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Publisher's Note

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

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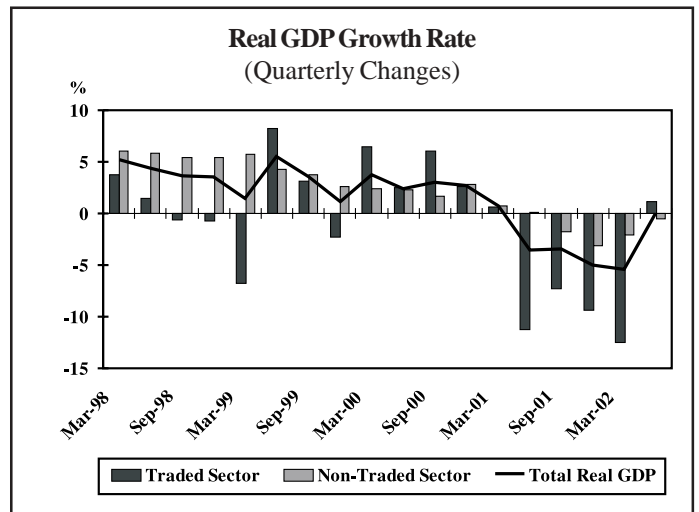
Overview

During the first six months of 2002, the Barbadian economy is estimated to have contracted by 2.5%, almost double the rate recorded in the comparable period of 2001, and in contrast to the average expansion of 2.8% over the eight previous years. The decline in economic activity was broad-based, with the traded sectors especially hard-hit by plummeting tourism and sugar output. Non-traded activity was negatively affected by the poor performances of the construction and wholesale and retail sectors as well as the fall in the overall level of aggregate demand in the economy. As a consequence of the downturn, the unemployment rate crept up slightly in the second quarter after registering steady decreases over the past five years.

A modest accumulation of reserves occurred, in spite of weak traded sector output, mainly on account of lower import demand as well as capital and financial account inflows. Consumer and investor caution in light of economic uncertainty, contributed to a further build up in liquidity, while significant growth in capital expenditure and a deterioration in revenue increased the fiscal deficit to almost twice the size of that reported in the first half of 2001.

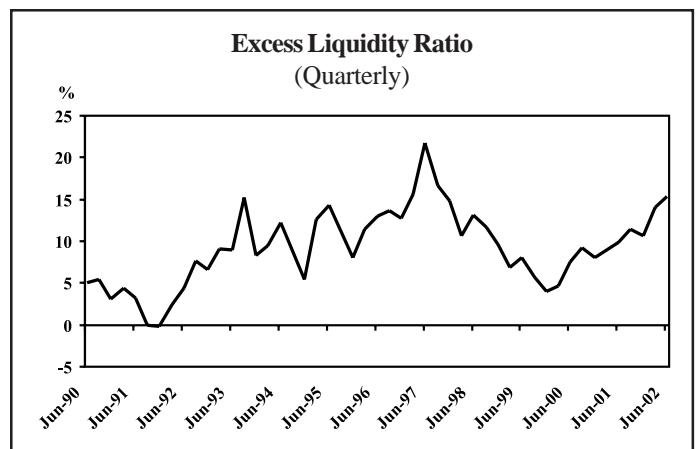
Traded sector activity declined by approximately 6% during the review period, despite registering a slight rise of about 1.6% in the second quarter of this year. Tourism output decreased by 10%, reflecting reduced arrivals from all of the major markets, except the US and Trinidad and Tobago. In addition, cruise ship arrivals slumped, a turnaround from the previous year's performance. Sugar production improved in the second quarter, but this was insufficient to prevent a contraction of 10% during the period under consideration. Non-sugar agricultural output also fell, on account of reduced fish catches and milk production. However, manufacturing activity rose somewhat, as local production of processed foods picked up.

The weak performance of the traded sectors spilled over into non-traded activity, causing its first half-yearly fall since 1992. The wholesale and retail sub-sector was ad-



versely affected by the contraction in tourism activity and construction output was also weak.

The net international reserves (NIR) expanded by \$71.5 million during the first half of the year, \$75.2 million below the figure in the corresponding period of 2001 and \$47.8 million lower than the mean underlying increase registered since 1991. This outturn included a second quarter rise of \$3.3 million, which was the lowest since 1993. The overall slowdown in reserve accumulation reflected a lower current account surplus, and diminished capital and financial inflows. The current account surplus deteriorated because



of reductions in travel receipts and domestic exports which overshadowed the slide in retained imports. The capital and financial account surplus was affected by a fall-off in net long-term private sector transactions.

With domestic deposits growing substantially while private credit remained flat, the excess liquidity ratio climbed to approximately 15.3% at the end of June. This represented a gain of almost five percentage points since end-December 2001 and compares with a one percentage point increase reported over the similar period last year. The persistently high liquidity levels also contributed to the depressed treasury bill rate, which was 2.81% at June 30, 2002.

Government's fiscal position deteriorated during the January-to-June period, as the deficit widened to approximately \$113 million, compared to \$58.0 million in the corresponding period a year ago. Significant growth in capital expenditure, coupled with a shortfall in direct tax revenue led to this outcome. The increased levels of liquidity in the banking system allowed Government to use mainly domestic sources to finance its deficit.

Production Prices and Employment

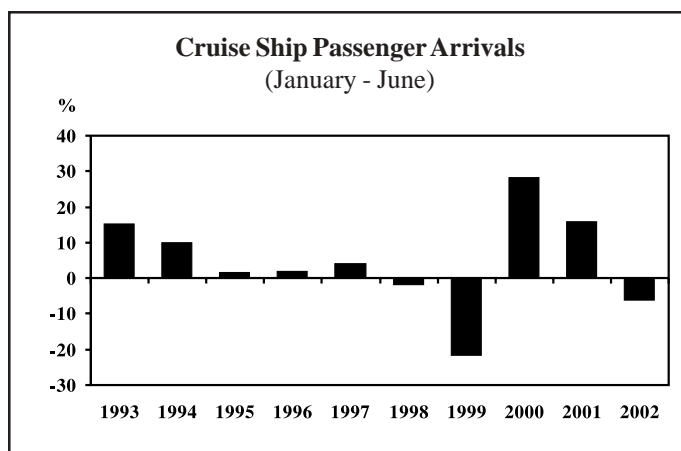
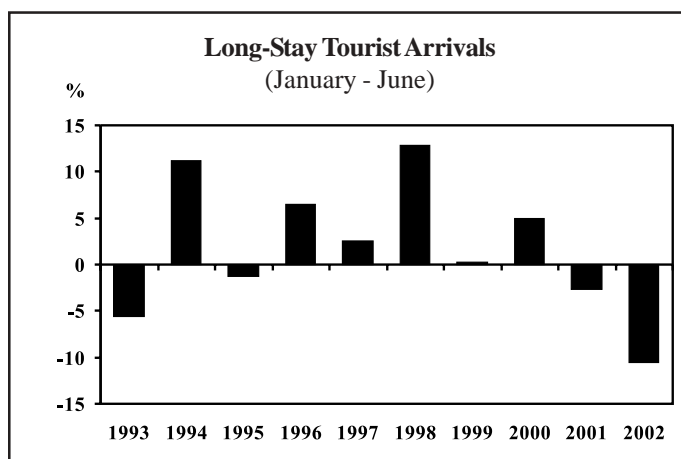
Tourism

Tourism activity contracted by 10% during the January-to-June period of 2002 a reversal from the average increase of 3.4% since 1993. Long-stay arrivals fell by 10.6%, the deepest slump in eleven years and a dramatic change from the average growth of 4% over the past nine years.

Visitor arrivals from the UK slid by 15.8% as a number of chartered flights were cancelled and the hosting of the World Cup finals in Asia during the second quarter attracted some tourists who otherwise might have visited Barbados. The number of holidaymakers from Canada and continental Europe plummeted by 19.1% and 23.6%, respectively, partly reflecting increasing price sensitivity which has lured these travellers to low-priced destinations. The outturn for regional tourists was mixed: arrivals from Trinidad and Tobago rose

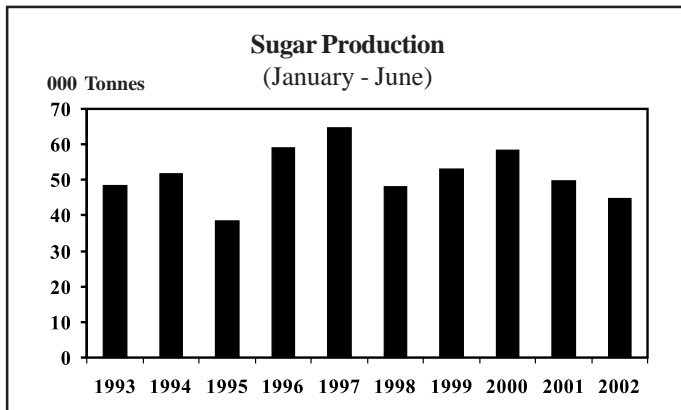
by 10% and those from other Caricom countries declined by 9.1%. In contrast, US arrivals climbed by 4.4% owing to more intensified marketing efforts by the Barbados Tourism Authority and the introduction of US Airways flights, which brought vacationers from previously untapped segments of the North American market.

Cruise-ship passenger arrivals contracted by 6.3%, compared to an expansion of 15.7% in 2001 and a mean increase of 6% in the corresponding period over the last nine years. The ebb in the number of short-stay visitors was symptomatic of the reduction in the number of calls by cruise liners, as the industry redirected and rationalised its worldwide operations in the wake of a downturn in global travel.



Agriculture

Although the amount of canes harvested during the review period was about the same level as last year, the 44,818 tonnes of sugar produced was 10% below the figure registered in 2001. Drought conditions that occurred during the crucial planting season, as well as the late start to the sugar harvest, combined to reduce the average yield of sugar per tonne of cane. The shortfall of approximately 10,000 tonnes from the EU quota was reallocated to other countries in the African Caribbean and Pacific grouping. Non-sugar agricultural output decreased by a further 2.6% this year, after falling by 5.1% in 2001, owing to lower output of milk (-5.4%) and fish (-8.9%), which more than offset the 2.9% growth in chicken production.



