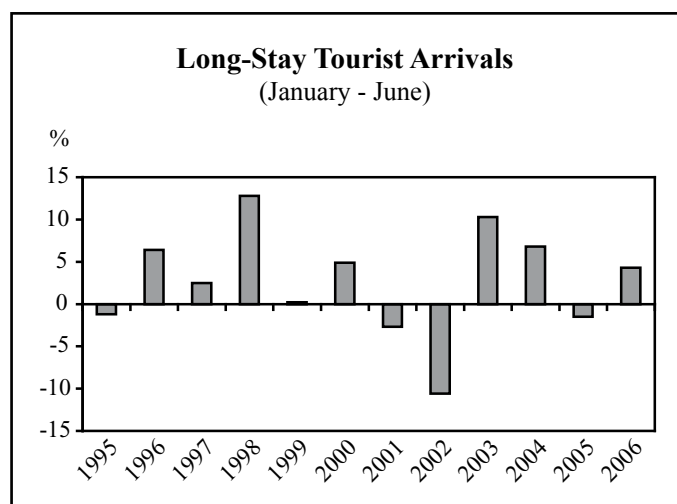
The monetary policy initiatives implemented over the last year aided in slowing the growth rate of commercial bank credit to the non-financial private sector. There was a robust deposit growth in the second quarter which helped to ease the tight liquidity conditions experienced in the first quarter. However over the six-month period, bank liquidity remained below the year-end levels.

Government realised a fiscal surplus of \$67.0 million on its operations during the review period, as significant growth in tax revenues surpassed the expansion in both current and capital expenditure. In the light of this, net domestic borrowing by Government from commercial banks and other entities declined.

Production, Prices and Employment

Tourism

Tourism value-added rose by an estimated 1.1% in the first half of 2006, after falling 2.0% in the corresponding period one year earlier. Growth in long-stay arrivals was approximately 4.6%, in contrast to a decrease of 1.5% in the same period of 2005, as the economies of the primary source markets continued to improve. The overall growth



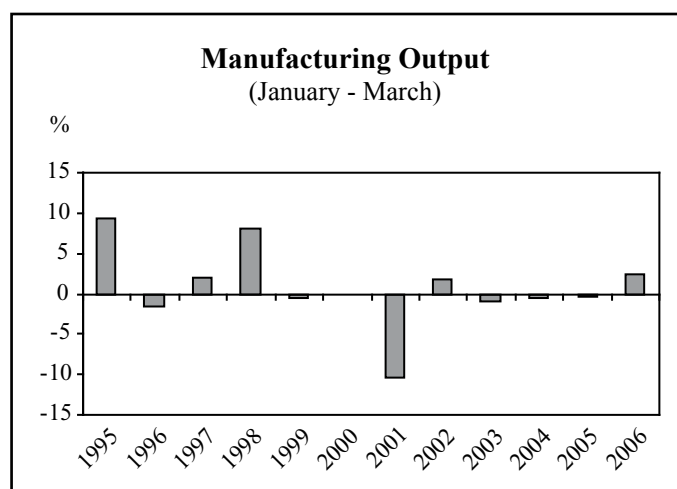
in visitor arrivals was led by a 7.8% increase in Canadian visitors; this was a reflection of greater airlift capacity and improved economic conditions in that market and represented a turnaround from the 12.0% fall-off recorded in the same period of 2005. Greater airlift capacity was also the main factor in the 4.4% expansion in the number of tourists from Continental Europe, which reversed a moderate decline in the previous year. Additionally, arrivals from the UK and the US rose by 3.6% and 2.7%, respectively. Long-stay arrivals from CARICOM increased by 11.2%, boosted by a healthy 17.4% rise in persons travelling from Trinidad and Tobago.

Cruise ship passenger arrivals contracted by about 17.0% in the January to June period of 2006, following a decline of 15.6% in the corresponding six months of the previous year. The lacklustre performance in the cruise industry was largely attributed to shorter itineraries by several cruise lines, in addition to a reduction in cruise ship calls to Barbados, as larger vessels reacted to rising fuel prices – a continuation of the trend observed in 2005.

Manufacturing

Real manufacturing value-added rose by approximately 3.4% over the review period, compared to 1.3% one year ago; this marked the 5th consecutive quarter of growth recorded by the sector. Strong performances in the

chemicals (8.7%) and other non-metallic mineral products categories (20.7%) were primarily responsible for the reversal, with the former reflecting high external demand and the latter increased construction activity. Moreover, output in the furniture and other manufacturing industries rose by 13.3% and 5.3%, respectively. In contrast, real output in the beverages sub-component declined by 17.8% on account of a fall-off in rum production.



Agriculture and Fishing

Reflecting a reduction in acreage planted and lower yields, the amount of raw sugar produced in the first half of 2006 (38,240 tonnes) was an estimated 12.0% below what was produced in the comparable period of 2005, when production expanded by 11.3%. Milk production was down for the fifth consecutive half-year, contracting by 8.9% over the review period, due mainly to supply constraints. Additionally, fish catches were down by 5.6%, but this compared favourably with the slumps of 21.8% and 10.2% recorded in the first six months of 2004 and 2005, respectively. On the other hand, preliminary data suggests that chicken production expanded moderately above the growth rate of 6.3% registered one year ago.

Real output of non-sugar agriculture and fishing is also estimated to have improved (1.0%) during the review

period, following an average decrease of 3.3% in the January-to-June period of the past two years.

International Business and Financial Services

Between January and June 2006, two hundred and twenty-four new licenses were granted to the international business and financial services sector, six more than the number issued for the corresponding period of 2005. Of the new licenses, one hundred and eighty were for international business companies, down from one hundred and eighty-nine during the corresponding period of 2005. Forty new societies with restricted liability were approved for operation, compared to twenty-two a year earlier, while four exempt insurance companies were licensed, two more than in the January to June period of 2005. No new licenses were granted to offshore banks or exempt insurance management companies during the first six months of 2006.

Non-Traded Sectors

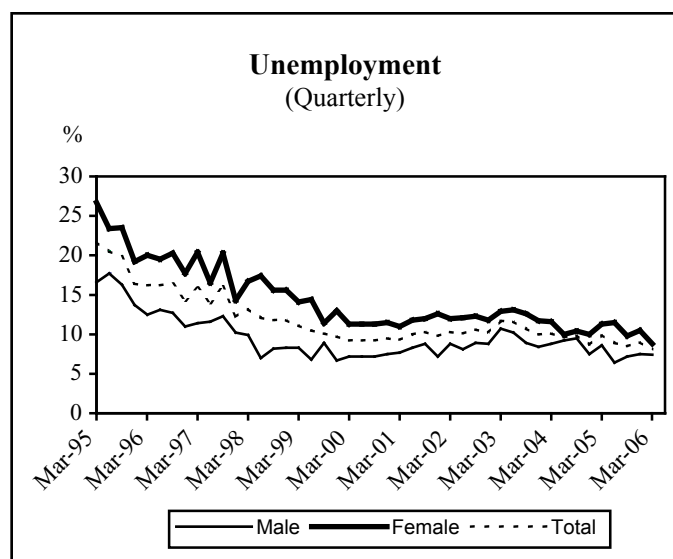
The non-traded sectors continued to provide the main impetus for growth during the review period, led by the construction industry which expanded by 9.4%, following growth of 14.0% in the first half of 2005. Activity on major projects, in preparation for Cricket World Cup 2007, continued commercial real estate developments and an upswing in residential housing developments stimulated growth in this sector. As evidence of the surge in construction activity, domestic consumption of cement climbed by 28.3% during the first six months of 2006, while there was a strong increase in employment in the construction sub-sector. Wholesale and retail trade and transport, storage and communication advanced by 5.5% and 8.1%, respectively, as both industries benefited from the increased construction activity and the improved tourism outcome. Output in the electricity, gas and water and government services sectors was also higher, expanding by 10.4% and 3.1%, respectively. On account of increased economic activity, total electricity consumption grew by

approximately 1.6%, following an upswing of 7.0% one year ago. However, due to a decline in oil production, activity in the mining and quarrying sub-sector contracted by an estimated 1.7%, in contrast to a rise of 17.7% in the first half of 2005.

Prices and Employment

Persistent increases in international oil prices, with its associated pass-through effects on food and transportation, contributed to a rise in the 12-month moving average rate of inflation at the end of June 2006 to approximately 7.2%, about 3.3 percentage points higher than the rate for the similar period one year earlier. The jump in the inflation rate reflected increased prices in most price categories, particularly housing (11.7%), transportation (10.3%), fuel and light (12.8%) and food (6.5%). However, there was a decline of 7.8% in clothing and footwear, in contrast to a rise of 1.0% at the end of May 2005.

The average unemployment rate contracted from 9.9% at the end of March 2005 to 8.1% at the end of the first three months of 2006. The unemployment rate for females decreased to 8.8% from 11.3%, while the rate for

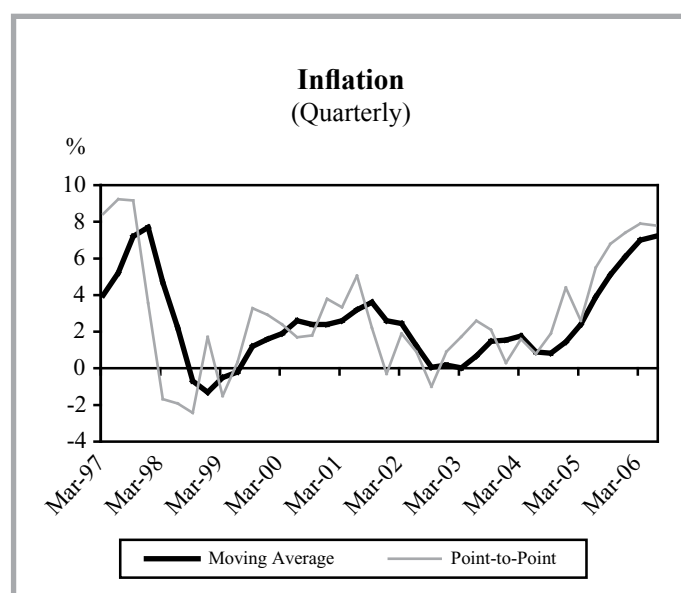


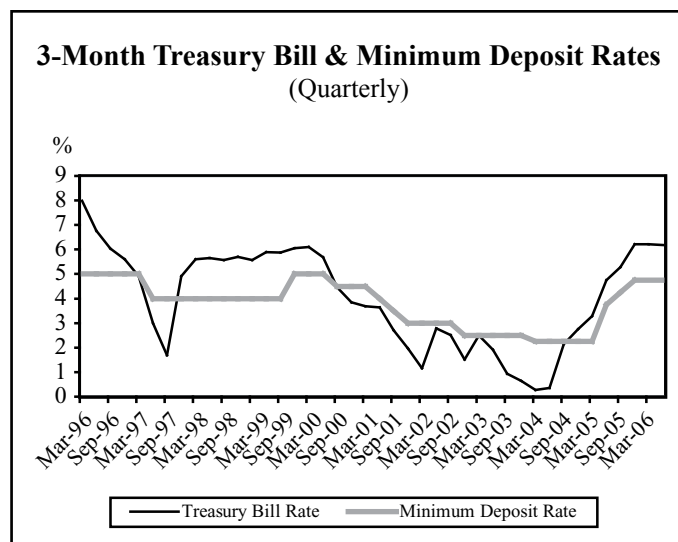
males fell to 7.4% from 8.6%. Most of these jobs were created in construction and quarrying, tourism, transport and communications and finance, insurance and business services.

