

Preliminary Assessment BVI Economy

Introduction and Background

The purpose of this report is to assess the impact of the September 11th terrorist attacks in the USA on the economy of the British Virgin Islands. Additionally this report describes the recovery in the economy and assesses prospects for the future. The report focuses on the sectors that were impacted most such as tourism, government, distribution and the external sector.

The assessment covers the period 15th September to 31st December 2001

The reference period is the fourth quarter 2000 and of course the review period is the fourth quarter 2001. Also in terms of coverage the activities focused on are related to domestic trade in goods and services, imports and exports, government taxes and spending, tourism activities and investment activities. While covering the territory from Anegada to Jost Van Dyke, Tourism as a single sector received the most attention, as it appeared that the impact was more pronounced there.

In view of the limited statistical database, the timeliness of data submissions and short period of assessment, our approach focuses on some key and available leading indicators such as tourist arrivals, average length of stay, credit, imports of goods and services, companies registered, investment permits approved, consumer prices indices, etc. Given the pressing need for Executive Council to be informed, it was decided to submit this as a preliminary report and prepare the final report when hard data becomes available. As a consequence, this assessment focuses on activities and data trends in most areas and firmer number in a few sectors.

Our assessment and monitoring activities included routine collection of data at various ports of entry, administrative records of government departments and some estimates using internationally accepted economic statistics techniques. In terms of information collection from the private sector, we conducted interviews with property owners, representative associations, industry associations, management and interested individuals.

The terror events in New York and Washington could not have come at a worse time. The western industrialized world was in the middle of an economic downturn since the fall of 2000 and continuing with the advent of the Bush Presidency. European economies reached a valley while Latin America and the Caribbean economies bogged because of the ties to continental markets.

The American and other western industrialized economies had been hit by softened financial markets and deteriorating aggregate demand. As the boost of the Information Age, with the birth of the “dot.com” enterprises leading the way in growth wore off, industrial production slackened, unemployment rose and government’s fiscal position deteriorated.

The terror attacks have left tourist in our main source market fearful of flying. There is major concern over the continuing economic recession, the threats of additional terror attacks in the USA and about the next phase of the war on terrorism outside the USA. American tourists are filled with anxiety, uncertainty and hesitance. The personal finance picture for the future remains unclear and they are most fearful of being identified, targeted and attacked overseas. Their uncertainty and fear have in effect led to reduced discretionary spending.

The BVI economy is an export oriented one driven by international trade in tourist and financial services. The openness of the economy is demonstrated by the fact that exports and imports amount to 40% and 34.1% of Gross domestic product, respectively. Growth and development of the economy has been accommodated through extensive foreign direct investment in key sectors and approximately half of the population and 60% of the labour force are non-belongers. The financial system is fully integrated with the USA as three of the four major commercial/retail banks are North American and the other is European. Approximately 30% of the long term bank deposits are held by non-resident, non-belongers. The BVI economy is definitely influenced by global economic, social and political events.

A snapshot of the BVI economy at the time of the 9/11 terror attacks on the USA would have shown a country in the low tourism and total activity demand period. The BVI was an economy prepared for a natural disaster that could have severely damaged the tourism plant and economic infrastructure. The BVI was an economy coming to grips with the deterioration of regional demand as it felt the impact of reduced aggregate demand in the USA.

The snapshot would have shown an economy under the threat of severe damage to an industry that is responsible for more than one third of GDP through OECD sanctions. An economy with a financial services industry under reforms that would have enhanced supervision and new regulatory framework totally outside of traditional government control. The financial services sector was experiencing a significant drop off in the rate of growth but a growth in revenue yield. The snapshot would have shown a tourism sector with great and growing conflict between land, marine based and cruise ship tourism. The economy snapshot would have also shown government fiscal position tightening to the reality of a flatter revenue yield and expanding expenditure for both current and capital affairs.

Concern for keeping the fiscal situation in line with overall development resulted in the appointment of a consultant to review rates and suggest new or different tax measures. Much of this concern arose out of the OECD Harmful Tax initiative. The government fiscal position is becoming stressed with the current and anticipated cash flow requirements for the financing of ongoing and new large capital projects.

The BVI economy was experiencing mix results in performance and there were a number of external and internal challenges that would have absorbed the energies of the country to bring us into a good fourth and first quarter increased aggregate demand situation.