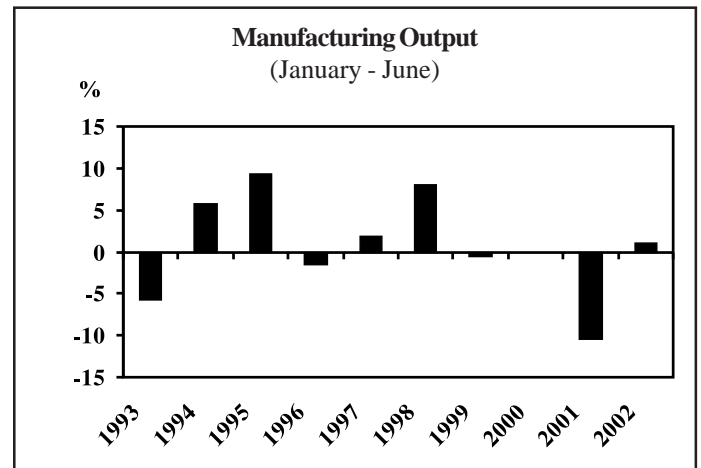
Manufacturing

Between January and June 2002, manufacturing output was marginally higher (1.8%) than during the first half of 2001 and compares with average contraction of 1.2% for the period since 1996. Expansions in food processing and other manufactured items of 6.5% and 8.7%, respectively, were responsible for the upswing, buoyed by the implementation of the “100% Bajan” campaign and the 60% tariff imposed on selected imported goods in 2001. These increases offset declines in the production of electronics and beverages and tobacco. Electronics have been hampered by the fall-off in worldwide demand, while the performance of beverages and tobacco worsened on account of fierce competition from overseas beverage products.

Non-Traded Activity

During the review period output in the non-traded sectors fell by 1%, mainly because of downturns in construction as well as in wholesale and retail activity. Construction value-added contracted by an estimated 7.6% in the first six months as several large scale private sector projects, which had fuelled activity in previous years were completed. The decrease was 5.8 percentage points greater than the fall registered in the same period a year ago, and contrasts with an average growth of 9.7% during the construction boom which began in 1995.

Wholesale and retail activity dipped by 2.4%, principally as a result of the poor outturn in the tourism sector. Mining and quarrying also weakened by 2.6%, reflecting an estimated 18.4% drop in oil extraction, which outweighed the rise in quarrying output. Additionally, business and general services fell marginally, but output in the transportation, storage and communications sector was slightly higher.



International Business Services

Despite the announcement by the Organisation for Economic Cooperation and Development (OECD) at the end of January 2002, that Barbados’ “uncooperative tax haven” status would be rescinded, the pace of growth of the offshore sector continued to slow as evidenced by a deceleration in the number of new licences granted. During the first six months of the year, one hundred and nineteen new per-

mits were issued to international business companies, six fewer than in the identical period of 2001. Eight new societies with restricted liabilities were formed compared to fifteen one year ago, while only one offshore bank was licensed, two below the approvals given in 2001. On a positive note, six new exempt insurance companies were allowed to set up operations, four more than last year and three new exempt insurance management companies came on stream, following the absence of any last year.

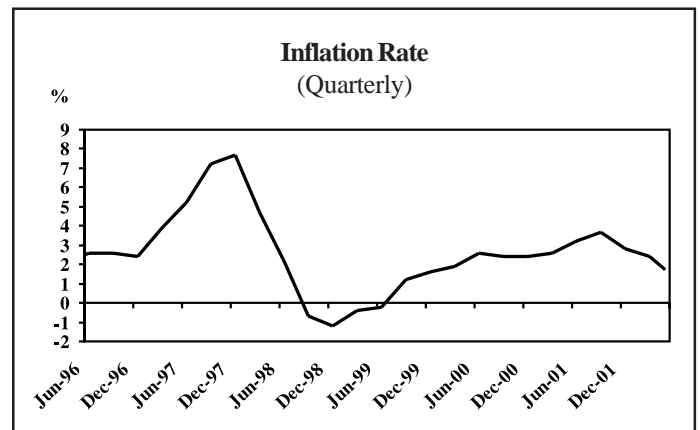
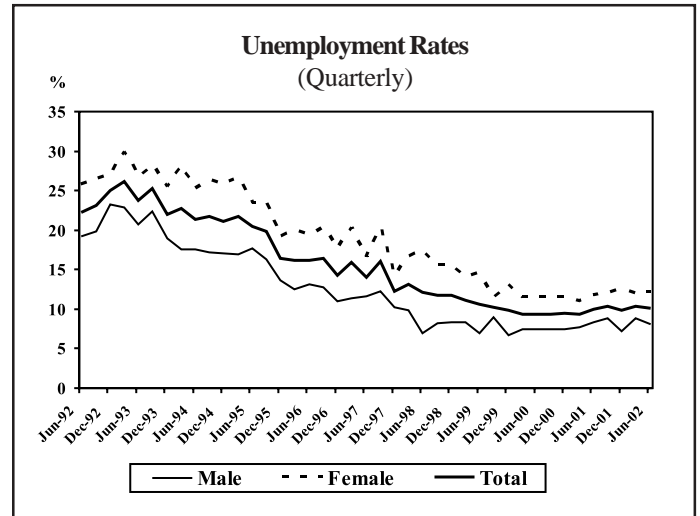
Energy

The reduction in both crude oil and natural gas output during the review period, reflected diminished returns from existing oil wells, combined with low output from the five new ones drilled over the first four months of the year. Crude oil production decreased by 18.4% to 199,625 barrels, during the first six months of 2002 following an 11.4% contraction in the corresponding period of 2001. Production of natural gas declined by 19% to 15.3 million cubic meters, in contrast to an increase of 7.9% in the previous year. Consequently, sales of crude oil slid by 17.6% after a 13% fall a year ago. However, despite the dip in production, natural gas sales remained relatively unchanged compared to the drop of 11.3% registered in 2001. More of the extracted gas was available for distribution, as the Barbados National Oil Company scaled back its 2001 programme of reinjecting previously extracted natural gas into wells to boost crude oil output.

Total electricity consumption contracted marginally (by approximately 1%) in the first half of the year in contrast to an estimated 4% increase registered last year, as the 2.2% fall in electricity usage by commercial enterprises offset the 1.3% growth in residential consumption.

Employment and Prices

The unemployment rate for the second quarter of 2002 was 10.1%, compared with 10.0% for the same quarter a year ago. There were some job losses in the general ser-



vices, construction and manufacturing sectors, which overshadowed gains in the Government, tourism and finance and business segments. Male unemployment declined by 0.2 of a percentage point to 8.1%; in contrast the rate for females rose to 12.1% from 11.8% last year.

At the end of June 2002, the average annual rate of inflation decreased to 1.2% from 3.2% a year ago. Modest gains in the prices of food, alcoholic beverages, transportation, housing and medical and personal care were moderated by lower costs for fuel and light, household operations and supplies as well as clothing and footwear.

Financial Sector

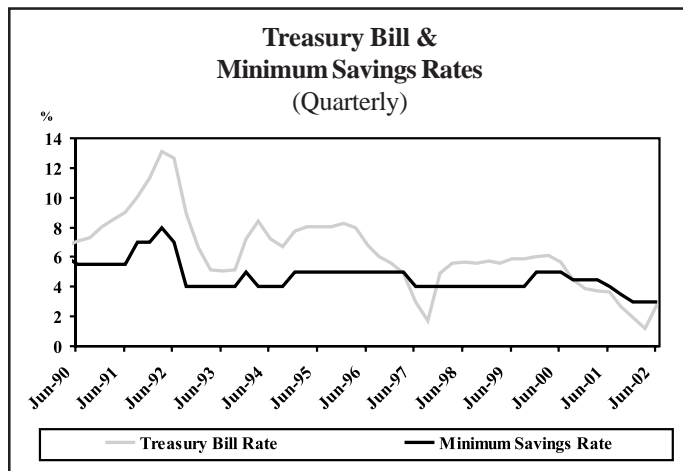
Deposits

During the first six months of 2002, domestic deposits climbed by approximately \$417.6 million, more than three times the growth in the equivalent period of last year, and significantly above the average expansion of \$176 million during the half year since 1997. Of specific interest was the \$151 million, build up in the accounts of private individuals owing in part to monies paid to persons who sold their shares in Life of Barbados Ltd. to the Barbados Mutual Life Assurance Society (BMLAS) in the second quarter. Other major changes were noted for financial institutions, statutory bodies and tourism institutions, whose bank deposits climbed by \$143 million, \$59 million and \$20.0 million, respectively.

Credit

Credit to the non-financial private sector expanded by a mere \$0.9 million following the \$4.4 million rise that took place over the similar period of 2001, and the average growth of \$66.7 million during the period since 1997. Major reductions were documented for the manufacturing (\$11.1 million) and the professional and other services sectors (\$13 million), which contrast with the same period a year ago when lending to these industries grew by \$3 million and \$6 million, respectively. Moderate increases in credit were registered for private individuals as well as the distributive sector. Private individuals' financing advanced by \$13.5 million, which was less than a third of the expansion reported a year earlier, while in the distributive sector, lending picked up from its relatively flat levels last year, rising by \$19 million.

Despite the outturn for credit to the non-financial private sector, total domestic credit was up by approximately \$323 million mainly because lending to private financial enterprises rose by \$134.4 million and advances to the public sector surged by \$187.7 million. Financial sector credit was boosted in the second quarter by loans extended to the BMLAS to allow it to purchase the outstanding shares of



Life of Barbados Ltd. The vast majority of the credit was advanced to the Central Government (\$179.6 million), representing a turnaround from the previous year, when credit moved downwards by \$23.0 million. Funds borrowed from other finance companies expanded by \$13.1 million, while trust company loans fell by \$6.4 million during the review period.

Liquidity and Interest Rates

High liquidity was the main characteristic of the financial system during the first six months of 2002. In the context of a build-up in excess liquidity and a decline in economic growth, the Central Bank eased its monetary policy stance during the month of March. It reduced the securities reserve requirement of commercial banks by one percentage point to 18% of local deposit liabilities, effectively reducing the total reserve requirement to 23% of local deposit liabilities. Other interest rates moved downwards in the face of burgeoning liquidity. The weighted average rate on total loans fell by 44 basis points to 10.66%, while the range on prime loans narrowed from 7.25%-8.75% to 7.25%-8.5%. However, the minimum savings rate remained unchanged at 3% at end-June 2002, while the return on 3-month treasury bills was 2.81%, which although slightly higher than at the beginning of 2002, was still below the rate of 3.6% registered at the end of the second quarter of last year.

Capital Market Developments

Twelve treasury-bill auctions took place during the first six months of the year. These were all oversubscribed owing to the high level of liquidity, with the commercial banks being the dominant buyers. By the end of June, these institutions had increased their holdings of securities by \$19 million to \$491.03 million, representing approximately 99% of the total outstanding amount of \$495.9 million. Two debenture issues of \$70 million occurred in the review period, bringing the value in circulation to \$1.77 billion at the end of June, compared to \$1.69 billion one year earlier. Of the amount allocated, the majority were distributed to commercial banks and the National Insurance Scheme. In addition, individuals

and private pension schemes increased their holdings of long-term Government debt, while insurance companies reduced the amount of debentures in their investment portfolios by \$12 million. There were no issues of savings bonds for the year, which left the market supply at approximately \$110.5 million. In June, the Barbados Government raised the limit for the sum total of debentures and treasury notes which can be issued from \$1.8 billion to \$2.2 billion.