Financial Sector

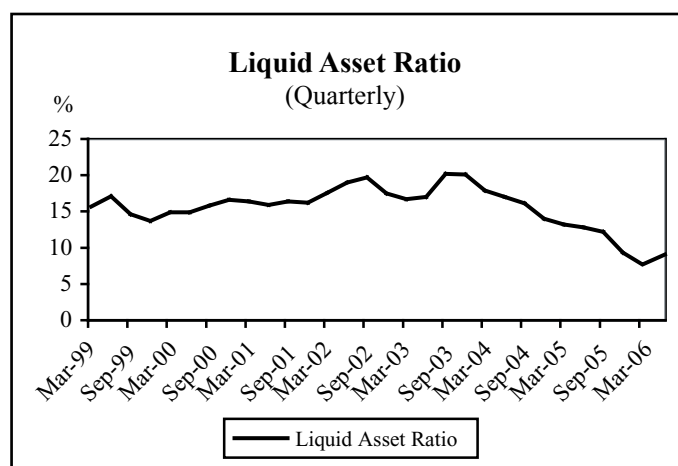
Liquidity and Interest Rates

The tight liquidity position of banks at the end of the first quarter eased somewhat in the second quarter of the year, as these institutions recorded strong deposit growth during the latter period. The excess cash reserves of banks held at the Central Bank rose by about \$81 million during the second quarter, pushing total excess reserves to \$586 million as at the end of June. The gradual build up in bank liquidity in the second quarter resulted in a 1.6 percentage point increase in the liquid asset ratio to 9.3% over the end-March figure. This ratio was, however, lower than the comparable figure at the end of the second quarter of 2005 and equalled the year-end ratio. Nonetheless, the average discount rate on 3-month Treasury bills fell marginally to 6.19% at end-June 2006 from 6.26% at the end of December 2005.



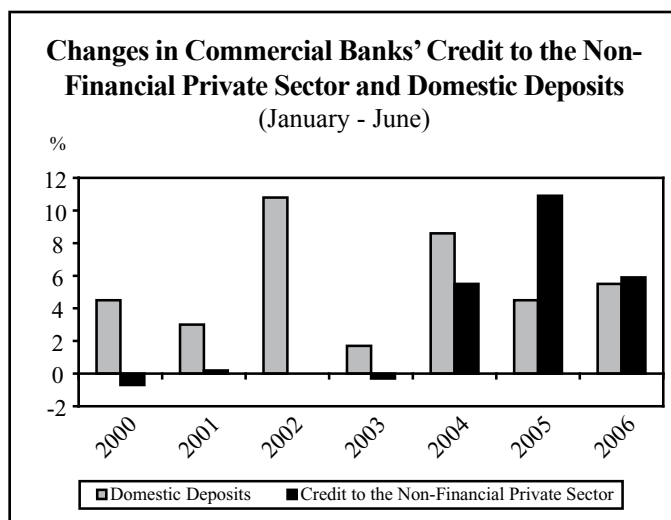


Against the background of the Central Bank's contractionary monetary policy stance during the past year, interest rates at banks increased steadily over the first six months of 2006. Consequently, at the end of June, the weighted average interest rate on deposits was 4.66%, representing an increase of 54 basis points from the rate at the end of last year. By extension, the weighted average rate on total loans and selected loans also grew, by 7 basis points and 4 basis points to 10.70% and 9.49%, respectively.



Credit

The expansion in liquidity in the second quarter provided additional funds for on-lending by banks. However, the extent of new lending to the non-financial private sector was below that of last year, as credit growth slowed to an estimated 5.9% (\$223.5 million), compared with growth of 10.9% (\$333.5 million) over the first six months of 2005. Although higher interest rates at banks would have contributed to the reduction in total credit demand, the appetite for private residential mortgages persisted, fuelling the expansion in loans to the personal sector, which rose by \$147.5 million, compared with a \$156.5 million increment in the first six months of the previous year. The increase in lending for residential mortgages was \$60.7 million, slightly lower than in the similar period a year earlier. Borrowing by the construction and other services sectors was up by \$86.6 million and \$32.0 million, respectively. The total value of credit extended to the tourism and distributive sectors during the first six months of the year was significantly lower than in the same period of the preceding year. Tourism establishments registered no change in their level of borrowing while bank loans to the distributive sector grew by \$14.3 million, a marked difference from the increase of \$75.0 million a year earlier, when the majority of the



lending went to finance a takeover. In addition, loans to financial institutions and statutory bodies were higher by \$3.0 million and \$36.9 million, respectively.

Domestic Deposits

Total domestic deposits at commercial banks, after growing by 4.2% (or \$230.7 million) in the first six months

of 2005, rose by approximately 5.5% (or \$331.4 million) in the comparable period of 2006. In particular, deposit growth picked up during the second quarter, a direct result of the continuing growth in economic activity. The main source of the expansion in bank deposits was private individuals, whose deposits grew by an estimated \$169.7 million during the first six months, compared with growth

Summary Accounts of the Banking System (\$Million)

	2004				2005				2006 ^P	
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Net International Reserves	2,169.10	2,244.40	1,880.80	1,746.70	1,780.8	1,659.2	1,442.4	1,611.1	1,732.8	1,717.1
Monetary Authorities	1,539.30	1,478.20	1,292.40	1,190.50	1,227.90	1,214.10	1,149.5	1,239.1	1,285.1	1,170.1
Commercial Banks	629.8	766.2	588.4	556.2	553.0	445.2	292.9	371.9	447.7	547.1
Net Domestic Assets	2,231.7	2,386.20	2,781.50	3,137.6	3,121.5	3,370.3	3,656.2	3,583.9	3,524.5	3,694.7
Credit to Public Sector	294.1	367.4	759.3	642.3	505.4	529.8	625.0	380.4	159.5	326.2
Central Government (net)	659.7	707.2	821.6	867.1	734.1	784.4	902.8	650.5	392.6	603.4
Rest of Public Sector	-365.6	-339.8	-62.2	-224.8	-225.7	-255.7	-277.8	-270.10	-233.10	-277.2
Credit to Rest of Financial System	161.2	160.9	221.0	234.9	260.5	298.4	301.80	312.90	344.10	261.9
Liabilities to Other Financial Institutions	403.2	416.0	489.2	394.4	453.3	475.4	417.2	514.6	551.30	558.7
Credit to Non-Financial Private Sector	2,702.00	2,766.40	2,798.60	3,061.80	3,185.80	3,395.30	3,513.80	3,791.80	3,890.50	4,015.3
Liabilities to the Non-Financial Private Sector	4,400.50	4,630.60	4,662.30	4,884.20	4,902.3	5,029.5	5,098.6	5,195.00	5,257.30	5,411.9
Currency in Circulation	342.3	345.9	368.0	398.7	392.0	403.0	419.1	448.60	436.80	431.8
Demand Deposits	1,273.10	1,432.1	1,399.20	1,537.00	1,548.00	1,576.50	1,604.30	1,563.30	1,530.90	1,515.6
Time Deposits	374.6	362.7	396.3	381.8	343.8	352.4	405.10	491.10	556.00	625.3
Savings Deposits	2,410.50	2,490.00	2,498.80	2,566.70	2,618.50	2,697.60	2,670.20	2,692.10	2,733.50	2,839.2
MEMO:										
Domestic Deposits	5,278.10	5,457.70	5,258.60	5,532.30	5,638.80	5,763.00	5,852.40	6,019.40	6,112.90	6,350.8
Liquid Foreign Assets	1,533.00	1,480.40	1,298.10	1,193.40	1,233.50	1,218.90	1,157.10	1,254.2	1,295.7	1,289.1
Loans & Advances	2,950.00	2,974.3	3,082.0	3,346.1	3,429.70	3,630.20	3,788.90	4,081.80	4,240.50	4382.34

Source: Central Bank of Barbados

P: Provisional

of \$124.7 million in the corresponding period of 2005. Additionally, the deposits of financial institutions increased by \$81.9 million, primarily because of an accumulation of \$62.1 million in the deposits of a public financial institution. Business firms registered higher deposit holdings of \$19.9 million, while deposits to statutory bodies declined by \$19.1 million.

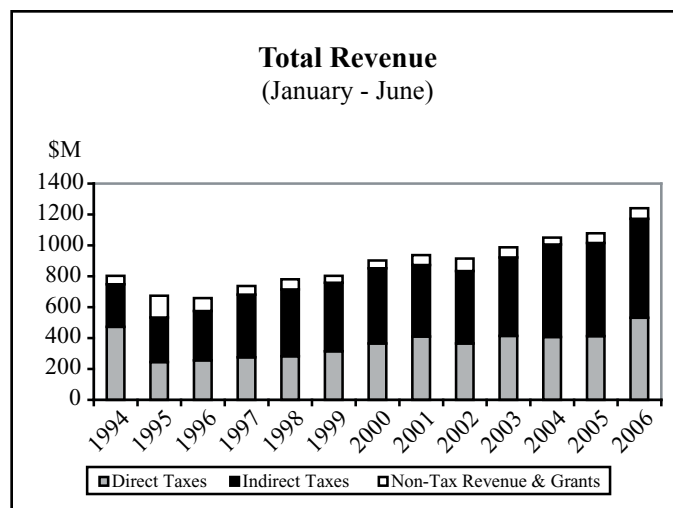
Government Securities

At the end of June, the total value of Treasury bills outstanding was \$507.4 million, or \$115.3 million below the outstanding amount at the end of December last year. Commercial banks had been gradually reducing holdings of Treasury bills for most of the year and this resulted in an overall decline of about \$79 million in their holdings of these securities. The amount of Treasury bills held by the Central Bank also contracted by \$54.3 million in the second quarter to \$19.8 million. In contrast, other investors boosted their holdings by \$18.2 million. Total outstanding Barbados savings bonds fell marginally by \$6.7 million to \$110.2 million, while government debentures grew by \$44.2 million to \$2.3 billion as at the end of June. Insurance companies and the National Insurance Scheme secured \$20 million and \$10 million, respectively, while other investors purchased an additional \$13 million during the review period.

Public Sector

Revenue

Boosted by strong growth in direct tax receipts, total government revenue expanded by approximately 15.0% to \$1,242.3 million during the first half of 2006, following a rise of 2.6% in the corresponding period of 2005. Direct taxes, which advanced by a modest 1.4% over the first six months of 2005, surged by 28.9%, despite the lowering of the personal, corporate and property tax rates and the increase of personal allowances. Corporate tax collections increased sharply by 36.4%, which was attributed mainly

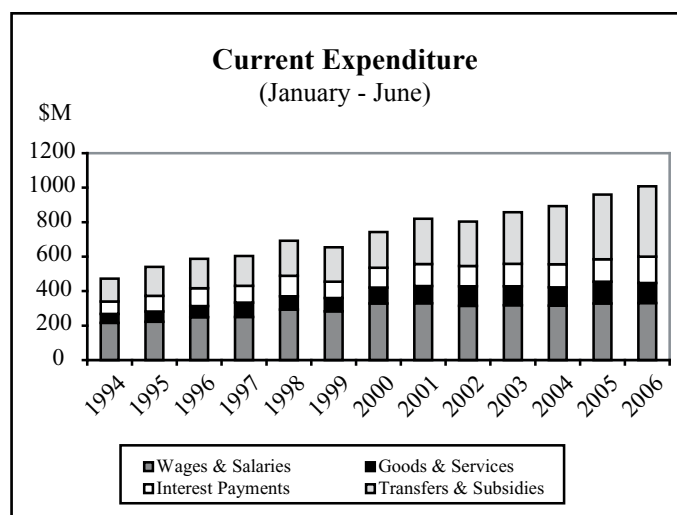


to greater receipts from the international business and financial services sector. In addition, property tax revenues expanded by 41.4%, on account of property revaluations, greater tax compliance and an expansion in the tax base. Furthermore, personal tax proceeds grew by 12.1% as a result of an increased level of employment in the economy and salary increases, a turnaround from the 16.4% decline recorded in the comparable period a year earlier.

Revenue from indirect taxes, driven largely by value-added tax (VAT) and excise taxes, rose by 6.4% between January and June of 2006, compared to 0.6% in the same period a year earlier. VAT receipts went up by 11.3%, after growing by 2.4% in the previous year, as prepayments received towards the end of 2005 were recorded in early 2006. Simultaneously, excise tax collections expanded by 13.3%, reflecting an increase in receipts on selected motor vehicles and reversing the contraction of 6.2% in the first half of 2005. In contrast, import duties decreased by 2.8% during the review period, largely as a result of the decline in consumer imports, following a modest 1.1% increase in the comparable period of 2005.

