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Publisher's Note

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

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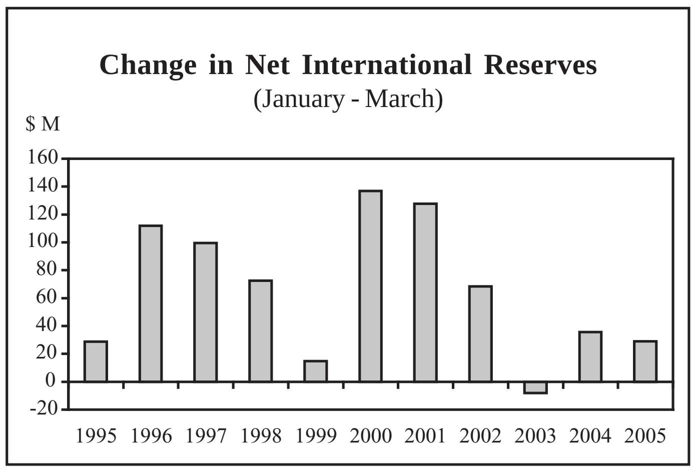
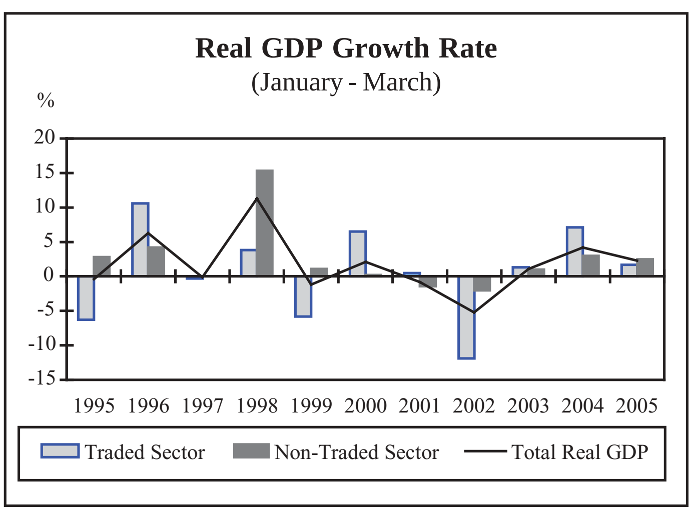
Overview

During the first quarter of 2005 real economic activity in Barbados increased by an estimated 2.5%, less than half the growth recorded for the corresponding period in 2004 when the economy was very buoyant, but in line with the average expansion for the last five years. This outturn reflected a moderate performance by the traded sectors and continued growth within the non-traded sectors. Consequently, there was a slowdown in exports and tourism receipts, which, together with an expansion in import growth, resulted in a widening of the deficit on the external current account and a modest increase in net international reserves. These external conditions partly contributed to lower levels of liquidity in the banking system. However, despite the fall in liquidity, Government used domestic resources to finance its deficit, which was occasioned by a decline in indirect tax revenue and higher current and capital outlays.

The traded sectors grew by a marginal 0.4% in the first three months of 2005 compared to an increase of 12.3% for the same period of 2004, as improved performances by the sugar and manufacturing industries were partially offset by the fall-off in tourism value added and the persistent decline of non-sugar agriculture. Growth in the non-traded sectors was estimated at 3.5%, an increase slightly lower than the 5.0% growth rate recorded last year, reflecting moderate expansions in the transportation, storage and communication, wholesale and retail, business and other services and construction sub-sectors. With the continuous increase in international oil prices, the rate of inflation at the end of March 2005 rose to 2.4%, while the average rate of unemployment fell to 9.9%. at the end of March.

As a consequence of the weak outturn in the traded sector and the increased activity in the non-tradable sector,





the external current account recorded its second consecutive deficit, the largest since the first quarter of 1990. In contrast, on account of an increase in net long-term private sector inflows, the surplus on the capital and financial account rose well above that registered for the first quarter of 2004. In line with these developments, the net international reserves advanced by $28.9 million, $7.1 million below the increase last year, and about one quarter of the average rise for the last five first quarter periods. At the end of March 2005, the liquid foreign assets of the monetary authorities represented 24 weeks of imports as opposed to 34.5 weeks for the corresponding period in 2004.

With the expansion in real economic activity, credit to the non-financial private sector continued to rise and domestic deposits grew, albeit at a slower rate than in the comparable period last year. The liquid asset ratio fell moderately, and the interest rate on treasury bills rose by more than one percentage point above the rate reported at the end of December 2004.

Central Government recorded a fiscal deficit of $9.2 million, in contrast to a surplus of $14.6 million one year earlier, as expenditure grew faster than revenue. Larger corporate receipts paved the way for an increase in direct taxes, while a reduction in Value Added Taxes (VAT) and import duties resulted in a decline in indirect tax revenue. Current expenditure rose during the period, and capital expenditure grew for the first time in two years.

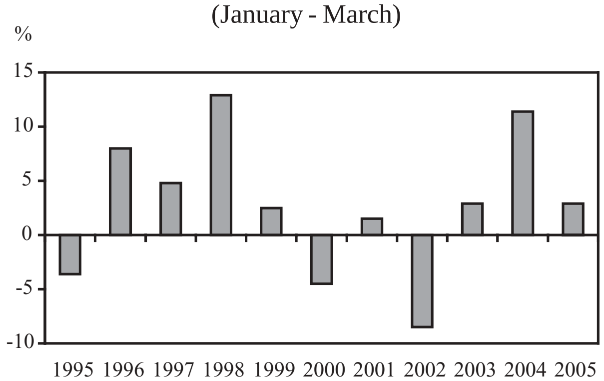
At the end of fiscal year (FY) 2004/2005, central government's deficit was an estimated 2.8% of GDP, compared to 2.5% of GDP for FY 2003/2004.

Production, Prices and Employment

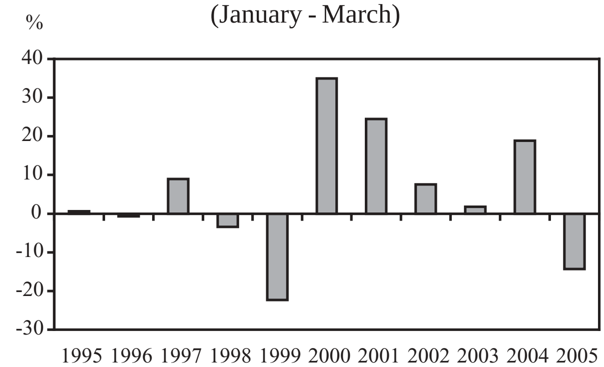
Tourism

During the first quarter of 2005 real tourism value added fell by 2.2% after the significant expansion of 21.9% in the corresponding period of 2004, when tourist activity benefited from the staging of the Third Test between England and the West Indies. Buoyed by expansions in most of the tourist markets, long stay arrivals improved by 1.9%, after registering a substantial rise of 11.5% in the first quarter of 2004. Visitors from the U.S increased by 8.7%, compared to 7.6% in 2004, while those from Trinidad and Tobago rose by 28.5%, a turnaround from the 0.3% decline recorded for the same period in 2004. Tourist arrivals from other CARICOM member countries went up by 12.7%, or about 4.8 percentage points less than in the first quarter of 2004. In addition, expansions in visitors were recorded for Germany (2.1%) and other European markets (3.3%). In contrast, the total amount of visitors from Canada fell by 15.6% during the period, reflecting a decrease in airlift capacity out of that market, while tourist arrivals from the United Kingdom contracted by 2.8%, following an expansion of 12.9% recorded last year.

Long-Stay Tourist Arrivals
(January - March)



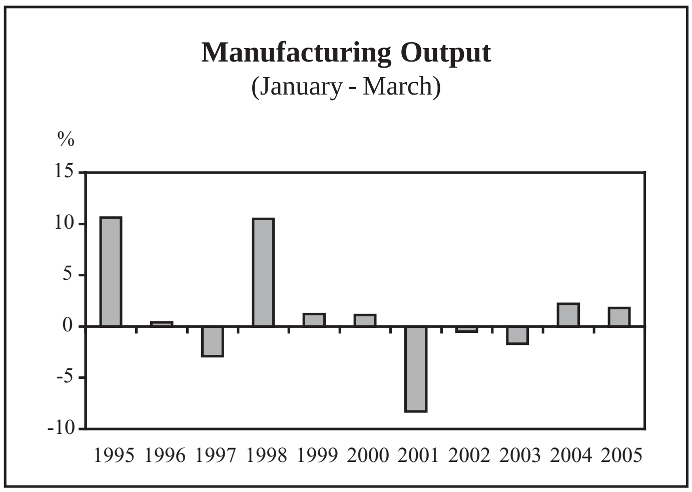
Cruise Ship Passenger Arrivals
(January - March)



The increase in long stay arrivals was more than offset by a considerable decline in cruise ship passengers. Partly reflecting a decrease in the number of cruise ship calls, the number of cruise ship passengers contracted by 18.8% in the first three months of 2005, in contrast to the considerable increase of 31.3% last year, marking the largest first quarter decline since 1999. Total cruise ship passengers amounted to 226,925 persons compared to 279,540 persons reported in the first quarter of 2004 and 212,952 for the similar period of 2003.

Manufacturing

During the review period, output from the manufacturing sector was sluggish (0.3), compared to an expansion of 0.8% reported for the similar period in 2004. Production of beverages and tobacco – mostly rum rose (16.6%) but, declines were registered for the production of chemicals (6.0%) and electrical components (21.9%).



Agriculture and Fishing

Sugar production for the first quarter of 2005 was the largest since 2001, reaching a total of 13,770 tonnes, compared to 8,862 tonnes produced last year, when the sugar crop was negatively affected by a late start and unseasonal rainfall. In contrast, real value added in non-sugar agriculture contracted by an estimated 4.1%, compared to an average decline of 2.9% recorded during the previous two years. Milk production fell by 7.4% during the review period. Furthermore, fish catches decreased by 10.2%, while chicken production rose by an estimated 1.4%,

International Business and Financial Services

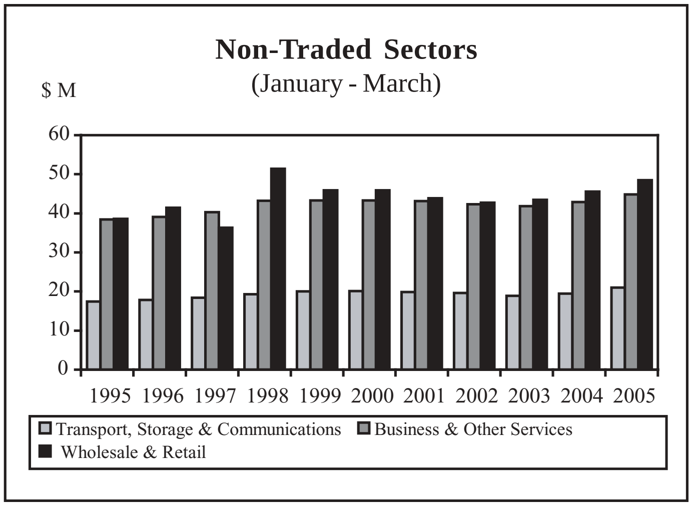
One hundred and ten new licenses were issued during the first three months of 2005, approximately eighteen more than those approved between January and March of 2004. International Business Companies received a total of ninety-six new issues, or twenty-three more than obtained in the corresponding period of 2004. In addition, ten societies with restricted liability, and three new exempt insurance companies as well as one additional management insurance firm were registered during the period.

Construction

During the review period of 2005, construction activity rose by an estimated 10%, in contrast to a marginal decline of 0.1% reported during the same period of 2004. The increase in construction value added was spurred primarily by ongoing work associated with the airport expansion programme and various private and commercial real estate projects. This was also reflected in a 2.0% expansion in cement consumption and a significant 63.9% rise in the imports of construction materials.

Other Non-Traded Sectors

Growth among the other non-traded sectors was broad based during the first three months of 2005, but in most cases, slower than in the corresponding period of the previous year. Output from the wholesale and retail sub-sector grew by 3.0%, compared to an 8.2% rise recorded during the comparable period of 2004. Furthermore, boosted by the continued expansion in retained imports, activity in transport, storage and communications increased by an estimated 4.1%, relative to 5.3% in 2004. Contributions from business and other services rose by 2.5%, or 1.6 percentage points lower than the expansion in the first quarter of 2004. Growth in electricity, gas and water (5.0%) was above the expansion one year ago. During the first

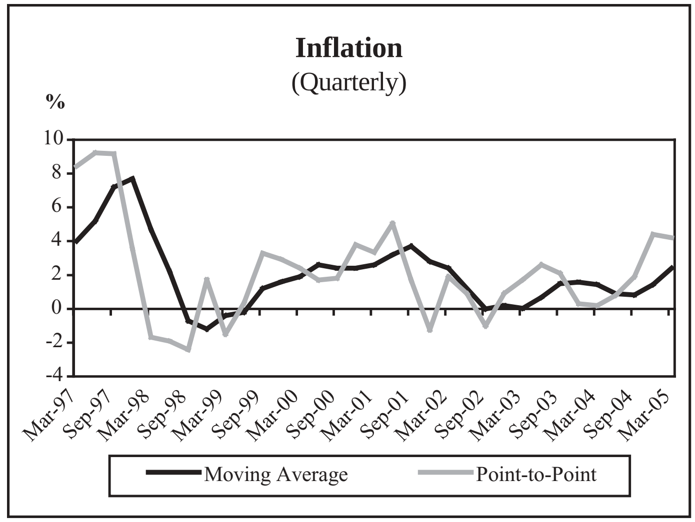


quarter of 2005, total electricity consumption was estimated to have expanded by 5.3%, with electricity usage for industrial and residential customers up by 4.7% and 6.0%, respectively. Apartments used 4.1% more electricity than in the corresponding period of 2004, and businesses increased their electricity consumption by approximately 11.0%. Domestic and employee residents accounted for 6.0% and 2.1% of the increase in total residential usage. General service and street lighting rose by 5.6%, primarily because of the rise in service lighting (6.5%).

Output in the mining and quarrying industry grew by 1.8% during the review period, reflecting positive developments in the quarrying sub-sector related to the higher levels of construction activity. However, value added in the mining component fell, as a result of declines in the production of natural gas (3.8%) and crude oil (2.3%).

