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Publisher's Note

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

Articles and correspondence regarding the Review should be addressed to:

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

***The Editorial Committee**
Dr. Daniel Boamah
Mr. Harold Codrington
Dr. Roland Craigwell
Mr. Carlos Holder
Mr. Peter Whitehall
Mr. Neville Pollard, *Administrative Editor*

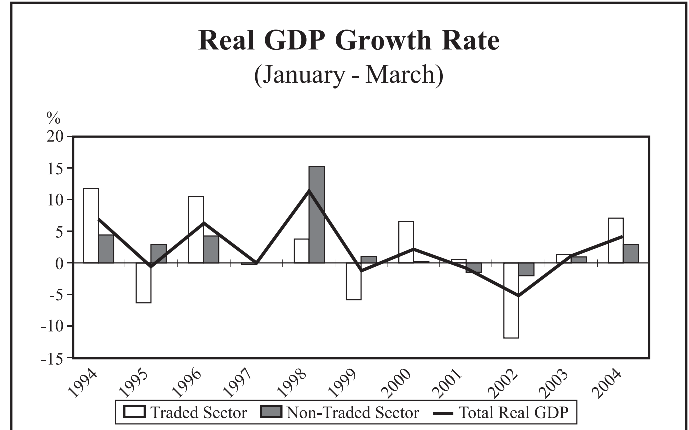
Review of Economy

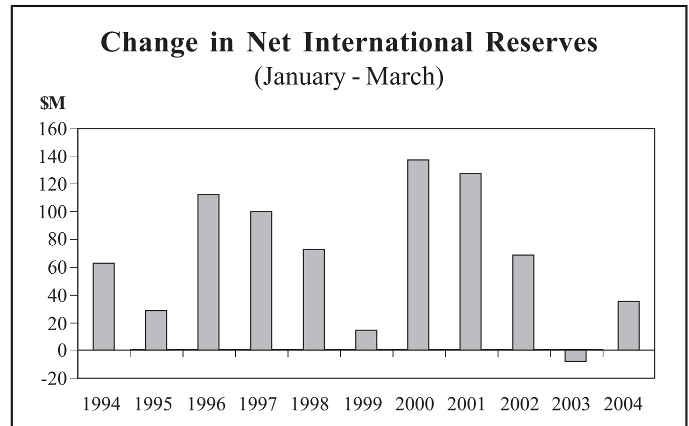
Overview

During the first quarter of 2004, the Barbadian economy recorded its seventh consecutive quarterly rise in real value-added. Led by strong performances in the traded sectors and to a lesser extent the non-traded, the growth in real gross domestic product was well above the average rate for the last five years. On account of higher tourism activity, the stock of net international reserves (NIR) expanded, albeit at a modest rate, as import demand also increased with the improved economic outturn. Liquidity within the banking system remained relatively high, as growth in domestic deposits continued to outpace that of credit to the private sector. Government also recorded a surplus on its fiscal account during the first three months of 2004, the first surplus since the first quarter of 2000. Despite the surge in world commodity prices during the first quarter of 2004, Barbados' rate of inflation remained relatively low.

Real gross domestic product expanded by an estimated 4.2%, the largest first quarter increase since 1998, and significantly higher than the rate over the same period of 2003 (0.3%). Boosted by a strong tourism outturn, the foreign exchange earning sectors registered an average expansion of approximately 8.0%, considerably larger than the 1.3% observed at the end of March last year. Moreover, the contribution of the non-traded sectors to gross domestic product rose by 2.7% as a result of a better performance within the wholesale and retail trade and the business and other services industries. With the enhanced level of real economic activity, the rate of unemployment fell to 10.1% by the end of March 2004.

A surplus of about $49.4 million was recorded on the current account of the balance of payments, as a rise in travel credits outweighed an expansion in retained imports and a contraction in domestic exports. Likewise there was a surplus on the capital and financial account, which was significantly larger, on account of lower public sector outflows. With the above developments, the NIR increased by an estimated $36 million, in contrast to a decline of $8.1 million in the similar period of 2003, but was well below the average increase for the previous five years ($68 million). At the end of the review period, the foreign reserves of the monetary authorities represented 34.9 weeks of import cover, compared to 34.2 weeks at the end of March last year.





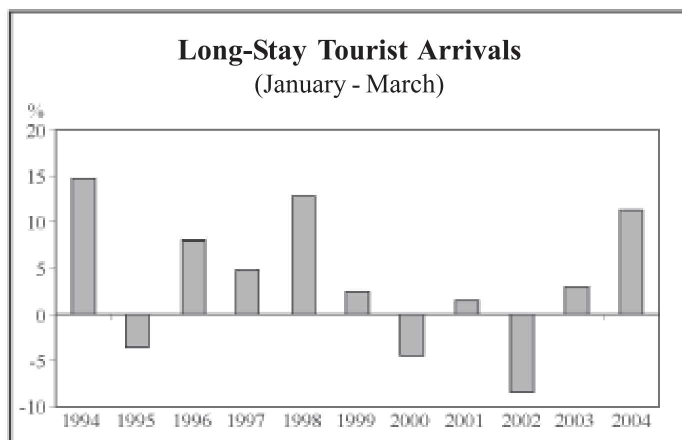
In line with the increased economic activity, domestic deposits grew by about 7.3%, over the review period, in contrast to a decline (2.1%) one year ago. Likewise, credit to the non-financial private sector went up by approximately 3%, following a marginal fall off in the similar period of 2003. At the end of March 2004, the excess liquidity ratio was marginally higher than at the end of the same period of 2003, partially because of a reduction of four percentage points in the minimum securities requirement implemented by the Central Bank.

Over the review period, central government's operations resulted in an estimated fiscal surplus of approximately $22.1 million, in contrast to a deficit observed in the corresponding quarter of 2003. Higher indirect tax receipts, together with a reduction in capital outlays, were primarily responsible for this outturn. Consequently, government's net domestic and net foreign financing needs were reduced during the first quarter of this year. At the end of the fiscal year 2003/04, the deficit was estimated at 2.5% of gross domestic product, compared to the 5.4% at the end of the previous fiscal year.

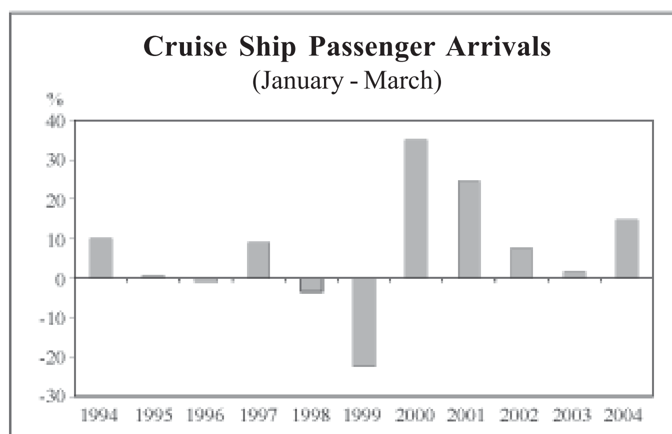
Production, Prices and Employment

Tourism

Real tourism value-added during the first three months of 2004 expanded by 15.2%, compared to the modest growth of 2.2 % in the same period of 2003. Long stay visitor arrivals went up by an impressive 11.5%, about 8.6 percentage points higher than the rate observed one year earlier. Increased airlift capacity coupled with the economic recovery in most of Barbados' source markets were the main reasons for the significant improvement in total visitor arrivals. Stay over visitors from the UK were up by 12.9%, partly because of the English cricket tour of the West Indies, while tourist arrivals from other European countries expanded marginally by 0.7%. Similarly, there was growth in visitor arrivals from the United States (7.7%), as additional gateways were opened and a new airline service was started during the review period. As a consequence of a greater number of flights (both chartered and scheduled) out of Canada, the number of Canadian visitors strengthened by a further 18.0%. The number of persons visiting from CARICOM increased, as arrivals from other CARICOM countries (excluding Trinidad and Tobago) surged by 17.5%, while tourist arrivals out of Trinidad and Tobago declined by approximately 3%.



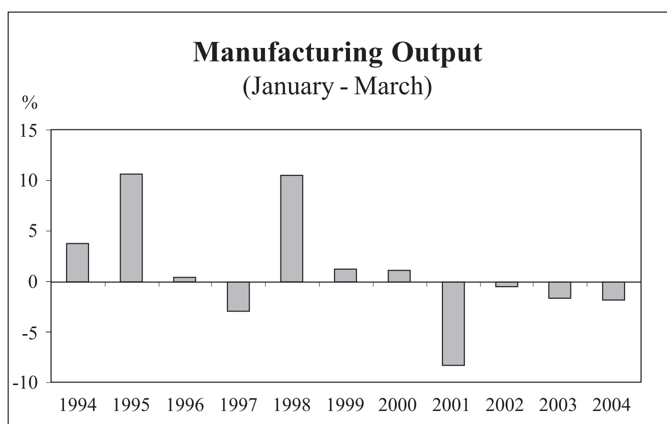
The home porting of cruise ships and the commencement of new cruise line services to Barbados positively impacted on cruise ship activity. Barbados welcomed about 244,327 cruise passengers, approximately 14.7% more than the arrivals for the January to March period last year and the highest first quarter expansion recorded to date.



Manufacturing

Over the first three months of 2004, manufacturing activity continued to exhibit a downward trend as real value-added worsened by 1.8%. During the review period output from the food processing industry fell by 4.7%. On the positive side, higher output was recorded for chemicals and

the production of other non-metallic mineral products increased by 7.3%, the first since the January to March period of 2001. In addition the output from the beverage and tobacco industries expanded by 8.7%.

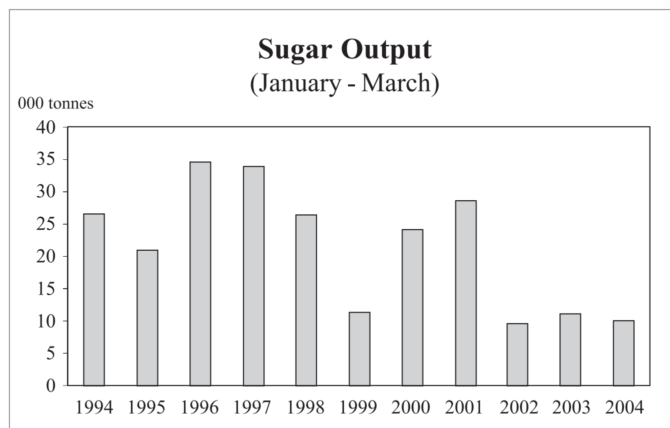


Agriculture and Fishing

Due to the slightly late start of operations at the sugar factories and reduced sugar yields arising from unseasonal rainfall, the production of sugar in the first quarter of 2004 contracted by 9.4%, to just over 10,000 tonnes. This was in sharp contrast to the increase of 16.2% observed one year earlier, when production of sugar amounted to 11,158 tonnes. Real value-added in non-sugar agriculture dipped by 2.8% marking the second consecutive year that output declined in the first quarter. Milk production decreased by 9.2%, as the industry continued to encounter difficulties, while fish production fell by 5.2%, following a 9.5% downturn in the same period of 2003. Modest growth was recorded in chicken production (2.9%), compared to the 5.8% and 8.8% rates of expansions in 2003 and 2002, respectively.

International Business Services

Ninety-two new licenses were issued in the international business and financial services sector, during the first three months of 2004, approximately thirty more than those granted over the same period last year. Seventy-



three of the licenses obtained were for new international business companies, up from fifty-four in the corresponding period of 2003. Moreover, thirteen societies with restricted liability were registered, four new exempt insurance companies were established and two offshore banks were formed during the review period.

Construction

Construction activity in the first quarter of 2004 rose by only 0.5% following an 8.8% expansion in the corresponding quarter of the previous year. Work continued on government projects like the Hilton hotel and the Airport expansion programme as well as private and commercial real estate projects.

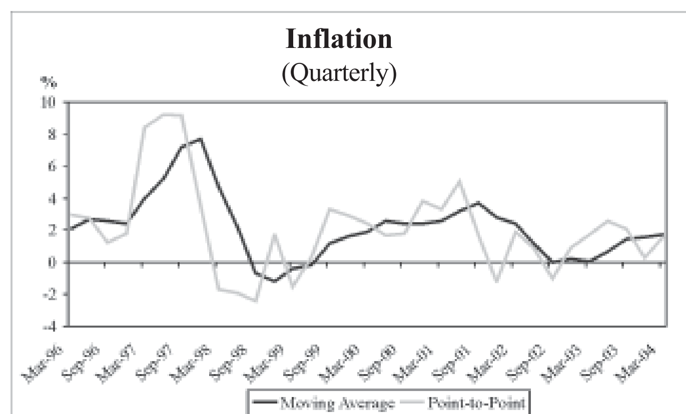
Other Non-Traded Sectors

Activity in the traded sectors provided the momentum for the pick up in output in some of the non-traded sectors. The wholesale and retail industry grew by an estimated 4.2% during the first quarter of 2004, or about three percentage points above the expansion over the same period of 2003. An improved tourism performance was the major driving force behind the better wholesale and retail outcome. Boosted by the enhanced economic activity, the transport, storage and communications industries and business and other services expanded by an estimated 3.9% and 3.3%, respectively. In addition, during the period under review,

electricity, gas and water grew by about 3.4%, or 1.5 of a percentage point above the previous year's figure. Consumption of electricity, during the first quarter of 2004 grew at a slower rate (2.8%), compared to the rate observed one year earlier. Buoyed by expansions in the commercial and business activities, industrial electricity consumption grew by 3.3%, whereas usage by residential customers registered a growth rate of 2.0%. The mining and quarrying sector expanded for the first time since January to March 1999 by 0.2%, as a result of an increase in the quarrying component with the higher level of construction activity. However, in the mining industry, lower production of natural gas and crude oil of 22.1% and 4.4%, respectively, were recorded.

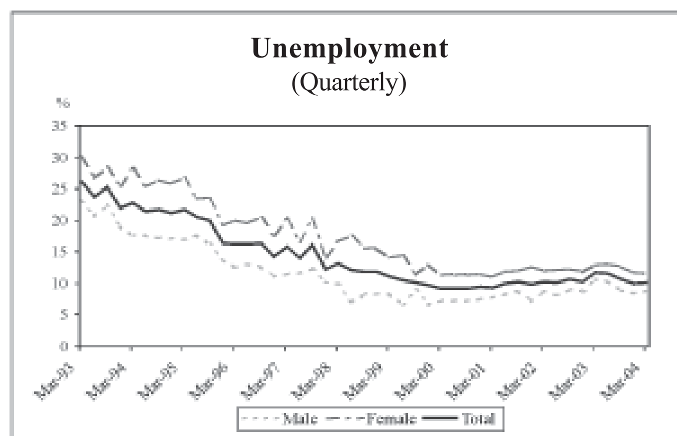
Prices and Employment

Barbados continued to experience a low rate of inflation over the first quarter of 2004. The moving average rate of inflation for the twelve months ending March 2004 was about 1.4%, almost on par with the five year average of 1.3% and compared to zero at the end of the same period



one year earlier. Higher prices in the food and transportation categories outweighed declines in alcoholic beverages and tobacco, clothing and footwear and household operations and supplies categories.