Expenditure

Total government expenditure grew by an estimated 4.5% to \$1,172.5 million during the first two quarters of



interest payments and wages and salaries. Transfers and subsidies rose by 9.2%, following a 10.9% growth last year, mainly as a result of supplementary disbursements to the University of the West Indies and the Barbados Tourism Authority. Interest expenditure increased by 17.0% on account of higher domestic and external interest payments, which expanded by \$14.9 million and \$7.3 million, respectively. Outlays on wages and salaries went up by 1.0%, compared to 3.7% over the first half of 2005. Conversely, expenditure on goods and services contracted by 8.5%, contrasting with a rise of 20.2% between January and June 2005. On-budget capital expenditure grew by 8.3%, on par with the expansion in the first six months of 2005, primarily reflecting greater spending on projects related to the preparations for Cricket World Cup 2007.

2006, just under half the increase in the corresponding period of the previous year. Current expenditure was higher by 5.1%, compared to 7.4% the year before, owing principally to increased spending on transfers and subsidies,

Financing

Given the fiscal surplus achieved in the first half of the year, Government was able to reduce its net domestic

Government Financing (January – June) (\$Million)

	2002	2003	2004	2005 ^p	2006 ^p
Domestic Financing	89.8	37.5	(3.5)	80.6	(45.5)
Central Bank	105.8	38.3	(72.9)	(20.4)	128.6
Commercial Banks	61.0	(9.3)	79.4	9.5	(87.7)
National Insurance Scheme	33.6	25.2	20.0	125.6	10.0
Private Non-Bank	(22.0)	8.4	48.6	115.5	63.9
Divestment	0.0	0.0	0.0	0.0	31.4
Other Public Sector	0.0	0.0	(1.5)	0.0	0.0
Other	(88.6)	(25.2)	(78.5)	(149.6)	(191.7)
Foreign Financing (net)	2.4	1.6	(28.2)	(36.9)	(24.2)
Capital Markets	0.0	0.0	0.0	0.0	0.0
Project Funds	21.1	37.2	16.0	7.9	28.9
Policy Loans	0.0	0.0	0.0	0.0	0.0
Amortisation	(18.7)	(35.6)	(44.2)	(44.7)	(53.1)
Divestment	0.0	0.0	0.0	0.0	0.0
Total Financing	92.2	39.8	(31.7)	43.7	(69.2)

Source: The Central Bank of Barbados and Accountant General
P: Provisional

borrowing by approximately \$48.0 million. There were substantial declines in the holdings of government debt by commercial banks and other miscellaneous entities, dipping by \$87.7 million and \$191.7 million, respectively.

However, Central Bank net lending to Government advanced by \$128.6 million, while the National Insurance Scheme and private non-bank institutions increased their holdings of government securities by \$10.0 million and

Government Operations

(January – June)

(\$Million)

	2002	2003	2004	2005 ^a	2006
Total Current Revenue	914.3	987.8	1,051.0	1,078.7	1,242.3
Tax Revenue	833.9	921.7	1,006.2	1,015.3	1,172.4
<i>Direct Taxes</i>	365.5	414.3	407.3	412.8	532.2
Personal	186.0	202.2	189.9	158.8	177.9
Corporate	122.9	161.7	155.7	198.0	270.1
Levies	8.7	4.7	0.0	3.4	0.0
Property	29.4	26.9	32.2	34.3	48.4
Other	18.5	18.8	29.5	21.8	35.7
<i>Indirect Taxes</i>	468.4	507.5	598.9	602.5	640.9
Consumption	(0.0)	0.0	0.0	0.0	0.0
Stamp	5.6	6.7	8.3	10.3	11.4
VAT	263.0	282.9	315.5	323.1	359.5
Excises	59.4	69.1	107.1	100.5	113.9
Import Duties	79.3	77.3	101.0	102.1	99.3
Hotel & Restaurant	0.0	0.0	0.0	0.0	0.0
Other	61.1	71.5	67.0	66.4	56.8
Non Tax Revenue & Grants	80.4	66.1	44.8	63.4	69.2
Current Expenditure	803.9	857.9	893.3	959.4	1,008.6
Wages & Salaries	314.3	318.5	316.2	328.1	331.5
Goods & Services	114.0	109.6	105.4	126.7	116.0
Interest Payments	116.9	130.0	134.4	130.5	152.6
External	60.0	49.8	55.9	45.4	52.7
Domestic	56.9	80.2	78.5	85.0	99.9
Transfers & Subsidies	258.9	299.7	337.2	374.1	408.5
Current A/C Balance	110.3	130.0	157.7	119.3	233.6
Capital Expenditure	204.6	169.0	124.4	134.5	145.6
Net Lending	(2.0)	0.2	1.6	28.6	18.3
Total Expenditure & Net Lending	1,006.5	1,027.0	1,019.3	1,122.4	1,172.5
Overall Balance	(92.3)	(39.2)	31.7	(43.7)	69.7

Source: The Central Bank of Barbados

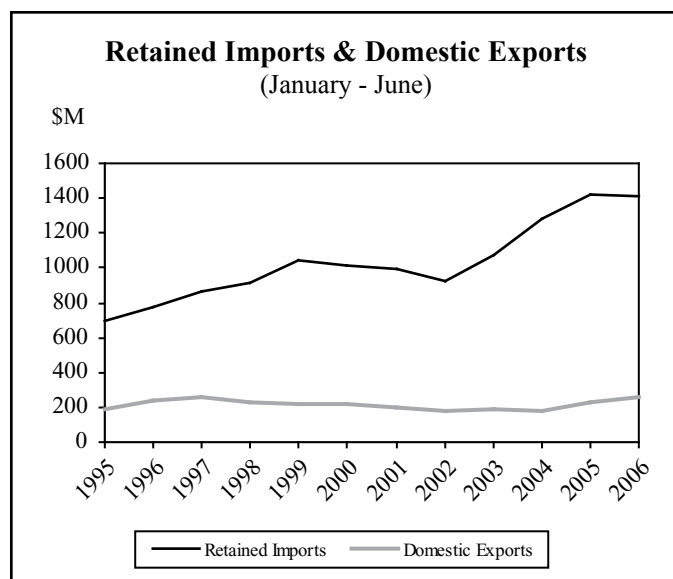
\$63.9 million, respectively. During the period under review, net foreign outflows totalling \$24.2 million were recorded, as amortisation payments of \$53.1 million were almost double the value of project fund inflows of \$28.9 million.

Foreign Trade and Payments

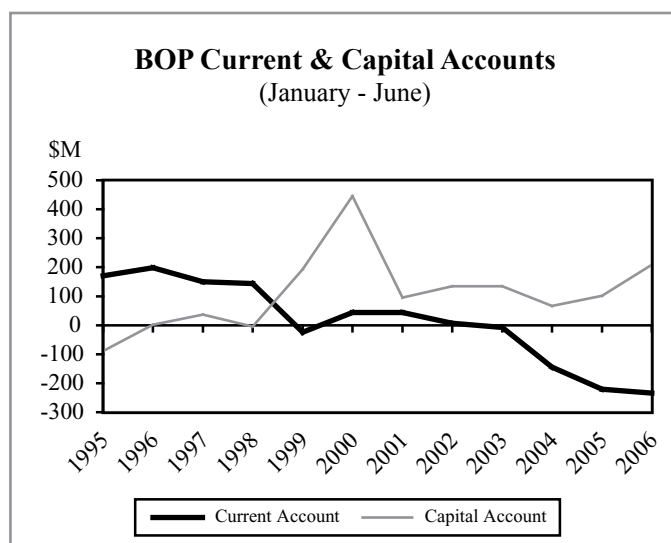
Current Account

During the first half of the year the external current account deficit deteriorated by \$11.2 million, to end at \$231.9 million. An estimated 0.8% contraction was recorded in retained imports, bucking the trend of strong first half expansions experienced between 2003 and 2005. Initial figures for the year to June indicate that consumer goods imports fell by 12.1%, in contrast to a rise of 15.4% in the corresponding period of 2005, predominantly the result of a reduction in outlays for other manufactured imports (23.6% or \$26.2 million), motor vehicles (24.3% or \$16.8 million) and food and beverages (4.3% or \$9.3 million). Imports of intermediate goods also declined, by approximately 0.5%, predominantly because of a fall-off in the imports of construction materials. However, growth in fuel imports expanded by 2.4% (\$5.0 million) compared to the 26.7% expansion registered for the same period of 2005, while imports of chemicals increased by 7.0% (\$4.6 million). In addition, capital goods imports were up by 21.4%, a turnaround from the decrease of 11.5% reported over the similar period last year; an upsurge of 21.9% (\$56.4 million) in machinery imports was primarily responsible for the reversal.

For the fifth year in a row, domestic exports increased during the first half of the year, expanding by 15.5% (\$35.2 million) on top of 21.0% in the similar period of 2005. This outturn was largely due to a \$31.2 million increase in the miscellaneous category of manufactured exports, in particular orthopaedic products, contact lenses and cement. Additionally, exports of electronic components and chemical products grew by 53.4% (\$8.5 million)



and 6.2% (\$1.7 million), respectively. The expansion in exports of electronic components was due to an increase in demand for resistors by the US market. In contrast, exports of food and beverages declined by 15.1%, owing mainly to a 16.0% (\$3.9 million) contraction in rum exports and a 70.0% (\$8.6 million) reduction in the sale of other



Balance of Payments

(January - June)

(\$Million)

	2000	2001	2002	2003	2004	2005	2006 ^P
Current Account Balance	43.5	43.5	14.4	(8.4)	(188.1)	(220.7)	(231.9)
Merchandise Trade	(659.2)	(664.2)	(626.8)	(749.7)	(932.7)	(1,004.5)	(965.3)
Total Exports (BOP Basis)	243.4	244.7	210.9	231.9	239.5	314.5	270.5
Domestic Exports	217.3	200.9	180.1	184.7	187.9	227.3	262.5
Sugar	52.2	44.0	37.7	41.0	44.9	44.0	39.2
Elec. Comp.	18.9	19.8	13.7	12.5	14.7	15.9	24.4
Chemicals	26.2	21.5	20.9	20.4	20.1	27.4	29.1
Food/Bev	43.3	44.5	44.8	41.1	40.3	58.0	49.2
All Other	76.7	71.1	63.0	69.7	67.8	82.0	120.5
Total Imports (BOP Basis)	968.5	969.6	889.5	1,036.9	1,229.4	1,384.1	1,307.0
Retained Imports	1,012.2	997.3	926.5	1,075.1	1,280.8	1,419.1	1,407.5
Consumer Goods	408.2	403.2	388.2	412.8	495.3	571.7	502.4
Capital Goods	238.4	217.8	198.5	240.4	314.1	278.0	337.4
Intermediate Goods	362.0	372.8	336.5	418.5	465.8	564.2	561.6
Miscellaneous Goods	3.6	3.5	3.4	3.4	5.6	5.2	6.0
Services (Net)	710.8	712.5	666.3	775.3	797.1	861.4	878.8
Travel Credits	835.8	847.9	772.2	889.5	910.2	917.7	996.0
Other Services	(90.3)	(82.6)	(92.6)	(103.2)	(135.9)	(225.9)	(228.1)
Investment Income (net)	(81.4)	(95.8)	(99.7)	(114.7)	(129.2)	(156.5)	(221.6)
Transfers (net)	73.3	91.0	74.6	80.7	76.8	78.8	76.2
Capital and Financial Account	436.0	95.1	203.9	167.7	70.8	102.0	197.2
Long Term	371.0	120.2	132.9	166.6	(124.2)	122.2	146.0
Public Sector	220.1	1.2	(25.5)	(4.5)	(79.5)	(44.4)	(29.2)
Private Sector	150.9	119.0	158.4	171.1	(44.8)	166.6	175.2
Other	42.6	(21.6)	(5.2)	(88.8)	26.7	(63.7)	(35.1)
Short Term	22.5	(3.5)	76.2	89.9	168.3	43.5	86.3
Errors & Omissions	(23.8)	5.8	(146.0)	58.9	274.6	31.3	141.4
Balance for Official Financing	455.7	144.3	72.3	218.2	157.3	(87.4)	106.7
Official Financing (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF 0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve movements (CBB basis)							
(-Increase/+Decrease)	(455.7)	(144.3)	(72.3)	(218.2)	(157.3)	87.4	(106.7)
Change in NIR (IMF basis)							
(-Increase/+Decrease)	(425.5)	(146.5)	(71.5)	(13.0)	25.1	(23.6)	68.1

Source: Central Bank of Barbados

P: Provisional

beverages. Travel credits rose by an estimated 8.5% during the first six months of 2006, about 7.7 percentage points higher than the growth registered in the same period of the previous year, largely a result of increases in domestic prices.

