



CENTRAL BANK
of **BARBADOS**

2006 ANNUAL REPORT

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LETTER OF TRANSMITTAL

Central Bank of Barbados
Tom Adams Financial Centre
P.O. Box 1016, Spry Street
BRIDGETOWN

March 30, 2007

Dear Prime Minister

In accordance with Section 52(2) of the Central Bank of Barbados Act, Cap 323C, Laws of Barbados, I have the honour to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2006 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2006.

The original of the Auditor's Report and Certificate was forwarded to you with my letter of March 26, 2007.

I am,
Yours faithfully,

A handwritten signature in black ink, appearing to read 'Marion V. Williams'.

Marion V. Williams
Governor

The Rt. Hon. Owen S. Arthur, MP
Prime Minister and Minister of Finance
Prime Minister's Office
Government Headquarters
Bay Street
St. Michael



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ECONOMIC REVIEW

Overview

For the third consecutive year, the Barbados economy registered above average growth. This was accompanied by a smaller fiscal deficit and a record unemployment rate of 7.6%. However, the expansion of real economic activity in 2006 was again led by the non-traded sectors, which rose in excess of 5% for the third year in a row. In contrast, value added in the traded sectors remained relatively weak and has grown by just 1% on average per year since 2004, leading to pressure on the balance of payments. The Central Bank responded by further tightening monetary policy, which, in conjunction with a smaller on-budget fiscal deficit, reduced the growth of credit and the external current account balance. However, inflation increased, partly as a result of uncertainty in the international oil market, which drove crude oil prices to an all time high of \$78 per barrel in July. Yet geo-political tensions lessened thereafter and consequently, the price of oil moderated.

Real Gross Domestic Product (GDP) in 2006 grew by an estimated 3.9%, which is slightly below the increase of 2005 but higher than the average rate of 2.8% for the previous five years. The outturn for long-stay tourism was noteworthy but the cruise segment remained weak, as an improvement in the third and fourth quarters was not enough to compensate for the sharp decline in the earlier part of the year. Manufacturing output was moderate, and agricultural production was sluggish but the sugar crop registered a marked decrease. Consequently, real traded output remained unchanged. Real value added in the non-traded sectors expanded by an estimated 5.3%, in line with the rate in the previous year. Non-traded industries performed well, particularly construction.

Following the implementation of tight monetary measures and the cess on extra-regional

imports, a small decline in retained imports was recorded, in contrast to the sharp increase experienced over the last three years when import growth averaged 13.5%. There was also a sizeable expansion in the export of goods and services, particularly in travel credits. With these developments, the external current account deficit contracted significantly, although it remained high by historical standards.

However, after adjusting for the net foreign assets of the commercial banks the surplus on the capital and financial account was insufficient to offset the external current account deficit. Thus, as in 2005, the balance of payments was buttressed by significant foreign borrowing (\$135.9 million), and there was a \$37.6 million reduction in the net international reserves (NIR), compared to a modest surplus in the preceding year. At the end of the year, the available liquid foreign reserves, inclusive of foreign currency deposits of commercial banks, amounted to \$1,312.5 million, enough to cover 23.8 weeks of retained imports.

Government's on-budget fiscal deficit was estimated at \$103.9 million, approximately \$153.2 million lower than in 2005 and the lowest since 2000. This improved outturn reflects higher collections from corporate and value-added taxes. However, as has been the trend in recent years, some major items were funded off-budget using build-operate-lease-and-transfer (BOLT) or similar public-private sector partnership arrangements. The deficit was financed from a combination of foreign and domestic sources.

Credit to the non-financial private sector grew by 13.2%, about half the rate recorded in 2005, partly owing to successive increases in interest rates in 2005 and contraction in retained imports. Notwithstanding this, credit expansion still exceeded the growth in domestic deposits and liquidity remained relatively tight.



Production, Prices and Employment

Tourism

Activity in the tourism industry rebounded in 2006 after declining by an estimated 2.2% in the previous year. Bolstered by continued strong economic growth in the major source markets, favourable currency appreciation of the pound sterling and the ongoing efforts of the Barbados Tourism Authority in maintaining Barbados' visibility in major markets, real tourism GDP grew by 1.5%. This outcome is directly attributable to the performance of long-stay arrivals, as the downturn in cruise ship passengers continued for the second successive year. In contrast to the reduction in 2005, the number of long-stay visitors rose by an estimated 3.0%, reflecting the broad-based recovery of all source markets. Moreover, both the winter and summer season

performances were an improvement over the corresponding periods of 2005.

Gains in the pound sterling, coupled with higher economic activity in the United Kingdom (UK), provided the impetus for a favourable result in that market. Accounting for approximately 35% of total long-stay visitors to Barbados, arrivals from the UK rose by 4.3%, following a decrease of 5.2% in 2005. A credible performance was also recorded for the German market, which increased by 7.3%, well above the modest growth rate (less than one percent) of the previous year. CARICOM tourists advanced by 3.5% and now account for over 20% of total arrivals, up from 13% ten years ago. A continuation of the positive trend of the previous five years, this outcome mainly reflects further gains in the Trinidad and Tobago market. Similarly, the

Long-stay Tourist Arrivals by Month and Season

Month	2002	2003	2004	2005	2006	% Change from 2005
January	39,915	40,473	44,719	47,242	48,888	3.5
February	41,205	43,643	49,870	49,338	51,850	5.1
March	48,583	49,016	54,190	54,963	53,169	-3.3
April	37,804	47,504	47,255	46,960	53,484	13.8
WINTER	167,507	180,906	196,034	198,522	207,391	4.5
May	36,373	40,750	44,865	40,368	41,849	3.7
June	33,426	39,994	38,536	36,289	38,708	6.7
July	49,239	52,982	57,285	55,385	52,315	-5.5
August	47,503	46,745	45,625	42,741	48,366	13.2
September	30,977	28,737	31,837	31,099	32,333	4.0
October	39,273	38,210	39,717	39,292	41,374^P	5.3 ^P
November	44,667	45,924	43,870	45,773	43,987^P	-3.9 ^P
December	48,934	56,963	53,733	58,065	57,716^P	-0.6 ^P
SUMMER	330,392	350,305	355,468	349,012	356,648^P	2.1^P
TOTAL	497,899	531,211	551,502	547,534	564,039^P	3.0^P

Sources: Barbados Statistical Service and Barbados Tourism Authority

P: Provisional



number of Canadian tourists grew by 3.4%, a partial reversal of the 4.7% decline reported in 2005. In contrast, the number of US visitors was unchanged from the level recorded in 2005.

The slump in the cruise industry, caused in large measure by itinerary adjustments by cruise lines in the face of high international fuel costs, moderated somewhat in 2006. Cruise passenger arrivals contracted by 6.3% compared to an over 20% reduction in 2005. However, the annual figure masked the 13% improvement in cruise ship activity during the third and fourth quarters of 2006, after six consecutive quarterly declines.

Manufacturing

The manufacturing sector experienced its third successive year of growth in 2006, albeit at a much reduced rate from the previous two years. This follows a period of mostly negative growth between 1998 and 2003 when the sector was affected by increasing competition from international and regional companies. Total manufacturing output grew by 0.2%, with the main contributors being electronics, other manufacturing, processed foods and other non-metallic mineral products. The other non-metallic mineral products industries benefited from a strong demand for construction materials which grew by 6.1%, the fifth consecutive annual increase. The production of other manufactured

goods (inclusive of printed materials) and processed foods also expanded by 3.9% and 1.5%, respectively, following growth of 7.4% and 1.4%, respectively in the previous year. With the strong global demand for electronics, the output of this sub-sector rose by 10%, after declining by 22.1% in 2005. In contrast, the beverages industry continued to struggle, with production contracting by a further 9.0% on top of the 2.7% experienced a year ago. Reduced production of rum to allow for a drawdown on stocks was responsible for this fall off in beverage output. Similarly, activity in the chemicals and wooden furniture sub-sectors contracted by 1.5% and 7.5%, respectively, a turnaround from the positive trend of the previous four years.

Agriculture and Fishing

During 2006, value-added from the sugar industry declined by an estimated 12% or 4,590 tonnes, to 33,701 tonnes as a result of reduced acreage planted and lower yields. This is in contrast to growth of 11.3% recorded in 2005, but is in line with the trend of the previous four years (average decreases of 12.3%). Stymied by unfavourable weather during the critical planting and harvesting periods, the average yield per acre fell from 25.3 tonnes of cane to 19.07 tonnes. Consequently, Barbados was unable to meet its contractual obligations (35,000 tonnes of raw sugar) to the European Union.

Selected Indicators of Annual Sugar Production

	2000	2001	2002	2003	2004	2005	2006
Canes Milled ('000 Tonnes)	538	420	418	365	361	442	348
Sugar Produced ('000 Tonnes)	58.4	49.8	44.8	36.3	34.4	38.2	33.7
Average Yields (Tonnes)							
Canes per Hectare	62.1	50.6	52.6	49.5	51.7	63.7	N.A
Sugar per Hectare	6.7	6.0	5.6	4.9	4.9	5.5	N.A
Sugar Exports ('000 Tonnes)	54.8	50.9	39.5	34.6	33.7	35.3	33.7

Source: Barbados Agricultural Management Co. Ltd.



The performance of non-sugar agriculture and fishing remained sluggish, plagued by supply constraints in the milk sub-sector and reductions in chicken production and fish catches. A shortage of lactating cows resulted in a 11% contraction in milk production, the fifth consecutive annual decline. After growing by an average of 10% over the last three years, chicken production fell by 7.4% as producers cut back output to run down stocks built up in 2005. Similarly, the fishing industry recorded a further falloff in fish catches of 8.4%, on top of the 1% and 23.5% registered in 2005 and 2004, respectively. These combined effects outweighed the supply of other meat products, which increased by an estimated 5.7%, compared to 6.9% in 2005.

International Business and Financial Services (IBFS)

During 2006, five hundred and thirty-seven new companies were registered in the international business and financial services sector, compared to four hundred and twenty-eight in 2005. Licences were issued to 391 international business companies, 19 more than in the previous year. One hundred and thirty-three societies with restricted liability were recorded, more than three times the number licensed in 2005, while eight exempt insurance companies and four new offshore banks were approved for

operation. One exempt insurance management company was registered during the review period.

Construction

Total value added in the construction industry increased by an estimated 7% during 2006, which was on top of 2005's growth of 13.5%, and mainly reflected the ongoing tourism-related building projects in preparation for Cricket World Cup (CWC) 2007, as well as various other residential and commercial real estate ventures. Major contracts included the re-building of Kensington Oval and the relocation of properties around the site, the building of the new prison in St. Philip and the extension of the University of the West Indies. The rise in activity was captured in the upward movement of most of the construction indicators. Domestic cement consumption increased by 21.8%, while employment in construction grew by approximately 7.4%. There were 8,250 electrical inspections for new residences over the review period, compared to 7,448 in 2005¹. Furthermore, the number of loans from commercial banks, trust companies and the Barbados Mortgage Finance Co. Ltd for the construction of new private dwellings and the purchase of land were approximately 9.7% more than the total disbursed in 2005.

New International Registrations

Entity	2001	2002	2003	2004	2005	2006 ^P
International Business Companies	210	260	274	361	372	391
Exempt Insurance Companies	7	11	15	15	11	8
Exempt Insurance Management Companies	1	3	1	1	3	1
Societies with Restricted Liability	22	26	31	64	42	133
Offshore Banks	5	3	2	4	0	4
Total Entities	245	303	323	445	428	537

Sources: Bank Supervision, Supervisor of Insurance and Ministry of International Business
P: Provisional

¹ Data available up to November



Selected Indicators

	2001	2002	2003	2004	2005	2006 ^P
Crude Oil Production (Barrels)	463,699	390,619	370,848	376,655	348,718	343,412
Natural Gas Prod. ('000 Cubic Metres)	35,024	28,846	22,977	20,861	23,997	23,466
Electricity usage ('000Kwh)	734,992	763,859	805,876	831,305	792,868	903,398
Water Consumption (Litres)	54,444	54,057	54,016	52,128	34,461*	N.A.
Cement Consumption ('000 Tonnes)	127,422	131,083	134,035	146,030	165,247	201,237

P: Denotes Provisional

*: Data low on account of defective bulk meters.

Utilities

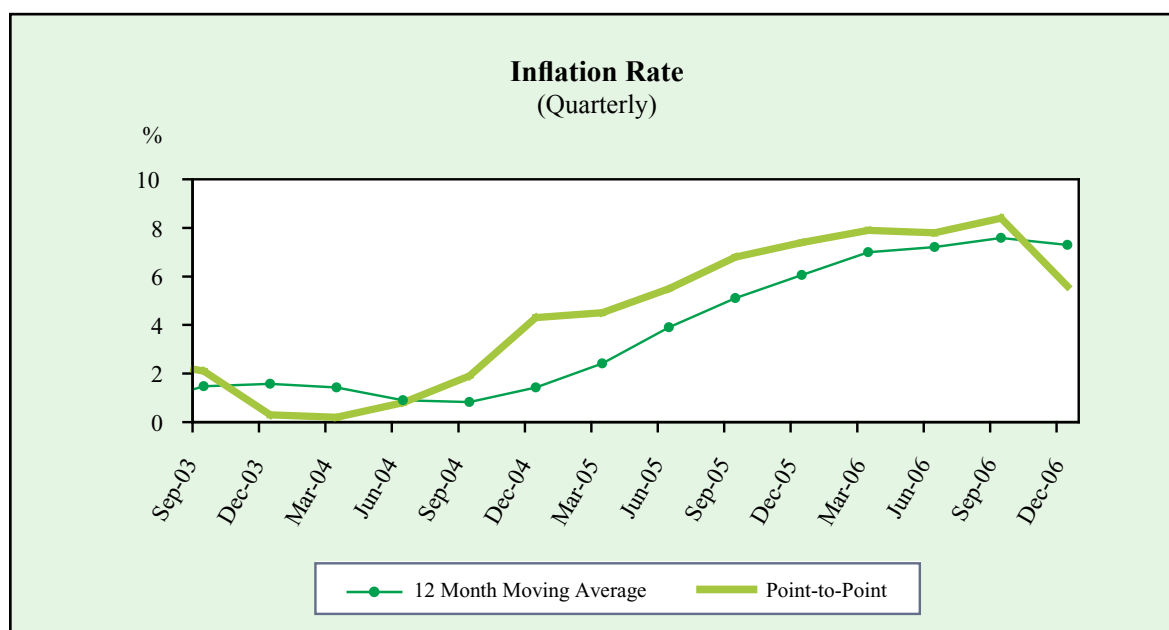
In line with the expansion in economic activity, particularly the high levels recorded in construction, output in the electricity, gas and water sub-sector rose by 9.6% over the figure reported in 2005. Consumption of electricity during the year grew by 13.9%, primarily on account of a 28.4% increase in usage for general services and street lighting. The production of natural gas was estimated at 23.5 million cubic meters, approximately 2.2% less than the previous year's volume.

Mining and Quarrying

Value added in mining and quarrying decreased by 3.1%, following two consecutive annual increases in the industry. Crude oil output declined by an estimated 1.5% to 343,412 barrels, continuing the trend of contractions exhibited in the corresponding period over the last six years. Additionally, the quarrying component was down by approximately 3.4%.

Other Non-Traded Sectors

Driven by rising disposable incomes, wholesale and retail activity increased by approximately





5.3%, on par with the growth rate in 2005 and above the average expansion of 4.3% for the previous five years. In tandem with the construction boom and the heightened activity at the air and sea ports related to preparations for CWC 2007, the transportation, storage and communications industry grew by 5.6% over the review period, a figure similar to that recorded in 2005. Real output in the business and other services and the government industries rose by 5.3% and 3%, respectively, following increases of 5.2% and 3.5% one year prior.

Prices and Employment

For the twelve-month period ending October 2006, the average level of retail prices rose by 7.3%, relative to 6.1% one year earlier, while the point-to-point inflation rate was estimated at 5.6%, approximately 1.8 percentage points below the figure reported for the corresponding period of 2005. The higher overall price level was partly attributed to the pass-through effect of the rise in international oil prices and the implementation of the cess on imports.

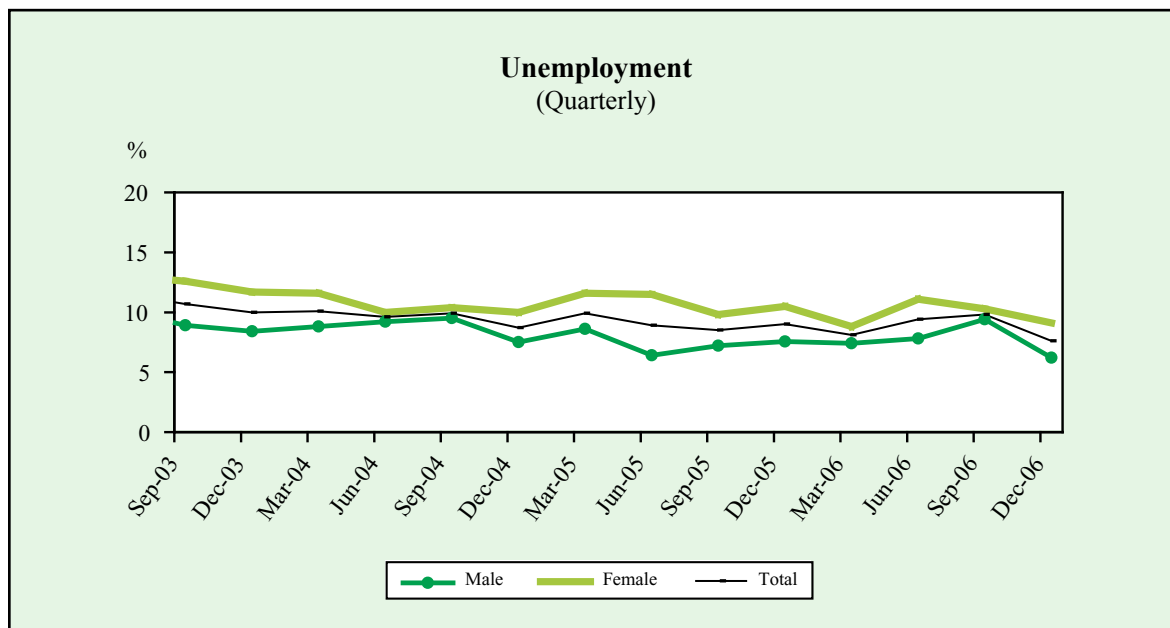
Increases were recorded for all categories of goods and services, except for clothing and footwear, which declined by 7.0%. Specifically, the upward movement in retail prices was driven primarily by expansions in fuel and light (8.7%), housing (9.7%), transportation (8.6%) and food (7.9%).

The average unemployment rate for 2006 was 8.7%, compared to 9.1% one year earlier. The male unemployment rate was 6.2%, compared to 7.5% in the same period of 2005, while the female rate was 9.1%, some 1.4 percentage points lower than the figure registered one year prior. New jobs were created in the construction, tourism and utilities sectors while there were job losses in manufacturing, government services and the finance, insurance and business services sectors.

Financial Sector

Liquidity and Interest Rates

Following significant tightening over the previous two years, liquidity in the commercial

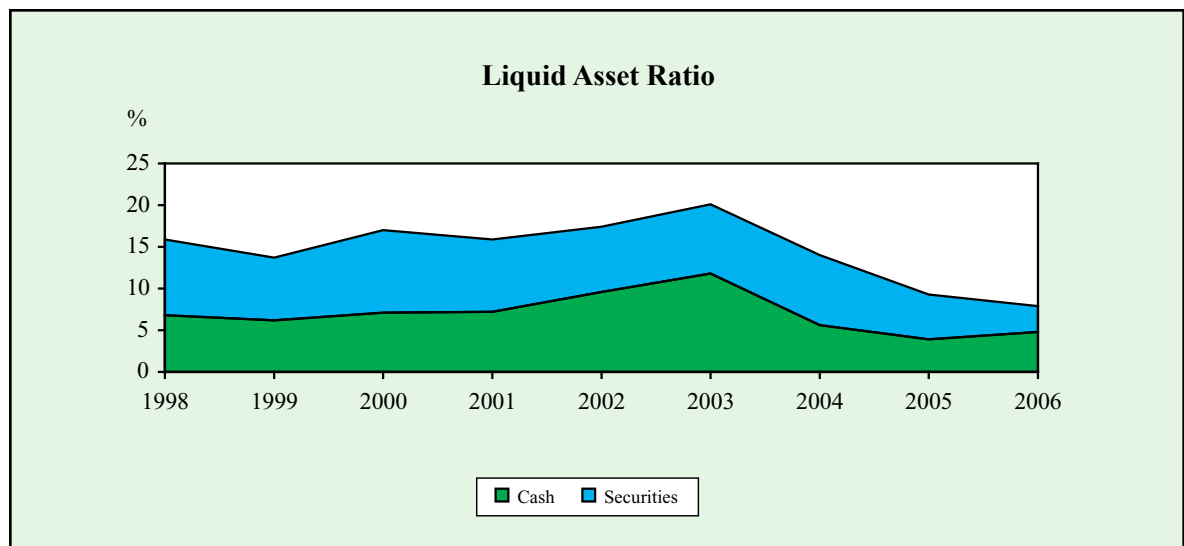




banking system declined further in 2006, with the liquid asset ratio falling from 9.3% at the end of 2005 to an estimated 7.9%. Quarterly analysis, however, revealed that liquidity conditions tightened significantly in the first quarter when the excess cash holdings of commercial banks reached a low of \$14.5 million. In the second and third quarters, commercial banks boosted their excess cash holdings to more comfortable levels, partly through the liquidation of a portion of their excess securities, leading to an improvement in the excess cash to deposit ratio from 0.3% at the end of 2005 to 2.4% at the end of September. During the fourth quarter, the excess cash to deposit ratio plummeted, ending the year at 0.5%. Excess securities also declined consistently from the start of 2006, and at December were slightly more than half the figure reported at the end of the previous year. In addition to converting some of their securities to cash in the middle of the year, there were fewer government securities available for purchase in 2006 and, on occasion, the banks were unsuccessful in their bids for Treasury bills.

With liquidity decreasing, the average discount rate on 3-month Treasury bills (T-bills) rose from 6.26% at the end of 2005 to 6.57% at the end of 2006. In addition to tighter liquidity conditions, changing market conditions also contributed to the higher T-bill rates. Historically, commercial banks have been the main purchasers of T-bills and their demand for these types of securities dwindled somewhat in 2006, evidenced by the under-subscription of some of the T-bill auctions during the year.

