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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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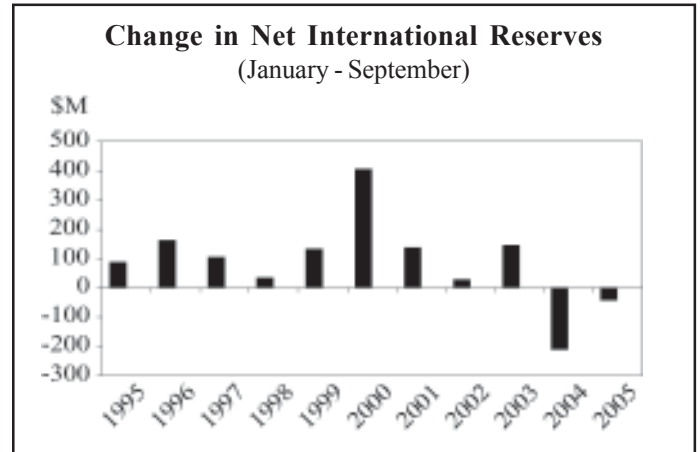
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Review of Economy

The rate of expansion of real economic activity was estimated at 4.5% during the first nine months of 2005, on par with the 4.6% in the corresponding period of 2004. Unlike the previous two years when the economy was driven by the traded sectors, during 2005 the increase in real gross domestic product (GDP) occurred on the strength of non-traded activities. The combined effect of continued strong import growth, and an estimated decline in tourism receipts was a widening of the external current account deficit. Furthermore, the surplus on the capital and financial account was insufficient to prevent a contraction in the net international reserves (NIR). Liquidity tightened as commercial bank credit to the non-financial private sector remained robust despite hikes in domestic interest rates. Government’s fiscal deficit expanded when compared with the same nine-month period in the previous year.

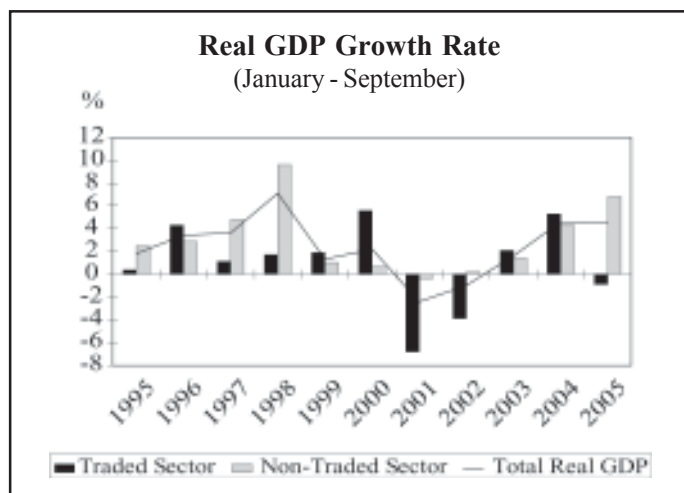
Traded sector output declined by an estimated 0.9% in the review period, in contrast to robust growth of 5.3% in the corresponding period of 2004. This outcome resulted in large part from the fall-off in tourism and, to a lesser extent, lower production from the non-sugar agriculture and fishing industries. The non-traded sectors expanded by 6.8%, benefiting from accelerating activity in construction, utilities, and wholesale and retail trade. This gain in the non-traded



sectors was mirrored in the slight fall in the average unemployment rate because of net new jobs created in general and government services. Higher energy prices throughout the year contributed to an inflation rate estimated at 5.1% at the end of September, compared to 0.8% at the end of the same period in 2004.

Between the end of December 2004 and September 2005, the NIR of the Monetary Authorities declined by \$41.0 million as the first-quarter gain of \$37.4 million was outstripped by reserve outflows of \$78.4 million in the following two quarters when compared to the reserve loss of \$210.7 million in the first nine months of 2004.¹ This outturn can be attributed to a higher surplus on the capital and financial account. The NIR at the end of September was approximately \$1.1 billion, which was equivalent to 20.6 weeks of imports, compared to 27.4 weeks at the end of September 2004.

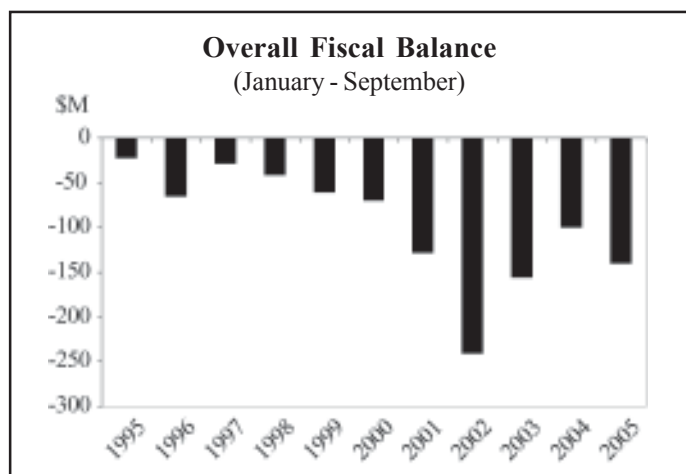
Commercial bank credit increased significantly during the first nine months of 2005. In a further effort to dampen new credit and temper consumer imports, the



¹ The foreign reserve loss of \$210.7 million during the first nine months of 2004 includes overseas investments of \$65.1 million under the second tier reserves programme. Thus the underlying foreign reserve decline for the first nine months of 2004 amounted to \$145.6 million. Under the second tier foreign reserves programme, \$62.5 million was repatriated during the first three quarters of 2005 and in the absence of the repatriated funds, the underlying foreign reserve loss would be approximately \$103.5 million.

Central Bank raised the minimum deposit rate on September 1, 2005 for the third time during the review period. The growth in credit for the first three quarters was more than double the rate of increase in domestic deposits for the corresponding period, leading to a contraction in excess liquidity in the banking system. Consequently, the liquid asset ratio² declined by 1.3 percentage points to 12.6% as at September 30, 2005.

The operations of central government during the January-to-September period of 2005 resulted in an estimated fiscal deficit of \$139.5 million, approximately \$39.9 million more than the deficit in the comparable period of the previous year.

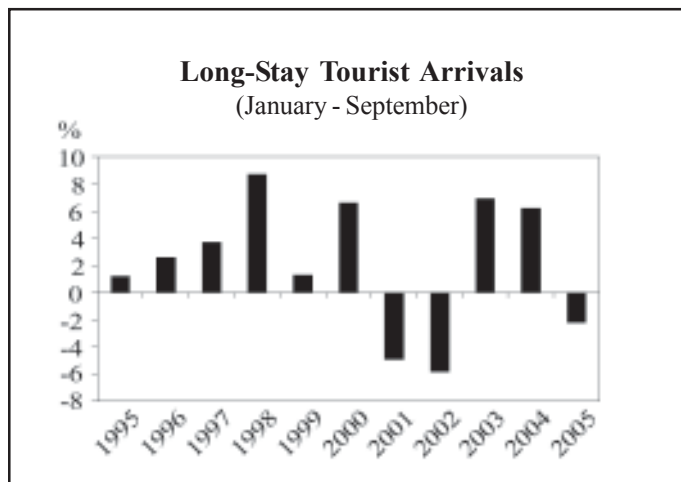


Production, Prices and Employment

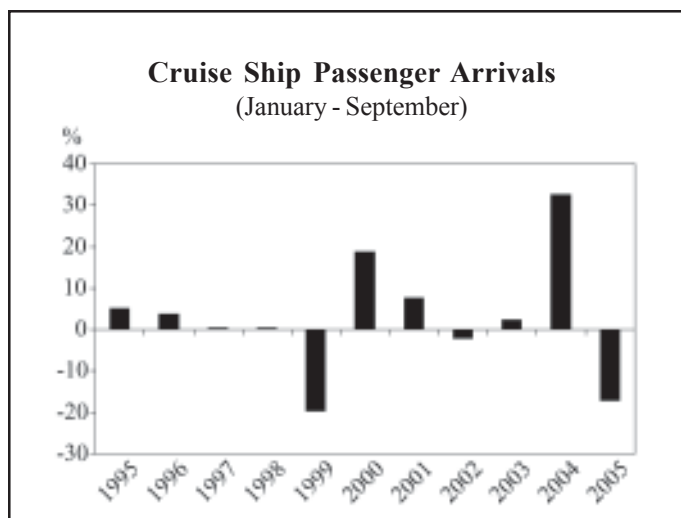
Tourism

Following a decline of 3.7% in the first half of 2005, tourism activity contracted by a further estimated 6.9% in the third quarter, resulting in an overall decrease of 4.5% for the first nine months. During the comparable period of 2004, the tourism industry recorded an exceptional performance, principally because of a surge in cruise visitors

²The liquid asset ratio is calculated as the sum of cash, balances due from the Central Bank and commercial banks and treasury bills divided by total assets of commercial banks.



and the hosting of the Third Cricket Test Match between England and the West Indies. Long-stay tourist arrivals fell by an estimated 2.4%, a turnaround from the increase of 6.2% recorded between January and September of 2004. For the first nine months of the year, visitors from the UK and Canada were down by 8.3% and 10.2%, respectively, while arrivals from other European countries plummeted by 16.1%. The reduction in arrivals from these markets largely reflected a decrease in airlift capacity. US arrivals dipped by 0.8%, in contrast to growth of 1.4% for the first nine months of 2004. Arrivals from Germany improved by 2.9% and visitors from Trinidad and Tobago and other

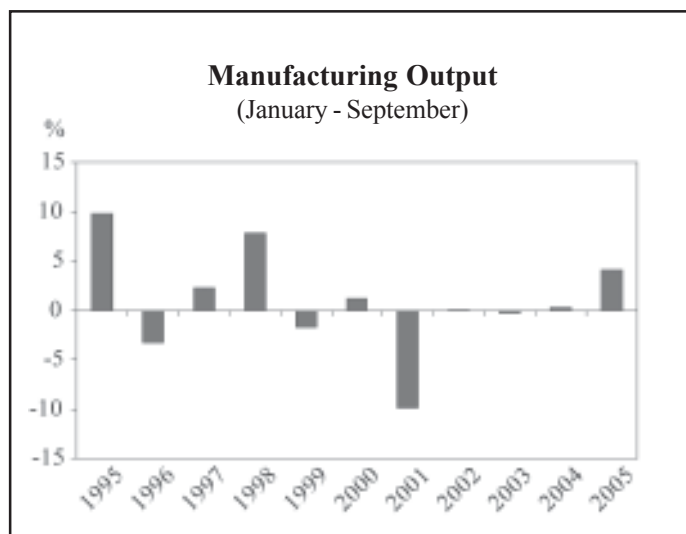


CARICOM countries grew by 16.4% and 9.5%, respectively.

During the review period, cruise ship passenger arrivals decreased by 19.4%, marking the largest nine-month contraction since September 1999. This outcome contrasts with the significant growth of 32.5% in the January-to-September period of 2004. During the year, the industry was challenged mainly by high fuel costs, which forced some cruise lines to offer shorter itineraries, thus reducing the number of cruise ship calls to Barbados. There was also continued competition from US “homeland” ports located along the North-eastern and South-eastern coasts.

Manufacturing

For the January-to-September period, manufacturing output registered an increase of approximately 4.1%, the largest rise since the corresponding period of 1998 when output expanded by 7.8%. The outturn in 2005 resulted primarily from an estimated 14.2% growth in the beverages and tobacco industry, which mainly reflected higher rum production. In contrast, output of electronic components contracted by 18.7%, after registering a gain of 18.4% in the same three quarters of the previous year. Lower production was also recorded for chemicals (6.8%) and other non-metallic mineral products (3.2%).



Agriculture and Fishing

Sugar production rose by 11.3% or 3,880 tonnes to 38,240 tonnes, after four successive years of decline. Non-sugar agriculture and fishing output fell by an estimated 1.1%, making the second consecutive year that production contracted during the first nine months. Fish catches and milk production were estimated to have decreased by 10.0% and 5.1%, respectively, following declines of 23.8% and 7.2% for the equivalent period of last year. In contrast, chicken production grew by an estimated 6.5%, compared to an increase of 15.8% in the first nine months of 2004.

International Business and Financial Services

Three hundred and eleven new licenses, forty-seven more than in the corresponding period of 2004, were issued to international business and financial services firms during the first nine months of 2005. There were 269 new licenses granted to International Business Companies, 60 more than in 2004, and 31 licenses were issued to Societies with Restricted Liability, 10 less than in the comparable period of 2004. In addition, eight new exempt insurance companies and three new exempt insurance management companies were given permission to commence operations. For the same period of 2004, 11 new licenses were granted to exempt insurances companies and one license was issued to an exempt insurance management company. No new offshore banks were licensed during the review period, but in the third quarter, the Central Bank of Barbados terminated the operations of one offshore bank.

Construction

Construction value-added grew by an estimated 21.8% during the first three quarters of 2005, compared to an increase of 3.8% for the equivalent period one year earlier. The rise in construction activity was associated with an 11.1% expansion in domestic consumption of cement during the first nine months of 2005 and a surge of 31.4% in the imports of construction materials during the first nine months of the year. The bulk of activity in the sector was

driven by private residential building and government infrastructure projects. A number of major public sector projects were completed during the review period, including the Hilton Hotel. The University of the West Indies also began its expansion project earlier this year, and together with the redevelopment of Kensington Oval and Sheraton Centre significantly boosted the growth in construction activity for the first nine months of 2005.

Other Non-traded Sectors

Output from wholesale and retail trade and the transportation, storage and communication industry continued to be buoyed by the rise in retained imports, expanding by 5.1% and 4.6%, respectively. Government value-added advanced by an estimated 4.6% during the January-to-September period of 2005, after growing by 5.7% in the similar period of 2004, a reflection of increased expenditure on goods and services and new jobs created in the sector. Activity in the mining and quarrying industry picked up during the review period, up by 2.1%, in comparison with an increase of 1.4% in the corresponding nine-month period of the previous year.

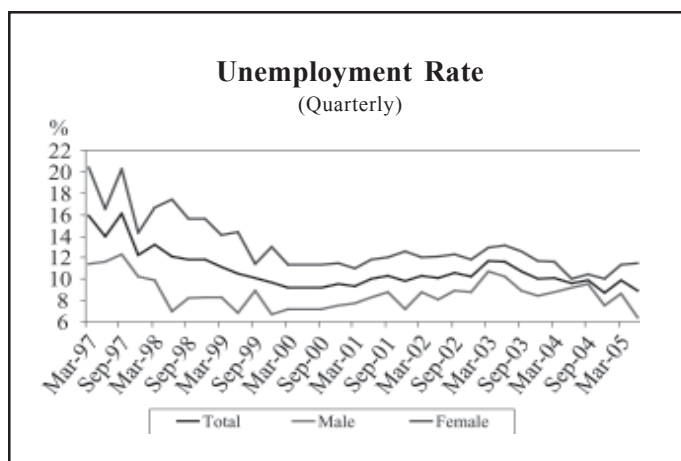
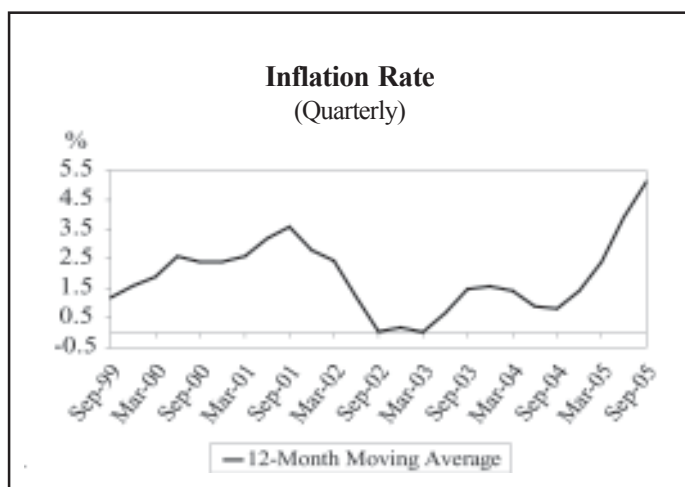
For the first six months of the year, total electricity consumption rose by 7.0%, more than double the rate of expansion in the comparable period one year earlier. The completion of a number of private residences contributed to

higher electricity usage (kilowatt hours) of 7.1% by residential customers. Buoyed by ongoing commercial construction activity, usage by commercial and industrial businesses surged by 6.9% and consumption by general services went up by 6.5%. During the period output of crude oil declined by 4.8% to 258,096 barrels, compared to a reduction of 1.4% in the equivalent nine month period one year ago. In contrast, the production of natural gas expanded by 13.5% to 17.4 thousand cubic metres, after falling by 12.8% in the comparable period of 2004.