Output

The Development Planning Unit estimates that the terror events of the 11th September 2001 in the USA would result in a 3.5% reduction of the gross domestic product as measured in the classical Keynesian method. This suggests that national output consisting of consumption, investment, government and external sector will amount to just over 91% of what was expected in 2001.

The anticipated decline in national output is to be seen in Consumption, Government and the External sector. During the early part of the review period consumption by both government and the private sector fell marginally. However, private consumption by individuals, particularly those employed in tourism and by businesses involved in tourism rose toward the end of the review period. The reduction in government consumption was very small and occurred mostly during the early parts of the review period. This reduction in consumption occurred at business points that were closed or where activities were severely reduced such as ports of entry and offices dealing with tourism.

The reduction in national output due to decreased activities in the external sector came mainly as a result of decreases in the exports of tourist services. The 12.0% fall in the number of visitors in the first 6 weeks of the review period is responsible for the most of the reduction seen. Although the fall off in tourism services exports continued throughout the review period, the latter half was markedly improved due to heavy promotion and discounting on the part of operators. Tourism inflows from the export of services fell approximately \$30.0m over the review period

There are no firm indicators that suggest any real decline or deterioration in investment. Indicators such as the number of non-belongers land holding licenses issued, the number of development applications and sub-divisions approved, the imports of capital goods, employment in construction and credit for construction either increased or showed significant decrease during the review period.

Since the Thanksgiving Holiday period, co-inciding with the start of the tourism high season, national output has commenced a slow and steady recovery receiving its final and most energetic boost from increased imports and subsequent increased consumer spending in the economy as the Christmas and New Year Holiday season approached. The economy experienced a relatively quick shift from the low season and terror shock of the early review period to a heightened period of consumer spending, imports, government spending and tourism exports at the end of the review period.

Consumption

In the classic Keynesian economic model consumption is defined as the spending by consumers, businesses and government on good and services to be consumed but not in the course of production. The BVI economy is almost 70% consumption and it is estimated about \$560.0 mn will be spent on consumption during the course of 2001.

At the time of the terror attacks in the USA, consumption was at its lowest annual point. Historically the month of September is that low season for economic activity in the BVI. However, the terror attacks caused further reduction in tourism demand and consequently an overall reduction in aggregate demand due to the sector linkages with that sector.

During the course of the review period both private and government consumption exhibited the same behavioral pattern. Immediately after the attacks consumption fell noticeable as the country was effectively closed to tourists due to the closure of US airports. Consumption picked up slowly as workers incomes began to rise in response to increased hours of work. Consumption then went into recovery as tourism demand increased around the Thanksgiving Holiday period. Tourist establishment were able to reduce their discounts while increasing their occupancy levels, incomes to employees and spending generally.

As the Christmas Holiday season approached with increased incomes and spending, consumption in general increased. Of course imports, one of major indicators, rose some 4.1% to \$61.2 mn in anticipation and support of increased consumption. During the course of the final month of the review period, consumption accelerated as spending increased parties and other entertainment, food preparation, music, consumer durables, consumer electronics, clothing and other Christmas gifts.

In terms of government consumption, the initial reduction occurred when tourist demand deterioration caused closure of certain facilities. The Thanksgiving Holiday period brought increased consumption as government spending rose 12% over the same period in 2000. Government consumption peaked as a customary during the last month of the year when “Christmas shopping” occurred. Treasury preliminary figures indicate a 9% increase in the December-to-December period in spending.

The events of 11th September impacted consumption negatively but the recovery in aggregate demand, especially for tourism services brought it back to about 90% of the previous year’s level. But, the holidays and high tourist season spending could not completely erase the losses suffered during the first month after the terror attacks.

Investment

During the period September to December 2001, investment, as measured by gross capital formation, rose slightly over like period in 2000 due to the continued confidence in the economy, the continued public sector investment and credit for home construction. The investment of capital goods and durables, a key component in investment grew better than moderately in support of home construction, commercial space development and government projects.

Another major component of domestic inward investment in the BVI is the building of residential and rental homes by seasonal, retired or semi-retired residents. As a key source of unofficial inward investment flows, the acquisition of real estate for development and non-speculative purposes is a good measure of investment and future activities of construction, personal services and accommodation sectors. Official records

indicate a small increase in number of non-belonger land holding licenses issued during the review period compared to the reference period.

Domestic credit to the construction sector and individual for the building homes present a good indication of the level of capital formation in the economy. During the review period bank credit for construction and other investment activities rose some 7.5% for the private sector. Indications are that credit to residents and non-residents continued unabated during the reviews period as investors planned held firm in the face of the events of 11th September.