Trading on the Barbados Stock Exchange (BSE) was significantly higher during the first half of 2002 than for the same period of 2001. The dramatic rise in volume to 32.8 million shares, compared to 1.5 million shares a year ago, resulted from the BMLAS' purchase of shares in Life of

Summary Accounts of the Banking System (\$ Million)

	1999			2000				2001				2002 ^p	
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Net International Reserves	849.8	733.9	679.4	850.7	1,135.6	1,090.1	1,080.9	1,204.5	1,224.3	1,214.8	1,534.1	1,623.5	1,606.7
Monetary Authorities	759.8	671.7	612.8	749.7	1,038.8	1,020.0	968.8	1,096.4	1,115.5	1,106.6	1,414.1	1,482.2	1,485.9
Commercial Banks	90.0	62.2	66.6	101.0	96.8	70.1	112.2	108.1	108.8	108.2	120.0	141.3	120.8
Net Domestic Assets	2,204.5	2,313.2	2,391.1	2,284.4	2,122.5	2,161.5	2,253.6	2,167.0	2,234.3	2,266.3	2,002.5	2,004.8	2,105.2
Credit to Public Sector	247.6	275.0	325.8	202.1	48.4	119.3	188.1	25.5	120.9	124.8	(79.8)	(98.3)	-4.1
Central Government (Net)	481.3	466.9	573.9	446.9	264.4	386.2	471.6	337.3	405.7	477.2	228.9	229.1	390.3
Rest of Public Sector	(233.7)	(191.9)	(248.2)	(244.8)	(216.0)	(266.9)	(283.5)	(311.8)	(284.8)	(352.4)	(308.7)	(327.4)	-394.4
Credit to rest of Financial System	90.6	98.1	92.6	74.3	115.4	132.1	137.3	125.5	125.6	128.6	115.9	148.1	250.4
Liabilities to other Financial Institutions	269.6	271.4	250.1	271.0	274.9	252.0	301.7	257.7	244.3	254.5	265.8	349.9	359.2
Credit to Non-Financial Private Sector	2,351.4	2,427.5	2,464.5	2,493.2	2,449.0	2,474.2	2,504.2	2,516.4	2,508.6	2,526.1	2,512.6	2,506.9	2,513.5
Liabilities to the Non-Financial Private Sector	3,054.3	3,047.0	3,070.6	3,135.1	3,258.2	3,251.6	3,334.5	3,371.6	3,458.6	3,481.1	3,536.6	3,628.3	3,711.9
Currency in Circulation	266.5	277.1	302.7	291.7	297.3	297.8	310.7	301.2	306.8	307.0	312.4	318.1	321.1
Demand Deposits	688.5	671.6	660.4	690.0	744.0	689.9	737.7	775.6	779.4	784.3	836.6	895.8	898.9
Time Deposits	356.2	361.1	338.6	358.0	392.9	420.1	407.7	390.7	418.2	425.0	413.1	399.1	417.3
Savings Deposits	1,743.1	1,737.3	1,768.9	1,795.3	1,824.0	1,843.9	1,878.5	1,904.1	1,954.2	1,964.9	1,974.5	2,015.4	2,074.6
MEMO:													
Domestic Deposits	3,407.7	3,344.5	3,411.2	3,482.5	3,584.2	3,627.1	3,762.8	3,794.7	3,866.1	3,978.1	3,971.8	4,183.2	4,389.39
Liquid Assets	698.5	600.8	557.2	690.5	992.8	967.0	916.4	1,055.5	1,080.4	1,075.4	1,392.4	1,460.0	1,471.70
Loans & Advances	2,494.7	2,577.3	2,612.1	2,622.7	2,636.9	2,678.0	2,712.6	2,721.3	2,722.5	2,757.1	2,732.5	2,771.5	2,876.2

Source: Central Bank of Barbados

p: Provisional

Barbados Ltd. in the second quarter of 2002. Abstracting this one time transaction however, the share volume moved upwards by 11.2% over the figure for the comparable period of last year. The local market index dipped by 2.18% for the review period, after the 4.2% decrease registered last year. Market capitalisation on the local market advanced by 25% or \$914 million, mainly reflecting the surge in the share price of Life of Barbados that resulted from the bidding war between BMLAS and Guardian Holdings Ltd.

The expansion in value represented a substantial climb, when compared to the 6.1% growth that took place over the same period in 2001. The two companies whose shares were actively traded were Barbados Shipping and Trading and CIBC West Indies Holdings Ltd, which traded an estimated 522,948 shares and 488,738 shares, respectively. The share prices of eleven companies fell, while those of five companies advanced. The most significant improvements were documented for Life of Barbados Ltd., Barbados Dairy Industries Ltd., and West Indies Rum Distilleries, whose shares edged up by \$2.40, \$1.30 and \$0.40, respectively.

In the bond market, the value of Government securities traded grew significantly, as approximately \$21.8 million worth of bonds crossed the floor in the first half of the year, in stark contrast to the \$0.4 million exchanged in the corresponding period last year. Twelve of the eighteen trades made in the review period were for debentures, with the remainder being for treasury notes.

Public Sector

Revenue

Government's revenue declined by approximately 4.1% in the January-to-June period of 2002 primarily due to a 4.3% contraction in tax receipts. Direct taxes fell by 11.6%, a reversal from the rise of 12.2% in 2001, with corporate taxes plummeting by 21.8% as the decrease in economic activity continued to affect companies' profits adversely. Moreover,

property taxes dipped by \$8.2 million (21.6%), compared to an expansion of 16.6% in the previous year. The issuing of property tax bills for fiscal year 2001/02 at an earlier time than in previous years, which facilitated the collection of revenues ahead of schedule, was primarily responsible for this outturn. Government levies and miscellaneous taxes also weakened by \$2.2 million and \$6.6 million, respectively. The only category of direct taxes that expanded during the first six months was personal taxes, which grew by an estimated 2%, two percentage points below that of the matching period of 2001.

Indirect taxes advanced by approximately 2% as gains in both value added taxes (VAT) and import duties offset the decrease in excise taxes. VAT receipts rose by 7.8% in the first three months of 2002, and this gain exceeded the fall of 4% in the second quarter, leading to an overall increase of 2% for the first half of the year. Revenues from import duties climbed by \$21.9 million (38%), in contrast to a 17.3% contraction in the previous year. These additional collections reflected the impact of the introduction of the 60% tariff on certain categories of imports in 2001. However, excise taxes moved downwards by 28.2%, significantly greater than the decline of last year, as imports continued to wane. Non-tax revenue and grants also dipped slightly during the review period.

Expenditure

Current expenditure fell by \$16.6 million or 2% over the first six months of the year, a reversal from the expansion of 10.2% a year ago. Decreases in wages and salaries and interest payments were mainly responsible for this outcome. Although employment increased, wages and salaries were \$14.9 million or 4.5% lower than last year, when there was repayment of the final tranche of the 8% pay cut in the second quarter. Interest outlays contracted by 9.7%, primarily because of a \$15 million decrease in domestic interest payments. On the contrary, expenditures on goods and ser-

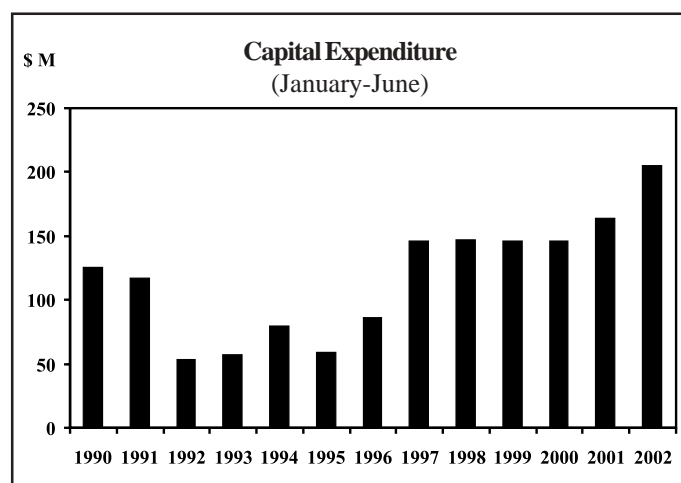
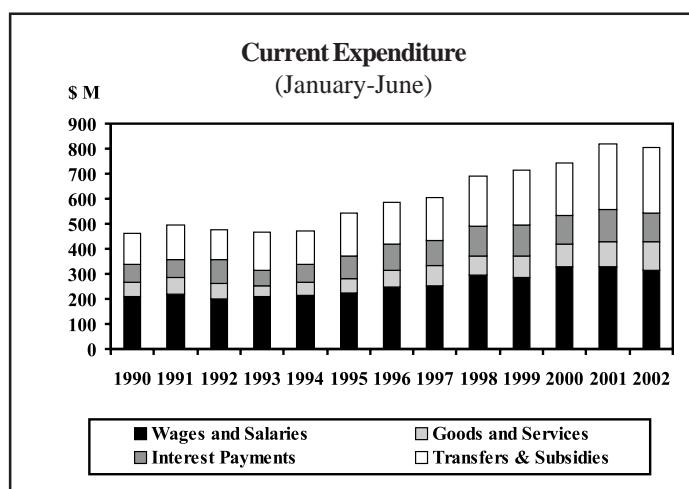
vices advanced by \$14.2 million, seven percentage points higher than the 2001 increase, but transfers and subsidies moved downwards by 1% compared to growth of 26% registered in the equivalent period last year.

As a result of the acceleration in Government's capital works programme, capital expenditure surged by \$41.3 million (25.2%), the largest rise documented since 1997, and the expansion was attributed to ongoing work on several projects. These ventures included the Airport Expansion scheme, EDUTECH 2000, the South Coast Sewerage project and the extensive road rehabilitation programme.