Prices and Employment

At the end of September 2005, the twelve-month moving average rate of inflation was estimated at 5.1%, compared to a rate of 0.8% for the corresponding period in 2004. The surge in the inflation rate resulted from a marked rise in the price of food (7.1%), which was driven largely by higher prices for vegetables and other ground provisions and meat. Housing prices rose by 6.5%, as a result of higher mortgage interest and the prices of construction materials. In addition, increases in domestic fuel prices earlier this year sparked an increase of 5.7% in transportation prices and a rise of 5.1% in fuel and light prices.

The average unemployment rate for the first three quarters was 8.5% or 1.4 percentage points below the rate for the equivalent period in 2004. It was the lowest recorded unemployment rate in twenty years. The average rate for males was 7.2%, down from 9.5% for the first nine months of



2004. New jobs were created in general services, finance, insurance and business services as well as in the Public Sector.

The average female unemployment rate dropped by 0.6 percentage points to 9.8% during the same period.

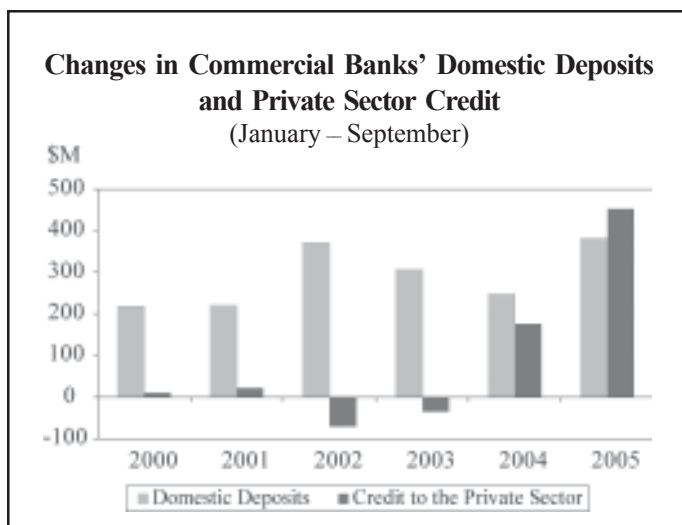
Financial Sector

Deposits

Total domestic deposits for the January-to-September period of 2005 rose by \$320.1 million (5.8%), compared to growth of \$341.5 million (6.9%) for the corresponding period of 2004. For the period ending September 2005, deposits of private individuals increased by \$157.0 million, after expanding by \$201.1 million in the similar period of 2004. Deposits of statutory bodies grew by \$142.3 million, compared to a rise of \$29.9 million in 2004, because of the proceeds of a Barbados Water Authority bond issue as well as loans to the Barbados National Terminal Company Limited and the Barbados Port Authority. In addition, business firms' deposits at commercial banks expanded by \$54.1 million, compared to \$134.9 million in the same period of 2004, owing to the declining savings of distribution (\$29.6 million) and manufacturing (\$18.6 million).

Credit

For the first three quarters of the year, total credit to the non-financial private sector grew by \$452.0 million (14.8%), in comparison to an expansion of \$176.0 million (6.7%) in the similar period one year earlier. In particular, credit expanded by \$118.5 million in the third quarter, representing the largest increase in new bank credit between January and September in the last five years. Lending to the personal and tourism sectors surged by \$241.7 million and \$69.8 million, respectively, while loans to the distributive sector rose by \$62.0 million. Driving the strong growth in personal sector credit were increased demand for residential mortgages and general consumer credit. The continued strong demand for housing fuelled growth in commercial bank lending for residential mortgages by \$96.4 million, relative to the \$48.9 million increase for the comparable nine-month period of 2004. Other financial



institutions contributed an additional \$66.0 million to the mortgage market. Consumer credit rose by \$59.9 million, following an increase of \$23.1 million in the same period of 2004, the result of loans to facilitate home improvement, real estate purchases and consolidation of debt. The growth in credit to the tourism and distributive sectors was attributed mainly to lending to two hotels and the financing of a major acquisition, respectively. Credit to government expanded by \$21.3 million, principally as a result of a large foreign currency loan from a commercial bank. In addition, credit to private financial institutions grew by \$28.3 million, approximately half the rate of increase in the corresponding period of 2004, while new loans to statutory bodies declined by \$33.2 million, in contrast to a rise of \$46.8 million for the equivalent period of the previous year.

Liquidity and Interest Rates

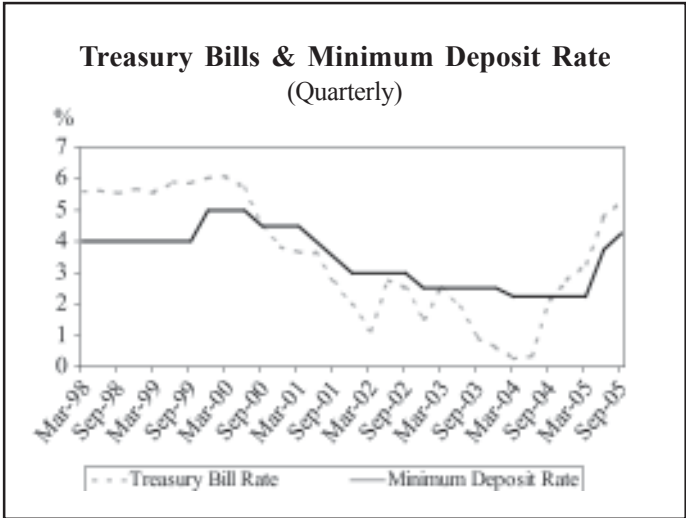
The Central Bank tightened monetary policy three times during the first nine months of the year. On April 1, 2005, the minimum deposit rate was increased by 50 basis points to 2.75% and the second rate adjustment came into effect on June 1, 2005, when the minimum deposit rate was raised by a further 100 basis points to 3.75%. In an effort to further dampen the demand for bank credit, the Bank raised the minimum deposit rate for the third time on September 1, 2005, by an additional

Summary Accounts of the Banking System
(\$Million)

	2003				2004				2005 ^P		
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Net International Reserves	1,940.3	1,929.3	2,053.1	2,087.1	2,169.1	2,244.4	1,880.8	1,746.7	1,752.3	1,659.2	1,442.4
Monetary Authorities	1,358.3	1,379.2	1,513.0	1,503.3	1,539.3	1,478.2	1,292.4	1,190.5	1,227.9	1,214.1	1,149.5
Commercial Banks	582.0	550.1	540.1	583.8	629.8	766.2	588.5	556.2	524.5	445.2	292.9
Net Domestic Assets	1,944.6	1,973.9	1,976.0	2,086.8	2,231.4	2,386.2	2,781.5	3,137.6	3,150.0	3,370.3	3,656.2
Credit to Public Sector	350.3	332.2	322.7	480.8	294.1	367.4	759.3	642.3	508.4	528.8	625.3
Central Government (net)	641.7	680.4	654.7	722.7	659.7	707.2	821.6	867.1	734.1	784.4	903.0
Rest of Public Sector	(291.5)	(348.2)	(335.0)	(241.9)	(365.6)	(339.8)	(62.2)	(224.8)	(225.7)	(255.7)	(277.7)
Credit to Rest of Financial System	143.6	144.3	145.5	155.6	161.2	160.9	221.0	234.9	260.5	298.4	301.8
Liabilities to Other Financial Institutions	378.4	372.6	362.5	390.1	403.2	416.0	489.2	394.4	453.3	475.4	417.3
Credit to Non-Financial Private Sector	2,592.6	2,590.7	2,564.4	2,622.6	2,702.0	2,766.4	2,798.6	3,061.8	3,185.8	3,395.3	3,513.8
Liabilities to the Non-Financial Private Sector	3,884.8	3,903.1	4,029.1	4,173.9	4,400.5	4,630.6	4,662.3	4,884.2	4,902.3	5,029.5	5,098.6
Currency in Circulation	329.3	341.4	339.0	329.0	342.3	345.9	368.0	398.7	392.0	403.0	419.0
Demand Deposits	1,053.6	1,009.6	1,121.4	1,200.3	1,273.1	1,432.1	1,399.2	1,537.0	1,548.0	1,576.5	1,604.3
Time Deposits	347.7	341.1	333.4	313.2	374.6	362.7	396.3	381.8	343.8	352.4	405.1
Savings Deposits	2,154.2	2,211.0	2,235.3	2,331.5	2,410.5	2,490.0	2,498.8	2,566.7	2,618.5	2,697.6	2,670.2
MEMO:											
Domestic Deposits	4,430.0	4,505.1	4,751.7	4,917.1	5,278.1	5,457.7	5,258.6	5,532.3	5,638.8	5,763.0	5,852.4
Liquid Foreign Assets	1,356.9	1,382.2	1,518.7	1,504.9	1,533.0	1,480.4	1,298.1	1,193.4	1,233.5	1,218.9	1,157.1
Loans & Advances	2,810.9	2,801.0	2,793.1	2,867.0	2,950.0	2,974.3	3,081.9	3,346.1	3,429.7	3,630.2	3,788.9

Source: The Central Bank of Barbados

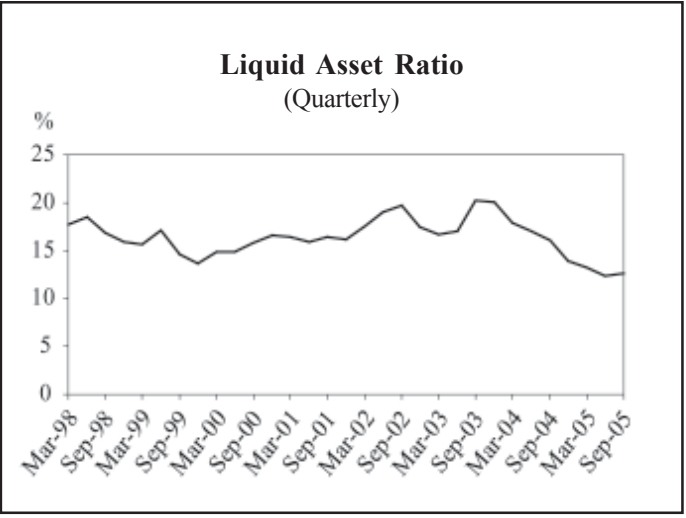
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50 basis points to 4.25%. At the end of the third quarter, prime lending rates at commercial banks ranged between 7.8% and 10.0%, compared to a range of 6.5% and 8.0% at the end of December 2004. During the same period, the weighted average loan rate on selected loans increased by 1.7 percentage points to 9.5%, while the weighted average loan rate on total loans rose by 0.9 percentage points to 10.7%. At the end of September 2005, the liquid asset ratio was 12.6%, compared to 13.9% at the end of December 2004. Excess cash reserves fell by \$68.7 million to \$83.3 million, but holdings of excess securities rose by \$63.2 million to \$880.3 million. The average discount rate for 3-month treasury bills was 5.3% at the end of September, up from 2.8% at the end of December 2004.

Government Securities

Total treasury bills outstanding at the end of September 2005 were \$641.7 million, approximately \$4.2 million less than the amount at the end of December 2004. Commercial banks purchased an additional \$30.2 million in treasury bills while other companies reduced their holdings by \$34.4 million. During the first nine months of the year, the stock of debentures outstanding increased by \$375.2 million to \$2,330.6 million, in comparison to a rise of \$55.0

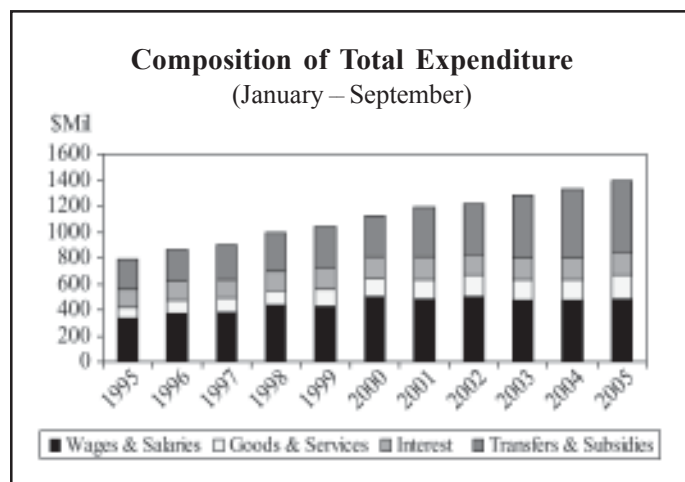
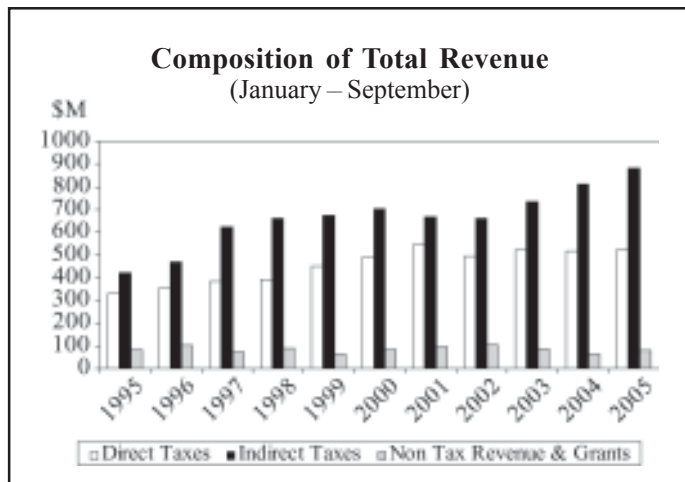


million in the same period one year ago. The National Insurance Scheme increased its holdings by \$157.6 million from the end of December 2004, and total holdings by insurance companies and commercial banks and trust companies grew by \$98.4 million. The remaining debentures were taken up by statutory boards, other institutions and the Eastern Caribbean Central Bank. In addition, the value of Barbados Savings Bonds outstanding expanded by \$0.3 million to \$115.2 million.

Public Sector

Revenue

Total revenue rose by 9.0% during the first nine months of the year, compared to an increase of 3.8% for the equivalent period of 2004. Indirect tax receipts, the driving force behind the expansion in revenue collections, grew by 8.7%, moderately lower than the increase of 10.6% for the corresponding period a year earlier. Value added tax (VAT) receipts climbed by 7.1% to \$484.1 million, following a gain of 12.0% in the January-to-September period of 2004. Excise taxes were up by 16.4%, slightly above the 16.0% expansion in the first three quarters of 2004. Import duties grew moderately by 5.5%, compared to 16.1% in the same nine months a year ago.