At the end of March 2004, the rate of unemployment fell by 1.6 percentage points to 10.1%, as the number of employed persons increased by 700 and the labour force contracted by 1,800 persons. The male unemployment rate was 8.8%, about 1.9 percentage points lower than in 2003, while the unemployment rate for females stood at 11.6% down from 12.9% one year earlier. Additional job opportunities were created in all industries with the exception of sugar and manufacturing, which remained unchanged, and other agriculture and fishing and the electricity, gas and water sectors which recorded reductions in the number of jobs available.



Financial Sector

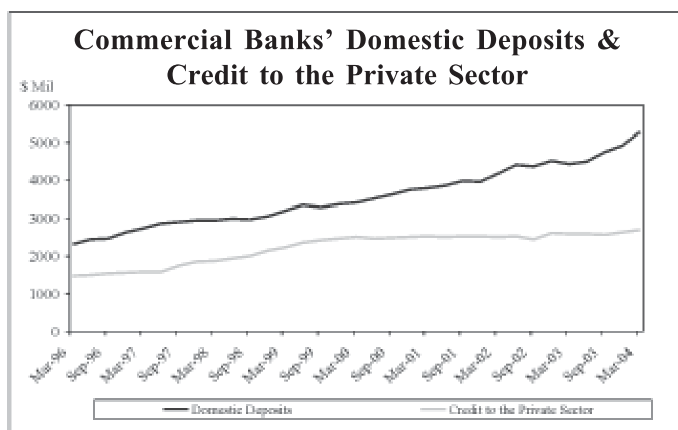
Deposits

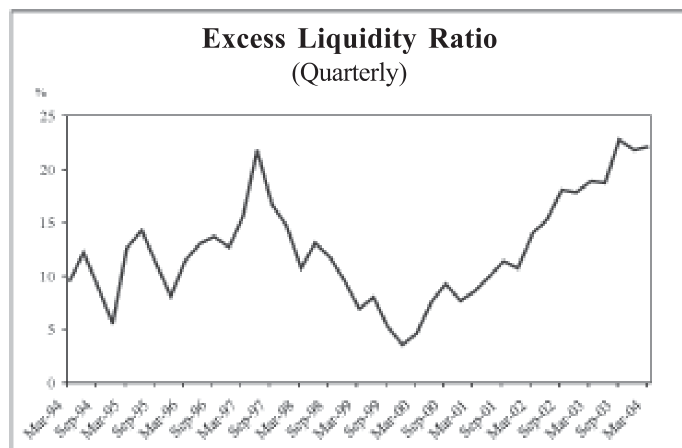
Total local deposits at commercial banks grew by an estimated 6.1% ($289.2 million), compared to the small decline of 0.5 % or $22.4 million in the similar period of 2003. The faster rate of deposit growth was spurred by the improved level of economic activity and increases were recorded in most categories of depositors. During the review period higher deposits of 3.5% was recorded for private individuals, while, deposits of statutory bodies and government rose by 52.3% and 16.6%, respectively. Deposits maintained by the tourism and construction industries registered growth for the second consecutive year,

rising by 57.0% and 47.0%, respectively. Additionally, increases in the deposits of both private and public financial institutions contributed to the overall growth in deposits held by financial institutions (5.8%). In contrast, deposits held by manufacturing and agricultural entities fell by 12.4% and 32.2%, respectively following the contractions in both categories over the comparable period of the previous year.

Credit

Commercial bank credit to the non-financial private sector grew by approximately 3% during the first quarter of 2004, a turnaround from the 0.3% contraction over the comparable period of 2003. Take-over related financing together with higher lending to the personal, construction, transportation and distribution sectors provided the stimulus for the upturn in lending. Buoyed by an increase in the number of mortgages, personal loans rose by 0.8% in contrast to a contraction of 3.2% at the end of March 2003. During the review period lending to the distribution sector expanded by 2.1%, and credit to construction by 8.6%. However, credit extended to tourism related businesses and manufacturing activities (including beverages and tobacco) declined by 5.6% and 8.0%, respectively. In contrast, credit to statutory bodies increased by approximately 32.1% during the review period.

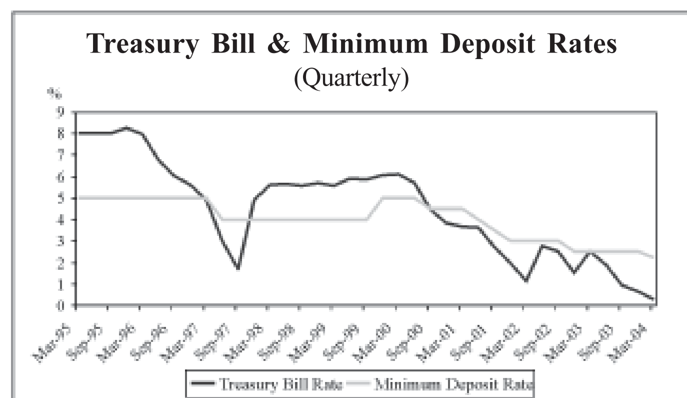




Liquidity and Interest Rates

A reduction in the minimum securities requirements by the Central Bank from 16% to 12% led to a reclassification of some assets and to a rise in the excess liquidity ratio by 0.3 of a percentage point to 22.1%. However, when the effects of the monetary policy changes are excluded, the excess liqudity ratio would have fallen marginally.

As a consequence of continuing high levels of liquidity in the financial system, the treasury bill rate declined from 0.64% at the end of 2003 to 0.28% at end of March 2004. Furthermore, effective March 15 2004, the Central Bank adjusted its monetary policy by reducing the minimum deposit rate to 2.25%, or by 0.25 of a percentage point. In response to the Central Bank's actions, commercial banks lowered their prime rates resulting in a reduction in the weighted



average lending rate on all loans by approximately 0.13 of a percentage point to 10.03%.

Government Securities

Treasury bills outstanding at the end of March 2004 remained unchanged at $580.1 million, as the six issues of treasury bills that matured during the period were rolled over. Additionally, no government savings bonds were issued during the January to March period and the nominal value of bonds outstanding was $112.5 million. Total holdings of debentures and treasury notes were $2067.4 million, an increase of over $60 million as the issue opened in December was sold off, while the nominal value of the sinking funds for government debt was about $361.6 million.

Summary Accounts of the Banking System

($ Million)

	2002				2003				2004
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.[P]
Net International Reserves	1,623.4	1,606.1	1,570.6	1,711.3	1,940.3	1,929.3	2,053.1	2,087.1	**2,169.3**
Monetary Authorities	1,482.1	1,485.3	1,441.3	1,366.4	1,358.3	1,379.2	1,513.0	1,503.3	**1,539.3**
Commercial Banks	141.3	120.8	129.3	344.9	582.0	550.1	540.1	583. 8	**629.8**
Net Domestic Assets	2,004.9	2,133.6	2,157.2	2,186.4	1,944.5	1,973.9	1,976.0	2,086.8	**2,231.4**
Credit to Public Sector	(98.2)	(3.8)	160.9	347.7	350.3	332.1	322.6	480.7	**309.8**
Central Government (net)	229.2	390.7	553.2	654.4	641.8	680.4	657.7	722.7	**665.5**
Rest of Public Sector	(327.4)	(394.4)	(392.3)	(306.7)	(291.6)	(348.3)	(335.1)	(242.0)	**(355.7)**
Credit to Rest of Financial System	148.1	250.4	238.4	167.1	143.6	144.3	145.5	155.6	**161.2**
Liabilities to Other Financial Institutions	349.9	359.2	374.0	403.8	378.4	372.5	362.5	390.0	**403.2**
Credit to the Non-Financial Private Sector	2,506.9	2,513.5	2,442.0	2,599.2	2,592.6	2,590.7	2,564.4	2,622.6	**2,702.0**
Liabilities to the Non-Financial Private Sector	3,628.3	3,739.7	3,727.8	3,897.7	3,884.8	3,903.1	4,029.1	4,173.9	**4,400.5**
Currency in Circulation	318.1	321.1	321.1	337.5	329.3	341.1	339.0	329.0	**342.3**
Demand Deposits	895.9	926.7	905.5	1,096.6	1,053.6	1,009.6	1,121.4	1,200.3	**1,273.1**
Time Deposits	399.1	417.3	384.0	345.9	347.7	341.1	333.4	313.2	**374.6**
Savings Deposits	2,015.4	2,074.6	2,117.2	2,117.7	2,154.2	2,211.0	2,235.3	2,331.5	**2,410.5**
MEMO									
Domestic Deposits	4,183.2	4,417.7	4,360.6	4,524.7	4,430.0	4,505.1	4,751.7	4,917.1	**5,278.1**
Liquid Assets	1,459.9	1,471.4	1,436.5	1,365.5	1,356.9	1,382.2	1,518.7	1,504.9	**1,533.0**
Loans & Advances	2,771.5	2,876.2	2,792.8	2,910.3	2,811.0	,821.0	2,793.2	2,867.0	**2,950.0**

Source: Central Bank of Barbados
P: Provisional

Public Sector

Revenue

During the review period, total revenue was an estimated $525.2 million, about 5.5% higher than the revenue earned in the same period of 2003. Buoyed by higher import duties, excise taxes and value added tax receipts, indirect taxes grew by an estimated 14.6%. Import duties improved by 23.8% as a result of higher import demand, while excise taxes were boosted by 29.4% largely because of a pick up in motorcar imports. Reflecting the higher level of economic activity, value-added tax receipts rose by 9.0%, a turnaround from the decline of 5.6% in the same period 2003. On the other hand, direct taxes contracted by 3.3%, in contrast to the 19.0% upturn over the similar period last year. A reduction in the basic tax rate on personal income of 2.5 percentage points to 20.0% and an increase in the personal allowance from $15,000 to $17,500 at the beginning of 2004, were the major contributors to the 2.9% fall in personal tax receipts. After an impressive expansion of 24.6% during the first of quarter 2003, corporate taxes fell by 2.8% partly because of a decrease in the corporate tax rate from 37.5% to 36%. As a result of a reduction in the effective property tax rate with the introduction of a tax free threshold, property taxes dipped by 0.7%, following a decline of 2.3% one year earlier. Furthermore, non-tax revenue and grants fell by $4.5 million to $37.8 million, due in part to a decrease in post office revenue and miscellaneous categories of non-tax revenue.

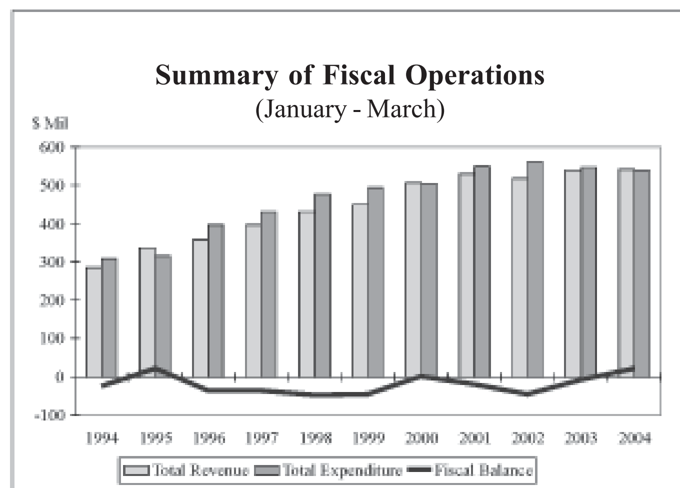
Expenditure

Total government spending contracted for the second consecutive first quarter by 1.1% to $540.9 million, at the end of March 2004. The reclassification of the Queen Elizabeth Hospital from general public services to a statutory board resulted in outlays on goods and services as well as wages and salaries falling by 8.8% and 4.3%, respectively. On the other hand, transfers and subsidies rose by 14.1% ($21.5 million) because of the aforementioned reclassification. There was also an overall expansion in interest payments of $0.7 million, as an increase in external interest payments, outweighed a small decline in domestic interest outlays.

Capital expenditure was reduced by about 12.2% with the completion of major public sector projects and the reallocation of capital outlays on the Queen Elizabeth Hospital to transfers and subsidies.

Financing

With government operations resulting in a fiscal surplus, its net domestic financing was negative (-$18.7 million). Government increased its net deposits at the Central Bank in the amount of $105.9 million. Moreover, commercial banks increased their holdings of government debt by $42.9 million, while the National Insurance Scheme and other institutions also added to their holdings of government securities by $15 million and $29.4 million, respectively. In addition, net foreign financing was also negative (-$3.3 million), as the $23.3 million in amortisation payments was partially offset by project fund inflows totalling $20.0 million.



Government Financing

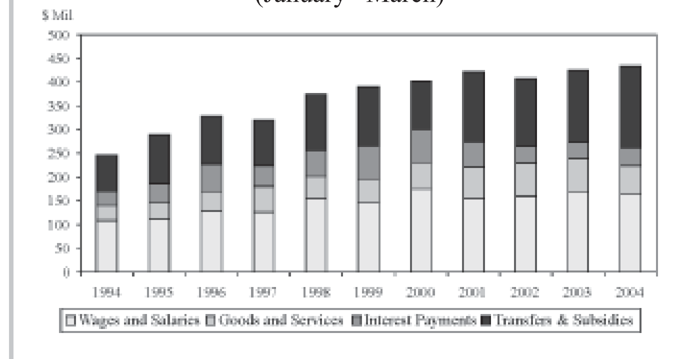
($ Million)

	Fiscal Year			January – March				
	2001/02	2002/02	2003/04	2000	2001	2002	2003	2004P
Domestic Financing	(112.5)	291.3	(60.2)	(8.4)	9.4	46.1	18.2	**(18.7)**
Central Bank	(195.4)	299.8	(11.6)	(138.9)	137.7	(40.5)	(19.3)	**(105.9)**
Commercial Banks	155.0	90.3	48.1	30.7	28.6	32.9	7.3	**42.9**
National Insurance Scheme	37.2	104.6	35.5	59.6	(1.6)	29.8	25.1	**15.0**
Private Non-Bank	7.3	83.0	17.9	26.5	22.3	(33.5)	18.3	**(0.1)**
Divestment	0.0	0.0	0.0	0.0	52.2	0.0	0.0	**0.0**
Other	(116.5)	(286.4)	(150.2)	13.8	45.4	57.4	(13.3)	**(29.4)**
Foreign Financing	319.5	(11.8)	195.9	6.1	9.6	(2.1)	(11.1)	**(3.3)**
Capital Markets	300.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Project Funds	67.0	65.8	71.5	20.9	21.5	21.1	12.4	**20.0**
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Amortisation	(47.6)	(77.6)	(64.6)	(14.8)	(11.9)	(23.2)	(23.5)	**(23.3)**
Divestment	0.0	0.0	189.0	0.0	0.0	0.0	0.0	**0.0**
Total Financing	207.0	279.5	135.7	(2.3)	19.0	43.9	7.0	**(22.1)**

Source: Central Bank of Barbados
P: Provisional

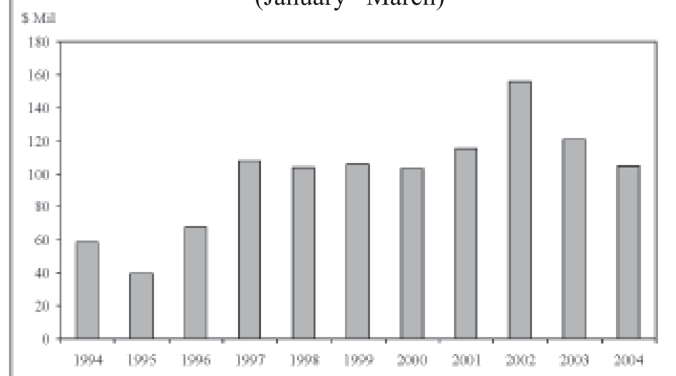
Current Expenditure

(January - March)



Capital Expenditure

(January - March)



Fiscal Operations 2003/04

For the fiscal year 2003/04 the deficit improved by $143.8 million to an estimated $135.7 million or 2.5% of GDP. Boosted by higher indirect taxes, corporate taxes and property taxes, total revenue amounted to $1,866.9 million, or about 7.8% in excess of collections during the last fiscal year.