Financing

The high level of liquidity present in the banking system facilitated the financing of the fiscal deficit mainly by local sources. On the domestic side, the combined effects of a reduction in Government's deposits at the Central Bank and an increase in the ways and means account, resulted in Central Bank credit rising by \$118.6 million. Commercial banks and the National Insurance Scheme expanded their holdings of Government paper by \$61.0 million and \$33.6 million, respectively. However, the low interest rates induced private non-bank and other institutions to decrease their portfolio of

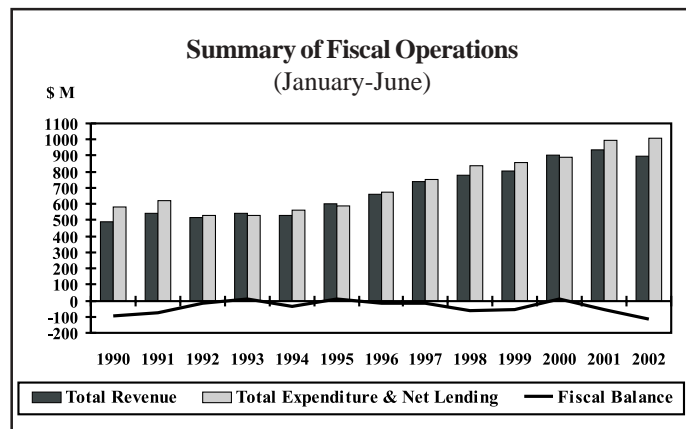
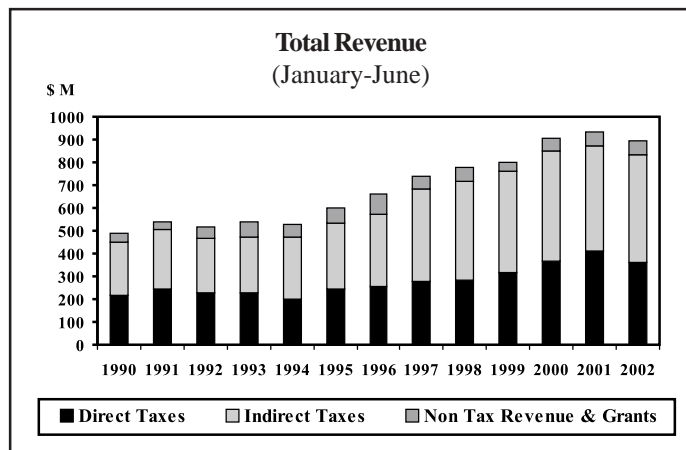
Government securities by \$22.0 million and \$66.2 million, respectively. Net foreign financing decreased by \$12.0 million, as project fund inflows of \$16.8 million were outweighed by amortisation payments of \$28.8 million.



Government Financing (\$ Million)

	January-June			
	1999	2000	2001	2002 ^p
Domestic Financing	-82.4	-213.5	51.4	125.0
Central Bank	-165.7	-352.5	-46.2	118.6
Commercial Banks	21.6	40.3	23.1	61.0
National Insurance Scheme	6.8	71.6	22.4	33.6
Private Non-Bank	21.8	42.2	20.7	-22.0
Divestment	0.0	0.0	52.2	0.0
Other	33.2	-15.1	-20.8	-66.2
Foreign Financing (net)	139.8	202.4	6.6	-12.0
Capital Markets	150.0	200.0	0.0	0.0
Project Funds	8.5	21.9	29.7	16.8
Policy Loans	0.0	0.0	0.0	0.0
Amortisation	-18.7	-19.5	-23.1	-28.8
Divestment	0.0	0.0	0.0	0.0
Total Financing	57.4	-11.1	58.0	113.0

Source: Central Bank of Barbados
p: Provisional



Government Operations
(\$ Million)

	January June					
	1997	1998	1999	2000	2001	2002 ^P
Total Current Revenue	737.6	780.2	802.7	903.3	935.9	897.2
Tax Revenue	680.8	714.3	758.5	851.9	872.5	834.6
<i>Direct Taxes</i>	276.0	282.7	315.0	365.0	409.4	361.9
Personal	135.5	147.8	147.5	174.2	182.2	185.9
Corporate	87.0	85.7	118.9	136.1	157.1	122.9
Levies	8.7	8.0	8.8	6.1	10.9	8.7
Property	28.1	25.5	25.2	32.5	37.9	29.7
Other	16.7	15.7	14.6	16.1	21.3	14.7
<i>Indirect Taxes</i>	404.8	431.6	443.4	486.9	463.4	472.7
Consumption	32.2	0.3	0.0	0.5	0.0	0.0
Stamp	8.5	6.7	6.9	7.1	7.5	5.5
VAT	187.8	224.3	215.1	260.3	257.5	262.9
Excises	60.6	83.6	98.3	86.9	82.7	59.4
Import Duties	56.3	64.0	70.3	69.4	57.4	79.3
Hotel & Restaurant	4.1	0.4	0.4	0.4	0.3	1.0
Other	55.4	52.3	52.5	62.3	57.9	64.6
Non Tax Revenue & Grants	56.8	65.9	44.2	51.4	63.4	62.6
Current Expenditure	604.4	691.9	713.5	743.1	819.4	802.8
Wages & Salaries	250.7	293.5	283.4	327.8	329.1	314.2
Goods & Services	82.6	76.8	89.5	92.8	99.7	113.9
Interest Payments	97.8	118.3	121.0	115.0	128.5	116.0
External	25.2	24.7	5.2	36.0	53.1	55.7
Domestic	72.6	93.6	115.8	79.0	75.4	60.3
Transfers & Subsidies	173.4	203.3	219.6	207.5	262.1	258.7
Current A/C Balance	133.2	88.3	89.2	160.2	116.5	94.4
Capital Expenditure	146.0	147.2	146.3	146.2	164.2	205.5
Net Lending	4.1	0.4	0.4	2.9	10.9	1.9
Total Expenditure & Net Lending	754.5	839.5	860.2	892.2	993.9	1010.2
Overall Balance	-17.0	-59.3	-57.4	11.1	-58.0	-113.0

Source: Central Bank of Barbados and Accountant General
p: Provisional

Foreign Trade and Payments

Current Account

During the first six months of 2002, the external current account surplus deteriorated to \$30.4 million, less than one-half the figure reported for the similar period last year, mainly on account of a decline in travel credits as well as a fall in domestic exports.

Domestic exports contracted for the second successive year by an estimated 8.8%, following a decrease of 7.5% last year. Sugar exports slid by 14.4% to \$37.7 million reflecting diminished sugar output. It was the sixth straight year that lower sugar receipts occurred. Earnings from the sale of electronic components declined by 31% or \$6.1 million as a result of lower production. Receipts from food and beverages remained virtually unchanged, compared to an increase of 2.8% one year ago, while sales of chemicals, which had fallen by 18% last year, dipped by 3.5% during the review period.

Retained imports decreased by an estimated 4.4%, following declines of 1.5% and 3.3% in the corresponding period of 2001 and 2000, respectively. Consumer goods contracted for the third successive half-yearly period by 3.9%, mainly because of a 31% slump in automobile imports. Imports of intermediate goods, which had risen by 3% in 2001, decreased by 2% as the demand for construction materials waned by approximately 4.7%. The 9% fall in capital goods was mainly attributed to the reduction in imported machinery.

During the first two quarters of the year, net receipts from services weakened by 7% to approximately \$690.3 million, in contrast to an average increase of 5% over the similar period of the last two years. The decline was predominately caused by an 8.5% contraction in travel credits. The last occasion in which travel credits fell by such a magnitude was in 1991 when a 14.7% reduction was recorded. However, net transportation outflows were 8.3% lower than last year, reflecting the slowdown in import demand.

Capital and Financial Account

During the first half of 2002, the capital and financial account registered a lower surplus than in previous periods. The balance of approximately \$30.1 million was \$63.4 million less than a year ago, and \$408 million and \$163.2 million be-

low the surpluses recorded in 2000 and 1999, respectively, when significant external borrowing occurred. The completion of some major foreign-funded construction projects in 2001, combined with a slowdown in new private sector ventures, resulted in a substantial reduction in private sector capital inflows during the first half of 2002. Consequently, net long-term private sector inflows amounted to some \$44.2 million, less than one-half their 2001 level. Net long-term public inflows contracted by \$18.1 million compared to a slight increase of \$0.5 million recorded last year.

Balance of Payments (January-June)

	1998	1999	2000	2001	2002 ^p
Current Account Balance	143.5	-23.7	43.5	81.7	25.4
Merchandise Trade	-575.1	-697.5	-659.2	-668.7	-650.3
Total Exports (BOP basis)	254.9	230.3	243.4	237.2	171.4
<i>Domestic Exports</i>	225.2	216.5	217.3	200.9	183.3
Sugar	55.1	52.4	52.2	44.0	37.7
Electronic Components	25.9	30.4	18.9	19.8	13.7
Chemicals	25.3	24.3	26.2	21.5	20.8
Food/Beverages	47.8	40.2	43.3	44.5	44.6
All Other	71.1	69.2	76.7	71.1	66.4
Total Imports (BOP basis)	887.3	991.9	968.5	969.1	878.9
<i>Retained Imports</i>	915.9	1046.8	1012.2	997.3	953.0
Consumer Goods	377.4	439.3	408.2	403.2	387.4
Capital Goods	199.7	260.8	238.4	217.8	198.3
Intermediate Goods	334.9	344.8	362.0	372.8	365.3
Miscellaneous Goods	3.9	1.9	3.6	3.5	2.0
Services (Net)	719.0	673.3	710.8	761.8	695.1
Travel Credits	845.7	798.5	835.8	867.6	793.9
Other	65.9	80.7	90.3	90.0	82.0
Investment Income (Net)	-49.2	-61.0	-81.4	-87.8	-97.1
Transfers (Net)	48.8	61.5	73.3	76.4	77.7
Capital and Financial Account	-4.8	192.3	451.6	75.0	42.2
Long term	-10.3	168.9	388.4	104.9	26.1
Public Sector	-11.6	148.7	231.5	9.8	-18.1
Disbursement	52.3	170.5	256.6	36.3	16.8
Amortization	63.9	21.8	25.1	26.5	34.9
Private Sector	1.3	20.2	156.9	95.1	44.2
Disbursement	34.0	27.9	162.8	96.0	48.3
Total Outflows	32.7	7.7	5.9	0.9	4.1
Other	5.5	-9.0	40.8	-29.9	4.0
Short-term	0.0	32.4	22.4	0.0	12.1
Errors & Omissions	-57.2	113.0	-39.4	-12.4	4.7
Balance for Official Financing	81.5	281.6	455.7	144.3	72.3
Official Financing (Net)	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0
Reserve movements (CBB basis)	(-81.5)	(-281.6)	(-455.7)	(-144.3)	(-72.3)
Change in NIR (IMF basis)					
(-Increase/+Decrease)	-106.2	-221.0	-425.5	-146.5	-71.5

Source: Central Bank of Barbados
p: Provisional

Regional Economic Developments

Overview

Provisional data for the first three months of 2002 indicated that economic activity in the region remained depressed. Among the more developed economies (MDCs), Trinidad and Tobago recorded the best performance with real output estimated to have grown by 0.1% in the first quarter, principally on the strength of the energy sector. Real GDP in Jamaica decreased by approximately 0.2% in contrast to a gain of 2.2% in the identical period of 2001, reflecting poor outturns in the tourism, agriculture, mining and quarrying and miscellaneous sectors. In the Bahamas, the economy was also estimated to have contracted in the first three months of 2002, due to weakness in the tourism sector and a slowdown in construction activity. Overall economic output fell in the islands of the Organisation of Eastern Caribbean States (OECS), as tourism and agriculture continued to perform poorly. However, benign inflation helped to keep regional interest rates relatively low and the market for foreign exchange in the floating exchange rate economies stayed fairly stable. Moreover, several territories reported reserve increases for the period.