The weighted average deposit rate at the end of 2006 was 5.71%, some 1.59 percentage points above the rate at the end of 2005, in response to the interest rate increase implemented by the Central Bank of Barbados in December. As a result of the monetary policy stance adopted by the Central Bank in 2005, lending rates generally trended upwards. The prime lending rate increased by one percentage point to 10.15% at the end of 2006, while the weighted average interest rate on selected loans moved from 9.45% to 9.78% during the same period. With regard to long-term interest rates, the rates offered on new government securities also trended upwards in





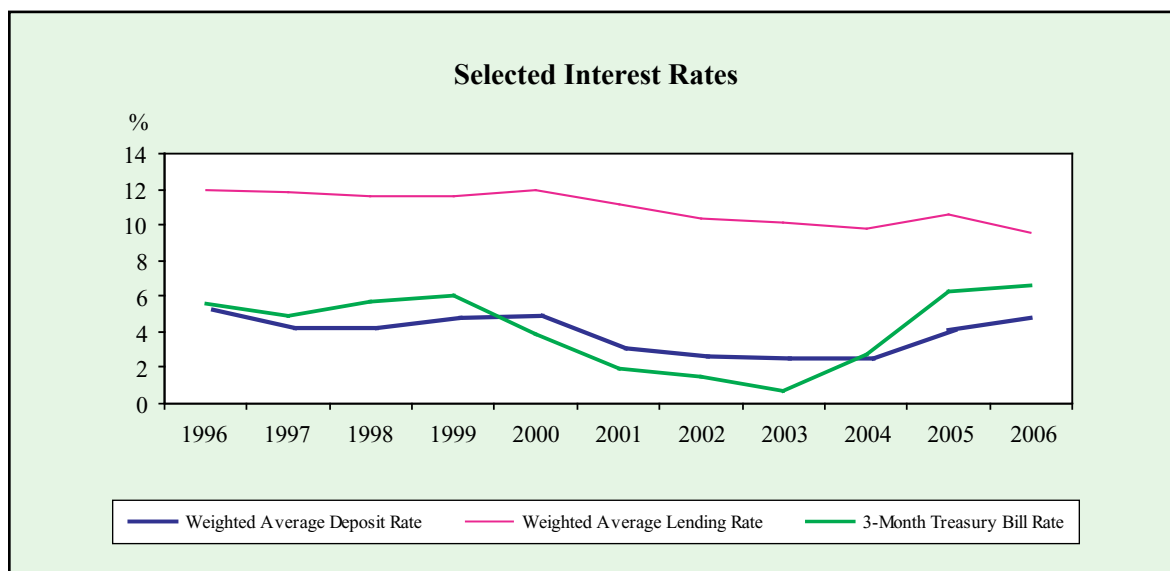
2006, moving from an average rate of 6.58% in 2005 to 7.58% in 2006, while mortgage rates were in the region of 8.03%, compared to 7.50% at the end of 2005.

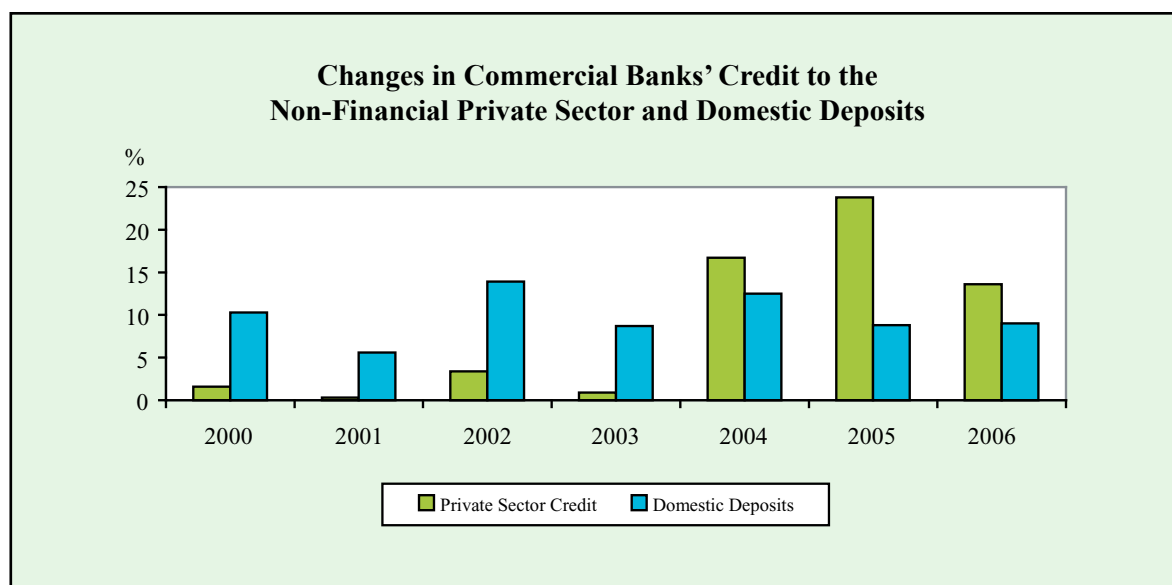
The Bank rate was raised from 10% to 12% in March of 2006. Additionally, the Central Bank increased the minimum deposit rate in December 2006 to 5.25%, some 50 basis points above the previous rate. The continuation of restrictive monetary policy from 2005 was an attempt by the Central Bank to further slow credit growth in order to mitigate the harmful effects that spiralling credit has been having on the net international reserves since 2004. From April 2006, commercial banks, trust and finance companies and merchant banks operating in Barbados were required to deposit 6% of their foreign currency deposits with the Central Bank, which in turn, pays interest on the funds deposited. This measure is intended to ensure that a larger proportion of the excess foreign currency held within the banking system is made available to the general pool of foreign reserves held by the Central Bank.

Credit

The expansion in credit to the non-financial private sector slowed from the historical high of 23.8% (\$730 million) in 2005 to 13.2% (\$501.1 million) in 2006, primarily as a result of the monetary and fiscal initiatives implemented since April 2005. Nonetheless, this increase is still above the rate of 6.3% (\$151.6 million) averaged between 1999 and 2004 and represents the second highest level of growth since the establishment of the Central Bank in 1972.

Similar to 2005, lending to the personal sector grew by 19.7% (\$355.6 million) in 2006, following the 24% (\$349.8 million) increase registered in 2005. The largest category of personal lending was residential mortgages, which expanded by \$155.4 million (23.5%), more than twice the average increase between 2000 and 2004. Nonetheless, the demand for mortgages showed signs of abating as the rate of growth was slightly below that of the previous year. For the third consecutive year, the total amount of consumer instalment credit outstanding rose, advancing by 20.0% (\$99.5 million) to \$597.1 million, compared





to 27.3% in 2005. Much of this expansion was in the form of debt consolidation and small general-purpose loans, although lending for home improvement and real estate purchase, the second largest category, continued to trend upwards. Personal credit card debt outstanding increased by 18.1% in 2006, a considerable deceleration from the near 50% growth posted a year prior, to close the year at \$223.6 million.

Despite the absence of many of the extraordinary factors that contributed to booming credit in 2005 (such as borrowings to finance mergers and acquisitions), lending to businesses grew in 2006, albeit at a much slower rate than in the previous two years. In line with buoyant non-traded activity, construction firms and distributors were lent an additional \$47.4 million and \$44.6 million, respectively, compared to \$51.4 million and \$47.1 million, respectively in the previous year. On the other hand, tourism entities increased their external financing and only borrowed \$4.9 million, a reduction from 2005 when they borrowed \$155.7 million from the domestic banking sector. Loans to providers

of professional and other services decreased by \$4.1 million.

Commercial bank lending to private financial institutions fell by \$9.8 million, compared to growth of \$39.3 million in 2005, a year in which an insurance firm borrowed a substantial amount of money to finance a takeover. With regard to public enterprises, net new loans to statutory bodies amounted to \$75.4 million in 2006, unlike 2005 when their outstanding credit declined by \$10.8 million.

Deposits

Domestic deposits in the banking system expanded by 9.4% (\$567.4 million), compared to 8.8% (\$487.1 million) in 2005 and 12.5% (\$615.2 million) in 2004. Similar to the previous three years, the majority of the accumulation in deposits was concentrated in personal accounts (up by \$350.9 million, or about \$129.8 million higher than the increase in 2005), as individuals augmented their levels of savings in response to higher interest rates. Financial institutions also



Selected Indicators of the Banking System
(\$ Million)

	2002	2003	2004	2005	2006 ^P
Net International Reserves	1,711.3	2,087.1	1,746.6	1,611.1	1695.63
Monetary Authorities	1,366.4	1,503.3	1,190.5	1,239.1	1,198.5
Commercial Banks	344.8	583.8	556.1	371.9	497.1
Net Domestic Assets	2,186.4	2,086.7	3,137.6	3,583.9	4,081.5
Credit to Public Sector	347.8	480.8	642.3	380.4	335.5
Central Government (net)	654.4	722.7	867.1	650.5	433.1
Other Public Sector	-306.7	-241.9	-224.8	-270.1	-97.6
Credit to Rest of Financial System	167.1	155.6	234.9	312.9	343.2
Liabilities to Other Financial Inst.	403.8	390.0	394.5	514.6	597.3
Credit to the Private Sector	2,599.2	2,622.6	3,061.8	3,791.8	4,292.9
Liabilities to the Private Sector	3,897.7	4,173.9	4,884.2	5,195.0	5,777.1
Demand Deposits	1,096.6	1,200.3	1,537.0	1,563.3	1,794.7
Time Deposits	345.9	313.2	381.8	491.1	552.7
Savings Deposits	2,117.7	2,331.5	2,566.7	2,692.1	2,964.7
Currency in Circulation	337.5	329.0	398.7	448.6	465.0
Memo:					
Domestic Deposits*	4,524.7	4,917.1	5,532.3	6,019.4	6,586.7

Source: Central Bank of Barbados.

P: Provisional

* Domestic deposits include foreign currency deposits of residents.

reported greater levels of deposits in 2006, rising by \$63.0 million in 2006, compared to \$170.9 million a year earlier.

The deposits of business firms also grew in 2006, expanding by \$141.7 million, compared to \$50.4 million in the previous year. This outturn was aided by a surge in the deposits of miscellaneous, construction and agriculture companies, which deposited an additional \$100.3 million, \$24.3 million and \$8.0 million, respectively. Manufacturing firms raised their deposits by \$2.8 million compared to a \$22 million contraction in 2005. The deposits of tourism entities and

distributors also increased, growing by \$1.2 million and \$4.9 million, respectively. Following an increase of \$65.7 million in 2005, the deposits of statutory bodies fell by \$50.4 million in 2006.

Non-Bank Financial Institutions

Deposits at non-bank financial institutions rose by \$62.7 million in 2006, significantly below the \$268.8 million recorded in 2005. This slowdown mainly reflected the \$7.9 million reduction in deposits held at finance companies. Deposits at credit unions and trust companies, on the other hand, grew by \$64.9 million and \$5.7 million, respectively.



**Credit to the Non-Financial Private Sector
by Financial Institutions**
(\$ Million)

Source	2001	2002	2003	2004	2005	2006 ^P
BMFC	147.8	164.3	176.4	198.7	223.9	258.9
Credit Unions	349.3	372.7	457.7	571.9	691.7	784.7
Finance Companies	171.5	163.2	175.5	211.5	264.9	309.8
Commercial Banks	2,512.6	2,599.2	2,622.6	3,061.8	3,791.8	4,292.9
Trust Companies	446.4	442.3	440.6	451.4	474.9	524.7
Insurance Companies	344.8	348.1	350.0	360.9	398.9	354.7
Total	3,971.5	4,089.8	4,222.7	4,856.6	5,846.1	6,525.7

Source: Central Bank of Barbados

P: Provisional

Domestic Deposits at Financial Institutions
(\$ Million)

Source	2001	2002	2003	2004	2005	2006 ^P
Trust Companies	398.3	426.8	388.0	422.5	495.3	501.0
Commercial Banks	3,871.0	4,371.2	4,776.1	5,418.7	5,789.6	6,381.8
Credit Unions	113.2	138.1	158.5	194.8	243.1	308.0
Finance Companies	235.6	250.9	246.6	259.3	407.0	399.1

Source: Central Bank of Barbados

P: Provisional (up to November)

Credit extended by non-bank financial institutions in 2006 expanded by just over half the figure reported in 2005 (\$178.5 million). The loan portfolio of credit unions rose by \$93.0 million, compared to \$119.8 million in the previous year while that of finance companies increased by \$44.9 million, some \$8.5 million below the expansion in 2005. Loans issued by insurance companies, on the other hand, declined by \$44.2 million, a reversal of the \$38 million rise experienced in the previous year.

Capital Market Developments

With interest rates rising and fixed income assets relatively more attractive, the performance of the stock market was relatively weak in 2006, as evidenced by declines in the three stock market

indices. The local index fell by 6.8% to close the year at 3,661.5 points, while the cross-listed and composite indices were down by 14.2% and 8.8%, respectively. Quarter on quarter analysis showed that the local index contracted every quarter for the year and has trended downwards since the fourth quarter of 2005. Similarly, the local market capitalisation fell by 9.7%, while capitalisation of cross-listed securities and the composite market decreased by 10.2% and 10%, respectively.

Given that less than half of the stocks on the Barbados Stock Exchange advanced in 2006, the various sectors struggled compared to 2005. The worst performing sector was manufacturing, where no stocks advanced, two traded firm and



Barbados Stock Exchange End-of-Year Prices
(BDS\$)

Company	2003	2004	2005	2006 ^P	% Change
Tourism					
Almond Resorts	1.30	1.80	2.35	2.16	-8.1
Distribution					
A.S. Brydens	4.25	7.00	++	++	n.a.
Cave Shepherd	2.80	7.00	6.60	6.14	-7.0
Courts	5.20	5.00	4.40	6.00	36.4
Manufacturing					
BICO	2.05	1.85	1.80	1.80	0.0
Banks Holdings	2.95	3.90	4.14	3.80	-8.2
Grace, Kennedy & Co. Ltd.	1.60	3.15	3.65	1.80	-50.7
Trinidad Cement Ltd.	1.08	2.20	3.38	2.76	-18.3
West Indian Biscuit Co.	7.30	7.30	8.35	8.20	-1.8
West Indian Rum Distillery	5.85	5.90	9.00	9.00	0.0
Media					
One Caribbean Media Limited	n.a.	n.a.	n.a.	6.15	n.a.
Agriculture					
Barbados Dairy Industry	8.00	7.50	7.50	7.50	0.0
Barbados Farms	0.81	1.35	1.67	1.95	16.8
Finance					
Barbados National Bank	3.45	5.30	6.50	6.80	4.6
First Caribbean International Bank	2.65	4.25	4.23	3.60	-14.9
Insurance Corporation of Barbados	4.00	3.85	2.60	3.50	34.6
Jamaican Money Market Brokers Ltd.	n.a.	n.a.	0.50	0.55	10.0
RBTT Financial Holdings Ltd.	9.60	13.30	12.58	9.88	-21.5
Sagicor Financial Corporation	4.10	4.35	4.30	4.13	-4.0
Conglomerate					
Barbados Shipping and Trading	5.30	7.30	7.15	5.25	-26.6
Goddards Enterprises Ltd.	3.40	7.10	9.35	6.30	-32.6
ANSA McAl (Barbados) Ltd.	n.a.	n.a.	18.35	24.85	35.4
McEneaney Alstons	4.50	6.60	++	++	n.a.
Neal and Massy	7.60	11.20	15.72	15.72	0.0
Transportation					
BWIA (Suspended)	2.50	2.50	2.50	2.50	0.0
Utility					
C&W Barbados	1.50	1.65	2.39	3.12	30.5
Light and Power Holdings	9.00	9.40	11.25	10.25	-8.9

Source: Barbados Stock Exchange

Notes: ++: Delisted P: Provisional

the remaining four declined. Grace Kennedy & Co. Ltd., in particular, saw its share price more than halved to end the year at \$1.80, as it reported disappointing financial results during the year. The price of Trinidad Cement Limited shares was 18.3% lower, while the price of shares in

Banks Holdings and West Indian Biscuit Co. fell by 8.2% and 1.8%, respectively. After four consecutive years of appreciation, shares in Almond Beach Resort, the lone tourism entity listed on the exchange, declined by \$0.19 or 8.1%, to end the year at \$2.16.



Conglomerates had mixed fortunes, though the sector averaged a decrease of 5.9%, a deterioration second only to that for manufacturing. The best performing stock was that of ANSA McAl (Barbados) Ltd., whose price increased by \$6.50 (35.4%) to close the year at \$24.85. The share prices of two of the country's largest companies, Goddards Enterprises Ltd. and Barbados Shipping and Trading (BS&T), on the other hand, struggled in 2006. While this is an unusual outcome for the former, this is the second year in a row that the value of BS&T's shares has fallen.

The strongest performing sector in 2006 was the distributive sector, which averaged a return of 14.7%, primarily due to a 36.4% increase in the price of Courts (Barbados) Ltd., which outweighed a 7.0% depreciation in the price of Cave Shepherd shares. The situation with Courts appears to reflect speculation surrounding its takeover. The British company that had the majority shareholding in the company found itself in severe financial difficulty in 2004 and has been disposing of its holdings in the Caribbean, Africa and the Pacific in order to repay its creditors. Consequently, in the latter half of 2006, it sold its 87.8% stake in Courts Barbados operations to Cobalt Holding Co. Ltd. which, in turn, has offered to purchase the holdings of shareholders in Barbados for a price of \$6.00 per share, considerably higher than the \$4.50 market price.

Agricultural companies also performed well on average, though it should be noted that shares in this sector trade less frequently than many others on the exchange owing to comparatively weaker demand. Therefore, the market does not quickly correct the effect on the share price of one transaction. This sector was led by another strong outturn from Barbados Farms, whose share price has been appreciating by an average of 30% between 2002 and 2005, posting an end of year value of \$1.95, up \$0.28 from the end

of the previous year. The lone company in the transportation sector, has been suspended since November 2005, while the lone media company benefited from considerable interest arising from its introduction during the year. Although the utilities sector had another strong year on average, the individual stocks moved in opposite directions during 2006, with Cable & Wireless (Barbados) shares generating a return of 30.5%, the fourth highest return for the year, and the value of Light and Power Holdings shares falling by 8.9%.

Finance companies had offsetting performances to lead to a relatively flat average return for the sector in 2006. Following two consecutive years of declines, the value of Insurance Corporation of Barbados (ICB) shares rallied in 2006, increasing by 34.6% to \$3.50 at the end of December. This recovery reflected market interest in the company following its sale by the Government of Barbados. Jamaica Money Market Brokers and Barbados National Bank also registered gains in their share prices, of 10.0% and 4.6%, respectively. Shares in RBTT, FirstCaribbean International Bank and Sagicor Financial Corporation, on the other hand, contracted by 21.5%, 14.9% and 4.0%, respectively.

Mutual Funds

With regional stock markets declining and interest rates on deposits increasing, the performance of the mutual fund market was below par, with only four of the 13 funds registering gains in their net asset values (NAVs). Specifically, three of the four funds managed by Fortress earned positive returns, as evidenced by 10.9%, 6.6% and 0.3% growth rates for the Fortress Caribbean Growth Fund, Fortress High Interest Fund (Accumulation) and Fortress High Interest Fund (Distribution), respectively. The other fund to post a positive return was the BNB Property and Unlisted Securities Investment Fund, which expanded by just under 2%.



Mutual Fund Performance

Mutual Fund	Net Asset Value (\$ per share)					
	2001	2002	2003	2004	2005	2006 ^P
Fortress Caribbean Growth	2.0	2.4	2.81	3.54	3.93	4.36
Fortress Caribbean High Interest Funds Accumulation	n.a.	1.0	1.10	1.17	1.25	1.33
Fortress Caribbean High Interest Funds Distribution	n.a.	1.0	1.02	1.02	1.01	1.01
Fortress Caribbean Property	n.a.	n.a.	1.30	1.40	1.60	1.44
Sagicor Global Balanced	1.4	1.5	1.65	1.94	2.07	2.06
Sagicor Select Growth	n.a.	n.a.	n.a.	n.a.	1.06	1.05
Sagicor Preferred Income	n.a.	n.a.	n.a.	n.a.	1.03	1.02
Roybar Investment Corporation*	10.4	10.5	11.31	14.31	16.02	3.71
BNB Income	1.0	1.0	1.18	1.26	1.27	1.23
BNB Capital Growth	1.0	1.0	1.21	1.43	1.36	1.21
BNB Gift & Trust	1.1	0.9	0.97	1.01	1.05	n.a.
CLICO Balanced	1.0	1.0	1.11	1.27	1.25	1.19
BNB Property & Unlisted Securities Investment	1.2	1.2	1.35	1.60	1.67	1.70

Source: Barbados Stock Exchange

Notes: * indicates there was a 4 for 1 stock split in October, 2006

n.a.: Not Applicable

P: Provisional

The NAVs of the remaining funds in the market declined. BNB Capital Growth Fund, with a NAV of \$1.21 compared to \$1.36 at the end of 2005, marked its second consecutive year of contraction and registered the largest reduction. A similar outcome was also evident for the CLICO Balanced Fund, whose NAV fell by 4.8% on top of a 1.6% decrease in 2005. The Fortress Caribbean Property Fund, Sagicor Global Balanced Fund and BNB Income Fund, on the other hand, reversed their trend of appreciating NAVs as they posted negative returns of 10.0%, 0.5% and 3.1%, respectively. The remaining funds with declining NAVs were the Sagicor Select Growth Fund and Sagicor Preferred Income Fund down by 0.9% and 1.0% respectively.

Of special note is the Roybar Investment Corporation Fund. In October of 2006, there was

a four for one stock split, which resulted in a price on the day of the split falling from \$14.92 to \$3.75. Since the split, the NAV has decreased by 1.0% to close the year at \$3.71.