Boosted by higher corporate taxes, direct tax revenues increased by 1.6%, in contrast to a 1.3% decline for the corresponding period of the previous year. Corporate tax receipts jumped by 29.0%, after registering a decline of 0.6% for the January-to-September period of 2004, predominantly as a result of higher tax collections from companies in the international business and financial services sector. In contrast, personal income taxes were lower by 14.0%, representing the third consecutive nine-month decline in this category, on account of a further reduction in the personal income tax rate and the upward adjustment in personal allowances. Over the review period, property tax revenues were down by 10.7%, a reversal from the 21.3% expansion registered during the corresponding period of 2004, the result of a fall in property transfer taxes.

Expenditure

During the first nine months of 2005, total expenditure increased by 11.0%, in contrast to a small contraction of 0.3% in the same period of 2004. The surge in total expenditure was mainly due to the expansion in spending on goods and services, transfers and subsidies and wages and salaries. Expenditure on goods and services climbed by 17.8%, after a marginal increase of 0.2% in the comparable period a year earlier. Transfers and subsidies grew by 3.9%, following a rise of 8.9% for the first three

quarters one year earlier, primarily on account of supplemental payments to the Barbados Tourism Authority, the Transport Board and the University of the West Indies. Furthermore, spending on wages and salaries was up by 4.4%, above the 1.0% in the previous year as a result of negotiated salary increases. During the review period, capital expenditure rose by 11.5%, following the decline of 22.9% in the first three quarters of 2004, owing partly to infrastructure spending for Cricket World Cup 2007. The reduction in 2004 was attributed to the completion of major projects and a reclassification of capital expenditure on the Queen Elizabeth Hospital (QEH) to transfers and subsidies.

Financing

Domestic entities provided the finance for the central government's fiscal deficit of \$139.5 million during the first nine months of 2005. The main sources were from the National Insurance Scheme (\$157.6 million) and private non-bank institutions (\$140.7 million). Commercial banks purchased additional securities totalling \$90.6 million, while there was a net withdrawal of government deposits at the Central Bank in the amount of \$19.7 million. Net foreign outflows amounted to \$62.2 million, compared to net outflows of \$9.7 million in the previous year, as amortisation payments of \$71.9 million were more than project fund inflows of \$13.8 million.

Government Operations
(January - September)
(\$Million)

	2000	2001	2002	2003	2004	2005 ^P
Total Current Revenue	1,278.8	1,307.3	1,260.6	1,344.7	1,395.8	1,520.7
Tax Revenue	1,196.1	1,212.9	1,156.6	1,259.6	1,330.5	1,409.4
<i>Direct Taxes</i>	492.5	546.0	494.6	525.1	518.4	526.6
Personal	216.7	246.8	259.0	255.2	240.1	206.5
Corporate	194.5	192.7	149.1	182.1	180.9	233.2
Levies	11.1	13.9	14.9	4.7	0.0	0.0
Property	46.0	55.4	41.9	46.8	56.8	50.7
Other	24.2	37.2	29.7	36.0	40.6	36.3
<i>Indirect Taxes</i>	703.5	666.9	662.0	734.5	812.0	882.8
Consumption	0.5	0.0	0.0	0.0	0.0	0.0
Stamp	9.5	13.1	8.3	11.0	13.6	14.6
VAT	386.5	369.2	368.5	403.4	452.0	484.1
Import Duties	90.4	92.7	115.9	123.9	143.9	151.8
Excise	130.7	115.2	83.6	97.3	112.9	131.4
Hotel & Restaurant	0.5	0.4	1.2	0.2	0.0	0.0
Other	85.5	76.4	84.6	98.9	89.7	100.9
Non Tax Revenue	82.7	94.4	104.1	85.1	65.4	111.3
Current Expenditure	1,127.4	1,192.2	1,220.6	1,283.8	1,327.3	1,405.5
Wages and Salaries	502.8	487.1	504.7	470.8	475.6	496.4
Goods and Services	138.4	147.9	162.8	157.6	157.9	186.1
Interest Payments	163.8	178.0	161.8	172.2	167.5	176.5
External	55.4	75.3	77.9	67.2	70.8	65.1
Domestic	108.4	102.7	84.0	105.0	96.7	111.5
Transfers & Subsidies	322.4	379.4	391.2	483.2	526.3	546.6
Current Account Balance	151.4	115.0	40.1	60.9	68.5	115.2
Capital Expenditure	219.6	223.2	281.6	216.1	166.5	185.7
Net Lending	2.0	19.5	0.5	0.6	1.7	69.0
Total Expenditure & Net Lending	1,348.7	1,435.0	1,501.5	1,500.5	1,495.6	1,660.2
Overall Balance	(-69.8)	(127.8)	(240.8)	(155.8)	(99.8)	(139.5)

Source: The Central Bank of Barbados

Government Financing
(January - September)
(\$Million)

	2000	2001	2002	2003	2004	2005 ^P
Domestic Financing	(137.9)	117.4	262.4	(9.8)	116.0	201.7
Central Bank	(307.5)	(45.0)	199.8	9.3	48.4	19.7
Commercial Banks	133.2	69.0	117.8	(5.8)	105.4	90.6
National Insurance Scheme	(10.1)	14.1	72.2	45.7	(3.5)	157.6
Private Non-Bank	11.4	17.0	37.9	28.4	111.1	140.7
Divestment	0.0	52.2	0.0	0.0	0.0	0.0
Other	35.1	10.1	(165.3)	(87.5)	(145.3)	(206.9)
Foreign Financing (net)	208.1	10.4	(21.6)	165.6	(16.3)	(62.2)
Capital Markets	200.0	0.0	0.0	0.0	0.0	0.0
Project Funds	37.1	41.8	38.9	43.9	56.2	9.7
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation	(29.0)	(31.5)	(60.5)	(67.3)	(72.4)	(71.9)
Divestment	0.0	0.0	0.0	189.0	0.0	0.0
Total Financing	70.2	127.8	240.8	155.8	99.8	139.5

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

Foreign Trade and Payments

Current Account

For the first three quarters of 2005, the external current account deficit was estimated at \$558.9 million, \$185.4 million above that for the corresponding period of 2004 and the largest deficit within the January-to-September period in the previous five years. The increase in retained imports coupled with an estimated decline in travel credits offset the pick up in domestic exports, leading to the widening current account balance. Retained imports grew by an estimated 16.3%, in comparison to an increase of 14.4% in 2004. Imports of intermediate and consumer goods were up by approximately 21.8% and 17.0%, respectively, compared to expansions of 13.2% and 13.7%, respectively for the equivalent period of 2004. In addition, imports of

capital goods rose by 6.2%. For the first nine months of the year, intermediate goods imports were boosted by a 31.4% (\$45.1 million) surge in construction materials and growth in fuels of 34.2% (\$81.4 million). Higher imports of consumer goods reflected mainly growth in the non-durables category, in particular, food and beverages. Imports of capital goods slowed, owing to a decline in machinery imports, which were particularly significant in 2004 when a local utility company imported machinery for a capital expansion project.

Domestic exports were estimated to have grown by 23.1% (\$63.2 million), more than three times the rate of increase recorded in the equivalent period of 2004. The improvement resulted from a 21.9% (\$15.4 million) rise in exports of food and beverages and a 35.7% (\$10.8 million) increase in sales of chemicals, both of these categories

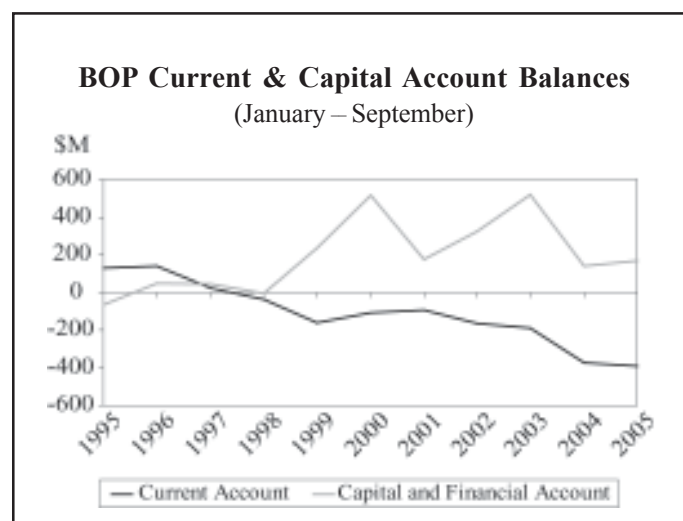
registering growth for the second consecutive nine-month period. Exports of foods and beverages benefited primarily from higher rum exports.

Net receipts from services rose by 0.7%, compared to a 3.7% growth rate in the corresponding nine-month period of 2004, principally because of a moderate reduction in tourism earnings. Net transportation outflows expanded by 7.9% during the first three quarters of 2005, following an increase in outflows of 9.9% in the equivalent period of 2004.

Capital and Financial Account

During the first nine months of 2005, the capital and financial account registered an estimated surplus of \$162.9 million, which was \$23.8 million above the surplus posted one year earlier. Net long-term and short-term financial inflows amounted to \$232.3 million, in comparison to the \$133.9 million in inflows registered for the corresponding period of 2004, owing to higher proceeds for real estate projects and lower amortisation payments by the

private sector. In addition, net public sector outflows were estimated at \$70.4 million, compared with outflows of \$95.0 million in the same period one year earlier. Miscellaneous outflows were recorded at \$69.4 million, in contrast to inflows of \$5.2 million for the corresponding period of 2004.



Balance of Payments
(January – September)
(\$Million)

	2000	2001	2002	2003	2004	2005 ^P
Current Account Balance	-109.1	-94.6	-164.2	-188.2	-373.5	-558.9
Merchandise Trade	-1,033.2	-997.9	-992.1	-1,156.7	-1,351.3	-1,552.5
Total Exports (BOP Basis)	350.7	341.3	304.1	323.9	359.2	367.8
Domestic Exports	299.7	275.0	254.9	256.8	273.5	336.7
Sugar	52.2	44.0	37.7	41.0	44.9	42.1
Elec. Comp.	31.7	30.3	21.7	20.3	22.0	21.5
Chemicals	37.2	33.1	31.3	30.2	30.4	41.2
Food/Beverages	63.9	69.0	68.8	62.0	70.3	85.7
All Other	114.7	98.6	95.4	103.3	106.0	146.1
Total Imports (BOP Basis)	1,474.6	1,419.2	1,371.1	1,559.9	1,793.0	2,018.0
<i>Retained Imports</i>	1,536.1	1,463.9	1,430.6	1,623.9	1,858.2	2,161.9
Consumer Goods	624.7	613.9	590.1	639.8	727.3	851.1
Capital Goods	339.8	303.7	308.9	355.8	418.4	444.2
Intermediate Goods	566.7	541.3	526.5	622.9	705.2	858.9
Miscellaneous Goods	5.0	5.0	5.1	5.4	7.3	7.6
Services (Net)	925.2	893.2	849.7	995.4	1,032.5	1,039.6
Travel (Net)	970.9	940.1	868.7	1,015.2	1,037.6	1,019.4
Of which travel credits	1,113.4	1,099.9	1,022.5	1,177.9	1,205.3	1,192.2
Other	-45.7	-46.9	-19.0	-19.8	-5.1	20.2
Income (net)	-115.3	-134.0)	-144.1	-158.7	-180.4	-183.5
Current Transfers (net)	114.2	144.1	122.4	131.7	125.7	137.5
Capital and Financial Account	515.8	174.0	323.0	519.7	139.1	162.9
Long Term	450.1	184.0	219.4	527.5	-122.1	228.4
Public Sector	225.3	-6.7	-25.9	176.7	-95.0	-70.4
Private Sector	224.8	190.7	245.3	350.8	-27.0	298.8
Other	32.0	-13.4	-3.2	-134.1	5.2	-69.4
Short Term	33.8	3.5	106.8	126.3	256.0	3.9
Errors & Omissions	3.5	54.3	-122.0	10.4	28.3	91.8
Balance for Official Financing	410.2	133.8	36.8	341.9	-206.1	-304.2
Official Financing (net)	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
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Reserve movements (CBB basis)						
(-Increase/+Decrease)	-410.2	-133.8	-36.8	-341.9	206.1	304.2
Change in NIR (IMF basis)						
(-Increase/+Decrease)	-406.8	-137.8	-27.5	-146.7	210.7	41.0

Source: The Central Bank of Barbados
P: Provisional

Regional Economic Developments

Overview

Regional economies experienced stable macroeconomic conditions during the first nine months of the year. In most economies, the expansion in real economic activity was driven by construction activity. However, inflationary pressure, fuelled for the most part by high international oil prices and in some instances, adverse weather conditions, has been a common trend throughout the Caribbean economies. There was a mixed performance for regional currencies against the US dollar - exchange rates depreciated slightly in Jamaica, appreciated marginally in Guyana and remained stable in Trinidad and Tobago.

Tourism

Most Caribbean countries experienced downward trends in the tourism industry during the first eight months of 2005. In Jamaica, stopover arrivals declined by 0.1% due to a drop in arrivals from the country's major markets – the United States and the United Kingdom. For the same period, stopover tourist arrivals to The Bahamas declined by 6.9%, and visitors to Antigua and Barbuda and Grenada contracted by 4.0% and 36.0%, respectively. In contrast, in Belize, visitor arrivals grew by 1.3%, mainly because of stepped-up marketing efforts and the expansion of the United States economy in the first quarter, and St. Lucia recorded an 8.8% increase in visitor arrivals. Growth in arrivals to St. Lucia resulted primarily from increased airlift out of the country's major markets and marketing and promotions.

The number of cruise-ship passengers to Jamaica declined by 0.1% during the first eight months of the year, and those to The Bahamas, by 9.1%, as the effects of an active 2004 hurricane season resulted in a weakened performance from the Grand Bahamas and The Family Islands markets. For the same period, Antigua and Barbuda and St. Lucia posted decreases in cruise passenger arrivals of 9.0% and 16.7%, respectively. Cruise passenger arrivals

to Belize rose by 1.2%, benefiting primarily from shorter cruise itineraries closer to the United States.

Agriculture

In Jamaica, output from the agriculture, forestry and fishing sectors deteriorated by 24.4% in the first half of the year. Traditional export crop production fell, owing to decreases in sugar, banana, coffee and cocoa production. The decline in crop output resulted from the damage done by Hurricane Ivan in 2004 and drought conditions during the beginning of 2005. In addition, industrial disputes and mechanical stoppages contributed to the contraction in sugar production. Guyana experienced a decline in fishing output, and agriculture value-added suffered from adverse weather conditions as widespread flooding impacted on sugar and rice production. Trinidad and Tobago's agricultural output weakened by 8.4% in the first quarter, on par with the contraction for the same period of 2004. The reduction in sugar production, as a result of mechanical problems and the late start of the crop brought on by heavy rains, contributed to the outturn. During the first half of the year, output in Belize's agricultural sector strengthened mainly because of a surge in citrus juice production, despite a downturn in the sugar and banana crops.

Mining and Quarrying

Mining and quarrying activity in Jamaica expanded by 0.5% for the first half of the year, the combined result of a 1.0% increase in alumina output and a 1.9% decline in crude bauxite production. The contraction in bauxite production stemmed from a labour dispute and heavy rain, both of which suspended mining activities. Bauxite production in Guyana also decreased by 8.3% mainly a result of a fall-off in the dried grade. Trinidad and Tobago's energy sector grew by 8.2% during the first half of 2005, driven by a boost in production from the petrochemical sector as two new plants commenced operations in the latter half of 2004.