Tourism

Caribbean tourism continued to be affected by the worldwide slump in travel after the events of September 11th 2001, the global economic slowdown, and the recent tendency among both US and European citizens to spend their vacation within their respective domestic markets. Long-stay arrivals to Jamaica during the first three months contracted by 10.7% compared to an increase of 3.8% in 2001, as visitors from the US, Canada and Europe fell by 8.6%, 20.3% and 11.3%, respectively. Cruise tourism fared no better, as it plummeted by 15% in the first quarter.

Data available for the OECS region for the first quarter of 2002 showed that long-stay tourists to Antigua and Barbuda, St. Lucia and Montserrat declined by 2.9%, 13.2% and 32.4%, respectively. In contrast to the above-mentioned

markets, visitors to St. Vincent and The Grenadines expanded by 22%, due to a pick up in travellers from both North America and Europe, while holidaymakers to Grenada increased by approximately 2% in the first quarter, as a result of an improvement in the US market, which offset declines in the Canadian and European markets. With respect to cruise tourism, increases were recorded for arrivals to St. Vincent and the Grenadines (1.9%), while short-stay tourists to Antigua and Barbuda, St. Lucia and Grenada were down by 5.8%, 12.8% and 9.8%, respectively.

Long-stay visitors to the Bahamas decreased by 5.8% during the three-month period, a turnaround from the 4.5% expansion a year ago. Cruise liner arrivals to that country were higher however, although the 7.5% rise was slightly below the gain registered last year. Aruba's tourist arrivals contracted by 8.3%, mainly because of an 11.5% reduction in excursionists from the United States, while visitors travelling by ship increased by an estimated 10.1%. Holidaymakers to the Cayman Islands declined by 11.5%, as guests from the USA weakened, but cruise ship passengers rose by 35.6%. Stay-over visitors to the Spanish speaking destinations also diminished in the first quarter. Travellers to Puerto Rico were lower by 4.6%, as the North American market, which accounts for the majority of the visitors to that island, decreased by 4.4%. In addition, persons arriving by cruise ships also fell by 8.1%. Long-stay arrivals to the Dominican Republic plummeted by 16.3%, the result of a 26% slump in visitors from the UK, its main market.

Agriculture

In the quarter January-to-March 2002, output in the Jamaican sugar industry worsened by 19.8% when compared to the equivalent quarter in 2001. The fall in agricultural production reflected the impact of heavy rains, which occurred in October and November of the previous year, followed by drought conditions in the first three months of 2002. Sugar production in the OECS also contracted during the review period by 33.1%. During the first four months of 2002, sugar output in Trinidad and Tobago amounted to 60,000 tonnes, a

decline of 8% from the comparable period last year. Sugar exports by that country for the same period were approximately 35,200 tonnes, modestly below last year's exports, while local sales rose slightly to 23,000 tonnes. In Guyana, the quantity of sugar produced rose by 15.4% to 85,944 tonnes compared to a 4.4% contraction experienced in the first quarter of 2001.

Banana production in Jamaica expanded when compared to one year ago, as factors such as investment in technology and disease control led to increased productivity. On the contrary, in the OECS banana production contracted by 5.5% to 28,320 tonnes because output fell by 26.9% in Dominica, which more than offset increases of 3.9% in St. Lucia, 2.7% in Grenada and 0.3% in St. Vincent and The Grenadines.

Cultivation of other traditional crops in the OECS such as nutmeg and mace also declined during the review period. Mace production fell by 70.4%, while nutmeg output slumped by 47% as a consequence of the drought that affected Grenada last year. On the contrary, output of several non-traditional crops such as plantains, pineapples and root crops was estimated to have increased in the first quarter. Rice production in Guyana fell by 25.2% in contrast to a 70% expansion last year.

Minerals and Timber

Although Jamaica's bauxite extraction increased by 18.6% in the first three months of the year, a reduction in the capacity utilisation of the alumina processing plants (which dipped by five percentage points to 90%) resulted in a 5.8% fall in the amount of alumina refined. Bauxite production in Guyana contracted by 17.4%, while the amount of forestry timber felled slumped by 37.7%. Petroleum production in Trinidad and Tobago rose by 14% and ammonia formation expanded slightly. In comparison, manufactures of urea, methanol and cement all registered declines.

Interest Rates

During the first quarter of 2002, the favourable liquidity conditions that prevailed in the market allowed the Bank of

Jamaica to reduce interest rates on its open market instruments, as the 30-day open market rate was lowered by 100 basis points during the period to 13.25%. Complementing this policy, was the decision to cut back the statutory cash reserve and liquid assets ratios in respect of local and foreign currency liabilities by one percentage point each to 9% and 27%, respectively. In the commercial banking sector, the average return on savings deposits rose by approximately 28 basis points to 9.36%, while the average loan rate fell by 50 basis points to 26.29% from its December 2001 level. During the quarter, the interest rates on short-term instruments declined on three occasions resulting in the returns on 60-day treasury bills decreasing to 13.35% and 30-day issues moving downwards to 13.25%.

In Guyana, the fall in interest rates was broad-based. The average prime lending rate and interest rate on small savings deposits both fell a little from their levels at the end of 2001 to 16.25% and 5.77%, respectively. With regards to treasury bills, the interest rates on three-month and six-month instruments contracted minutely to 5.9% and 6.8% from their year-end levels, while in the retail banking sector, six-month time deposit rates dipped by 1.6 percentage points to 5.4%.

Trinidad and Tobago's treasury bill rate fell by 0.9 of a percentage point to 5.6%, while the prime lending rate contracted by 1.5 percentage points to 13%. In terms of commercial bank deposits, the interest rates on both ordinary savings accounts and deposits of various maturities moved downwards by an average of 85 basis points from their year-end levels. In the Bahamas, the prime lending rate and the Central Bank's discount rate remained constant at 6% and 5.75%, respectively, from the levels achieved since July 1999, but adjustments were made to commercial banks' deposit and loan rates. In particular, the mean saving rate on fixed maturities in excess of twelve months rose by 63 basis points to 5.28%, while the average return on deposits of lower maturities expanded from a range of 4.27%-4.83% to 4.20%-4.83%. However, savings deposits rates were stable at 2.73%. Meanwhile, the average rate on consumer loans fell by 59 basis points to 12.31%, while the average 90-day

treasury bill rate increased slightly to 2.63%. In the OECS, the average loan rate climbed by 17 basis points to 11.64%, but the interest incurred on deposits decreased by 8 basis points to 4.22%.

Prices

During the January-to-March quarter, Jamaica's inflation rate was estimated at 0.6%, compared to 1.6% in the corresponding quarter of 2001. The largest price rises were reported for the housing and other housing expenses categories, however these advances were mitigated mainly by lower costs for agricultural produce. In Trinidad and Tobago, higher food prices was the chief cause of the 1.7% inflation rate for the first quarter, approximately 0.2 percentage points higher than last year's rate. Consumer prices in the Bahamas for the twelve months ending March 2002 rose to 2.3% from 1.5% last year, owing to increased education, as well as furniture and household operations costs.

Exchange Rates

In Jamaica, signs of recovery in the economy, coupled with continued moderate inflation, led to only a slight depreciation in the value of the currency during the quarter, from JAM\$47.40 per US\$1 at the end of December, to JAM\$47.61 at end-March. During the same period the average value of Guyana's dollar depreciated from GUY\$189.5 per US\$1 to GUY\$190.50 per US\$1, but Trinidad and Tobago's weighted average exchange rate remained relatively unchanged from its year-end value of TT \$6.23 per US\$1.

Government Operations

The overall deficit for the OECS widened by an estimated EC\$19 million to EC\$122.9 million in the first quarter of 2002, principally because of rising current expenditure coupled with a decline in current revenue. For the quarter under review, current revenue fell by 1.2% as tax receipts receded by 0.3% and non-tax revenues decreased by 6.8%.

Current expenditure rose by approximately 4.1% in the first quarter, on the strength of growth in personal emoluments, goods and services and interest payment of 3%, 2.9% and 2%, respectively. However, capital outlays were 10.7% below the total for the first quarter of 2001. The resultant deficit was financed principally by foreign sources.

Buttressed by strong revenue growth and continued expenditure restraint, the Central Government of Trinidad and Tobago registered a fiscal surplus of approximately TT\$197.5 million during the first quarter of 2002, more than double the surplus for the comparable period of 2001. A 10% surge in oil receipts, brought on by rising crude prices and a production sharing agreement between Government and the local oil companies, were the main catalysts for the 4.6% increase in current revenues. On the expenditure side, decreases in capital outlays as well as interest payments, served to partially offset gains in goods and services as well as in transfers and subsidies.

In Guyana, the fiscal position of the Central Government improved as revenue expanded 6% in the first quarter of 2002 to GUY\$11.7 billion, while expenditure contracted by 4.4% to GUY\$11.3 billion. Over the same period public enterprises' receipts and outlays rose by 2.2% and 15.6%, respectively.

Foreign Sector Developments

During the first three months of 2002, the net international reserves of the Bank Of Jamaica expanded by US\$100 million to US\$1.94 billion. In contrast, the reserves of the Central Bank of Trinidad and Tobago decreased marginally by US\$3.8 million to US\$1.85 billion, from its level at the end of 2001. Over the equivalent interval, the external reserves of the Central Bank of the Bahamas grew by US\$67.7 million to US\$380.1 million, an improvement from the US\$39.5 million accumulation a year ago. The net foreign reserves of the OECS rose by US\$175.1 million to US\$626.5 million, compared to an increase of almost half that amount a year ago.

International Economic Developments

Most of the developed economies registered modest recoveries in the first half of the year, as industrial production expanded, unemployment remained stable, and low inflationary environments allowed Central Banks to keep interest rates at comparatively modest levels. Continued uncertainty in the US stock market contributed to the appreciation of several major currencies against the dollar. The situation however, was reversed in South America, where currency devaluations and massive debt burdens plagued Argentina and threatened to spread to the region's largest economy, Brazil.

North America

In the US, real GDP growth by approximately 2.1% in the second quarter of 2002, almost one percentage point higher than the rate reported in the same period last year. Labour market conditions generally held steady over the review quarter, with the unemployment rate hovering at about 6%. The year-on-year inflation rate for April to June was 1.3%, a reduction from the 3.4% registered in 2001. Continued uncertainty surrounding the strength of the US economy encouraged the Federal Reserve to leave its key interest rate, the indicative federal funds rate, unchanged from its December 2001 level of 1.75%, while the return on three-month trea-

sury bills stood at approximately 1.7% in comparison to 3.5% last year. Rocked by financial and accounting scandals as well as continued scepticism over homeland security and terrorism, the equity markets nose-dived during the first half of 2002. The Dow Jones Industrial Average, the bell-wether indicator of market activity, slumped by 778 points or 7.7% over the first six months, approximately five percentage points lower than the fall registered a year ago. The resultant diversion of funds into major currencies helped to precipitate the slide of the US dollar against those currencies.