The events of 11th September 2001 had little effect on the plans investors have for development as indicated by the increase in number and value of application for land subdivisions and building development. Statistics from the Town & Country Planning Department suggest a 6.08 percent and 7.8 percent increase in the number of building permits sought and in the value of proposed developments, respectively.

The imports of capital goods consist mostly of industrial steel, construction materials, heavy equipment, transport vehicles and other industrial goods. Imports amounted to approximately \$65.0m, up about 6.3 percent over the reference period in support of the continued investment activities, and expanded credit. Of course, the public sector investment in the airport, other infrastructural projects and commercial accommodation spaces contributed significantly to the better than moderate expansion in domestic investment volumes.

Government Finance

Continuing a trend established almost a decade ago, government fiscal situation improved each quarter until the quarter following the terror attacks in the USA. Overall revenue grew at an annual average of 14.1 percent to reach \$183.1 mn during 2000. This fiscal performance continued to provide, on average, \$20.0mn to finance public sector capital outlays each year during the past decade However, the 11th September events in the USA interrupted this trend bringing an estimated loss of about \$7.5 mn or 4.0 percent in government revenue in 2001

In September 2000 government revenue amounted to \$15.29mn compared with the \$8.65m collected during September 2001 as a result of deteriorated demand for tourist services and the resultant reduced inflow from the supportive sectors such as transport, communications etc. Treasury figures indicate that losses in revenue collection extended to sectors not directly related to the softened tourist demand and the fall in imports at the early part of the review period. It should be noted that Government's current expenditure fell 50.5 percent from \$16.55m to \$8.37mn on a September-to-September basis.

During the reference period capital expenditure recorded \$12.8mn compared to \$16.0mn in the review period, indicating a 40.0 percent expansion. This increase however, was a result of planned and committed activities and was intended to ignite soften demand as the construction and import sectors showed no indicators here.

Overall government revenue amounted to 188.5% mn, up \$5.4 mn or 2.9 percent over the like period in 2000. Therefore, expect for the \$6.5mn September loss in revenue, the fiscal situation of the Central Government has recovered to previous growth trends. The situation is expected to improve in 2002 barring any further softening in aggregate demand for the BVI goods and services.

Employment

Overall, the labour market in the BVI has returned to post 9/11 levels in terms of total number of person employment. In fact there was little impact on the number of jobs given that the terrorists events occurred during the slowest period of the tourist season. Many tourism establishments had already reduced their workforce to customary low seasonal levels with most ex-patriate taking their usual late summer trips to their countries of origin.

Public sector employment and other private sector employment in the area of financial services, construction and other services remain relatively unchanged given that these sectors were virtually unaffected by the general reduction in international travel. Domestic public sector employment has expanded slightly after contracting by about 0.2 percent in the first two months of the quarter. Construction employment rose slightly given the public sector investment programme and the continued expansion in credit to home building and general construction activities. Employment in the financial and business services sector rose moderately as demand for these services was unaffected by the general reduction in international trade.

In respect of tourism employment, while the number of jobs remained virtually unchanged, the number of hours employed was significantly reduced, in some instances by more than 50% in the first 6 weeks after the 9/11 attacks. In addition to the usual reduction due to low season, the number of hours worked is estimated to have averaged 15 per week in most of the major establishment. However, the late quarter performance of arrivals returning to about 80% of normal has virtually eradicated seasonal employment in the tourist sector. An important concern is that the seasonal employment and the further reduction in tourism sector employment due to softened demand impact on the lower level skilled workers and expatriates who dominate this employment group. This is an important consideration given that as work permit employees they are second preference and are subject to termination and voluntary repatriation under circumstances of softened demand and reduced unemployment.

Prices

In an economy characterized by softening aggregate demand and in one that depends on international trade in business/financial and tourism services one can reasonably not expect to see an inflationary situation. Prices in the BVI are correlated with prices in the continental USA given the high import of goods and services from this market. For the

purposes of these monitoring exercises, consumer, construction and tourism prices are used, as they are the only processes monitored.

During the course of this review period, the consumer Price Index (CPI), the best and most reliable measure of movement in the general price level rose 1.52 percent overall compared to the reference period. This is comparable to the 1.2 percent rise seen in the USA consumer price level. However, as expected in a situation of falling aggregate demand, prices of consumer products have declined slightly while prices for services rose slightly (0.6 percent) to result in an expected small increase over all CPI sections. Consumer prices at the end of the review period reflected a slight increase of 1.52 in the prices of imported consumer goods and a rise in the prices of domestic services.