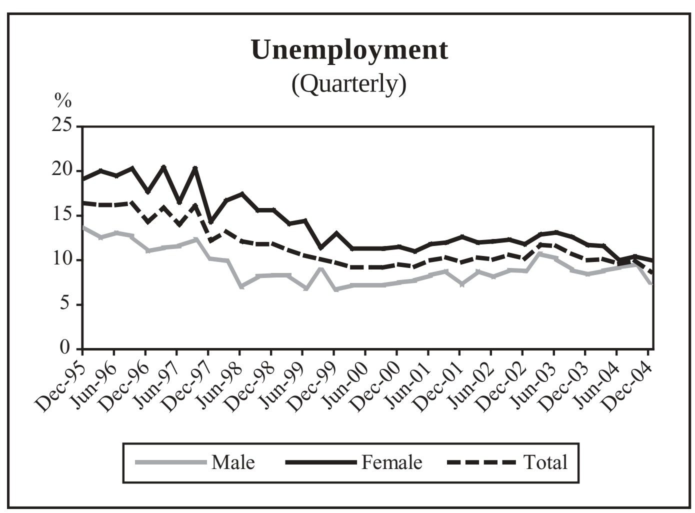
Prices and Employment

At the end of March 2005 the twelve-month moving average rate of inflation was estimated at 2.4%, up from 1.4% at the end of December 2004 and 1.0 percentage point higher than in the corresponding period last year. The main categories that increased over the 12 month period ending March were food (5.6%), transportation (1.8%), medical and personal care (1.6%) and housing (1.2%).

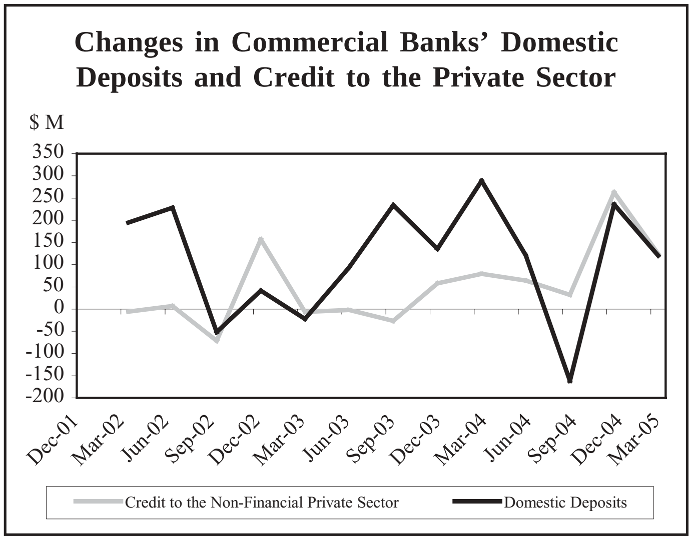


Declines were registered for household operations and supplies (0.9%), alcoholic beverages (0.2%) and fuel and light (-1.9%).

The rate of unemployment at the end of March was estimated at 9.9%, compared to 11.7% in the comparable period of 2003. The average rate for males was 8.6%, or 0.2 percentage points below the figure in 2004, while the average rate for females moved to 11.3%, after reaching 11.6% in the corresponding period. This outturn mainly reflected increased employment opportunities in finance, insurance and business, general services, government and



transport and communication, which outweighed losses in manufacturing, wholesale and retail and other categories.



Financial Sector

Deposits

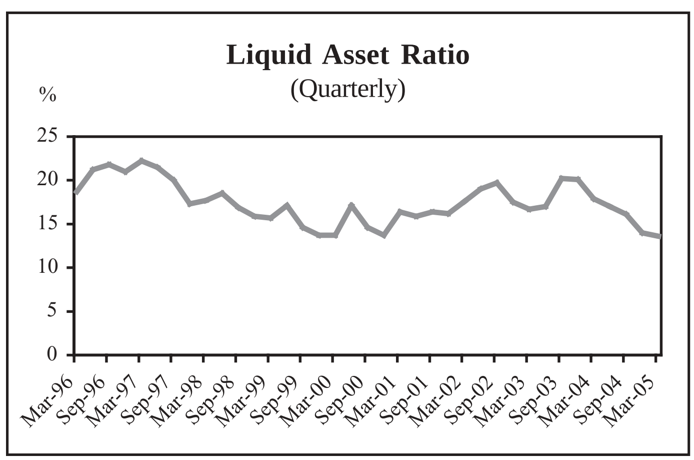
Total domestic deposits at commercial banks grew by 1.9 percentage points ($106.5 million) in the first quarter, compared to an increase of 7.3% ($361.0 million) in the comparable period of 2004. The slower rate of deposit growth reflected the slowdown in the rate of economic expansion and a decline in the accounts of business firms and financial institutions. Deposits of business firms fell by 1.9%, owing to a contraction in the deposits of distribution, construction and manufacturing categories, while the account balances of financial institutions fell by 2.0%, as the deposits of the National Insurance scheme plummeted by ($74.1 million). Although deposits of private individuals and statutory bodies rose during the first three months, the rate of deposit accumulation slowed when compared to 2004. Deposits of private individuals expanded by 2.4% during the first quarter of this year, compared to 3.5% last year, while the deposits of statutory bodies were up by $51.8 million relative to $69.6 million in the previous year.

Credit

Commercial bank credit to the non-financial private sector rose by 4.1% during the first three months of 2005, or one percentage point above the rate of growth reported for the comparable period of 2004. In order to finance a major take-over within the industry, lending to the distribution sector expanded by 14.2% during the review period, compared to 2.1% in the corresponding period of 2004. At the same time, credit to the personal sector was up by 4.0%, or 3.2 percentage points more than in 2004. Owing to continued demand for new residential mortgages, loans for private residential dwellings increased by 6.1%, following growth of 3.9% in the previous year. Credit extended to financial institutions was also strong, up by 22.8%, as one major entity borrowed to finance its investment activities. Credit to Statutory Bodies increased by 2.7% as the BWA floated a bond issue to finance its debt and ongoing capital works.

Liquidity and Interest Rates

Commercial banks' liquid asset ratio contracted by 0.2 percentage points during the first quarter of 2005, marking the sixth consecutive quarterly decline. The decrease in the ratio reflected an expanded asset base due to increases in the loan and investment portfolios. As a result, commercial banks held only 1.3% of their deposits in excess

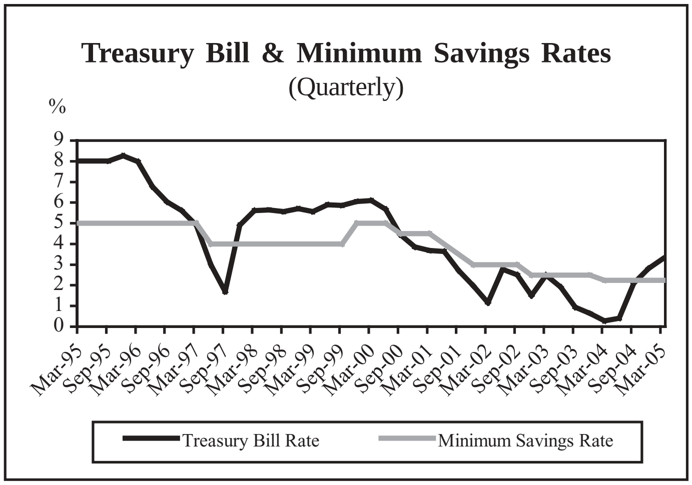


Summary Accounts of the Banking System

($Million)

	2003				2004				2005[P]
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
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	**1,742.9**
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**
Commercial Banks	582.0	550.1	540.1	583.8	629.8	766.2	588.4	556.2	**515.0**
Net Domestic Assets	1,944.6	1,973.9	1,976.0	2,086.8	2,231.3	2,386.2	2,781.5	3,137.5	**3,159.4**
Credit to Public Sector	350.3	332.2	322.7	480.8	294.1	367.4	759.3	642.3	**508.4**
Central Government (net)	641.7	680.4	654.7	722.7	659.7	707.2	821.6	867.1	**734.1**
Rest of Public Sector	(291.5)	(348.2)	(335.0)	(241.9)	(365.6)	(339.8)	(62.2)	(224.8)	**(225.7)**
Credit to Rest of Financial System	143.6	144.3	145.5	155.6	161.2	160.9	221.0	234.9	**260.5**
Liabilities to Other Financial Institutions	378.4	372.6	362.6	390.1	403.2	416.0	489.2	394.4	**453.3**
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**
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**
Currency in Circulation	329.3	341.4	339.0	329.0	342.2	345.9	368.0	398.7	**392.0**
Demand Deposits	1,053.6	1,009.6	1,121.4	1,200.3	1,273.1	1,432.0	1,399.2	1,537.0	**1,548.0**
Time Deposits	347.7	341.1	333.4	313.2	374.6	362.7	396.3	381.8	**343.8**
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**
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**
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**
Loans & Advances	2,810.9	2,801.0	2,793.1	2,867.0	2,950.0	2,974.2	3,081.9	3,346.1	**3429.7**

Source: The Central Bank of Barbados
P: Provisional



cash at the end of the quarter compared to 2.9% at the end of December 2004 and 7.8% at the end of March 2004.

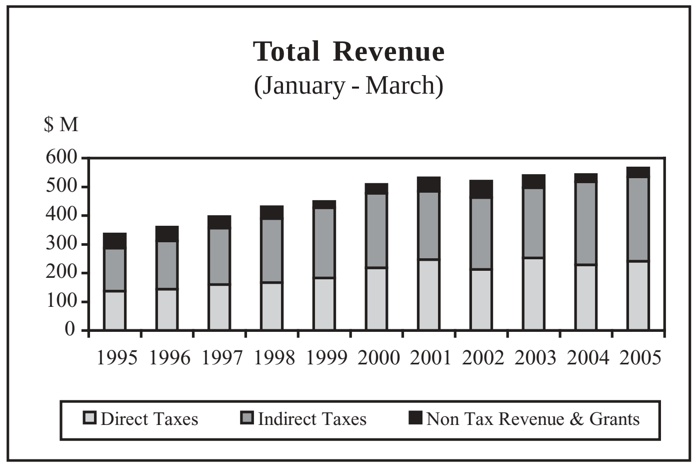
Government Securities

Treasury bills outstanding at the end of March 2005 were estimated at $645.9 million, compared to $580.1 million for the corresponding period last year. The nominal value of savings bonds during the review period totalled $116 million, $4 million more than at the end of the same period of 2004. In addition, Government's total outstanding debentures and treasury notes amounted to $2,116.1 million, representing an increase of approximately $160.6 million in securities compared to the $60.6 million increase during the same period in 2004.

Public Sector

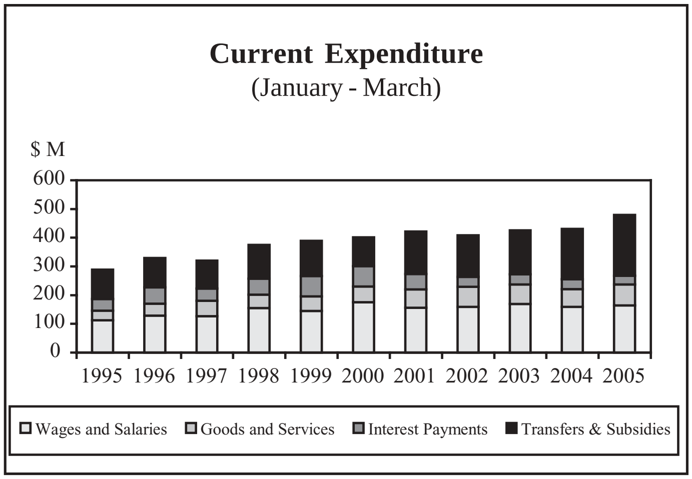
Revenue

During the first quarter total revenue grew by approximately 0.7% to $562.3 million, compared to an increase of 3.4% for the similar period in 2004. Owing to higher corporate receipts, direct taxes rose by 9.4%, a significant turnaround from the 12.2% contraction recorded during the corresponding period last year. Despite a reduction in the corporate tax rate, corporate tax receipts rose by 35.4% to $119.7 million on account of higher profitability and the continued collection of arrears. Personal tax receipts fell by 7.4% to $94.8 million, following a downward revision of the tax rate (on taxable income in excess of $24,200) and an increase in personal allowances from $17,500 to $20,000. In addition, as many individuals



settled their property taxes during the fourth quarter of 2004, property tax receipts decreased by an estimated $4.0 million to $15 million during the first quarter of 2005, a reversal from an expansion of $4.3 million recorded during the same period one year ago.

Indirect tax receipts contracted by 6.6% during the review period, in contrast to an increase of 26.2% registered during the first quarter last year. This was reflective of the slower pace in economic activity, which affected the performance of value added taxes (VAT), import duties and excise taxes. VAT receipts fell by 3.3% after growth of 17.4% in 2004, while import duties declined by $10.0 million, a turnaround from the rise of $23.4 million recorded in the corresponding period last year. Additionally, the yield from excise taxes contracted by $7.7 million compared to an increase of $17.6 million during the same review period in 2004. Non-tax revenue and grants improved by 13.3% or $3.6 million.



Expenditure

During the first three months of 2005, total expenditure rose by an estimated 5.0% to approximately $571.5 million. Current expenditure was higher by 5.9 % on account of increases in transfers and subsidies, spending on goods and services and higher wages and salaries. The expansion in transfers and subsidies (14.2%) was the result of additional payments approved for the Barbados Tourism Authority, the Transport Board and the University of the West Indies, while the rise in wages and salaries (4.6%) stemmed from the upward revision of the public sector's salary scale in 2004. Owing to lower debenture interest rates, interest payments fell by $9 million. Moreover, with the commencement of operations related to Cricket World Cup Inc. (CWC) 2007, capital expenditure went up by 1.7%, a significant reversal from the 21.1% contraction recorded in the corresponding period of 2004.

Financing

The first quarter fiscal deficit was financed mainly by domestic entities. Commercial banks increased their net holdings of Government debt by $67.9 million, while the National Insurance Scheme held an additional $47.0 million

Government Financing
($Million)

	Fiscal Year			January – March				
	2002/03	2003/04	2004/05	2001	2002	2003	2004	2005
Domestic Financing	298.8	(16.2)	188.7	54.6	46.1	20.2	5.6	**22.2**
Central Bank	304.4	(17.1)	(18.3)	(137.8)	(40.5)	(19.2)	(105.9)	**(101.5)**
Commercial Banks	113.6	38.7	62.6	28.6	32.9	7.3	66.4	**67.9**
National Insurance Scheme	104.6	20.3	7.5	(1.6)	29.8	25.2	20.0	**47.0**
Private Non-Bank	71.8	36.6	90.1	22.4	(33.5)	18.3	38.8	**(31.1)**
Divestment	0.0	0.0	0.0	52.2	0.0	0.0	0.0	**0.0**
Other	(295.5)	(94.8)	46.8	90.7	57.4	(11.2)	(13.6)	**(22.2)**
Foreign Financing	(19.4)	143.6	(40.2)	16.7	(2.1)	(13.2)	(19.5)	**(13.0)**
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Project Funds	58.2	55.3	34.9	30.0	21.1	12.4	10.2	**10.0**
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Amortisation	(77.5)	(100.7)	(75.1)	(13.4)	(23.2)	(25.6)	(29.7)	**(23.0)**
Divestment	0.0	189.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Total Financing	279.4	127.4	148.5	19.0	43.9	7.0	(13.8)	**(9.2)**

Source: The Central Bank of Barbados

in Government securities. However, Government pushed up its net deposits at the Central Bank by $101.5 million. Net foreign financing was negative ($13 million) during the review period as a $23 million expansion in amortization payments outstripped project fund inflows of $10 million.