Government Operations

Revenue

Total Government revenue for 2006 is estimated at \$2,278.5 million, an increase of \$257.4 million or 12.7%, compared to growth of 6.6% in 2005. This is equivalent to 33.2% of GDP, which is one-half of a percentage point above that of 2005 but slightly below the average ratio of 33.8% registered between 2000 and 2005. Tax revenue rose by 15.2%, the fourth consecutive year of expansion, and reflected increases in all the major categories, particularly corporate receipts and value-added taxes (VAT). However, non-tax revenue declined



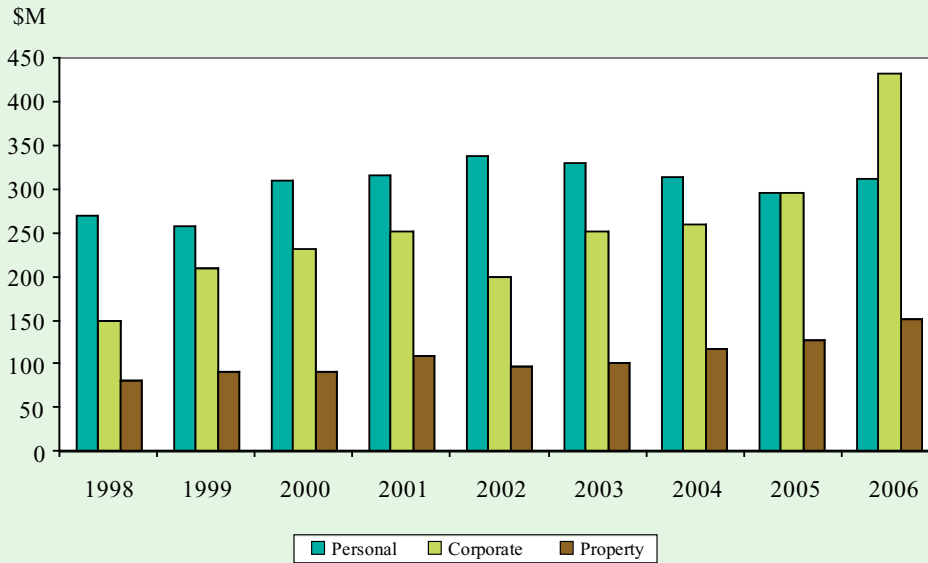
Summary of Government Operations
(\$ Million)

	2001	2002	2003	2004	2005 ^P	2006 ^P
Total Revenue	1,746.5	1,712.2	1,861.2	1,895.6	2,021.1	2,278.5
Tax Revenue	1,634.6	1,585.0	1,741.8	1,812.7	1,888.9	2,176.0
<i>Direct Taxes</i>	739.9	691.4	748.4	739.5	766.8	959.2
Personal	316.1	338.1	342.3	312.6	295.7	310.3
Corporate	253.6	198.5	254.2	258.9	294.3	430.9
Levies	18.1	17.5	4.7	0.0	0.0	0.0
Property	108.1	97.8	101.7	116.9	127.4	151.7
Other	44.0	39.5	45.6	51.1	49.4	66.3
<i>Indirect Taxes</i>	894.7	893.6	993.4	1,073.2	1,122.1	1,216.9
Consumption	0.1	0.0	0.0	0.0	0.0	0.1
Stamp	16.6	10.9	14.8	18.2	20.8	25.1
VAT	488.4	502.5	548.8	603.2	609.9	704.6
Excises	154.6	113.4	135.4	137.1	172.4	175.7
Import Duties	131.5	162.5	170.6	201.0	191.7	188.6
Hotel and Restaurant	0.5	1.3	0.2	0.0	0.0	0.0
Other	103.1	103.0	128.6	113.7	127.4	122.9
Non-Tax Revenue & Grants	111.9	127.2	119.4	82.9	132.2	102.5
Non-Tax Revenue	96.1	110.6	102.7	64.5	109.8	82.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Post Office Revenue	15.7	16.6	16.7	18.3	22.4	20.3
Current Expenditure	1,612.3	1,671.0	1,736.2	1,804.4	1,959.0	2,032.4
Wages and Salaries	643.2	673.7	623.6	639.1	676.0	690.3
Goods and Services	197.9	217.4	201.8	204.8	241.3	243.8
Interest Payments	276.8	267.6	271.8	272.1	291.0	324.3
External	97.1	113.3	105.2	114.2	106.1	121.4
Domestic	179.7	154.3	166.6	157.9	184.8	202.9
Transfers & Subsidies	494.4	512.3	638.9	688.4	750.8	774.1
Other				5.5		37.1
Current Account Balance	134.1	41.2	125.0	91.1	62.1	246.1
Capital Expenditure and Net Lending	314.4	356.3	271.5	215.2	319.2	349.9
Capital Expenditure	293.8	355.2	269.9	213.5	233.4	267.2
Net Lending	20.6	1.2	1.6	1.7	85.8	82.8
Total Expenditure and Net Lending	1,926.8	2,027.3	2,007.7	2,019.6	2,278.2	2,382.4
Fiscal Balance	-180.3	-315.1	-146.5	-124.1	-257.1	-103.9
Fiscal Balance to GDP (%)	-3.5	-6.4	-2.7	-2.2	-4.2	-1.5

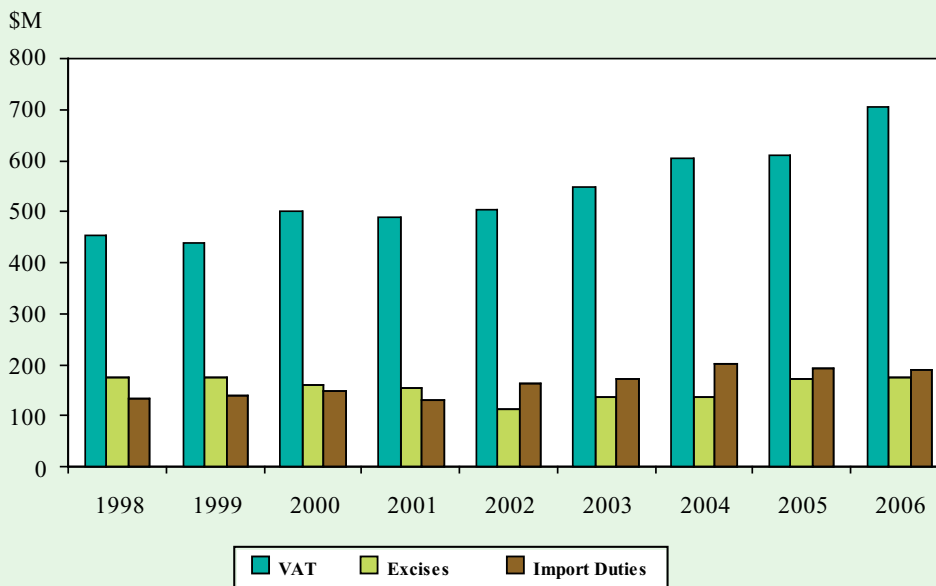
Sources: Accountant General and Central Bank of Barbados
P: Provisional



Direct Tax Revenue by Source



Indirect Tax Revenue by Source



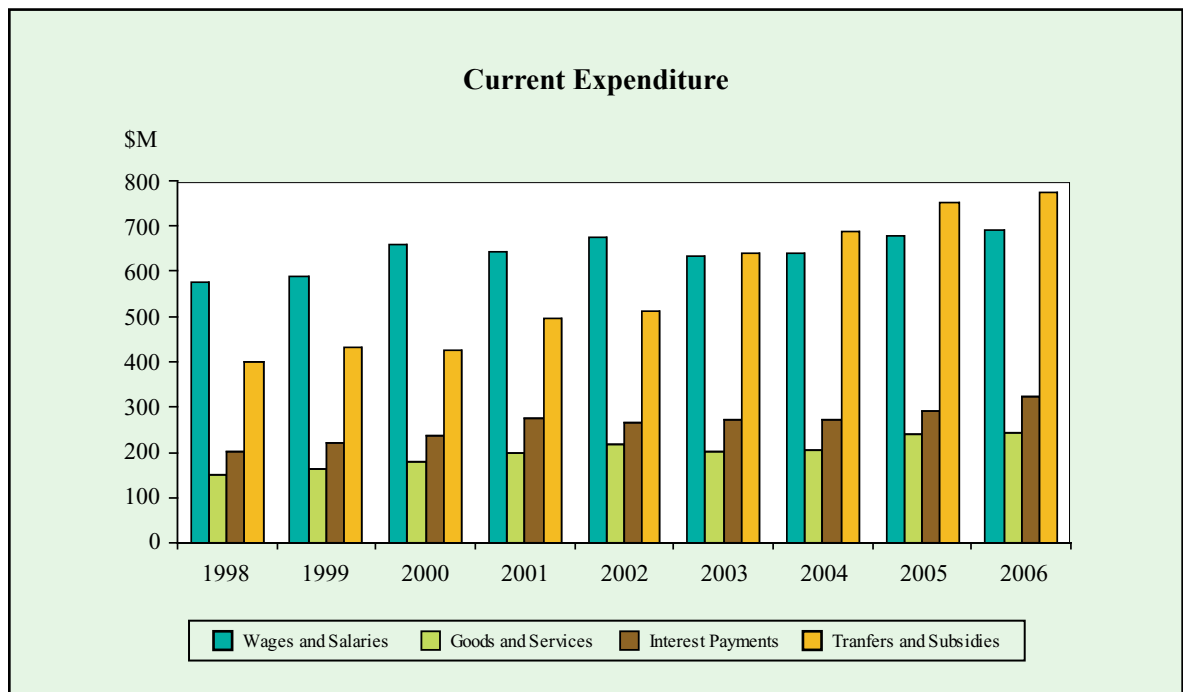


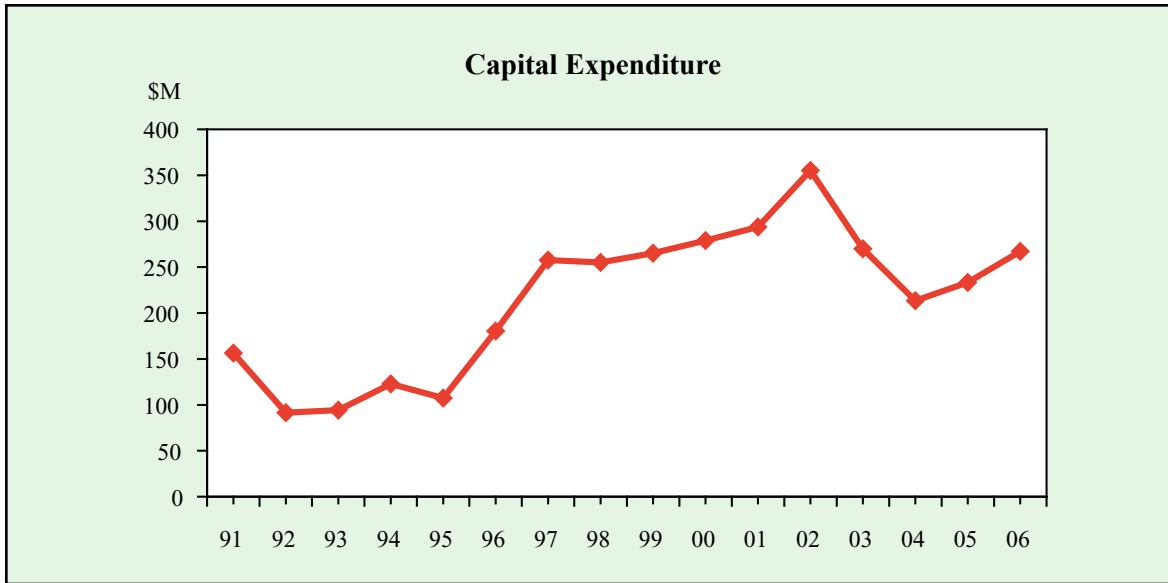
by \$27.6 million, mainly as a result of a fall in miscellaneous non-tax revenue.

During the year, direct tax revenue advanced by 25.1% (\$192.4 million), compared to 3.7% (\$27.3 million) in 2005, and is the largest expansion since 1995. Despite a reduction in the corporate tax rate from 30% to 25%, corporate taxes emerged as one of the main contributors to the growth in direct taxes, rising by 46.4% (\$136.6 million). Increased profitability in the international business and financial services sector and the fact that some international business corporations that were previously exempt are now required to pay taxes were largely responsible for this outcome. Property tax revenues were also higher, up by 19.1% (\$24.3 million), following an increase of 8.9% in 2005, owing to property revaluations, greater compliance and an expansion in the tax base. In addition, personal tax revenue rose by 4.9% (\$14.6 million), primarily because of salary increases and additional employment created

by the expansion in economic activity. This occurred in spite of a drop in the marginal tax rate from 37.5% to 35% and a rise in the personal tax-free allowance from \$20,000 to \$22,500 for the income year 2006. It should, however, be noted that personal tax receipts have fallen over the last three years by an annual average of 4.4%, on account of downward revisions to the personal tax rates and expansions in allowances, so that the revenue from taxes on personal incomes for 2006 is actually 7.3% below the amount collected in 2002.

Reflecting a robust outturn in VAT, indirect tax revenue grew by 8.5% (\$94.8 million) in 2006, compared to 4.6% in 2005. VAT receipts rose by 15.5% (\$94.7 million), significantly higher than the 1.1% (\$6.7 million) growth recorded for 2005, largely because of the increased level of economic activity. In addition, part of the expansion represented prepayments received towards the end of 2005 but registered in the





first quarter of 2006. Excise tax collections increased by 1.9%, compared to a 25.8% (\$35.3 million) increase reported in the previous year and is partly due to the lower rate on diesel and hybrid vehicles, which took effect from April 2006, and the fall-off in the importation of motor vehicles. Finally, import duties fell by 1.6%.

Expenditure

During 2006, total Government expenditure increased by an estimated 4.6% to \$2,382.4 million in comparison with growth of 12.8% during 2005, as all categories, except interest payments and capital expenditure, recorded slower rates of growth. Total Government outlays represented 34.7% of GDP compared to 36.3% in 2005.

Current expenditure grew by 3.8% (\$73.5 million), significantly slower than the 8.6% (\$154.5 million) increase of the preceding year. Outlays on wages and salaries went up by 2.1% (\$14.3 million), compared to 5.8% (\$36.9 million) in the previous year when there were not only

increases owing to wage negotiations but also upward revisions in salaries related to the public sector job evaluation exercise. Transfers and subsidies rose by 3.1%, roughly seven percentage points less than the rate for 2005 and primarily on account of supplementary disbursements to the University of the West Indies and the Barbados Transport Board. Following an increase of 17.8% in 2005 expenditure on goods and services expanded by only 1.1%. However, interest payments were higher by 11.5%, compared to an expansion of 6.9% a year ago, reflecting a rise in domestic interest rates and new debt.

During 2006, Government’s on-budget capital expenditure increased by an estimated 14.5%, after growth of 9.3% in 2005. Emphasis continued to be placed on preparations for CWC 2007, with the main activity being the redevelopment of Kensington Oval into a multi-purpose world-class facility. This project has an approved expenditure of \$76.9 million, excluding VAT. Furthermore, there



Government Financing
(\$ Million)

	2000	2001	2002	2003	2004	2005 ^P	2006 ^P
Domestic Financing	-163.1	-136.2	345.7	12.5	165.7	103.0	72.5
Central Bank	-267.5	-297.3	283.1	69.6	-22.7	-103.4	75.0
Commercial Banks	155.6	85.2	139.2	-20.4	61.1	-73.4	-213.9
National Ins. Scheme	15.8	20.6	109.2	25.5	-19.5	141.4	58.0
Private non-banks	-1.3	28.4	19.9	16.1	97.8	190.9	97.2
Divestment	0.0	52.2	0.0	0.0	0.0	0.0	31.4
Other	-65.7	-25.8	-205.8	-78.3	49.0	-52.4	24.7
Foreign Financing	241.0	327.5	-30.5	152.0	-41.3	154.0	31.4
Capital Markets	200.0	316.8	0.0	0.0	0.0	245.2	135.8
Project Funds	80.3	71.1	51.0	57.5	59.4	30.8	38.9
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-39.3	-54.3	-81.6	-94.5	-100.8	-122.0	-143.2
Divestment	0.0	0.0	0.0	189.0	0.0	0.0	0.0
Total Financing	77.9	180.3	315.1	164.5	124.4	257.1	103.9

Sources: Accountant General and Central Bank of Barbados

P: Provisional

is the related Accelerated Road Rehabilitation programme, which is estimated at \$10 million. The Government also began the implementation of a comprehensive programme to widen a section of the ABC highway, provide Overpass Bridges and synchronise traffic signals. The Urban Rehabilitation Programme continued during 2006 with work commencing on the redevelopment of the Constitution River (estimated at \$23 million) and the building of the multi-storey car park at Hincks Street (estimated at \$15 million). In addition, Government embarked on a number of projects in partnership with the private sector and foreign affiliates.

Financing

Government's fiscal operations resulted in a deficit of \$103.9 million or 1.5% of GDP, which was financed from a combination of foreign and domestic sources. A US\$65 million re-opening of a 2035 bond on the international capital market in December was the main

source of foreign funding. There were also project fund inflows of \$38.9 million, while foreign amortisation payments amounted to \$143.3 million. With regard to domestic financing, Government's net deposits at the Central Bank fell by \$61.3 million, while the National Insurance Scheme and private non-bank institutions increased their holdings of Government instruments by \$58 million and \$138.6 million, respectively. Additionally, \$31.4 million in divestment proceeds was received from the sale of shares in the Insurance Corporation of Barbados. However, net credit from commercial banks contracted by \$168.9 million.

Debt

Central government's total national debt expanded by \$7.0 million to an estimated \$4,907.3 million by the end of 2006. However, the debt-to-GDP ratio declined from 79.3% in 2005 to 71.5% by December 2006. This ratio has generally decreased since 2002, except for a spike

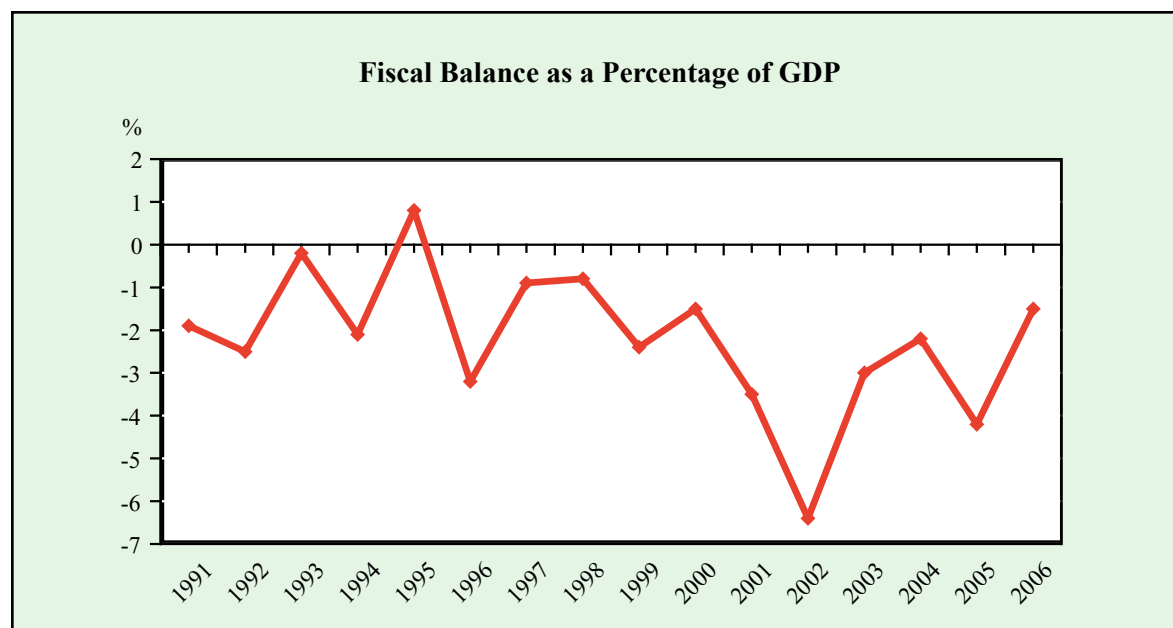


Central Administration National Debt
(\$ Million)

Period Ending	Domestic	External	Total
1998	2,140.8	677.7	2,818.5
1999	2,133.0	777.0	2,910.0
2000	2,204.0	1,028.3	3,232.3
2001	2,333.3	1,361.3	3,694.6
2002	2,605.4	1,348.6	3,954.0
2003	2,727.7	1,338.1	4,065.7
2004	2,894.9	1,332.6	4,227.5
2005	3,373.4	1,526.9	4,900.3
2006 ^P	3,313.0	1,594.3	4,907.3
% of GDP			
1998	45.2	14.3	59.5
1999	43.0	15.7	58.7
2000	43.1	20.1	63.2
2001	45.7	26.6	72.3
2002	52.6	27.2	79.8
2003	50.6	24.8	75.4
2004	51.3	23.6	74.9
2005	54.5	24.7	79.2
2006 ^P	48.0	23.1	71.5

Sources: Accountant General and Central Bank of Barbados

P: Provisional

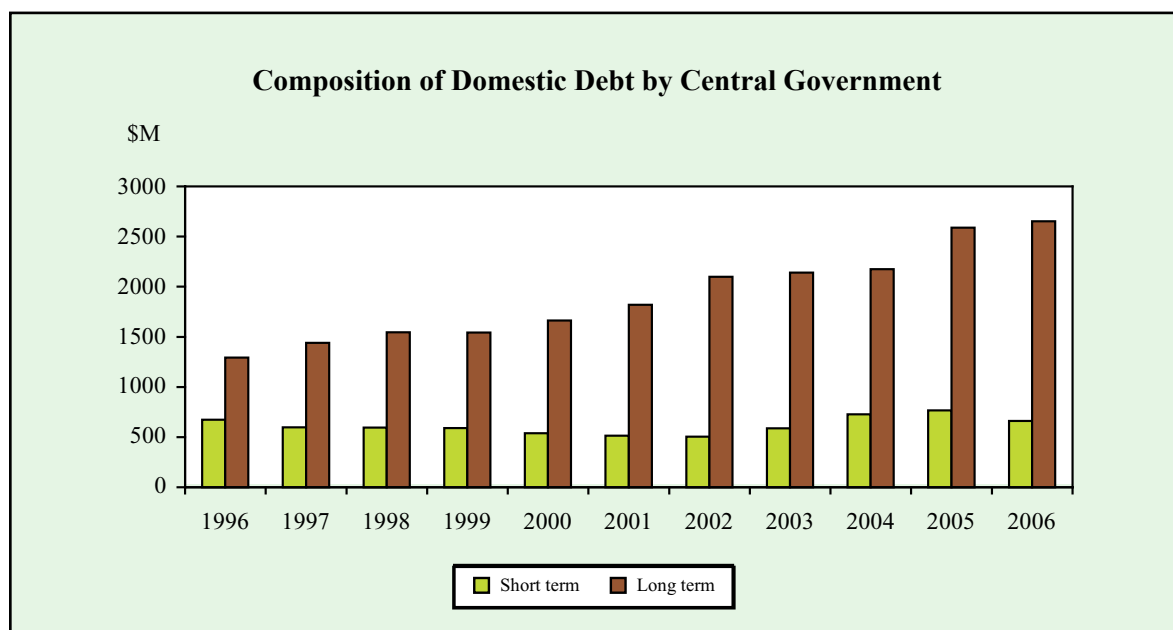




Government Guaranteed Debt
(\$ Million)

Period Ending	Domestic	External	Total
1998	207.0	99.9	306.9
1999	189.3	93.3	282.6
2000	341.5	127.9	469.4
2001	275.3	129.6	404.9
2002	362.0	116.4	478.4
2003	423.5	138.3	561.8
2004	387.1	243.0	630.0
2005	663.9	228.8	892.7
2006 ^P	748.9	467.2	1,216.2
% GDP			
1998	4.4	2.1	6.5
1999	3.8	1.9	5.7
2000	6.7	2.5	9.2
2001	5.4	2.5	7.9
2002	7.3	2.4	9.7
2003	7.9	2.6	10.5
2004	6.9	4.3	11.2
2005	10.7	3.7	14.4
2006 ^P	10.9	6.8	17.7

Sources: Accountant General and Central Bank of Barbados
P: Provisional

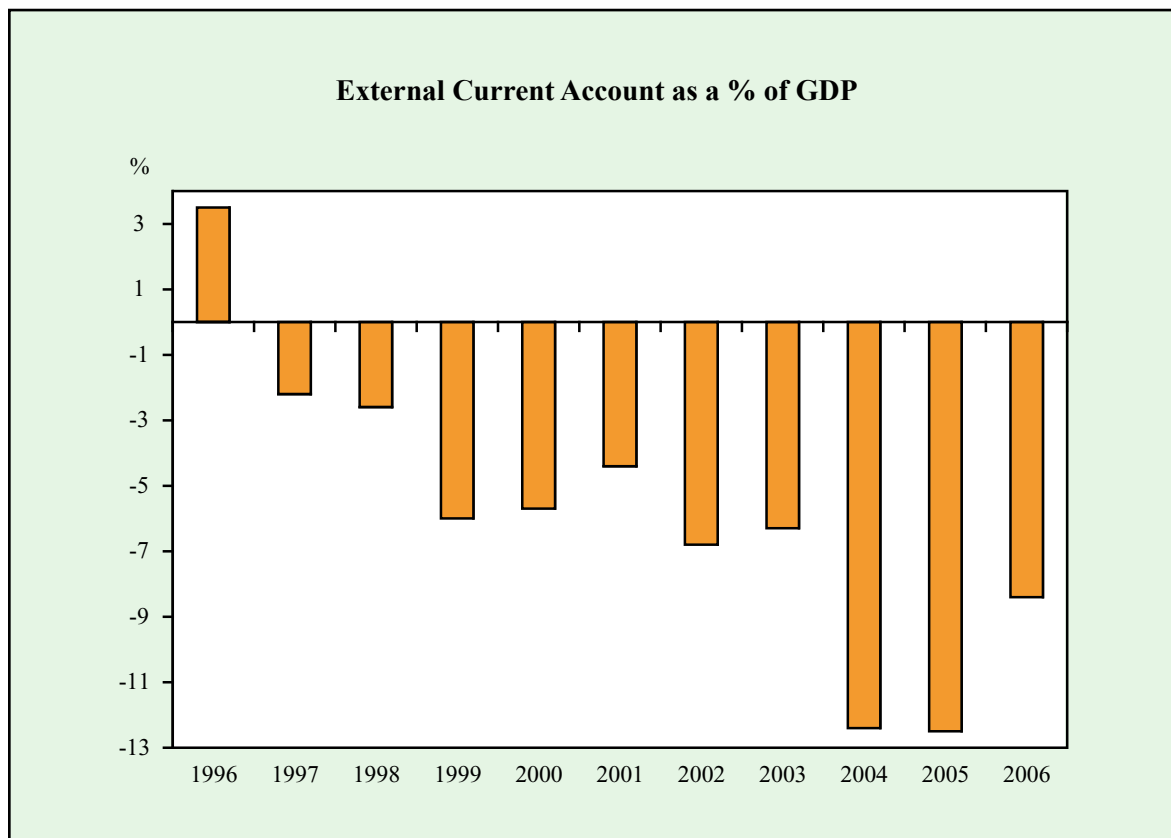




in 2005 when the level of debentures increased by \$340.8 million. Domestic debt declined by 1.8%, in contrast to a rise of 16.5% (\$478.5 million) in the previous year. Consequently, the ratio of domestic debt to GDP fell by 6.3 percentage points to 48.3%. With regards to the term structure of the domestic debt, long-term debt expanded by 2.4%, following a 19% increase in 2005. However, short-term debt fell by 13.8%, contrasting with 5.6% growth in the previous year.