Although somewhat less significant, tourism prices as measured by the Tourism Price Index, provides an indication of how faster the BVI as a destination is becoming more expensive. Naturally, with depressed demand for the BVI as a destination due to the fear of flying, tourist prices would obviously fall to induce demand. From our Tourism Price Index (TPI) there is approximately an overall 20 percent fall in prices, particularly for accommodation where local service providers discounted prices to fill rooms. Tourist arrivals, expenditure and tourist nights are down 24.3, 1.7 and 1.1 percent, respectively reflecting the softened demand experienced.

Construction prices, although related more to investment, give an idea of the rate of escalation of these services. Surprisingly the Construction Cost Index (CCI) rose less than the rate of inflation as measured by the CPI. This less than expected increase came about as a result of declines in the import prices of steel, lumber, electrical construction materials and other aggregate. This came about as a result of fall in international prices for these materials and the fall in domestic interest rates.

Financial and Business Services

Financial services is one of the world most competitive and highly regulated services, and it is one of the primary engines of growth in the economy of the British Virgin Islands. The financial performance of the Central Government is highly dependent upon the flow of direct and indirect revenue from the financial and business services sub-sector. Estimates suggest that this sector is responsible for almost 55% of the central Government revenue in the first round.

The financial services sector remains largely unaffected by the terror events of 11 September due in part to the structure of the industry. The absence of a large offshore banking sector to allow the management of terrorist resources rules our country out for further scrutiny. In addition the BVI maintains a reputation as a highly regulated and clean jurisdiction which portrays a good image to the rest of the world. The level of self policing by the industry has the potential for rapid identification of unfit providers.

Preliminary figures suggest that the slowing growth in registration of offshore companies began in late 2000 continued throughout 2001 including the review period. Essentially

what is happening is a reduction in the extraordinary growth rate recorded over the past two years instead of a decrease in the growth volume. The approximate 25% decline in growth rate of company registration seen in and around the review period cannot be attributed to the events of 9/11. Instead our opinion is that it is more related to the inability to maintain the windfall growth of 2000 resulting from the Asian and other crises. Interestingly though, the revenues yield from financial services is estimated to be up by between 8-12 percent over the reference period.

In terms of other financial services products, captive insurance and mutual funds registration, activity level are largely unimpacted by the terror events in the USA. However, the competitive nature of these industries can erode the BVI potential markets. But our early ability to attract a high level of committed clientele is definitely impacting positively on numbers in these areas.

Credit and Savings

The BVI financial system is very much integrated with the international financial markets and it is in turn influenced heavily by the USA financial markets. Given that our financial institutions are largely international banks and credit card companies, the decline in the value of equities and other financial instrument trading due to the 9/11 events in USA had little or no negative impact on the domestic financial affairs. The banking system is such that there was little fear of money laundering or the holding of deposits for terrorist organizations.

During the review period, the money supply as measured by the stock of cash and near cash instruments rose 3.3 percent to \$598.6 mn compared to the reference period largely as a result of increased domestic and foreign long term savings deposits. While current or checking accounts were slightly drawn down by 2.8 percent, mostly by commercial enterprises, certificates of deposit by foreign entities and domestic individuals rose 4.1 percent to \$1,145.8 mn. Overall, savings rose 18.4 percent to \$220.0 mn.

As the average prime interest rate fell 38.0 percent (in tune with the NY prime), investors continued their investment plans implementation. The liquidity ratio in the banking system continued to be reduced at an even greater rate due to the faster growth rate loans. Compared with the reference period, outstanding credit rose 8.1 percent to \$496.5 mn mostly in consumer and commercial credit. The number of loans, the average size and the total outstanding increased moderately in spite of the general deterioration of aggregate demand nationally.

In summary, the BVI financial market was fortunate not to suffer the ill effects of reduced aggregate global demand, falling interest rates and deterioration in the international trade. The structure of our financial market somewhat precluded us from the "black list" of the global community and the banks and limited presence of foreign deposits provided little opportunities for terrorists organizations manage their resources through our banking system undetected.