Fiscal Year Operations

At the end of fiscal year 2004/2005 central government's fiscal deficit was estimated at $148.5 million compared to the 2003/2004 fiscal year deficit of

Government Operations

($Million)

	Fiscal Year			January-March			
	2002/03	2003/04	2004/05	2002	2003	2004	2005
Total Current Revenue	1,732.3	1,879.7	1,899.5	519.7	539.9	558.4	**562.3**
Tax Revenue	1,620.3	1,775.4	1,813.5	462.3	497.6	531.2	**531.5**
Direct Taxes	731.7	717.7	760.4	212.0	252.2	221.5	**242.3**
Personal	358.4	331.1	304.9	93.2	113.6	102.4	**94.8**
Corporate	220.3	232.4	290.2	88.5	110.2	88.4	**119.7**
Levies	17.8	0.0	6.5	4.4	4.7	0.0	**6.5**
Property	95.7	106.0	112.9	16.9	14.8	19.1	**15.1**
Other	39.4	48.2	45.7	9.1	9.0	11.6	**6.2**
Indirect Taxes	888.7	1057.7	1,052.8	250.3	245.3	309.7	**289.3**
Consumption	0.0	0.0	0.0	(0.02)	0.0	0.0	**0.0**
Stamp	12.0	15.6	18.9	2.4	3.5	4.3	**5.0**
VAT	494.6	572.2	598.1	142.3	134.4	157.8	**152.6**
Excises	114.2	153.0	129.4	33.5	34.3	51.9	**44.2**
Import Duties	160.2	194.1	191.0	37.1	34.8	58.2	**48.2**
Hotel & Restaurant	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Other	107.7	122.8	115.5	35.0	38.4	37.5	**39.3**
Non Tax Revenue & Grants	112.0	104.3	86.5	57.4	42.3	27.1	**30.7**
Current Expenditure	1,688.3	1,758.5	1,830.9	408.0	425.3	447.7	**474.1**
Wages & Salaries	683.7	611.3	646.2	159.4	169.4	157.0	**164.2**
Goods & Services	215.3	200.1	207.4	69.6	67.5	65.8	**68.4**
Interest Payments	268.7	275.8	262.6	34.9	36.0	40.0	**30.5**
External	104.7	110.1	115.5	23.3	14.6	20.5	**21.7**
Domestic	164.0	164.7	147.2	11.6	21.3	19.5	**8.8**
Transfers & Subsidies	520.7	671.3	714.6	144.1	152.4	184.8	**211.0**
Current A/C Balance	44.0	121.2	68.6	111.7	114.6	110.7	**88.2**
Capital Expenditure	321.1	241.0	216.6	156.0	120.7	95.3	**96.9**
Net Lending	2.4	2.2	0.6	(0.4)	0.8	1.7	**0.5**
Total Expenditure &Net Lending	2,011.8	2,005.5	2,048.0	563.6	546.9	544.5	**571.4**
Overall Balance	(279.5)	(127.4)	(148.5)	(43.9)	(7.0)	413.8	**(9.2)**

Source: The Central Bank of Barbados

$127.4.1million. Total revenue rose by 1.1% to $1,899.5 million on the strength of higher tax receipts. The performance of tax revenue was attributed to higher corporate revenues, VAT, import duties and property taxes. Conversely, personal and excise tax collections declined following a revision to the direct tax regime.

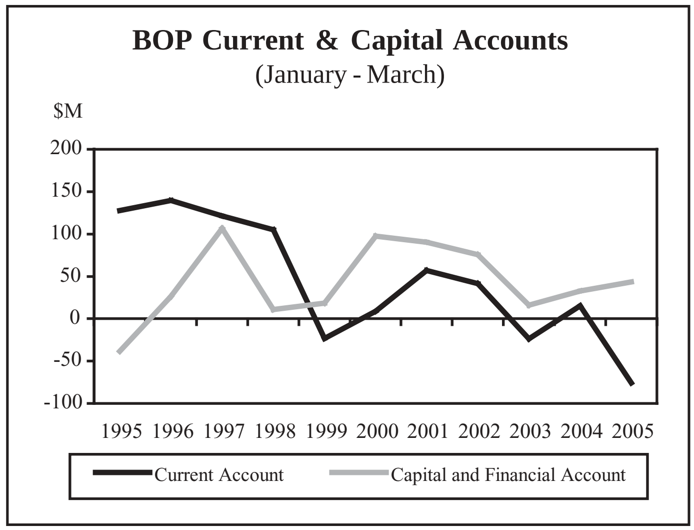
During the FY 2004/2005, total expenditure grew by 2.7% to $2,048.0 million. The main categories that increased were wages and salaries (5.7%), goods and services (3.6%), and transfers and subsidies (6.4%). A contraction was recorded for interest payments, which fell by 4.8% at the end of the fiscal year. In addition, with the completion of major projects, capital expenditure decreased by 12.1% in FY 2004/2005 following the 23.3% decline in FY 2003/2004.

Foreign Trade and Payments

Current Account

The continued though slower expansion in import growth, coupled with slower tourism receipts, resulted in an external current account deficit of $51.2 million, $28.8 million higher than the deficit for the same period in 2004. Growth in retained imports expanded by 9.1% during the first quarter of 2005 compared to an 18.2% increase for the similar period last year. All of the major categories recorded expansions. Intermediate imports, boosted by imports of construction materials, grew by 15.7%, or 9.1 percentage points faster than in the corresponding period last year. Imports of consumer goods rose by 7.8% as an increase in food and beverages outweighed the decline in motorcar imports. In addition, imports of capital goods expanded by 1.5% during the review period, compared to a 20.7% rise one year ago.

Domestic exports grew by 27.8% to $82.4 million, after recording a decline of 13.9% during the same period in 2004. Exports of chemicals and food and beverages were up $4.4 million and $5.7million, respectively. Net receipts from services rose by 1.0% or $4.5 million compared to 5.7% or $25.4 million last year, as tourist receipts expanded



by 0.8%. Additionally, in step with the deceleration in import demand, net transportation outflows were slower during the review period.

Capital and Financial Account

The capital and financial account registered a surplus of $80.5 million, $54.1 million more than the surplus for the similar period in 2004 and $32.0 million higher than the increase for 2003. Net long-term public sector outflows totalled $18.0 million, compared to outflows of $30.4 million last year, while net long-term private sector capital inflows rose by $52.8 million above the amount recorded for 2004.

Balance of Payments

(January-March)
($Million)

	2001	2002	2003	2004	2005
Current Account Balance	57.1	43.3	43.9	(22.4)	**(49.7)**
Merchandise Trade	(338.5)	(34.5)	(368.6)	(460.5)	**(493.8)**
Total Exports (BOP basis)	123.8	97.4	108.0	102.6	**88.0**
Domestic Exports	94.9	72.0	74.9	64.5	**82.3**
Sugar	15.8	0.0	0.0	0.8	**0.0**
Elec. Comp	11.1	6.4	6.4	7.0	**8.0**
Chemicals	10.5	11.3	9.8	9.7	**14.1**
Food/Bev	22.9	20.0	21.5	16.1	**21.8**
All Other	34.7	34.3	37.3	30.9	**38.4**
Total Imports (BOP basis)	488.9	425.4	496.9	585.4	**606.5**
Retained Imports	499.5	440.9	511.9	604.8	**659.6**
Consumer Goods	210.5	193.2	191.3	246.5	**265.7**
Capital Goods	102.1	90.6	109.9	132.7	**134.7**
Intermediate Goods	185.5	155.4	208.9	222.9	**257.7**
Miscellaneous Goods	1.4	1.7	1.8	2.7	**1.5**
Services (Net)	407.2	381.5	442.5	467.9	**472.4**
Travel Credits	473.2	445.0	512.6	547.9	**548.8**
Other	37.4	(32.9)	39.8	(42.2)	**47.9**
Investment Income (net)	(51.3)	(54.8)	(61.6)	(62.1)	**(63.3)**
Transfers (net)	39.7	28.1	31.6	32.3	**34.9**
Capital and Financial Account	91.8	120.0	52.6	26.4	**80.5**
Long Term	86.3	45.0	0.2	(6.1)	**59.1**
Public Sector	10.2	4.2	(38.8)	(30.4)	**(18.0)**
Private Sector	76.1	40.8	38.9	24.3	**77.1**
Other	(14.7)	39.4	10.4	16.0	**11.0**
Short Term	20.2	35.6	42.1	16.4	**10.4**
Errors & Omissions	(25.2)	(72.1)	132.4	78.0	**(34.6)**
Balance for Official Financing	123.6	91.2	229.0	82.0	**3.8**
Official Financing (net)	0.0	0.0	0.0	0.0	**0.0**
IMF	0.0	0.0	0.0	0.0	**0.0**
Other Financial Institutions	0.0	0.0	0.0	0.0	**0.0**
Reserve movements (CBB basis) (-Increase/+Decrease)	(123.6)	(91.2)	(229.0)	(82.0)	**3.8**
Change in NIR (IMF basis) (-Increase/+Decrease)	(127.7)	(69.9)	8.1	(36.0)	**(37.3)**

Source: The Central Bank of Barbados

Regional Economic Developments

Overview

Regional economies recorded higher levels of economic activity during 2004 as the Bahamas and the OECS benefited from increased tourists arrivals, and Trinidad and Tobago enjoyed the gains from rising petroleum prices. However, inflation in most Caribbean countries was moderate during 2004, and there was a general improvement on the majority of fiscal and external current accounts. Additionally, credit and deposit growth was stronger, and exchange rates depreciated slightly in some countries.

Agriculture

During 2004, agricultural performances across the region were mixed as production was higher in Belize and Guyana but lower in Jamaica and Trinidad and Tobago. With higher levels of sugar cane, citrus, banana and papaya output, the agriculture, hunting and forestry industry in Belize grew by 12.4%, while increased shrimp, conch and lobster catches resulted in a 4.8% expansion in the fishing industry. During the first three quarters of 2004, output from the sugar industry in Guyana amounted to approximately 231,247 tonnes or 14.5% above the yield in 2003, while rice production rose by 3.3% to 252,150 tonnes. However, this was partly offset by a reduction in output from the forestry and fishing industry, which declined by around 29.0%, owing to a significant reduction in fish and shrimp catches. On the strength of improved performances by the banana and cocoa industries, agricultural production in the OECS increased, while output from the agricultural sectors in Jamaica and Trinidad and Tobago declined, following a contraction in the Jamaica banana industry and a fall-off in Trinidad and Tobago's sugar yield.

Tourism

In 2004, tourism activity across the region was fairly strong, reflecting in most cases increased tourist arrivals from the US, other Caribbean countries and Europe, the region's largest tourist markets. Total visitor arrivals to the Bahamas increased by 12.3%, or more than half the growth observed one year earlier. Tourism in Belize continued to rise as the sector benefited from a stronger US economy, targeted advertisements to the US and larger cruise vessels. In Jamaica, visitor arrivals rose by 3.2%, while visits to the OECS member countries surged by a significant 35.2%.

Mining and Quarrying

Performances in the mining and quarrying sectors of the region during 2004 were mixed. The countrywide damages inflicted by hurricane's Ivan and Charley in 2004, resulted in an 8.4% decline in Jamaica's bauxite production. Alumina production in that country, however, increased by 4.5%, an increase 0.7 of a percentage point above the figure recorded for the same period of 2003. Bauxite production in Guyana also suffered during the period under review deteriorating by 36.4% with lower levels recorded for all categories of bauxite except the refractory grade. In contrast, contributions from the energy and non-energy sectors in Trinidad and Tobago rose by 4.8% and 4.4%, respectively.

Prices and Interest Rates

For the majority of countries in the region, apart from Jamaica, the average rate of inflation in 2004 continued on a moderate path, with price increases lower than in 2003. Inflation ranged from 0.75% in Bahamas to 4.8% in Guyana. Jamaica's inflation rate was 13.8%, owing to higher prices for food and drink, transportation, fuel, other household supplies, housing, and other expenses. Between January and March 2005, the index of retail prices for Trinidad and Tobago increased by 7.3%, compared to a rise of 2.8% for the first quarter of 2004.

Exchange Rates

At the end of March in 2005, the Jamaica dollar depreciated by approximately 1.2% to J$61.59 per US$1 compared to a 14.8% decline in the previous year when the foreign exchange market was characterised as unstable. In addition, at the end of the first nine months of 2004 the Guyana dollar fell by 1% to G$198.0 to US$1, while the exchange rate between the currency of Trinidad and Tobago and the US remained relatively stable.

Government Operations

During the review period almost all regional governments strengthened their fiscal position by either mustering a larger surplus or by narrowing their respective fiscal deficits. In the Bahamas, the central government's fiscal deficit fell to B$162.4 million, compared to B$174.2 million in the previous year as a 5.3% increase in total revenue outstripped a 2.8% rise in total expenditure. The fiscal deficit in Belize also improved, moving from B$178.6 million in 2003 to B$70.7 million in 2004, on account of higher tax receipts and lower capital outlays. Furthermore, improvements in current revenue in the OECS led to a fiscal deficit of EC$265.7 million, approximately EC$11.1 million less than the deficit for the comparable period of 2003. In Guyana, Government operations recorded a budget surplus of G$1.8 billion, in contrast to a deficit of G$3.9 billion recorded in 2003. Additionally, Jamaica's fiscal deficit was reduced to J$8.9 million. In early January 2005, Trinidad and Tobago's fiscal surplus was estimated at TT$1.1 million compared to a surplus of TT$63.5 million for the same period of 2004.

Foreign Sector Developments

The performance of the balance of payments accounts in regional economies was mixed during 2004. In Belize, higher tourism revenues and increased transfers together with a reduction in the trade deficit contributed to a smaller external current account deficit, which moved from US$18.4 million to US$5.6 million at the end of September 2004. The current account deficit in Guyana narrowed considerably, as a result of higher gold, sugar and rice export receipts, coupled with declining food, intermediate and capital good imports. Moreover, the country's capital and financial account also improved, over the performance in 2003. With an enhanced capital and financial account, the overall balance of payments surplus in Jamaica climbed to US$661.7 million, a turnaround from the deficit of US$465.9 million in 2003. On the other hand in the OECS and the Bahamas, both the current and capital accounts recorded poor performances. Larger merchandise imports, lower domestic exports and increased debt service payments resulted in a wider current account deficit for the Bahamas, while cut-backs in loan receipts led to a deterioration of the capital and financial account balance. Similarly, the deficit on the external current account of the OECS worsened by B$58.4 million and the surplus on the capital and financial account contracted by $125.3 million, during the review period.