Inflation

For the most part, regional economies experienced higher rates of inflation during the first nine months of 2005, reflecting the surge in international oil prices. At the end of July 2005, the moving average rate of inflation for Guyana was estimated at 5.7% or 0.7 percentage points above the rate in the equivalent period of 2004. Trinidad and Tobago's rising inflation persisted from the last quarter of 2004 through to August 2005. The moving average rate was estimated at 7.3%, compared to 3.7% for the twelve-month period ending August 2004. Inflationary pressures were driven by high food prices as unfavourable weather conditions led to supply constraints for fruits and vegetables. In Jamaica, the inflation rate at the end of August was estimated at 16.7%, compared to 11.5% for the same period in 2004, primarily because of the surge in international oil prices, a 1.5 percentage point increase in the general consumption tax as well as drought conditions, which reduced domestic crop production. In The Bahamas, the Consumer Price Index for the twelve months ending August 2005 increased slightly, to 1.8%, after gains were recorded in fuel, transportation and communications, food and beverages, education, as well as medical care and health.

Interest Rates

In an effort to temper inflationary pressures, the Central Bank of Trinidad and Tobago raised its 'repo rate' throughout the year from 5.25% in March 2005, to 5.75% in September 2005. The ordinary savings deposit rate increased to 1.5% at the end of August 2005, up from 1.0% at the end of December 2004, and the prime lending rate rose by 25 basis points to 9.3% at the end of August 2005. In Jamaica, the average savings rate fell from 6.5% in December 2004 to 5.5% in August 2005, and lending rates dropped from 24.9% at the end of December to 22.0% in August 2005. Belize experienced a marginal rise in interest rates during the first eight months of the year, with the weighted average deposit rate moving up by 20 basis points

from the December 2004 figure to 5.4%, and the weighted average lending rate increasing by 40 basis points to 14.4%.

The weighted average deposit rate in The Bahamas contracted to 3.1% in the second quarter of 2005 or 76 basis points below the rate for the corresponding period of 2004. In comparison, the weighted average loan rate was estimated at 10.0% or 1.3 percentage points lower than the rate observed in the second quarter of 2004. During the first seven months of 2005, interest rates in the OECS remained stable - the rate of interest on savings deposits was unchanged between 3.0% and 5.0%, while the range of prime lending rates 8.5% to 12.0% was moderately higher than the range of 8.0% to 12.0% at July 2004.

Exchange Rates

By the end of August 2005, the Guyana dollar had appreciated marginally by 0.2% against the US dollar to reach G\$201.26. Jamaica's exchange rate depreciated slightly during the third quarter of the year and exchanged for J\$62.42 per US\$1 at the end of August 2005, following an average US dollar selling rate of J\$61.85 at the end of December 2004. Trinidad and Tobago's exchange rate at the end of August 2005 remained stable at TT\$6.30 per US\$1.

Public Sector Operations

There was an improvement in the fiscal operations of regional central governments. During the first six months of 2005, Trinidad and Tobago's overall fiscal balance recorded a surplus of TT\$2,416.4 million, compared to one of TT\$1,849.2 million in the corresponding period of 2004. Jamaica's fiscal performance resulted in a deficit of J\$18,579.5 million during the first half of the year, mainly because of lower collections of tax receipts and grants. The government of Belize also recorded an improvement in the fiscal deficit during the second quarter of 2005. The overall deficit amounted to \$32.8 million and was \$1.4 million below the deficit of the equivalent period one year earlier.

Foreign Sector Developments

For the period January to June 2005, Jamaica's current account deficit expanded to US\$260.9 million, from a deficit of US\$91.4 million for the same period one year earlier. Belize's exports picked up by 12.9% during the first six months of 2005, but this was insufficient to offset the 16.0% growth in gross imports (excluding electricity) and consequently, the current account deficit widened by 42.5% to BZ\$154.5 million. The external current account deficit of The Bahamas expanded to B\$121.4 million during the first half of the year, from a deficit of B\$14.4 million one year earlier, owing to a surge in the oil import bill and a reduction in net travel receipts. In the OECS (not including Antigua and Barbuda), countries experienced widening current account deficits during the first quarter, as exports declined by 23.1% and imports expanded by 18.4%, reflecting higher international oil prices. Trinidad and Tobago's external position improved during the first half of the year, as the current account surplus rose to US\$1,823.5 million. Increased revenue from energy exports, in particular hydrocarbon exports, contributed to the more than three fold expansion in the external current account balance. The overall balance of payments surplus amounted to US\$634.4 million, almost double the value for the corresponding period of 2004.

International Economic Developments

Overview

By the end of the second quarter, world economic activity slowed and this was reflected in the downward trend in indicators for global trade, industrial production and business confidence. Real economic activity in the industrial economies was sluggish while the Chinese economy posted a strong rate of growth. Rising oil prices continued to be an area of focus as it contributed to inflationary pressures, predominantly in emerging market economies and to a lesser

extent industrial economies. With regard to monetary policy, the Federal Reserve and the Bank of Canada increased interest rates. The United States' external current account deficit expanded during the first six months of the year, while Japan and China recorded large current account surpluses.

Industrial Economies

Despite the recent flurry of hurricane activity in the United States, real GDP growth was estimated at 3.1% for the first three quarters of 2005, following a 4.6% growth rate for the same period one year earlier. This outturn resulted primarily from high consumer spending and residential fixed investment. At the end of September 2005, the unemployment rate went down slightly to an estimated 5.1%, compared to 5.4% for the same period one year earlier. However, for the first nine months of the year, the inflation rate rose to 4.7%, up from 2.4% for the similar period of 2004, mainly due to surging fuel prices. The Federal Reserve Bank continued to raise interest rates throughout the year, and the Federal Funds rate climbed to 3.26% at the end of July, compared to 1.26% at the end of July in 2004. During the second quarter, the external current account deficit expanded to US\$195.6 billion as imports continued to outpace exports of goods and services.

Economic activity in Canada picked up to 2.9% during the first three quarters of 2005, compared to the 2.6% growth for the same period of 2004. Inflation for the first three quarters of 2005 was 2.2%, in comparison to 1.7% for the corresponding period in the previous year. At the end of September 2005, the unemployment rate was 6.7%, some 0.3 percentage points lower than the rate at the end of September 2004. The bank rate increased to 3.0% at the end of September, after remaining at 2.8% since October 2004. Exports of goods and services accelerated faster than imports of goods and services, and contributed to the build up in foreign reserves in the second quarter.

Growth in real economic activity in the Euro-zone was estimated at 1.1% for the first half of the year, compared

to an increase of 2.3% for the equivalent period of 2004, primarily reflecting a slowdown in world economic activity. Real output in Germany was up by 1.1%, moderately below the previous year's performance. The inflation rate was 1.8%, on par with the rate for the corresponding period of a year earlier. In France, economic activity expanded by 1.6%, following a 2.2% gain in the corresponding period of 2004. The inflation rate was estimated at 1.7% or 0.4 percentage points lower than the rate in the same period of 2004. In Italy, economic activity declined by 0.2% in the first quarter, but improved to 0.7% in the following quarter, boosted by strong growth in exports and an improved performance in consumption and investment, particularly in the construction industry. Inflation slowed to 1.9% during January-to-April in 2005, in comparison to a higher rate of 2.3% in the corresponding period one year earlier.

During the first three quarters of 2005 real GDP, in the UK increased by 1.7% or 0.7 percentage points below the rate for the similar period of 2004. The inflation rate was 3.0%, slightly higher than the 2.8% recorded for the equivalent period one year ago, reflecting the continued surge in petroleum prices and transportation costs. The United Kingdom's trade deficit expanded to £3.9 billion in September 2005, from a deficit of £3.2 billion for the similar period in 2004.

Growth in the Japanese economy slowed to 2.1% during the first half of 2005, compared to an increase of 3.2% for the equivalent period of 2004. The unemployment rate at the end of September was 4.2%, an improvement from the 4.6% recorded in the same period one year earlier. For the first three quarters of the year, prices in the Japanese economy fell by 0.3%, on par with a decline of 0.2% registered for the same nine-month period one year ago.

Emerging Market Economies

From mid-2004, the Chinese economy expanded at a relatively robust pace, which continued into 2005. For the first nine months of the year, the Chinese economy grew by 9.4%, virtually unchanged from the 9.6% registered in the

corresponding period of 2004. This outturn was driven by secondary industries, which advanced by 11.1%, followed by tertiary industries, up by 8.1%. In line with the strong economic performance, employment in urban areas continued to increase during the first nine months of 2005. The current account surplus amounted to US\$7,036 million, following a surplus of US\$16,761 million. The surge in manufacturing exports and a fall-off in import demand, in particular for capital goods, was insufficient to offset net services outflows and a decline in income inflows. In contrast, the current account balances of the Asian economies - Korea and Taiwan - weakened as a result of sluggish growth in information technology exports and exchange rate appreciation.

Latin American economies generally experienced a slowdown in growth rates, in contrast to the outcome in the previous year. In most economies, output was driven by commodity and raw material exports. The Brazilian economy waned by 3.4% in the first six months of the year, or 1.2 percentage points below the corresponding period of 2004. The inflation rate increased to 7.2% at the end of June 2005 compared to 6.0% at the end of June 2004. Growth in Mexico and Venezuela also slowed during the first half of 2005, to 2.8% and 9.3% respectively. Economic activity in Argentina expanded by 9.1% in the first half of the year, on par with the rate experienced for the same period of 2004. At the end of June, the inflation rate reached 9.0%, compared to 4.9% for the comparable period of 2004. Labour market activity improved somewhat as the unemployment rate at the end of June declined to 12.1% from 14.8% in the same period one year earlier.

Commodity Prices

The overall index of commodity prices went up by 39.3% during the first three quarters of 2005, mainly reflecting the 18.8% rise in petroleum prices. The extraordinarily high price per barrel for crude oil represents the unabated strong demand and supply pressures, especially after the damage to oil production facilities and refineries

Commodity Prices

Commodities	Sep-2004	Dec-2004	Sep-2005	% Change on Sep-2004	% Change on Dec-2004
Total (Index of Market Prices)	160.0	155.3	216.3	35.2	39.3
Non-Fuel (Index of Market Prices)	96.0	97.1	107.4	11.8	10.6
Food (Index of Market Prices)	93.9	92.9	98.4	4.7	6.0
Sugar (US cents / lb)	29.7	31.9	29.9	0.9	(6.2)
Bananas (US \$ / 40lb)	520.5	497.2	585.3	12.5	17.7
Rice (US \$ / metric ton)	252.0	278.4	287.4	14.1	3.2
Wheat (US \$ / bushel)	151.0	153.9	159.7	5.7	3.8
Soybeans (US \$ / metric ton)	206.5	198.6	212.0	2.7	6.7
Metals (Index of Market Prices)	110.2	117.3	139.5	26.6	18.9
Aluminium	1,731.0	1,852.9	1,837.7	6.2	(0.8)
Iron Ore (US \$ / metric ton)	37.9	37.9	65.0	71.5	71.5
Copper (US ¢ / lb)	2,903.2	3,139.8	3,850.7	32.6	22.6
Silver (US ¢ / oz.)	6.9	6.8	7.5	8.1	9.2
Gold (US \$ / oz.)	418.3	438.5	468.9	12.1	6.9
Petroleum (US \$ / barrel)	40.6	42.7	50.8	25.2	18.8

Sources: IMF Commodity Prices and Bloomberg

caused by Hurricane Katrina. While analysts noted the likely temporary impact of Hurricane Katrina on oil prices, there is still some expectation that prices will be volatile as a result of delays in restoring refineries and oil facilities.

In comparison to fuel prices, the non-fuel commodities market price index increased gradually during the first three quarters of 2005 and at the end of the review period, growth of 10.6% was achieved. The price of food commodities surged by 6.0%, as expansions in bananas, rice,

wheat, and soybeans outweighed the 6.2% decline in sugar prices. Higher food prices have in part been explained by China's strong demand for soybeans, as well as lower output in grain yield occurring in North and South America. The 18.9% expansion in the price of metals was mainly occasioned by increased prices for iron ore and copper while the prices of gold and silver expanded by 6.9% and 9.2%, respectively.



Caribbean Stock Markets: Summary of Third Quarter 2005

Barbados Stock Exchange

The Barbados Stock Exchange registered another decline in all its market segments for the third quarter of 2005, with the majority of the decrease occurring in the Junior Market. The lack of activity on the Junior market has mainly been the result of Fortress Caribbean Property Fund graduating to the Regular Market, at the beginning of the second quarter of 2005.

The Index and Market Capitalisation showed gradual increases for most market segments. The Cross-Listed sector recorded the largest third quarter expansions in index performance (2.85%) and capitalisation (2.72%),

Barbados Stock Exchange Statistics

(Quarterly)

Index	Jul. 2005	Aug. 2005	Sept. 2005
Local	3,950.41	3,940.29	3,952.24
Cross-Listed	2,247.98	2,247.98	2,293.82
Composite	1,028.76	1,027.44	1,039.51
Market Cap. Bds (\$M)			
Local	10,843.68	10,686.18	10,863.67
Cross-Listed	10,839.87	10,825.54	11,046.73
Composite	21,683.56	21,511.73	21,910.41

Source: Barbados Stock Exchange

to end the quarter at 2,293.82 points and \$11,046.73 million, respectively. This was closely followed by the market capitalisation on the local index, which rose by 2.58%, while the local index increased by a mere 0.24%. This performance was also reflected in the composite index, which grew by 1.54% for the third quarter, to end the period at 1,039.51 points with a capitalisation of \$21,910.41 million.

In the Regular Market, Sagicor Financial Corporation was the top traded company for the third quarter, accounting for 39% of the total volume and 34% of the total value of shares traded for the period. Sagicor Financial

Corporation dominated the Odd Lot market as well, accounting for 68% of the total volume of shares traded, followed by First Caribbean International Bank with 8%.

During the third quarter, 10 companies advanced, five declined, seven traded firm and three did not trade. West Indies Rum Distillers saw the largest share price increase of 43%, followed by ANSA McAL with 22% and Neal and Massy with 17%.

Barbados Mutual Funds

At the end of the third quarter, Fortress Caribbean Growth Fund, the Sagicor Select Growth and Preferred Income Funds recorded the largest increases in net asset value (NAV) for the period. This was largely attributed to improved equity performances and profit taking on local and regional shares.

Four funds recorded declines in NAV for the third quarter; Fortress High Interest Fund (44.34%), followed by BNB Capital Growth Fund (5.3%), CLICO Balanced Fund (2.34%) and Roybar Investment Corp. (1.12%). Roybar Investment Corp. however, continues to hold the highest (NAV) of \$15.92. All other funds remained unchanged for the period.

Mutual Fund Performance

Mutual Funds	Sept. 30, 2005 NAV (Bds\$)	Jun. 30, 2005 NAV (Bds\$)
Roybar Investment Corp.	15.92	16.10
Fortress Caribbean Growth Fund	3.91	3.81
Fortress High Interest Fund	1.23	2.21
BNB Income Fund	1.28	1.28
BNB Capital Growth Fund	1.43	1.51
BNB Gift Trust Fund	1.04	1.04
BNB Prop. & Unlisted Sec. Investment Fund	1.66	1.63
CLICO Balanced Fund Inc.	1.25	1.28
Sagicor Global Balanced Fund	2.05	2.05
Sagicor Select Growth Fund	1.04	1.02
Sagicor Preferred Income Fund	1.06	1.04

Source: Securities Exchange of Barbados

Jamaica Stock Exchange (JSE)

During the third quarter of 2005, trading volume on the JSE decreased by approximately 20%, with an associated contraction in the value of shares traded of 38%. The JSE Index declined overall for the third quarter, moving from 110,637.77 points at the beginning of the period, to 103,332.63 points at end-September 2005.