Tourism

Tourism is our most dynamic sector in terms of backward and forward linkages with other sectors in the economy and it is highly competitive as well as sensitive to political events world-wide. Being the major engine of the economy, it generates more income, more jobs, more imports and substantial revenue to the Central Government. On the other hand, tourism has a much more profound effect on the sustainable development of the BVI than any other sector.

From the point of view of calendar years, the year 2001 is expected to amount to only 82% of the arrivals of 2000 leaving a 18% gap. A fourth quarter to fourth comparison indicates that arrivals had fallen almost 20%. This is deterioration tourism demand is directly attributable to terrorist events of 11 September 2001 and resultant fear of flying by the average citizen in that country.

Preliminary figures from the DPU indicates that tourist expenditure will amount to less than 90% of 2000 while tourist nights will be reduced by almost 10% of 2001 in the review year. Cruise ship arrivals expected to be down about 5% with expenditure from that category of tourists amounting to 85% of those seen in 2001. This projection suggests that the tourist season will have been heavily impacted by the events of 9/11 in the USA.

During the first half of the review period small business were operating, in some instance, below 30% capacity based on their actual occupancies. However, the USA Thanksgiving and Christmas Holiday periods, the start of the winter tourist season, brought some wanted relief as occupancies climbed back to almost normally expected levels. But, operators claimed that they were only able to boost their occupancies through heavily discounting of room rates at what were previously known as the peak season. This situation is however not unique to small inns and villas in the BVI as even airlines, hotel chains and many other businesses were forced to discount in order to maintain market share, breakeven incomes or plain survival

Another main consequence of the reduction in demand for tourist services in the consequent reduction in the demand for labour. Of course, the reduction for labour started was at the lower skilled levels such as food service workers. Among both large and small establishments workers have had their weekly hours reduced by more than 50% in most cases and by as much as 75% in others. This situation persisted for the first half of the review period and changed to almost normal as tourism demand returned to almost normal.

Construction

The construction and installation sector is one of the key transformation sector in that it transforms the natural environment in physical terms through building of infrastructure, buildings and other structures. In the BVI the construction sector has been responsible for

building the foreign direct investment in tourism plant, residential homes and other production plant.

Typically construction and installation accounted for 2.6 % of GDP or \$19.3 mn in national income. 8.2% of total employment and pay \$12.0 in taxes. In terms of a profile, the section is spread throughout the BVI and more 95% of all employees are expatriate from neighboring Caribbean islands. Local participate mostly at the large and small ownership level. Of the 50 or so economic units involved in the sector, about 80% are BVI Islanders and their jobs are typically under \$100,000. In short, the sector is dominated by small contractors and do it yourself builders who generally supervise their own construction.

The construction and installation sector uses 60-75% of the imports of capital goods excluding motor vehicles. This means that the construction sector best indicators are imports of goods. Since the terror attacks in the USA, imports of capital goods for construction and loans to the sector by commercial banks have continued unaffected. Credit to the sector amount to \$175.7 mn up 19.8 % compared to the like period last year. The number of non-belongers land holding licences are virtually the same and the agreed amount of investment is approximately \$5.8mn, up 19.0% over the previous year. The number of building permits approved during the review period amounted to 52 or 10.6% over the like period in 2000.

The Public sector plays a significant role as an employer through competitive restricted and nominated tendering being responsible for more than 40% of the capital outlays. It is also significant that about 30% of capital works are implemented by small contractors. This makes the construction and installation Sector typical or similar to the overall structure of the business unit market in the BVI.

According to building permits, imports of construction materials, non-belonger land holding licenses approved, credit extended and outstanding and the number of active jobs the construction and installation sector was largely unaffected by the terror events of 11th September 2001 in the USA. The public sector played a significant role with capital projects. such as the Beef Island Airport, the Admin Complex on Virgin Gorda, Peebles Hospital, road works, maintenance and a number of small infrastructure projects administered through petty contracts.

Given the known investment intentions, commitments and plans in both the private and the public sectors, the prospects for the construction sector are bright for 2002 unless there is some unforeseen reduction in the planned outlays and a comprehensive change in the plans of the numerous investors, both domestic and foreign

The External Sector

The external sector in the BVI consists of the imports and exports of goods and services. This essentially means, on the import side, the imports of goods through customs and the post Office as well as the imports of professional technical and personal services. Imports

of services include services provided to BVI Islanders traveling or studying overseas. On the other hand, exports of services include the services provided to tourists in the BVI and the services we provide in the BVI to the rest of the world.