Investment income increased by 41.6% for the first six months due, in part, to higher interest payments for government debt, compared to an expansion of 21.1% registered one year ago.

Capital and Financial Account

Buoyed by further growth in private capital inflows, the capital and financial account registered an eighth consecutive first half surplus (\$197.2 million), which amounted to \$95.2 million more than the surplus recorded in the similar period of 2005. Private long-term capital inflows were up by \$8.6 million to total \$175.2 million, while public long-term outflows fell by \$15.2 million to \$29.2 million in 2006. Moreover, miscellaneous outflows were \$35.1 million, down from \$63.7 million in the corresponding period of 2005, while short-term capital inflows doubled during the review period to an estimated \$86.3 million, largely on account of pre-shipment financing for the sugar industry.

Regional Economic Developments

Overview

During the first six months of 2006 most regional economies reported improved levels of economic activity. These performances were driven mainly by expansions in construction and tourism output, particularly in Trinidad and Tobago and the Bahamas. As the region continued to be affected by rising international oil prices, consumer inflation rose further. In addition, operations in the public and external sectors had mixed results, while credit and deposit growth strengthened when compared to the same period last year. Exchange rates in the region remained relatively stable.

Tourism

Most countries in the region recorded higher levels of tourism activity during the first two quarters of 2006. Preliminary figures indicate that total tourism arrivals to the Bahamas moderated slightly over the first half of 2006 as the positive trend exhibited in air arrivals was overshadowed by a reduction in cruise traffic. Over the January to June period of 2006, total visitor arrivals to Jamaica rose by 17.2%, compared to an expansion of 5.3% recorded in the similar period of 2005 as the sector benefited from the introduction of additional hotel rooms during the second quarter. Long-stay visitor arrivals were estimated at 821,215 persons, while cruise arrivals were projected to be around 686,774 persons. In contrast, tourism arrivals in Belize fell by 15.8% between January and May 2006, principally as a result of a fall off in cruise passenger arrivals.

Agriculture

With the exception of Jamaica, agriculture output in the region was lower during 2005 and the first half of 2006. In the first quarter of 2006, agricultural production in Trinidad and Tobago declined slightly, although this was an improvement on the contraction registered in the previous year. In Belize, poor weather conditions throughout the year contributed to reductions in the output of sugar and bananas. Additionally, owing to the weak performance of traditional export crops, a sharp fall was reported for agriculture production in the OECS during the first quarter of 2006. However, in the first six months of 2006, Jamaica's agriculture sector recorded growth of 20.1%, a reversal from the decrease observed in the corresponding period of 2005. Export agriculture rose by 64.3%, while domestic agriculture, livestock and forestry and fishing increased by 14.4% during the period.

Construction

Construction activity across the region rose during the first half of 2006, primarily because of an upturn in private

residential building. Fuelled by a constant flow of foreign investments and an accommodating credit environment, construction output in the Bahamas expanded at a faster pace during the first three months of 2006 a trend, which early indicators suggest continued into the second quarter of the year. Higher output in Trinidad and Tobago's construction sector was also estimated, leading to the shortage of building materials for site preparation, walls and roof and electrical installation and fixtures observed during the first half of 2006. Conversely, preliminary estimates suggest that construction activity in Jamaica declined further in the second quarter of 2006, after a 5.5% contraction in the first quarter. The downturn was mainly reflected in the residential component, which was adversely affected by domestic cement production and shortages of cement on the international market.

Mining and Quarrying

After a moderate 2.1% decline in the first quarter of 2006, mining and quarrying activity in Jamaica increased marginally during the April to June period of 2006. However, the sector continued to be impacted by prolonged labour disputes in the alumina industry. Alumina production in Jamaica decreased by 1.8% during the period, but this was partially offset by growth of 28.6% in crude bauxite production. Buoyed by the recent discovery of a new oil field, oil production in Trinidad and Tobago increased significantly during the first quarter of 2006, marking a reversal from the sector's downward trend.

Prices and Interest Rates

On account of the sustained growth in international oil prices, consumer price inflation continued to rise in most countries of the region. Guyana's all items price index advanced by 8.0% from June 2005 to June 2006 while the year-on-year inflation rate in Trinidad and Tobago was 6.9% at the end of April 2006 compared with 7.0% a year earlier. Moreover, the Jamaica consumer price index climbed by 2.8% at June 2006, in line with the average increase of

2.9% in the quarters ending in June during the last five years. The increase in inflation during the quarter largely reflected the impact of expansions in prices of domestic agricultural commodities, fish and meat. In Belize, domestic prices rose by 4.1% between May 2005 and May 2006 as a result of higher transportation, communication, rent, water, fuel and power prices. Although still one of the lowest in the region, the rate of inflation in the Bahamas inched up 0.4 of a percentage point to 1.9% at the end of June.

At the end of June 2006, the average lending rate in Guyana was 13.2% while the prime-lending rate was 15.3%. The Bahamas weighted average deposit rate moved up by 7 basis points to 3.31% and the corresponding loan rate by 26 basis points to 10.25% over the same period. Similarly, the average 90-day Treasury bills rate increased by 19 basis points to 0.36%. The rate on ordinary savings deposits in Trinidad and Tobago remained unchanged at 1.46% at the end of June 2006, while the basic prime lending rate rose by 175 basis points to 11.0% at the end of June 2006. At the end of May 2006, the average discount rate on 90-day treasury bills increased to 6.10%, 129 basis points higher than the rate at December 2005.

Financial Sector

In line with the growth in economic activity, loans to the private sector in Jamaica were up by 6.0% at the end of June 2006, compared to an expansion of 6.0% or J\$4990.1 million in the corresponding period of 2005. This largely reflected a significant rise in personal lending as well as loans to the tourism sector. At July private sector credit in Trinidad and Tobago grew by 5.6% or TT\$1507.9 million, which represented a slowdown from the 7.8% or TT\$1726.37 million recorded for the same period last year. At the end of June 2006, loans and advances to the private sector in Guyana rose by 11.5% compared to an expansion of 7.0% registered at the end of June 2005. In addition, private sector lending to Bahamians increased by B\$381.1 million between January and June 2006, approximately

B\$171.0 million more than the growth observed for the same period in the preceding year.

The deposits of commercial banks in Jamaica grew by 2.9% or J\$4503.2 million, following a rise of 4.2% or J\$5809.9 million in the corresponding period of the previous year. Total deposits in Trinidad and Tobago increased by 8.7% or TT\$2988.0 million during January to July 2006, in contrast to an increase of 12.6% or TT\$3492.4 million one year earlier. At the end of June 2006, the deposits of residents in Guyana grew by 5.6% relative to growth of 5.4% for the corresponding period of 2005. Bahamian deposits expanded by \$310.9 million between January and June 2006, an increase of \$27.2 million over the amount reported last year.

Exchange Rates

At the end of June, the weighted average selling rate of the Jamaica dollar vis-à-vis the US dollar depreciated by 0.8% to J\$66.03 per US\$1.00 which compared favourably with the average depreciation rate of 1.9% over the previous three quarters. The Guyana dollar appreciated slightly, selling at G\$200.00 per US\$1.00, compared to G\$200.25 per US\$1.00 recorded one year earlier. Trinidad and Tobago's exchange rate also remained relatively constant, selling at TT\$6.32 per US\$1.00.

Government Operations

There were mixed performances in the fiscal positions of the regional economies. Preliminary data for June 2006 suggested that Jamaica Central Government operations resulted in a deficit of J\$7,616.6 million or 1.0% of GDP, significantly less than the targeted deficit of 1.4% of GDP. In the Bahamian fiscal sector, stronger tax receipts outpaced expenditure increases, resulting in a narrowing of the overall fiscal deficit for the first five months of the year to B\$84.3 million from B\$144.0 million one year earlier. Additionally, Trinidad and Tobago turned in a fiscal surplus of TT\$1.98 billion in the first half of 2006, down from a surplus of TT\$2.42 billion reported

at the end of June 2005. In Belize, the overall deficit for the fiscal year 2005/2006 amounted to \$74.9 million or 3.3% of GDP, an improvement over the expected outturn of 3.9% of GDP.

Foreign Sector Developments

During the first quarter of 2006 higher energy prices and increased export volumes resulted in a current account surplus of US \$2,672.3 million for Trinidad and Tobago. Total exports rose by 38.0%, while merchandise exports expanded by 26.4% to US\$6,186 million, as both energy and non-energy exports recorded strong growth. In spite of heavy direct investment inflows of US \$940 million, there was a deficit of US\$306.4 million on the capital account. During the first quarter, the surplus on the overall payments balance in the Bahamas increased to \$59.1 million from \$50.8 million in 2005, despite a wider current account deficit estimated at \$273.4 million, which rose from \$41.4 million in 2005. During the quarter, the capital and financial account surplus strengthened significantly to \$254.4 million from \$127.6 million in 2005, due largely to higher foreign investment inflows. Between January and February 2006, Jamaica reported a current account deficit of US\$126.7 million, US\$26.1 above the shortfall in the same period last year.

International Economic Developments

Overview

The global economy expanded strongly during the first half of 2006, fuelled by improvements in industrial production, services and international trade. With respect to the major industrialised countries, the United Kingdom led the economic expansion while the United States continued its solid growth path and Japan's recovery quickened. China continued to lead in the emerging economies, as they once again recorded strong economic growth. Oil prices rose sharply over the first six months, spurring inflationary pressures worldwide.

Industrial Economies

In the United States, real gross domestic product expanded by an estimated 3.6% during the first six months of 2006, slightly higher than the 3.2% recorded over the corresponding period of 2005. In spite of the high oil prices, consumer spending and high levels of corporate profits fuelled this outturn. 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 Open Market Committee raised the federal funds rate three times during the period under review from 4.5% to 5.25%, largely to dampen inflationary pressures. Consequently inflation remained relatively subdued in spite of the surge in oil prices, as a rate of 4% was recorded at the end of June. The unemployment rate decreased marginally to 4.8% at the end of the period, compared to 5% at the end of the corresponding period in 2005.

The Euro-area reported strong growth in the first half of 2006, compared to the marginal increase recorded in the equivalent period in 2005. The unemployment rate fell by 0.3 percentage points to 8% between December 2005 and June 2006, reflecting improved labour market conditions in the Euro-zone. The inflation rate was an estimated 2.5% at the end of June, 0.5 percentage points higher than the same period in 2005. This outcome was primarily due to higher commodity prices, which filtered through to consumer prices during the period.

The United Kingdom recorded robust growth over the first six months of 2006, attaining a growth rate of 4.2%. Strong business investment and exports were mainly responsible for this remarkable growth rate. Nevertheless the unemployment rate increased to 5.5% at the end of June 2006, compared to a rate of 4.7% one year ago, while the inflation rate rose to 2.5% at the end of June.

In the Japanese economy, real GDP grew modestly over the review period, reflecting an improvement in private sector demand. In line with the economic recovery, inflation became positive after a lengthy period of deflation. The Bank of Japan maintained its

accommodative monetary policy in order to support the pickup in the economy.

Emerging Markets

In Asia, economic growth accelerated rapidly in the first six months of 2006. Domestic demand improved and inflationary pressures were contained; however, the net export surplus declined. The growth rate of real value added surged to 10.7% in China during the January to June period of 2006, as a result of stronger investment flows. The trade surplus narrowed, and the rate of inflation moderated despite the upward pressure on the cost of inputs. Real GDP growth in South Korea expanded strongly in the first half of 2006 to 5%, compared to 3.3% in the corresponding period in 2005. Nevertheless, the inflation rate remained subdued.