The major volume leaders were Kingston Wharves, registering the best performance of a (27.85%) increase, Cable and Wireless Jamaica Ltd (11.70%) and Mayberry Investments Ltd (6.80%). Over the period three companies advanced, thirty-three declined and one remained unchanged. The major companies advancing were Mobay Ice Company, registering the best performance of 45.71% expansion in share price, Goodyear Jamaica Ltd (10%) and First Caribbean International Bank (1.71%).

Trinidad and Tobago Stock Exchange (TTSE)

During the third quarter of 2005, the TTSE Index decreased by 9% to close at 1,345.91 points. For the period,

eight companies advanced, twenty-three declined and three remained unchanged. The major advancers were Trinidad Publishing Company Ltd with an increase of 10.38%, RBTT Financial Holdings Ltd (10.22%) and Caribbean Communications Network Ltd (3.95%).

Interest Rates

United States of America

During the quarter ending September, the Federal Reserve continued to raise interest rates. The latest increase in the federal funds rate was announced on September 20th - the eleventh time in the previous 15 months. In the process, the Fed Funds rate, the key lending rate – was raised from 1.00% to 3.75%. With third quarter GDP returning an annualised rate of 3.8%, the Fed seemed intent on pushing rates higher to slow the pace of economic growth and the demand for production inputs sufficiently, to curb any inflationary pressures. Furthermore, the tragic dislocations that

Top-Ten Regional Performers*

Barbados	%	Jamaica	%	Trinidad	%
West Indies Rum Distillery	42.86	Mobay Ice Company	45.71	Trinidad Publishing Company Limited	10.38
ANSA McAL (Barbados) Ltd.	21.86	Goodyear (Jamaica)	10.00	RBTT Financial Holdings Limited	10.22
Neal & Massy	16.88	First Caribbean International Bank	1.71	Caribbean Communications Network Ltd	3.95
B'dos National Bank Inc.	6.67	Salada Foods	0.00	L J Williams Ltd	3.45
C&W BARBADOS	6.67	Trinidad Cement Limited	-0.91	Jamaica Money Market Brokers Ltd	2.74
B'dos Farms	5.26	Life of Jamaica	-1.90	Flavorite Foods Ltd	1.87
West India Biscuit Co.	4.38	Seprod	-2.71	Prestige Holdings Ltd	1.71
RBTT Fin. Holdings Ltd.	2.92	Desnoes & Geddes	-2.95	First Caribbean International Bank	0.07
Light & Power Holdings	0.90	Gleaner Company	-4.18	Furness Trinidad Limited	0.00
Banks Holdings	0.70	Courts (Jamaica)	-4.60	L J Williams Ltd	0.00

Source: Barbados, Jamaica and Trinidad and Tobago Stock Exchanges

* Based on share price appreciation during the third quarter of 2005

evolved from Hurricanes Katrina and Rita did not seem to overly affect consumer spending and is therefore unlikely to significantly impact on Fed policies. Overall consumer spending remained robust, rising at a 3.9% annual rate, mostly due to strong summer automobile sales, and the expansion in the housing sector, which rose at a 4.8% rate. Still, the core inflation index was up a modest 2.2%, as compared to the second quarter rate of 2.1%. Coupled with the increase in the labour costs reported by the Bureau of Labor Statistics, these data indicate that surges in energy prices over the quarter did not create any significant economy-wide inflation, to place excess pressure on interest rates.

Canada

Over the quarter, in step with market predictions, the Bank of Canada (BOC) lifted its overnight rate target from 2.50% to 2.75%. In its press statement and in the subsequently released *Monetary Policy Report*, the BOC justified its action by noting that the Canadian economy “is operating close to its full capacity.”

With evidence of a strengthening economy, markets have factored in continued expansion in the BOC’s overnight rate target. Debt markets have also adjusted their expectations for further monetary tightening, pushing longer-term rates up one-quarter of a percentage point in the last quarter.

United Kingdom

During the third quarter, following concerns over energy-induced inflationary risks and subdued economic growth during the first half of 2005, the Bank of England (BOE) cut its key interest rate by a quarter of a percentage point, to 4.5% - making this the first cut since July 2003. The repo rate - the rate of interest at which the BOE lends to commercial banks - was at 4.75% since August 2004, when policymakers carried out the last of five quarter-point increases, in moves aimed at helping to cool consumer spending and Britain’s surging housing market.

The BOE highlighted that a decrease of 25 basis points in the repo rate was necessary to keep CPI inflation

on track, to meet the 2% target in the medium-term. It is customary for the Bank to raise and lower the underlying cost of borrowing in the UK, in an attempt to keep inflation in line with its target.

UK inflation has been above the Bank’s target rate for the entire third quarter. While this would normally result in pressure to increase interest rates, the inflation figures are largely driven by the high price of fuel, which is expected to gradually decline. Ignoring the effect of rising oil and petrol prices, inflation is below the target rate.

Since the cut in the repo rate in August, mixed economic indicators have led to the Monetary Policy Committee (MPC) voting unanimously during September to keep rates on hold at 4.5 %.

European Central Bank

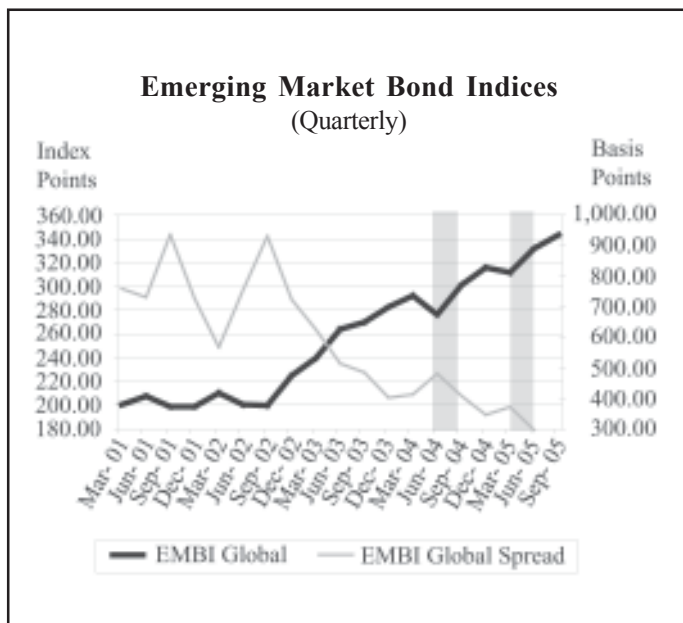
Continuing in the same vein since June 2003, the European Central Bank (ECB) has kept its benchmark interest rate at a six-decade low for the 28th month, to support economic growth in the 12-country Eurozone, despite inflation fears caused by the almost 50% rise in oil prices over 2005.

Recent indications that inflation is accelerating, prompted speculation that the bank may have raised rates during the third quarter. However, this was not the case as the ECB encountered growing pressure from employers and finance ministers to refrain from raising interest rates in its efforts to keep inflation in check, because inflation was driven almost entirely by soaring oil prices.

Emerging Markets

Bond Markets

Strong performance in emerging bond markets continues to be anchored by the improvement in economic fundamentals. The combination of solid macroeconomic policies, high levels of international reserves and improving debt profiles has resulted in further credit upgrades for some of these economies.



Demand has remained strong as international investors continue to recognize the attractiveness of emerging market debt, as evidenced by the increase in the J. P. Morgan EMBI Global Diversified Index during the third quarter. This performance was due to high oil prices, light new issuance and strong inflows to asset classes. Argentina, Ecuador and Venezuela were the top performing emerging market countries, all registering double-digit rates of expansion during the review period.

Equity Markets

Emerging equity markets had another strong third quarter, with many outperforming developed markets. Stocks from Latin America were the top players, while Asian markets on average posted only modest returns. In Argentina, the Merval exhibited signs of growth with the help of the successful debt restructuring that took place earlier in the year. Similarly, the Brazil Bovespa and the Mexican Bolsa indices were up 26% and 20%, respectively, as both countries continue to implement political and economic reforms. In addition, strong oil prices and a robust

Emerging Equity Market Indices (Quarterly)

Country/Region	Index	Jun-05	Sep-05	% Ch
Argentina	Merval	1,232.86	1,459.29	18.4
Brazil	Bovespa	25,051.21	31,583.79	26.1
Chile	IPSA	2,056.84	2,152.82	4.7
Mexico	IPC	13,486.13	16,120.08	19.5
Venezuela	Caracas	21,595.64	20,769.36	-3.8
Latin America		1,617.01	2,093.47	29.5
China	Shanghai	1,080.94	1,155.61	6.9
Hong Kong	Hang Seng	14,201.06	15,428.52	8.6
India	Mumbai	7,193.85	8,634.48	20.0
Indonesia	Jakarta	1,122.38	1,079.28	-3.8
Malaysia	Kuala Lumpur	888.32	927.54	4.4
Philippines	PSE	1,924.23	1,942.07	0.9
Singapore	Straits Times	2,212.66	2,305.14	4.2
South Korea	Seoul	1,008.16	1,221.01	21.1
Thailand	SET	675.50	723.23	7.1
Taiwan	Weighted	6,241.94	6,118.61	-2.0
Asia		243.02	263.62	8.5

Source: Bloomberg Service

United States economy contributed to the change in the Bolsa.

Performances across the emerging Asian stock markets were mixed during the third quarter. The Indian and Korean markets both recorded double-digit increases of 20% and 21%, respectively, because investors were drawn to growth opportunities as a result of a combination of low interest rates and subdued inflation. In contrast, the Indonesian index performed the weakest, recording a decline of 3.8%, as market sentiment has been troubled by the impact from higher energy prices.

Currency Markets

Most Asian currencies with floating exchange rates depreciated against the US dollar during the third quarter of 2005, in anticipation of further interest rate increases by the Federal Reserve in the coming months. The Indonesian

Emerging Market Currencies
(Quarterly)

Country/Region	Currency	Jun-05	Sep-05	% Ch
Argentina	Peso	2.89	2.91	-0.8
Brazil	Real	2.33	2.23	4.5
Chile	Peso	577.75	529.75	8.3
Mexico	Peso	10.75	10.76	-0.1
Venezuela	Bolivar	2,147.30	2,146.80	0.0
China	Yuan	8.28	8.09	2.2
Hong Kong	Dollar	7.77	7.76	0.2
India	Rupee	43.49	44.02	-1.2
Indonesia	Rupiah	9,760.00	10,300.00	-5.5
Malaysia	Ringitt	3.80	3.77	0.8
Philippines	Peso	55.98	56.03	-0.1
Singapore	Dollar	1.69	1.69	-0.4
South Korea	Won	1,034.50	1,042.40	-0.8
Thailand	Baht	41.33	41.05	0.7
Taiwan	Dollar	31.62	33.19	-5.0

Source: Bloomberg Service

Rupiah and the Taiwan Dollar had the two largest declines in Asia of 5.5% and 5.0%, respectively. During the third quarter, China, followed by Malaysia, adopted managed floats by revaluing their currencies against the US dollar.

Conversely, most of the major Latin American currencies appreciated, with the exception of the Argentine Peso which depreciated due to expectations of higher interest rates. Over the July to September 2005 period, the Chilean peso recorded the largest gain of 8.3%, followed by the Brazilian Real (with 4.5%), which appreciated partly because of high rates of return and a turnaround in net inflows of portfolio capital.



Charting Our Course in CSME: PART II¹

Session III: Movement of Capital and Rights of Establishment

At the conference on “Charting Our Course in the CSME,” one of the sessions focussed on the movement of capital and the rights of establishment. Ms. Enid Bissember, Senior Project Officer, CARICOM Secretariat, began her presentation on *Capital Market Deepening* by explaining that as a result of the CSME, investment was no longer restricted to domestic markets as the regional capital market could now facilitate cross-border supply, consumption abroad and the movement of natural persons - all integral factors when considering capital market deepening. She noted that the instruments available in the region were very limited, consisting of basic debt and equity instruments, and called on market players to create new opportunities within the market.

Ms. Bissember also outlined the CARICOM Financial Services Agreement (CFSA). The CFSA sets out the guidelines under which capital will be moved across the region and is expected to provide the platform for a seamless financial services market. It seeks to harmonise the laws governing banking, insurance and securities and expands on and complements the broad framework of the Treaty of Chaguaramas.

According to Ms. Bissember, once signed, the CFSA should impact positively on the market and overall economic development, leading to the following benefits:

- Easier access to capital
- Improved products and pricing (cheaper products)
- Predictable, fair, efficient and transparent environment
- Lower transaction costs
- Greater product innovation due to increased consumer demand, resulting in greater choice

- Increased number of mergers and acquisitions, alliances and joint ventures
- National treatment
- Increased liquidity across the board

The CFSA will also require that the collaboration of regulators and will further reinforce the need for increased vigilance and care on their part. Even with the CFSA, however, there remain obstacles to the movement of capital across the region, which Ms. Bissember outlined as follows:

- A ‘national’ mindset, as opposed to community or regional outlook which still prevails
- Asymmetrical information: a common feature of the regional capital market
- Regional companies are unprepared to compete

The next speaker, Dr. Marion Williams, Governor of the Central Bank of Barbados, in a presentation on *Capital Markets and Exchange Control Liberalisation*, outlined the main functions of capital markets. These included the provision of competitive financing alternatives, the sending of price signals to gauge the cost of government borrowing and the matching of funding needs of borrowers and lenders. Apart from raising the level of savings and permitting riskier firms to access financing, capital market development is expected to facilitate greater capital mobility leading to a higher level of intra-regional investment. The accompanying improvement in the functioning of the stock exchange, the harmonisation of exchange rates, the convergence of the legal and tax systems and the education of investors should also augur well for regional economies.

While acknowledging that the maintenance of exchange controls can negatively affect the flow of foreign funds and slow the development of the foreign exchange markets, Dr. Williams reiterated the importance of exchange controls in safeguarding the fixed exchange rate regime by stemming foreign exchange outflows as well as assisting in the maintenance of low borrowing costs.

With regard to Barbados, the Governor said that there are no controls on the purchase of listed or unlisted

¹ This update summarises the contributions of the presenters and discussants featured in the afternoon sessions of the conference on CSME hosted by the Central Bank of Barbados.

equities within CARICOM and that the Central Bank of Barbados had delegated authority to commercial banks to perform most current account transactions. Further capital account liberalisation is required but Dr. Williams cautioned against speedily liberalising so as to minimise the downside risks. She highlighted the factors that would determine the scope for and pace of further liberalisation, including:

- The maintenance of an adequate level of foreign exchange reserves. While current levels provided some scope for liberalisation the recent high levels of outflows were a cause for concern.
- Interest rate differentials across CARICOM. To the extent that such differentials exist, the potential for interest rate arbitrage would require a trade-off between liberalisation and the maintenance of a low interest rate regime in Barbados.
- The degree of harmonisation of economic policies among CARICOM Member States.

At the regional level, a single currency would facilitate financial and capital market development but according to Dr. Williams for a single currency to become a reality, the economies of the region would need to converge further.