Available data for Canada indicated that output expanded by 3.2% in the second quarter of 2002, an improvement over the 2.3% growth reported in same period of 2001. This outturn brought about a fall in unemployment by 0.5 of a percentage point to 7.5% over the first half of the year, while the average inflation rate for the second quarter stayed low at 1.1%, compared to 3.6% a year ago. As a result of the strengthening of the Canadian economy during the year, the Bank of Canada moved to reduce the monetary stimulus in the economy. It raised its target overnight rate by 50 basis points over the first six months to 2.5% by the end of June 2002.

Europe

Economies in the euro-zone grew by 0.6% in the second quarter of 2002, following a 0.3% expansion three months ago. This rather muted increase had its roots in the

Economic Indicators: Developed Markets

Countries	Real Output (% Growth)*		Unemployment (% Rate)		Inflation (% Rate)**	
	Q2 2002	Q2 2001	Jun-02	Jun-01	Q2 2002	Q2 2001
Canada	3.2	2.3	7.5	7.1	1.1	3.6
France	1.0	2.0	9.0	8.6	2.1	1.3
Germany	0.5	0.6	9.5	8.9	0.8	3.1
Italy	0.2	2.3	9.1	9.6	2.3	3.0
Japan	(0.6)	2.3	5.5	4.9	(0.9)	(0.7)
United Kingdom	1.2	2.1	5.2	5.0	1.2	1.9
Euro-zone	0.6	1.6	8.3	8.5	2.1	3.0
United States	2.1	1.2	5.9	4.6	1.3	3.4

Source: Various Central Banks

** Percentage change from same quarter of previous year

** 12-month percentage change in price index, January - March average

Financial Indicators: Developed Markets

Countries	Interest Rates (3-month)		Exchange Rates (per US\$)		Current A/C Balance (US\$ bn)	
	Jun-02	Jun-01	Jun-02	Jun-01	Q2 2002	Q2 2001
Canada	2.5	4.5	1.5	1.5	N/A	N/A
Euro-zone	3.5	4.5	1.0	0.9	N/A	N/A
Japan	0.0	0.1	119.0	124.0	N/A	N/A
United Kingdom	4.5	5.3	1.5	1.4	N/A	N/A
United States	1.8	4.0	1.0	1.0	(130)	(99.2)

Source: Various Central Banks

varying strengths of domestic demand in each country and the vulnerability of some member states, notably Germany and Italy, to a fall in demand for their exports outside the euro-zone. The unemployment rate decreased slightly to approximately 8.3% at the end of June, 0.2 of a percentage point lower than that reported in the same month last year. The appreciation of the euro against the US dollar in the first six months of the year, from 1.17 euros per US\$ to parity, helped to stave off inflationary pressures, hence the point-to-point inflation rate in June was 1.8%, inside the target rate of 2% set by the European Central Bank (ECB). This outturn allowed the ECB to maintain its key rate, the minimum bid rate on its main financing operations, at 3.25%.

In the UK, real output grew by 1.2% in the year to June. The expansion was broad-based as the production industries, such as manufacturing, mining as well as energy and water strengthened. In the services sector, increases were registered in hotel and catering, telecommunications and business services, while transportation activity waned. In June, the rate of unemployment was approximately 5.2%, a small expansion from that reported in 2001, while the average inflation rate fell to 1.2% in the second quarter, 0.7 of a percentage point lower than last year's rate. Given these economic conditions, the Bank of England kept its repurchase rates steady during the first half of the year at 4%.

Latin America

Events in Latin America were dominated by the continuing recession in Argentina, as well as speculation that Brazil might also be on the brink of an economic crisis. In Argentina, output and employment continued to be depressed as the Government struggled to service its debt repayments. Real output plummeted by approximately 13.6% in the second quarter, while industrial production slumped by an estimated 12.4% in the year to June. Paired with this gloomy outturn has been the free fall of the currency to 3.80 pesos to the US\$ from the parity position that existed before the abolition of the currency board in the first quarter of 2002. The depreciation of the currency also fuelled a steep rise in

prices, which at the end of June climbed by 23.3% in the second quarter, the most significant increase since the April-to-June period of 1992.

The Brazilian economy recorded growth of 1.0% in the second quarter of 2002, a slowdown from the 2.1% increase a year ago. Despite the overall expansion, the unemployment rate rose over the first half of the year by one percentage point to approximately 7.2% in June. The average inflation rate reached 7.8% in the second quarter, a slight increase from the rate experienced last year. The mediocre performance of the economy and rising inflation led the Central Bank of Brazil to keep its key interest rate, the selic rate, at relatively high levels. During the January-to-June period, the rate fell by a mere 0.5 percentage points to 18.5%, compared to an average of 17.13% from 2000 to 2001. Amid concerns that the country may be on the brink of defaulting on US\$297 billion in debt (of which 23% is foreign), investors reduced their holding of Brazilian assets. This action resulted in a 20% slide in the currency in the first six months of the year to 2.84 reals per US\$ and an almost 40% fall in the value of the stock market in dollar terms

Asia

The Chinese economy strengthened in the April-to-June period of 2002, registering an expansion of 8%, the tenth consecutive quarter that growth has exceeded 7%. Industrial production rose by an estimated 12.4% at end-June, while lower consumer demand led to deflation of around 2.2% up until the end of June. The three month inter-bank lending rate increased by one percentage point to about 3.35%, while positive sentiment concerning Chinese companies, together with significant foreign investment, elevated the stock market to 488.72 points, 12% higher than its level at the end of January 2002.

Real output in Japan contracted by 0.6% in the second quarter of the review period, in contrast to a 2.3% increase in the same quarter of the previous year. Industrial production fell by 2.9% in the twelve months ending June 2002, in spite of efforts by the Government to use expansionary fis-

cal policy to stimulate economic activity. As a result, the unemployment rate crept upwards to 5.5% at the end of June, compared to 4.9% a year ago. Continued sluggish domestic demand precipitated a fall in prices of approximately 0.9% in the second quarter. However, the increased demand for Japanese securities contributed to the yen's 9.3% appreciation against the dollar.

Among the emerging countries in South East Asia, South Korea registered robust growth of 6.3% in the April-to-June quarter, an improvement over the expansion of 2.7% in the same period of 2001. The manufacturing and services sectors were the chief drivers of the economic activity during the review period. Manufacturing output rose 6.4% owing to increases in production of semiconductors, communications equipment and household electrical equipment, while the 8.4% expansion in services reflected increases in the communications, finance as well as the social and personal sub-sectors. Consequently, the average unemployment rate fell by 0.4 of a percentage point to 3.1% compared to the corresponding period last year, while the 2.7% inflation rate was almost half that experienced a year ago.

Economic Indicators: Emerging Markets

Countries	Real Output (% Change)*		Inflation (% Rate)**		Foreign Reserves (US\$ billion)	
	Q2 2002	Q2 2001	Q2 2002	Q2 2001	Q2 2002	Q2 2001
Argentina	(13.6)	(0.2)	23.3	(0.1)	9.6	28.5
Brazil	1.0	2.1	7.8	7.0	42.0	37.3
Chile	1.7	3.8	2.0	3.6	15.2	14.5
China	8.0	7.8	(2.2)	1.4	N/A	N/A
Hong Kong	0.5	1.6	(3.3)	(1.1)	N/A	N/A
Indonesia	3.5	3.8	11.5	12.1	23.6	25.6
Malaysia	3.8	0.5	2.1	1.5	N/A	N/A
Mexico	2.1	0.1	4.8	6.9	42.7	38.7
Russia	N/A	5.1	N/A	N/A	43,579	35,053
Singapore	3.9	(0.5)	0.2	1.2	N/A	N/A
South Korea	6.3	2.7	2.7	5.0	112.4	94.2
Venezuela	(9.9)	2.6	18.9	12.4	15.1	20.0

Source: Various Central Banks

* Percentage change from same quarter of previous year

** 12-month percentage change in price index, January - March average

Financial Indicators: Emerging Markets

Countries	Interest Rates (Short Term)		Exchange Rates (Per \$US)		Stock Market Movements	
	Q2 2002	Q2 2001	Q2 2002	Q2 2001	Q2 2002	Q2 2001
Argentina	77.9	17.5	3.80	1.00	351	402
Brazil	17.8	17.3	2.84	2.30	11139	14560
Chile	4.0	3.6	674	616	5068	5427
China	N/A	N/A	8.28	8.28	489	689
Hong Kong	1.8	3.7	7.80	7.80	10599	13043
Indonesia	15.0	15.0	8,730	11,440	505	538
Mexico	10.0	11.1	10.00	9.00	6461	6666
Russia	9.0	12.7	31.45	29.07	4547	2530
South Korea	4.3	5.0	1,223	1,294	743	595
Venezuela	23.4	3.42	1,317	719	7452	7560

Source: IMF/World Bank Data Dissemination

Commodity Prices

Overall, commodity prices grew by 16.3% in the first six months of 2002, as the value of crude oil moved upwards appreciably from its December 2001 levels. As an example, a barrel of Brent North Sea crude rose by US\$5.50 to US\$24.13, compared to an increase of just US\$2.44 over the equivalent 2001 period. Moderate expansions of approximately 4.5% were reported for food prices, mainly because of higher costs for rice, coffee and cocoa. In addition, metal prices also advanced as the value of base metals such as nickel and copper surged and uncertainty in the US equity markets combined with rising tensions in the Middle East and Asia resulted in investors flocking to traditionally stable assets such as gold. As a result, gold prices also rose steadily in the first six months of 2002, to an average of US\$321.2 per troy ounce in June. The performance of silver was more modest mainly because of excess inventories as well as a lack of demand from industrial users. Nevertheless, silver prices benefited from a declining dollar, which helped propel it to a nineteen-month high of US\$4.92 per troy ounce in June.