By the end of 2006, Central Government’s stock of external debt grew by 4.4% (\$67.4 million) to approximately \$1,594.3 million, after a 14.6% expansion in 2005. Nevertheless, this represented 1.6 percentage points decline in the debt to GDP ratio to 23.1%.

Between 2002 and 2006, the ratio of total guaranteed debt to GDP increased from 9.7% to 17.7%. The ratio stood at 14.4% in 2005. The value of outstanding domestic debt guaranteed by Government rose by 12.8% to \$748.9 million in 2006, following a 71.5% surge a year earlier. In addition, the level of external debt guaranteed by Government more than doubled in 2006, in contrast to a decrease of 7.3% in 2005. This development generally reflects a tendency of relying increasingly on public-private partnerships, such as build-operate-lease and transfer contracts, to construct major public-sector projects, which are financed by private firms while their debt becomes contingent liability to the Government [See Box].





Public-Private Partnerships: A New Trend in Fiscal Policy

Background

In the last two years, the Government of Barbados made several public-private partnership (PPP) arrangements to carry out capital projects, reflective of a worldwide trend to make greater use of such agreements. This article examines the typical characteristics of these accords, particularly the build-operate-lease and transfer contracts (BOLTs), investigates the main reasons for entering these agreements, and looks at the implications for managing the public debt. Finally, the BOLTs arrangements made by the Barbados Government in 2005/2006 are briefly described.

Public-private partnerships are agreements between the public and private sector for provision by the latter of goods and services traditionally given by, and seen as a function of, the public sector. Thus, the role of the public sector shifts from one of direct provider to one of buyer of services, with private firms designing, constructing, financing, operating and maintaining infrastructure, while the public sector pays for these services. There are several forms of the PPP arrangements, such as the operation and maintenance (O&M), the build-own-maintain (BOM), and the BOLT agreements. However, this study focuses exclusively on the BOLT, as these are the types of contracts recently signed by the Government of Barbados.

The BOLT is an arrangement in which a private developer builds and then operates a facility for a specified period of time,

after which the ownership reverts back to the government. In most cases, the private partner will also provide some, or all, of the financing for the facility, so the length of the contract or franchise must be sufficient to enable the private partner to realise a reasonable return on its investment through user charges. At the end of the contract period, the public partner can assume operating responsibility for the facility, contract the operations to the original franchise holder, or award a new contract or franchise to a new private partner. Alternatively, the developer might build the facility, transfer ownership to the government, and subsequently lease the facility back to operate it for a specified period of time (build-transfer-operate).

The most common examples of BOLT agreements are found in the construction of highway toll projects in the US. In cooperation with a state transportation agency, a public-private partnership is formed to contract with the private party to build and operate a toll road. The revenue source for the toll road is typically a blend of state and federal sources and future toll collections. Contractors and financial institutions are drawn to these projects because they provide construction business, and they generate large fees to the financial institutions for evaluating and arranging the financing of the projects. Other applications of the BOLT concept have included the construction and leasing of bridges, parking lots and transit facilities.

Governments are interested in PPPs because they may provide value for money and, for heavily indebted governments, they represent an alternative approach to undertaking



capital projects without increasing public debt levels (excluding guaranteed debt) and spreading capital expenditure over a longer horizon. Value for money can take the form of lower construction and operating costs, and possibly more efficient maintenance in the long run than comparable public sector projects. In addition, PPPs frequently involve the private sector partner providing a 'bundle' of services, such as the design, construction and maintenance of a road, which can provide value for money, due to economies of scale, that cannot be necessarily obtained by contracting these services separately. Moreover, PPPs can give incentives for the private sector party to perform at a high standard. For example, under a contract to construct a road, the developer has an incentive to do the minimum necessary to meet the contract terms. However, under a design, construct and maintain arrangement, the developer has an incentive to construct the road to the standard that will minimise the costs over the lifetime of the project.

It is important to clarify that BOLTs and its variants are not a way to create money. The financing of any BOLT arrangement is essentially another way to borrow money in order to build economic or social infrastructure. Since funds are raised through private capital markets by private or semi-private entities, the funds are generally more expensive than publicly raised funds. When a project is self-financing, for example, when the private sector finances, constructs and operates roads and recovers costs through direct tolls, the government does not have to borrow or levy taxes. However, when the project is not self-financing the government has to levy taxes or borrow to afford the lease payments to the private sector provider unless it can be financed through the existing

tax framework. Hence, BOLTs can be a component of an overall debt management programme designed to lower the public debt, particularly if the project is self-financing. The next section briefly examines the recent BOLT arrangements made in Barbados.

Recent BOLTs in Barbados

Case 1.

The Government of Barbados and 3S Structural Steel Solutions, LLC, USA, have executed a Memorandum of Understanding in respect of the following:

- The design and construction of overpass bridges (flyovers) at major road junctions along sections of the Adams – Barrow - Cummins (ABC) Highway (not more than 6);
- The road improvement works, including widening and resurfacing of sections of the ABC highway (from D'Arcy Scott Roundabout to the Garfield Sobers Roundabout);
- The supply and installation of a traffic synchronisation system; and,
- The undertaking of a Bridgetown Traffic Study Review.

The project will be owned for a period of 25 years by ABC Project Corporation, a company established specifically for this purpose to raise financing for the project and to hold the project site on lease from the government. During the said project period, ABC Project Corporation will sub-lease the said project to Government and be entitled to receive the sub-lease payments. At the end of the contract, the infrastructure will be transferred to the Government.

*Case 2.*

The Government of Barbados and Whitepark Development Ltd, a company registered and incorporated in Barbados, entered into an agreement for the construction of a new judicial centre at Whitepark Road, Bridgetown, Barbados, the provision of certain services associated with it and the financing of the construction. The project will be financed by the issue of bonds by Whitepark Development Ltd. The Government will lease the property from Whitepark Development for a period of 25 years, after which the property is transferred to the government for \$1.00.

Case 3.

The Government of Barbados and Barbados Correction Corporation, a company registered and incorporated in Barbados, have entered into an agreement for the design, construction and maintenance of a prison facility and an agreement to lease the facility for a period of 25 years, after which the property is transferred to the Government for \$1.00. The prison facility will be constructed by the Barbados Correction Corporation, acting through Commonwealth

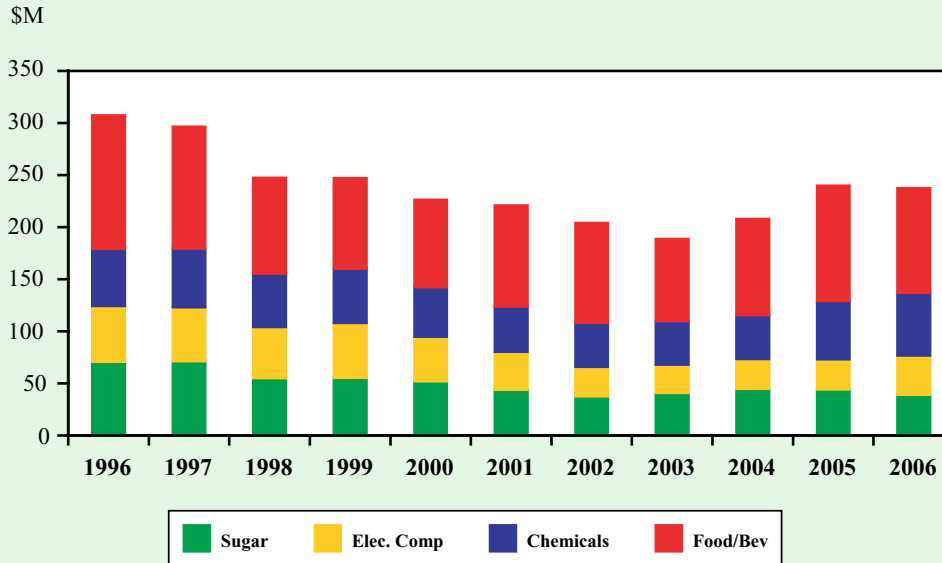
Construction Canada Ltd, an independent construction agent for the Barbados Correction Corporation, on lands leased to the Barbados Correction Corporation by the Government at Dodds Plantation, St. Philip.

Conclusion

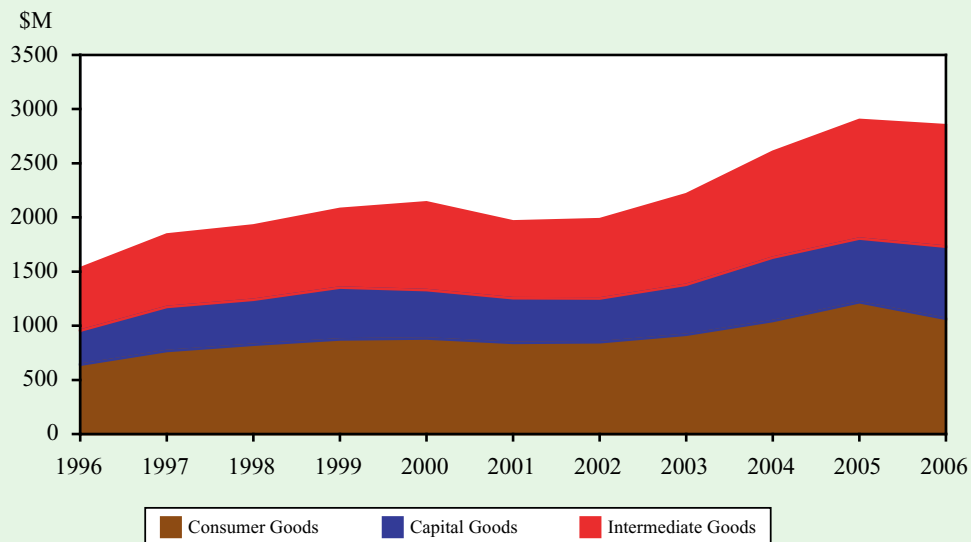
Private-public partnerships are the new trend in undertaking capital projects, as evidenced by the explosion in their use throughout the region and beyond, and such arrangements may increase investment in much needed projects. However, they are not a panacea. It is necessary for Government to calculate the present value of these payments against the value of the asset and services and ensure that these schemes represent value for money vis-à-vis alternative methods of financing. Highly indebted governments must still exercise due care in entering these arrangements, especially when projects are not self-financing, and they must ensure that sufficient incentives are provided for the private partner to carry out the project at a high standard. Finally, PPPs do not obviate the need for fiscal prudence, as these arrangements alone are not able to reduce the Government's outstanding debt.



Major Categories of Domestic Imports



Major Categories of Retained Imports





Foreign Trade and Payments

Current Account Developments

The current account deficit for 2006 remained high but improved for the first time since 2001, primarily as a result of robust growth in domestic merchandise exports, an expansion in travel credits and a contraction in retained imports. Consequently, the external current account deficit fell from 12.5% of GDP in 2005 to an estimated 8.4% of GDP in 2006.

The level of retained imports contracted by 1.5%, marking the first reduction since 2001. This fall-off, when compared to the annual average expansion of 13.5% during 2003 to 2005, is indicative of the success of the monetary policy measures as well as the cess implemented in 2005. Consumer goods imports were the only category that declined, weakening by 12.6%, in contrast to the 16.4% rise recorded in 2005. During the review period, imports of food and beverages and motor vehicles waned by 1% and 26.4%, respectively, while purchases of miscellaneous manufactured products (specifically, jewellery) slumped by 32.4%.

Expenditure on intermediate goods imports slowed from 12% in 2005 to an estimated 2.6% in 2006, on account of slower rates of growth in construction materials and other intermediate manufactured goods. Imports of construction materials rose by 2.1%, compared to an increase of 27.5% in 2005, primarily owing to higher outlays for iron and steel, wood and lumber and structural parts. Additionally, spending on other intermediate manufactured goods advanced by 7.2%, following an expansion of 10.8% in the previous year. In contrast, preliminary data indicate that purchases of fuels decreased by 0.8%, a turnaround from the 9.5% upturn one year earlier, and reflected the levelling off of international prices for fuel in the second half of 2006. Spending on capital goods surged by

13.2% during 2006, after remaining virtually unchanged in the previous year, as a result of higher purchases of machinery used by the manufacturing industry for the production of construction inputs as well as purchases of telecommunications equipment by local cellular phone distributors.

Exports of domestic goods rose by 16.8%, representing the third consecutive year of expansion and the second successive year of double-digit growth. Nonetheless, there were mixed performances in the sector as robust outturns in the electronic components, chemicals and miscellaneous categories of exports offset the contraction in the sales of sugar and food and beverages. Receipts from electronic components doubled in the first quarter of 2006 and contributed to the 31.3% surge in that category of exports for the year. This gain in 2006, relative to the flat performance experienced in the previous year, was largely due to higher sales of resistors to the United States market. Exports of chemicals also turned in a relatively strong outcome during the review period, climbing by 7.3% in comparison to increases of 1.2% and 32.3% in 2004 and 2005, respectively. The outturn in chemicals was mainly a price effect, owing to higher prices of raw materials used to manufacture chemicals. Additionally, miscellaneous exports, led by machinery and transport equipment, cement, and orthopedic appliances strengthened by 40.2%, approximately 9.8 percentage points above the expansion registered in 2005. In particular, exports of orthopaedic appliances, mainly intraocular lenses more than doubled to \$12.7 million from \$5.6 million in 2005. In contrast, receipts from sugar fell by 11.5%, following a decline of 1.2% in the previous year, as a result of lower sugar production. Earnings from food and beverages waned by 9.3%, a reversal from the 20.3% growth recorded one year earlier, on account of a fall-off in the sales of rum and miscellaneous beverages.



Net foreign receipts from services rose by an estimated 9.8% during the review period, representing the fourth consecutive year of growth. Following three years of robust growth, tourism receipts rose by 9.0%, reflecting a higher rate of inflation and an expansion in long-stay tourist arrivals. In line with the decline in retained import growth, net outflows for transportation services moderated from a 12.6% increase in 2005 to one estimated at 2.4% in 2006. In addition, net income outflows recorded growth of 32.6%, mainly because of foreign interest payments.

Capital and Financial Account Developments

During the review period, the capital and financial account surplus was estimated at \$671.7 million, approximately \$88.5 million above the balance recorded in 2005, attributable mainly to the increase in long-term inflows. Net long-term public sector inflows were estimated at \$67.4 million, benefiting in part from Government borrowing of \$135.8 million on the international capital market in November 2006. In addition, amortisation payments continued to rise in 2006. Net-long-term private sector inflows improved in 2006 to approximately \$293.9 million, on account of a pick-up in proceeds from real estate projects and lower estimated amortisation payments by the private sector. Furthermore, the level of short-term inflows recorded in 2006 (estimated at \$266.3 million) was due to receipts from pre-shipment financing for the sugar harvest and loan proceeds related to the construction of the prison.

Foreign Debt Service

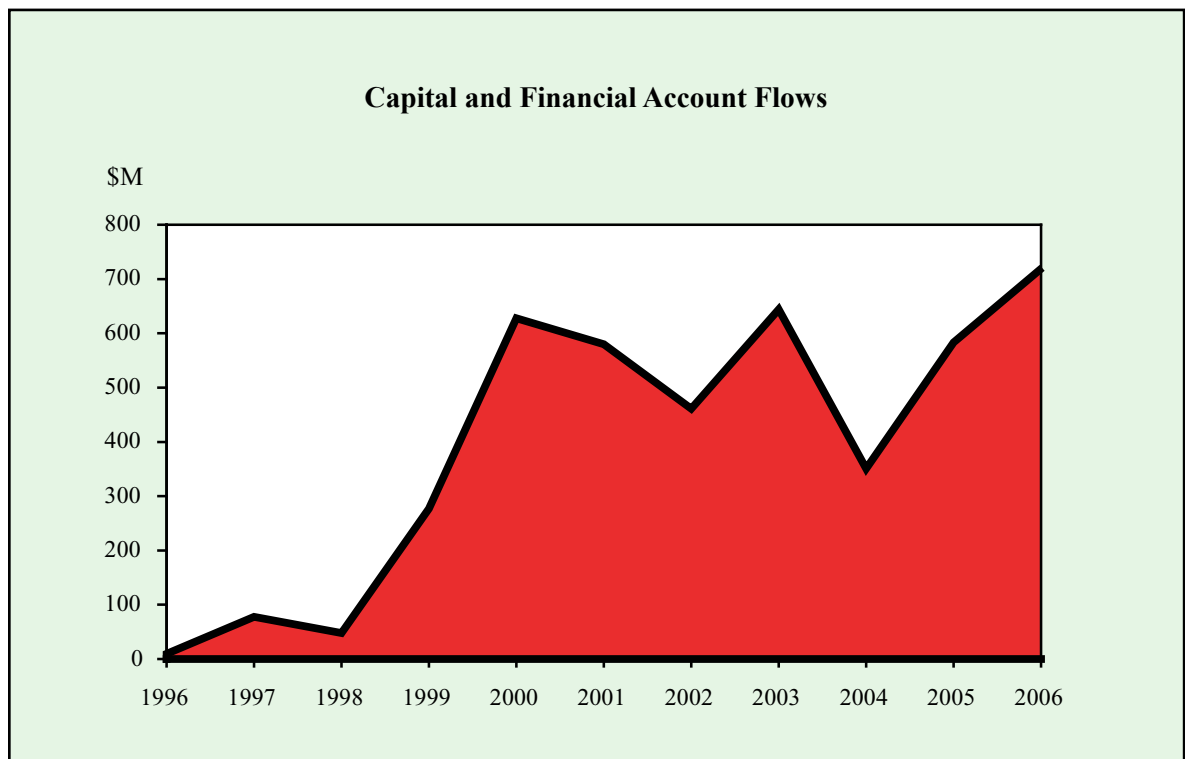
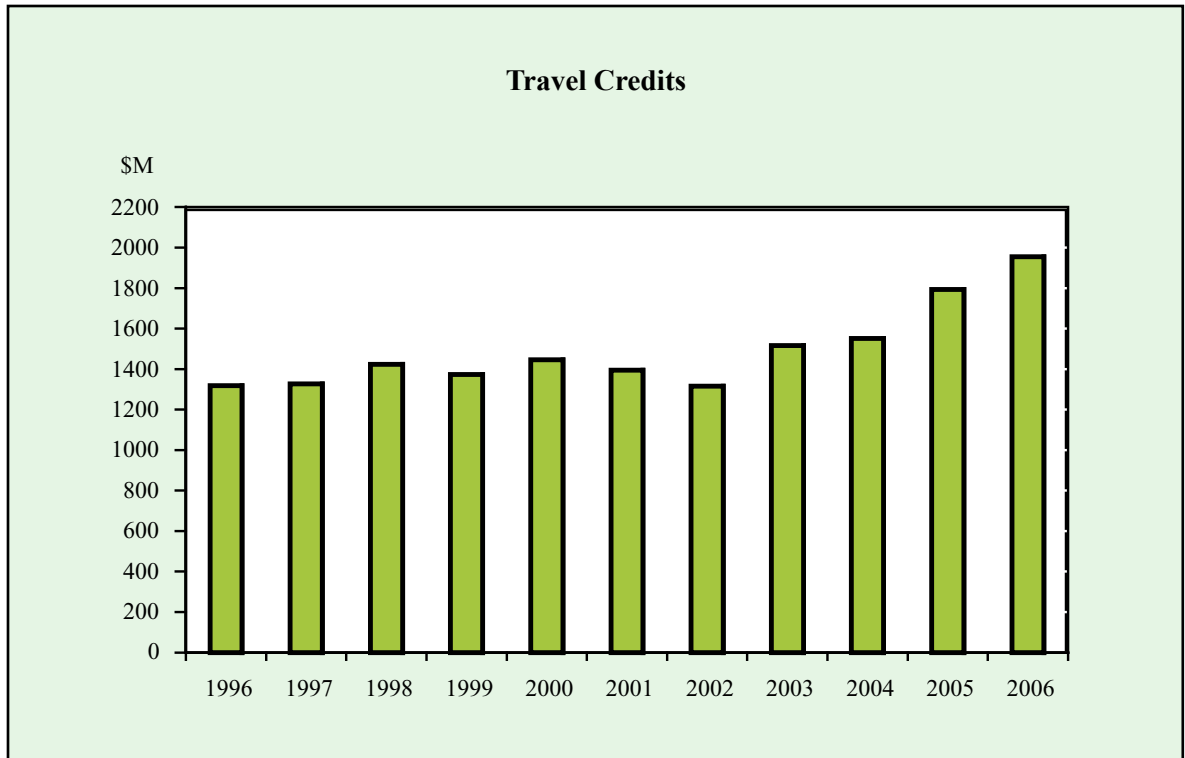
In 2006, foreign debt service payments amounted to \$259.9 million or 7.6% (\$18.3 million) above the payments made one year earlier. The level of debt service was equivalent to about 6.5% of exports of goods and non-factor services. Total amortisation payments increased by

approximately 7.2% (\$9.2 million) to \$136.6 million, primarily on account of higher central government outflows. Additionally, outlays for interest totalled \$123.2 million, expanding by around 8.0% (\$9.1 million), again with central government responsible for the majority of the increase.

Direction of Trade

During 2006 total imports of merchandise goods increased marginally by 1.5% when compared to a 13.5% rise in 2005. The US accounted for 37% of total imports, up 0.5 percentage points from the figure recorded in 2005. In addition, goods bought from the UK were 5.8% of total imports while those from Japan were approximately 3.7% of total imports. Imports from CARICOM rose marginally to 25.3% from 24.7% of total imports one year earlier. Of note, goods from Trinidad and Tobago accounted for 88.8% of purchases from CARICOM and 22.5% of total imports, compared to 89% and 22%, respectively, in the previous year.

After advancing by 14.1% in 2005, the growth in imports from the United States slowed to 2.8% for the year in review. The lower rate of increase was attributed mainly to a 22.6% fall in the purchases of other manufactured consumer goods, and a 4% reduction in food and beverages. This decrease was however, offset by a 10.6% rise in imported machinery and a 15.2% increase in construction materials. Imports from the United Kingdom continued to expand, growing moderately by 7.2%, up from 6.7% recorded in the previous review period. In contrast, goods from Japan slumped by 27.7% (\$45.7 million), after advancing by 29.2% (\$37.4 million) one year earlier. The weakening in imports from Japan was principally caused by a 30.7% (\$27.8 million) decline in purchases of motor vehicles. Imports from Canada increased by 4.9% in 2006, compared to an expansion of 6.2% in 2005.