Current expenditure was estimated to have grown by $56.7 million to $1,745.0 million, as decreases in wages and salaries of $67.4 million and goods and services of $19.5 million were insufficient to outweigh the $139.7 million (26.8%) expansion in transfers and subsidies. The movements in wages and salaries, goods and services as well as transfers and subsidies can be attributed to the reclassification of the Queen Elizabeth Hospital to a statutory board. However, capital expenditure and net lending fell by about $65.8 million to $257.6 million, almost three times more than the decline in the previous fiscal year.

With the improved fiscal position net domestic financing was negative (- $60.2 million). Government increased its deposits at the Central Bank by $11.6 million, while other entities reduced their holdings of government debt. Furthermore, the National Insurance Scheme, commercial banks and private non-bank institutions held additional government securities. On the foreign side, inflows of project funds of $71.5 million, together with foreign divestment proceeds amounting to $189 million, were partially offset by external amortisation payments of $64.6 million.

Government Operations

($ Million)

	Fiscal Year			January - March				
	2001/02	2002/03	**2003/04**	2000	2001	2002	2003	**2004[P]**
Total Current Revenue	1,734.9	1,732.3	**1,866.9**	508.2	531.3	519.7	539.9	**563.0**
Tax Revenue	1,612.0	1,620.3	**1,752.0**	477.7	484.9	462.3	497.6	**525.5**
Direct Taxes	704.6	731.7	**722.6**	218.3	247.3	212.0	252.2	**243.8**
Personal	316.8	358.4	**325.7**	87.8	92.5	93.2	113.6	**110.3**
Corporate	225.7	220.3	**247.1**	99.9	116.4	88.5	110.2	**107.2**
Levies	16.7	17.8	**1.4**	5.2	5.8	4.4	4.7	**1.4**
Stabilisation	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Property	102.5	95.7	**101.6**	19.1	22.5	16.9	14.8	**14.7**
Other	42.9	39.4	**46.8**	6.3	10.2	9.1	9.0	**10.3**
Indirect Taxes	907.4	888.7	**1,029.4**	259.3	237.6	250.3	245.3	**281.3**
Consumption	0.1	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Stamp	14.5	12.0	**14.9**	3.5	4.5	2.4	3.5	**3.6**
VAT	498.6	494.6	**561.0**	141.3	132.0	142.3	134.4	**146.5**
Excises	141.8	114.2	**145.5**	45.0	46.3	33.5	34.3	**44.4**
Import Duties	146.3	160.2	**179.0**	34.4	22.3	37.1	34.8	**43.1**
Hotel & Restaurant	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Other	106.1	107.7	**129.0**	34.4	32.4	35.0	38.4	**43.7**
Non-Tax Revenue & Grants	122.9	112.0	**114.9**	30.5	46.3	57.4	42.3	**37.8**
Current Expenditure	1,593.4	1,688.3	**1,745.0**	401.4	427.0	408.0	425.3	**434.1**
Wages & Salaries	646.3	683.7	**616.2**	175.2	156.4	159.4	169.4	**162.0**
Goods & Services	04.0	215.3	**195.8**	54.9	63.6	69.6	67.5	**61.5**
Interest Payments	252.9	268.7	**272.5**	70.5	58.8	34.9	36.0	**36.7**
External	89.6	104.7	**109.0**	26.3	30.9	23.3	14.6	**18.4**
Domestic	163.3	164.0	**163.5**	44.1	27.9	11.6	21.3	**18.3**
Transfers & Subsidies	490.3	520.7	**660.4**	100.8	148.2	144.1	152.4	**173.9**
Current Account Balance	141.5	44.0	**121.9**	106.8	104.3	111.7	114.6	**128.9**
Capital Expenditure	336.5	321.1	**255.4**	103.2	115.1	156.0	120.7	**105.0**
Net Lending	12.0	2.4	**2.2**	1.2	8.2	(0.4)	0.8	**1.7**
Total Expenditure & Net Lending	1,941.9	2,011.8	**2,002.6**	505.9	550.3	563.6	546.8	**540.9**
Fiscal Balance	(207.0)	(279.5)	**(135.7)**	2.3	(19.0)	(43.9)	(6.9)	**22.1**

Source: Central Bank of Barbados and Accountant General

P: Provisional

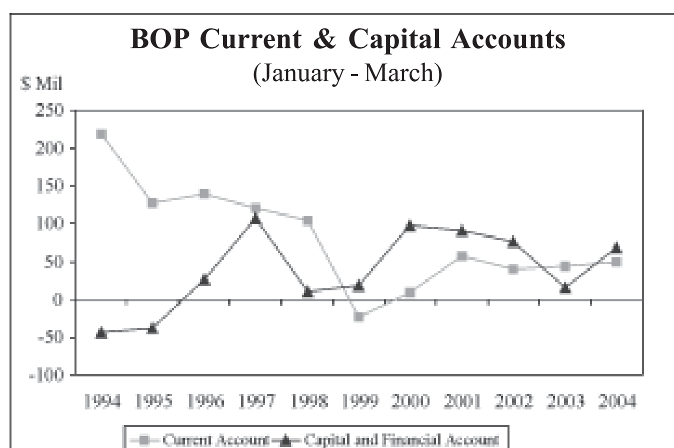
Foreign Trade and Payments

Current Account

As a result of a 16.8% surge in travel credits, a surplus of $49.4 million was recorded on the external current account, following the surplus of $44.4 million in the same period of 2003. Consumer imports rose by 28.9%, reflecting higher demand for food and beverages and motorcars, while greater machinery purchases resulted in a 20.7% increase in capital goods imports. However, imports of intermediate goods remained virtually unchanged, after growing by 34.4% in the same period one year earlier. During the review period, domestic exports fell by 11.6%, the second decline within the last five years. The food and beverages category contracted by 25.1% during the review period, due in part to a reduction in rum exports by 43.2% and the closure of a beverage production plant in 2003. In addition, exports of chemicals and the miscellaneous categories of exports decreased by 1.0% and 12.4%, respectively, while exports of electronic components expanded by 10.0%.

Capital and Financial Account

The capital and financial account of the balance of payments recorded a surplus of $68.9 million over the review period, compared to the surplus of $16.2 million observed one year earlier. This expansion was primarily caused by lower long-term public outflows of $44.8 million, as a result of a reduction in foreign amortisation payments when compared to the same quarter of 2003. Additionally, net private sector inflows remained virtually unchanged at $29.8 million in the first three months of 2004.



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

	1999	2000	2001	2002R	2003R	2004P
Current Account Balance	23.2	9.0	57.1	40.2	(44.4)	**(49.4)**
Merchandise Trade	(395.4)	(359.8)	(338.5)	(312.9)	(367.2)	**(445.7)**
Total Exports (BOP basis)	98.6	104.2	123.8	96.0	104.0	**93.4**
Domestic Exports	83.0	85.0	94.9	72.0	74.9	**66.2**
Sugar	0.0	0.7	15.8	0.0	0.0	**0.8**
Electronic Components	16.3	9.7	11.1	6.4	6.3	**7.0**
Chemicals	11.5	12.4	10.5	11.3	9.8	**9.7**
Food/Beverages	20.0	21.5	22.9	20.0	21.5	**16.1**
All Other	35.2	40.7	34.7	34.3	37.3	**32.7**
Total Imports (BOP basis)	521.4	493.5	488.9	425.4	496.0	**564.9**
Retained Imports	549.4	513.7	499.5	442.3	511.9	**590.3**
Consumer Goods	240.5	208.3	210.5	194.6	191.3	**246.5**
Capital Goods	141.9	130.5	102.1	90.6	109.9	**132.7**
Intermediate Goods	166.0	173.3	185.5	155.4	208.9	**208.4**
Miscellaneous Goods	1.0	1.6	1.4	1.7	1.8	**2.7**
Services (net)	386.3	379.6	407.2	379.8	435.8	**513.8**
Travel Credits	411.7	398.1	427.8	399.8	460.3	**542.7**
Other	(25.4)	(18.5)	(20.5)	(20.0)	(26.5)	**(28.9)**
Investment Income (net)	(37.5)	(44.3)	(51.3)	(54.8)	(56.0)	**(53.2)**
Transfers (net)	23.4	33.5	39.7	28.1	33.7	**34.6**
Capital and Financial Account	18.4	97.3	90.5	75.8	16.2	**68.9**
Long Term	(2.3)	78.4	83.9	34.2	(18.4)	**26.5**
Public Sector	(5.9)	24.5	7.8	(3.8)	(47.3)	**(3.3)**
Private Sector	3.6	53.9	76.2	38.0	29.0	**29.8**
Other	8.7	3.8	(15.8)	4.6	14.9	**16.0**
Short Term	12.0	15.1	22.3	37.0	19.7	**26.4**
Errors and Omissions	107.5	65.0	(24.0)	(24.8)	168.3	**(36.3)**
Balance For Official Financing	102.7	171.3	123.6	89.7	229.0	**82.0**
Other Financing (net)	0.0	0.0	0.0	0.0	0.0	**0.0**
IMF	0.0	0.0	0.0	0.0	0.0	**0.0**
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0	**0.0**
Reserve Movements (CBB basis) (-Increase/+Decrease)	(102.7)	(171.3)	(123.6)	(89.7)	(229.0)	**(82.0)**
Changes in NIR (IMF basis) (-Increase/+Decrease)	(14.8)	(136.9)	(127.7)	(68.4)	8.1	**(36.0)**

Source: Central Bank of Barbados
P: Provisional
R: Revised

Regional Economic Developments

Overview

Economic activity within the region appeared to have picked up somewhat during 2003, with improved performances for all tourism dependent countries. In addition, Trinidad and Tobago's economic performance was significantly boosted by activity within the energy sector. The inflation rate across the Caribbean remained relatively stable during the period of review. In the financial sector, total deposits and loans were up in all CARICOM countries with the exception of Guyana, where a contraction in loans was recorded. Furthermore, balance of payments developments and the performance of the public sector were mixed.

The Bahamas

The number of visitors to the Bahamas rose by 6.7% to about 4.7 million persons at the end of 2003 and was evenly distributed across the year. Likewise, cruise passenger arrivals were just under 3 million, an increase of 3.7% over the number of cruise passengers at the end of 2002.

The Bahamas' central government fiscal deficit worsened by B$80.1 million to B$139.6 million by the end of 2003, as the expansion in expenditure surpassed that of revenue. Current expenditure grew by B$103.1 million (12.0%) because of higher consumption expenditure and transfers payments, whereas, capital expenditure contracted by 31.5% over the same period. Boosted by business and professional licences, taxes on international trade and transactions and other stamp tax categories, tax revenue grew by 2.9% to B$837.6 million. Increased revenue for fines, forfeits and administrative fees negated declines in income flows from public enterprises and other sources to result in overall growth in non-tax revenue of 5.5%.

Over the first nine months of 2003, the deficit on the external current account improved by B$43.4 million, as investment outflows fell by B$66.3 million, offsetting reductions in the merchandise and service balances. However, the capital and financial account deteriorated by B$184.3 million, as bank investment outflows outweighed higher central government long-term capital inflows.

Total resident deposits held in commercial banks at the end of 2003 grew by 4.2%. Higher deposits by government, private financial institutions and business firms were recorded during the review period. Similarly, total credit expanded by 3.3% over 2002, as expansions in government, other public sector and personal loans outweighed declines in lending to the construction, manufacturing and tourism industries. At the end of 2003, the weighted average rate on loans and overdrafts increased by 0.6 of a percentage point to 11.8%, compared to the negligible change (0.06 of a percentage point) seen one year earlier. On the other hand, the weighted average interest rate on deposits rose from 3.9% at end 2002 to 4.0% at December 2003, after contracting in the previous period.

Guyana

In contrast to its regional counterparts, real value-added in Guyana fell by 0.6% during 2003, following an expansion of 1.1% registered one year earlier. Lower output in the sugar, gold and manufacturing industries were the main causes of this decline in economic performance. Despite the 23.1% increase in the production of rice, agricultural output was considerably below that recorded in 2002, as sugar yield fell by 12.6%. Similarly, a lower production was also registered in the mining and quarrying sector because of a reduction in gold output that outweighed the higher bauxite outturn. The 12-month moving average rate of inflation went from 5.3% at the end 2002 to 6% at the end of December 2003, largely on account of higher food and housing prices.

During the January to September period of 2003, an improved fiscal position was reported by Guyana's central government. The fiscal deficit was G$695.3 million less than in the comparable period of 2003, and was financed

primarily through project loans funds and domestic borrowing from the banking system. Current revenue fell marginally by 2.7%, while capital receipts, which amounted to G$5,429.9 million, were boosted by higher debt relief. On the other hand, both current and capital expenditure expanded by 3.2% and 2%, respectively.

Over 2003, the external current account deficit improved by 20.7% to US$84.1 million. Faster growth in imports surpassed the 1.0% expansion in domestic exports. On the contrary, the surplus on the capital and financial account of the balance of payments contracted by 36.2% to US$54.9 million, during the review period. At the end of December 2003, net international reserves had fallen by US$7.2 million to US$176.2 million.