In Latin America, economic activity remained vigorous, buoyed by robust domestic demand across the region. Real value-added in Mexico expanded significantly, stimulated by a 5.7% growth rate in industrial production, while inflation was relatively moderate. The Brazilian economy continued to recover, with industrial production increasing by 4.8%. Economic activity remained robust in Argentina and as spare capacity in the economy diminished, inflationary pressures increased. Indeed, the inflation rate was an estimated 11% at the end of June.

Commodity Prices

The overall commodity price index surged by 18.9% during the first half of 2006, supported by high metal and oil prices. In line with heightened demand by industrial countries for copper, zinc, and nickel, the metal price index expanded by 35.5% over the first six months of 2006. Moreover, as a result of increased global oil demand, supply constraints and geopolitical uncertainties in some oil producing economies, average oil prices rose by 20.9%. The price of food commodities grew by 10%, as strong increases in the prices of bananas, wheat and sugar were partially offset by declines in meat and soybeans.

Commodity Prices

Commodities	Jun -2005	Dec - 2005	Jun -2006	% Change on Jun-05	% Change on Dec-05
Total (Index of Market Prices)	195.52	208.11	247.52	26.6	18.9
Non-Fuel (Index of Market Prices)	106.53	114.03	137.21	7.0	20.3
Food (Index of Market Prices)	98.62	98.75	109.00	0.0	10.4
Sugar (US cents / lb)	30.18	28.95	30.57	-4.1	0.0
Bananas (US \$ / 40lb)	500.06	568.18	713.84	13.6	5.6
Rice (US \$ / metric ton)	287.05	277.27	305.59	-0.03	10.2
Wheat (US \$ / bushel)	141.93	164.44	195.16	15.9	18.7
Soybeans (US \$ / metric ton)	254.74	216.54	216.50	-15.0	0.0
Metals (Index of Market Prices)	134.74	159.79	214.87	59.5	34.5
Aluminium	1,731.94	2,250.90	2,852.07	30.0	26.7
Iron Ore (US \$ / metric ton)	65.00	65.00	77.35	0.0	19.0
Copper (US ¢ / lb)	3,529.73	4,577.03	7,222.77	104.6	57.8
Silver (US ¢ / oz.)	733.60	868.70	n.a.	n.a.	n.a.
Gold (US \$ / oz.)	430.70	510.10	n.a.	n.a.	n.a.
Petroleum (US \$ / barrel)	53.89	56.47	68.29	26.7	20.9

Source: IMF Commodity Prices



Caribbean Stock Markets: Summary of Second Quarter of 2006

Barbados Stock Exchange

The market capitalization declined during the quarter with that of local companies falling by 7.35% to BDS\$10,486m as at June 30, 2006. Decreases were also registered during the quarter for the cross-listed and composite market capitalizations, which ended the quarter as BDS\$10,445m and BDS\$20,931 million, respectively.

Barbados Stock Exchange Statistics (Quarterly)

Index	Apr. 2006	May 2006	Jun. 2006
Local	3,882.87	3,882.87	3,872.31
Cross-Listed	2,283.86	2,053.28	2,019.96
Composite	1,025.46	981.09	971.06
Market Cap. Bds (\$M)			
Local	10,783.76	10,796.71	10,486.08
Cross-Listed	11,810.38	10,618.07	10,445.73
Composite	22,594.14	21,414.78	20,931.81

Source: Barbados Stock Exchange

Market Leaders

During the quarter, the leaders based on number of shares traded and market value of shares traded are tabulated below:

Top Five Performing Companies Based on Number of Shares Traded April — June 2006

Institution	Volume traded (Millions)
Sagicor Financial Corporation	1.389
Cable & Wireless (Barbados) Limited	0.252
Fortress Caribbean Property Fund	0.174
FirstCaribbean International Bank Barbados Limited	0.157
ANSA McAL (Barbados) Limited	0.135

Source: Barbados Stock Exchange

Top Five Performing Companies Based on Market Value of Shares Traded April — June 2006

Institution	Market value of shares (\$M)
Sagicor Financial Corporation	5.971
ANSA McAL (Barbados) Limited	2.813
Barbados Shipping & Trading Limited	0.704
FirstCaribbean International Bank Barbados Limited	0.647
Cable & Wireless (Barbados) Limited	0.473

Source: Barbados Stock Exchange

Mutual Funds Performance

During the second quarter of 2006, the performance of the local mutual funds was mixed, with five of the eleven mutual funds recording a decline in their net asset values (NAV) over the period. Roybar Investment Corporation registered the largest decline in net asset value of 5.07% with a NAV of \$15.16 as at June 30, 2006 compared to \$15.97 as at March 31, 2006.

Net Asset Value of Mutual Funds (BD\$)

Mutual Funds	June 30 (Bds \$)	March 31 (Bds \$)
Roybar Investment Corp.	15.16	15.97
Fortress Caribbean Growth Fund	4.00	3.99
Fortress High Interest Fund - ACC	1.2969	1.2725
Fortress High Interest Fund – DIST*	1.0192	1.0346
BNB Income Fund	1.23	1.23
BNB Capital Growth Fund	1.19	1.23
BNB Property Fund	1.68	1.68
CLICO Balanced Fund Inc.	1.18	1.23
Sagicor Global Balanced Fund	2.00	2.03
Sagicor Select Growth Fund	1.05	1.05
Sagicor Preferred Income Fund*	1.03	1.05

Source: Barbados Stock Exchange

* Net of dividend paid.

Top Regional Performers By Share Price Appreciation (%)*

Barbados	%	Jamaica	%	Trinidad	%
ANSA McAL. Barbados Ltd.	17.93	Salada Foods	42.50	Trinidad Publishing Company Ltd.	40.39
Sagicor	17.35	Pegasus Hotel	12.94	National Flour Mills Limited	20.00
Barbados Farms	4.79	FirstCaribbean Int'l Bank Ltd.	11.36	Guardian Holdings Limited	17.40
B'dos National Bank	3.85	Carreras Group	9.01	Unilever Caribbean Limited	11.73
Light & Power Holdings	0.09	Montego Freeport	3.45	Sagicor	5.62

Source: Barbados, Jamaica and Trinidad and Tobago Stock Exchanges

• Based on share price appreciation during the second quarter of 2006

Three mutual funds recorded an increase in their NAV during the period, namely Fortress High Interest Fund, both accumulation and distribution, and Sagicor Preferred Income Fund. It should be noted, that both Fortress High Interest Fund – Distribution and Sagicor Preferred Income Fund paid dividends during the quarter, and the net asset values as at June 30, 2006 was net of the distribution, resulting in NAV being illustrated as lower than that at the beginning of the quarter, despite having a registered positive growth during the quarter.

The there was no change in the net asset value of three of the mutual funds during the quarter.

Jamaica Stock Exchange (JSE)

The JSE Index decreased in the second quarter, falling by 2.06% to 85,108.22 as at June 30, 2006. A significant increase in trading volume relative to the first quarter of 2006, resulted in 1,599,087,239 shares being traded in the period, with a value of approximately JA\$7.3m. On the JSE, nine companies advanced, twenty-nine declined and one traded firm during the period under review.

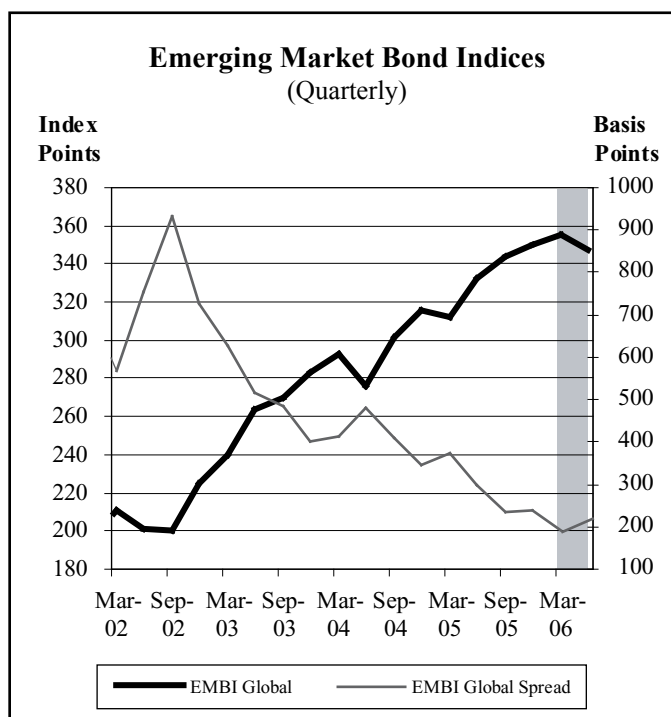
Trinidad and Tobago Stock Exchange (TTSE)

During the second quarter of 2006, the TTSE Index decreased by 3.83% to close at 920.33 points. For the period under review the share prices of six companies advanced, twenty declined and seven remained unchanged.

Emerging Markets

Bond Markets

The long bull run experienced by emerging markets since 2003 paused during the second quarter of 2006, amid concerns that G7 central banks' tentative plans to curb inflation through rate hikes could derail global growth and



reduce global liquidity available for investment, causing price corrections in relation to riskier asset classes. Consequently, emerging market-financing conditions deteriorated during the quarter, as evidenced by the dip in JP Morgan's EMBI Global Index.

Equity Markets

The expectations of a synchronised monetary tightening in mature markets, with its perceived downside risks for global growth and the associated dampening impact on investors' appetite for risk, also led to sell-off in emerging equity markets. Most Latin and Asian stocks were down during the quarter, with equity indices for Argentina, Thailand, India, South Korea, Singapore, Brazil and Chile all posting substantial declines. Nevertheless, the People's Republic of China and its Special Administrative Regions (SARs), Hong Kong and Taiwan, bucked this trend, led by the mainland's benchmark index, the Shanghai, which rose 28.8% during the quarter.

Emerging Market Equity Indices (Quarterly)

Country/Region	Index	Mar-06	Jun-06	% Ch
Argentina	Merval	1,399.18	1,233.58	-11.8
Brazil	Bovespa	37,951.97	36,630.66	-3.5
Chile	IPSA	2,181.96	2,126.02	-2.6
Mexico	IPC	19,272.63	19,147.17	-0.7
Venezuela	Caracas	30,882.46	30,747.27	-0.4
Latin America		2,469.40	2,368.20	-4.1
China	Shanghai	1,298.30	1,672.21	28.8
Hong Kong	Hang Seng	15,805.04	16,267.62	2.9
India	Mumbai	11,279.96	10,609.25	-5.9
Indonesia	Jakarta	1,322.97	1,310.26	-1.0
Malaysia	Kuala Lumpur	926.63	914.69	-1.3
Philippines	PSE	2,195.95	2,178.79	-0.8
Singapore	Straits Times	2,533.40	2,435.39	-3.9
South Korea	Seoul	1,359.60	1,295.15	-4.7
Thailand	SET	733.25	678.13	-7.5
Taiwan	Weighted	6,613.97	6,704.41	1.4
Asia		311.90	303.67	-2.6

Source: Bloomberg Service

Emerging Market Currencies (Quarterly)

Country/Region	Currency	Mar-06	Jun-06	% Ch
Argentina	Peso	3.08	3.09	-0.1
Brazil	Real	2.16	2.17	0.0
Chile	Peso	526.35	538.85	-2.4
Mexico	Peso	10.87	11.34	-4.3
Venezuela	Bolivar	2,147.30	2,147.30	0.0
China	Yuan	8.02	7.99	0.3
Hong Kong	Dollar	7.76	7.77	-0.1
India	Rupee	44.62	46.04	-3.2
Indonesia	Rupiah	9,070.00	9,263.00	-2.1
Malaysia	Ringitt	3.68	3.67	0.2
Philippines	Peso	51.06	53.14	-4.1
Singapore	Dollar	1.62	1.58	2.0
South Korea	Won	971.65	948.70	2.4
Thailand	Baht	38.88	38.12	2.0
Taiwan	Dollar	32.46	32.38	0.2

Source: Bloomberg Service

Currency Markets

Emerging currency markets displayed some volatility during the quarter, as they too were affected by the prevailing climate of economic uncertainty and associated investor risk aversion. However, also contributing to this volatility was a renewed investor focus on global economic imbalances such as the US current account deficit, which continued to be propped up by Asian surpluses.