Financial Sector

With the exception of Guyana, credit in the region rose, as most commercial banks lowered their interest rates during 2004. Commercial bank credit in the Bahamas grew by 6.4%, as increases in deposits from Government, business firms, and both public and private financial institutions, offset declines in the remaining categories. Moreover, during 2004, loans and advances in the OECS grew by 6.6% to EC $8,097 million, while credit in Trinidad and Tobago was up by 23.1% or TT$3.5 billion. During the first two weeks of 2005, commercial bank credit in Belize and Jamaica remainded relatively unchanged.

Total deposits in the region also increased during 2004. Deposits in the Bahamas grew by 8.5% compared to a rise of 0.6 in 2003. Larger time and savings deposits in Belize resulted in a 9.5% increase in deposits, while commercial bank deposits in Jamaica, rose marginally. As a result of larger deposits from businesses and financial institutions, deposit growth in Trinidad and Tobago picked up, rising significantly by 15.1%, or double the growth for 2003.

Furthermore, during 2004, deposits in the OECS increased by 10.7%, while deposits in Guyana rose by 4.2%.

International Economic Developments

Overview

The global economy continued to grow during the first quarter of 2005, although at a more moderate pace than in early 2004 and late 2003, when global economic activity increased by almost six percent. Slower growth in industrial production and global trade were the main dampening factors, reflecting in most cases the impact of higher oil prices. The first quarter expansion was unbalanced, with output in the United States and China, as well as various emerging markets and developing countries, outpacing growth in the United Kingdom and Japan, mainly because of falling exports and weak final domestic demand observed in the latter group of countries. Moreover, during the first quarter, current account imbalances widened, especially in the US, further contributing to the persistent depreciation of the US dollar, against appreciating industrial and emerging market currencies. Global inflation during the January to March period of 2005 was fairly moderate, but consumer price inflation in the US and some Asian countries rose, partly in response to the developments in oil prices.

Industrial Economies

In the United States, real GDP growth for the first three months of 2005 slowed to 3.6%, following the 5.0% growth rate recorded during the corresponding period last year. The expansion was driven mainly by increases in private consumption expenditures and business investment spending, which both eased from the vigorous pace exhibited in 2004. Owing to a larger trade deficit and an increase in net outflows for unilateral transfers, the US current account deficit worsened, moving from $188.4 billion in the fourth quarter of 2004 to $195.1 billion in the first quarter of 2005. In line with the deceleration in GDP growth, employment opportunities were weaker in the first quarter of 2005, but the rate of unemployment was still lower this year, estimated at 5.4%, compared to 6.0% in 2004 and 5.8% in 2003. Price pressures in the US strengthened during the first quarter of 2005, as evidenced by the rate of inflation, which rose to 3.1%, a significant rise from the 1.7% registered in the corresponding period of 2004 and the fastest expansion since the end of 2001. In light of the above developments, the Federal Reserve Bank continued to raise interest rates during the first three months of 2005. The federal funds rate increased gradually to settle at 3.0%, an increase of about 1.75 percentage points above the rate recorded during the first quarter in 2004. Consequently, credit to the private sector advanced by less than $5.5 billion in March, the smallest gain since November.

Between January and March of 2005 real GDP in Canada grew by 3.3%, or moderately slower than in the first quarter of 2004 when there was an expansion of 1.6%.

Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)*		Unemployment (% Rate)		Inflation (% Rate)**	
	Mar-05	Mar-04	Mar-05	Mar-04	Mar-05	Mar-04
Canada	3.3	1.6	7.3	7.8	2.3	0.7
Euro zone	0.9	2.0	8.9	8.9	2.1	1.7
France	1.7	1.7	10.2	10.0	1.9	1.7
Germany	0.0	1.8	12.5	10.9	1.8	1.1
Italy	-0.2	0.7	7.9	8.2	1.9	2.3
Japan	1.2	4.5	4.8	5.0	-0.2	-0.1
United Kingdom	2.7	3.0	4.7	4.8	3.2	2.6
United States	3.6	5.0	5.4	6.0	3.1	1.7

Source: Various Central Banks and National Statistical Offices
*Percentage change from same period of previous year
** Percentage change in price index from same period of previous year

Similar to its US counterpart, most of the growth in GDP was attributed to an expansion in personal expenditures and private investment, as there was increased spending by consumers in retail stores and continued strength in the demand for machinery and equipment by businesses, both domestic and abroad. Fuelled by the continued rise in gasoline prices, the rate of inflation in Canada at the end of March 2005 was 2.3%, up from 0.7% last year and down from the 4.6% recorded in the first quarter of 2003. In addition, following the modest job gains seen in the first three months, the rate of unemployment fell by a marginal 0.5 percentage points to 7.3%. With regard to monetary policy, Canada's overnight rate remained unchanged at 2.5%, while the rate at commercial banks was steady at 2.75%. The merchandise trade surplus rose slightly (2.9%), as imports stayed flat and declines in automotive products and industrial goods and materials dampened export growth.

Euro Area real GDP for the first quarter of 2005 was estimated to have expanded by 0.9%, with a mixture of growth observed in individual member states. At the end of March 2005, unemployment growth in the Euro area was estimated at 8.9% for the third time since the first quarter of 2003. Additionally, consumer prices rose by 2.1% during the first quarter, about 0.4 percentage points higher than in 2004. The Euro Area external current account recorded a surplus of $3.2 billion euros at the end of January 2005. This reflected an increase in goods, services and income receipts, which outweighed a decline in current transfers.

In the United Kingdom growth was slower during the first quarter of 2005, but remained fairly robust overall. Real GDP rose by 2.7% in the first three months, down from the 3.0% registered in the previous year. The moderation in GDP growth partly reflected a 0.3% decline in consumption during the first quarter of 2005. Industrial production also fell in the first quarter, while output in services and construction increased, although at a slower pace than in the last quarter of 2004. The unemployment rate was relatively flat at the end of March 2005, whereas inflation rose by approximately 3.2% or 0.7 percentage points above the inflation rate last year, as a result of higher prices for transport, food, furniture and clothing. Real GDP growth in France was flat, as an increase in the gross fixed capital formation of non-financial enterprises was offset by slower household consumption expenditure. Despite a slowdown in imports, the net foreign trade position in France was negative, as export growth flattened during the first quarter of 2005. In Germany, there was no output growth during the first three months, as weaker foreign demand failed to bring about the expected increase in net exports. Unemployment rose to 12.5% or 1.6 percentage points higher than in 2004, while prices increased marginally by 1.8%.

The Japanese economy continued to experience some weakness during the January to March period of 2005, as a result of the sluggish export activity and the ongoing inventory adjustment in the information and communication technology sectors. Output grew by 1.2% compared to 4.5% in the same period of 2004. This was reflected in the fall off in industrial production, which fell by 0.3% by the end of March 2005, after recording a sharp rise in January, while exports in terms of both value and volume declined further, partly because of reduced exports to China. In addition, according to the Japanese Ministry of Finance corporate survey, there was a slowdown in capital spending for the first quarter of 2005, while consumer spending, according to the household survey, increased strongly during the review period, up 3.2% on a quarter on quarter basis. With respect to price developments in Japan, the main consumer price index decreased by 0.2%, following deflationary pressures imposed by the liberalisation of charges for utility services, particularly telephone lines, electricity and gas. In the labour market, however, unemployed individuals in the first quarter of 2005 declined by 4.8% from the previous year.

Emerging Markets

In Asia, economic growth declined marginally, continuing the slowdown exhibited in the second half of 2004. Growth in exports slowed somewhat in the first three months, while domestic demand and inflationary pressures strengthened in most countries in the region. In particular, economic activity in China remained strong, as exports surged, exceeding growth in imports by a significant margin. This was accompanied by an increase in industrial production, which was driven mainly by the production of export-oriented goods. Similarly, growth in India and other emerging markets such as South Korea was robust during the first quarter of 2005. South Korea's economy expanded in the first quarter, but the increase in GDP was the slowest observed since 2003. In addition, during the first three months of 2005 inflation in the Korean economy was unchanged from the 3.1% observed in the corresponding period of 2004.

Economic Indicators: Emerging Markets

	Real Output (% Change)*		Inflation (% Rate)**		Foreign Reserves (US$ billion)	
Countries	**Mar-05**	**Mar-04**	**Mar-05**	**Mar-04**	**Mar-05**	**Mar-04**
Argentina	8.0	11.3	9.1	2.3	20.3	15.0
Brazil	6.1	4.0	7.5	5.9	62.0	51.6
Chile	5.7	4.7	2.4	-0.7	15.4	16.0
China	9.5	9.8	2.7	3.0	659.1	439.8
Hong Kong	6.0	7.3	0.8	-2.1	122.4	123.8
Indonesia	6.4	4.4	8.8	5.1	36.0	37.4
Malaysia	5.7	7.8	2.6	1.0	72.4	51.3
Mexico	2.4	3.9	4.4	4.2	61.7	59.0
Singapore	2.5	7.9	0.4	1.3	113.0	102.7
South Korea	2.8	5.3	3.1	3.1	205.4	163.6
Venezuela	7.9	35.0	15.8	23.6	25.6	23.3

Source: Various Central Banks and National Statistics Offices
*Percentage change from same period of previous year
** Percentage change in price index from same period of previous year.

Activity in Latin America expanded in the first quarter of 2005. Brazil's economy grew by 6.1% in the first quarter, moderately higher than the 4.0% growth rate for the January to March period in 2004. Additionally, prices in Brazil went up by 7.5%, while those in Argentina rose by 9.1% during the review period. In Mexico, economic growth was estimated at 2.4%, as manufacturing activity slowed to 10% with weaker production observed in the country's automotive sector. However, fuelled by strong credit and an expansion in consumer spending, growth remained fairly solid, continuing the steady growth path that began in 2003. Moreover, aided by rising crude oil prices, Mexico's fiscal surplus was estimated at US$2.4 billion.

Commodity Prices

The overall commodity price index rose by 21.3% during the first quarter of 2005, continuing the boom which started in July 2002. An increase in energy prices was the main force behind the movement in the commodity index. The price of Brent crude oil surged in the first quarter of 2005, owing to stronger oil demand, as well as supply constraints and continued uncertainties about the security of oil supplies. In contrast, prices of non-fuel commodities moderated, as rising beverage and metal prices were offset by reductions for prices of some food and agricultural raw materials.

In particular, at the end of March 2005, petroleum prices recorded an upswing of 51.3%, while the price of non-fuel commodities rose by only 8.7%. The price of food commodities fell by 2.4%, as contractions in soybeans (35.4%) and wheat (9.2%) outweighed expansions for sugar, bananas and rice materials. Furthermore, with the exception of silver, the prices of all other metals grew during the first quarter. Owing to increased industrial production in most countries, the prices of aluminium, iron ore and copper rose by 19.9%, 71.5% and 12.6%, respectively. The price of gold expanded by 6.7%, while silver in terms of US dollar denominated currency fell by 0.4%.

Commodity Prices

Commodities	Mar-04	Dec-04	Mar-05	% Change on Mar-04	% Change on Dec-04
Total (Index of Market Prices)	141.8	155.6	**188.7**	33.0	21.3
Non-Fuel (Index of Market Prices)	99.8	97.6	**108.5**	8.7	11.1
Food (Index of Market Prices)	104.8	94.1	**102.3**	-2.4	8.7
Sugar (US cents / lb)	30.3	32.0	**31.6**	4.2	-1.2
Bananas (US $ / 40lb)	512.3	497.2	**817.0**	59.5	64.3
Rice (US $ / metric ton)	240.4	278.4	**295.0**	22.7	5.9
Wheat (US $ / bushel)	166.3	153.9	**151.0**	-9.2	-1.9
Soybeans (US $ / metric ton)	360.7	198.6	**233.2**	-35.4	17.4
Metals (Index of Market Prices)	109.7	117.3	**136.8**	24.7	16.6
Aluminum	1,657.4	1,852.9	**1,987.5**	19.9	7.3
Iron Ore (US $ / metric ton)	37.9	37.9	**65.0**	71.5	71.5
Copper (US ¢ / lb)	3,000.3	3,139.8	**3,378.9**	12.6	7.6
Silver (US ¢ / oz.)	729.5	712.4	**726.8**	-0.4	2.0
Gold (US $ / oz.)	406.7	442.1	**433.9**	6.7	-1.9
Petroleum (US $ / barrel)	33.7	39.1	**50.9**	51.3	30.3

Source: IMF Commodity Prices

Caribbean Stock Markets: Summary of First Quarter 2005

Barbados Stock Exchange (BSE)

For the first quarter of 2005 the Barbados Stock Exchange experienced a decline in trading activity when compared to 2004. The total volume of shares traded was 10,847,603, with a value of $67.2 million representing a 40% decline in value from 2004.

During the quarter the regular market registered a 50% decline in activity, when 16 of the 24 companies listed on the Exchange traded a total volume of 10,532,526 shares, (valued at $65,884.454) compared to the 20,890,345 shares (valued at $109,572,046), which traded for the same period last year. The Local Index and its market capitalisation however, continued their upward trend from last year, recording quarterly increases of 4.09% and 2.12%, respectively.

The top performer of the Regular Market was Goddard Enterprises Ltd., which accounted for 60% of the total volume and 70% of the total value of shares traded. The top five volume and value performers are given below.

Cave Shepherd & Co. Ltd had the greatest price change, registering a 54% increase for the first quarter, followed by Almond Resorts Inc. and Goddard Enterprises Ltd. shares, which increased by 47% and 31%, respectively. Of the companies listed nine advanced, fourteen traded firm and one declined.

Barbados Stock Exchange Volume Leaders
(January - March)
($Million)

Institution	Volume Traded
Goddard Enterprise	45.972
Sagicor Finance	6.913
B'dos Shipping & Trading	5.282
Banks Holdings Ltd	1.255
C&W (B'dos) Limited	1.165

Source: Barbados Stock Exchange

Contrary to the overall market performance, the volume and value of put-throughs for the first quarter of 2005 rose by 55% to 18,710 and by 137% to $96,817 million, respectively.

Barbados Stock Exchange Statistics
(End of Month)

Index	Jan. 2005	Feb. 2005	Mar. 2005
Local	3,734.95	3,748.43	**3,863.16**
Cross-Listed	2,173.08	2,173.08	**2,173.08**
Junior	1,471.79	1,522.84	**1,522.84**
Market Cap. Bds($M)			
Local	10,470.39	10,447.12	**10,628.26**
Cross-Listed	10,277.14	10,279.33	**10,279.33**
Junior	77.81	81.16	**81.16**

Source: Barbados Stock Exchange

For the review period, the Odd-Lot Market declined by 35%, with trade volume falling to 247,666 versus the 379,945 shares that were traded for the same period in 2004. The value of these trades represent a 29.4% decline compared to the same period last year.