The small savings rate on deposits at the end of December 2003 was 3.5%, about 0.8 of a percentage point lower than the rate in the previous year. Likewise, the commercial banks' lending rate fell from 16.8% at the end of 2002 to 15.6%. Total resident deposits were up by a further 7.5% at the end of the review period, on account of higher deposits maintained by private individuals, business enterprises and non-bank financial institutions. In contrast, total loans and advances fell by 17.9% (G$8,718.2 million), as a contraction of 2.7% was observed in personal loans, while lending to business enterprises fell by 22.3%, in particular, services, agriculture and manufacturing.

Jamaica

During 2003, Jamaica's economy grew by approximately 2%, led by a pick up in activity within the transport, communications and storage and financial and insurance services sectors. In addition, tourist arrivals grew by 16.4% to about 2.5 million persons, as both stopover arrivals and cruise passengers rose by 6.5% and 30.9%, respectively. The higher cruise ship arrivals were attributed to the stepped-up marketing efforts by the Jamaica Tourist Board and the resumption of the Princess Cruise lines to Jamaica in latter part of the year. Consequently, activity in the hotels, restaurant and clubs sub-sector improved by 6.0%. Production of alumina increased by 5.9%, especially in the fourth quarter, with three alumina refinery plants operating at full capacity. The opposite was however, observed for bauxite as output fell by 5.3% because of unfavourable weather conditions. The rate of inflation at the end of December 2003, as given by the 12-month moving average was 10.3%, or 3.2 percentage points higher than the rate at the end of 2002. Increased prices in the food and drink, fuel and other household supplies, transportation and housing and other expenses sub-categories were responsible for the higher rate of inflation.

Although capital expenditure declined by 26.7% and revenue rose by 25.2%, this was not enough to offset the 26.0% expansion in recurrent expenditure, so that Jamaica's central government accounts during 2003 deteriorated, as the fiscal deficit worsened by 45.3% to J$37,587.4 million. During the period January to August of 2003, Jamaica's external current account deficit worsened by 3.0% to US$634.7 million. Higher imports of US$122.8 million were partially offset by an expansion of travel inflows and a decrease in transportation outflows. Likewise, the surplus on capital and financial account declined considerably by US$342.9 million to US$117.8 million. Higher other official investment outflows of US$33.8 million were responsible for this outturn.

At the end of 2003, the average rate on savings deposits was 8.4%, about 0.5 of a percentage point lower than the rate at the end of 2002. In contrast, the average lending rate rose by 0.6 of a percentage point to 25.6%. Total loans increased by approximately J$25 billion, as a result of significant lending to transport, storage and communication, government services, distribution and tourism industries, together with higher personal loans. Owing to greater deposits by individual, business firms and other financial institutions, total deposits expanded by 11.1%.

Organisation of Eastern Caribbean States

During 2003, the overall economic performance of the OECS, improved by an estimated 3.8%, about 3.6

percentage points above the rate of expansion observed one year earlier. This better outcome was due mainly to a rebound in the tourism and related industries. Visitor arrivals to the currency union increased by 7.3% as a result of enhanced marketing, greater airlift services and the better economic climate of the major source markets. Consequently, there were expansions in value-added from the hotel and restaurant (13.0%), transportation (6.2%) and wholesale and retail trade (6.0%) sectors. In addition, there were also positive contributions to real economic activity by the construction and manufacturing sectors, where output rose by 5.8% and 0.2%, respectively. There was contraction in the real value-added in the agricultural industry of 4.4%, primarily because of declines in sugar and banana production.

During 2003, the combined overall fiscal deficit improved by EC$235.8 million to EC$463.1 million. The current account deficit of the combined governments of the currency union, decreased by about EC$62.9 million to EC$102.1 million as current revenue grew at a much faster rate than current expenditure. During the review period, capital expenditure was EC$636.3 million, about 13.7% below the previous year's figures.

At the end of December 2003, the current account of the balance of payments worsened by US$22.9 million to US$641.2 million. This deterioration was largely due to an increase in imports, together with higher income inflows, which negated the expansion in travel receipts. Imports were up because of higher imports of construction related materials and telecommunications equipment. Similarly, the capital and financial account deteriorated by 0.2%, in contrast to the 18.0% expansion one year earlier. Higher direct investments of US$116.3 million were insufficient to outweigh the decreases in portfolio investments and lower central government capital transfers.

Loans and advances grew by 0.4% during 2003, significantly lower than the 3.7% rate of expansion in 2002. Loans to the personal sector rose by 15.7% and professional services also by 9.3% but declines were recorded in credit to distributive trade (7.7%), tourism (4.5%) and government services (14.9%). Total resident deposits at commercial banks rose by 9.5% to EC$9,352.4 million as higher deposits were registered for all categories with the exception of non-bank financial institutions, which fell by 5.4%. The minimum and maximum savings deposit rates, as well as, the minimum and maximum prime lending rates remained unchanged at the end of 2003.

Trinidad and Tobago

Trinidad and Tobago economy continued to perform well in 2003, buoyed by the energy industry, real economic activity grew by approximately 4.1% at the end of December 2003, up from 2.7% one year earlier. It is estimated that in 2003, the energy sector expanded at a rate of 11.4%, because of increased Liquified Natural Gas (LNG) and crude oil production. However, performance in the non-energy sector was weak, as it grew by 1.8%, over the review period, primarily on account of a slow down in domestic demand coupled with relatively flat growth in non-oil exports. The distribution (5.9%), construction (4.8%), transportation, storage and communication (6.9%), industries and, to a lesser extent, manufacturing (2.0%) all contributed to the rate of expansion in the non-energy sector. In contrast, there were declines in the agriculture (15.1%) and Government (1.1%) categories during the review period.

The rate of unemployment at the end of September 2003 was about 10.5%, marginally lower than the 10.6% recorded in September one year earlier. The modest rate of job creations reflected the slow performance in the non-energy sector. The 12-month moving average rate of inflation was 4.1% at the end of 2003, virtually unchanged from the rate at the end of 2002. Higher prices in food and non-alcoholic beverages were primarily responsible for the increased rate of inflation.

During 2003, growth in current revenue of 23.0% outperformed the 10.8% expansion in current expenditure and resulted in the improvement of the fiscal surplus by TT$1,648.2 million to TT$1,835.0 million. Consequently, there were reductions in both net domestic and foreign

financing during the review period. Higher current expenditure outlays may be attributed to expansions in wages and salaries, goods and services and transfers and subsidies. However, increased receipts from the oil sector were primarily responsible for the rise in current revenue.

The current account surplus of the balance of payments was estimated at US$917.4 million for 2003, as a result of a US$942.6 million surge in exports (mainly in the energy sector). However, due to increases in commercial bank outflows, other private outflows and net outflows from regional bond issues together with a reduction in direct investment, the capital and financial account balance deteriorated.

At the end 2003, both deposits held at commercial banks and total loans went up by 5.8% and 9.4%, respectively. In addition, the ordinary savings rate on deposits increased by 0.1 of a percentage point to 2.0%. In response to the Central Bank of Trinidad and Tobago's action of reducing the reserve requirement in October 2003 the prime lending rate fell by two percentage points to 9.5% at the end of the review period.

International Economic Developments

Overview

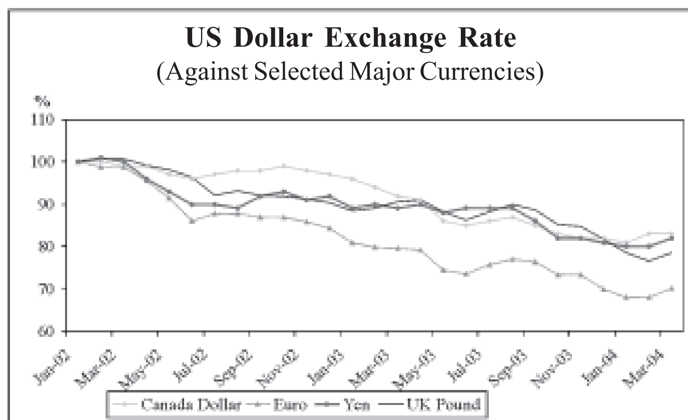
The world economy continued to show signs of economic recovery during the first quarter of 2004. Driven to some extent by higher consumption expenditure, investments and export demand, most industrial countries exhibited steady rates of expansion in economic activity. Additionally, the improved economic performance of the industrialised countries and rising commodity prices were beneficial to emerging market economies. Global inflation rates remained low and as a result Central Banks kept interest rates unchanged with the exception of the United Kingdom. Furthermore, all major currencies appreciated against the US dollar, while emerging market currencies remained virtually unchanged.

Industrial Economies

The United States recorded strong growth in economic activity of 4.2% during the first quarter of 2004. Increases in personal consumption expenditure, government spending, exports and private investment were the major contributors. Tax cuts and low interest rates spurred growth in private consumption expenditure, while rising profits and better financing conditions provided the momentum for robust growth in investment expenditure. The federal funds rate remained unchanged at 1% during the first quarter of 2004, in an attempt to bolster economic activity. The rate of unemployment at the end of March 2004 (5.7%) was marginally lower than the rate (5.8%) at the end of the same period of 2003, as a result of a surge in the number of job opportunities created in March 2004. In spite of the higher commodity prices, the rate of inflation as indicated by the change in consumer prices was 1.8% at the end of the review period, compared to 3.0% one year earlier.

Similarly, the Canadian economy recorded slower growth of 1.6% during the quarter, down from 2.7% in the comparable period of 2003, as strong exports were dampened by lower domestic activity. At the end of March 2004, the inflation rate at 0.7% was well below the target level of 2%. In an effort to stimulate activity within the economy, the overnight rate, Canada's main monetary policy instrument was reduced in January 2004 by 0.25 of a percentage point to 2.5% and then in March 2004, to 2.25%. Additionally, the unemployment rate at the end of March 2004 was 7.5%, virtually unchanged from the rate at the end of March 2003. As a consequence of export growth, Canada's trade surplus widened to US$4.5 billion, the biggest margin in almost three years.

Output in the Euro-area grew by 1.3% during the first quarter of 2004, as weak growth in consumer spending was recorded in most of the major economies including Germany and France. The unemployment rate at the end of March 2004 marked the thirteenth consecutive month at 8.8%, notwithstanding, the increased number of unemployed person in the Euro-area between these two periods. The



rate of inflation for the twelve months ending March 2004, stood at 1.7% about 0.7 of a percentage point below the March 2003 rate. In addition, the external current account recorded a surplus of US$3.2 billion in January 2004, as the surplus on the goods and services balances outweighed declines in the income and transfer accounts. In spite of the Eurozone's continued weak recovery, the European Central bank maintained its key interest rate for the ninth consecutive month.

Economic activity within France grew at a rate of 1.3% during the first quarter of 2004, because of increased consumer spending which more than compensated for the slower growth in exports and industrial production. The unemployment rate went up by 0.1 of a percentage point to 9.4% at the end of March 2004. Consumer prices, however, increased by 1.7% mainly on account of higher food and beverage prices. In Germany, driven by an expansion in net exports, economic activity strengthened by 1.5% over the first three months of 2004. In spite of this the labour market conditions remained unfavourable, as the unemployment rate improved marginally to 10.9%, compared to 11.1% at the end of March 2003. Additionally, the rate of inflation for the twelve months ending March 2004 was 1.1%.

Output in the United Kingdom expanded by 3.0% over the January to March 2004, driven by strong activity in the all categories of the service industry with the exception of transport, storage and communication. During February 2004, the Monetary Policy Committee of the Bank of England increased the key short-term interest rate to 4.0%, up from 3.75% at the end of December 2003, in an effort to diminish inflationary pressures in the medium term due to above trend activity since the fourth quarter of 2003. Moreover, the inflation rate at the end of March 2004 was 1.1%, the lowest since September 2002 and below the target rate of inflation, while the unemployment rate at the end of March 2004 fell by 0.3 of a percentage point to a record low of 4.7%.

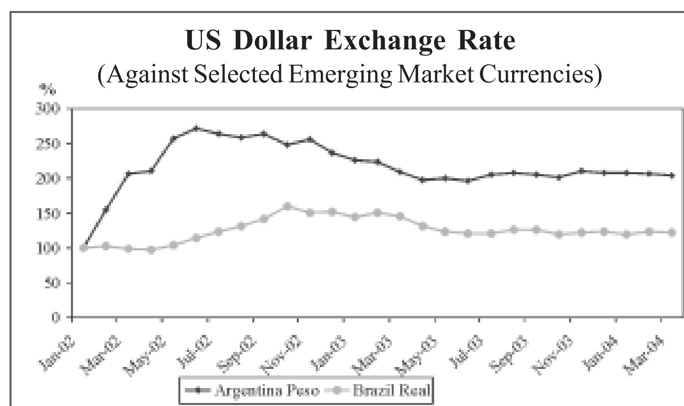
Boosted by strong export growth and an expansion in investment spending, Japan's economic recovery continued and real value added grew solidly by 5.4% during the first three months of 2004. Consequently, there was a surge in the trade surplus of 17.8% over the review period. Driven by an increased demand for consumer electronics and motor vehicles from China, other Asian market and the United States, exports expanded by an impressive 13.3%. At the end of March 2004, the unemployment rate decreased by 0.7 of a percentage point to 4.7%, and there was no change recorded in consumer prices, compared to a small decline in the similar period of 2003.

Emerging Market Economies

China's economy registered its third straight quarter of growth expanding by an estimated 9.7% during the first quarter of 2004. Increases in industrial production (17.7%), fixed investment, domestic demand and export growth provided the impetus for the enhanced level of economic activity, while the consumer price index rose by about 3% during the review period. Nevertheless, the unemployment rate rose by about 0.2 of a percentage point to 4.3%.

Economic activity in Brazil, during the first quarter of 2004, increased modestly by 2.7%, due mainly to the higher domestic and export demand. Industrial production grew by an estimated 1.8% at the end of February 2004. Despite the better economic performance, the average unemployment rate for March 2004 remained relatively high (12.8%) or about 0.7 of a percentage point greater than

that of March 2003. The rate of inflation for the twelve months to March 2004 was approximately 4.5%, down from 13.9% in the comparable period one year earlier. This lower rate of inflation was due primarily to a reduction in the transportation, personal care expenses and health categories. Supported by strong domestic exports, the external current account balance improved; nonetheless, this expansion was negated by the deterioration in the capital account.



Real gross domestic product in Argentina expanded robustly by approximately 11.9% during the first quarter of 2004, buoyed by higher consumption, investment and exports. Consequently, there was an improvement in the labour market and the unemployment rate fell slightly. Furthermore, the rate of inflation declined substantially, as it moved from 31.2% at the end of March 2003, to 2.3% one year later. Additionally, the trade balance increased somewhat during the review period and was US$14.5 billion at the end of February 2004, because of faster growth registered in exports, which outstripped that of imports.