In his presentation on *Mergers and Acquisitions* (M&As), Dr. Trevor Farrell, Senior Lecturer, University of West Indies, St. Augustine, noted the increased number of M&As in the region over the last 5 – 10 years. These were, however, only one of the forms of inter-corporate linkages (ICLs) that are currently in use. Other examples include joint ventures, alliances, franchises, sub-contracts and management and marketing agreements (e.g. in the hotel industry), with many of them accomplishing the same goal as M&As.

Dr. Farrell posited that ICLs should be viewed within the broader context of competition policy, with a focus on economic transformation in the region. Given the importance of size in determining ability to compete, he advocated ICLs as a strategy for the regional firms in their bid to attain international competitiveness. To facilitate this process,

competition policy for the region must centre around a few key concepts: the minimisation of anti-competitive practices; the linking of subsidisation to conditionalities for critical sectors and/or firms; and, the creation of policies on ICLs that distinguish between critical domestic firms/sectors and foreign firms. Dr. Farrell cautioned, however, that even though all the players need to participate in the development of the region, not every state would benefit equally from this progress.

In Dr. Farrell's opinion, one of the best ways forward is through the promotion of entrepreneurship at the regional level. In his view, the drivers of entrepreneurship include: mentors, contacts, creativity, exposure, supplies and services, culture, capital, training, knowledge and science and technology, all of which he feels are best provided at the regional level.

In concluding, Dr. Farrell stressed the importance of the Caribbean Court of Justice (CCJ) in setting precedents with regard to ICLs that will have far-reaching implications.

Discussant, Mr. Marlon Yarde, Manager of the Barbados Stock Exchange, saw a regional stock exchange as a necessity but felt that the first step should be a single capital market. According to Mr. Yarde, harmonisation and education are central to the future development of the regional stock market, which he envisage would incorporate harmonised systems with electronic link up and an official list/order book. In the interim, he recommended a linking of the main stock exchanges in the region to encourage greater participation since cross-listing has thus far proved to be inefficient. This arrangement would involve companies having access to all three exchanges and would increase the size of their float. Registrars would send information to investors in their domiciled country. Brokers would pay a standard fee and be required to open an account in each depository, as well as have an account at a bank that is present throughout the region. Prices would be quoted in the local currency and the T+3 settlement cycle would be used.

The second discussant was Mrs. Michelle Doyle-Lowe, Assistant Director of Banking and Currency at the Central Bank of Barbados. On the issue of developing a regional stock exchange, she noted that integration and improved collaboration among regional exchanges should extend not only to procedures but also to regulation and commissions. In her opinion, there should be a single regional commission as the standardisation of requirements is paramount and must evolve in line with regulatory reviews. Furthermore, with regard to infrastructural support she contended that delivery versus payment should be key.

Mrs. Doyle-Lowe went on to point out the need to focus on the practical aspects and challenges of financial markets. She highlighted the fact that Trinidad and Tobago's market has evolved at a faster pace than the rest of the region and that the others are now trying to catch up. She noted that while public dissemination of information has been the focus recently, the investment culture must be transformed in order to foster active participation and greater transparency (e.g. producing financial statements in a timely fashion and extending the operations of the regional rating agency). She argued that human resource management should be geared towards identifying needs and risks and that the incentives being offered should be revisited as some are not utilised.

On the topic of mergers and acquisitions, she noted that very few companies would be able to survive extra-regionally without M&As and considered ICLs the way forward, especially small and medium sized enterprises. She also agreed that a regional body would be necessary to investigate conglomerates that may have an unusually large share of the market across the region. Finally, Mrs. Doyle-Lowe characterised the exchange control situation as a catch-22 and suggested that liberalisation efforts might need to be revisited.

Mr. Michael Mansoor, Chairman of First Caribbean International Bank, the third and final discussant, suggested that further capital market development was essential since the region needed infrastructural capital in order to grow given its size constraint. Mr. Mansoor added that the regional

financial landscape is too complex and it is important to keep regulation simple in order to foster development.

Although noting the difficulty that this option presents, he believes that a single currency is the only real solution to resolving the problem. He also emphasised the fact that the region needs large banks citing inability of small banks to underwrite large capital flows.

In the discussion session that followed, Dr. Farrell concurred with the sentiment expressed by a member of the audience that people in the Caribbean do not quite grasp the concept of buying shares. He also asserted that although it was easy to see how exchanges could be harmonised from a technical perspective, there were legal issues that needed to be addressed. Finally, he noted that only three countries have national competition authorities in place and suggested that this could be advantageous since the region might therefore be able to go straight to the supranational level without going through the national and regional levels first.

One audience member commented that while it is clear that the CSME and the proposed regional stock exchanges are linked and that there are many trials ahead, as borne out by the presentations, it was a cause for concern that the challenge of risk management was not mentioned in any of the presentations. Dr. Williams replied by agreeing that there was a need for better risk management and that measures were already being put in place in the form of a Regional Credit Rating Agency and various memoranda of understanding between regulatory bodies. While concurring with the importance of improved risk management and strong regulation, Mr. Yarde added that with regard to M&As, the treatment of minority shareholders should be examined. In response to concern raised regarding the existence of an over-the-counter (OTC) market that is unregulated, Ms. Bissember assured the audience that investigations are presently being conducted into this market.

Session IV: Panel Discussion – Toward CSME and Beyond

Mr. Harold Codrington, Advisor to the Governor of the Central Bank of Barbados, began his presentation on the *Possibilities for Monetary Union* by reminding participants that the concept of a common currency was nothing new; in fact, Barbados had been part of a common currency for 23 years. However, he noted that the idea of a monetary union in CARICOM was first conceived in 1990, with the expected benefits including:

- Removal of exchange rate risk
- Greater balance of payments and financial stability because institutional arrangements would limit financing of government deficits and, therefore, remove pressure from the BOP,
- Better resource allocation,
- Economy in the use of foreign exchange; and
- Provision of overall impetus to integration movement

According to Mr. Codrington, in order to facilitate the creation of this monetary union, it was agreed in 1992 that the union would proceed when countries were performing in a similar manner in certain areas, i.e. they had met a number of convergence criteria. The Caribbean Centre for Monetary Studies (CCMS) monitors progress on these criteria. Although these criteria have been met in the past by a majority of countries, the creation of the monetary union has been impeded by practical difficulties. These included: the existence of multiple exchange rate regimes; incomplete capital account liberalisation; the lack of labour mobility; the high adjustment costs of meeting the criteria; the lack of a formal process for coordinating the convergence process; the unwillingness of countries to relinquish control of domestic economic policy; and, a lack of political will. Thus, in 2001, the monetary union was put on the back burner until other aspects of the CSME had been achieved, although the CCMS continues to monitor progress on the criteria.

In terms of the future prospects for monetary union, Mr. Codrington suggested that a common currency would most likely be introduced at parity with the US dollar, with the various regional currencies converted into the new CARICOM currency at their respective exchange rates to the US dollar. He also spoke to the institutional arrangements that would be required to make monetary union a reality, whereby a regional central bank would have to be created, of which existing central banks would become branches or units. However, a supranational policy-making body would, he warned, require considerable political will.

The second panellist was Professor Compton Bourne, President of the Caribbean Development Bank, who spoke on *Financing Integration*. In his introductory comments, Prof. Bourne stressed that financing integration is not the same as financing the institutions of economic integration and identified the need for various development actions regarding the removal of barriers.

According to Prof. Bourne, the problem lies in the inadequate, unstable and unreliable flows of budgetary resources and correcting this problem is quite challenging as countries need to be made, or legally bound, to provide a certain amount of budgetary resources. The amount to be contributed by each country, however, is difficult to determine but one option would be to base the formula on the shares of the trade in the region. Some disadvantages of this option include the fact that it is too static, regional trade is a relatively small proportion of total trade and trade is not a complete measure of the benefits of participating in the CSME. A second option would be to develop a formula based on relative shares of community-wide GDP, as this is more acceptable to participants in the scheme. A decision still needs to be made regarding exactly to which variable the levy would be applied.

Prof. Bourne explained that financing for the Caribbean Court of Justice (CCJ) was not provided by annual contributions from countries. Each country contributed a lump-sum payment, which is to be invested,

and continued financing is to be provided by the proceeds of this investment. He warned that in the future augmentation of this initial investment might be necessary, the modalities of this will need to be addressed.

With regards to the regional development fund, current plans call for financing from this fund to be distributed in accordance with the initial status and needs of the countries in the region. If economic situations diverge, then tensions may arise, since a kind of quasi-permanence has been given to the labels that were given to countries in the beginning – such as LDC and MDC – but not all are still applicable.

In conclusion, Prof. Bourne asserted that the region must face this issue of financing and accept the judgment that, while the international community may assist, we cannot depend on it for the financial development of the CSME.

In his presentation on *The Role of the CCJ*, The Rt. Hon. Mr. Justice Michael De La Bastide characterised the CCJ as crucial to the success and very existence of the CSME. Even if the CCJ had no appellate jurisdiction, he suggested, it would still be required to fill an essential need, as a document as complex as the Revised Treaty of Chaguaramas could be interpreted in a variety of ways. He therefore emphasised the need for a single, uniform interpretation emanating from a single source. Given that disputes will inevitably arise within a regional grouping there should be some compulsory means of resolving disagreements.

Justice De La Bastide broke down the role of the CCJ into three elements:

1. the determination of the interpretation and application of the revised Treaty of Chaguaramas;
2. the provision of the means by which the rights and freedoms would be vindicated and enforced thus acting as guarantor of those rights and enforcer of those obligations;
3. the resolution of any disputes that arise.

Mr. De La Bastide also outlined some of the more notable characteristics of the original jurisdiction of the court. He noted that contracting parties recognised the original jurisdiction of the court and that the court is exclusive; therefore, no other court or tribunal is authorised to interpret and apply the articles of the revised treaty. Matters which cannot be decided upon by local courts must be decided upon by the CCJ and there is no appeal from the CCJ – in this way it is very different from the Privy Council – but the decision of the court may be revised if new information is forthcoming.

The final panellist, Samuel Chandler, Permanent Secretary – Foreign Trade in the Ministry of Foreign Affairs and Foreign Trade, responded to those questioning the relevance of the CSME in his presentation on *CSME in a Global Context*. Mr. Chandler reminded participants that the region is part of a global economy and that globalisation and liberalisation are two salient features of the environment with which Caribbean economies have to cope and which cannot be ignored. He therefore contended that the CSME was indeed very relevant.

Mr. Chandler placed much emphasis on the rationale for, and implications of, the single economy. He noted that there were two factors governing the 1989 decision, namely: the deepening of the regional integration movement and the formulation of a credible and effective response to developments in the global economy. As he pointed out, the global environment is changing rapidly and this has implications especially for small-island developing economies. The CSME is intended to facilitate the successful insertion of Caribbean economies into the new global economy.

Within the WTO agreements, there is a provision for regional economic groupings. Even though the WTO does not support discrimination, there is some leeway within which to operate for countries forming part of a regional grouping. Additionally, the FTAA recognises that Caribbean states are vulnerable. Even the EU has acknowledged that

there must be some asymmetrical treatment between EU countries and Caribbean countries in the negotiation of a regional economic partnership agreement between the two. In this regard, they are expecting to build on the regional economic integration process.

In summary, Mr. Chandler explained that the CSME could allow the Caribbean to carve out an effective niche in the global economy. He advocated a continuation of the regional push for special and differential treatment in the negotiations in light of the small size of the region in the global economy.

In the discussion that ensued, Mr. De La Bastide assured those in attendance that all decisions of the CCJ will be widely published, but advised that the charter does not permit going outside of the Revised Treaty in terms of its jurisdiction. With regard to the CSME, presenters explained that sports persons can move freely within the region and, in response to a request for advice for entrepreneurs seeking to either remain in business or get into business, that the CSME provides for movement of the factors of production (e.g. capital and human resources) necessary to facilitate business by removing all possible restrictions.



Extrapolating the Discontinued Wages Index Using Data on Collective Wage Bargaining Agreements

by Winston Moore and Tracy Maynard*

Abstract. Given Barbados' fixed exchange rate, it is of utmost importance that wages be closely monitored. However, there does not exist an up-to-date wage index series. This paper presents an approach for extrapolating the discontinued wage index using data on collective wage agreements in both the public and private sector. The resulting series does not result in a significant shift in underlying economic relationships.

Keywords: Wages; Index Numbers

1. Introduction

Barbados has a total employed labour force of approximately 129,000 persons producing BDS\$5 billion in goods and services. Labour is principally organised under two trade unions: the Barbados Workers Union (BWU), the largest representative of workers in the private sector (and largest union), and the National Union of Public Workers (NUPW), the principal negotiator for public sector employees. These two unions, along with most of their smaller colleagues, are united under the umbrella body known as the Congress of Trade Unions and Staff Associations of Barbados (CTUSAB), which represents an estimated 35 percent of the total employed labour force.

Unlike more developed economies, there is no formal legislation governing the employer-union relationship.¹

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¹ There does exist an arrangement titled a social partnership which, although it is not a legally binding document, outlines certain common goals and behaviours that should be adhered to during wage negotiations. The social partnership is a formal arrangement between government, private capital and labour unions which is governed by protocols signed by all parties. These protocols attempt to foster economic stability through the development of a national consensus on key areas of development. To date there have been four Protocols under Social Partnership agreement. The most recent protocol, covering fiscal years 2005 to 2007 has the expressed goal of repositioning the Barbadian economy to enable it to take advantage of the possible benefits afforded by globalisation and trade liberalisation. The document outlines policies to limit pay increases to productivity, a framework for social dialogue and the tripartite agreement which addresses the impact of HIV/AIDS on the work place.

Most work place standards, such as minimum wages, are based on industry practices and voluntarism (ILO, 1999). Thus, although collective bargaining agreements are usually strictly adhered to, they have no legal standing. Collective bargaining agreements usually set employment conditions, such as salary increases, provisions for the resolution of conflicts and work place conditions. Most wage settlements are negotiated primarily for two-year intervals, although one (sugar workers) and three-year accords do exist. If an agreement cannot be reached, the Labour Department may be invited to assist with the process.

Table 1 provides some indicators of Barbados' labour market. It shows that the average rate of unemployment has fallen from close to 20 percent in 1995 to just 11 percent in 2003. The labour force is highly educated, with approximately 59 percent having at least some secondary school education and 20 percent university level qualifications. Although there does not exist a formal framework for negotiations between employers and union, there have been relatively few labour disputes (less than 60 in any given year) over the period under investigation (ILO, 1999).

Although quarterly employment statistics are regularly published, a wages index is not presently available. A wage index is normally employed to track changes in the general level of the price of labour in an economy. It can be used as an indicator of variations in the standard of living of the labour force over time, and, given Barbados' fixed exchange rate, provide an important barometer of the external competitiveness of the nation.

The traditional approach to calculating a wages index is to have a systematic survey of the wages of employees in the economy weighted by their contribution to total national income or employment.² In the case of Barbados, no such survey has existed since 1994.³ This paper proposes a methodology to extrapolate the discontinued wages index using data on wage agreements concluded over the 1995 to 2003 period, for both the private and public sector, covering 120 companies in Barbados. The

wage series is extrapolated based on the weighted average of wage increases for both private and public sector employees. The resulting series is then subjected to a number of checks for the robustness of the proxy wage index series to ensure that it does not provide misleading inferences.

The wages index produced by this study is expected to be of use to both economists and non-economists alike. For economists it provides estimates of wage increases, which can be used in their assessment of domestic economic developments and for statistical research. For unions and employers, it gives a historical context to present wage negotiations, and allows employees to compare their wage gains to the national average.