Imports from CARICOM grew by only 3.9%, following a strong increase of 18% in 2005. Goods originating from Trinidad and Tobago climbed by 3.7%, in contrast to a 19.4% expansion in 2005. Preliminary data indicate that this slowdown in growth was mirrored by a 3.0% rise in imported fuel, when compared to a 22.1% expansion one year earlier. Additionally, imports from Guyana increased by 16.7% owing to higher outlays on food and beverages and wood

and lumber. Goods from Jamaica advanced by 4.5% as a result of increased purchases of food and beverages (8.1%) during the year. Similarly, imports from the Organisation of Eastern Caribbean States (OECS) grew by 2.3%, resulting from additional expenditure on food and beverages (4.5 %)

Merchandise exports continue to grow, with domestic exports climbing by 16.8% during the

Balance of Payments
(\$ Million)

	2002	2003	2004	2005	2006 ^P
Current Account	-335.3	-339.2	-700.3	-770.0	-577.7
Merchandise Trade Balance	-1,403.9	-1,604.0	-1,942.0	-2,171.1	-2,001.2
Total Credits	506.0	527.3	586.1	757.2	923.0
Exports BOP	406.1	419.5	466.0	641.4	790.9
Total Debits	1,909.9	2,131.2	2,528.1	2,928.3	2,924.2
Imports (BOP)	1,909.6	2,131.0	2,520.0	2,862.9	2,899.7
Domestic Exports	333.1	329.2	346.9	421.1	491.7
Retained Imports	1,991.7	2,220.5	2,616.3	2,911.0	2,867.3
Services (Net)	1,099.8	1,293.2	1,319.1	1,555.2	1,708.8
Of which Travel Credits	1,315.8	1,515.7	1,551.0	1,793.5	1,955.4
Income (net)	-203.6	-214.0	-253.8	-343.9	-456.0
Current Transfers (net)	172.4	185.6	176.3	189.8	170.7
Capital and Financial Account	460.9	644.3	350.7	583.2	671.7
Errors and Omissions	51.9	70.8	9.2	50.5	175.7
Overall Surplus (+)/ Deficit (-)	177.5	375.9	-340.4	-136.3	269.6
Net Official Financing	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0
Other Monetary Authority	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0
Change in Foreign Reserves					
(-increase/+decrease) (CBB basis)	-177.5	-375.9	340.4	136.3	-269.6
Adjusted by commercial banks' position (Net)	224.9	239.0	-27.7	-184.2	305.6
Change in Net International Reserves (NIR)	47.4	-136.9	312.7	-47.9	37.6
(IMF basis) (-increase/+decrease)					

Sources: Accountant General and Central Bank of Barbados.
P: Provisional.



review period, following the 21.4% increase recorded one year earlier. Exports to the US and the UK accounted for 17.6% and 11.5% of total domestic exports, respectively, compared to 13.1% and 14.6% in 2005. The proportion of goods exported to Canada relative to total domestic exports remained unchanged at 3%. Exports to CARICOM, as a share of domestic exports remained relatively stable, declining slightly from 54% in 2005 to 51.4% in 2006. Goods to the OECS countries and Trinidad and Tobago constituted 47.5% and 30.5% of local exports to CARICOM, and 24.4% and 15.7% of total domestic exports, respectively in 2006.

Exports to the US surged by 56.8% (\$31.4 million) during the review period, after a downturn of 0.7% in 2005. The robust growth was due to increased sales of machinery (\$12 million), other manufactured consumer goods (\$6.5 million) and electrical components (\$5.2 million). After growing by 5.7% in 2005, domestic exports to the UK fell by 7.8% because of a decline (11.5%) in the export of food and beverages. Exports to Canada grew by 17.6% (\$2.2 million) in 2006, following the 34.4% (\$3.2 million) increase in 2005, both attributed to the improved sales of food and beverages.

Goods exported to CARICOM climbed by 11% in 2006, after strong growth of 30.1% in 2005. Exports to Trinidad & Tobago rose by \$9.9 million in 2006, resulting from higher export of crude oil (\$12.8 million). Shipments to Jamaica advanced by 6.6% in 2006, compared to a 43.6% expansion in 2005, principally as a result of increased sales of cement to ease supply constraints in the Jamaican construction industry. Improved exports of other intermediate manufactured goods (\$5.1 million) and pharmaceuticals (\$2.1 million) led to an expansion of 11.2% in the sale of local goods to the OECS countries.

Regional Economic Developments

Overview

Economic activity within the Caribbean strengthened during the first half of 2006, mainly due to increases in real output of the construction and tourism sectors. Inflation was above the rate for the corresponding period in 2005, reflecting rising international oil prices, which also impacted negatively on the external current account balances of most regional economies. During the period under review, many regional governments reported lower fiscal deficits, owing primarily to a substantial expansion in revenue relative to expenditure.

Real Output

The tourism sectors within the Caribbean benefited chiefly from increases in long-stay passengers, as the performance of the regional cruise industry fluctuated during 2006. The collaborative efforts of the Jamaica Tourist Board and the private sector, the reopening of hotels in Grenada, along with greater airlift capacity and intensive marketing strategies, contributed to the expansion in long-stay arrivals in the Caribbean. On the other hand, the cruise industry experienced a decline in the number of cruise passenger arrivals in the first half of the year owing to high international oil prices. However, from the third quarter of 2006, there was an increase in the number of arrivals resulting from the moderation of oil prices. Yet, the growth in the latter half of the year was insufficient to offset the January-to-June outcome, resulting in an overall decrease in the output of the cruise industry.

Within the Caribbean, the performance of the agricultural sectors was mixed. As a result of favourable weather conditions, there were improvements in Jamaica's export crop production, with sugar production in particular, recording a 24.1% increase for the January-to-



Tourist Arrivals in Selected Caribbean Countries

(January – September)

('000)

Country	Stay-Over Visitors			Cruise Passengers		
	2005	2006	% Change	2005	2006	% Change
Bahamas (Oct)	1,270.2	1,276.4	0.5	2,681.7	2,509.3	-6.4
Belize	236.6	247.2	4.5	800.3	656.6	-18.0
Jamaica	1,478.7	1,678.9	13.5	1,135.8	1,315.3	15.8
Guyana (Oct)	94.7	90.1	-4.9	n.a.	n.a.	n.a.
Trinidad and Tobago* (Jun)	235.1	232.7	-1.0	38.4	62.9	63.9
OECS:						
Anguilla (Oct.)	49.3	58.5	18.7	n.a.	n.a.	n.a.
Antigua & Barbuda* (Nov)	222.5	229.7	3.2	311.8	304.6	-2.3
Dominica	79.3	83.9	5.8	301.3	379.5	26.0
Grenada	98.2	118.5	20.7	275.1	218.8	-20.4
Montserrat	9.7	8.0	-17.5	n.a.	n.a.	n.a.
St. Lucia	317.9	302.5	-4.8	394.4	359.6	-8.8
St. Vincent & Grenadines	95.5	97.4	2.0	69.4	106.7	53.4

Sources: Regional Central Banks and the Caribbean Tourism Organisation

Notes: n.a. Not Available,

* The cruise arrivals recorded for Trinidad and Tobago and Antigua and Barbuda are as at April and September respectively.

October period. On the other hand, Guyana registered modest growth of 6% in agriculture for 2006, while Trinidad and Tobago recorded lower levels of citrus output, for the first three quarters, reflecting bad weather. Agricultural production in the OECS improved relative to the outcome during the corresponding period of 2005. This was mainly attributed to the significant increase in the banana crop, especially in St. Lucia. Grenada's output of cocoa, nutmeg and mace also rose, while St. Kitts and Nevis reported lower levels of agricultural production on account of the closure of the sugar industry in 2005.

In Jamaica, mining and quarrying activity fell marginally during the first ten months of 2006, with alumina, the largest contributor to mining output, contracting by 2%, after an expansion of 6.2% in the January-October period of 2005. Bauxite production rose by 14.7%, owing to the

purchase of new mining equipment. In Guyana, the mining and quarrying sector decreased by 28.7% in 2006 compared to 2005, mainly reflecting the closure of the Omai gold mine along with the loss of markets in the bauxite industry. The output for bauxite, gold and diamonds, declined by 29.8%, 48.5% and 13.8%, respectively. During the first half of 2006, Trinidad and Tobago recorded growth of 7% in the energy sector, because of higher production of both crude oil and natural gas.

Inflation

Most regional economies registered higher rates of inflation, primarily because of the increase in international oil prices. By the end of 2006 the average inflation rate in Trinidad and Tobago was 9.1%, approximately 1.9 percentage points above the rate for the year 2005. The expansion was mostly attributed to higher food prices which increased by 22% for 2006. Consumer



prices in the Eastern Caribbean Currency Union rose during the first nine months of 2006, driven mainly by higher prices for some food commodities, housing, fuel, transportation and communications. Price increases ranged from a low of 0.6% in Antigua and Barbuda to 11.4% in Anguilla. In Guyana, prices grew by 3.7% for 2006, compared to 8.2% for the corresponding period of the previous year, as a result of higher fuel costs, which contributed to an increase in the cost of transportation services. Inflation in The Bahamas was 1.6% for the third quarter compared to 2.1% in the similar period of 2005; increased prices were recorded for miscellaneous goods and services (5.4%), food and beverages (4.5%) and housing (2.4%). Inflation in Jamaica measured 8.2% by the end of July down from 12.5% at the end of 2005. The decline in the inflation rate was due to the tightening of monetary policy, and in part, through open market operations and foreign exchange sales.

Financial Sector

Credit to the private sector in The Bahamas rose by B\$524.4 million for the first three quarters of 2006, approximately 58% above the figure observed for the corresponding period of 2005. The growth was mainly attributed to greater demand for mortgages and consumer credit. Domestic deposits expanded by B\$257.6 million, as broad-based gains were registered for all categories of deposits. In Jamaica, domestic credit and deposits of commercial banks grew by J\$8.2 billion and J\$15.3 billion, respectively. The growth in domestic credit occurred on account of increased borrowings by the personal, manufacturing and tourism sectors. Loans and advances in Trinidad and Tobago were up by 8.7% or TT\$2,315.6 million, while the growth of domestic deposits declined from TT\$4,274.9 million during the first eight months of 2005 to TT\$3,396.3 million for the corresponding period of 2006. In the January to September period of 2006, domestic credit in

the OECS expanded by 10.1%, mostly driven by the 11.8% increase in loans to the private sector; total deposits also rose, by 31.9%. In Guyana, for the period January-to-December, private sector credit went up by 17.8%, (G\$6,306.7 million), compared to an increase of 5.8% (G\$2,028.3 million) recorded in the previous year, while total deposits grew by 10.8% to G\$144,557 million, largely reflecting higher transfers by Guyana's migrant workers and new branch locations of commercial banks. Over the first nine months of 2006, The Bahamas' weighted average lending rate decreased by 76 basis points to 9.93% when compared to the same period of 2005. For the same period, the weighted average deposit rate increased by 20 basis points and the 3-month treasury bill rate improved by 12 basis points to 3.31% and 3.16%, respectively.

The weighted average lending rate in Guyana decreased by 66 basis points for the January-to-June period of 2006, while the savings rate declined from 3.38% to 3.29% over the same period and the average 3-month treasury bill rate increased by 11 basis points to 3.85%. In Jamaica, the average loan rate slid from 22% in 2005 to 21.8% by the end of September 2006, while the interest rate on the 3-month treasury bill rose to 12.44% from 12.34%. By the end of June 2006, Trinidad and Tobago's weighted average deposit rate expanded by 43 basis points to 2.16%, relative to the corresponding period of 2005. Additionally, the weighted average loan rate also increased to 9.35%, and the interest spread grew to 7.18 percentage points.

Government Operations

The OECS region recorded an estimated fiscal deficit of EC\$262.9 million during the first nine months of 2006, a deterioration of EC\$115.7 million when compared to the corresponding period of 2005. The widening of the deficit was due to a 50.3% increase in capital expenditure, associated mostly with CWC 2007-related



projects. A current account surplus was recorded as a result of strong growth (14.7%) in current revenue, which outweighed an 8.2% increase in current expenditure.

In Guyana, the operations of the central government during the year 2006 resulted in a fiscal deficit of G\$14.7 billion, worsening by approximately G\$0.3 billion compared to the deficit at the end of 2005. For the first nine months of 2006 The Bahamas' fiscal deficit was estimated at \$B31.3 million, about B\$80.7 million lower than the figure reported for the same period of 2005. The improvement in the deficit was occasioned by a 18.7% increase in revenue compared to a modest upturn in expenditure of 7.9%.

By the end of 2006, central government operations in Jamaica led to a deficit of J\$30 billion, approximately J\$3.2 billion more than the figure registered at the end of the previous year. The increase in the deficit was on account of wage settlements in the second half and higher interest payments, especially on the domestic side. On the other hand, the Government of Trinidad and Tobago recorded an estimated fiscal surplus of TT\$3.7 billion during the first ten months of 2006, approximately TT\$1.3 billion below the surplus of 2005, which was fuelled by increased revenues from the petroleum sector.

Foreign Sector Developments

During the first six months of 2006, The Bahamas' external current account deficit was estimated at B\$699.6 million, compared to B\$82.4 million recorded over the similar period of 2005, as a result of rising international oil prices. The capital and financial account recorded a surplus of B\$435.8 million, on account of greater private sector inflows for tourism-related projects. Higher earnings from domestic goods exports and tourism in Jamaica

led to an improved external current account deficit, estimated at US\$65.3 million in the January to August period of 2006. On the other hand, Trinidad and Tobago reported a current account surplus of US\$0.9 million for the first two quarters of 2006. The surplus was mainly due to increased levels of exports, primarily minerals, fuels, lubricants and chemicals. The surplus was estimated at approximately US\$2.83 billion, compared to US\$1.9 billion for the corresponding period of 2005. In Guyana, the external current account deficit deteriorated by US\$1.3 million to an estimated US\$135.4 million, because of higher oil prices and a rise in imports of capital equipment. However, the capital account registered a surplus of US\$188.5 million for the first nine months of 2006, about 50.7% above the figure for the similar period of 2005.

International Economic Developments

Overview

Global economic activity increased by an estimated 5.1%, compared to 4.9% in 2005 and 5.3% in 2004. Rapid expansion was evident in the first half of 2006, despite continued inflationary pressures, tighter monetary policies and rising oil prices. The downside risks were heightened when there were threats of a slowdown in the US economy in the second quarter, following robust growth in the first quarter. However, in the US, Euro zone, Asian and Latin American economies, further expansion followed in the third and final quarters as a result of reduced crude oil prices, lower inflation expectations and a steady of benchmark interest rates in most of the leading economies. There were concerns over global imbalances as the currencies of trade surplus countries in Asia and oil exporting countries continued to depreciate against the US dollar.



Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)		Unemployment (% Rate)		Inflation (% Rate)	
	2005	2006 ^P	2005	2006 ^P	2005	2006 ^P
Canada	2.9	3.1	6.8	6.5	1.6	2.0
Euro Zone	1.3	2.4	8.6	8.0	2.2	2.2
France	1.4	2.4	9.9	8.8	1.7	1.9
Germany	0.8	2.0	9.2	9.0	2.0	1.8
Italy	0.1	1.5	8.1	7.8	2.0	2.2
Japan	2.8	2.7	4.4	4.1	-0.3	0.3
United Kingdom	1.8	2.7	4.7	5.5	2.0	2.3
United States	3.2	3.3	5.1	4.7	3.4	3.3

Sources: Various Central Banks and National Statistical Offices, IMF Estimates

Note: P: Provisional

Industrial Economies

During 2006, real output in the US rose by approximately 3.3%, compared to 3.2% in 2005. After a robust increase in the first quarter of 2006, private consumption slowed as a result of uncertainty in the housing market and sluggish growth in residential investment. Even though the US dollar weakened during 2006, the US was able to finance large current account deficits with little strain on the global economy through debt-related and official flows from many countries like China that have accumulated large amounts of international reserves. With the continued economic expansion, the unemployment rate was lowered further, ending the year at 4.7%. After successive quarterly increases, US interest rates stabilised as the Federal funds rate was kept at 5.25% at the end of December.

Real value added in the Canadian economy advanced by 3.1% in 2006, compared to 2.9% in 2005. Growth in GDP in the commodity-rich economy was in response to increased demand for exports and higher prices in the first half of the year. The unemployment rate continued to fall in the first half and by the end of 2006 averaged 6.5%, compared to 6.8% in 2005. Core

inflation rose during the year to 2.0% about 0.4 of a percentage point above the level for 2005. The Bank of Canada kept the overnight rates at 4.25% throughout the second half of 2006. The Japanese economy continued to grow moderately, though at a slower rate than was originally anticipated, and the unemployment rate decreased to 4.1% from 4.4% in 2005. Real output growth for 2006 was approximately 2.7%, the same as in the previous year. A reduction in consumer spending, arising from higher inflation rates in the first nine months, put a damper on economic growth during the year. Inflation was estimated at a modest 0.3%, similar to that recorded in 2005.

Output in the Euro Area was up by 2.4%, the highest rate in six years, following a rise of 2.2% in 2005. Growth was sustained through strong expansion in industrial production, leading to a fall in the unemployment rate to 8% from 8.6% in 2005. During 2006, the euro made record gains against the Japanese yen and traded at nearly a two year high against the US dollar. The upturn in economic confidence in the Euro zone was led by Germany, Europe's largest economy, which grew the fastest in the last nine months



of the year, ending 2006 with a growth rate of 2.0%. The French economy rose by 2.4%, with inflation estimated at 1.8%, on par with the rate for Germany. Real output increased by 1.5% in Italy, compared to 0.5% in the previous year. The unemployment rate fell to 7.8%, while inflation crept up to 2.2% from 2.0% in 2005.

The UK recorded robust growth during 2006, with an estimated 2.7% increase in real output, compared to 1.8% in 2005. Amidst high food and energy prices, rapid expansion in retail businesses boosted the UK's services industries. The UK also benefited from strong domestic demand, rising home values and a stable financial system. The pound sterling gained about 14% against the US dollar and was relatively unchanged in relation to other major currencies. With inflation remaining low at 2.3%, the Bank of England kept interest rates unchanged at 5%. The unemployment rate in the UK increased to 5.5% by the end of 2006.

Emerging Markets

Economic growth in emerging Asia for 2006 remained robust though slowing slightly compared with the previous year, as a result of a lower economic outcome in Japan. China once again recorded the best outturn in the region, with strong domestic demand and higher exports. Real output was estimated at 10% in 2006, compared to 10.2% in 2005. South Korea's real output increased by 5.5% due to a rapid depreciation of the won against the US dollar during 2006, which helped to boost their exports even further. Inflation remained moderate, except in Indonesia, while equity markets and foreign investments increased significantly amid robust growth projections for the region.

Latin American economies exceeded economic growth projections during 2006 as inflation slowed and currency markets stabilised. Brazil's output grew by 3.6%, compared with

Economic Indicators: Emerging Markets

Countries	Real Output (% Growth)		Inflation (% Rate)		Foreign Reserves (US \$ Billion)	
	2005	2006 ^P	Dec-05	Dec-06 ^P	Dec-05	Dec-06 ^P
Argentina	9.2	8.0	12.0	12.3	28.1	30.3
Brazil	2.3	3.6	6.9	4.5	53.8	85.8
Chile	6.3	5.2	3.1	3.5	16.8	19.4
China	10.2	10.0	1.8	1.5	818.8	1,066.3
India	8.5	8.3	4.2	5.6	142.3	177.2
Indonesia	5.6	5.0	10.5	14.2	34.7	42.6
Malaysia	5.3	5.5	3.0	3.1	70.2	82.5
Mexico	3.0	4.0	4.0	3.5	74.1	76.3
Nigeria	6.9	6.2	17.9	9.4	17.6	33.2
Singapore	6.4	5.5	0.5	2.0	116.6	136.8
South Africa	4.9	4.3	3.4	4.5	20.6	25.6
South Korea	4.0	5.5	2.6	2.5	209.9	239.0
Venezuela	9.3	6.0	15.9	11.7	30.4	37.4

Sources: Various Central Banks and National Statistics Offices

Note: P: Provisional



Commodity Prices

Commodities	Dec-05	Dec-06 ^P	% Change
Total (Index of Market Prices)	208.1	237.8	12.0
Non-Fuel (Index of Market Prices)	107.3	150.3	28.6
Food (Index of Market Prices)	97.9	112.2	12.7
Sugar (US ¢ / lb)	30.0	33.0	9.1
Bananas (US \$ / metric ton)	577.0	656.0	12.0
Rice (US \$ / metric ton)	288.0	309.0	6.8
Wheat (US \$ / metric ton)	152.0	204.0	25.5
Soybeans (US \$ / metric ton)	223.0	243.0	8.2
Metals (Index of Market Prices)	138.7	245.4	43.5
Aluminum (US \$ / metric ton)	1901.0	2,824.0	32.7
Iron Ore (US ¢ / metric ton unit)	65.0	77.4	16.0
Copper (US \$ / metric ton)	3676.0	6681.0	45.0
Silver (US ¢ / troy ounce)	883.0	1290.0	31.5
Gold (US \$ / troy ounce)	516.4	636.0	18.8
Petroleum (US \$ / barrel)	53.4	61.0	12.5

Source: IMF Commodity Prices

P: Provisional

2.3% in 2005. Brazilian reserve levels soared as employment increased and inflation fell to 4.5% during the review year. Nonetheless, successful elections and currency rallies in the region helped to sustain economic growth and lower downside risks facing Latin American economies. Argentine bond markets were amongst the best performers for 2006, which helped real economic activity to expand by 8.0%. Inflation was approximately 12.3% at the end of the year. Mexico's economy was up by 4.0%, compared to 3.0% in 2005, while inflation slowed to 3.5% from 4% in 2005.

Commodity Prices

Oil and other commodity prices continued to soar, reaching double-digit growth rates. Oil

prices declined toward the end of 2006 to just above US\$60 per barrel, the lowest in months, following an Organisation of Petroleum Exporting Countries (OPEC) meeting which cut production targets to 500,000 barrels per day. Reduced energy demand for heating in the US economy, resulting from mild weather conditions in 2006, also contributed to the decline in oil prices. Metal prices surged, especially for gold, owing to the weakening of the US dollar, which influenced many investors to opt to invest in gold and other metals rather than in US dollars. Food indices also increased, reflecting the inflationary pressure in 2006 arising from higher energy prices.





ECONOMIC OUTLOOK

International and Regional Economic Outlook for 2007

Favourable conditions for growth and a moderation of inflation are expected in the global economy during 2007. Economy activity will be buoyed by the continuation of strong corporate balance sheets, sustainable macroeconomic policies, low long-run interest rates, and receding energy prices. The expansion in global output will be underpinned by robust domestic demand in advanced economies. Increased confidence in financial markets is likely as market conditions stabilise and the maturing markets of developing and emerging countries are anticipated to be better prepared for global shocks. Oil prices are projected to level out and inflationary pressures are expected to be contained by modest interest rate increases by major central banks.

According to the September 2006 World Economic Outlook of the IMF, global growth is forecasted to moderate to approximately 4.9% in 2007 from 5.1% in 2006. Growth in the United States should be lower, falling slightly below the average rate of about 3.5% in the previous two years. The slowdown in the housing market is expected to continue to dampen residential investment and consumption spending, but corporate investment is likely to remain firm because of receding oil prices and the low level of long-run interest rates. Notwithstanding a stronger euro, the Euro Area is also projected to record slower output growth, mostly reflecting the scheduled tax increases in Germany for 2007. However, output in emerging and developing countries is anticipated to be on par with the performances in 2006. China's economy should expand by approximately 10%, which is the same pace as in 2005, while in India output is expected to grow between 8% and 8.5%. Latin American countries are also forecasted to show solid growth in 2007, facilitated by increased exports and foreign investments to the region.

The outlook for the Caribbean in 2007 remains positive, as economic activity should be driven by strong expansions in tourism, financial market activities and construction, the latter spurred by preparations for the CWC 2007, which commences in late March. However, the pace of growth could recede slightly, in line with slower global economic activity in 2007. The easing in commodity prices, slowing of inflation and the recovery from intense weather systems and shocks in the region, could positively alter this projection. However, downside risks to the positive outlook include external influences such as a sharper-than-expected slowdown in the US economy, tighter global liquidity in financial markets, volatility in commodity prices (particularly if there was a drastic reduction in non-oil commodity prices), trade pressures following the erosion of preferential access in the Caribbean, the lack of progress on trade agreements to liberalise trade further and other risks stemming from global trade imbalances.