Commodity Prices

Commodity prices surged by about 10.0% at the end of March 2004, as increases were recorded in most categories of products. The non-fuel commodities index grew by 23.6% and the bulk of this was attributed to the metal (13.7%) and food (21.2%) indices. Stronger global economic growth coupled with the continued depreciation of the US dollar resulted in higher overall metal prices, while heightened speculative buying by investors spurred the expansion in the prices of precious metals. Moreover, the price of copper was significantly boosted by robust export demand from China and other Asian markets, a decline in the stock-consumption ratio and by supply constraints. Similarly, the prices of soybeans went up by about 70.5% due primarily to lower supply by the United States and Brazil, as a result of poor weather conditions. The steady pickup in fuel prices of 7.6% over the first three months of 2004 stemmed from delays in restoring Iraq's oil production, faster growth in oil consumption and low commercial oil inventories.

Commodity Prices

Commodity Prices	Mar-03	Mar-04	% Change
All Commodities Index	121.8	**141.3**	16.0
Non-Fuel Commodities Index	80.0	**98.9**	23.6
Food	84.6	**102.5**	21.2
Sugar; EU (US cent/lb)	26.3	**30.3**	15.5
Bananas (US$/metric tonne)	480.5	**512.3**	6.6
Rice (US$/metric tonne)	197.0	**240.4**	22.0
Wheat (US$/bushel)	141.8	**166.3**	17.3
Soybeans (US$/metric tonne)	241.1	**411.0**	70.5
Metals	76.3	**109.7**	43.7
Aluminium	1,386.6	**1,657.4**	19.5
Iron Ore (US$/metric tonne)	32.0	**37.9**	18.6
Copper (US$/metric tonne)	1,655.7	**3,000.3**	81.2
Gold (US$/fine troy ounce)	359.0	**406.7**	13.3
Silver (US cents/troy ounce)	468.1	**729.5**	55.8
Oil (US$/barrel)	31.3	**33.7**	7.6

Source: IMF/ World Bank Commodity Prices
P: Provisional

Regional and International Capital Markets

Caribbean Stock Markets: Q1 2004 Summary

Barbados Stock Exchange (BSE)

During the first quarter of 2004, there was an overall increase in activity on the BSE, as the local index reached a record high of 3108.38 points. Sixteen companies advanced, with Cave Shepherd recording the largest increase in share price for the period. The cross-listed index registered an increase of 28%, which was complemented by a rise in market capitalisation of 37% to $6,772.42 million, due mostly to activity in shares of Royal Bank of Trinidad and Tobago.

Local market capitalisation increased by 5% to close at $7,469.57 million on March 31, 2004. This was in contrast to the 16% reduction in junior market capitalisation, which was driven down by the decline in Sunbeach shares.

In January, 2,442,405 shares crossed the floor of the Exchange, with Sagicor Financial Corporation and Barbados Shipping & Trading Co. Ltd being the volume leaders for the month, with 1,324,027 and 486,145, respectively.

During February, there was a 37.4% increase in the aggregate volume of shares traded. Both Sagicor Financial Corporation and Barbados Shipping & Trading Co. Ltd continued to dominate trading, with 2,484,978 and 464,786, shares being traded, respectively.

The quarter ended with a significant increase in volume traded, as 15,090,494 shares crossed the floor of the Exchange during March, accounting for 72.2% of total shares traded for the first quarter of 2004. The majority of the activity for March was related to the 8,435,572 A. S. Brydens shares transferred to McEnearney Alstons (B'dos) in the take-over of Brydens. Trading in these shares continued to be suspended during the quarter.

Overall for the first three months of 2004, Sagicor Financial Corporation emerged as the volume leader and there were four put-throughs on the Exchange: two for Sagicor, one for BNB and the other for FirstCaribbean International Bank Ltd.

B.S.E. Volume Leaders
(January - March)
($Millions)

Institution	Volume Traded
Sagicor Financial Corporation	9.77
A.S Brydens	8.43
Barbados Shipping and Trading	1.24

Source: Securities Exchange of Barbados

Based on the upswing in regional and international equity markets, all local mutual funds recorded growth in their net asset values for the first quarter of 2004. Roybar Investment Corporation and the Fortress Caribbean Growth Fund continued to be the leading funds recording increases of 14.9% and 14.6% respectively, for the quarter.

Mutual Fund	Mar 31, 2003 NAV ($)	Dec 31, 2003 NAV ($)
Roybar Investment Corp.	13.00	11.31
Fortress Caribbean Growth Fund	3.22	2.81
Mutual Global Balanced Fund	1.83	1.65
BNB Income Fund	1.22	1.18
BNB Capital Growth Fund	1.30	1.21
BNB Gift Trust Fund	0.98	0.97
CLICO Balanced Fund Inc.	1.17	1.11

Source: Securities Exchange of Barbados

Jamaica Stock Exchange (JSE)

Volume on the JSE increased by 103.1% for the first quarter of 2004, compared to the same period last year, while the index was up by 47.4% to 99,630.22 points, with 36 companies advancing and 2 declining. Of the five companies that recorded share price growth in excess of 100%, Pegasus Hotel registered the best performance (164.7%), while the worst performing company in this market was Ciboney Group, which declined by 41.7%. The market activity ratio was 99.5% and during the review period the JSE index increased in each month and peaked in March.

Kingston Wharves registered the highest volume traded, accounting for 33.3% of shares traded. In terms of sector performance, the finance sector followed by the manufacturing sector comprised the key market segments, which advanced throughout the quarter.

Trinidad & Tobago Stock Exchange (TTSE)

During the first quarter, the TTSE index increased 20.4% and saw 26 companies advancing, 4 declining and 1 remaining unchanged. Berger Paints Trinidad Limited registered the best performance of approximately 100% growth, while the worst performing company in this market was BWIA, with a decline of 16.3%. National Commercial Bank Jamaica Limited was the volume leader for the quarter, accounting for 52.9% of the total volume traded.

International Capital Markets

Improved macro-economic fundamentals, abundant liquidity and improved credit quality underpinned growth in global asset prices and depressed credit spreads on mature market bonds. Yields in mature bond markets remained exceptionally low during the first quarter of 2004, reflected by the 2.0% increase in the JP Morgan Global Bond Index. This outcome was largely influenced by low short-term rates and limited inflationary pressure in most major markets. Enhanced corporate earnings and economic growth, stronger corporate balance sheets in the mature markets, and record low short-term interest rates continued to fuel the rebound in global share prices. Amongst the major stock markets the French index, CAC 40, recorded the greatest appreciation (23.8%) over the review period, while the

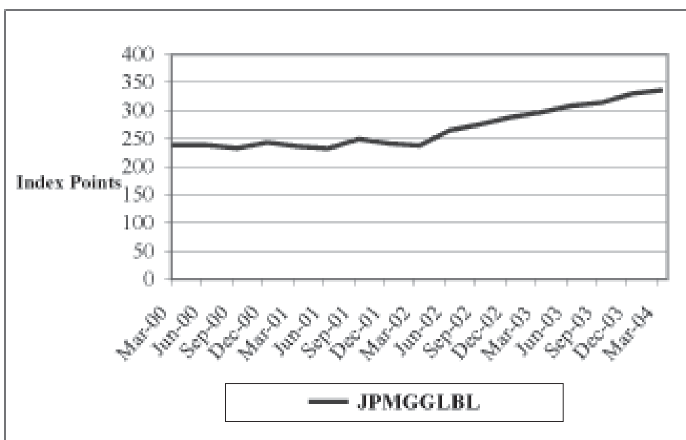
Top Ten Performing Companies*

Barbados	%	Jamaica	%	Trinidad	%
Cave Shepherd	72.4	Pegasus Hotel	164.7	Berger Paints Trinidad Ltd.	100.0
A.S Brydens	64.7	Caribbean Cement	157.1	National Enterprises Ltd.	71.7
Goddard Enterprises Ltd.	52.9	First Life Insurance	113.6	JMMB Limited	60.0
RBTT Fin. Holdings Ltd.	52.1	Bank of Nova Scotia (Jam.)	103.6	Prestige Holdings	52.3
Almond Resorts Inc.	19.2	Pan Jam Investments	103.1	PLIPDECO Ltd.	51.3
Grace, Kennedy & Co. Ltd.	15.6	Jamaica Producers Group	95.6	Agostini's Ltd.	37.5
Banks Holdings	13.6	Jamaica Broilers Group	95.3	Grace, Kennedy & Co. Ltd	32.8
C&W BARBADOS	13.3	Dehring, Bunting & Golding	92.0	RBTT Financial Holdings Ltd.	32.4
Barbados Farms	11.1	JMMB Limited	90.3	National Commercial Bank Jam.	28.2
McEnearney Alston	10.0	Gleaner Company	84.8	L. J Williams Ltd. Ordinary 'B'	25.0

Source: Barbados, Jamaica and Trinidad and Tobago Stock Exchanges
* Based on share price appreciation during the first quarter of 2004.

German market was the worst performer, depreciating by 2.7%.

JP Morgan's Global Government Bond Index
(March 2000 - March 2004)



Mature Market Indices

Country	Index	Dec-03	Mar-04	% Change
United States	S+P 500	1111.92	**1126.21**	1.3
United Kingdom	FSTE 100	4476.90	**4385.70**	-2.0
Germany	DAX	3965.16	**3856.70**	-2.7
France	CAC 40	2937.88	**3638.44**	23.8
Japan	Nikkei 225	10677.00	**11715.00**	9.7
Canada	TSE	8220.90	**8585.90**	4.4

Source: Yahoo Finance

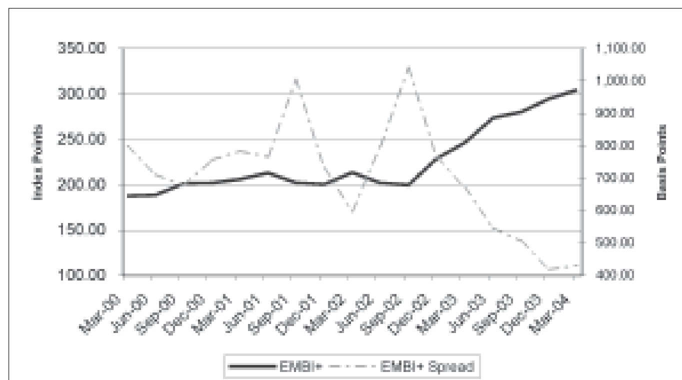
Emerging Markets

Emerging Bond Spreads Widened

Emerging bonds spreads widened by 14 basis points during the first quarter of 2004, triggered by statements by the US Federal Open Market Committee related to being patient in removing its policy accommodation. The reaction to this event suggested that the low short-term interest rates might have been a greater factor than the macroeconomic fundamentals, which drove emerging bond spreads lower in 2003. Notably, spreads on high-yielding Latin American credits widened more than on lower-yielding Asian bonds.

The continued accommodative monetary stance in the main industrialised countries, coupled with improved macroeconomic conditions in emerging markets, encouraged further capital inflows to these bond market. As a result, the EMBI+ rose by 3.3% in the first three months of 2004, following a 5.3% increase in the previous quarter. Additionally, bond issuance in emerging markets surged during the review period, as borrowers sought to secure external financing at low rates and extend bond maturities.

Emerging Market Bond Index and Sugar
(March 2000 - March 2004)



Buoyant Emerging Equity Markets

Generally, emerging markets continued to perform creditably over the quarter, with the Latin American indices out-performing the emerging Asian Indices. The best performers were the stock exchanges of Venezuela, Mexico and China, which all recorded double-digit increases. Favourable broad-based performances were underpinned by improved macroeconomic fundamentals and an expected increase in corporate profitability.

In contrast, Thailand's SET index fell by 15.3% at the end of March and was considered the worst recorded performing index among emerging markets during the period. Given the increased civil unrest in the Muslim-dominated southern region of Thailand, the SET's dismal performance

was influenced by investors' concerns about the rising political risk in Thailand. Consequently, the demand for Thai equities declined.

Emerging Market Indices

Country/Region	Index	Dec-03	Mar-04	% Ch
Argentina	Merval	1,074.6	**1201.7**	11.8
Brazil	Bovespa	22,236.4	**22,142.3**	(0.4)
Chile	IPSA	1,484.8	**1459.0**	(1.7)
Mexico	IPC	8,771.4	**10,517.5**	19.9
Venezuela	Caracas	22,127.4	**26,579.7**	20.1
Latin America				9.9
China	Shanghai	1,511.7	**1,741.6**	15.2
Hong Kong	Hang Seng	12,526.7	**12,681.7**	1.2
Indonesia	Jakarta	691.9	**735.7**	6.3
Malaysia	Kuala Lumpur	792.7	**901.9**	13.8
Philippines	PSE	1,442.4	**1,424.3**	(1.3)
Singapore	Straits Times	1,763.9	**1,858.9**	5.4
South Korea	Seoul	810.7	**880.5**	8.6
Thailand	SET	764.2	**647.3**	(15.3)
Taiwan	Weighted	5,866.8	**6,522.2**	11.2
Asia				1.7

Source: Bloomberg

A Mixed Performance in Emerging-Currencies

The performance of currencies in the emerging markets was mixed, as the South Korean won appreciated greatly over the first quarter of 2004, while in Latin America, Venezuela's currency suffered the largest depreciation followed by the Chilean peso.

South Korea's currency appreciation of 4.2% vis-à-vis the US dollar, reflected the $5.3 billion current-account surplus that was recorded during the first two months of 2004 and was as a result of the strong exports to its three biggest markets, China, the US and Japan.

Emerging Market Currencies

Country/Region	Currency	Dec-03	Mar-04	% Ch
Argentina	Peso	2.9	2.9	2.8
Brazil	Real	2.9	2.9	0.4
Chile	Peso	592.6	612.4	(3.3)
México	Peso	11.2	11.1	0.9
Venezuela	Bolivar	1,598.0	1,917.6	(20.0)
Latin America				(3.8)
China	Yuan	8.3	8.3	0.0
Hong Kong	Dollar	7.8	7.8	(0.4)
Indonesia	Rupiah	8,475.0	8,564.0	(1.1)
Malaysia	Ringitt	3.8	3.8	0.0
Philippines	Peso	55.5	56.2	(1.2)
Singapore	Dollar	1.7	1.7	1.7
South Korea	Won	1,197.3	1,147.3	4.2
Thailand	Baht	39.7	39.3	0.9
Taiwan	Dollar	34.0	33.0	2.8
Asia				1.7

Source: Bloomberg

The 20% decline in the value of Venezuela's currency was primarily caused by the Government's 17% devaluation of its exchange rate on February 9, 2004. For the quarter, Chile's peso depreciated by 3.3%, vis-à-vis the US dollar. This came as a surprise to the market, since historically, the price of copper and the value of the peso have been highly positively correlated. Copper, which is Chile's biggest export commodity, surged by over 30% during the same period.