This study is subdivided into four sections. After the introduction, Section 2 presents the proposed methodology to extrapolate the discontinued wages index, while Section 3 gives the results of this technique and a check of the robustness of the results obtained. Section 4 concludes.

2. Deriving the Wages Index

This section explains the rationale for the empirical methodology used in the study. Assume a labour surplus economy, $L^s > L^d$, where there is always a positive differential between those persons willing to work and the number of jobs available. As a result, employers choose the price of labour, w , and workers choose the employer. Also assume a market demand curve for labour () is of the form, $E = D(w)$. The employment level of firm i is given by:

$$E_i = \begin{cases} 0 & \text{if } w_i < w_j \\ \frac{1}{2} D(w) & \text{if } w_i = w_j \\ D(w_j) & \text{if } w_i > w_j \end{cases} \quad (1)$$

Equation (1) states that if firm i pays wages lower than its competitors, the entire labour force works for firm j , while

if firm i pays a wage equal to firm j , the business captures exactly half of the labour force. Similarly, if firm i pays a wage greater than its competitors, the company captures the entire labour market.

Definition 1: *The quadruple $w_i^*, w_j^*, E_i^*, E_j^*$ is an equilibrium if $w_i = w_j = w^* \min_{w_i, w_j} \pi(w_i, w_j)$*

The definition above states that in equilibrium no firm can increase its profit by unilaterally changing its level of wages, since it would result in a reduction in profitability.

Proposition 1: *If labour supply is continuous and if the firms have the same cost structure, then an equilibrium is $w_i = w_j = w^*$ and $E_{i,j} = \frac{1}{2} D(w^*)$.*

Proof. By way of contradiction: if $w_i < w_j$ is an equilibrium, from Equation (1), firm i cannot find any persons in the labour force willing to work for the enterprise and therefore makes zero profits. This implies that firm i can, however, increase its profit by raising the price it pays for labour to $\bar{w}_i > w_i$, a contradiction. Similarly, if $w_i > w_j$ firm i grabs the entire market for labour, but this implies that if the firm lowers wages to $\bar{w}_i < w_i$ it can make greater profits, a contradiction (QED).

From Proposition 1, one would expect that average wage agreements across firms should be quite similar in any given period, since no firm has an incentive to pay wage increases either above or below the industry average. A representative

2. The original wage index is an arithmetic mean of wages and salaries for hourly-paid skilled labourers in the sectors given in the table, using a 40-hour week as the basis of calculation. The weights were based on their contribution to total employment.

3. The International Monetary Fund, as a by-product of its Article IV consultations, also publishes a proxy wages index. However, this series is based on less than 30 wage agreements and is therefore not as comprehensive as the database employed in this study.

average of wage increases in the economy can therefore be obtained from:

$$\dot{w}_t = \alpha_{Public} \dot{w}_{Public} + \alpha_{Private} \dot{w}_{Private} \quad (2)$$

where α_{Public} and $\alpha_{Private}$ are the weights for the private and public sectors from the discontinued wages index, and \dot{w}_{Public} and $\dot{w}_{Private}$ represent the average of collective bargaining agreements in the public and private sector, respectively. Using Equation (2), the wages index can then be extrapolated using the following equation:

$$w_t = w_{t-1} (1 + \dot{w}_t), \quad (3)$$

The number of collective bargaining arrangements (obtained from the Barbados Workers Union) ranged from 26 to 74 in any given year, and along with previously negotiated agreements brought the number of agreements to 120.

3. Results

Table 2 and Figure 1 show the wages index from 1970 to 1994 along with the new estimates from 1995 to 2004. The descriptive statistics reveal that before 1982, the average change in wages was just over 10 percent per year. This average, however, declined in the 1980s, and was virtually zero during the 1990-1992 period, due to the effects of recession and the structural adjustment programme. In the post-recession period, government, labour unions and employers signed the first protocol of a Social Partnership Agreement. The document called for wage restraint and other measures, such as the linking of pay increases to productivity, in order to ensure economic stability (see Table 3 for the average wage agreements by industry). As a result of this agreement and relatively low inflation (average of 2.1 percent), throughout the latter half of the 1990s average wage increases from 1995 to 2004 were below five percent. Nevertheless, this rate of change still outpaced the rate of change in prices.

3.1 Robustness of Results

The index presented in this paper is intended to serve as a proxy for the wages index until steps can be put in place to restart the calculation of the official index. It is therefore necessary that it does not distort underlying economic relationships and that the index is not significantly affected by the change in methodology. This can be done by estimating standard economic relationships and testing such models for structural breaks. As such, two equations are estimated, a wage determination equation (1975-2003):

$$\log(wages_t) = \beta_0 + \beta_1 \log(gdp_t / employment_t) + u_t \quad (4)$$

where u_t is an error term which is assumed to have normal properties, and a price determination equation (1970-2003) with wages as the sole explanatory factor:

$$\log(cpi_t) = \delta_0 + \delta_1 \log(wages_t) + \varepsilon_t \quad (5)$$

It is expected that β_1 , a measure of worker's bargaining power, should be greater than zero. Moreover, $\beta_1 = 1$ implies that workers have monopsony power over the labour market and that all value-added is taken by workers, while a coefficient value of zero would be obtained if they have no market power (see Svejnar, 1986 for further details on this model). On the other hand, it is anticipated that, $\delta_1 > 0$ as higher wages reduce profit margins and cause firms to raise prices to maintain profitability.

Equations (4) and (5) are estimated using ordinary least squares techniques, and the results are reported in Table 3.⁵ Both regressions account for a large proportion of the variation in the dependent variables, as indicated by the adjusted R² statistic. No autocorrelation is detected in the

⁴ gdp refers to nominal GDP.

⁵ All variables are integrated of order 1; the ADF statistics -1.981 for wages, -1.789 for gdp/employment and -1.701 for the CPI

regression errors as shown by the Breusch-Godfrey Serial Correlation LM Test. All signs of the regressions are in accordance with the above a priori assumptions, are significant at classical levels of testing and form a cointegrating set as reflected by the cointegration test statistic.

To gauge the stability of the coefficient estimates a Chow Break Point test was conducted for 1995, the first year of the change in methodology. No significant change in the coefficient estimates is observed in either equation. Moreover, recursive estimates of the coefficients and residuals, calculated using rolling samples, are plotted in Figures 2-5 to identify whether the underlying economic relationships underwent a structural change. Again, no discernible difference in the coefficient estimates is observed as a result of the methodology change.

4. Conclusions

Given the fixity of Barbados' exchange rate, it is of utmost importance that wages be closely monitored. However, there does not exist an up-to-date wage index series. This paper presents an approach for extrapolating the discontinued wage index series using data on collective wage agreements in both the public and private sector. The results show that while wage inflation was relatively low between 1995-2003, when compared to previous periods it still outpaced the overall rate of price inflation. The resulting series did not result in a significant shift in underlying economic relationships. Although this study outlines a useful proxy for the wages index, it will always be second best to an index based on survey techniques.

Table 1

Labour Market Indicators

	1991	1995	1999	2003
Employment Statistics				
Total Adult Population (000 persons)	198.9	200.8	205.7	210.6
Participation Rate (%)	65.1	68.2	67.8	69.2
Total Employed (000 persons)	107.1	110.1	125.1	129.4
Unemployment (%)	17.3	19.6	10.4	11.0
Employed Population by Educational Attainment				
Primary (%)	29.3	21.7	20.9	14.9
Secondary (%)	61.8	64.4	61.6	58.7
University (%)	8.2	10.8	13.9	19.6
Technical/Vocational (%)	0.7	2.5	2.6	5.4
Industrial Disputes				
Dismissals and Suspensions	20	13	15*	n.a.
Bargaining Rights	2	8	19*	n.a.
Wages and Conditions	20	13	23*	n.a.
Misc.	8	0	6*	n.a.
Collective Bargaining Agreements Concluded	36	26	96	69

Sources: Barbados Statistical Service, Labour Department and the Barbados Workers Union.

Note: *Indicates 1998.

Table 2
Wages Index

	Index (1980 = 100)
1970	30.6
1971	35.3
1972	39.4
1973	43.1
1974	48.3
1975	53.1
1976	58.2
1977	70.0
1978	77.5
1979	83.2
1980	100.0
1981	110.5
1982	123.0
1983	130.1
1984	142.0
1985	148.9
1986	155.2
1987	157.8
1988	169.4
1989	174.0
1990	182.8
1991	184.4
1992	181.1
1993	184.0
1994	181.0
1995	189.5
1996	195.9
1997	204.6
1998	212.0
1999	220.4
2000	228.4
2001	236.2
2002	243.3
2003	250.0
2004	257.8

Sources: Annual Statistical Digest (Central Bank of Barbados) and author's calculations.

Table 3
Average Wage Agreements by Industry
(% change)

Industry	1996	1997	1998	1999	2000	2001	2002	2003	2004
Construction	4.0	3.8	3.5	3.7	4.4	4.0	3.2	n.a.	3.0
Electricity, Gas and Water	n.a.	n.a.	5.0	4.0	4.3	2.5	3.0	3.0	3.0
Finance, Insurance and Other Services	3.5	6.0	3.3	4.9	3.2	4.1	2.9	3.2	3.9
General Services	3.9	3.1	3.3	4.0	3.9	4.0	2.8	3.3	3.1
Hotel and Restaurant	3.1	2.9	3.1	3.3	3.6	3.2	1.5	1.7	2.7
Manufacturing	3.7	4.3	4.0	3.7	3.8	3.4	3.3	2.9	2.9
Mining and Quarrying	n.a.	4.0	4.0	7.5	4.0	3.8	4.5	3.0	3.5
Non-Sugar Agriculture	3.3	3.5	4.6	3.3	3.2	3.5	3.0	3.0	3.3
Sugar	5.0	3.0	4.0	6.3	4.2	2.0	3.0	2.8	2.0
Transportations, Storage and Communications	2.5	4.5	3.9	4.4	3.9	3.6	3.0	3.6	4.0
Wholesale and Retail	3.0	3.2	3.8	3.6	4.0	3.6	3.4	2.7	2.8

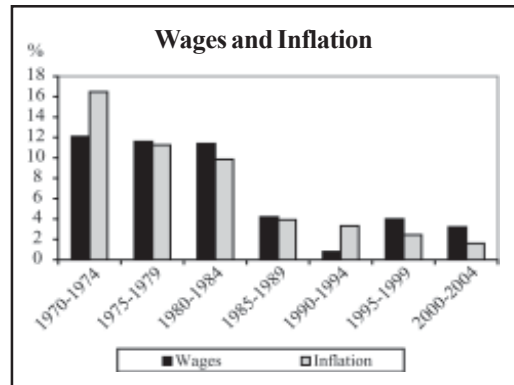
Source: Author's calculation.
Notes: n.a. means not available.

Table 4
Regression Estimates

Dependent Variable	Log(wages)	Log(cpi)
Log(GDP/Employment)	0.949 (0.014)***	- -
Log(Wages)	-	1.051 (0.221)***
C	2.071 (0.044)***	-1.105 (0.107)***
<i>Summary Statistics</i>		
Adjusted R ²	0.997	0.986
LM Test For Autocorrelation	0.973	2.30
S.E. of Regression	0.025	0.080
Chow Breakpoint (1995)	0.248	0.230
<i>Error Correction Term</i>		
	-0.663 (0.250)**	-0.238 (0.124)*

Notes: (1) ***, ** and * indicates significance at the 1, 5 and 10% level, respectively.
(2) Standard errors are reported in parentheses.
(3) For Chow Break Point test, p-values are reported in parentheses.