There was no change in the Cross-listed Index over the first quarter of 2005; nevertheless there was a marginal increase (of 0.17%) in the market capitalisation of cross-listed companies, to $10,279.33.

With the suspension of Sunbeach Communications Inc. remaining in effect, Fortress Caribbean Property Fund was the only performer on the Junior Market for the quarter of 2005. Activity on this market declined by 84%, with 48,701 shares being traded for the period. Nevertheless, both the Junior Index and its capitalization increased over the first quarter by 5.3% and 6.6%, respectively.

Interest Rates

United States of America

The first quarter of 2005 found the US economy enjoying a bit more serenity that was missing throughout the most part of 2004. Though the major catalysts for last year's turbulence – oil prices, lower than expected unemployment figures, and instability in the Middle East – have not totally abated, they also generated no real surprises during the winter months.

The Federal Reserve increased its target for short-term interest rates by 50 basis points, to 2.5%, the sixth such expansion since June 2004. In order to contain inflationary pressures, the Fed, which has promised to raise rates at a "measured" pace, still believes that the economic recovery has firmly taken root. This stance was maintained as the economy grew at an annual rate of 3.8%, somewhat lower than 4% growth enjoyed in the previous quarter, but nonetheless still solid. Overall, in 2004 the economy grew 4.4%, the best showing in five years. They further noted that excess capacity generated during the most recent recession in 2001 might soon be exhausted. This, along with the fact that productivity growth has slowed, suggest that companies will have to add workers, with costs passed on in the form of higher prices.

Still, it was not all smooth sailing, as there were hiccups in the currency and labour markets. In addition, the twin deficits (fiscal and trade) played a major part in a mini-selloff on news that the Asian economies were diversifying their foreign reserve holdings. In response, the dollar dropped past the $1.30 mark to the euro, while gold and oil prices, which tend to move inversely to the dollar, both rose sharply. On the labour scene, though there was solid job growth in the first three months of 2005, with a total of approximately 500,000 jobs added; the unemployment rate rose to 5.4%.

Overall, however, the key to interest rates will continue to be inflation. High and rising oil prices, a declining dollar, continued Fed short-term rate increases, and a strengthening domestic economy all argue in favour of higher long-term interest rates.

In the bond market, the prospect of further interest rate hikes in the United States will put bond prices under pressure and some short positions profitable. Higher money market rates, mainly vis-à-vis the European markets, together with a steeper yield curve will in the short-term continue to generate strong gains.

Canada

After accelerating in the first half of 2004, growth in Canada slowed in the review period. This was attributed to a decline in exports that was driven by slower growth in the US and the strength of the Canadian dollar. This weakening spilled over to 2005, with the normally strong housing market showing signs of weakness, as higher prices and higher expected financing costs reduced demand. Still, however, inflation data highlighted that year-over-year prices increased by 2.1%, fuelled largely by gasoline prices which jumped by 8.5%. CPI inflation was even more pronounced as prices rose by approximately 4%.

On this information, the Bank of Canada (BOC), in its first meeting for 2005, at the beginning of March, continued its holding pattern from the end of last year, after only 50bps of tightening, when the economy began to decelerate. The Bank kept its target overnight rate at 2.5%.

In a statement the BOC maintained its monetary policy stance to keep CPI inflation at the midpoint of a 1-3% target range. Due to the volatility that energy, food, tobacco and other similar goods can introduce into CPI inflation, the BOC tends to view the core measure for inflation as a better measure of the underlying trend. Given this, core CPI figures do not point to a rate increase in April, but there remained conflicting data, weak GDP growth and continuing declines in export driven manufacturing suggest that the Bank will hold steady in the coming months, but other data, such as the possibility of strong retail sales and overall increased domestic demand, point to rate increases.

United Kingdom

During the quarter, the Bank of England continued to hold UK interest rates unchanged at 4.75%. Concerns about an accelerating rate of inflation were outweighed by evidence that the UK economy may be going through a patch of sticky growth.

Figures highlighted a drop in manufacturing and industrial output, consumer demand slackened, and its most recent driver – house price growth – has cooled. This has prompted some analysts to indicate that UK interest rates had peaked and were now more likely to drop than rise. Generally, it is believed that any further increases will counter the recent pickup in inflation and will also restrict consumer spending and undermine confidence in the housing market.

Figures highlighted that manufacturing production fell 1.6% in March – the biggest drop since June 2002 – while industrial production slid by 1.2%. CPI inflation – the Government's target measure – remained at 1.6% in February. Upward pressures from transport costs and seasonal food were balanced by less marked recoveries from sales compared with last year for some product groups. Transport costs rose this year as airfares, particularly European and domestic, increased through March. Fuel prices also rose.

Furthermore, this data comes after mortgage lender Halifax reported that UK house prices were unchanged in March, adding there had been no movement since January. Its report also showed that annual price inflation had fallen to 9.7% in March – its lowest level since June 2001.

Consequently, the uncertainty surrounding the housing market has prompted many consumers to curb spending. According to the CBI's monthly trade survey, towards the end of the quarter, UK retail sales fell at their fastest pace in almost 13 years, prompting it to urge the Bank of England to keep rates on hold. On top of that, economic data from the US and Europe, key trading partners, have shown a decidedly mixed picture. With such weak economic figures and tepid inflation, the futures market predicts that interest rates will be kept on hold over the near term.

European Central Bank (ECB)

As expected, the European Central Bank (ECB) held both its refinancing rate and its resulting explanation unchanged through the first quarter of 2005, despite ECB president Jean-Claude Trichet's continued concerns about the strengthening of credit growth, which he blamed on the low interest rates. The low interest rate regime remained as the ECB issued a downward revision on its growth projections for 2005 to 1.6%, but still noted that the current weakness may prove transitory since the downside revision was viewed as a carry-over from 2004. The ECB stressed that the potential long-term upside risks to price stability remain since high liquidity might translate into future inflationary pressure.

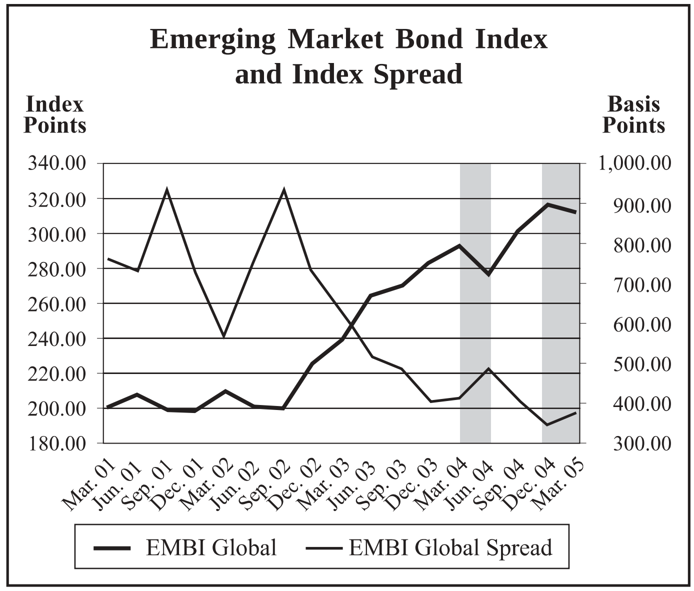
Despite the ECB's optimism on future growth, national business confidence surveys continued to fall or stagnate in March and pointed to little or no improvement to the weak growth measured in the second half of 2004. The German Ifo index fell, as higher oil prices and high volatility in the euro weighed down the index. In addition French and Italian business confidence also declined, with the Italian economy falling into recession. Only the Belgian index showed modest improvement after a sharp drop in February. Meanwhile, EU leaders managed to agree on a revised Stability and Growth Pact in March. The new pact retains the 3% of GDP limit on budget deficits, but encompasses greater flexibility in adhering to certain other provisions.

In the coming months of 2005, the ECB is expected to reiterate that the growth outlook is favourable and along with rising inflationary pressures, interest rates will rise. However, the central bank is expected to leave the timeframe of the first hike open pending new data on key economic indicators such as retail sales, industrial production and GDP.

Emerging Markets

Bond Markets

For most of 2004, upward momentum in emerging markets credit ratings had been sustained by robust economic growth. This, coupled with an abundance of global liquidity, had perpetuated the search for yield among investors, thereby compressing spreads for emerging-market borrowers. However, in the first quarter of 2005, despite a continued positive ratings bias, financing conditions became slightly more challenging, as interest-rate hikes in the US pushed up Treasury yields, reducing the relative appeal of emerging market bonds for investors. This widened the spread between JP Morgan's Emerging Markets Bond Index (EMBI) and US Treasuries and prompted a sell-off in emerging market debt. Towards the end of the quarter, there were signs that these unfavourable financing conditions were affecting issuance levels, with some potential issuers postponing debt sales because of higher than anticipated borrowing costs.



Equity Markets

Latin stocks, despite falling during March as higher US interest rates lured investors' money away, performed reasonably well for the quarter as a whole. Although the Mexican Bolsa dipped slightly, the Brazilian Bovespa and Argentine Merval both closed higher at the end of the quarter. Meanwhile, the Chilean stock market was far and away the best performer, as GDP and export growth continued to benefit from high copper prices and prudent economic management, which was reflected in firms' profitability.

Asian equity markets turned in mixed performances over the period, with significant declines on the China, Hong Kong, Malaysia, Taiwan and India exchanges being balanced by rising markets in Indonesia, South Korea, the Philippines, Singapore and Thailand. China remained the worst performer in Asia on concern that the government would raise interest rates to slow down economic growth and that the glut of new share offerings would persist.

Emerging Equity Market Indices

(Quarterly)

Country/Region	Index	Dec-04	Mar-05	% Ch
Argentina	Merval	1,278.41	1,291.22	1.0
Brazil	Bovespa	26,196.25	26,610.65	1.6
Chile	IPSA	1,796.48	1,961.69	9.2
Mexico	IPC	12,917.88	12,676.90	-1.9
Venezuela	Caracas	29,952.18	28,977.07	-3.3
Latin America		1,483.58	1,510.47	1.8
China	Shanghai	1,266.50	1,181.24	-6.7
Hong Kong	Hang Seng	14,230.14	13,516.88	-5.0
India	Mumbai	6,602.69	6,492.82	-1.7
Indonesia	Jakarta	1,000.23	1,080.17	8.0
Malaysia	Kuala Lumpur	907.43	871.35	-4.0
Philippines	PSE	1,822.83	1,954.69	7.2
Singapore	Straits Times	2,066.14	2,141.43	3.6
South Korea	Seoul	895.92	965.68	7.8
Thailand	SET	668.10	681.49	2.0
Taiwan	Weighted	6,139.69	6,005.88	-2.2
Asia		231.63	236.38	2.1

Source: Bloomberg Service

Currency Markets

Most floating currencies in Asia depreciated slightly during the quarter, as investors shifted into US Dollar-denominated assets in response to the Federal Reserve's rate hike, especially given investor perception that Asian central banks were unlikely to follow suit. However, Taiwan's Dollar bucked this trend for most of the quarter, as global investors continued to buy into the island's equity markets despite the lure of higher US yields, with the currency value peaking on March 10. Although this was followed by a two-week period of net share sales, moves by local exporters to capitalise on the resulting dip in the currency by converting their foreign exchange brought about a month-end recovery. The conversion of export proceeds also helped the Korean Won post its third quarterly advance, despite a promise by the government and the central bank to curb "unreasonable fluctuations" in the Won to support exports.

Among the major Latin currencies, only the Argentine Peso appreciated on investor optimism about the restructuring of defaulted debt, as higher US interest rates caused most of its regional counterparts to depreciate vis-à-vis the Dollar. Despite falling from a record high at the end of 2004, the Chilean Peso remained relatively strong by historical standards during the quarter, as copper prices continued to be buoyant. In addition, on March 3 the Venezuelan government and the Central Bank devalued the Bolivar, the value of which they have set since early 2003.

Emerging Market Currencies

(Quarterly)

Country/Region	Currency	Dec-04	Mar-05	% Ch
Argentina	Peso	2.97	2.92	1.9
Brazil	Real	2.66	2.68	-0.9
Chile	Peso	555.75	586.1	-5.5
Mexico	Peso	11.15	11.17	-0.2
Venezuela	Bolivar	1,918.00	2,147.30	-12
Hong Kong	Dollar	7.77	7.8	-0.3
India	Rupee	43.46	43.75	-0.7
Indonesia	Rupiah	9,270.00	9,465.00	-2.1
Singapore	Dollar	1.63	1.65	-1.2
South Korea	Won	1,035.10	1,015.45	1.9
Thailand	Baht	38.92	39.12	-0.5
Taiwan	Dollar	31.74	31.53	0.7

Source: Bloomberg Service

The Caribbean Court of Justice: Cornerstone of the CSME

The Caribbean Court of Justice (CCJ) was officially launched on April 16, 2005 at Queens Hall in St Ann's, Port of Spain, Trinidad and Tobago.

Background

The idea of establishing a regional court of justice is not a new one; the desire for absolute autonomy in Caribbean law has been at the ideological core of the integration movement from its very inception.

In the days of the West Indies Federation, the Federal Supreme Court took the first step in creating a legacy of excellence as the region's court of final appeal.

Post-Federation, the creation of a similar court has come to symbolise the final step that countries in the region must take to achieve full sovereignty.

Indeed, there has long been a sense that Caribbean countries' retention of the British Privy Council as their ultimate court of appeal (since the break-up of the Federation) is inconsistent with their independent status. This feeling was compounded by the effects of the 1993 Pratt and Morgan ruling, which has formed the basis for a number of Privy Council decisions upholding regional appeals against the death penalty, and which has been seen as running counter to the social values of the region.

The newly founded CCJ therefore seeks to fulfil the aspirations of Caribbean people to an institution more in tune with their collective culture.

Through its appellate jurisdiction, the CCJ will replace the Privy Council to become the highest municipal court in the region. It will hear and determine appeals in both civil and criminal matters from common law courts within the jurisdictions of Member States.

Here it must be emphasised that the establishment of the CCJ is not simply a knee-jerk reaction to the Pratt and Morgan ruling.

Indeed, there is no guarantee that the CCJ would differ significantly from the Privy Council in its decisions on matters related to capital punishment.

In point of fact, the decision to create a regional court predated Pratt and Morgan and was based largely on considerations of efficiency, effectiveness and the desire for Caribbean legal autonomy.

The decision was also based on the need to provide an adequate legal framework for the functioning of the CARICOM Single Market and Economy (CSME).

Under the Revised Treaty of Chaguaramas (the legal agreement underpinning the CSME), where Member States are unable to reach a bilateral solution, a dispute may be settled by a Conciliation Commission or special arbitral tribunal to be convened by the Council for Trade and Economic Development (COTED).

However, the COTED dispute settlement mechanism has been of limited value because it lacks any real enforcement power. The strongest sanction that can be taken against a Member State is to allow other Members to suspend their obligations with respect to it.