Trade Update

The Singapore Issues

The WTO member-countries decided at the 1996 Singapore Ministerial conference to set up three new working groups: on competition policy, on trade and investment, and on transparency in government procurement. In addition, they instructed the WTO Goods Council to look at the possible ways of simplifying trade procedures, an issue also known as trade facilitation. These four policy areas, dubbed "the Singapore issues[1]", have become embroiled in a great deal of controversy, which has polarised the WTO membership along developed–developing lines. Developed countries feel that these issues are critical to creating an environment wherein international trade in goods and services can flourish. Developing countries see them as yet another burden to add to their already onerous international obligations.

1. Competition Policy

Competition policy subsumes measures aimed at promoting competition in the national economy, such as sectoral regulations, privatisation policies and competition laws. These tools are designed to constrain anti-competitive practices, including: the abuse of a dominant market position, mergers that significantly reduce competition, the formation of cartels and the creation of monopolies after public enterprises are privatised. The relationship between competition policy and trade is one that has been recognised for some time and which is reflected in the provisions of various WTO agreements. Some developed countries have nevertheless felt that a coherent approach to dealing with competition policy and trade is still lacking. However, their attempts to bring a competition policy agreement into the WTO fold have met with stiff resistance from developing countries in particular, which see such an agreement as unnecessary, even detrimental to their interests. It is therefore a matter for conjecture as to whether there will ultimately be a WTO agreement on competition policy.

Competition Policy in the WTO

When the General Agreement on Tariffs and Trade (GATT) was drafted in the late 1940s to regulate trade in goods, a corresponding agreement on competition policy was also designed. Yet the latter agreement was never finalised, as it proved a stumbling block for the proposed International Trade Organisation (ITO), which was intended to provide an institutional framework for the GATT, but never got off the ground. With the creation of the WTO in 1995, however, the 1994 version of the GATT and the General Agreement on Trade in Services (GATS) did incorporate rules on monopolies and exclusive suppliers, while the agreement on intellectual property rights recognised governments' rights to act against anti-competitive practices. Then, at the 1996 Ministerial Conference in Singapore, the members of the WTO decided to create a working group to critically examine the broad relationship between competition policy and trade. The working group's main purpose was to explore and analyse the issue, but no new rules were to be negotiated without consensus among the WTO members.

At the next Ministerial Conference in Doha, Qatar (2001), a decision was made to launch new negotiations and implement outstanding agreements. This entire package is referred to as the Doha Development Agenda (DDA). Under this agenda the working group on competition policy was instructed to focus on the following core topics: the application of the principles of transparency, non-discrimination and procedural fairness; a common treatment of formal cartels; managing voluntary cooperation on competition policy among WTO member governments; and supporting capacity building for developing countries interested in enacting a competition policy. The Ministers further agreed to begin negotiations on competition policy following the Fifth Ministerial Conference in Cancun, based on the modalities of the negotiations to be adopted by

[1] This update explores the first two issues – Competition Policy and Investment. The final two will be examined in the next instalment of Trade Update.

consensus at that meeting. Of course, the Ministerial Conference ended in a stalemate, induced in large part by disagreements about the Singapore Issues, including competition policy.

Competition Policy and Developing Countries

Some of the core principles listed above seem innocuous on the surface, but have far-reaching implications for developing countries. The application of the principle of non-discrimination, for example, though in line with fundamental WTO standards, could have a deleterious effect on national industrial policy. For example, a government might have a policy of promoting local manufacturers or other local small businesses through soft loans etc, but this would give local firms a competitive edge over their international counter-parts in the domestic market. Hence, the government would have violated this principle in its efforts to boost local firms. Some developing countries are concerned that an international competition agreement could lead to a loss of local welfare because it may not be the optimal policy for some countries. In other words, competition may not be a substitute for strong domestic regulation in the public's interest, which may call for a deliberate bias in favour of domestic firms, or for the utilisation of public monopolies as industrial and social alternatives.

On the other hand, the provision for a common treatment of formal cartels - firms that agree to engage in price-fixing, bid-rigging, and market-sharing arrangements - could provide developing nations with a tool to address the abuse of dominant market power by a trans-national corporation, without having to depend on external competition authorities. The proposed multilateral agreement has also been touted as a better alternative to the current situation, which favours the larger members. For example, in the current environment, the competition authorities of countries that are negatively affected by export cartels would normally face insurmountable difficulties in obtaining the necessary evidence from the host country or applying effective remedies. However, a multilateral agreement should provide incentives for the country of origin to cooperate.

Prospects for a WTO Agreement on Competition Policy

The chief proponent of competition policy, the EU, believes that multilateral rules in this area are necessary to support effective economic governance in WTO members. They cite such an agreement as an important component of the blend between market access and improved regulation and transparency that is critical to the development dimension of the agenda agreed at Doha. They have also suggested that the harmonisation of domestic laws to converge to a multilateral trade agreement could help to reduce the compliance costs of firms operating across several jurisdictions, as there would be only one set of rules.

In contrast, many developing countries – especially India – do not believe that competition negotiations are necessary and do not support the notion that countries should be required to develop their own comprehensive regimes. They stress that entering a binding agreement would restrict their national policy options, such as pursuing measures to promote growth of strong domestic corporations. Interestingly enough, several developed countries have sided with the developing world in opposing a multilateral agreement, but for completely different reasons. They would prefer to take a bilateral or unilateral approach to competition rather than committing to a multilateral agreement. Given these conflicting positions, there are currently no definitive plans as to how or when the discussions on competition policy should take place post-Cancun.

2. Investment

In recent years, the world has witnessed an escalation in the number of bilateral investment treaties (BITs) and regional investment agreements (RIAs), which is highly correlated with surging international flows of foreign direct

investment (FDI). The key factor contributing to this upsurge is the adoption of more investment-friendly policies by governments. Thus, after years of imposing controls and restrictions on FDI, in line with Import Substitution growth models, governments are now actively trying to attract FDI by liberalising their investment regimes and offering a variety of investment incentives. In so doing, they seek to enhance economic development through potential spin-off and multiplier effects from foreign investment. These include job creation, revenue generation, technology transfer and the opportunity to tap foreign markets, as well as financial, natural and human resource pools. At the same time, most of these governments also recognise the need to regulate investment in order to achieve socio-economic objectives such as national security and the protection of local investors, industries and/or employment. Accordingly, the various BITs and RIAs signed in recent years have attempted to strike a delicate balance between establishing clear and predictable rules that will help reduce foreign investors' risk – thus promoting FDI – and allowing governments to retain sufficient policy space.

It has also been recognised that restrictions on FDI inhibit the free flow of global capital and other resources, which is necessary for international trade to thrive. Still, the investment-trade nexus has long been a subject of intense debate. The existence of a link between the two is not at issue; instead, the debate has revolved around whether this well-established link justifies the inclusion of investment provisions in international trade agreements. In the past, governments did not see a need for this – separate investment agreements between countries were thought to suffice. Today, investment provisions are increasingly creeping into bilateral and regional trade agreements (e.g. US-Singapore, US-Chile and NAFTA), so the original debate appears to have been quelled for the time being. However, there are new moves afoot to extend the investment-trade linkage further – into the multilateral trading arena – despite the failure of previous attempts[2]. This has raised a related and equally thorny issue, that is, is a WTO investment agreement desirable, or even possible?

Investment in the WTO

With growing acceptance of BITs and RIAs, as well as recognition of the critical link between trade and investment, have come a number of attempts to develop a comprehensive investment agreement within the multilateral trading system. There has been some limited progress in the WTO, with investment-related provisions incorporated into the GATS, as well as the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Trade-Related Investment Measures (TRIMS) agreements. The TRIMS agreement clarifies the provisions of the GATT by setting out an illustrative list of practices, particularly investment incentives, which must be phased out, e.g., requiring firms to export or to use local inputs in order to qualify for an investment incentive. In comparison - although it is not an investment agreement *per se* - the GATS is more far-reaching in its investment provisions. It grants the right to establish a commercial presence in another member's territory in order to supply a service. It also allows for the temporary entry of managerial and other key personnel. The TRIPS provides ancillary support to both the GATS and the TRIMS by reinforcing the protection of intellectual property rights, which is seen as key to attracting investment.

Notwithstanding these advances, at the Singapore Ministerial Meeting in 1996 a number of developed countries began to express dissatisfaction with WTO investment provisions. They felt that these provisions did not go far enough to provide the kind of homogeneous and predictable international investment climate their MNCs were seeking. Consequently, the decision was taken at that meeting to create a Working Group on the Relationship between Trade and Investment (WGTI), which would begin exploratory analytical work on trade – investment linkages, with a view

[2] The draft charter for the failed International Trade Organisation (ITO) contained extensive investment provisions. In addition, the OECD Member Countries attempted to forge a Multilateral Agreement on Investment (MAI) but negotiations collapsed in 1998.

to subsequent negotiation of an investment agreement. In November 2001, at the Fourth Ministerial Conference in Doha, Qatar, it was further decided that negotiations on investment would begin following the Fifth Ministerial in Cancun, Mexico in 2003, provided that consensus was reached at that time on negotiating modalities. In the interim, the WGTI was instructed to focus on clarifying issues relevant to the negotiations and identifying possible elements of an agreement. However, the subsequent breakdown at Cancun proved that there was by no means a consensus among WTO members as to the desirability and/or feasibility of such an agreement.

Investment and Developing Countries

At first glance, it appears that a WTO investment agreement would provide the best of both worlds. Investors would enjoy increased market access and enhanced protections for their investments, while, for developing countries, participation in a multilateral investment agreement would show potential investors that liberalising reforms were locked in. In other words, it would send the signal that these countries were open for business. It is unclear, however, whether these participating countries would actually see an increase in inflows of FDI over and above that resulting from unilateral and bilateral liberalisation. Indeed, studies have suggested that the increased investor protections resulting from a multilateral investment agreement would, in and of themselves, have little impact in terms of increasing FDI flows, as the geographical distribution of FDI flows is likely to continue to be based primarily on country-specific conditions. In terms of market access, the main area in which most countries maintain restrictions on investment is in services, for which there already exists a multilateral framework of rules, i.e. the GATS. Therefore, it is argued by some analysts that a WTO agreement on investment would be only a slight inducement to additional investment by foreign investors.

FDI nevertheless has the potential to make a significant contribution to sustainable development. However, for developing countries, the ability to unlock this potential hinges critically on the type and quality of investment, as well as the strength of the regulatory environment. Unfortunately, current WTO rules largely constrain developing countries' ability to regulate FDI in the interest of sustainable development, while failing to hold foreign investors socially accountable. As a result, the potential benefits of investment liberalisation previously outlined – job creation, technology transfer, etc. – are often not forthcoming. Furthermore, as developing countries' exposure to FDI grows, they become increasingly subject to capital flight risk and general financial instability. Amid countless horror stories about MNCs' exploitation of human, natural and other resources in developing countries, it is important not to lose sight of these potential costs of investment liberalisation.

Of course, there is the argument that a multilateral approach to investment negotiations would be beneficial to smaller, poorer countries that would otherwise wield little bargaining power in bilateral negotiations with economic superpowers such as the US. By the same token, it is argued that developing countries might be able to leverage an investment agreement within the negotiations to gain reciprocal commitments in their priority sectors such as agriculture. Again, in the event that this type of trade-off is not possible, the benefits of a multilateral agreement may not prove to be substantially greater than those derived from existing agreements or unilateral market opening actions.

On reflection, therefore, it is not altogether obvious that any great benefit would accrue to developing countries from multilateralising foreign investment rules. These countries' ability to use their agreement to investment rules as a bargaining chip could however be an advantage. Otherwise according to some analysts a multilateral agreement holds out few opportunities for developing countries to attract new or better quality investment flows, while posing the threat of involvement in WTO dispute resolution procedures, as well as the curtailment of governments' policy space and the resultant socio-economic

and environmental costs. However, the fact that multilateral agreements continue to be pursued is indicative that this is not a universally held view.

Prospects for a WTO Investment Agreement

The WTO membership is extremely divided on the issue of investment. The main proponents of the agreement are developed countries such as the European Union, the US, Canada and Japan, all representing the interests of their MNCs. Among developing economies, Latin American countries have by and large adopted the horse-trading approach, whereby they hope to extract commitments from other Members (on agriculture in particular) in exchange for their support on investment. The potential reduction of their policy space is the major deterrent for India and some South East Asian countries, while least developed countries – especially in Sub-Saharan Africa – have other, more pressing negotiating priorities to engage their limited human and financial resources. In light of these divisions, the prospects are rather dim for completing an agreement on investment as part of the single undertaking[3] at the end of the Doha Round in 2005.

[3] WTO negotiations are based on the principle of a 'single undertaking', which means, "nothing is decided until everything is decided", i.e. agreement must be reached on all negotiating areas in order for the agreement to be valid.

"Financial Liberalisation and the Likely Impact on Businesses in Barbados"
An Address by the Governor of the Central Bank of Barbados, Dr. Marion Williams
To The Babados Chamber of Commerce on March 24, 2004

Mr. Ruall Harris, Executive Director, Mr. Robert Foster, President, Mr. Mark Thompson, Vice President, ladies and gentlemen, thank you for inviting me to speak to you on a topic that is not only of importance to businesses, but to every single Barbadian. Financial liberalisation is but one of the features of the so called "Washington consensus" which was popularised by the international financial institutions a decade ago. I shall first briefly describe the lessons drawn from the experience of capital account liberalisation in other countries. Then, I shall sketch some key features of the Barbadian economy, highlighting the key considerations in the liberalisation process. In doing so, I shall allude to Barbados' specific issues and possible strategies for dealing with them.

General Facts and Conventional Wisdom

Liberalisation is defined as the freeing up of product, labour and financial markets, usually to respond to price incentives. Financial liberalisation applies this principle to the financial markets. The underlying rationale of financial reforms has been to move to systems which respond to market signals, on the grounds that it leads to greater efficiency. This is a desirable goal. The experiences of other countries suggest that financial liberalisation must be implemented only in the context of a full appreciation off all factors, both global and domestic. At the same time financial liberalisation must be compatible with the degree of resilience of the domestic financial sector and with its ability to deal with large flows of capital in either direction.

Inward capital inflows are welcomed. They add to reserves and though they can lead to excess liquidity, and can influence interest rates, in a foreign exchange constrained economy, these are implications that can be accommodated. However, when capital inflows are reversed, as has happened in many Latin American countries and South East Asia, capital account liberalisation may give rise to capital outflows, and (where the outflows are at heavily discounted prices), to losses and to institutional distress. Financial liberalisation however is important to allow us to effectively integrate ourselves into the international landscape. With respect to CARICOM, it is a critical factor in the effective functioning of the CSME to which we are all committed.