Interest Rates

United States of America

After a strong first quarter, there were some signs of weakening throughout the second quarter. Inflation fears crept back into financial markets with rising commodity prices and not in the energy sector, while uncertainty surrounded the ongoing interest rates increases that are likely to result in an economic slowdown. Nevertheless, the Fed continued with its tight monetary stance during the quarter, and at its June meeting raised short-term rates to 5.25% - the 17th consecutive meeting at which it has increased rates by 25 basis points.

Inflation, both real and perceived, has been the driving force behind the Fed's persistence in raising interest rates. According to the U.S. Labour Department, consumer prices rose 0.6% in April, which prompted a sell-off in both equity and bonds. The core consumer price index (or core CPI), was up 0.3% in each of the three months ending May, and had increased at a 3.1% annual rate through to May, whereas the core CPI was up 2.2% for all of 2005. The catalyst for the heightened levels of uncertainty and volatility has been the price of crude oil, which broke through the \$75 barrier in April 2006 and is currently priced around \$78 per barrel. Although price fluctuations have depended, to a large extent, on supply and demand pressures and uncertainty in the Middle East, another factor that needs to be considered in understanding pricing behaviour, is the increased use by institutional investors of crude oil as a trading strategy - trading on speculation over future supply/demand imbalances.

Another area of uncertainty for the domestic economy has been the housing market's ability to sustain upward pricing momentum. Consumers' ability to continue on the surge in property values may be dwindling and naturally perceptions of continued rapid growth will change. The Conference Board's Consumer Confidence Index took a sharp downward turn in May 2006, after expanding in March and April, and then reversed course in June with a small increase. On the job front, only 126,000 non-farm jobs were added in April and even slower in May (75,000 jobs added) and in June (121,000). These numbers lent support to speculation that the economy has slowed. Still, the unemployment rate fell marginally to 4.6% in May, where it has remained since.

The dollar had traded in May as high as \$1.29 against the euro, although that softened to \$1.26 towards the end of June. Dollar depreciation could help trim the trade deficit, but on the downside, the declining dollar could make foreign investors unwilling to continue purchasing U.S. Treasury paper, which have financed growing federal budget deficits. Yields on 10-year Treasuries rose past the

5.00% threshold in the second quarter, a marker that had not been eclipsed in more than two years. They peaked at 5.20% in May, before falling back to around the 5% range at the end of June.

Canada

On the back of interest rate increases, bond yields in North America continued to move higher during the second quarter. In Canada yields expanded by 35-45 basis points across the yield curve. While persistent fears of inflation led the Bank of Canada (BoC) to increase the benchmark discount rate on two occasions to 4.25% from 3.75% at the end of March, it is expected that future moves by the BoC will largely be data dependent.

Economic growth has been very strong in Canada, as the commodity-rich economy has benefited from robust demand and higher prices. For the period January to May 2006 - the Canadian economy created over 220,000 new jobs. Inflation, which had started to creep up, remained within the desired range of the BoC. Still, rates are expected to increase in the immediate future, but the impact of higher interest rates and energy prices along with a strong dollar, should temper economic growth in the second half of the year.

While resource stocks led markets higher in the first quarter, the trend was abruptly reversed in early May, erasing all the gains from earlier in the year. However, the Canadian market continue to be on the receiving end of strong global inflows, as foreign investors bid up prices of Canadian energy and resource companies over the past year. Expectations of further increases in interest rates, and the consequential economic slowdown began to overshadow the positive supply-demand fundamentals for commodities and resource companies. This led investors to reduce their exposure to economically-sensitive sectors of the market.

United Kingdom

At the end of June, UK interest rates have been kept on hold at 4.5% for the 10th month in a row after the latest

meeting of the Bank of England's (BoE) rate-setting body – the Monetary Policy Committee (MPC). The MPC had been widely expected to freeze rates, however, this neutral stance may not be maintained, as some analysts predict that raising rates before the end of the year will be necessary to keep inflation in check.

With the economy showing signs of rebalancing away from the consumer and towards investment and trade, the economy is moving in the direction the BoE is hoping, but higher gas and electricity bills that helped push UK inflation up to 2.2% in May, above the 2% target, will also be a key indicator. At present the MPC is adopting a “wait and see” attitude. Consumer confidence is slightly lower as higher fuel costs began to bite into consumers' disposable income, but there are still positive – albeit – slower retail figures. Manufacturing output rose faster than expected in May, with overall manufacturing output increasing to 0.5% in the month, slightly higher than a year ago. However, the wider measure of industrial output went up by a slower-than-expected 0.3%, leaving it down 0.7% compared to the year earlier. Despite fewer price pressures outside of fuel costs, the UK economy grew more rapidly in the first quarter than previously expected, expanding by 0.7%, against a previous estimate of 0.6%.

In the currency market, after trading for the entire first quarter in a narrow range, the British pound climbed slightly in the second quarter above 1.90 to the US dollar by mid-May, marking its biggest 6-month gain against the US dollar in 16 years. Since then, the currency retreated to its first quarter range. Against the euro, the rate has been unchanged since the first quarter, but in the second half of the year, the euro is expected to advance on the back of expected increases in euro interest rates. The BoE is lagging the rest of the G7 central banks since keeping its interest rates on hold from August of last year. Even though this may be a stabilising factor in the

economy, the stark contrast between the monetary policies of the BoE and that of the European Central Bank (ECB) or the Fed will be one of the key drivers of the pound's value in the second half of the year. However, even if the Bank of England postpones any interest rate hikes, the British pound could still benefit from a variety of other factors, including broad US dollar weakness, M&A flows and higher demand from central banks globally.

Europe

During the quarter under review, the European Central Bank (ECB) increased interest rates by 25 basis points, up from 2.50%, in response to the threat of rising inflation and strong growth prospects in the eurozone. After sustained rises in commodity prices, some economists believe that the ECB will push up its rates by another quarter-point in the August meeting.

The ECB is expected to continue to respond robustly to inflation expectations, which rose significantly in the eurozone in May, and roughly a 0.3% month-on-month expansion in core inflation. Overall consumer price inflation increased in May to 2.5%, well above the ECB's 2% target. Manufacturing in the eurozone has been vigorous, with the purchasing managers' index of the sector last week rising to its highest level for nearly six years, while growth was last week confirmed at a healthy 0.6% in the first quarter.

Accordingly, European financial markets exhibited high levels of volatility during the quarter amid lingering concerns about higher interest rates and inflation. With European economies showing signs of strengthening, it is becoming increasingly likely that further interest rate hikes over the coming months will occur. The European Central Bank rate, as is borne out in market expectations, is generally expected to increase to 3.25% within the next 12 months, from the current level of 2.75%.



The WTO “Aid For Trade” (AFT) Initiative

Background

From its inception at the Fourth Ministerial Conference held in Doha in December 2001, the current round of World Trade Organisation (WTO) negotiations was billed as a “development round”.

Some of the main goals of the so-called Doha Development Agenda (DDA) would therefore be to promote the integration of developing countries into the multilateral trading system and to help them benefit from the expanded market access resulting from trade liberalisation by increasing their exports of goods and services.

To this end, it was recognised that developing countries would require technical assistance and support for capacity building, as expressed in the Ministerial Declaration coming out of the Doha Conference.

However, by the time of the Sixth Ministerial Conference held in Hong Kong in December 2005 - with just one year left before the Doha Round’s scheduled conclusion at the end of 2006 - it was apparent that many developing countries remained ill prepared to effectively exploit any market access opportunities gained in the negotiations.

In an effort to address this problem, the Ministerial Declaration issued in Hong Kong made provision for the creation of a new WTO work programme on Aid for Trade (AFT).

The aim of AFT, as outlined in Paragraph 57 of the Declaration, was “to help developing countries, particularly LDCs [Least Developed Countries], to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.”

It was also noted that, “Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA.”

The declaration went on to make provision for the establishment of a task force in order to operationalise all of these statements.

Accordingly, the WTO Task Force on Aid for Trade was established in February 2006 with thirteen (13) members: Barbados, Brazil, Canada, China, Colombia, the EU, Japan, India, Thailand and the US, as well as representatives of the African Caribbean Pacific (ACP) Group, the African Group and the LDC Group.

The main mandate of the Task Force was to provide WTO Members with recommendations as to how AFT “might contribute most effectively to the development dimension of the DDA.” The deadline for final recommendations was set for end-July, 2006.

Task Force Recommendations

The recommendations provided in the report of the Task Force speak to various aspects of AFT: rationale, financing, scope, challenges/gaps and operationalisation.

In setting out its rationale for AFT, the Task Force observed that, “Effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral reforms and distribute the global benefits more equitably across and within developing countries.”

While noting that the scope of AFT should be defined broadly enough to reflect diverse trade needs but also clearly enough to distinguish between AFT and other development assistance, the document also suggested the following categories as a general indication of the scope of the initiative:

- Trade policy and regulations
- Trade development
- Trade-related infrastructure
- Building productive capacity
- Trade-related adjustment
- Other trade-related needs

The document went on to identify several challenges facing the initiative, including:

- Low attention to trade as a development tool by recipient countries and donor agencies and insufficient trade mainstreaming in development and reform strategies
- Lack of private-sector involvement in identifying trade needs
- Lack of coordination and coherence in donor trade-related response
- Slow, duplicative and bureaucratic processes in AFT assessment and delivery
- Lack of data on and analysis of trade policies and their impact on development, lack of readily available information on existing AFT instruments
- Ineffective monitoring of trade-related country policies and donor activities; absence of rigorous, independent project and programme evaluation and impact assessment
- Uneven country coverage

Notwithstanding these challenges, the document outlined a comprehensive plan for operationalising AFT, with recommendations directed at recipient countries/regions and donor agencies as to their respective roles.

Thus, recipient countries and regions were urged to:

- Establish effective national coordination involving all stakeholders, including the private sector, with particular emphasis on creating private-public sector dialogue
- Establish a system of data collection and analysis
- Strengthen needs diagnosis, project costing, preparation of project proposals and coordination of donor response in relation to regional, sub-regional and cross-border issues
- Engage in South-South technical cooperation, given common experiences and understanding of shared challenges

Donor agencies were likewise advised to:

- Integrate trade and growth issues more effectively into aid programming
- Further strengthen trade expertise in field and capitals
- Base programming on needs assessments

The document also made recommendations for strengthening a number of functions at the global level, such as:

- Data collection and analysis in relation to trade policies and their impact
- Knowledge sharing
- Development of guidelines
- Provision of information on existing AFT instruments and expertise
- Matching and brokering unfunded trade-related assistance needs and available donor funding

In addition, the Task Force called for the establishment of new and improved mechanisms for monitoring and evaluating progress on AFT, which was seen as essential in building confidence in the effective delivery and use of increased AFT. It was recommended, for example, that:

- A global periodic review of AFT be convened by a monitoring body in the WTO (and preferably published on the WTO web page), to be followed by an annual AFT debate in the WTO General Council.
- Recipient countries, donors and other stakeholders, including the private sector, be encouraged to report on their AFT activities.

However, in order to implement all of these recommendations, the Task Force emphasised the need for “Additional, predictable, sustainable and effective financing”. Some key issues raised in this regard were the WTO Director-General’s commitment to consult with

donor agencies on appropriate funding mechanisms and to provide a complete accounting of all the funding currently available from these agencies in order to identify the amount of additional financing that will be necessary.

Reactions And Future Prospects

WTO Doha Round negotiations were suspended on July 24 after developed countries failed to reach a deal on cutting farm subsidies and tariffs.

Nevertheless, when the final recommendations of the AFT Task Force were presented to the General Council at its July 27-28 meeting – successfully meeting the end-July deadline – sources indicate that the report met with a positive response.

Still, in the end, the recommendations were not formally adopted and consideration of the report was postponed until the next meeting of the General Council, scheduled for October 2006.



Trends in the Barbadian Credit Card Market

by Winston R. Moore*

Abstract. Credit card usage in Barbados has expanded significantly over the last ten years. During this period, the total number of credit cards issued has more than doubled, with a consequent increase in outstanding debt. This study presents a preliminary analysis of the credit card industry by providing measures of competition, interest rates, contribution to bank profits and the main determinants of the demand for credit card debt.