Commodity Prices

Commodities	Jun-01	Dec-01	Jun-02	% Change on Jun-01	% Change on Dec-01
Total (Index of Market Prices)	100.2	81.7	95	-5.2	16.3
Food (Index of Market Prices)	84.4	87.1	91	7.8	4.5
Sugar (US cents/lb)	23.23	23.86	24.61	5.9	3.1
Bananas (US \$/40lb)	11.05	9.39	11.75	6.3	25.1
Rice (US \$/metric ton)	167.76	179.38	202	20.4	12.6
Wheat (US \$/bushel)	127.23	122.53	132.03	3.8	7.8
Soybeans (US \$/metric ton)	188.71	187.95	205.25	8.8	9.2
Metals (Index of Market Prices)	77.4	71.1	74.2	-4.1	4.4
Iron Ore (US\$/metric ton)	30.03	30.03	30.03	0	0
Copper (US cents/lb)	73.05	66.81	74.87	2.5	12.1
Gold (US\$/fine troy ounce)	270.23	275.9	321.2	18.9	16.4
Silver (US cents/ troy ounce)	436.8	436.7	492.1	12.7	12.7
Petroleum (US\$/barrel)	117.4	80.7	106.7	-9.1	32.2

Source: IMF/World Bank Commodity Prices





Macroeconomic Management Programmes and Policies
Editors: Mohsin S. Khan, Saleh M. Nsouli and Chorng-Huey Wong
by Ryan W. Skeete*

Effective macroeconomic management by policy makers is critical especially when there are external and internal shocks to the economy. The text under review analyses the pros and cons of various macroeconomic programmes, and provides a full menu of policy options. Though the writing is pedantic in some areas, the policy makers will find it very useful.

The volume is a compilation of some of the macroeconomic analyses used by the International Monetary Fund (IMF) in the training of country officials. It analyses issues, on both empirical and theoretical grounds, of IMF-programme design and effectiveness, sources of growth, current account sustainability, monetary and fiscal policy, and exchange rate policies.

The first contribution, by Chorng-Huey Wong, discusses two main components of economic policy, internal and external balance, with reference to countries under IMF programmes. At the outset, he determines a framework for obtaining the optimal blend of fiscal, monetary, and exchange rate policies for correcting macroeconomic imbalances such as domestic recession, current account deficits/surpluses, domestic excess demand and inflation. These imbalances can be a result of the presence of excess or deficient real domestic demand, and an appreciated or depreciated real exchange rate. Afterwards, Wong assesses policies (monetary, fiscal and exchange rate policies) needed to adjust the real domestic demand and the real exchange rate to rebalance the economy. He concludes that policy coordination between monetary authorities, and fiscal authorities is vitally important to avoid conflicting remedies. Notably, this paper provides a number of possible solutions to correct macroeconomic imbalances but does not advocate any particular policy stance. Empirical evidence was mostly taken from Latin American and African states, whose economies bear a few similarities to Caribbean economies.

In Chapter three, Nadeem Ul Haque and Mohsin S.

Khan assess the performance of IMF-supported programmes. They begin by reviewing the empirical literature on evaluating the usefulness of the IMF programmes, and were able to identify four approaches:

- The *before-after approach*, which compares the current macroeconomic performance of a programme country with its performance before the programme.
- The *with-without approach*, in which current macroeconomic performances of programme countries are compared with the performances of non-programme countries.
- The *generalised evaluation estimator approach*, which compares the performances between programme and non-programme countries, whilst controlling for exogenous shocks and different initial conditions.
- The *simulations approach*, in which simulations are run under IMF programme policies and compared with simulations under a different set of policies.

Haque and Khan conclude that recent empirical work suggests that, on average, IMF-programmes do work, but that the robustness of the econometric methodology needs to be improved. Of course, this is in startling contrast to the increasingly popular view that IMF programmes are ineffective and may even contribute to worldwide poverty. Furthermore, while the authors suggest that IMF programmes work, they have not specified the length of time taken.

Xavier X. Sala-i-Martin surveys the empirical literature on growth theory in Chapter four. He focuses on the determinants of growth in rich countries, and on the causes of slow growth in poorer countries. Sala-i-Martin begins by examining the traditional neoclassical growth theories, and then moves to the more recent endogenous growth theories. He finds that variables such as the quality of government, investment, openness, primary sector production, de-

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gree of capitalistic organisation, education and macroeconomic stability are positively correlated with growth, while market distortions are negatively correlated. Surprisingly, variables such as government spending, financial sophistication, scale effects, ethno-linguistic fractionalisation and colonial history have insignificant influences on growth.

Luis Caranza, undertakes an assessment of the sustainability of current account deficits, with respect to balance of payments, above 5% of GDP, generally considered critical, but not necessarily ominous. He compares and contrasts two major methods of determining current account sustainability, the intertemporal solvency approach and the exogenous factor approach. The former technique looks at the ability of a country to pay its external debt over some given period, whereas the latter captures how the macroeconomic policy stance of a country affects its ability to pay. Afterwards, Caranza examines the literature on leading indicators for determining current account deficit sustainability and forecasting external crises, and finds that structural factors (e.g. economic growth and income savings gap), macroeconomic policy and over borrowing factors (e.g. ballooning domestic credit and growing current account deficit) can help predict external crises. He discusses possible policy responses to external imbalances, and conducts case studies on five countries (Canada, Argentina, Chile, Mexico, and Thailand), which have experienced large current account deficits. Caranza concludes that the exogenous factor approach is better than the intertemporal method. Though the economic structures of the five countries studied are not similar to the typical Caribbean economy, the paper is still instructive to the Caribbean policy maker.

Chapters six and seven explore common issues in monetary policy. Richard C. Barth addresses the need for establishing a general framework of monetary policy. He describes its major objectives, and investigates its relationship with the exchange rate policy. Furthermore, Barth examines two competing views of the monetary transmission process, money versus credit, and states, without supporting evidence, that indirect monetary policy (e.g. open market

operations) is more suitable for controlling monetary aggregates than credit aggregates. In this regard, the continued development of money and capital markets in the Caribbean is of paramount importance to facilitating the effective use of indirect monetary policy. He also discusses contemporary issues in the execution of monetary policy such as its dynamic consistency and inflationary bias, monetary policy rules versus discretionary policy, and the degree of central bank independence from political influences. Barth closes with a relatively in-depth case study of Canada over the period 1991 to 1998, and attributes their consistently low inflation rate from 1992, to their implementation of an inflationary targeting regime in 1991.

Jodi Scarlata's paper on inflation targeting is very enlightening. She argues that many countries adopted this framework over previous monetary regimes, because it allows the central bank the freedom to conduct monetary policy without political interference. Furthermore, Scarlata contends that inflationary targeting is a policy rule — i.e. a policy that operates on a given set of rules based on economic, financial and political factors — and not a discretionary policy, which is subject to the sole discretion of the policy maker. The second section of her paper deals with main issues in inflation targeting such as its interaction with other policy goals, and the process of assigning the target. For example, with respect to the former point, Scarlata contends that low and stable rates of inflation promote financial sector stability and higher levels of employment. In relation to the latter point, she surmises that government's cooperation in setting the target is necessary, because it increases their commitment to maintaining a low inflation rate. Concluding, Scarlata suggests that the success of Israel, New Zealand, and the U.K. in reducing inflation can be attributed to their policy of inflation targeting. However, this policy is generally not appropriate for the Caribbean countries, as many of them have pegged currencies and adjustments made to the money aggregates to support a fixed exchange rate, may negatively influence the inflation path. Consequently, in many of these countries, the foreign reserves are the preferred policy tar-

get, but low inflation rates are still desired.

Samir El-Khoury discusses the role of fiscal policy in macroeconomic management, a particularly important topic in the Caribbean as it is often said that fiscal policy is more effective than monetary policy due to prevailing shallow money and capital markets. He focuses on the stabilisation function of fiscal policy, and employs the traditional IS-LM analysis to determine the short run effects of fiscal policy on output, prices, and the current account. El-Khoury investigates the interaction of fiscal policy with monetary policy and exchange rate policy. Furthermore, he explores issues in fiscal policy and macroeconomic management such as methods for measuring the fiscal balance, cyclical and structural deficits, the sustainability of the fiscal deficit, and policies for managing fiscal debt and surpluses. Additionally, he discusses the viability of fiscal policy rules, and argues that they are superior to discretionary policies because they are time consistent. El-Khoury examines the correlation between fiscal policy and long-run growth, and finds that an expansionary budget policy is negatively correlated with growth, whereas, the impact of either tax or expenditure policies are inconclusive.

In Chapter nine, Enzo Croce, analyses two important problems in defining the role of fiscal policy in adjustment programmes. These are: finding a true measure of the fiscal balance, and determining the fiscal adjustment needed to attain the macroeconomic objectives. With respect to the former point, Croce laments the absence of any comprehensive, fundamental measure of the fiscal balance but contends that a series of indicators are necessary. In relation to the latter issue, he explains how various indicators can assess the impact of fiscal policy on macroeconomic variables, whilst focussing on the inter-temporal budget constraint as his *modus operandi*. He advocates the use of specific indicators, associated with the debt-to-GDP ratio, as effective parameters for targeting a timeline for reducing fiscal deficits. Croce concludes by examining the criteria for fiscal solvency and sustainability by deriving a cohesive framework for determining the fiscal adjustment needed to achieve

adequate levels of domestic and external balances over a predetermined time horizon.

Chapters ten and eleven deal with perhaps the most elusive area of macroeconomics — determination of the correct exchange rate. Graciano del Castillo, in her discussion of the determination of nominal exchange rates, surveys the econometric literature on exchange rate models, and analyses their empirical validity. Initially, she examines the purchasing power parity and interest rate parity hypotheses, and finds that the former is invalid in the short run and inconclusive in the long run; the latter is valid only if financial assets are perfect substitutes. Castillo compares and contrasts the monetary approach (both sticky price and flexible price models) and portfolio-balance approach to exchange rates. She concedes that there is no clear choice between them.

Peter J. Montiel explains, quite convincingly, the importance of defining, determining and measuring the long-run equilibrium real exchange rate (LRER). First he analyses the conceptual and empirical issues that arise in defining the actual real exchange rate, arguing in the process that its best measure is the LRER. Montiel contends that its theory is advancing faster than estimation techniques. He believes that time series econometrics might provide some answers, but laments that the methodology is still in its infancy. In conclusion, Montiel warns that unless major and timely advances are made in the ability to identify and measure the LRER, it will soon be too difficult to maintain managed exchange rates.

This book deals with typical issues encountered by policy makers, and it offers an array of practical options available to them. It is well presented and highly informative. The avid student or policy maker will do well to read this text from cover to cover, and can expect the time spent to be well worth it.





Caribbean Survival and the Global Challenge

As Edited by Ramesh Ramseran

by Kim Coppin*

Introduction

The member governments of the World Trade Organisation (WTO) and the Free Trade Area of the Americas (FTAA) have committed to the elimination of barriers to trade and investment by 2005. Clearly, this has implications for the Caribbean. *Caribbean Survival and the Global Challenge* is a compilation of works addressing the uncertain future of the region's small island states in a rapidly integrating global economy. The contributors examine several of the critical issues currently facing Caribbean countries and offer innovative ideas for their resolution. The volume is divided into eight sections, each consisting of multiple chapters.