Capital account liberalisation is the most important aspect of financial liberalisation and from the experiences of other countries there are some lessons to be learnt. Firstly, it should take place in a context of sustainable macroeconomic and trade policies so as to minimise risks. Secondly, developed financial systems and supervisory infrastructures need to be in place before complete opening of the capital accounts. The broad lesson is that financial liberalisation in general is likely to succeed if it forms part of a coherent programme of economic reform, and the financial sector should be opened when the economy is able to cope with the adjustment.

Let me say up front that this discourse will not discus our exchange rate regime as there is sufficient evidence to confirm that for small developing economies fixed exchange rates work very well. Our fixed exchange rate acts as an anchor, which helps to stabilise the economy.

Main Characteristics of the Barbadian economy

The Barbados' financial system is a stable one, dominated by a banking sector that is large and liquid. It also features a new, but increasingly active domestic capital market. However, so far, the level of trading and range of investors have been limited. Certain liberalisation measures – some of which have already been undertaken -should have helped quicken the capital market, but responses have been slow.

For example, there are presently no controls on the purchase or sale of listed securities within CARICOM, but there has been no noticeable change in the willingness to buy regional securities on the part of Barbadian investors. Very soon as we honour our commitments under the CSME, there will be no restrictions on investment in unlisted equities.

Barbados is already largely open to regional capital movements. We are also very open to international capital inflows, particularly foreign direct investment.

Barbados has been undergoing a process of gradual financial liberalisation and reform. In fact, a large part of the financial sector is already largely deregulated, as the Central Bank has already conferred delegated authority status to the commercial banks for authenticating almost all current account transactions. The main aims of such forms of liberalisation are to increase efficiency in key areas of the economy. This should ultimately reduce delays and hence costs and improve the level of efficiency in the system. The benefits of liberalisation take time to permeate through the economy, and there will be an intervening period of adjustment.

I am sure that the question is sometimes posed as to the extent to which Barbados is in a position to permit money to flow freely out of country. Backed by the increase in foreign inflows over the last few years, Barbados has produced a relatively healthy level of foreign reserves, which now stand at over US $750 million. There is now more scope for outward investment. Indeed, one of the main reasons behind the foreign borrowing undertaken in 2000 and 2001 was to position the country to further liberalise its exchange control regime. This it has been doing, particularly with respect to CARICOM.

The question for Barbados is, no longer whether funds will be allowed to flow out of the country in response to market signals, but rather, how much and how can the country be assured of reflows of dividends, interest and profits from these outward investments, and what conditions need to be fulfilled in order to ensure a smooth changeover to this new regime. The extent to which this economy can facilitate the transition to greater openness will be influenced by the likelihood of reflows to replenish the foreign exchange reserves.

The question is often posed as to whether the Barbadian economy is able to accelerate the rate of economic growth, will this be sufficient to ensure a healthy level of foreign exchange reserves? The answer depends on our ability to influence the structure of production of goods and services, to increase output in tourism and international business, to generate new foreign exchange earning activities and on our ability to continue to attract foreign direct investment.

Barbados depends on capital inflows to offset the deficit on the current account and to contribute to reserve build up. The country's economic stability continues to allow it to attract foreign direct investment, while its natural comparative advantage in tourism is the basis of its tourism success. By far the largest share of the FDI market is in tourism related activity or real estate, but it is important to note however, that the stability of the country's financial markets, is related to confidence in the value of investment.

Interest rates are much less controlled than they were 5 years ago. The administered lending rate has been removed. Cash and securities requirements for commercial banks have moved from 33% to 17%. However, to date the Central Bank has continued to set a minimum deposit rate. This is based on the view that the market is oligopolistic. In addition, the Central bank tries to keep interest rates low in order to control operational costs of businesses but tries to keep them high enough to permit a positive real interest on savings or to at least avoid a negative real return. This is assisted by the fact that international rates are low, in US dollars, euros and sterling and by the fact that the Barbados' economy has been able to benefit from constancy in prices, with inflation averaging 2 - 2.5% and real interest rates remaining mostly positive.

Our ability to remove controls will depend to a large extent on the level of competition which develops among commercial banks and the options which we are able to offer depositors to permit them to avoid a captive local market in deposits.

A relatively stable inflow of foreign direct investment, some through acquisitions, has dominated the capital account, allowing official reserves to be comfortable in relation to short-term debts. Outward investment has been

timid. Barbadians must now buy into the parents of regional acquiring companies. For the most part, these are listed companies so there is no barrier. As the saying goes, "If you can't run the show at least get a piece of the action".

The situation demonstrates the earlier maxim that it is desirable to develop one's capital markets before accelerating the process of liberalisation. Here is the example of investment by Barbadians in listed CARICOM companies lagging purchase of local assets by non resident CARICOM nationals - a factor attributable in part to the under developed attention to capital markets by local investors.

If we are to move beyond depending on natural comparative advantage and on our economic stability, it means we must work on our competitiveness. If we are to accelerate the pace of financial liberalisation beyond CARICOM, improved competitiveness will be absolutely necessary, in every field, including the financial field.

Challenges and Opportunities

There is at times, a common misconception that the trend towards liberalisation means that policy making authorities have to abdicate their role completely. On the contrary - they should not abdicate their roles, but simply change the manner in which the roles are performed. Greater attention is now being paid to establishing the general set of institutional arrangements within which the private sector operates, rather than to directing individual decisions. This is particularly so in the financial sector.

Financial liberalisation is normally accompanied by enhancements in the transparency of markets. Timely and reliable information relevant to decision making by market participants, as well as, by the regulatory authorities is crucial to the effective functioning of a market. It is thus important that there be an adequate public disclosure framework to provide information that is necessary for counterparties, creditors and investors to assess risks properly. The tasks also include developing still higher standards for financial data collection, and promoting transparency through the sharing of information.

This is a Chamber of Commerce gathering, so many of you might pose the question: what impact is financial liberalisation likely to have on the corporate sector? There will be some elements of competition, some of which will be external and internal factors. The internal factors are those directly emanating from the firms themselves under the pressure of competition, while the external ones are those common to all firms, being the effects of the new liberalised environment. The ultimate impact however, depends upon how a firm has been able to manage the challenges of increased competition, and how they respond to new opportunities.

Financial sector reforms tend to open up new avenues for raising funds for the corporate sector. Companies though, tend to shy away from the capital market. If more resources are required they use long-term loans, or bank borrowings, and only as a last resort go to the capital market. In many small economies the underlying reason for this is that equity finance reduces the control of the traditional management. Still, domestic equity markets could become a major source of funds. Access to foreign funds should also be increased in due course, through a liberalised external commercial borrowing policy, provided there is sufficient evidence of adequate reflows sufficient to cover the cost of overseas borrowing. This suggests a degree of interlinkage between reflows from investing overseas (or from any other incremental increases in foreign exchange earning activities) and borrowing overseas. The interest element is an additional foreign exchange cost which has to be borne. It is for this reason that up to now foreign private sector borrowing is usually limited to borrowing that is going to be used to earn foreign exchange. Otherwise some other entity has to earn additional foreign exchange.

Companies may be enticed to use new money market instruments, such as commercial paper, certificates of deposit and inter-corporate deposits. These instruments may enlarge the corporate sector's access to funds and enable it to choose between various sources of competitively priced financing. However this is about the methodologies to be

used and about how financing is to be achieved, not about determining the quantum that is affordable. The key to determining the extent of affordable liberalisation is estimating the affordable quantum.

In the past exchange control liberalisation was about increasing the allowable quantum of a particular controlled item. However, since we are moving away from quantity controls, liberalisation announcements tend to be general. We tend to lift controls on certain items based on our projections of an affordable quantum which will result from a general decision to liberalise some aspect of capital controls.

It is for this reason that we have settled on equity investment as the item to be liberalised before moving to fixed income securities. The sequence is driven by affordability. A massive outflow of funds for equity investment is hardly expected and has not occurred to date. Given market capitalisation it is possible to estimate a maximum outflow that is manageable. In the case of fixed income securities, the ability to forecast the quantum of foreign exchange outflow is more complex, since there are so many constantly changing variables – interest rates, exchange rates principally - and the sums at stake can be very large. Countries can issue several hundred million in bonds at a time. This is unlikely with shares.

Fixed income securities can include corporate bonds, but in the Caribbean they are mostly government bonds – US$200 is a normal figure. We mentioned the need to liberalise by way of general policy, not quantitative approaches, while at the same time forecasting the impact of the policy change in quantity terms. Issues of fixed income government securities can be very large. Large movements have the potential for leading to volatility in financial markets. It is for this reason that investment in government fixed income securities has been the exception to the rule of liberalisation by general permissions and not by quantum.

New money market instruments may be employed so as to provide some element of substitutability with bank borrowings. Financial institutions are encouraged to see themselves more as providers of financial assistance and not only as loan providers. This will put more dynamism into the financial market since they can become more involved in underwriting and direct subscription to capital market instruments. This requires more skill and a greater ability to estimate outcomes but is well within the competence of local technicians. There was a time when regulators required Chinese walls between brokers and bankers but with acceptance of deregulation worldwide, this is becoming more and more acceptable.

Interest rate differentials tend to be cited almost as if they are the only factor which are an example of market imperfections at the regional level. Differences in access to credit across firms in the same jurisdiction also obtain. Large firms will still have an advantage in raising funds from the market at a lower cost, since borrowing costs tend to decline with the increase in the size of the firm and the size of the loan. Small firms may face the disadvantage of paying higher interest rates, while having less access to capital market share premium and borrowings. This is less likely to be the case with cross border transactions in the Caribbean where large is still small. There is also no major perceptible difference in tax incidence of companies based on size, but larger firms may have a marginally lower effective tax rate. However, there is a difference in taxation rates among countries in the region and that will influence net effective costs.

Monetary Policy and Liberalisation

The gradual removal of capital controls has led to an increased monitoring and to less control by the Central Bank. Openness to international capital flows can help to support the development of small island economies and long-term capital, as opposed to very short-term flows are preferable. In the absence of major investors, substantial pooling is required and Initial Public Offerings (IPOs) should be attempted. In the developed world, this is standard. However, our investors tend to want to see a track record before investing. They are not risk takers. However, existing

successful firms which wish to expand cross-border, may be well placed to launch IPOs even in our conservative investment climate.

The challenge for central bankers is to capture the benefits that come from openness to financial flows, while avoiding the risks associated with increased volatility caused by sharp changes in the size and direction of capital flows. Some developing countries (Chile) have dealt with this by discouraging short-term capital inflows where they think that the risk of volatility outweighs the benefits of a temporary boost to foreign exchange reserves. Our interest rates are sufficiently low to pre-empt most investors from taking the route of short-term investments.

Financial Stability and Institutional Structures

Though efficient and well-defined regulatory and monitoring structures are essential to creating the incentives needed to generate substantial benefits the downside of all this if all actors have the same information is the likelihood of herding. While transparency permits more rational decision-making, particularly with regard to assessing the levels of risk associated with transactions, if all actors have the same acumen, the same information, they arrive at the same result – leading to increased volatility.

Financial liberalisation is almost inevitable. What is important is that we use the time before the technology makes it unavoidable to create a cushion for ourselves. This cushion is the development of our second tier foreign exchange reserves. We have given the name second tier foreign exchange reserves to that portion of foreign investment which we have permitted insurance companies and pension funds to invest overseas over and above the amounts normally permitted, provided they are made repatriable. Since these funds are in the long-term going to be used domestically any way, no one is the loser. This is an exciting new concept. Presently, such reserves amount to close to $100 million. We have even had requests by individuals who wish to invest overseas to be part of the facility, as a means of facilitating their investing overseas. We are working on how and if monitoring of this is possible.

Let us address the question of lending and borrowing. Logically, at the regional level, deficit regions should be able to borrow from surplus regions. Why then is Barbados not allowing this freely to take place? The answer does not simply lie in the opportunities for profiteering (termed arbitraging in the discipline) borrowing low and investing high is a typical form. Equally important is the fall out for monetary stability from the movement of funds without regard to domestic circumstances, which by moving in a direction contrary to monetary policy could frustrate that policy. It is for this reason that regional central banks speak of the need for greater convergence in our regional economies. Such convergence will help to bring relative interest rates closer together and so facilitate unfettered cross-border flows without the possible adverse implication for interest rate arbitrage and for unhinging their neighbour's monetary policy.

Questions: What is required in order for this to change? Answer: When regional economies converge further. Will flows will help them to converge? Yes, the flows will accelerate convergence. However they must be monitored so as to minimise disruption in the process, hence the need for quantitative impact assessments to precede liberalisation measures.

Competition for market share amongst financial institutions increases with liberalisation, and can lead to excessive risk taking. However, the potential exists for the development of skills in financial analysis and financial management with increased levels of liberalisation – always however, with an eye to the impact on the strength of commercial banks' balance sheets. Risk-taking is to be encouraged, but risks must be calculated. Governments in Jamaica were forced to undertake substantial bailouts, at taxpayers' expense as a result of institutional failure, some of which was related to bullish playing of the markets.

I am taking this opportunity to respond to a comment which I saw in the press about the ability to move funds from one account to another - both locally, and to credit third parties both locally and abroad, and the assertion that

this was prevented by exchange controls and by anti-money laundering guidelines. First let me say that with respect to the international business sector there are no exchange controls. Indeed, offshore banks have been conducting business in that way for many years.

With respect to direct (party-to-party) transactions where both parties are domestic entities, there are no regulatory barriers, the constraint is the availability of the technology. With respect to party-to-party incoming transactions there is no difficulty either. With respect to outgoing transactions for quid pro quo that is where value is received, these are considered pre-payments and are permitted up to $250,000 per transaction as long as the commercial bank gives permission – such authority has been delegated to banks. Transactions where there is no quid pro quo are capital transactions – no goods or services are being bought. Most current account transactions are already liberalised or are being considered for liberalisation, and it is the capital transactions which the bank is presently addressing. Presently, the technology is for the most part not available, so the problem is not with the regulator. However, we recognise that it is only a matter of time before the technology becomes available, and the intermediation of the commercial bank for payment, in the context of which exchange controls were developed, will not apply as direct payment will be possible.

This will change the face of supervision and regulation and the techniques of monitoring. E-audits and e-supervision will become more the norm. One possibility is no controls, but our foreign exchange reserves cannot afford this as it applies to capital accounts. The other is an honour system backed up by e- audits and e –supervision and audit trails.

Globally, there is some contradiction in the trend towards financial liberalisation. Even as international financial institutions espouse financial liberalisation, they have taken significant steps to stem capital outflows by companies who seek to benefit by low tax rates. So much so, that the same countries which prepare general guidelines rather than quantitative rules are now prepared- at least at state level- to be quantitative A 10% tax or below is unreasonable, it is argued. The wheel is going full circle and the liberalisers are becoming the controllers. For this reason also, with respect to third countries (i.e. non CARICOM), we cannot get ahead of ourselves – or ahead of the proponents. We go at their pace but not faster.