With CARICOM moving towards a CSME, the COTED framework is rendered even more inadequate, especially given the extensive rights and corresponding obligations created by the Revised Treaty.

Without a CCJ, courts in every member state would have to interpret and apply the provisions of the treaty in isolation from each other, undermining the legal assumptions behind a single economic space.

There has therefore emerged a clear need for a single, central, permanent, regional institution with the authority to uphold and enforce those rights and obligations in a uniform and predictable manner.

Hence, in addition to its role as a court of last resort with appellate jurisdiction, the CCJ will also operate as a court of first instance with original jurisdiction.

In the exercise of its original jurisdiction, it will have exclusive authority to apply the rules of international law in order to settle disputes related to the interpretation and application of the Revised Treaty.

In this way, the CCJ will play a fundamental part in the regional integration process, guiding and shaping all of the various aspects of the CSME.

To be effective in its dual role, the Court must possess certain key characteristics. It must be independent and objective in its decision-making and its decisions must be of the highest quality, reflecting and promoting Caribbean values. It must also help to create a stable macro-environment and an attractive investment climate by providing a predictable legal framework for the CSME to operate in, to the benefit of all Community citizens.

The CCJ Debate

However, in the lead-up to the establishment of the CCJ there has been much public debate across the region, with critics suggesting that the court is lacking many of the characteristics outlined above.

The debate has been wide-ranging but the criticisms have generally been focused in a few key areas: the cost of establishing the court, its financial sustainability and independence, its objectivity, the quality of its human resources and the equality of access to its services.

Consequently, in setting up the Court a number of steps have been taken to counter such criticisms and ensure that the region remains an attractive destination for investment.

The following, therefore, is a brief outline of the most common criticisms levelled at the CCJ, the corresponding rebuttals and some of the counter-measures taken.

1. Cost of Establishing the Court

Critics have pointed to the fact that in most regional territories the local judicial system is already under-funded and in dire need of reform. They therefore maintain that national requirements should take priority over the establishment of a regional court, which is perceived as a costly enterprise.

In this regard, it is often pointed out that regional Governments do not contribute to the upkeep of the Privy Council. “Why then replace a free court with one that will only be a drain on the region’s already limited resources?” is the question usually asked.

Nonetheless, while the need to upgrade the legal infrastructure in the various territories is undeniable, proponents feel that it should not and does not rule out the need for a regional court. As mentioned previously, it is felt that the region needs a court of final appeal commensurate with the independent status of its Member States.

In terms of the cost involved, it is noted that access to the Privy Council is not entirely free, since carrying appeals to London can be very expensive: calculations have been done comparing the total cost for the region of Privy Council appeals on par with that of establishing the regional court. Indeed, the exorbitant cost has been pointed out as the reason that so few cases from the region are taken to the Privy Council. This contradicts CCJ opponents' argument that the paucity of appeals is an indication that there would not be enough work to justify the creation of a regional appellate court.

2. Financial Sustainability and Independence

There has been deep concern about the CCJ's financial sustainability, given CARICOM Member States' poor track record in making financial contributions to regional institutions.

In a related concern, the financial independence of the court has also been called into question, with fears of potential political manipulation of the judicial process – for example, where Member States could condition their continued financing of the court on their receiving favourable judgements.

In response to these concerns, judges' remuneration and other recurrent expenditure for the court is being met from the income earned on a trust fund. This fund was raised on the international capital markets by the Caribbean Development Bank (CDB) and is being managed by an independent Board of Trustees.

Under this arrangement, Member States' contributions to the repayment of the principal are owed to the CDB and any default by them will not affect the sustained funding of the CCJ. Moreover, the Heads of Government have agreed that non-payment of contributions to the fund will result in a defaulting Member State being denied access to the services of the Court.

This financing mechanism is unique to the CCJ and has been lauded for its effective handling of such a delicate matter. In fact, other courts around the world are expressing interest in the system, including the courts of the European Union, MERCOSUR and the Andean Community (Government Information Service, Port of Spain, 02/05/05). In addition, to further insulate the Court and its judges from political interference, the responsibility for the selection of judges has been vested in a specially created, independent Regional Judicial and Legal Services Commission, rather than being left to the political leaders of Member States.

3. Objectivity and Legal Expertise

Related to the issue of independence is that of objectivity. Some have questioned the ability of regional judges to be as dispassionate as Privy Council judges who are physically and otherwise distanced from regional matters.

However, others argue that the Privy Council's very detachment from regional matters may be part of the problem: There are those who feel that the role of a court of final appeal is not simply to apply the law but to do so in a manner that reflects and promotes the social values of the territory over which it has jurisdiction.

The majority opinion seems to be that the regional nature of the CCJ is therefore seen by its advocates as ideal, in that the judges are familiar with regional issues and values, but at the same time remain somewhat removed from the national agenda and possible biases of any individual Member State.

Furthermore, the judges on the CCJ will be guided by a Judicial Code of Conduct, which imposes on them the duty of maintaining high standards of conduct. In the final analysis, the formation of a regional court of justice is the ultimate expression of confidence in the objectivity and integrity of the Caribbean judiciary.

Objectivity aside, doubts have also been expressed about the availability of an adequate pool of high-quality legal expertise within the region for the staffing of the Court.

In this regard, proponents have noted that in order to create as wide and deep a pool as possible, eligibility for the CCJ has been extended to judges from across the entire Commonwealth.

In any case, they have also noted that Caribbean legal minds have been represented on benches in various extra-regional jurisdictions, as well as on the Privy Council, the International Court of Justice, the International Criminal Court and several other international tribunals, implying that the quality of legal expertise in the region has not been found wanting at the international level.

4. Equality of Access

Finally, the fact that the new court has its Seat in Trinidad has sparked conjecture that the CCJ will not truly be a regional court and that its services will be rendered primarily for the benefit of the host country.

So that there can be no question that the CCJ is indeed a regional court, it has been set up to operate on a circuit basis. That is, while its Seat remains in Trinidad, it will in effect be an itinerant court, which can move around to individual territories as required to hear cases.

This arrangement will also constitute a substantial cost saving over the process of appealing to the Privy Council, which, as previously mentioned, was relatively inaccessible in financial terms to Caribbean litigants.

The Future of the CCJ

With all of the above precautionary measures in place, it is argued that the potential for the CCJ to effectively fulfil its mandate within the CSME is great. While providing easy access to home-grown justice for all Community citizens, as well as a predictable legal framework for investors, it will allow for resource-pooling and cost-sharing among Member States, reflecting the core rationale underlying the creation of the CSME itself – the scale and scope economies to be derived from integration.

However, the future still holds a number of challenges for this fledgling institution.

Firstly, in a temporary setback for the inauguration of the CCJ, the Privy Council ruled in February 2005 that the legislation passed by the Jamaican Parliament to establish the CCJ in that country was unconstitutional and void because it sought to replace the Privy Council's appellate jurisdiction with the CCJ by a simple majority vote.

Nevertheless, on April 15, 2005, the eve of the inauguration, the Jamaican Parliament was able to pass a Bill establishing the CCJ as a court of original jurisdiction.

The question, however, remains as to how the appellate jurisdiction of the court is to be instituted if the simple majority route cannot suffice, since even the Privy Council itself is unclear on this point.

Similar problems are facing other regional territories with comparable constitutional arrangements, such as Trinidad and Tobago, which has also only established original jurisdiction for the CCJ. It is partly as a result of this issue that while 12 of the 15 CARICOM Member States have signed on to the Agreement Establishing the CCJ, half of these had only acceded to the original jurisdiction of the court as of December 2004.

Secondly, as the only CARICOM territories that are not former British colonies bound by common law, Haiti and Suriname will need special support from the Community to enable them to be integrated smoothly into the framework of the CCJ, given their distinct civil law tradition.

At present, Suriname subscribes only to the original jurisdiction of the Court, but has pledged to monitor closely the development of the appellate jurisdiction of the CCJ. In future, with the Canadian Supreme Court providing a precedent for a court that deals with both common and civil law, Suriname may eventually be able to accede fully to the CCJ in respect of both jurisdictions.

Haiti's accession to the court is presently a moot issue, as that country's status in the CSME on the whole remains in limbo following the freezing of relations between its interim administration and the rest of CARICOM.

Nevertheless, despite these and other challenges, the establishment of the CCJ is a momentous step for CARICOM. There is general acceptance that the court is a vital component of the infrastructure necessary for the functioning of the CSME, as well as a reflection of a new Caribbean identity being forged through the process of integration. Moreover, its establishment makes an important statement regarding the readiness of CARICOM to resolve

For further information on this topic please see:

- http://www.caricom.org/ccj-index.htm
- http://www.caribbeancourtofjustice.org

Explanation of Legal Terms

Jurisdiction

Jurisdiction refers to the constitutionally based authority of a court to hear and determine cases. Examples of judicial jurisdiction are: appellate jurisdiction, in which a superior court has the power to correct legal errors made in a lower court, and original jurisdiction, in which a court has the exclusive authority to hear certain matters before any other court.

Civil vs. Common Law

Civil law is a legal system derived from Roman law and commonly used in Europe. It is primarily contrasted against common law, which is the legal system developed among Anglo-Saxon peoples, especially in England. The original difference is that, historically, common law was law developed by custom, whereas civil law developed from broad legal principles. Thus, in civil law countries, legislation is seen as the primary source of law. By default, courts therefore base their judgments on the provisions of codes and statutes. By contrast, in the common law system, cases are the primary source of law, while legislation is only interpreted narrowly.

Past Issues of Trade Update

1. The Free Trade Area of the Americas (FTAA) – February 2001
2. The World Trade Organisation (WTO) – March 2001
3. WTO Negotiations on Agriculture & the Caribbean Basin Trade Partnership Act – April 2001
4. FTAA Summit of the Americas in Quebec – May 2001
5. General Agreement on Trade in Services (GATS) – June 2001
6. The Association of Caribbean States – July 2001
7. Protocol II of the Revised Treaty of Chaguaramas – August 2001
8. Trade Related Intellectual Property Rights (TRIPs) – September/October 2001
9. Impact of 9/11 on Barbados' Trade – November 2001
10. Highlights of the DOHA Ministerial – December 2001
11. WTO Developments & CSME Protocols – March 2002
12. Developments in International Trade – June 2002
13. EU-ACP Relations & The Caribbean Court of Justice – September 2002
14. Rules of Origin & Trade Meetings and Events – December 2002
15. Sugar Dispute in the WTO – March 2003
16. Update On The Caribbean Single Market & Economy – June 2003

A Review of Marcus Haacker's (Editor) The Macroeconomics of HIV/AIDS

(International Monetary Fund, 2004)

By Dr. Roland Craigwell*

The rate of transmission of the human immunodeficiency virus or acquired immune deficiency syndrome (HIV/AIDS) has accelerated and with great venom over the past 20 years threatening the economic development of many countries around the world. In sub-Saharan Africa, where the first cases were discovered in the early 1980s and the HIV/AIDS epidemic is most profound, the World Health Organisation's *World Health Report 2004* estimates that approximately 20 percent of all deaths are due to HIV/AIDS. This number could be even higher than 50 percent in some countries like Haiti.

The most glaring economic and social consequences of the increased mortality and morbidity resulting from HIV/AIDS are declining average life expectancy – in several of the worst-affected countries, by more than 20 years, a precipitous cut in living standards, as a result of loss of income and the high cost of caring for the sick, a rising number of orphans, and increased production costs, which may deter investment and reduce economic growth. Furthermore, there may be fiscal implications, as Governments spend more on prevention, care and treatment, even in areas not directly related to combating HIV/AIDS.

The preceding issues clearly demonstrate that the HIV/AIDS pandemic is a central issue in economic development. For this reason, the book '*The Macroeconomics of HIV/AIDS*' is timely and by involving researchers in key international organisations in the fight against HIV/AIDS from around the world, the content is quite comprehensive, with consistent opinions on the subject matter. The book is a 'must read' for policymakers, policy observers and health practitioners since it provides a thorough understanding of the economic consequences of the HIV/AIDS epidemic, as well as insights of well-crafted programmes to fight and mitigate the resultant effects. Some of the key highlights of the book are the division of fiscal consequences into direct (HIV/AIDS-related expenditures) and indirect (HIV/AIDS influence on the domestic tax base and expenditure categories not directly affected by the epidemic) as well as linking the response to HIV/AIDS to a macroeconomic framework. Also worth mentioning is that in contrast to most other macroeconomic studies on the subject, '*The Macroeconomics of HIV/AIDS*' emphasises the microeconomic effects and the welfare of individuals and households through increased mortality.

The book is divided into ten chapters, which may be grouped under three general headings: the demographic impact (Chapter 1), the macroeconomic consequences (Chapters 2 to 6) and the effect on government finance and public services (Chapters 7 to 10). Chapter 1 focuses on the demographic influences of HIV/AIDS that arise directly from increased morbidity and mortality. Bryun Epstein, in his survey of 15 countries in Africa, Asia, Latin America and the Caribbean, notes that whereas most diseases prey largely on the very young, the old, or the weak, the way HIV/AIDS is contracted and spread, the most vulnerable group is young adults, especially young women. The statistics indicate that about 57 percent of adults living with HIV in sub-Saharan Africa are women, with prevalence among adult women peaking at younger ages and at a higher rate than among adult men. For example, in Zambia for 2001-02, prevalence peaks at 29 percent among 30 to 35 year-old women and at 22 percent among men 5 to 10 years older.

Markus Haacker, in Chapter 2, discusses the macroeconomic and microeconomic effects of HIV/AIDS on households and companies in particular and on social and economic institutions in general. He suggests that these effects which can imply substantial downside risks to economic growth, related, for example, to the accumulation

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of human capital and its transfer between generations at the household level, and to capital outflows or declines in foreign direct investment, are very serious and that many are not captured in the earlier macroeconomic assessments which has focused on disruptions to the production process from increased mortality and mobility and on the impact of rising health expenditure on domestic saving.

While Chapter 2 builds the relationship between the microeconomic and macroeconomic effects of HIV/AIDS in a general fashion, Chapter 3 takes up the macroeconomic analysis around a household-level model and focuses on the impact of HIV/AIDS on education and the accumulation of human capital. Clive Bell, Shantayanan Devarajan and Hans Gersbach, using an overlapping generations model, argue that the prevalence of AIDS has the potential to change societies by undermining the transfer of human capital from one generation to the next, because of its fatality rate among young adults. However, the potential progressive collapse of the economy can be averted by an aggressive set of policies aimed at shoring up the faltering mechanisms of human capital transmission between generations – policies that prevent AIDS, prolong the lives of victims, and support the education of their children. Of course, these policies are expensive, but according to the authors of this chapter when viewed against the spectre of a collapse of the economy and possibly of society itself, they seem like a necessary choice.