Prospects for the Barbados Economy in 2007

Above average economic growth between 3.5 and 4% should continue during 2007, with some moderation of the inflation rate and relatively high levels of employment. Yet, there are some risks, particularly in respect of oil prices, which have suffered sudden reversals in light of expectations concerning oil supplies and stocks. The sharp decline in oil prices from a high of \$78 in July 2006 to about \$60 by year-end is encouraging. Yet, recent decisions by some OPEC countries to cut oil production, and the on-going energy dispute between Russia and its neighbours that has often disrupted oil supplies to Western Europe, could slow the current downtrend in oil prices even if tensions in the Middle East do not worsen.

Relatively high wages settlements payable in 2007 (based on the higher inflation outturn in 2006) could lead to faster growth in government



expenditure and imports. However, there has been a recent upturn in Government revenue from VAT and corporation tax and, on balance, another favourable on-budget fiscal performance is likely, though not necessarily as robust as in 2006.

The rates of growth of credit and deposits are expected to gradually converge in 2007 and, as a result, liquidity levels could remain relatively unchanged.

The advent of the CWC 2007, together with the strength of the pound sterling and an expected recovery in cruise tourism, should lead to faster

growth in tourism. Consequently, tourism output is conservatively projected to grow by 6% and this should result in a higher overall growth rate for the traded sectors, thus easing the pressure on the balance of payments. However, a small decline in the reserves is still possible given the projected size of the external current account deficit of about 7.6% of GDP, underpinned largely by the size of the non-traded sectors relative to the traded sectors. As a result of the rapid expansion in recent years, the non-traded sectors are on average about one-third larger than the traded sectors. Thus, the current tight fiscal and monetary policy environment should continue in 2007.



The Board of Directors

The Chairman of the Board, Governor Dr. Marion Williams, was awarded the Gold Crown of Merit for services to central banking on the occasion of Barbados' 40th Anniversary of Independence. The Directors, Management and staff of the Bank congratulate the Chairman on achieving this honour.

The Board met eleven times during 2006.

Miss J.A.R. Cornelius resigned from the Board on January 31, 2006 to become a High Court Judge. She was replaced by Attorney-at-Law, Miss C.P. Chase, Q.C. for the period April 1, 2006 to June 19, 2006. Effective June 20, 2006, the entire Board was re-appointed for a period of three years.

Dr. Sonia Richards, Secretary to the Board/Legal Counsel, resigned from the Bank on March 31, 2006 to take up an appointment as a High Court Judge. The Board recorded its gratitude to Dr. Richards for her services to the Bank. Effective March 1, 2006, the positions of Bank Secretary and Legal Counsel were separated. The duties of Bank Secretary have been temporarily transferred to Mr. Harold Codrington, Adviser to the Governor.

Management and Staff

During 2006, members of staff continued to pursue new qualifications or complete additional training. Successfully completing degrees/professional qualifications were Dr. Kevin Greenidge, Doctor of Philosophy in Economics, University of Nottingham, Mr. Vincent Grosvenor, Master of Science in Financial Economics and Post-graduate Diploma

in Economic Principles, University of London; Mr. Eric Alkins, M.Sc. Information Technology, University of Liverpool and Mr. Ryan Skeete, M.Phil., Economics, University of Oxford. Earning Bachelor of Science Degrees were Mr. Ernie Charlemagne in Business Administration, from the University of Canterbury and Mr. Jason Lynch in Accounting from the University of the West Indies.

Mrs. E. Cordel Holder was awarded a BIMAP Diploma in Management Studies, and completing professional certification were: Mrs. Hyacinth Moore, Certified Internal Auditor (CIA), Mrs. Michelle Doyle-Lowe, Chartered Financial Analyst (CFA), Ms. Estherlene O'Neale, AICB designation, Miss Pauline Richards, Professional Bankers' Programme, Institute of Canadian Bankers and Mr. Kirk Beckford, Certified Information Systems Auditor (CISA).

In addition, a number of persons completed BIMAP and other certificate courses administered by local educational institutions covering such subject areas as Accounting, Principles of Economics, Fundamentals of Database Management, Fundamentals of Marketing, Quantitative Decision Making, Industrial Relations, Project Planning and Implementation, Effective Communication and Human Relations, Records Management, Crisis Management and Payment Systems. In-house training courses were also conducted in Applied Supervisory Management, Performance Management and Performance-based Pay Systems, Business Continuity Planning, Cardio-Pulmonary Resuscitation and First Aid.

At December 31, 2006 there were 255 employees at the Bank; 237 were permanent positions and 18 temporary appointments.

ADMINISTRATION





OPERATIONS

Accounts Department

The Department continued to monitor closely the administrative budget in order to contain costs within budgeted amounts. These efforts were successful and the Bank maintained administrative and employment expenses within approved limits. However, consumption of notes and coins was higher than anticipated, contributing to the excess under this head. During the year the Bank established statutory foreign currency deposits for local regulated entities and paid interest thereon.

Income earned for the year was greater than projected. This resulted mainly from the receipt of proceeds of Government foreign borrowings, which contributed to an increased income-earning asset base.

Management of the Caricom Multilateral Clearing Facility (CMCF) continued to be a challenge for the Bank. Initiatives are in train to provide debt relief to Guyana from its CMCF obligations under Enhanced Highly Indebted Poor Country (EHIPC) initiative. It is expected that this will be achieved without occasioning undue difficulties in the Bank.

The Central Bank, the Barbados Automated Clearing House Services Inc. and commercial banks implemented a Direct Payments System during the year. This system consists of a "direct credits" and a "direct debits" system and allows for straight through processing of transactions. The "direct credits" system is being used by participants for payment of salaries by the private and public sector, while some commercial banks are utilising the "direct debits" system for insurance payments and similar transactions which should replace standing orders. The direct debit system should be fully implemented during 2007.

Banking, Currency and Investments Department***Relationships with Financial Institutions******Excess Liquidity***

Excess liquidity in the banking system at the end of 2006 remained unchanged from the figure at December 2005. However, quarterly analysis suggests that after commencing the year at levels lower than for the comparative periods of 2005 and 2004, the average excess cash in the banking system rose sharply during the second quarter, peaking at \$213.4 million in May. It subsequently declined in the third and fourth quarters, ending the year at a weekly low of \$38.7 million, compared to the \$ 21.0 million recorded at the end of 2005.

Loans and Advances

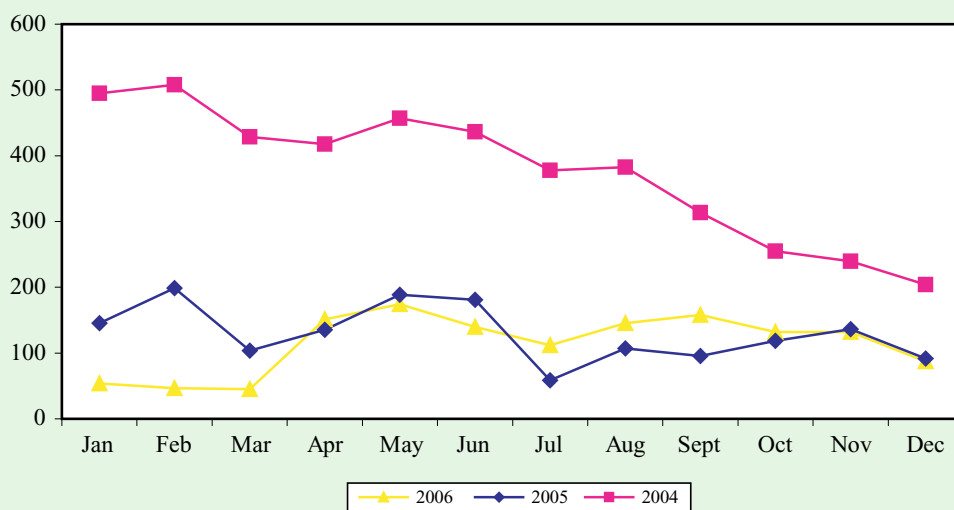
During the first quarter of 2006, commercial banks utilised the Central Bank's discount window to access \$36.5 million in short-term financing, an increase of \$23.5 million when compared to the figure reported for the corresponding period of 2005.

Relationships with Government***Treasury Bills***

Of the twenty-five Treasury Bill auctions that occurred in 2006, two issues were not allocated due to unacceptable bids being received. Approximately \$1.78 billion in 3-month Treasury Bills were allotted in 2006, representing an 11.3% increase over the amount in the previous year, while the value of 6-month Treasury Bills declined by 46.1% to \$172.9 million. Consistent with the varied demand for short-term securities, the average discount rate on 3-month Treasury bills fluctuated during the year, but generally trended upwards, ending 2006 at 6.56%, compared to 6.22% at the end of 2005. The average yield on 6-month Treasury bills rose from 5.33% in December 2005 to 6.30% at the end of December 2006.



Summary of Commercial Banks' Statement of Excess Reserve Position
(\$ Million)



Purchases and Sales of Treasury Bills

The Central Bank of Barbados bought \$164.9 million in local Treasury Bills from the banking system during 2006, of which approximately \$110.0 million were to assist banks with their liquidity management. This compares to 2005, when \$10.0 million were purchased through secondary market trading. The Central Bank bought a total of \$135.0 million in 3-month Treasury Bills in the primary market during the year.

Long Term Securities

Government's total domestic debt outstanding rose by \$266.87 million to reach \$2.62 billion at the end of 2006. Of this amount, \$108.13 million represents the rollover of existing debt, as four issues matured during the fourth quarter of the year. Over the review period, the Government of Barbados raised \$375.0 million in securities, consisting of two Debenture issues and two Treasury Notes. The two \$100.0

million Debenture issues, due to mature in 2018 and 2026, carried rates of 8.5% and 7.5%, respectively, while the two Treasury Notes, both with a maturity date of 2014, were issued at 8% and 7.25%, and nominal values of \$80.0 million and \$100.0 million, respectively.

In 2006, some 252 transfers were completed, representing a 40.8% increase relative to 2005. The aggregate nominal value of these transfers declined from \$50.9 million in 2005 to \$10.4 million in 2006. The market value of sinking funds investments held against domestic debt at end-December was approximately \$329.6 million, compared to \$323.4 million at the previous year-end.

On November 22, 2006 the Government reopened its 6.625% 2035 foreign bond issue and increased the nominal value by US\$65.0 million, to US\$190.0 million. The proceeds of this bond were earmarked to finance infrastructure



projects in preparation for the Cricket World Cup 2007. This reopening resulted in Central Government's total foreign debt outstanding reaching \$1.14 billion at the end of 2006. The market value of the sinking funds investments held against foreign debt at end-December 2006 was approximately \$159.5 million, compared to \$127.6 million a year ago.

Government Agencies

No new bond issues were floated on behalf of Government agencies during 2006. There were 11 transfers of securities effected during 2006, with a total nominal value of \$80,000.

Savings Bonds

The Central Bank of Barbados as fiscal agent for the Government of Barbados, opened for subscription three issues of Savings Bonds during 2006, all of which were offered at a yield to maturity of 5.75%. The February and September issues carried a nominal value of \$10.0 million each, while in July a \$5.0 million Savings Bond was made available to the market. As five issues of Savings Bonds totalling \$40.0 million also matured in 2006, the value of Savings Bonds outstanding as at December 31, 2006 was \$107.25 million, compared to \$116.94 million at the end of 2005.

Ways and Means

The Ways and Means account balance was \$133.4 million at December 31, 2006.

Trading in Foreign Currencies

Non-Regional

Unlike 2005, the sale of non-regional currencies to the public and private sector decreased by 12.6% in 2006, on account of a \$109.05 million reduction in the sale of US dollar-denominated drafts and telegraphic transfers. This contraction was partly offset by greater sale transactions for the Euro (\$10.1 million), Sterling (\$5.9 million) and the Canadian dollar (\$4.7 million).

In 2006, purchases of non-regional currencies by the Central Bank showed a marginal increase of 0.32%. Canadian dollar-denominated transactions accounted for the majority of these purchases, as commercial banks sought to fulfill requirements for the newly-introduced security reserve requirement on foreign deposits. Purchases of the Pound Sterling were similarly boosted by the introduction of the security reserve requirement, while purchases of Euros fell by 3.65%. In spite of commercial banks surrendering 25% of all foreign exchange borrowings (\$26.47 million) to the Central Bank, trading in US dollar-denominated transactions declined by 3.17% for the period under review. With the rise in purchases of non-regional currencies, the Central Bank was a net purchaser of \$65.38 million.

Regional

With the exception of the Belize dollar, the sale of all regional currencies increased in 2006. The sale of Eastern Caribbean (EC) dollar-denominated drafts and telegraphic transfers, the primary component of this category, rose by 59.6%. Significant expansions were also recorded for the Trinidad and Tobago dollar (719.4%), the Jamaica dollar (300.0%) and the Guyanese dollar (102.7%).

The 42.2% decrease in purchases of the EC dollars led to an overall decline of 32.9% in purchases of regional currencies for 2006. There were also reductions in drafts and telegraphic transfers denominated in Jamaican dollars (25.0%) and Guyanese dollars (10.3%), while transactions denominated in Trinidad and Tobago dollars increased by 18.0%. Based on the performance of these individual currencies, the net sale position of regional currencies was \$89.8 million.



Foreign Currency Transactions
((\$'000))

	Sales		Purchases	
	2005	2006	2005	2006
Non-Regional				
EURO	14,747	24,810	4,788	4,613
CAN\$	16,442	21,111	241	22,101
STG	36,246	42,189	918	2,610
US\$	632,995	523,942	669,306	648,107
Sub-Total	700,430	612,052	675,253	677,431
Regional				
BZ\$	274	142	1,225	1,157
EC\$	50,163	80,071	56,144	32,480
GUY\$	21,461	43,510	533	478
J\$	2	8	4	3
TT\$	1,364	11,176	9,283	10,950
Sub-Total	73,264	134,907	67,189	45,068
TOTAL	773,694	746,959	742,442	722,499

Source: Central Bank of Barbados

Foreign Currency Cash Transactions

During 2006, foreign currency notes valued at \$92.1 million were purchased. This represented a decrease of 3.0% over the \$94.9 million recorded in 2005. Increases were reported for all currencies with the exception of the US

dollar and Canadian dollar, which registered a contraction of 12.8% and 30.9%, respectively.

Total sales of foreign currency notes were \$5.8 million, an expansion over 2005 when total sales were \$3.8 million.

Purchases of Foreign Currency Notes
((\$Million))

Currency	Amount Purchased	
	2005	2006
USD	46.7	40.7
GBP	39.5	42.1
CAN\$	3.2	3.4
EUR	4.5	5.2
Subtotal	93.9	91.4
EC\$	0.97	0.67
Total	94.87	92.07

Source: Central Bank of Barbados

The total value of foreign notes repatriated in 2006 was \$86.5 million and commission earned was \$1.1 million. In 2005, the amount repatriated was \$104.6 million, with lower earnings of \$0.74 million.

Currency Operations

During 2006, an upgrade was done on the Vault Book For Coins module in order to allow it to reflect the destruction of mutilated coins. Arising out of discussions with the Financial Crimes Unit of the Royal Barbados Police Force, procedures for the handling of counterfeit and suspect notes were developed and circulated to various parties.



Foreign Assets

The net international reserves fell by 3.03% in 2006 to reach \$1,200.5 million at year-end.

In an effort to rebalance its portfolio to increase bond yields the Central Bank sold \$64.3 million in fixed income securities during 2006. These relatively low-yielding bonds, which were due to mature in less than four years, were replaced with bonds yielding to maturity a minimum rate of 5.3%. Approaching year-end, the Bank took advantage of sizeable capital gains that had accumulated on \$27.0 million of its US Federal Agency and emerging market bonds. Overall for 2006, trading activity generated realised capital gains of \$63,331. The market value of the fixed income securities portfolio was \$599.2 million (inclusive of \$18.8 million in regional government securities), an expansion of 7.12% over the previous year.

Early in the fourth quarter of 2006, the Bank liquidated its Treasury Bill holdings and approximately 10.0% of its deposits, in order to fund its US dollar account. By the end of December 2006, these holdings were replenished due to the receipt of proceeds of Government's foreign borrowing of US\$65.0 million, a portion of which (US\$20.0 million) was also invested in fixed income securities. In addition, a Canadian deposit was established to partially hedge against the exchange rate exposure of liabilities associated with funds deposited with the Central Bank in relation to commercial banks' foreign reserve requirements. As at December 31, 2006, the Central Bank held \$89.75 million in term deposits and \$119.2 million in Treasury Bills, compared to \$102.0 million and \$69.3 million, respectively, a year earlier.

Bank Supervision Department

Calendar 2006 witnessed the further development of international banking standards governing

such areas as Basel II, corporate governance, liquidity risk, credit risk, and business continuity. Additionally, the core principles for assessing the effectiveness of banking supervisory regimes were revamped taking into account those standards that postdated the 1997 principles.

Against this backdrop, the Bank Supervision Department sustained its enhancement of the regulatory framework and issued guidelines on corporate governance and anti-money laundering / terrorist financing. The Deposit Insurance legislation was enacted and necessitated amendments to the Financial Institutions Act, 1996 and the International Financial Services Act, 2002-5. Work continued on preparations for implementing Basel II, including completion of guidance notes, a preliminary impact survey and the hosting of a seminar for the industry.

In the year ending September 30, 2006, total assets of domestic and offshore banking licensees grew by 19.5% and 9.8%, respectively. By December 31, 2006, the number of domestic entities remained at 21, while offshore banks totaled 55 [four offshore banks were licensed during 2006 and another two were under active consideration.

The Bank Supervision Department continued its programme of ongoing offsite surveillance, and safety and soundness onsite examinations, which encompassed joint examinations with other domestic regulators. The Department also worked closely with the Financial Intelligence Unit and other domestic regulators in the preparation for the mutual evaluation of Barbados, which was undertaken by the Caribbean Financial Action Task Force in December.

Examiners benefited from several in-house and external training programmes on such areas as examination techniques, conducting meetings and report writing, operational risk, capital markets and risk management, financial stability



and Basel II. The Department also sought to keep abreast of regulatory developments by attending conferences hosted by the Caribbean Group of Banking Supervisors and the Offshore Group of Banking Supervisors.

Barbados served as Caribbean Director on the Board of the Association of Supervisors of Banks of the Americas and the Department continued to serve on the Anti-Money Laundering Authority and the Research and Development working group Advisory Committee.

The Department continued to interact with regional and international regulatory bodies. A Memorandum of Understanding (MOU) was entered into among local regulators for the exchange of information.

Facilities Management Department

During 2006 the Facilities Management Department ensured that the facility's environment remained conducive to the well being of its staff, tenants and the public, in keeping with its service excellence objectives. The relocation of the remaining Church Village residents did not take place; however, preliminary plans were drafted for the refurbishment of the Masonic Lodge.

Services

In 2006 this Section focused on reviewing its procedures to secure cost savings and implementing new measures for management of the Bank's assets. The health and safety standards were maintained through strict monitoring and adherence to safety guidelines of contract work on the premises. This also included procedures for procuring materials for use in the Bank.

A committee was established to prepare a Business Continuity Plan and satisfactory progress has been made to this end.

As a follow-up to the previous year's environmental testing, a full Indoor Air Quality Assessment was carried out for the entire Bank's premises and there were no adverse findings. Staff and tenants received training in the use of fire extinguishers.

Maintenance

The Maintenance Section continued its efforts with a number of projects in addition to routine maintenance required for the proper upkeep of the facility. The projects included the installation of a CCTV System for the Frank Collymore Hall (FCH) performance activities, the refurbishment of the hydraulic elevator, the upgrade of the security system and the replacement of a number of washroom facilities. The major challenge in executing these projects on a timely basis was the unavailability of contractors, resulting from the heightened construction activity in the country.

Security

During 2006 heavy emphasis was placed on training of the Security Officers in various asset protection and personal defensive techniques. The electronic security system was upgraded and staff was appropriately retrained. Physical enhancement at some offsite locations materialised. Continuous training in internal disaster preparedness was stepped up with internal drills and briefings, and additional disaster mitigation equipment procured. Efforts were redoubled to improve customer relations and enhance the NISE initiative.

Standard Operating Procedures governing the duties and functions of the Officers were implemented, so as to increase proficiency of the Section's core skills.

The introduction of scanning and other related equipment did not take place, while the new policy on visitor management and relations was approved but will be implemented early in 2007.



Frank Collymore Hall (FCH)

The FCH staged numerous events, ranging from product launches to concerts, lectures, events and performances. There were fewer exhibitions held in 2006 than in previous years, since there were challenges with parking during regular working hours and artists seem to prefer a more accessible exhibition hall. Several of these events were recorded and broadcast, allowing many other people from around the island and the region to share in these productions. Audience attendance averaged over 75% across the year.

Various strategies to promote the Hall were used including e-marketing via its website, monthly appearances on CBC's Chat Room and enhancement of the mailing list.

The events hosted included a Sunset Concert featuring jazz singer Rosemary Phillips and European pianist, Charles Loos along with local and regional musicians, *Broadway Rocks and Grooves*, Barbados Tourism Authority's *Connect Barbados Conference*, *Expressions of Gospel*, NCF's Folk Concert *How's Dat and Spirit of Barbados*.

The 31st Sir Winston Scott Memorial Lecture was delivered by Dr. Carlisle Boyce. He spoke on *Asia Pacific as an Emerging Economic Powerhouse: Implications for Barbados and the Caribbean Region*. At the Annual Errol Barrow Memorial Lecture, Dr. Don Marshall lectured on *Reconstituting Barbados: Industrial Upgrading and Effecting Social Change*.

Foreign Exchange and Export Credits Department

The Bank, in its efforts to manage the implementation of a gradual and phased programme for the liberalisation of exchange controls, continued to identify areas where further authority in respect of the execution

of foreign exchange transactions could be delegated to commercial banks. This is to satisfy the requirements arising from Barbados' commitment to the CARICOM Single Market and Economy (CSME).

Effective February 1, 2006, full authority was delegated to commercial banks to provide foreign exchange without limit, for travel by Barbadian residents travelling within CARICOM. Also, with effect from the same date, the regulations pertaining to the holding of foreign currency accounts by Barbadian residents, returning Barbadian nationals and CARICOM nationals resident in Barbados, were amended to allow higher account balances and increased flexibility in making payments from these accounts.

Export receivables for the year 2006 were \$312.9 million as compared to \$365.2 million in 2005. Export receivables statutorily due decreased from \$315.7 million in 2005 to BDS\$106.7million in 2006.

Actual inflows of private foreign investment totalled \$348.0 million in 2006, compared to \$341.9 million in 2005. Real estate and equity inflows expanded while inflows of loan capital contracted. The decline in loan capital amounted to \$58.5 million.

Export Credits

During the year export credit insurance coverage provided by the facility was \$0.15 million. No transactions were covered in the CARICOM region. In addition, Export Finance Guarantees of \$173,250 for lines of credit totalling \$231,000 were made available for pre-shipment finance purposes. With respect to post-shipment financing, guarantees amounted to \$0.40 million for lines of credit of \$0.44 million.