I. Introduction

Total credit outstanding has more than tripled in the last ten years. One of the principal categories driving the increase in credit is the personal sector. It is estimated that at the end of 2003, households held \$1.8 billion in outstanding credit balances with commercial banks, credit unions, finance and trust companies and insurance companies (see Figure 1). This total represents 38% of total personal disposable income and is 14.2 percentage

points higher than in 1995. While most of the increase in personal sector debt has been for residential mortgages, consumption lending has also been quite strong during the period.

Credit card debt in particular, although still quite small (around 13% of personal sector lending), has been rising rapidly in recent years. Outstanding credit card debt grew by 22% in 2004 or 12 percentage points higher than in 2003 and well above the average for the previous five years (around 7% per annum). The recent build-up in credit card debt and the unsecured nature of the industry suggest that trends in credit card debt should be carefully monitored.

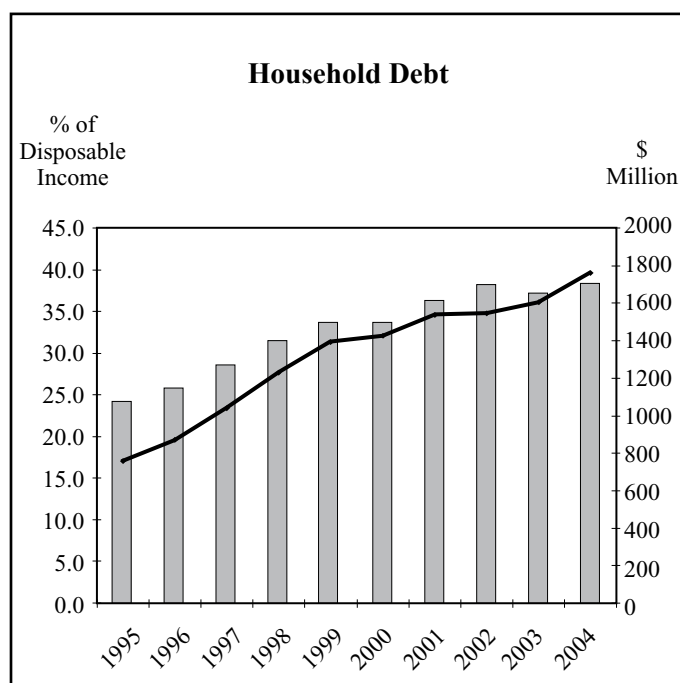
The Research Department of the Central Bank of Barbados has been collecting data on the credit card industry for the last ten years, but to date most of the data has not been published. Commercial banks are required to make monthly submissions to the Central Bank on outstanding personal and corporate credit card debt. Each bank also provides information on new credit extended, the value of credit lines extended, interest earned on transaction, fees paid to financial and other institutions, the total number and type of cards issued, the annual interest rate and membership fees.

Rising consumer expenditure, financed through higher credit card debt, can boost macroeconomic economic activity. Higher consumer spending generates jobs (as businesses take on more staff to cope with the increased demand for goods and services), tax revenues and overall economic activity. Unfortunately, there are also drawbacks to rising credit card debt. It can increase the portfolio risk of commercial banks and, if used to finance higher import demand, can lead to a fall-off in foreign exchange reserves.

* Mr. Winston Moore is a Lecturer in the Department of Economics, University of the West Indies, Cave Hill Campus, Barbados and a former Senior Economist with the Central Bank of Barbados.

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Figure 1



The main goal of this paper is to review trends in credit card debt. The paper is the first to present an extensive analysis of the credit card industry in Barbados and should serve as a reference for future studies. The structure of the study is as follows. Following the introduction, Section II provides a brief survey of credit card usage in Barbados. Section III looks at the growth in credit card debt and Section IV examines competition and profitability. Section V concludes and provides policy recommendations.

II. Credit Card Usage

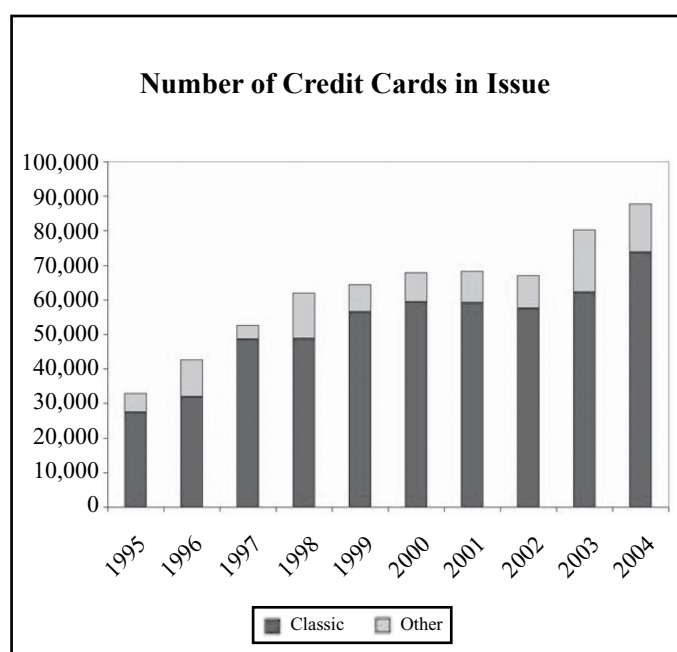
There are four principal uses of credit cards in Barbados: to withdraw monies from automatic teller machines, a source of short-term credit, a substitute for cash and as a source of foreign exchange, either when travelling overseas or purchasing items over the internet. Generally, only “Classic” and “Gold” cards are issued, although some banks have introduced “Platinum” cards in recent years (see Figure 2). Most banks either issue “Visa”

or “Master” cards. Credit cards are not linked to deposit or loan accounts, with consumers being able to obtain a credit card even if they are not customers of the issuing bank.

Figure 2 provides a graphical representation of the trends in credit cards issued between 1995 and 2004. During this period, the cumulative number of cards issued went from just 32,888 in 1995 to 87,839 in 2004, a more than two-fold increase. Growth was significant between 1995 and 1998: around 30,000 new credit cards were issued. After some levelling-off in the rate of growth between 1999 and 2002, the rate of increase began to take off again in 2003 and 2004¹. In 2003, 13,138 new credit cards were issued compared to just 5,063 for the whole of the 1998 to 2002 period. Although not as spectacular as in 2003, the rate of increase in new credit cards issued in 2004 was also high, with 7,552 persons signing-up for new credit cards. Most of the credit cards in use in Barbados are “Classic” cards, with only a few individuals opting/qualifying for “Gold” or other high-end varieties. At the end of 2004, approximately 8,938 persons had a “Gold” credit card, or just 33 in every 1,000 Barbadians, compared to 73,811 “Classic” credit cards, or 271 in every 1,000 Barbadians.

Despite this rapid rate of accumulation, credit card debt outstanding still represents only a small proportion of total national disposable income (less than 3%) and about 13% of total outstanding personal credit. This could indicate that most credit card usage is mainly for convenience credit: alternative to carrying cash, Internet shopping or making electronic payments². As a measure of the convenience use of credit cards, one can calculate the ratio of total credit outstanding to total credit limits. A

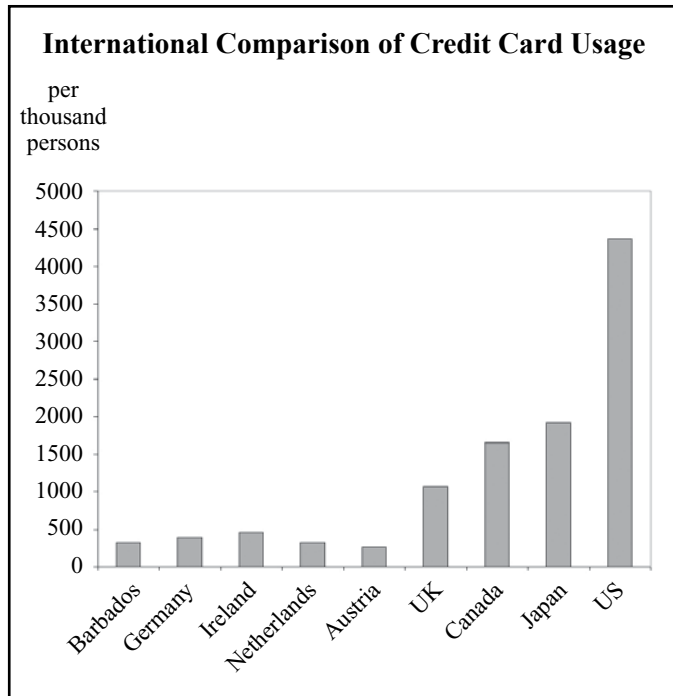
Figure 2



¹ In recent years, some banks have been issuing successful mortgage applicants credit cards. This only accounts for a small part of the growth in the industry, since this practice is not widespread.

² This analysis abstracts from trends in bad debts. However, through discussions with commercial bankers the author found that bad debts have also risen during the review period. This is clearly an important trend and one that should be addressed in future studies.

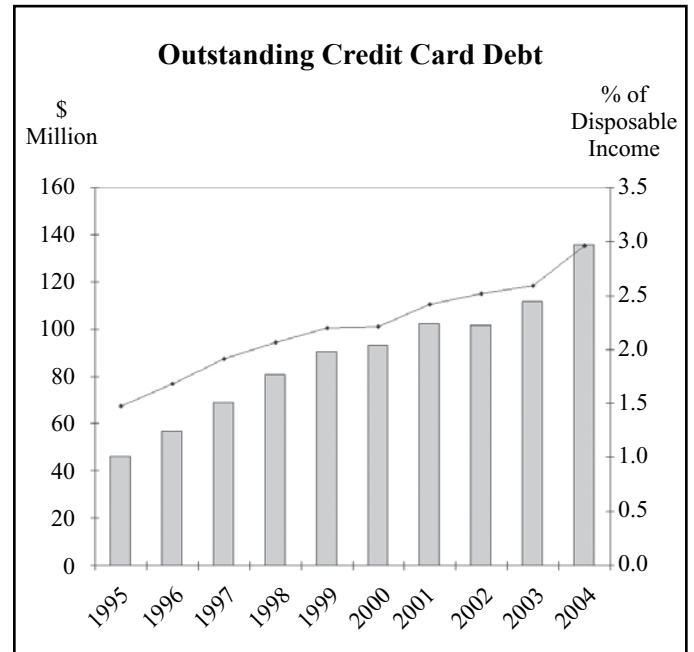
Figure 3



low ratio, say less than 20%, could imply that most credit cards are still only used for convenience purposes, while a higher ratio would indicate that they are being employed as an alternative source of consumer credit. For the business sector, the ratio has averaged less than 20%, suggesting that most credit is principally for convenience purposes. For the personal sector, however, the ratio has usually hovered around the 40% mark. Although still relatively low, it suggests that credit cards are used both as a means of convenience payment and as a source of consumer credit.

Figure 3 provides market penetration statistics (credit cards issued per thousand persons) for Barbados compared with 8 other countries at various levels of

Figure 4



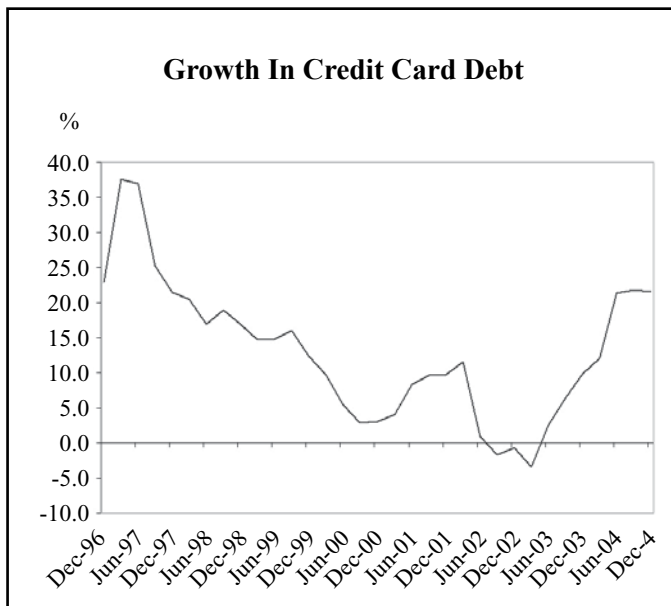
development³. The figure shows that the level of credit card penetration is generally on par with some European countries: Germany, Ireland, Netherlands and Austria. Market penetration, however, is still far behind countries such as the United Kingdom, Canada, Japan and the United States of America. The average citizen of the USA has at least four credit cards, in the UK, Canada and Japan each person has at least one credit card while only one in three Barbadians holds a credit card.