Chapter 4 by Nancy Birdsall and Amar Hamoudi, like Chapter 3, concentrates on the effect of HIV/AIDS on education and the accumulation of human capital. It explores four channels – loss of adults, foreshortening of time horizons, loss of already educated people and higher production costs – by which the HIV/AIDS pandemic in Africa affects the size, rate of growth, and productivity of human capital. The overriding evidence suggests that barring no corrective action, the AIDS epidemic is likely to worsen Africa's dearth of human capital, both from the demand and supply sides. Corrective efforts, according to Birdsall and Hamoudi, should be through education policies and priorities, including teacher salaries and placement, class size and other changes that would affect the availability and quality of schooling. In addition, the authors illustrate the logic of ensuring that information about public efforts to contain the epidemic are well publicised, since this may help maintain the demand for schooling in the face of short-term perceptions of declining returns.

Given that the impact of HIV/AIDS is spread unevenly across individuals and households, standard estimates of aggregate macroeconomic changes are likely to contain very little information on welfare effects. This is the view of Chapters 5 and 6. The former discusses the effect of HIV/AIDS on poverty and inequality, while the latter estimates the broader welfare effects of HIV/AIDS stemming from increased mortality rates. In particular, Robert Greener, in Chapter 5, describes a method of analysing the influence of HIV/AIDS on different households that relies on an aggregate macroeconomic framework and uses existing household income and expenditure surveys in Botswana. Such an analysis allows for an assessment of how HIV/AIDS alter poverty levels and the extent of inequality. The results suggest that in Botswana HIV/AIDS has a substantial negative effect on inequality and poverty.

With respect to Chapter 6, Nicholas Crafts and Markus Haacker, using estimates and projections of the impact of HIV/AIDS on mortality rates and life expectancy, and drawing on existing studies on the value of statistical life, indicate that the welfare loss is generally about 10 times larger than the available estimates of the effect of HIV/AIDS on output and income per capita. However, it is important to note that this study may be susceptible to the usual problems of out-of-sample projections, and the narrow view of basing welfare solely on changes in mortality and excluding the effects of HIV/AIDS on the health status of the population.

As mentioned earlier Chapters 7 through 10 provide a framework for analysing the impact of HIV/AIDS on the public sector. These chapters also help the reader to better understand the macroeconomic and fiscal context in which HIV/AIDS strategies can be implemented, as well as provide policymakers and donors with tools for assessing and evaluating HIV/AIDS strategies from a broader developmental perspective. In Chapter 7, Markus Haacker shows that the influence of HIV/AIDS on public service efficiency extends beyond the disruptions and increased costs associated with rising attrition. For example, as mortality among young adults expands and many do not reach retirement age, the age composition of the civil service changes to a situation where positions must be filled with less qualified or less experienced people, possibly resulting in a deterioration of the quality of decision-making. This chapter also argues that health services and expenditures by governments are likely to rise with the increased cost of health and other benefits, as well as with the efforts aimed at prevention normally done through the mass media, education, or workplace intervention. Finally, Haacker sees an adverse influence of HIV/AIDS on the domestic tax base, and hence on government revenue. This indirect cost, and others like augmented personnel costs or rising social expenditure are usually covered by the government from its own resources, leaving those expenditures that directly relate to HIV/AIDS (which are more than three-fourth of public expenditures in developing countries) to the international and bilateral donors.

One area where the HIV/AIDS pandemic can have a significant impact is social security – especially pension funds – and this is undertaken in Chapter 8 by Pierre Plamondon, Michael Cichon and Pascal Annycke. The authors argue that increased mortality for HIV/AIDS reduces the number of contributors to pension schemes and, simultaneously, the number of surviving dependents entitled to benefits augments. So, as long as a pension scheme can find new contributors to replace those prematurely dying of AIDS, the effect of AIDS on national pension schemes could be financially manageable. For social programmes other than pension schemes, for instance, sickness and unemployment benefits, Plamondon, Cichon and Annycke's simplified social budget model shows increased substantial costs due to AIDS. Solutions appear to be in more targeted social assistance for AIDS – affected families or investing part of the social budget in awareness campaigns.

In Chapter 9, a comprehensive case study on Botswana is done. Botswana has made significant economic gains in the past 30 years, but also has one of the highest HIV/AIDS prevalence rates in the world (35.4 percent of adults aged 15-49 years carries the AIDS virus). As such, the author, Iyabo Masha, describes and assesses Botswana's National Strategic Framework (NSF) HIV/AIDS 2003-09, which aims to reverse the macroeconomic damage caused by the epidemic. In particular, Masha demonstrates the benefits of integrating the NSF of Botswana into a broader economic and fiscal framework and, vice versa, of incorporating an assessment of the indirect economic and fiscal benefits of reduced HIV incidence and improving access to treatment into the NSF of Botswana. From this analysis, the indirect macroeconomic and fiscal effects appear to be an important part of the picture and can help define the operational targets of such a strategy.

Finally, Chapter 10 focuses on the effect of HIV/AIDS on the health sector and the challenges facing countries that seek to significantly expand access to HIV/AIDS treatment. Mead Over posits that the extra demand for health care resources, occasioned by the HIV/AIDS population, will place great pressure on countries' health care systems, as prices of all health care are driven up and the income of physicians increases, whether or not they deliver AIDS care. The release of this pressure will only be possible in those countries with substantial resources, which can afford to divert funds from alternative uses. Over also found that health care providers in charge of administrating the HIV/

AIDS programme in poor countries are not currently performing close to existing norms due mainly to poor supervision and a lack of results-based incentives. It would seem that the challenge to enhancing the health care system would be for governments and donors to monitor and evaluate the treatment programmes sufficiently to detect signs of problems early, when they can be corrected or possibly avoided, and to identify and ensure successes.

This book covers the issues in great detail, is interesting and useful but as pointed out by the Editor, Marcus Haacker, in his concluding remarks, often suffers from a lack of available data. Often the economic analyst, rather than providing compelling answers, can only formulate questions and hypotheses, supported by assorted observations pulled together from different countries. This is especially true for the exercises that involve the temporal impact of HIV/AIDS macroeconomic consequences and the fiscal effects, which go beyond the specific HIV/AIDS related expenditures. Of more concern to countries in the English-speaking Caribbean, and probably reflective of the same data problem, is that none of the papers address HIV/AIDS in the region. With regional Governments already recognising the devastating impact of this pandemic, and acquiring millions of dollars from international donor agencies to fight this disease, the exercises in this book could prove important. As a result, Governments should start quickly to rectify this dearth in the data.

A Review of Jerry Z. Muller's The Mind and The Market, Capitalism in Modern European Thought

Alfred A. Knopf 2002

By Stacia P. Howard*

The "Mind and the Market" is a well-written, clearly structured insight into the emergence, development and maturity of capitalist society in western civilisations over the last four centuries. The author, Jerry Z. Muller, is a history professor at The Catholic University of America in Washington, D.C. and has already published four previous books on similar topics. The book outlines the debate surrounding capitalism and delves into not only economic theory, but also capitalism's social, moral, political and cultural ramifications as conceived by the sixteen authors featured. These authors span the centuries, originate from all parts of the European continent and have lived through some of the most turbulent times in world history. As such, they present often-conflicting views and approach the debate from varying angles; this adds distinctive flavours to this presentation of the role intellectuals played in the formation, development and maturity of capitalist society.

The significance of the title of the book, "The Mind and the Market", lies in the author's approach to the debate surrounding capitalism. The twelve chapters between the historical background and the conclusion paraphrase some of the major European "minds" which have influenced popular belief about capitalism throughout the centuries. The intellectuals selected reflect both sides of the debate, including frequently referenced economists such as Adam Smith, Max Weber and Karl Marx, even though not all of the "minds" featured were economists or focused their theories on the economy. The reader should, however, bear in mind that the author is not simply summarising the work of these intellectuals, but putting forward a comprehensive argument in support of the market.

The Economic Impact of Capitalism on Societal Development

One of the main themes running through "The Mind and the Market" is the impact that the market and the capitalist mentality had on the economic development of western societies. Of all the economic effects of capitalism, the one which had arguably the greatest influence on western economies was industrialisation and the division of labour. Adam Smith was one of the most prominent intellectuals discussing the topic during the mid-to-late 18th century and his view on the division of labour was to become one of the most frequently cited. Smith argued that by separating the production of a good into its individual functions and requiring workers to specialise in one function as opposed to producing the entire product, there would be an increase in productivity. The discussion on the industrial age itself was not directly tackled in this book although references to the social impact of industrialisation, such as the increased social, economic and political importance of trade unions and the trade union movement, were hinted at within discussions on capitalism's overall ramifications. As the industrial age was one of the major turning points in global economic history and the growth of the market economy, it would have been useful if the author had spent a little time describing the state of the economy at that time, how it changed as a result of industrialisation and the role that intellectuals played in the development and eventual acceptance of the market economy.

Another area of economics discussed related to trade theory. Francois-Marie Arouet de Voltaire believed that the market economy led to peace because it forced individuals of differing nationalities, cultures and beliefs to not only tolerate each other but also to interact in a non-antagonistic manner in their pursuit of wealth. In a time when all things foreign were feared and most often rejected, Voltaire claimed that the market forced individuals to look beyond their religious preferences in order to make a profit. According to the author, Voltaire's writings were a vital step towards improving the perception of the market at a time when the fear of war was never far from people's minds and stock exchanges were growing in usage. Adam Smith also shared a similar view of an improvement in trade relations as a result of the market, as detailed in his 1776 publication "An Inquiry into

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the Nature and Causes of the Wealth of Nations" and referenced by the author. The author argued that Smith believed that trading was a uniquely human propensity to exchange goods to satisfy their own self-interest and he commended the market for its encouragement of cooperative modes of behaviour. Furthermore, what was commonly referred to as the market economy, i.e. no restrictions on labour, prices or supply (free trade), would lead to the lowest prices possible.

Coming out of the development of capitalism was the realisation that the market adapted to the needs of the populace and encouraged the provision of a supply of goods capable of meeting this demand. While the author illustrated how most of the "minds" featured accepted this aspect of market-based commerce, he also explained how some "minds" proposed that the market also created these needs, thus creating an artificial demand. The author explained, in Chapter 6, which focused on the theories presented by Georg Hegel, that in Hegel's view the market did not just satisfy wants, it created them; and so, as demand leads to supply, some intellectuals contended that supply led to demand, an argument still being debated today.

The author believes that stemming from the acceptance of increasingly freer trade was a more enlightened perspective on international relations (within which international trade plays an important role). As outlined in Chapter 10, the market economy was transnational and transcultural, in that it tended to break down national barriers and create shared interests across borders. It could be concluded, therefore, that as capitalism led to increased international trade, and combined with the conviction that it made individuals and societies more tolerant, friendlier international relations developed as a direct result of the market.

Social, Cultural, Moral and Psychological Effects of Capitalism on Society

Many of the important criticisms of capitalism expanded on in the book, most of which are still being debated today, focused on its social, cultural, moral and psychological effects. It is, therefore, difficult to separate these effects (not only the criticisms but also the supporting arguments) from the economic and political debate and, as a consequence, throughout the book, the author links many of these themes as he chronicles the centuries since the 1600s.

One such effect concerned freedom and individuality and became one of the major themes in the debate on capitalism. The author explained that some believed that the market allowed a greater sense of individuality and freedom, with an ever-increasing number of compelling possibilities, because it encouraged the pursuit of individual self-interest and avarice, while breaking down the traditional 'barriers' of religions and cultures. For example, within the capitalist society and as a direct consequence of some of its economic effects (such as industrialisation), the author shows how boredom and dissatisfaction with the traditional role of women within the home combined with the economic necessity borne out of the World Wars led to a redefinition of the role of women to encompass the world of work. Their redefinition as individuals forced a cultural revolution that saw women not only working, but also competing with their male counterparts. Although the transition was (and, to a certain extent, still is) fraught with tension and debate, it was implied that it would have been more difficult, without the market's ability to forge a more tolerant society.

As the book develops, the author draws our attention to the fact that many intellectuals argued that although money should only be a means to an end, as capitalism evolved, individuals increasingly equated money with the ends and not the means. This, in turn, had a negative impact on culture and morals within the society, as people lost sight of the "important things" in life such as religion, family, the community or the nation. The author points out that for some "minds", therefore, this sense of individuality and freedom was not necessarily to be encouraged because self-interest and individuality did not lend themselves to a common good, whereas culture did. If the cultural "barriers" were eroded, it was believed that the capitalist mentality would eventually lead to socialism. This theory was evident in the works of Smith and others who advocated the role of the state, arguing that it was pivotal because it provided a structure within which people could be the best that they could be.

The author highlights the fact that the "common good" for some, therefore, was thought to be an alien concept within modern capitalist society as evidenced by the fall in importance of religion. This was also an important consideration when discussing the universality of culture. As capitalism encouraged more tolerance, it broke down national borders and opened societies' eyes to the workings of communities outside of their own. This process accentuated the commonalities between these cultures while minimising the differences and the 'eventual' universality of culture, as the author noted, became ensnared in the debate on capitalism.

The Political Ramifications of Capitalism

The author demonstrated that initially the growth of capitalism was not met with enthusiasm in the political sphere. The reasons behind the "scepticism" usually lay in the political infrastructure in place at the time. In the first part of the book, encompassing the 1600s and the 1700s, the author shows how politics and religion were highly intertwined and in some cases one and the same. As explained in Chapter 4, Möser, for example, regarded the market primarily as a threat to the political structure of society, since it created a growing class of people outside the protective realm of the countryside, disrupted customary expectations and unbalanced society. His view highlighted the fear that some people in power at the time shared, i.e. that the traditional sources of power and political influence would be eradicated as a result of the market economy. Furthermore, one of the recurring themes of the book was the fear that by no longer automatically conferring political power to those with landed property, the basis of their power would be eroded and the working class would no longer "know their place". However, not all shared Möser's fears; for instance in Voltaire's opinion, Christianity sought to make people poor, whereas the market created wealth.

Since it may be argued that capitalism and democracy go hand in hand, not all of the "minds" featured in this book believed that capitalism was the best way forward. The logic behind this link lies in the very nature of capitalism and the market, as it was felt that they functioned most efficiently without direct government intervention. Within this book, capitalism-based democracy was contrasted with socialism and communism, in particular. The incompatibility with the market-based economy is immediately obvious, as one of the foundations of the market and one of the major themes of the book was the individual's pursuit of self-interest, which is in direct opposition to communist practices and a source of tension under Socialist rule. Democracy, on the other hand, lent itself quite easily to a market-economy because the individual played an important role in the management of the economy, as his/her self-interest directed who he/she voted for and, in this way, determined who controlled the economy.