Figure 1



Source: Central Bank of Barbados and Authors' Calculations

Figure 2

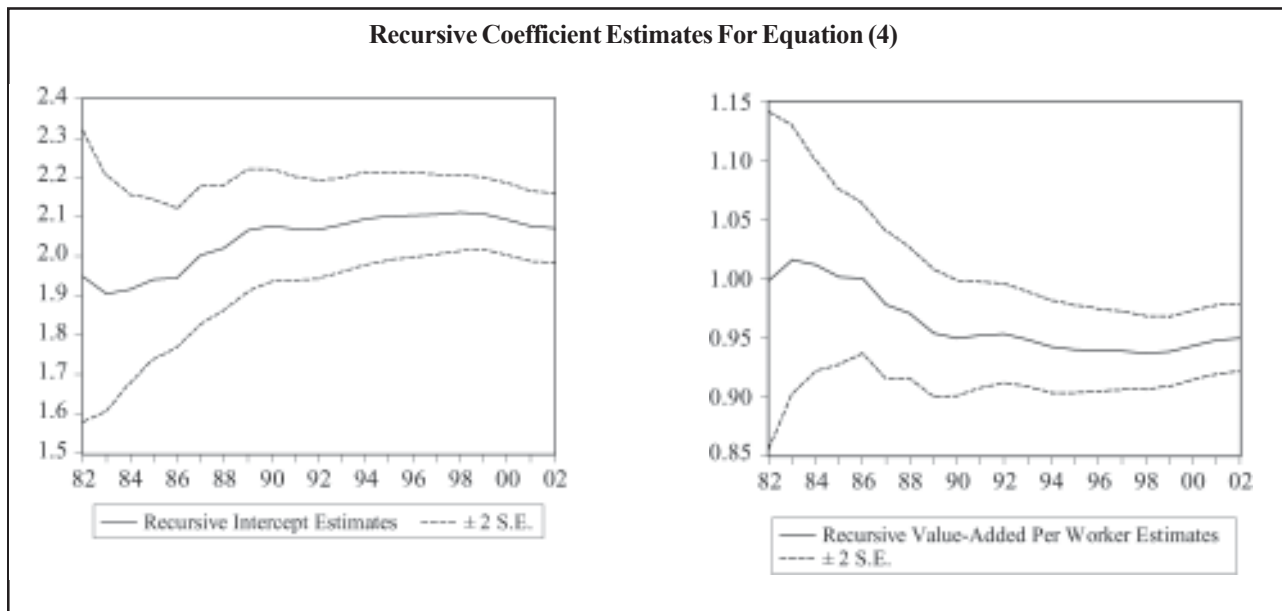


Figure 3

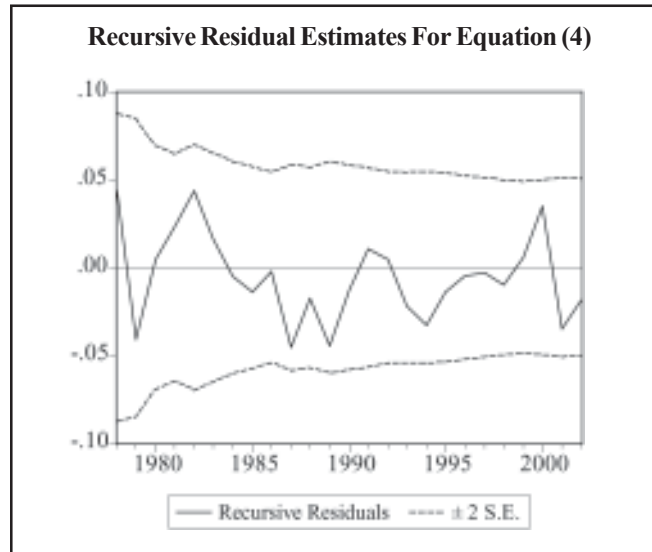


Figure 4

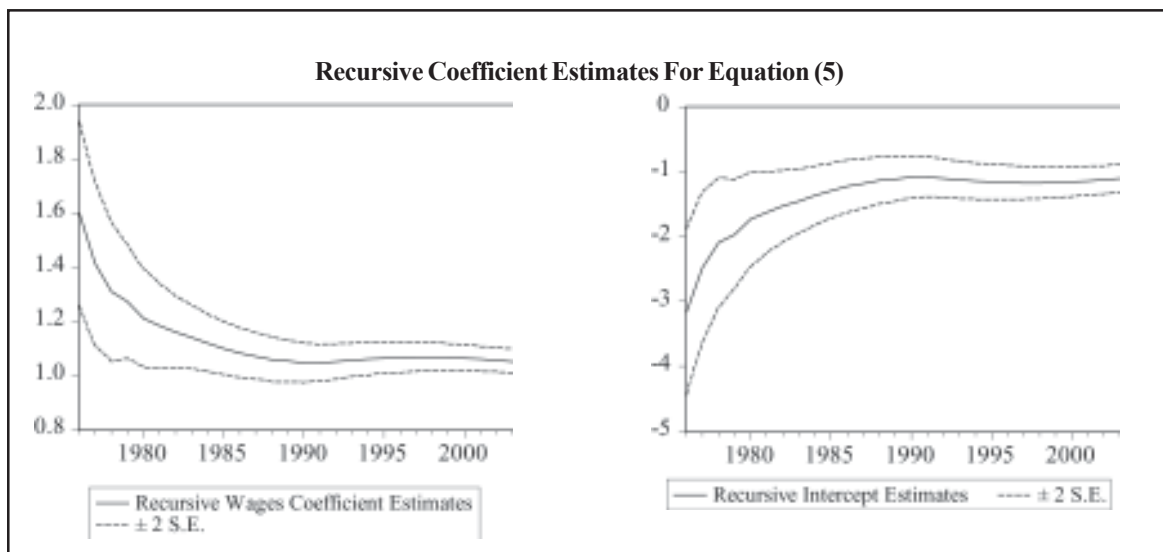
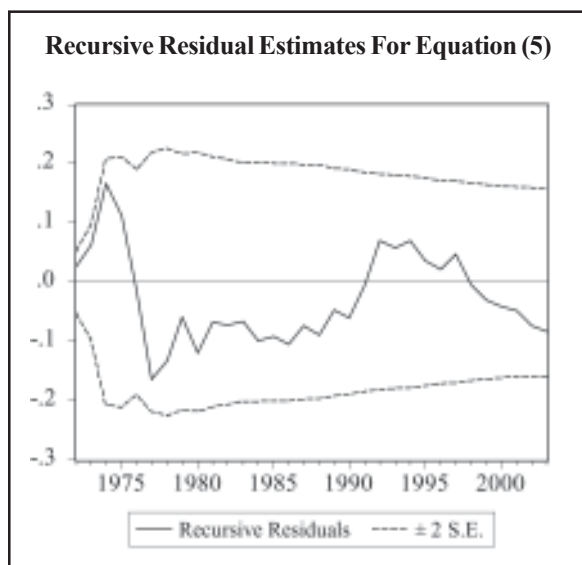


Figure 5



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**A Review of the World Bank's *Towards a New Agenda for Growth:*
Organisation of Eastern Caribbean States
(The World Bank, 2005)
by Jeremy Stephen***

Introduction

The report, *Towards a New Agenda for Growth: Organisation of Eastern Caribbean States* (OECS) is a collection of background papers published by the World Bank and edited by Camille Numah. It seeks to find solutions to the main economic problems confronting the OECS. Given the similarity between Caribbean nations, it could also prove to be a relevant source of policy initiatives to solve such problems in the region as whole.

The study attempts to provide analytical solutions to two key economic problems: stagnant growth and uncompetitiveness. It assesses the likely impact of further globalisation on the domestic sources of growth and identifies key constraints to the attraction and utilisation of investments. The first two chapters of the book investigate the growth challenge and macroeconomic competitiveness while the external and investment climate are studied in Chapters 3 and 4, respectively. Skills, wages and the labour market are the main topics probed in Chapter 5 and technology, finance and infrastructure are explored in Chapter 6. The report concludes with the opportunities for expanding exports of services in Chapter 7.

The Growth Challenge and Macroeconomic Competitiveness

The first chapter focuses on the trends and determinants of growth in the OECS between 1983 and 2003. The average growth during the period was approximately 4.1 percent per annum and driven mainly by the services sector and public investments. Total factor productivity growth, however, was relatively low during the 1990s when compared to the 1980s as the economy suffered from movement away from traditional activities, fluctuations in the composition and financing of investment, volatile

growth, increased incidence of natural disasters and a contraction in the trade surplus.

Numah argues that these negative factors have led to a significant deterioration in the economic prospects of the OECS relative to a decade earlier, and suggests that greater growth could be obtained through the introduction of more skills training programmes, contractionary adjustments in the expenditure side of the fiscal balances, improvements in the efficiency of resource mobilisation and building on areas where there is a comparative advantage.

The External and Investment Climate

The external trading environment faced by the OECS has changed considerably over the past decade, primarily due to the erosion of Special and Differential Treatments (SDT) for goods exported by the region to its major trading partners (the EU and the wider CARICOM in particular). These preferential arrangements with the European and United Kingdom (UK) markets specified favourable access for bananas and, thus, allowed the region to maintain an average growth rate of 6.1 percent during the Lomé Convention period of 1975 to 1993. However, this expansion subsided after a fall in the demand for bananas as a result of an escalation in world banana prices and the inability of local banana producers to fulfil their quotas. The author, however, argues that these agreements hampered export diversification and performance in small open economies by developing a pattern of export specialisation doubled with import substitution for products that are not income elastic. Moreover, the writer believes that the full removal of these arrangements, given the current conditions, should result in a further 40 percent reduction of banana production in OECS member countries.

The author puts the case for the Caribbean Single Market and Economy (CSME) as a visible alternative to SDTs and other preferential agreements since it could assimilate labour among the microstates of the Caribbean and, therefore, possibly enhance regional comparative

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advantages. Ireland is used as a model of development for the OECS because of its historically similar economic conditions. Ireland was able to successfully transform its economy by focussing on fiscal adjustments that emphasised expenditure reductions and wage moderations in exchange for tax cuts, careful use of European Union (EU) structural funds, early adaptation of the educational system to the needs of the business sector, and, the establishment of a transparent and favourable corporate tax regime. The economy also benefited from the EU-provided institutional framework that guided macroeconomic reform, co-ordinated investment promotion efforts and allowed for the expansive and evolving vision of Ireland's sources of competitive advantage. The author deems the case relevant to the OECS because it promotes the idea and benefits of regional integration and encourages the use of a vision that efficiently utilises the economic and social resources of the country.

Macroeconomic stability played an important part in determining the propensity to attract investment within the OECS. However, surging fiscal imbalances and persistently high levels of public sector debt in recent years crowded out private sector investment, with a milder effect on foreign direct investment (FDI) inflows, as the common monetary and exchange rate policy insulated foreign investors from the fiscal profligacy of the host countries.

Numah acknowledges that the expanding role of governments still poses a significant threat to future economic prospects. State intervention in regulatory matters, for example, can distort market prices and wrongfully protect inefficient public and private enterprises. Furthermore, the transition to private sector led growth within the region has been arduous. The weaknesses in public sector investment programmes appear to be the main problem behind the ineffective influence of government in the OECS market. These have been intensified by a lack of coordination between donors, inadequate oversight of project preparation by financing agencies and a wide disparity in project costs throughout the sub-region.

The OECS has relied on an extensive incentives-based system to attract FDI. However, this method has been very costly since revenues are foregone when enterprises take advantage of tax holidays and eventually impede technological and skill spillovers. It is noted that continued competition with the use of similar ineffective incentives will yield footloose or enclave type investments that provide limited economic benefits, unless greater attention is paid to those that abide by or utilise the fundamentals of the domestic investment climate. The writer suggests that the reduction in both taxes and tariffs and the harmonisation of regional tax regimes should help in the accomplishment of this goal.

Skills, Wages, and the Labour Market

The author believes that the effective management of the region's human resource endowment is a key element of any growth enhancing strategy. The improvement of the skills base enhances and maintains economic competitiveness, and should allow the region to utilise the budding service and niche manufacturing sectors. However, the shortage of skilled labour within the OECS has been a major constraint for these economies, particularly in areas such as accounting, information technology and equipment mechanics for food companies. The lack of skilled labour exerts upward pressure on training costs and reduces the competitiveness of the country.

The OECS has had some success with its drive to expand access to education, but the quality of education, especially at the secondary level, still remains an issue. These troubles are illustrated in the low pass rates in the regional Caribbean Examinations Council exams, 56 and 38 percent for English and Math, and are accentuated by severe inequalities within the system – sub-regional governments tend to allocate more financing to better performing schools. This bias seems to be the main rationale behind high youth unemployment in the region.

The poor quality of education also diminishes the tertiary education output of the region. The author contends that public expenditure is not sufficiently geared towards the needs of the private sector and recommends that the public sector assumes a smaller role in the allocation of funds to tertiary institutions and finds innovative ways to attract private sector involvement. Moreover, the study suggests that the reduction of regulatory obstacles to non-government providers, improved provision of public information on quality, labour market value, the removal of barriers to free movement of labour across countries within the OECS and the further diversification of curricula could help to spur progress.

Given the inadequacies in the school system, emphasis on job training is likely to be beneficial to the region. However, while attempts at public training programmes tend to ignore the current needs of the private sector; the focus is solely on youth and basic vocational training aimed at correcting shortcomings at the secondary level. The writer believes that the under-provision of job training in the OECS will continue if entirely left to the public sector as the small market size of the disintegrated region could hinder access of foreign private training providers to the region.

Concern is expressed over the positive differential between marginal wages and productivity in the OECS' labour market. Therefore, the maintenance of high cost labour hurts competitiveness, limits job growth and generates un- and under-employment as well as leads to an expansion of the informal economy. Moreover, Numah contended that smooth adjustments towards a fully functioning labour market have been hindered by the existence of labour market segmentation and skills mismatch, large governments and strong unions, rigid labour regulations and migration of labour.

Technology, Finance and Infrastructure

The author posits that the enhancement of Information and Communication Technology (ICT) within the region could help build firm competitiveness by improving productivity and logistics, making distance irrelevant and

enhancing the competitive positioning of firms in the global market. It is recommended that in order to enjoy the full benefits of the ICT use, the public sector and donor communities will need to facilitate access to technology, strengthen the regulatory environment so as to minimise varying levels of misuse, improve the technology skills of the population, strengthen existing and emerging exporting clusters and reward innovation and entrepreneurship.

The chapter then goes on to address the issue of finance within the OECS. The study notes that most firms within the region rely primarily on retained earnings and bank credit to finance their working capital and investments. This could imply that business owners are concerned with the possibility of losing control and the difficulty in accessing equity financing exists. The private sector, however, faces challenges with attaining bank financing since government debt and consumer borrowing have crowded out private investment. Operational inefficiencies exist within some banking firms, for example, several firms in Grenada have reported waiting times of up to three weeks or longer to process new loans and are burdened with high collateral requirements. Banks, on the other hand, blame incomplete financial information from firms and inadequate independent sources on project proposals. This predicament allows the Eastern Caribbean Stock Exchange, venture capital institutions and a new regional private equity fund to assume the role of alternative sources of financing within the region.

Many firms in the OECS are hampered by the high costs associated with utility and infrastructure-related services. Although teledensity in the OECS remains low, the recent liberalisation of the telecommunications market has encouraged lower prices in the region and has improved competition between firms. The industry, however, is still hindered by the high cost of teleconnectivity. The petroleum, maritime transport and air and land transportation industries are similarly characterised by high costs, functional inefficiencies, lack of supply of services and the presence of cartels and monopolies. Electricity costs also remain high as the product is undersupplied and the industry is characterised

by operational inefficiencies and weak regulation. It is suggested that these problems can be alleviated through the retrofitting of generators to use heavier fuel oil to reduce the cost of production. Further reform measures mentioned were for the strengthening of regulatory oversight of operations, investments and pricing of electricity utilities, the improved participation in ownership of the utilities and the use of regional and international benchmarks for electrical utilities. Numah, therefore, with respect to these industries, suggests that the state should concentrate on the provision of local competition, protect domestic consumers from inequitable prices and strengthen regulatory policies.

Opportunities for Expanding Exports of Services

This chapter looks at the impact of services and examines the prospects for the growth of services. The OECS has been very dependent on services since the early 1980s and, as a share of GDP, industry growth has improved from 53 percent in the 1980s to 64 percent by 2003, which represents an average growth rate of 4.3 percent per year.

Tourism is the largest service industry and accounts for approximately 29 percent of GDP, 39 percent of employment and 54 percent of export earnings in the OECS. The industry has, however, underperformed when compared to the rest of the Caribbean, partly due to a loss in price competitiveness for tourism-related products. The study recommends that efficiencies could be obtained through improved destination management and marketing, augmented industrial ability to provide quality services, reformed investment promotion strategies, the promotion of backward linkages in tourism, strengthened allocation of public expenditure on the industry and the resolution of various trade-related constraints to the sector.

The offshore education industry is important to the development of the OECS. It provides extra research and educational facilities for the region, a low cost solution for the establishment of foreign tertiary institutions and absorbs local students who are not successful in gaining acceptance into

domestic tertiary bodies. The author suggests that a comparative advantage seems to exist in this area of activity and all efforts should be made to support its growth.

Special mention is also made to the phenomenon of ICT clusters as it relates to the expansion of the services sector. The author believes that although the previous implementation of ICT clusters, such as call centres, have not produced the intended effect on the economies of the OECS, the initiative is still a viable means of investment, as long as the region targets high-end entities. It is suggested that attention be paid to the development of Internet gaming, and the author is quick to show the success of Antigua and Barbuda in this endeavour. The writer, nevertheless, acknowledges that potential industry setbacks lie in the form of high telecommunications rates, lofty taxes and the propensity to regulate and monitor the actions of the service providers with “blackbox technology”. Therefore, these hindrances stand to stall the proposed development of a competent and competitive software industry within the region.

It is argued that the OECS has several characteristics that could be advantageous in the provision of health services: moderate climate and natural environment, a steady supply of skilled health practitioners and a well-developed hospitality sector. However, Numah recommends that development of the industry could be delayed unless the depletion of skilled workers and the inequitable distribution of health services are corrected. Additional recommendations listed were the facilitation of public-private sector partnerships, the generation of links with care management companies, strengthened marketing of health tourism in the United Kingdom, United States of America and Asia, and the development of statistical indicators to monitor this area of activity.

Conclusion

The report provides valuable insights for economists, entrepreneurs, policy makers and students of the social sciences. Numah avoids jargon wherever possible so that the non-specialist reader can follow quite easily. Moreover,

the appendices allow the more technical reader to take an in-depth look at the surveys and indices used to derive the results in the book.

The writer seeks to offer some useful policy recommendations and suggests that economic growth within the OECS could be induced through the introduction of: more skills training programmes, development in educational quality and provision, reduced regulatory control of the financial sector, contractionary adjustments on the expenditure side of state budgets, improvements in the efficiency of resource mobilisation and the development of new sources of competitiveness.

Many of the problems encountered in the OECS are relevant to Barbados and the Caribbean in general. Therefore, local policy makers can benefit significantly from the information and data provided within the study. The call for the reduction in public sector involvement in the labour and financial markets and a greater degree of private consultation in the modification of the education curricula to enhance job prospects within the private sector should be largely emphasised throughout the region. Although some action has been taken to correct economic deficiencies, the increased presence of innovative alleviation programmes should provide additional improvements over time.



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