Globalisation in Perspective

Section I explores the nature of the globalisation phenomenon. In this introductory paper, Ramesh Ramseran remarks that Caribbean countries are struggling to adapt in an evolving global economy over which no single government has complete control. This poses special problems for small island states – of capital flight, for example - which are sensitive to externalities. While monitoring the global climate is important, Ramseran believes that the underpinnings of the Caribbean's survival are sound internal macroeconomic policies, backed by timely action.

Although globalisation is the current buzzword, it is not a new occurrence. Kelvin Singh posits it began five hundred years ago with the Portuguese discovery of the Cape of Good Hope route to India, and the Spanish discovery of the transatlantic route to 'Las Indias' and the Americas. Given current global economic trends, Singh predicts that the region will eventually return to European and North American subjection. This exhaustive paper would be of particular interest to students of economic history.

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The State and Foreign Policy in a Changing Global Setting

New obstacles facing Caribbean countries as a result of globalisation are highlighted in Section II of the text. Vaughan Lewis questions whether Caribbean countries will be able to exercise autonomy in the new global village and notes that while they have enjoyed the benefits of preferential systems in the past, they are now being coerced by larger powers into forming regional economic blocks for their survival.

In the context of globalisation, small states will be even more so at the mercy of international forces. Ralph Premdas concludes that mass migration and transnational economic exchanges have blurred state boundaries, distorting the concept of sovereignty as we know it. Hence, he believes that a need exists for the re-assessment of the idea of sovereignty in light of the emerging global market.

A negative impact of globalisation arises from the potential for transnational criminals to exploit the global network. Geographical, physical, and technological handicaps imply that Caribbean countries will be impacted more adversely, given their vulnerability to infiltration by international criminals. In his highly provocative contribution, Anthony T. Bryan proposes that governments must be relentless in their efforts to extinguish this illicit activity.

Size, Resources and Strategy in the Global Economy

Size and resources play a significant role in the global economy, necessitating appropriate strategies. These are examined in Section III of the document. Because the retention of preferences is threatened by global liberalisation, Caribbean countries have been lobbying for the creation of a special category for small vulnerable states, which would allow them certain privileges in the global community. The future prospects for the continuing availability of concessional assistance in the region are not good, since the Caribbean now consists primarily of middle-income states. The cur-

rent inclination of the World Bank and the WTO is to direct aid to the most impoverished countries. In a comprehensive paper, Paul Sutton argues that unless the region can convincingly demonstrate its vulnerability, it will be unable to effectively compete for aid. The microstates of the Organisation of Eastern Caribbean States (OECS) have found globalisation especially difficult; small gross domestic product coupled with limited natural resources paint an uncertain picture for their continued socio-economic development. Swinburne Lestrade submits that potential exists in agriculture and manufacturing, but offers no concrete suggestions on how it might be tapped. However, he does acknowledge the difficulty involved in increasing competitiveness and efficiency in these sectors. Lestrade surmises that only regional co-operation will ensure survival in the global arena.

In terms of a way forward for the Caribbean, the service industries have the most potential and, as noted by Natasha Ward, they use telecommunications services extensively. Clearly, a competitive telecommunications industry is needed to generate a competitive service economy. The dissolution of the Cable and Wireless monopoly is therefore an important step towards the attainment of a competitive services sector; regional rates have been falling in recent times in anticipation of the break-up. Naturally, island states need to ensure that firms entering the telecommunications market do not practice oligopolistic behaviour to the extent that consumers will be no better off than before.

Caribbean Bi-Lateral Relations

Section IV focusses on the need to examine the emerging trends in bi-lateral relations and regional co-operation in the context of the new global village. Ken I. Boodhoo argues that U.S. relations with the Caribbean have traditionally been motivated by America's own self-interest, which waned considerably after the collapse of communism.

Current U.S. policy toward the region focuses on narrow issues - banana trade with Europe for example – without considering the consequences for the region as a whole. Conversely, Canada offers more potential for Caribbean development; Basdeo and Hesketh are encouraged by the consultative approach that Canada has taken towards Cuba, and believe that it will affect more change than the antagonistic stance adopted by the U.S.

Because they share a common geographic space, Caribbean countries have similar economic, environmental and social concerns. Consequently, the Association of Caribbean States (ACS) was established as a forum in which regional countries can resolve their mutual problems and achieve their common long-term goals. Norman Girvan concludes that even though there is a need for a zone of co-operation in the region, the ACS has proven to be little more than another futile integration attempt; unfortunately it has served mainly as a source of tension among members, several of whom fail to attend meetings of the Special Committees. Andres Serbin attributes this leisurely pace of Caribbean and Latin American integration to the exclusion of social groups and non-governmental agencies from the negotiations process. He believes that these players are powerful integrating forces and predicts that as they become more involved in the procedure, regional unity will finally be realised.

Governance and Civil Society

A critical examination of Caribbean democracy in the age of globalisation is undertaken by Selwin Ryan (Section V), in which he denounces authoritarian regimes and advocates democratic systems with greater transparency. He also compares and contrasts the minimalist and maximalist formulations for constitutional and electoral changes. To his credit, Ryan goes beyond simply rhetoric and makes several suggestions for reform, including de-emphasising party politics at the local government level, which he claims pa-

ralyses, rather than inspires, community activity.

International Trade Policy and the Caribbean

The importance of trade to regional economies is highlighted in Section VI. Sidya Ould el Hadj, a proponent of multilateral trade liberalisation, contends that the failure of the WTO Third Ministerial Meeting in Seattle may be a setback to liberalisation in agriculture and textiles. On the other hand, the stalling of multilateral trade negotiations will delay the removal of trade preferences currently enjoyed by Caribbean states and permit them time to adequately prepare for liberalisation.

Labour standards are a controversial area in international trade and are closely connected to issues such as competition, labour exploitation, wage rate and workers' rights. In her paper, Lucy Eugene makes a passionate plea for the humanisation of the trade liberalisation process, and warns against pursuing free trade with such single-mindedness that human rights are diminished. Her paper is a departure from convention in as much as it reduces liberalisation to a personal level, focusing on the impact on the individual, rather than on an industry or a country.

Anthony Gonzales examines the rate of regional integration into the global economy. Using different indicators – for example, indices for restrictiveness of import policy – he concludes that over the last decade, Caribbean countries have been slowly integrating into the global market. With the exception of Haiti, there was no significant difference in the rate of integration on an individual country basis.

As the global climate tends towards one of reciprocity, the countries of the Caribbean Community and Common Market (CARICOM) are in danger of being marginalised. Meera Ramesar describes how the dismantling of trade preferences in agriculture, industrial products and textiles and clothing would negatively affect their foreign exchange earning ability. This paper's shortcoming is that Ramesar criticises the vulnerability of several sectors – offshore, tourism, min-

ing and agriculture – but instead of suggesting concrete solutions to CARICOM's dependence on these sectors, she offers only vague suggestions about state and civil society working closer together.

Kusha Haraksingh studies the deterioration of the Lomé Agreement and attributes it to pressure on the European Union (EU) from the WTO to conform to the recent trade liberalisation rules. Haraksingh argues that WTO rules cannot be applied without adjustment to Caribbean states, or economic disaster will ensue. He concludes that the region's ultimate challenge is to affect the rules in order to establish an equitable distribution of the benefits of free trade.

Too much emphasis has been put on the traditional export agricultural sector which is highly dependent on rapidly disappearing preferential market agreements. As a result, the non-traditional agricultural sub-sector has been grossly neglected. Ranjit Singh explores the possibility of selecting specific crops for exportation; he believes that the largest obstacle to non-traditional agricultural exports is the protectionist policies afforded the agricultural sectors of developing countries. Singh suggests pumpkins, eggplant, ginger and mangoes as some alternative export possibilities.

Keith Nurse produces an original paper on the economic importance of the arts, entertainment and cultural industries. He argues that unlike Caribbean countries, developed countries have routinely exported entertainment and cultural products and services. Nurse believes that the region should place emphasis on these industries, using them as a means of transporting Caribbean culture and changing international opinion of Caribbean states.

Liberalisation, Globalisation and the Caribbean Financial Sector

Liberalisation and globalisation have impacted on the financial sector. Winston Dookeran examines the effects on Trinidad and Tobago specifically, and the region in general. He submits that the Caribbean should unite to form a re-

gion-wide regulatory system for financial services, thereby reaping economies of scale. Additionally, he warns that financial liberalisation in the Caribbean should be undertaken circumspectly. Dookeran's paper loses some credibility when he fails to provide a solid quantitative result to support his claim that financial liberalisation contributed to economic growth in Trinidad and Tobago in the 1990s.

In her informative contribution, Marion Williams discusses the effects of financial liberalisation on the regulation and supervision of commercial banks. She proposes that retooling is necessary to meet the changing economic environment and, with the formation of universal institutions, greater co-operation among regulators may be necessary.

Advances in technology, transnational corporations, and developed nations are currently driving globalisation. The best strategy for small open economies is to exploit the benefits while reducing the adverse effects. Ronald Ramkisson examines the regional financial sector and is optimistic that it can effectively compete with its global counterpart.

Prospects for Development Finance

The final section addresses problems relating to development finance. Ramesh Ramseran discusses the impact of global competition for foreign direct investment (FDI) on the Caribbean. He argues that though FDI can contribute to economic growth, domestic savings and reforms cannot be ignored. He adds that barriers to intra-regional free capital movement must be removed, leading to more effective use of savings and attracting higher levels of investment. This process has already been initiated between Barbados and the OECS countries.

Keith Worrell discusses two aspects of official financing: private and concessional financing. He argues that private financing will soon become more important and, to meet this eventuality, he suggests that the Caribbean Development Bank (CDB) becomes the region's preferred lender in anticipation of the reduction in availability of multilateral loans

from international financial institutions. He also advocates the increase in domestic savings and holdings of foreign reserves in regional states, but is unclear about how this can be accomplished. Worrell adds that these policies should be implemented without delay.

Conclusion

Caribbean Survival and the Global Challenge is timely in that it explores the different facets of a topic that is currently one of the most vital issues in the Caribbean. Regional sentiment is that globalisation will impact negatively on the Caribbean in the short run. Nicholls, Christopher-Nicholls and Colthrust¹ investigated the effect of a free trade agreement (FTA) between the EU and CARICOM on fiscal revenue. As a consequence of its formation, predicted revenues from trade taxes fell in all importing member countries of CARICOM. The decline was most pronounced in the OECS countries. These results are consistent with the opinions of many of the contributors in the text.

The eventual assimilation of the Caribbean into the new global community is a foregone conclusion, and the book provides good insight into the short and long-term effects. The majority of the papers are informative and thought provoking. The text is a worthy addition to the library of any student, educator or policymaker.

¹ Central Bank of Barbados, Working Papers 1999, pp. 145-158