III. Growth in Credit Card Debt

With the increase in credit card usage, total credit outstanding has risen in every year since the Central Bank began collecting statistics on the credit card market in 1995. At the end of 2004, total credit card debt outstanding was \$135.8 million, or almost three times the amount held in 1995. Most of the outstanding credit card debt is for the personal sector, although business sector volume has been rising in recent years. At the end of 2004, just under 94% of

³ The analysis presented is a simplified representation of the distribution of credit cards in the countries examined. Obviously, some individuals would have more credit cards than the national average while others would not own a credit card. However, the analysis is presented to show the national intensity in the use of this type of unsecured lending.

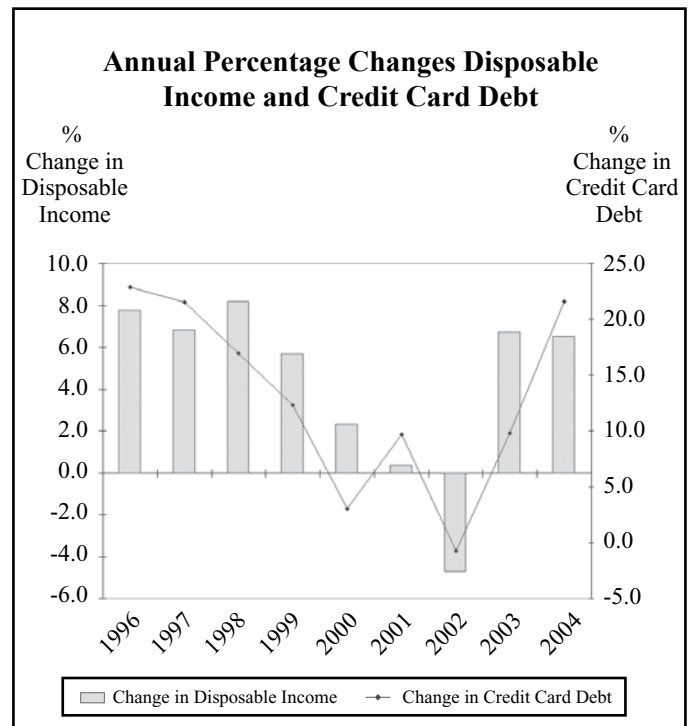
Figure 5



outstanding credit card debt was due to the personal sector, four percentage points lower than in 1995. One of the key reasons for the anaemic growth of the business sector end of the credit card market is that there is relatively little to gain by executives who sign-up for a business credit card. The interest rates, membership fees and other benefits for “Platinum” and “Business” cards are pretty much the same; credit lines, however, can be significantly different. Only in recent years have some banks lowered the interest rates on business cards.

Figure 5 plots the year-on-year growth rates for consumer credit card debt over the period March 1995 to December 2004. The diagram shows that the highest rate of credit card debt accumulation occurred in the late 1990s – principally 1997 – with outstanding debt doubling every three quarters. After this period of rapid growth, new debt accumulation slowed significantly between 1999 and 2002, with outstanding balances declining in 2002 and part of 2003 as consumers – because of the recession – repaid balances rather than accumulating new debt. In 2004, the

Figure 6



rate of growth in credit card debt picked up again, rising by more than 20% for three out of the four quarters; the first time this had occurred since 1997.

Part of the reason for the resurgence in credit card debt in the last two years has been the pick-up in personal disposable incomes (see Figure 6). During this period, Gross National Income grew by a cumulative 50%, unemployment fell from 10.3% in 2002 to 9.8% at the end of 2004, and the effective rate of personal income taxes was reduced from about 17% to 14% for the average Barbadian. With disposable incomes expected to rise over the medium-term as the tax reform programme continues and national incomes continue to rise, the growth in credit card debt should remain strong.

On average, most new debt is accumulated in the third and fourth quarters of the year, while consumers usually pay down their outstanding balances in the first

Table 1
Average Interest Rates and Membership Fees for the Credit Card Industry

Year	Average Interest Rate per Annum (%)		Effective Interest Rate per Annum (%)		Average Membership Fee per Annum (\$)		Weighted Average Loan Rate (%)
	Gold	Classic	Gold	Classic	Gold	Classic	
1995	15.0	21.0	10.5	14.7	75.0	33.3	11.8
1996	18.0	21.0	12.6	14.7	75.0	36.0	11.9
1997	18.0	21.0	12.6	14.7	83.3	36.0	11.9
1998	17.3	21.0	12.1	14.7	76.0	40.0	11.6
1999	18.2	22.3	12.7	15.6	75.0	41.7	11.7
2000	17.8	21.6	12.5	15.1	79.2	41.7	11.9
2001	17.8	21.6	12.5	15.1	79.2	41.7	11.1
2002	17.8	21.6	12.5	15.1	79.2	41.7	10.4
2003	17.0	21.7	11.9	15.2	80.0	42.0	10.2

Source: The Central Bank of Barbados

and second quarters. Over the last ten years, outstanding credit card debt has risen on average by about \$6 million in the third and fourth quarters, and contracted by around \$4 million in the first quarter.

IV. Competition and Profitability

There are two main measures of concentration in a market: the concentration ratio and the Herfindahl-Hirschmann Index (HHI). The three-firm concentration ratio – obtained by summing the market share of credit cards issued – shows the proportion of the credit card market controlled by the three largest suppliers. Table 2 reveals that the market is highly concentrated, with the three largest firms issuing 76% of all credit cards. The ratio fell between 1996 and 2002; however, a merger between two of the larger banks in the island resulted in the ratio rising above 75% in the latter two years, as presented in the table.

The HHI index is calculated as the sum of the squares of individual market shares of each institution. The index ranges from 0 (in the case of perfect competition) to

10,000 (in the case of a monopoly). In general, the market is less concentrated when the index value falls between 0 and 1000, moderately concentrated for values between 1001 and 1800 and highly concentrated when the index is above 1,800. The calculated HHI index for the local credit card industry is provided in Table 2. Based on the values presented, the market would be classified as highly concentrated – especially after the merger that occurred in 2002.

Given the level of concentration in the credit card market, one would expect that the industry would be highly profitable. The first two columns of Table 1 provide the simple average of the advertised annual percentage rate (APR) charged on “Gold” and “Classic” credit cards. Between 1995 and 2004, the average interest rate on “Classic” credit cards was 21%, or about 4 percentage points higher than on “Gold” cards. The APR on “Gold” cards ranged from 15% to as high as 21%. These rates of interest may seem high compared to those on other forms of lending, however, they only apply to the portion of the credit card balance that is rolled over to the following month. If individuals are using their credit cards principally

Table 2
Concentration in the Barbadian Credit Card Industry

Year	CR-3 (%)	HHI
1995	84.6	2602
1996	70.6	2004
1997	62.3	1845
1998	64.1	1831
1999	60.9	1712
2000	59.7	1670
2001	60.5	1683
2002	57.2	1635
2003	78.7	2829
2004	76.0	2690

Source: The Central Bank of Barbados

as a source of convenience credit, and are therefore not rolling over outstanding balances, then the effective rate of interest can be significantly lower than the advertised APR.

Kelly and Reilly (2005) argue that one means of estimating the effective interest rate (i) would be to weight

the interest rate on convenience credit and rollover credit by their respective shares in total outstanding credit:

$$i = \alpha(0) + (1 - \alpha)APR$$

where α is the share of convenience credit card debt to total outstanding credit card debt. The interest rate on convenience credit is zero since it is repaid before it is subject to interest rate charges. Table 1 shows that the effective interest rate (calculated using Equation 1) on “Classic” credit cards is about 15%, or about 6 percentage points lower than the advertised APR, while the effective rate for “Gold” cards is 12%, or five percentage points less than the APR. Taking into account that credit card debt is unsecured, on a risk-adjusted basis these effective interest rates are therefore generally in line with average loan rates.

In addition to interest rate charges, commercial bank credit card customers also pay a membership fee every year. The membership fee for “Classic” cards is on average \$40, with only one institution charging \$50. The fee for “Gold” and business cards, on the other hand, is somewhat higher, and ranges from as low as \$70 to as high as \$100.

Table 3
Interest Earned and Fees Paid by the Credit Card Industry

	2001	2002	2003	2004
(\$ 000)				
Interest Earned on Transactions	17,461	18,119	18,555	20,950
Cost of Funds	2,833	2,449	2,496	2,673
Interest Margin	14,628	15,670	16,059	18,277
Fees Paid to Financial and Other Institutions	3,937	3,940	4,309	5,348
Gross Margin	10,691	11,730	11,750	12,929
(% of average debt outstanding)				
Interest Earned on Transactions	18.5	18.5	18.6	17.6
Cost of Funds	3.0	2.5	2.5	2.3
Interest Margin	15.5	16.0	16.1	15.4
Fees Paid to Financial and Other Institutions	4.2	4.0	4.3	4.5

Source: The Central Bank of Barbados

Table 3 gives statistics on the revenue of the credit card industry between 2001 and 2004. The table shows that the industry earned approximately \$21 million from interest charges in 2004, about \$4 million more than in 2001. However, this represented a smaller proportion of average outstanding debts since some commercial banks lowered interest rates on their credit cards. As a result, the estimated interest margin on credit cards fell from 16.1% of average outstanding debts in 2003 to 15.4% in 2004. Fees paid to financial and other institutions in relation to credit card payments represent on average 4.2% of average outstanding debts, but reached as high as 4.5% in 2004 owing to a large increase in new credit extended. As a result, the gross margin for the credit card industry in 2004 was around 11% of average outstanding debts, or 0.7 of a percentage point lower than the average for the previous three years.

V. CONCLUSIONS

Although rising significantly over the last ten years, outstanding credit card debt remains a small proportion of overall personal debt. This study presents a description of the main indicators of the credit card industry for the period 1995 to 2004. In terms of overall market penetration (credit cards issued per thousand persons), Barbados is on par with some European countries: Germany, Ireland, Netherlands and Austria, but still far behind countries such as the United Kingdom, Canada, Japan and the United States of America. At the end of 2004, outstanding credit card debt was about \$136 million or almost three times the amount at the end of 1995. Most this credit is for convenience purposes; however, the use of credit cards as a source of consumer credit has been rising. New credit card debt appears to be driven largely by changes in disposable

income. Between 1995 and 2004, approximately 90% of the growth in outstanding debts can be attributed to changes in disposable income (correlation ratio). With disposable income anticipated to rise over the medium-term as a result of sustained economic expansion and lower direct tax rates, the growth in outstanding credit card debt should remain strong over the medium-term. Trends in credit card debt must therefore be carefully monitored since it could boost import demand and result in a deterioration of the Net International Reserves.

Despite the proliferation in new credit cards issued, the market remains highly concentrated. At the end of 2004, three of the six credit card issuers controlled three-quarters of the market. Given the high level of concentration in the industry, incomes earned from the industry are relatively high. On average, interest earned from credit card transactions is about 18% of total outstanding credit card debt. Even after accounting for the expenses associated with the cost of funds fees paid to financial and other institutions, the return still represents almost 12% of outstanding debts.

One of the main purposes of the Central Bank of Barbados, according to the Central Bank of Barbados Act (1997), is “to foster credit and exchange conditions conducive to the orderly and sustained economic development of Barbados”. Over the medium-term, the Bank should: (1) continue to ensure that commercial banks have proper risk management systems in place for consumer credit, and established guidelines on prudent lending criteria and approval process as; (2) expand the collection of data on consumer finance, maybe through a survey of consumer finance, as well as expanding the amount of data currently collected on the credit card industry, and; (3) continue to educate consumers on how to manage their personal finances.

REFERENCE

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