Also, with respect to low tax jurisdictions, formerly, risk was reflected in price. This was the principle of liberalisation. Now risk can mean non-inclusion of banking entities from international transactions. This is the outcome for US dollar transactions through what is termed high-risk jurisdictions.

We have to be ahead of the curve strategically though not necessarily in implementation. Adequate training and upgrading of skills will be necessary not only in the Central Bank but in commercial banks as well. An expanded set of skills will be required by the financial sector, both supervisors and practitioners, in a relatively short space of time. Indeed there are opportunities for the development of high-level skills in the international business sector. Increasingly, location will not matter. Skills efficiency and competitiveness will be the key and the skilled persons in our international business sector must take advantage of the opportunities.

The Implications of Initial Conditions

In general, an economy's initial conditions shape the approach to financial liberalisation. With or without liberalisation, market forces in Barbados will encourage residents to seek more diversified and better returns within the region and beyond. In this case, Barbados' initial conditions have implications for the future interest rate scenario. Will overseas investors honour their commitments to bring home the reflows without incentive? Returns on local funds may have to be attractive enough to attract dividends, interest and profits earned on outward investment back to Barbados. Making this attractive could push interest rates up. To date we have tried to keep interest rates low in order to bring operational costs down. It will be a challenge to attract reflows in a low interest rate regime.

Reflows will occur down the road, perhaps 5-10 years from now. Will our emphasis still be on keeping costs low? Competitive forces should have taken care of that by then and costs should by then be low. Investment returns should therefore be possible and reflows should occur without any special encouragement.

It will be important to be proactive, to anticipate changes ahead of time. Also, the liberalisation experiences of economies in the past may help guide us. However, history can never be repeated exactly. Circumstances will differ. We can be informed by the experiences of others but we cannot replicate their responses.

Conclusion

Ladies and gentlemen, the process of liberalisation is on-going and has already started to impact on the way we do business. It will bring challenges as well as opportunities. We do not, however, have the option of turning our backs on it. Rather, I believe that we should do whatever we can to exploit the tremendous opportunities which present themselves. I am confident that the Barbadian private sector will respond in a timely and effective way to these challenges.

I thank you.

How Countries Manage Reserve Assets

Edited by Robert Pringle and Nick Carver

A Review by Kerry-Ann Alleyne*

Introduction

The book, *How Countries Manage Reserve Assets,* explores a number of important concerns resulting from the diverse facets of reserve management, and provides differing perspectives from a variety of authors involved in the reserve management process.

The text discussed many aspects of reserve management, in particular the increased focus on the efficient use of reserve assets and in this regard the diversification of investment into different asset classes with various risks. The emphasis was then placed on managing these risks effectively in order to maximise returns, while minimising losses to investments. Increased transparency is also an important concern for all groups of countries. This means that there should be a consistent accounting framework and central banks should adhere to international accounting standards, as well as provide adequate information on reserve management policies. Other important issues examined in this book were the importance of using external managers, the implications of the euro for reserve managers and the impact of currency composition of reserves.

The information provided by the articles reviewed in the book was generally consistent with the IMF guidelines for reserve management, which focused on accountability and transparency and risk management. The text, however, did not fully address certain topics, such as, all of the reasons for holding reserves, and the question of whether the government or the central bank has ownership of reserves.

The Need for Reserves

Abstracting from the years of crisis, the demand for reserves has grown over the last 25 years. David Williams, in chapter 2, argued that the supply of reserves is demand determined, that is countries hold what they perceive is needed. A rise in the demand for reserves may therefore be indicative of increasing international transactions and the variability of external payments. Demand may also include the reserves needed for precautionary purposes, for example, to absorb unexpected shocks and capital flows.

Williams also talked about the relationship between exchange rate arrangements and the level of reserves. According to the writer, there was little evidence to support a significant relationship between these two variables and he justified this by showing that the upward trend in reserves was for all countries regardless of their exchange rate arrangement. The author also noted that there has been a shift in the measurement of reserve adequacy from current account to capital account indicators, in particular debt. More recently, attention has also been placed on the impact of the short-term debt position on the country's need for reserves. Hence, reserve adequacy is expressed in terms of these measures as opposed to the traditional imports to reserves ratio.

The author however failed to mention a few other reasons for holding reserves such as, a formal backing for domestic currency and a source of funds for government expenditure. These reasons, in addition to others, were discussed further in the Bank of England's handbook on *Foreign Exchange Reserve Management written by* John Nugée.

Reserve Management: Country Experiences

India

The balance of payments crisis in 1991 started a shift away from the traditional approaches of reserve management in India. According to Y. V. Reddy, these policies are now built on factors such as, short-term debt obligations and maintaining financial and trade flows. The objective of reserve management at the Reserve Bank of India (RBI) is to ensure the safety, liquidity and optimisation of reserves and this is done through continuous review of reserve management strategies in consultation with the government. Reddy said that when investing reserves

* Ms Kerry-Ann Alleyne is a Research Officer in the Research Department of the Central Bank of Barbados.

attention is paid to the currency composition, duration of investment and instruments. Equally important is that all investments are in high quality assets, and that some of these are easily converted at short notice. In the opinion of the author, the RBI also focused on adequate disclosure regarding reserve management policies and other relevant information.

Canada

The increase in holdings of international reserves, for Canada, has been accompanied by increased transparency and complexity in the management of reserves. Canada's reserves are held in the Exchange Fund Account (EFA), which is managed by the Bank of Canada and the Department of Finance. An asset-liability matching framework is used in the management of the EFA. In chapter 6, Jacobo De Leün noted that the objective of liability management is to achieve the lowest possible funding subject to considerations such as ensuring access to capital markets and the diversification of funding sources. Under asset management the EFA consists of two tiers, the liquidity and the investment tiers. The objective of asset management is to minimise the cost of carry whilst still maintaining adequate liquidity and safety of capital. De Leün examined the evolution of Canada's reserves, and the changes in reserve management accompanying the developments in the financial markets, new approaches to foreign exchange intervention and federal government policies. The author pointed out that Canada was one of the first countries to meet the IMF and G-10 format for presentation of reserves.

Other Developing Countries

Of particular interest to the region is chapter 7, which examined reserve management in developing countries, and how it differs from the practices in more developed countries. The objectives of reserve management in developing countries include ensuring economic stability, security and adequate confidence national currencies, meeting financial obligations, and building institutional capacity. Michael Naameh found that in about one third to one half of the developing countries, GDP volatility and high external debt were the key factors that determined reserve levels. In contrast, the level of reserves in the more advanced developing economies was shaped by exchange rate considerations. In the same chapter, the author also examined a few other interesting topics that related to reserve management and developing countries, and these are examined in greater detail below.

Capacity Development

The first topic discussed was capacity development; Naameh pointed out that an increase in the number of central banks, particularly in transition countries created a greater demand for technical assistance. Demand was initially met by the central banks of industrial countries together with the IMF and the Bank for International Settlements; regional training institutions have since been established to meet the demand. The focus of these assistance programmes was to build the organisational structure needed to support higher levels of activity in foreign exchange, bond and derivatives markets. As a result of the increased focus on capacity building, some central banks were able to restructure and sharpen skills.

Policy Implementation

The currency intervention and portfolio management aspects of policy implementation were also reviewed.

With the advent of inter-bank foreign exchange markets in most developing countries, significant progress has been made in the area of currency intervention. The country's exchange rate regime, the frequency of central bank intervention and the intensity of foreign bank participation have all influenced the operations of these markets. In a fully developed market when the demand for foreign currency rises, the central bank may be forced to intervene at the risk of depleting its reserves.

With respect to portfolio management, the concern is with optimisation in both the level and composition of

reserves. The use of portfolio optimisation techniques, experiences and the risk profile when deciding the level of and composition of reserves was proposed.

In the author's opinion, the active management of reserves should focus mainly on the minimum level of reserves needed. This is dependent on the primary objective of reserve management He also suggested that a number of advantages could be obtained from splitting the reserves into different sub-portfolio each with their own objectives, benchmarks and guidelines. These advantages include improvements in risk control, transparency and efficiency.

In concluding he recommended that the inflow of foreign direct investment (FDI) should be used, rather than the level of reserves, as an indicator of policy success in developing countries. According to him, based on this measure of evaluation of success developing countries have done very well. However, the level of FDI inflows is a function of exchange rate, and what may be appropriately classified as FDI in a floating exchange rate regime could be classified as loan capital under a fixed exchange rate.

One of the abovementioned advantages of portfolio management was improvements in risk control. A discussion on the process of risk management follows.

Risk Management

Like other financial institutions central banks are exposed to financial risks. However, unlike other institutions the issues relating to these risks are not the same because of their different objectives. The first step in risk management involves the identification of the type of risk. The four types of risk described in chapter 9 written by Ib Hansen, Christian Olgaard and Peter Kaer Jensen were:

- Interest Rate (Market) Risk – risk of losses associated with fluctuations in the interest rate.
- Exchange Rate Risk – risk of losses due to fluctuations in exchange rates.
- Liquidity Risk – the risk that arises from the difficulty of selling assets.
- Credit Risk – risk associated with the possibility of default on obligations.

Quantifying these risks involves the evaluation of the likelihood of occurrence and the consequences of each type of risk identified. Over the last ten years there has been considerable development in the methods of quantifying risk. The approaches noted were:

- Value at risk estimates, which provide information about the general risk of losses, and;
- Stress scenarios, which provide information on losses in extreme circumstances.

Neither method can be considered better, because the approach used is dependent on the information required.

How Countries Manage Risk

The book also addressed how different countries manage risk. The Reserve Bank of Australia, as a result of the nature and efficiency of its operations, has low credit risk exposure and has not experienced any losses due to counterparty defaults. However, it is interesting to note that the bank has limited control over the management of the exchange rate and interest rate risks. On the other hand, the Hong Kong Monetary Authority has a Risk Management and Compliance Division, whose responsibility is to monitor the risk associated with the investing process. In contrast, the Central Reserve Bank of Peru uses hedging to minimise the interest rate risk. Liquidity risk is also controlled by distributing assets over investments of varying liquidity and credit risk is minimised by using highly rated investments in non-private entities.

Risk plays a significant role in the investment of reserve assets. Usually, the risk tolerance of the central bank will dictate the portion of reserves to be invested in non-government securities. As the increase in transparency continues, central banks will be under pressure to demonstrate efficient use of the reserve assets.

Roberts L. Grava presented extensive data analysis regarding the rate of return on various asset classes to support

increased investment in non-government securities. He found that irrespective of weighting, short and medium term government securities were always expected to underperform agencies and investment grade corporates, and suggested that single asset returns and diversified portfolio simulations yielded similar results.

Roberto de Beaufort, Francisco Palomino and Sandra Benitez found that corporate debt has better risk/return characteristics, in spite of the additional systematic and non-systematic risk that they are exposed to. They also provided data analysis to show the benefits of diversification of reserve assets. The authors concluded by saying that the data analysis showed that corporates delivered better risk/return considerations than treasuries over different time periods, and the additional risk particular to corporates can be managed.

The authors of both chapters queried why losses from fluctuations in interest rate are more acceptable to central banks than losses arising from corporate debt.

Other Issues Affecting Reserve Management

The text also looked at a number of concerns for reserve managers and the management of reserve assets. These included accounting for reserves, the use of external managers, factors affecting the currency composition of reserves and the implications of the advent of the euro.

Accounting for Reserves

The issues of accounting standards and corporate governance have emerged due to recent corporate accounting scandals. Consequently, Joshua Kurtzig, Christopher Hemus and Ian Goodwin in chapter 15, suggest that central banks should ensure that they meet and adhere to changing accounting standards. Reserve management practices also need to be on level with the accounting standards in areas such as governance and risk management. On account of the increased transparency of reserve management, the accounting framework identified should provide accurate, relevant, reliable and consistent information about the financial activity of the central bank to all users of this information.

The Use of External Managers

The need to hire an external manger came about because risk/return considerations are of greater importance as a result of changing central bank goals and increased transparency. The Bank of Estonia, the Swiss National Bank and the Hong Kong Monetary Authority are some of the banks that use external managers. The reasons for hiring external managers include: benefiting from the expertise of the external manager, obtaining access to and coverage of additional markets and the provision of benchmarks for internal assessment. The use of external managers is also advantageous, because investments can be made in additional asset classes, which would have been too expensive to manage internally. It is interesting to note that the external managers, like their internal counterparts, are subjected to investment benchmarks, guidelines and stringent controls when managing external portfolios.

Currency Composition of Reserves

The advent of the euro, choice of exchange rate regime, multilaterisation and regionalisation of trade and capital account restrictions are issues that affect the currency composition of reserves. Barry Eichengreen and Donald J. Mathieson in chapter 4 investigated the recent trends in the currency composition of reserves in developing countries, as these countries are more likely to be affected by changes in the international financial environment. The authors found that the currency composition of reserves was stable overtime and the choice of reserve asset by developing countries is influenced by links with the reserve currency country, such as the presence of pegged exchange rates, the level of trade and the amount of debt servicing required.

The UK and the Euro

The arrival of the euro and the issues of if and when the UK would adopt the euro have provided reserve

managers with a number of concerns. Geoffrey Dicks, Kit Juckes and Paul Stanworth, in chapter 14, addressed the consequences of the UK joining the EMU for the euro, euro-denominated assets and sterling denominated assets. They postulated that entry by the UK would make the eurozone the largest single currency zone, which would result in the euro becoming an alternative to the dollar as a means of exchange and as currency for investment. Sterling holdings would be redenominated into euro assets at the chosen entry rate thereby increasing the percentage in euro assets, while sterling assets in the eurozone will be no longer foreign exchange reserves. The authors concluded by saying that entry into the EMU by the UK would have positive effects for both the euro and the eurozone bonds, but will negatively impact on the pound and UK denominated assets.

Conclusion

Foreign exchange reserves are increasing rapidly for all groups of countries and this is expected to continue into the future. Recent events such as the collapse of Enron, the Argentine default and the terrorist attacks on the US all have impacted on the level of reserves and reserve management policies. The resulting increase in reserves has been accompanied by greater transparency and consequently greater pressure and demands have been placed on reserve managers. These include improving the return on assets and accounting for reserves. The text, *How Countries Manage Reserve Assets*, used the experience of individual and groups of countries to discuss current issues relating to reserve management in addition to topics such as reserve adequacy, the demand for reserves and diversification of reserve assets.

Reserve Management at the Central Bank of Barbados

The objective of the Central Bank of Barbados' investment policy is to optimise the return on its foreign investments within a risk adverse framework. These investments are mainly US dollar denominated fixed income, highly credit rated securities, thereby minimising exchange rate, interest rate and credit risks. Liquidity risk is also minimised by the use of a staggered basis for maturing assets. In addition, the Bank has recently started employing the use of external managers and approximately 5% of total reserve assets are managed externally.