Small and medium-sized enterprises continued to use the collateral support provided by the



Key Indicators of ICF Operations (\$Million)

Indicators	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^P
Loan Approvals	14.6	11.9	10.9	11.0	4.9	21.5	7.6	15.2	5.8	18.7	21.2
Loan Disbursements	12.9	4.7	17.8	3.6	10.3	13.7	14.0	6.7	6.7	6.9	14.6
Principal Repayments	6.1	21.7	8.3	4.7	6.4	12.6	11.1	6.3	7.0	8.3	9.1
Loans Outstanding	37.6	20.6	30.1	29.0	32.9	34.0	36.9	37.3	37.1	35.6	41.2
Net Income	2.6	2.0	2.2	2.1	2.1	1.7	1.7	0.9	0.9	1.0	1.4
Capital Inflows	0.0	0.0	0.0	0.0	0.0	4.0	10.5	3.0	6.2	0.0	0.0
Net Worth	59.6	61.1	62.5	63.6	64.8	69.5	79.5	82.6	88.3	83.1	84.5

Source: Central Bank of Barbados

P: Provisional

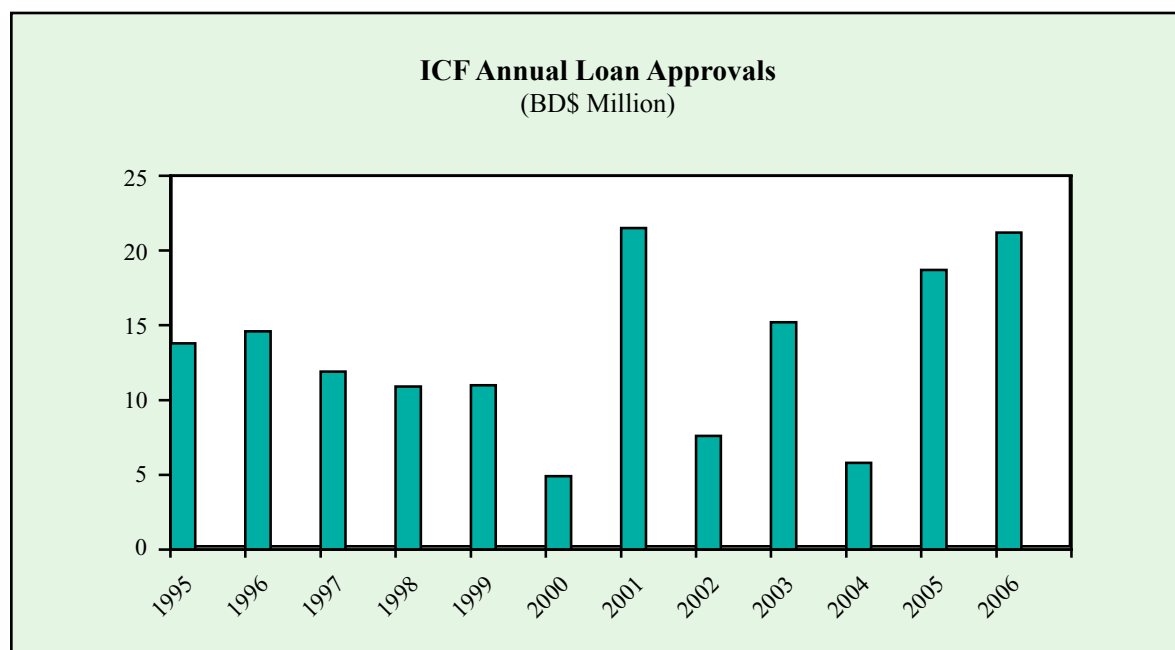
credit guarantee scheme. At year-end, there were 53 guarantees outstanding with a maximum liability of \$2.7 million relative to 58 guarantees with a maximum liability of \$2.9 million at the end of 2005. Total lines of credit grew from \$2.5 million in 2005 to \$3.2 million in 2006.

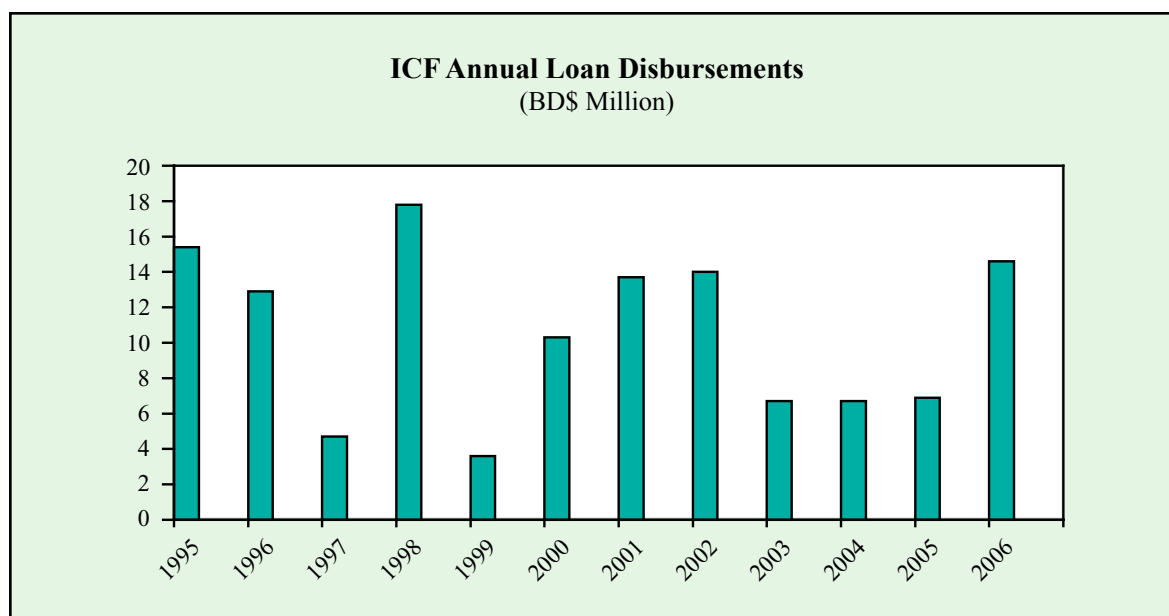
Industrial Credit Fund (ICF)

The ICF recorded its second most successful year in 2006 when the value of loan approvals

reached \$21.2 million. The high demand for long-term ICF funds was triggered by reduced liquidity and increasing interest rates in the banking system. The level of disbursements was \$7.6 million above that of the previous year.

The ICF approved ten loan applications totalling \$21.2 million compared to eight applications valued at \$18.7 million in 2005. Cumulative approvals rose to \$212.4 million while new disbursements





amounting to \$14.6 million increased net cumulative disbursements to \$185.0 million. Tourism (\$17.1 million) accounted for most of the new approvals with the remainder going to manufacturing (\$3.3 million) and agro-industry (\$0.8 million). The value of loan commitments of \$16.7 million exceeded the ICF's resources of \$15.0 million by \$1.7 million at year-end. However, there is an additional sum of \$23.8 million which can be accessed by ICF from external lenders in the event

of additional demand for ICF resources within the terms of the facility.

Boosted by an increased loan portfolio and higher interest rates, net income for 2006 is estimated at \$1.4 million, compared to \$1.0 million in 2005. The ICF's net worth increased from \$83.1 million in 2005 to \$84.5 million at December 31, 2006.

Key Indicators of HCF Operations

(\$ Million)

Indicators	2006 ^P
Loan Approvals	18.1
Loan Disbursements	15.1
Principal Repayments	7.3
Loans Outstanding	126.4
Net Income	3.6
Capital Inflows	0.0
Net Worth	137.4

Source: Central Bank of Barbados
P: Provisional

Housing Credit Fund (HCF)

Loans approved during 2006 amounted to \$18.1 million and pushed the total cumulative approvals to \$198.9 million at December 31, 2006. Disbursements of \$15.1 million made during the year brought the total cumulative disbursements to \$195.9 million at year-end. There was one loan of \$3.0 million approved but undisbursed at December 31, 2006.

Unaudited financial statements for the HCF show net income of \$3.6 million at December 31, 2006. The HCF net worth was \$137.4 million at December 31, 2006.



Barbados Investment Fund

For the financial year ended August 31, 2006, the Barbados Investment Fund approved funding of \$1.4 million to five new projects. Additional funding of \$1.3 million was also approved for four existing investments. Total disbursements to both new and existing investments amounted to \$1,395,907.00, including drawdowns of \$180,539.00 in commitments from the previous year. Funding of \$293,243.00 allotted to two projects lapsed during the year. This year's investments brought the total investments by the Fund to \$21.6 million in 50 projects since the commencement of operations in 1992. At year-end the Central Bank's capital contribution was \$14.5 million, no change from the previous year.

There was some improvement in investment opportunities during the year. Four of the nine projects approved for investment were in the manufacturing sub-sector: food-processing, two were in other manufacturing, and three were in the non-tourism services sector.

A net operating surplus of \$546,610.00 was reported for the year ended August 31, 2006, compared to \$262,415.00 for the previous year. Operating revenues continued to show steady growth and recorded a 34% increase for the operating period. For the same period operating expenses declined by 18.3%. After adjustments for impairment provisions the net income for the year was \$196,610.00 relative to \$534,811.00 at the end of the previous year. It should be noted that there was no gain on the sale of investments this year, in contrast to the extraordinary gain of \$615,000.00 recorded in the previous year.

Human Resources Department

In 2006 the Human Resources Department engaged in several activities geared to enhance

individual development in particular and organisational development in general. In the quest to improve work performance and achieve the mission and objective of the Bank, a three-year agreement with the Barbados Workers' Union, which provided for an increase of salaries and the implementation of a Performance-Based Payment System, was negotiated.

With the introduction of this System, the traditional incremental salary structure has been removed and for the first time, the Bank's employees will be paid based on their individual achievement of the tasks and targets set and their demonstration of the core competencies required. To facilitate the measurement of each employee's performance, a new and more quantitative appraisal form has been introduced. The System will involve all staff, including Full Management.

To facilitate the process, considerable work was undertaken to have a computer-generated Performance Management System involving, firstly, computerisation of the new Appraisal Form. It is expected that further work will be done in this regard during 2007 in order to enhance and streamline procedures.

Another highlight of the year was the conducting of an organisational review by external consultants. This activity was pursued to assist the Bank in preparing for the impact of globalisation and full liberalisation. It is envisaged that as a result of the consultants' study, more judicious decisions will be made to enhance and sustain the operational efficiency and effectiveness expected of the Bank.

The Department also engaged in initiatives to ensure compliance with best practice human resource management principles by conducting Job Analysis exercises to determine the necessity for the enrichment and enhancement of jobs as



well as formulating strategies designed to stymie staff turnover and encourage the retention of staff.

Internal Audit Department

The Department, in keeping with its role of providing independent and objective analyses of activities and controls, focused its work in the following areas: reviews of tax certificates, staff advances, the pension fund, the Export Credit special financing schemes and a review of the security policies of the Bank. In addition, a review of the accounting system of the Frank Collymore Hall was carried out to assist with improvements in that area.

As part of the overall approach to training and development in the Bank, the Department was able to expose its members to courses in IT, risk assessment and upcoming changes to financial and auditing standards. This year the Department benefited from the qualification of one of its members who has acquired the Certified Internal Auditor certification.

Management Information Systems Department (MISD)

In 2006 the MIS Department completed several projects. These included the phase 1 Exchange Control Datamart, a video-conferencing solution for the Bank, and a number of applications such as the Business Intelligence application. Some hardware and software installations and upgrades were also performed including a mandatory upgrade to Swift Alliance Starter-Set (SAS).

Research Department

Despite various challenges to keep abreast of the economic issues confronting Barbados

and the wider Caribbean, the Department recorded a credible performance, reflected in the general competence shown in the gathering and dissemination of economic intelligence and data as well as the high number of papers completed, published and presented at conferences. Moreover, most of the economic and statistical publications of the department were produced within the specified deadlines.

Steps were taken to improve the quality and coverage of data during 2006. To this end, the banking schedules were reviewed and subsequently updated. Additionally, the Statistical Unit participated in the Business Intelligence (BI) solution, which allows for the processing of and extraction of information related to foreign exchange sales, purchases and approvals of commercial banks as well as debt information from the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) programme. Further work was done to complete the tables for private sector debt from the CS-DRMS database and involved training for key staff members on debt management. Another highlight of 2006 was the offering of a wider range of online full-text journals articles to the Staff of the Bank through subscription to the EBSCO Host Elite Subscription Service. In addition, full-text articles of the Bank's researchers were also made available through the Bank's in-house bibliographic database and more of the Bank's publications such as the Economic and Financial Statistics and the Annual Statistical Digest were published full-text on the Bank's website.

Work continued on the forecasting and financial programming models with the focus on rebasing the real GDP series, updating the manufacturing index and the incorporation of new indicators of non-sugar agriculture. These models were utilised in the ongoing analysis of the Barbadian economy in particular the investigation of a debt management strategy for Barbados.



Economists in the Department benefited from training in various areas including capital markets and risk management, credit risks, financial programming, portfolio investment and remittances. In addition, they wrote and presented papers at various local, regional and international conferences. During the Department's Annual Review Seminar, 20 papers were presented and participants came from several regional central banks, the University of the West Indies and other regional organisations. The programme also included a panel discussion on "Boosting Foreign Exchange Earning Capacity: Sectoral Initiatives" and two half-day workshops on "Emerging Financial Instruments in the Regional Markets" and "The STAR Model: An Introduction to Smooth Transition Autoregressive Models".

A significant feature for the Department in 2006 was the Bank co-hosting with the Caribbean Centre for Monetary Studies (CCMS) the XXXVIII Annual Monetary Studies Conference during the period October 31 to November 3, 2006. Under the theme "Strengthening Economic Relationships within the Caribbean Region", researchers presented 29 papers covering areas such as new financial instruments and capital market development, cross-border flows, policy harmonisation, financial regulation, services sector-led growth strategies, mergers and acquisitions and financing development. The programme included the Adlith Brown Memorial Lecture delivered by Mr. Ewart Williams, Governor of the Central Bank of Trinidad and Tobago on the topic "Financial Integration in the Caribbean: History, Prospects and Challenges."

The Internship and Schools' Programmes remained an integral part of the Department's outreach. There were five interns – two from the Cave Hill Campus of the University of the West Indies (UWI), one from the Mona campus

of UWI and two from Bucknell University in the United States. With respect to the schools' programme, the Department delivered almost the same number of lectures but to a smaller number of schools. Among the topics covered, which were the same as in 2005, the CSME lecture was especially popular with the highest attendance level and turnout while the finance and accounting seminar was less well received.

Papers Presented at Conferences during 2006

"WTO Trade Facilitation and Small Developing Economies" by Xiomara Archibald and Denny Lewis-Bynoe, at the International Atlantic Economic Society Conference in Philadelphia, Pennsylvania, USA, October 5-8.

"Analysis of Public Expenditure in Barbados: Trends and Relationship with Economic Growth." by Xiomara Archibald, Chanelle Maxwell and Kimberley Cadogan at XXXVIII Annual Monetary Studies Conference, Barbados, October 31-November 3.

"The Impact of Capital Account Liberalisation on Investment Flows in the Caribbean", by Daniel Boamah, Roland Craigwell, Darrin Downes and Travis Mitchell at the Western Economic Association International Conference, San Diego, USA, June 29-July 3.

"The Impact of Diversification on the Banking Industry: A Non Stationary Panel Approach in the Presence of Cross Section Dependence" by Roland Craigwell, Chanelle Maxwell, Winston Moore and Sophia Terrelonge at XXXVIII Annual Monetary Studies Conference, Barbados, October 31-November 3.

"Competition in the Barbadian Banking Industry." by Roland Craigwell, Chanelle Maxwell, Stacia Howard and Tracy Maynard at XXXVIII Annual Monetary Studies Conference, Barbados, October 31-November 3.



“Causal Chains between Saving, Investment and Growth: Evidence for Latin America and the Caribbean” by Kevin Greenidge, Chris Milner and Geoff Reed at the Royal Economic Society Conference, University of Nottingham, March.

“The Nature and Measurement of Financial Liberalisation: An Application to the Caribbean.” by Kevin Greenidge, Chris Milner and Geoff Reed at XXXVIII Annual Monetary Studies Conference, Barbados, October 31-November 3.

“An ARDL Model of the Demand for Housing in Barbados: Some Considerations for Small Island Economies” by Denny Lewis-Bynoe, Xiomara Archibald and Stacia Howard at the Western Economic Association International Conference, San Diego, U. S. A., June 29-July 03.

“Does Tourism Potential Influence Tourism Demand in the Caribbean?” by Peter Whitehall and Roland Craigwell, at the second International Conference on Tourism Economics, Palma de Mallorca, Spain, June.

Publications by Central Bank Staff during 2006

The following articles were published by the Bank’s Economists during the year:

“Fiscal Sustainability and Public Debt: The Case of Barbados” by Xiomara Archibald, Kevin Greenidge and Carlos Holder in *Economic Review*, Central Bank of Barbados, Vol. XXXIII, No. 3, December 2006, pp. 26-36.

“Examining the Impact of Taxation on Income Distribution in Barbados” by Daniel Boamah, Sharri Byron and Chanelle Maxwell in *Economic Review*, Central Bank of Barbados, Vol. XXXIII, No. 3, December 2006, pp 36-51.

“Human Capital and Economic Growth: The Case of Barbados”, by Daniel Boamah in A. Birchwood and D. Seerattan (Editors), *Finance and Real Development in the Caribbean*, Caribbean Centre for Monetary Studies, Trinidad, pp.50-66.

“Commercial Banks and Credit Unions in Barbados: An Empirical Investigation”, by Roland Craigwell, Anton Belgrave and Winston Moore in A. Birchwood and D. Seerattan (Editors), *Finance and Real Development in the Caribbean*, Caribbean Centre for Monetary Studies, Trinidad, pp.223-36.

“Economic Resilience with an Exchange Rate Peg: The Barbados Experience: 1985 - 2000”, by Roland Craigwell, Delisle Worrell, Harold Codrington and Kevin Greenidge in Lino Brigulio, G. Cordina, E. and J. Kisanga (Editors), *Building the Economic Resilience of Small States*, Commonwealth Secretariat, pp. 77-96.

“Non-Interest Income at Commercial Banks in Barbados: An Empirical Note”, by Roland Craigwell and Chanelle Maxwell in *Economic Review*, Central Bank of Barbados, Vol. XXXIII, No.1, pp. 26-36.

“Non-Interest Income and Commercial Banks Performance in Barbados”, by Roland Craigwell and Chanelle Maxwell in *Savings and Development*, Vol. XXX, No. 3, pp. 309-29.

“Debt and Fiscal Sustainability in Barbados” by Kevin Greenidge, Xiomara Archibald and Carlos Holder in A. Birchwood and D. Seerattan (Editors), *Finance and Real Development in the Caribbean*, Caribbean Centre for Monetary Studies, Trinidad, pp. 531-45.

“Estimates of the Long Run Equilibrium Exchange Rate in Selected Caribbean Countries”,



by Kevin Greenidge, Winston Moore and Ryan Skeete in A. Birchwood and D. Seerattan (Editors), *Finance and Real Development in the Caribbean*, Caribbean Centre for Monetary Studies, Trinidad, pp. 417-34.

“A Derivation of the Optimal Current Account Balance for Barbados, Jamaica and Trinidad and Tobago” by Sunielle Stanford and Alwyn Jordan in *Applied Econometrics and International Development Journal*, Volume 6, Issue 1, pp. 147-64.

“Predictors of Currency Crises in Fixed Exchange Rate Regimes: Lessons for the Caribbean from the case of Argentina”, by Marion Williams in A. Birchwood and D. Seerattan (Editors), *Finance and Real Development in the Caribbean*, Caribbean Centre for Monetary Studies, Trinidad, pp.288-312.

Central Bank Plans for 2007

Accounts Department

The Department will work closely with other constituents to integrate the Strategic Plan into the Annual Administrative Budget in order to assist with the attainment of strategic objectives. Concomitant with this, efforts will be intensified to contain and or reduce the existing cost structure without any negative impact on operational efficiency and effectiveness.

The Bank will continue its efforts in preparing financial statements under International Financial Reporting Standards (IFRS). The adoption of these standards will ensure comparability of Central Bank financial statements in CARICOM member countries and provide for effective analysis. The preparation of financial statements under IFRS may require legislative changes to the Central Bank of Barbados Act.

Computerisation efforts will also be continued in the areas of staff advances and an integrated accounting information system. The activities of the Automated Clearing House will continue to be expanded with a view of establishing an Item Processing Centre.

Banking, Currency and Investments Department

The Department’s primary focus will be to ensure increased efficiency and consistently deliver excellence and value to its several stakeholders. A collaborative departmental approach will be adopted in the decision making process, with commitment made to leveraging skills and resources.

Efforts will be made to intensify the marketing of the Bank’s Real Time Gross Settlement (CBRTGS) payments system to the private sector in order to ensure that large domestic financial transactions are settled timely and effectively. The integrity of the CBRTGS system will continue to be enhanced during the second quarter by seeking to improve the bank’s contingency plans and the introduction of intra-day liquidity provisions for the system’s participants.

The dematerialisation of Government Securities will be vigorously pursued with a view of this becoming a reality during the second quarter and the introduction of a new system to enhance the efficiency of the debt issuance and management process.

There will be continued focus on the Bank’s asset management programme, to further diversify and enhance the return of the various portfolios. A mechanism will be put in place during the first quarter to upgrade the cash management process in the PORTIA Portfolio Management system.



Enhanced security features on the Bank Notes and the introduction of coins minted with new technology will be introduced in mid-2007 and there will be further automation of the Currency Unit functions. In addition, it is intended that there will be increased marketing of the numismatic coins during the year.

The Department will update the information on the Bank's Website to have detailed coverage on Government securities, the numismatic coin programme and coinage in Barbados.

Bank Supervision Department

Barbados will be reviewed by the IMF under the Financial Sector Assessment Programme during 2007 and in this regard, a roadmap has been defined and preparations are expected to intensify. The Department will continue to contribute to the work of the Caribbean Group of Banking Supervisors towards harmonising the regional legislative framework. This will continue to be pursued in the context of combining the local domestic and offshore banking statutes. Further strengthening of the framework will also be achieved with the issuance of additional Guidance Notes and Regulations to the industry. Steady progress will continue towards readiness for implementation of Basel II by the proposed 2009 target date. Plans include forging closer collaboration with other regional regulators to foster a regional approach, particularly in administering a Quantitative Impact Study for regional banks.

The Department will work towards implementing the Portfolio and Risk-based approaches to supervision over the year. Efforts will also continue to sustain robust monitoring at the consolidated supervision level for those licensees with a pan-Caribbean presence. In addition to enhanced processes derived from these initiatives, further efficiencies will also be sought from improved technological capacity.

Training is recognised as being critical to sustaining an effective oversight programme and efforts will continue to expose staff to various local, regional and international fora. The Department intends to maintain its good relations with other regulators through interaction with the Basel Committee, the Offshore Group of Banking Supervisors, the Association of Supervisors of Banks of the Americas and the Caribbean Group of Banking Supervisors.

Facilities Management Department

In keeping with the Facilities Management Department's development plans, work will continue on maintaining and replacing selected plant and equipment. In addition, the internal environment will be closely monitored to ensure that it remains safe and healthy. It is hoped that the long overdue Church Village development will commence along with the refurbishment of the Masonic Lodge.

Services

The Section will continue to look for new ways to provide more efficient, cost-effective and consumer-friendly services. Fresh impetus will be placed on health and safety programmes, fire extinguishers and evacuation training as well as environmental monitoring. It is projected that a draft of the Business Continuity Plan will be ready by mid-2007. CPR training for the Bank's staff will recommence once the instructors have been retrained.

Maintenance

The Section will continue to refurbish and replace systems due to breakdown, life cycle, changes in technology and operational requirements. Some of the major projects for 2007 are refurbishment of the main air conditioning system, the Masonic Lodge and replacement of the main transformer.



Security

To achieve and maintain higher operational standards, training, especially to improve the technical skills of staff members, will once again be emphasised in the section.

The security screening programme will be put in place and the staff's educational programme re-energised. A new Visitor Policy will also be unveiled.

Frank Collymore Hall (FCH)

The FCH will continue its development programme to enhance the services provided to its audiences, promoters and performers, as well as make the venue more accessible to the wider community through after-work and weekend programming.