The debate surrounding the best form of state management, therefore, became one of the focuses of this book, as the author explained how the ideology of the market economy spread to more sectors and countries. The author showed that despite its economic success, many still believed that the days of capitalism were numbered. Herbert Marcuse, for example, preferred centralised control over the economy and claimed that the only reason most people were satisfied with the capitalist economy was because they were blinded to the truth. Another anti-capitalist, Hans Freyer, believed that capitalism was "bereft of community and of higher purpose" and preferred National Socialism. Georg Lukács leaned more towards Communism and Marx, another supporter of communism, believed that capitalism exploited workers and concentrated all gains in the hands of a few.

Joseph Schumpeter, on the other hand, while not completely against capitalism, believed that capitalism would eventually lead to socialism because of the unintended social and cultural backlash of the capitalist mentality. Matthew Arnold's concern, however, was that the capitalist mentality be restricted to economics and not spill over into the realms of culture and politics. This seems to be one of the main political concerns present throughout the book.

As capitalism became more widely accepted, the wisdom of government intervention, for instance, became a topic of intense debate, as more and more people questioned whether market forces were better able to dictate the economy than government. While widely accepted for centuries that benefits such as health and education had to be provided by government (even though we now know that that is not necessarily the case, or even the best option), other issues were still constantly being debated as government struggled to adjust to its ever changing role in the market economy.
John Keynes was one of the most prominent economists to defend the role of government, as he did not believe that the 'invisible hand' of the market was the solution to every economic problem. Keynes thought that governments had to intervene in order to ensure that greed and cultural debasement would not lead to the ruin of the economy. One of the popular beliefs at the time was that monopolies and oligopolies would seek to take advantage of the market to the detriment of the rest of the economy. This is one of the central themes of the book. The author highlighted that some of the featured intellectuals believed that for some to gain others had to lose and by some taking advantage of the market, it would be to the disadvantage of others. This was the reasoning behind Keynes' defence of an expanding role of the state: someone had to protect those who could not protect themselves in order to ensure the survival of the economy.

By this point, the author had traced the major aspects of the evolution of political thinking regarding the role of the market, in order to reach the state of affairs that we know today. What he did not delve into, however, was the debate surrounding whether the traditional welfare state is practical, as the costs are usually very high. In Europe, especially, considerable thought is being given to whether the type of medical assistance traditionally provided by the State should instead be taken on by private organisations, since they could provide it at a reduced cost.

Conclusion

Within the present context of Barbadian society and West Indian society, "The Mind and the Market" is a useful reference text when trying to understand how the development of First World western countries influenced the development of our economies, as in 21st century Barbados the historical concerns of capitalism are still being debated. For example, the role of the state in the area of social security is of particular concern as the National Insurance Scheme (NIS) has been grappling with ever-increasing demands on its resources and Government is currently finalising a new Pensions Act. The new legislation, in addition to other changes, uses a series of incentives to encourage individuals (and the companies they work for) to plan for their retirements and not depend solely on the NIS pension. This arises from the realisation that the NIS is unable to provide the level of pensions to which it is committed under the present terms of the scheme and that as people live longer, the liability of the NIS will outstrip its financial capacity. It is clear, therefore, that the unresolved issues raised in the debate on capitalism affect the entire international community and can still be felt today.

A Review of Nicholls and Seerattans'
The Regulation of Non-Bank Financial Institutions in The Eastern Caribbean Currency Union

(Caribbean Centre for Monetary Studies)

By Keisha Gill *

Introduction

The book entitled *"The Regulation of Non-Bank Financial Institutions (NBFIs) in The Eastern Caribbean Currency Union (ECCU),"* by Garth Nicholls and Dave Seerattan is a culmination of many years of research and discussion on the increasingly important area of the regulatory and supervisory framework of NBFIs. The regulation of NBFIs within the ECCU is becoming a critical issue for policy makers in the current environment. The reasons for this emanate from the significant expansion in the market share of non-banks, which is consistent not only with economic growth but with the diversification of the financial sector. This growth, however, presents challenges on the regulatory front to authorities, as these institutions have to interact with the dominant commercial banking system and any problems and insolvencies within this class of institution may have implications for the stability of the financial system.

In the text, the authors seek to determine the gaps and weakness inherent in these systems and the requirements for an appropriate and effective framework for NBFIs in the Eastern Caribbean region. The book, therefore, reviews the structure of NBFIs, explores the rationale for the regulation of NBFIs in the ECCU and examines the systems in place for the regulation and supervision of NBFIs. This is followed by a critique of the current regulatory framework for NBFIs in the ECCU, in addition to discussions of the issues of financial integration and the selection of a regulator for the financial sector. It further addresses the pros and cons of the formal involvement of the ECCB in the regulation and supervision of all NBFIs in the Eastern Caribbean region.

Structure of Non-Bank Financial Institutions

NBFIs are institutions, which accept non-transferable deposits, that is, all deposits other than demand deposits. In the ECCU, the range of non-bank financial institutions includes development banks and foundations, credit unions, insurance companies, social security schemes, finance companies and trust companies. In terms of size, the social security schemes, insurance companies and credit unions are the most important.

Development institutions were established to facilitate the development effort in situations where enterprises found it difficult to access financing from commercial banks. They not only provided funds but also technical support. Credit unions are co-operatives that mobilise funds in the form of shares and invest such funds in loans and other investments. These institutions engage in lending mostly to individuals and, of late, have begun offering more retail banking services such as Automatic Teller Machines (ATMs). The latter service has brought them in direct competition with commercial banks and credit unions and are now the fastest growing provider of retail financial services in the ECCU. Insurance companies are financed via premiums and operate by replacing funds lost as a result of a host of contingencies. They are either organised as domestically incorporated companies, agents or branches of foreign companies.

Social Security Schemes are financed by payroll taxes and provide funding for maternity benefits, old aged pensions, the replacement of income lost due to illness, on-the-job accidents or death. These schemes' membership is compulsory for employed persons and voluntary for self-employed persons. Trust companies are institutions that receive funding directly from parent commercial banks. In this case, their lending activities are highly concentrated on mortgages.

Rationale for Regulation

Regulations are typically concerned with the liquidity, solvency and health of financial institutions. The standard rationale for government intervention in the financial sector has always been the problem of market failure. Because

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of the growth of NBFIs, problems in these institutions lead to significant challenges not only in the financial system but also in the wider economy. The authors mention the basic ways that non-banks impact on the financial systems; namely, though domestic savings mobilization, credit union activities and the magnitude of deposits at commercial banks. In the case of domestic savings mobilisation, there has been a remarkable growth in savings, especially by social security schemes and credit unions, which surpassed commercials banks. Between 1993 and 2001, the average annual growth rates of savings in credit unions and social security schemes amounted to 10.8% and 11.4%, respectively, while the average annual growth rate of savings in commercial banks totalled 9.9%.

The impact of credit unions on the financial system is quite noticeable in the area of loan activity. Between 1993 and 2001, the average annual growth rate of loans extended by credit unions to the personnel sector totalled some 10.8% compared to 10.5 % for commercial banks.

Another way in which non-banks impact upon the financial system, is through the size of deposits at commercial banks. In 1995, non-bank institutions held 13.4 % of the deposits at commercial banks. Given the above explanations, it follows that any problems in the non-bank sector would have serious direct implications for the stability and liquidity of the banking system.

A Critique of the Current Regulatory Framework for the Non-Bank Financial Institutions in the ECCU

Under the current regulatory framework, the ECCB has been partly entrusted with the responsibility of overseeing some of the activities of NBFIs and the financial system, through the guidelines set out in the Uniform Banking Act (1993). This Act deals specifically with the sourcing and usage of funds, ownership and management, examinations and reporting, disclosure, granting and withdrawal of business licenses and penalties for deviant behavior. The actual control of the financial system under the Act rests with the member governments, acting through the Ministries of Finance. In addition to the Uniform Banking Act, there exist individual acts and regulatory bodies for each class of non-banks. For example, the Building Societies Act, regulates Building and Loans Associations and the Co-operatives Act is responsible for the regulation of credit unions.

Nicholls and Seerattan have identified and outlined the weaknesses of the existing regulatory structure for NBFIs. Of particular significance is the vulnerability of the existing regulatory structure to political interference, which may negatively affect the speed and decisiveness of NBFIs is staving off difficulties in the financial system. Secondly, the authors highlighted that the lack of regular oversight may result in the escalation of small difficulties into enormous problems of financial instability, owing to asymmetric information on the part of the general public and linkages between commercial banks and NBFIs. The authors felt that there is a need for a regulatory framework which while it facilitates political accountability and prevents political bias in decision-making. Further, it is necessary to have an effective enforcement mechanism. They advance the view that it is not enough to establish regulatory and supervisory systems, but that attempts should be made to ensure they are meaningful and effective.

Financial Integration

When examining the issue of the regulation of NBFIs in the ECCU, one must invariably address the operation of financial regulations in the context of financial integration. The challenge is to achieve some level of harmonisation of the regulatory structure in order to accommodate the need for coordinated regulation in a common currency area. The authors referred to the benefits to market participants from a common regulatory system, such as a lower compliance cost, the ease of transacting business across borders, a better allocation of resources and greater competition.

The attempts to achieve harmonisation and adopt a regional approach are not, however, without challenges. Significant distortions may be created by trying to force different institutions in different countries into the same structure as each institution has its own intrinsic preferences. In this regard, the authors cited the work of previous writers who argued that harmonisation might make regulations uniformly bad and that in order for harmonisation to be feasible in the ECCU, the following cooperatives arrangements are more likely to work: (a) an agreement among a smaller group of countries; (b) a broader consensus on policy issues; (c) a greater pool of experts who share similar views on the subject; (d) a requirement for more frequent forums for consensus building; and (e) the need for more organized systems to be in place.

Choosing A Regulator for the Financial Services Sector

In determining the most feasible regulator for the financial sector, Nicholls and Seerattan focused on the following: (a) the limitations of the payments and settlements arrangements of the ECCB and their monetary policy framework; (b) a single regional regulatory authority for non-banks; (c) an integrated regulatory structure; and (d) a single regional financial services regulatory authority.

In the payments settlements system of the ECCB, banks are required to hold a reserve balance with the ECCB, which acts as a clearinghouse. This allows the Central Bank to have some control over the liquidity of these banks and the money supply. Because of the direct interaction between the ECCB and the financial sector is through the payments system, the main concern is whether the ECCB should be a lender of last resort for the entire financial system. However, if this approach is adopted by the ECCB the authors identified a number of monetary policy conflicts which arise. The first conflict of policy objective arises where the action of providing liquidity support for the financial system leads to the injection of base money that conflicts with the desired growth rate of money. Alternative arrangements such as a contingent line of credit from an external source may have to be developed. The second policy conflict involves the situation where the ECCB has an interest rate target that is inconsistent with the financial viability of the financial system. In such a situation, the ECCB may choose to forgo its target for the sake of financial stability.

To address the potential conflicts that may arise if the ECCB assumes the regulatory and supervisory role for the entire financial systems, the authors discuss the alternative options for the regulation and supervision of the non-bank sector. These include a single regional regulatory authority for non-banks, an integrated regulatory structure, (proposed by the ECCB) and a single regional financial services regulatory authority. In the first option, this institution would be separate and distinct from the ECCB and would also include a regulatory framework for the securities market. Such a structure, if adopted and coordinated on a regional basis, would emerge as a big improvement over what currently obtains; the same benefits would be offered to all non-banks, thereby removing the artificial distinction between off and onshore financial institutions. However, a drawback to this approach is that an entirely new institution would have to be created, with a separate top management and ancillary staff apart from actual regulators. Moreover, a separate information system would have to be developed and other infrastructure such as accounting, auditing and legal systems would also have to be put in place.

In the second option, regulation of the non-bank sector would be shared between the member governments and the ECCB. In addition, each member government would create a non-bank regulatory unit within the Ministry of Finance. One of the main advantages of this framework is that it avoids the ECCB carrying the entire cost of regulation. In addition, local authorities would now also be on the frontline of responsibility for the credibility of the financial system, but protected from local political pressure given the integrated nature of the process. An important potential drawback of this arrangement, however, is the assignment of responsibility and lines of command within this structure. For example, what is the limit of authority of the local regulatory body relative to the ECCB? Another potential problem with this option is the conflict of interest between monetary policy and regulation mentioned in the previous section, that is, when financial institutions are experiencing problems the ECCB may be tempted to loosen monetary policy.

The final option separates the bank supervision department from the ECCB and transposes it into a regional institution. One of the main advantages of this approach is that it takes regulation away from the ECCB and thereby lessens the potential policy conflicts mentioned above. Nevertheless, one drawback with this approach is that the separation of the regulatory and monetary policy functions could eliminate any information benefits that are generated by merging these two functions into one institution.

In the final analysis the authors shared the view of Foley (1991) and Ferracho and Samuel (1997) that the decision of which option is chosen should depend mainly on financial cost. In their submission, regulation by the ECCB was the least expensive alternative, given the available resources.

Summary and Conclusion

The information that is available on the impact of non-banks on the financial systems within the ECCU suggests that although commercial banks still dominate the financial system in terms of size and impact, NBFIs are growing at a faster pace. The book is quite comprehensive and provides interesting information about various aspects of NBFIs.

The rationales for regulation of NBFIs as well as the structure of these institutions in the ECCU are similar to those that exist in Barbados. As far as regulatory procedures are concerned, the ECCB has been empowered by the governments of that union, through the Uniform Banking Act, to enforce regulations and monitor the activities of NBFIs operating in that area. However, in addition to this Act, there are individual acts and regulatory bodies for each class of non-banks. In Barbados, the Central Bank of Barbados mainly oversees the activities of commercial banks and trust companies, but the regulation of NBFIs is done primarily by The Registrar of Cooperatives. Nicholls and Seerattan identify vulnerability to political interference and the lack of regular oversight as some problems affecting NBFIs. In Barbados, political interference does not appear to be a major issue with regard to NBFIs. However, various NBFIs regulatory disparities have been identified in a study by Archer (2004). Some companies were only required to submit annual financial statements to their regulators, while other institutions were mandated to submit at least on a quarterly basis. It meant that identifying problems in those sectors would take longer than in the sectors with more regular receipt of data.

One notable omission by the authors was not addressing the important issue of the enforcement of the Anti-Money Laundering and Terrorism Act. Some mention should have been made of this Act, given its importance in today's world. In the case of financial integration, intrinsic preferences could be destroyed by trying to force different institutions in different ECCU countries into the same structure. Each institution has its own degree of risk aversion, different regulatory agencies and practices, which are superior when compared to a harmonized regime. This is a serious concern and must be addressed as the Caribbean moves towards a single market and economy.

Finally, the authors looked at the possibility of a regulator for the financial services sector and concluded that costs would be a major factor in arriving at such a decision. In this regard, the ECCB was the least expensive option, given the available resources. It is the view of Archer (2004), however, that in Barbados, rather than focus on a single regulator, emphasis should be placed on improved cooperation and coordination among the regulatory bodies which are regardless key aspects in improving the regulatory framework there.

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