The total of transactions in the external sector amount to \$2.1 billion while the sum of all transactions in the economy amount to \$3.1 billion suggesting that the external sector is almost 70% of our economy. This means our internal market is only 30% of our economy in terms of the value of total transactions. Of course this says that our economy is susceptible to external shocks or political decisions in the market where we buy and sell goods and services. A further conclusion is that the better part of our jobs depends on our ability to export and import

The terror events of 11 September had a dramatic impact on our transactions with the rest of the world. Preliminary estimates indicates that as much as \$30.0 million or 10.0% of all potential transactions and about 4.0% GDP could have been lost through our external sector in the aftermath of the attacks. The early conclusions are that the tourism sector would have been the most impacted as exports of tourist services were severely reduced. Preliminary estimates show that imports increased slightly given that the early part of the review period is normally not associated with large imports for the tourist sector.

The financial services sector was hardly impacted by the terror events. In fact as indicated earlier revenue inflows from this area increased continuing the trend established earlier. The explanation for this phenomenon is the delivery of a higher-level product and the attraction of higher capitalized firms. Official exports, imports and other flow of services remained largely unaffected.

The external sector, like all other sectors, fared better during the second half of the review period. Obviously, as tourism demands improved the external sector revenue inflows improved. Financial services remained virtually unaffected and imports grew back to normal and slightly beyond as the Christmas holiday season contributed significantly to the recovery of aggregate demand in the economy.

Of course prospects for the future are especially in the financial services sector with continued implementation of the KPMG Report highlighted by the establishment of the Financial Services Commission. Service provider in the tourism and related industries indicate very good bookings overall for the sector. However, the marginal and small operators are still not fully optimistic about their high season and remain cautious about 2002 as a good year. There is some concern for the tourism sector, especially the small and marginalized operator who is generally domestic investors and BVI Islanders

Small Businesses

Small businesses, economic units with less than 10 employees dominate the structure of the BVI economy given that they amount to 75% or about 3,500. Of critical importance and concern is that a significant share of the small businesses in tourism is owned by BVI Islanders. In particular, the small inns and villas sub-sector is one of the few areas in

which BVI Islanders have invested in the tourism sector. However, a significant number of small businesses are established in distribution, personal services and business services.

During the first half of the review period most small businesses, especially in tourism related and distribution experienced definite negative impacts from the events of September 11th in the USA. Typically small businesses are marginal operators with small profit margins, poorly established structures and management and very much unprepared to meet the challenges of rapid change. The reduced tourist demand following the terrorists attacks resulted in reduced incomes, depressed profit margins and a difficult business environment.

Some small businesses have indicated difficulties generating sufficient income to cover operating expense and to meet amortization. This generally resulted in businesses reducing their deposit levels and individuals pouring more equity in cash to keep businesses afloat. However, there are no indicators from small business owners indicating that the 9/11 impact on their businesses are being fully borne by themselves.

Preliminary estimates by the DPU are that small businesses have lost about 25% of their income earning potential for 2001. While the last half of the review period witnessed some recovery in aggregate demand, small businesses are not expected to recover fully from the impacts of the terror attacks until well into 2002. However, the Christmas, New Years Holiday period brought some relief to especially the small businesses that are involved in distribution and tourist related services. But our small business sector continues to suffer from the effects of September 11th in the USA and continued competition from retailers in the neighboring USVI, Puerto Rico and the Southern Coast of the United States

Conclusion

While terror events of 11th September had a negative effect on the economy of the BVI, the turn of the world events, the economic structure of the BVI, the timing of the events, the role of the BVIG, the business profile of critical sectors, the tourism clientele and the financial position of the BVIG and the private sector all contributed to almost full recovery towards the end of the fourth quarter.

While a number of international events contributed to the recovery, it was the strength and diversification of the BVI economy and the profile of businesses together with the efforts of the BVIG that are most responsible for the recovery seen thus far. The mix of international and small domestic enterprises played a significant role in tourism demand recovery and stabilizing domestic demand, respectively.

The extent to which the economy has recovered and can recover further during the course of 2002 depends upon the leadership of the GBVI and the behavior of consumers and investors in terms of their confidence. GBVI must be commended for its policy and strategy of restraint, monitoring and letting the private sector self recover.

The table is set for a good recovery in 2002 if no more grand level external shocks occur and the GBVI continues the type of leadership on these particular issues. GBVI and the private sector need to shift from crisis management into proactive strategies to facilitate previously anticipated growth and development.