Several events will be staged to coincide with Cricket World Cup and the Bank's 35th anniversary. Featuring prominently and sponsored by the Bank will be the Polished Hoe, an adaptation of Tom Clarke's novel, and the locally-produced and directed film Hit for Six. Other productions that will be showcased include an opera, a jazz café, art and lectures.

Public Affairs

In 2007, the Bank will commemorate its 35th anniversary with a number of events including: a lecture and panel discussion, a staff concert, a staff exhibition, a book launch and the sponsorship of the dramatisation of Austin "Tom" Clarke's novel, The Polished Hoe.

The Bank will also host a conference on capital markets, and two Bank Supervisors conferences: one on Basel 11 for licencees and the other for Regional Junior Examiners.

Foreign Exchange and Export Credits Department

The Bank will accelerate the process of liberalisation of the remaining transactions with CARICOM that are still subject to exchange

controls. Consideration will also be given to the further liberalisation of transactions with non-CARICOM countries.

The Foreign Exchange Unit will work closely with the Management Information Systems Department (MISD) on the refinement and application of the computerised Business Intelligence System. The training of the Department's staff in this area will be a major priority and will be designed to enhance the collection and analysis of data reported by commercial banks. The Department in collaboration with the MISD also expects to finalise discussions with the Barbados Customs Department regarding the implementation of the ASYCUDA ++ system as it relates to the fulfillment of the requirements of the Exchange Control Act, CAP. 71.

The Department will endeavour, wherever practicable, to make use of the Internet to assist the public in accessing the various forms used in the execution of their foreign exchange transactions. It will also continue dialogue with commercial banks to facilitate e-banking and e-commerce transactions.

Through the Export Credits Unit, the Department will continue to encourage financial institutions to make greater use of the Bank's special financing schemes, especially the Credit Guarantee Scheme for Small and Medium-sized enterprises. The Department will maintain liaison with the manufacturing and service sectors in an effort to devise and put in place new mechanisms to facilitate the growth and development of these sectors.

The Bank will continue its search for a regional and/or international partner to provide support for a venture capital funding mechanism that would create a pool of financing for new investment opportunities.



The Industrial Credit Fund will examine new ways in which it can provide long-term financing to the productive sectors.

Human Resources Department

During 2007, full implementation of the Performance-Based Payment System will be undertaken including streamlining procedures and computerising processes.

A Job Evaluation exercise will also be conducted as a forerunner to negotiations for a new agreement with the Barbados Workers Union.

Discussions concerning the further development of initiatives to retain staff as well as a review of the compensation structure and the development of payment models will be part of the entire exercise.

The Department will accelerate staff education through in-house programmes, continue to champion participatory management, maintain good cordial industrial relations and seek to advance the Service Excellence Initiative within the Bank.

Internal Audit Department

During 2007 the Internal Audit Department will continue to provide assurance services to the Bank by focusing on its high risk operational and information technology areas. In addition, the Department will be implementing the use of electronic working papers as it continues to improve the way it documents its audits. Through the local chapter of Institute of Internal Auditors, the staff will be exposed to courses in relevant areas to improve their skill-sets and acquire continual professional development.

Management Information Systems Department

For 2007, the Bank will continue its thrust to capture data and disseminate information electronically and from source whenever possible. Accordingly, the Electronic Data Interchange

(EDI) project, with the commercial banks, remains a critical project for the department. With a major revision of the banking returns from the commercial banks it is anticipated that all banks will be submitting data in the new formats by mid 2007, via the Virtual Private Network (VPN).

Another Business Intelligence project for the Research and Bank Supervision departments is expected to be completed in 2007. This should be extremely critical for the Bank Supervision department as they move towards Basel II. The Bank will also be launching a new website during the first half of 2007. The storage area network (SAN) will be installed during the first quarter of 2007.

Research Department

A key focus of the Department in 2007 will be to train, orient, equip and deploy new staff to ensure that the Department continues to undertake its obligations effectively and on time. It is likely that economists will be re-assigned to facilitate continuity of coverage of the economic developments in the various sectors and the mentoring of new economists by pairing them with the more experienced economists will continue. It will also be important for the Department to ensure that policy advice relating to the country's integration efforts within the Caribbean Single Market and Economy (CSME) as well as those posed by other ongoing negotiations is timely, relevant and prudent. Furthermore, minimising delays from some suppliers of data will again be given top priority while existing methodologies will be updated and critical databases on debt and international financial services expanded.

In 2005, the Department created a Financial Stability Unit to address issues of financial stability raised by capital account liberalisation under CSME. In the coming year, the work of this unit will be oriented towards compiling a database of financial soundness indicators,



which will be critical to advancing the analysis of the financial sector.

Work on the Bank's outlook and financing programming models will continue as the Department seeks more creative approaches to assessing the impact of economic policy. In addition, the models will benefit from the enhancement of real GDP methodologies for non-sugar agriculture, the development of new techniques for measuring the contributions of the international business and financial services industry together with efforts to rebase the real GDP estimates.

Training

The Department will continue to strengthen the research capabilities, particularly of the new economists, through peer review and the exchange of ideas at various local, regional and international economic conferences, with the Annual Review Seminar remaining the main assessment tool. Courses provided by the International Monetary Fund Institute on the balance of payments, government finances and financial programming will continue to be sponsored in order to sharpen the analytical and research skills of economists. Emphasis will, also be placed on in-house training.

Public Outreach

In 2007, the Department will continue to focus on public outreach initiatives such as the Annual Week of Excellence Seminar and the quarterly economic briefings of the social partners. The internship programme is also another important outreach vehicle used to enhance the understanding of students of key economic issues confronting small economies, through practical on-the-job training that augments students' economic theory work. As usual,

students from the various campuses of the UWI, the University of Guadeloupe and Bucknell University in Pennsylvania, U.S.A will continue to benefit from this programme.

Statistical Section

During 2007, the focus of the Statistical Section will be to improve technological processing and the dissemination of information. In collaboration with the MIS Department, it will continue to improve the flow of electronic data interchange through the VPN link-up to all data suppliers. New tables relating to employment and public debt will be added to the Economic and Financial Statistics (EFS) to widen the scope and coverage of the database. The EFS will continue to be issued quarterly, with monthly updates to be found on the Central Bank's website. New Banking Schedules should also be available to the commercial banks this year.

Library and Information Services Unit

In 2007, the Library and Information Services Unit (LISU) will provide access to a wider range of online journals and newsletters through an online subscription service, create specialised databases for use by individual Departments, continue to update the book collection and revise the Bank's website and intranet pages. The Records Management Centre will continue to assist selected Departments in evaluating their records with the emphasis on disaster preparedness and recovery; ensure that Departments operate according to records management standards and aid in the creation of policies and procedures for the management of records. Information awareness will also be enhanced through marketing of the services of the Library, Records Centre and the Internet/ Intranet.



Adoption of Financial Statements 2006

The net operating surplus for the financial year ended December 31, 2006 was \$885,800.

Income for the year totalled \$55,033,698 and represents an increase of \$8,191,477 compared to the previous year. This increase is attributed to higher holdings of foreign income earning assets together with Fedfunds rate which increased from 4.25% at the beginning of the year to 5.25% at mid-year and thereafter remained constant. Also, the Bank implemented statutory foreign currency reserves for local regulated entities from April 2006 and at year-end, the deposits from such entities totalled \$99.1 million. During December 2006 reserves were increased by \$130 million from proceeds of Government foreign loan borrowings.

The Bank continued rebalancing the external asset portfolio by liquidating low earning securities and replacing same with higher yielding securities.

Interest earned on Advances to Government under the Ways and Means Facility amounted to \$3.7 million.

The Bank performs treasury management operations for the Housing Credit Fund. At December 31, 2006 fees earned amounted to \$0.5 million and outstanding assets of the Fund at December 2006 totalled \$137.0 million.

Under the HIPC initiative, CMCF creditors are required to provide debt relief to Bank of Guyana. During the year, the Bank setup a provision of \$4.8 million for impairment of CMCF debt and the cumulative provision at December 31, 2006 is \$5,602,620.

Operating expenses totalled \$54.1 million and include a provision of \$4.8 million in respect of CMCF debt impairment. Total expenses include interest payments on statutory foreign reserves deposited with the Bank.

The Board of Directors, with the approval of the Minister of Finance, appropriated \$885,800 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2006, the Profit and Loss Account, the Profit and Loss Appropriation, Statement of Cash Flows, explanatory notes to financial statements and Auditor's Certificate.

The Board of Directors has adopted the Financial Statements duly certified by the Auditors of the Central Bank for the year ended December 2006.





KPMG
Hastings
Christ Church, BB15154
Barbados

Telephone (264) 427-5230
Fax (246) 427-7123
Email info@kpmg.bb

P.O. Box 690C
Bridgetown, Barbados

AUDITORS' CERTIFICATE TO THE BOARD OF DIRECTORS

We have audited the accompanying financial statements of Central Bank of Barbados ("the Bank"), which comprise the balance sheet as at December 31, 2006, and the profit and loss account, profit and loss appropriation account and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Central Bank of Barbados Act, Cap. 323C and the significant accounting policies stipulated in Note 1. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2006, its financial performance and its cash flows for the year then ended in accordance with the Central Bank of Barbados Act, Cap. 323C and the significant accounting policies stipulated in Note 1.

Chartered Accountants
Bridgetown, Barbados
March 22, 2007



Balance Sheet
December 31, 2006
with comparative figures for 2005

ASSETS

	<u>NOTES</u>	<u>2006</u>	<u>2005</u>
		BD\$	BD\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	111,847,920	147,164,561
Foreign Notes and Coins		1,101,358	1,223,167
Foreign Securities	3	<u>759,354,383</u>	<u>668,795,516</u>
		<u>872,303,661</u>	<u>817,183,244</u>
International Monetary Fund:			
Reserve Tranche	4	<u>16,225,608</u>	<u>16,251,678</u>
Total Reserve of External Assets		<u>888,529,269</u>	<u>833,434,922</u>
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	5	-	74,068,500
Barbados Government Debentures		<u>635,000</u>	<u>635,000</u>
		<u>635,000</u>	<u>74,703,500</u>
Advances:			
Government		133,400,000	124,500,000
Fixed Assets (Net)	6	87,547,849	90,027,071
Other Assets	7	<u>31,752,225</u>	<u>34,294,473</u>
Total Local Assets		<u>253,335,074</u>	<u>323,525,044</u>
		<u><u>1,141,864,343</u></u>	<u><u>1,156,959,966</u></u>

See accompanying notes to accounts.

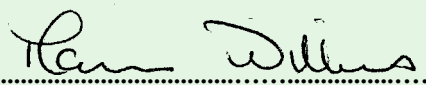


Balance Sheet
December 31, 2006
with comparative figures for 2005

LIABILITIES, CAPITAL AND RESERVES

	NOTES	<u>2006</u>	<u>2005</u>
		BD\$	BD\$
LIABILITIES:			
Notes and Coins in Circulation	8	<u>596,056,993</u>	<u>575,862,132</u>
Deposits:			
Government		113,688,772	297,709,858
Banks		334,616,246	198,800,499
Financial Institutions		3,035,192	1,839,795
Other		<u>3,702,400</u>	<u>4,231,572</u>
		<u>455,042,610</u>	<u>502,581,724</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	23,843,916	24,584,925
Other	10	<u>56,385,879</u>	<u>44,914,710</u>
		<u>80,229,795</u>	<u>69,499,635</u>
Total Liabilities		<u>1,131,329,398</u>	<u>1,147,943,491</u>
Other Funds	11	<u>(1,465,055)</u>	<u>(2,983,525)</u>
CAPITAL AND RESERVES:			
Authorised capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		<u>10,000,000</u>	<u>10,000,000</u>
Net Capital and Reserves		<u>12,000,000</u>	<u>12,000,000</u>
Commitments	12	<u>1,141,864,343</u>	<u>1,156,959,966</u>

Approved on behalf of the Board of Directors on March 22, 2007:


.....

Governor


.....

Financial Controller



Profit and Loss Account
For the year ended December 31, 2006
with comparative figures for 2005

	Notes	<u>2006</u>	<u>2005</u>
		BD\$	BD\$
INCOME:			
Commissions and Fees		9,677,484	10,381,697
Discounts:			
Treasury Bills		4,909,088	1,876,210
Interest:			
Advances		4,343,762	2,452,275
Deposits		5,005,226	1,739,462
Securities		30,044,349	24,987,751
Other Income	13	1,663,186	3,772,672
Difference in Exchange		971,900	(427,192)
(Loss)/Gain on Sale of Foreign Securities		<u>(1,581,297)</u>	<u>2,059,346</u>
Total Income		<u>55,033,698</u>	<u>46,842,221</u>
EXPENSES:			
<i>Operating:</i>			
Administrative Expenses		11,429,880	11,095,468
Depreciation		4,458,588	4,417,603
Amortization		122,375	-
Interest		2,730,414	29,432
Minting of Coins		921,860	1,846,213
Printing of Notes		4,617,123	4,407,448
Debt Impairment	14	4,980,000	802,620
Retirement Benefits	15	3,991,729	4,064,461
Salaries and Allowances		<u>20,895,929</u>	<u>19,104,814</u>
Operating Expenses		<u>54,147,898</u>	<u>45,768,059</u>
Net Profit Before Appropriation		<u>885,800</u>	<u>1,074,162</u>

See accompanying notes to accounts.

**Profit and Loss Appropriation Account**

For the year ended December 31, 2006
with comparative figures for 2005

	<u>2006</u>	<u>2005</u>
	BDSS	BDSS
Net profit before Appropriation	<u>885,800</u>	<u>1,074,162</u>
Deduct:		
Transfer to Consolidated Fund	<u>885,800</u>	<u>1,074,162</u>
Balance carried forward	<u> -</u>	<u> -</u>

Note: The appropriation of profit has been made in accordance with Section 9 of the Central Bank of Barbados Act, Cap. 323C.

See accompanying notes to accounts.



Statement of Cash Flows
For the year ended December 31, 2006
with comparative figures for 2005

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
		BD\$	BD\$
Cash flows from operating activities			
Net profit before appropriation		885,800	1,074,162
Adjustments for:			
Depreciation		4,458,588	4,417,603
Amortization		122,375	-
Gain on sale of capital assets		(6,819)	(22,111)
Debt impairment	14	<u>4,980,000</u>	<u>802,620</u>
Operating profit before working capital changes		10,439,944	6,272,274
Decrease in other assets		2,239,873	2,889,722
Net increase in foreign securities		(62,798,545)	(10,165,444)
Decrease (increase) in Holdings of Special Drawing Rights		26,070	(1,174,156)
Decrease (increase) in local securities		74,068,500	(74,068,500)
Increase in discounts and advances		(8,900,000)	(72,400,000)
(Decrease) increase in deposits		(48,424,914)	164,530,870
Increase (decrease) in other liabilities		<u>11,471,169</u>	<u>(14,286,082)</u>
Net cash (used in) from operating activities		<u>(21,877,903)</u>	<u>1,598,684</u>
Cash flows from investing activities			
Purchase of fixed assets		(1,989,274)	(1,818,611)
Proceeds from sale of fixed assets		<u>16,727</u>	<u>22,117</u>
Net cash used in investing activities		<u>(1,972,547)</u>	<u>(1,796,494)</u>
Cash flows from financing activities			
(Decrease) increase in allocation of Special Drawing Rights		(741,009)	1,052,726
Net increase in notes and coins in circulation		<u>20,194,861</u>	<u>62,533,305</u>
Net cash from financing activities		<u>19,453,852</u>	<u>63,586,031</u>



Statement of Cash Flows (Cont'd)
For the year ended December 31, 2006
with comparative figures for 2005

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
		BD\$\$	BD\$\$
Net (decrease) increase in cash and cash equivalents		(4,396,598)	63,388,221
Cash and cash equivalents at beginning of year		<u>202,121,167</u>	<u>138,732,946</u>
Cash and cash equivalents at end of year		<u>197,724,569</u>	<u>202,121,167</u>
Cash and cash equivalents comprise:			
Current Account Balances	2	77,889,340	108,405,981
Foreign Notes and Coins		1,101,358	1,223,167
Foreign Treasury Bills	3	<u>118,733,871</u>	<u>92,492,019</u>
		<u>197,724,569</u>	<u>202,121,167</u>

See accompanying notes to accounts.

Notes to Financial Statements
December 31, 2006**1. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with the Central Bank of Barbados Act, Cap. 323C and the following significant accounting policies:

- (a) *Use of Estimates and Judgment*
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- (b) *Income and Expenses:*
Income and expenses are accounted for on the accrual basis except that interest on the Caricom Multilateral Clearing Facility and the CRL Ltd loan facility is recognised when received.
- (c) *Translation of Foreign Currencies:*
Assets and liabilities designated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Gains and losses resulting from foreign currency translations and transactions are included in the Profit and Loss Account.
- (d) *Foreign Securities:*
Treasury bills and unquoted securities are valued at amortised cost.
Other securities are valued at market and the resulting gains and/or losses on revaluation which are deferred pending realization, are included in other funds and/or other assets.
- (e) *Numismatic Coins:*
The nominal value of numismatic coins sold is not included in 'notes and coins in circulation' while the net proceeds from sales are included in the Profit and Loss Account under Other Income.
- (f) *Local Securities:*
Local securities are valued at cost.
- (g) *Depreciation:*
Furniture, equipment, motor vehicles and buildings including the Frank Collymore Hall are depreciated on the straight-line basis over their estimated useful lives.
- (h) *Retirement Benefits:*
The Bank contributes to a defined benefit plan. The plan is funded by payments from the Bank, by taking account of the recommendations of an independent qualified actuary. The cost of providing retirement benefits is determined using the Projected Unit Method. However, for financial reporting purposes, the contributions are charged against income as they are accrued.
- (i) *Impairment of financial assets:*
A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss (for securities carried at amortised cost) is calculated as the difference between the assets' carrying amount and the value of expected future cash flows discounted at the financial instruments' original effective interest rate. Impairment losses are recognized in the profit and loss account.

Notes to Financial Statements
December 31, 2006*(j) Amortised Cost:*

All non-trading financial assets are measured at amortised cost, less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective rate of the instrument.

2. BALANCES HELD ABROAD

Balances held abroad comprise:

	<u>2006</u>	<u>2005</u>
	\$	\$
Current Accounts and deposits with foreign banks	77,889,340	108,405,981
Caricom Multilateral Clearing Facility (C.M.C.F) (Net of provision: 2006: \$5,602,620 (2005: \$802,620))	<u>33,958,580</u>	<u>38,758,580</u>
	<u>111,847,920</u>	<u>147,164,561</u>

Under a rescheduling arrangement with other participants of the Caricom Multilateral Clearing Facility (CMCF), the Bank agreed to consolidate balances of principal and interest due to the Bank by CMCF as at September 30, 1989. The agreed consolidated total was \$154,744,770, which is repayable over ten years after a moratorium of ten years commencing October 1, 1989 at an interest rate of 5% per annum. By interim arrangement of December 2, 1994, it was agreed that Barbados may offset against the principal amount due under CMCF, balances on bilateral accounts due by Barbados to Guyana.

In November 2003, Barbados withdrew from the CMCF in order to permit other creditors to deliver debt relief to Guyana through CMCF under the Enhanced-HIPC (Highly Indebted Poor Countries). By letter of February 24, 2005, the Bank of Guyana served notice of its intention to suspend further debt service payments to the CMCF with effect from April 1, 2005. The participating members of the CMCF have since agreed to distribute part of the CMCF accumulated fund to creditor members of the CMCF so as to facilitate debt reduction for Guyana under the Enhanced-HIPC initiative.

The outstanding balance is recoverable from the CMCF Accumulated Fund and the HIPC Trust Fund.

An additional provision of \$4,800,000 was made in 2006, bringing the total provision for impairment to \$5,602,620 (2005: \$802,620).

Subsequent event

Subsequent to the year end, the Bank of Guyana authorized the debit of BDS\$9,691,700 against the Bank of Guyana's bilateral account to be applied to the principal payment of the Central Bank of Barbados's share of the CMCF debt. This amount was debited on February 28, 2007.

Notes to Financial Statements, Continued
December 31, 2006**3. FOREIGN SECURITIES**

Foreign securities comprise:

	2006		2005	
	Amortised Cost	Market Value	Amortised Cost	Market Value
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	643,279,046	640,286,495	580,480,501	575,969,480
(b) Equities	<u>306,521</u>	<u>334,017</u>	<u>306,521</u>	<u>334,017</u>
	643,585,567	640,620,512	580,787,022	576,303,497
At Cost:				
(c) Treasury Bills	<u>118,733,871</u>	<u>118,733,871</u>	<u>92,492,019</u>	<u>92,492,019</u>
	<u>762,319,438</u>	<u>759,354,383</u>	<u>673,279,041</u>	<u>668,795,516</u>

The unrealized loss of \$2,965,055 (2005: \$4,483,525) arose on the revaluation of Securities and is included in Other Funds. See note 11.

4. RESERVE TRANCHE

Special Drawing Rights (SDR) is an international reserve asset, created by the International Monetary Fund (IMF) and its value is based on a basket of four key international currencies.

The Reserve Tranche pertains to the value of Special Drawing Rights at December 31, 2006. The balance held at December 31, 2006 amounted to SDR 5,470,480 (2005: SDR 5,314,120) and the rate of translation of SDRs into Barbados dollars at December 31, 2006 is BDS\$1 = SDR 0.337151 (2005: BDS\$1 = SDR 0.326989).

Notes to Financial Statements, Continued
December 31, 2006**5. SECURITIES**

Local securities comprise:

	2006		2005	
	Nominal Value	Cost	Nominal Value	Cost
	\$	\$	\$	\$
Barbados Government Treasury Bills	-	-	75,000,000	74,068,500
Barbados Government Debentures	635,000	635,000	635,000	635,000

6. FIXED ASSETS

Fixed assets comprise:

	Freehold Land and Buildings	Furniture, Plant and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$
<i>Cost:</i>				
December 31, 2005	95,909,528	35,270,867	948,992	132,129,387
Additions	-	1,989,274	-	1,989,274
Disposal/write-offs	-	(254,878)	-	(254,878)
December 31, 2006	95,909,528	37,005,263	948,992	133,863,783
<i>Depreciation:</i>				
December 31, 2005	15,020,042	26,259,208	823,066	42,102,315
Charge for the year	1,366,527	2,991,029	101,031	4,458,588
Eliminated on disposals	-	(244,969)	-	(244,969)
December 31, 2006	16,386,569	29,005,268	924,097	46,315,934
<i>Net Book Values:</i>				
December 31, 2006	79,522,959	7,999,995	24,895	87,547,849
December 31, 2005	80,889,486	9,011,659	125,926	90,027,071

Notes to Financial Statements, Continued
December 31, 2006**7. OTHER ASSETS**

Other assets include:

	<u>2006</u>	<u>2005</u>
	\$	\$
Accrued income on local investments	1,256,754	1,856,243
Cheques in process of collection	4,465,100	6,625,430
CRL Limited	9,000,000	9,000,000
Fiscal Agency Payment Account	4,499	495,019
Prepayments	1,040,931	984,260
Staff Advances	15,260,452	14,419,222
Deferred Asset	66,455	188,830
Sundry Balances	<u>658,034</u>	<u>725,469</u>
	<u>31,752,225</u>	<u>34,294,473</u>

- (1) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank and was guaranteed by the Government of Barbados. During 1998, the facility was transferred to CRL Limited. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2006, the cumulative interest not recognized was \$2,700,294 (2005: \$2,160,494).
- (2) Deferred asset represents the value of the net amortization of the set-up costs of the Barbados Automated Clearing House Services Incorporated (BACHSI). The amount is being amortized over a period of five years.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2006, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2005: \$10.4 million) and are excluded from 'Notes and Coins in Circulation' (See note 1 (e)).

9. ALLOCATION OF SPECIAL DRAWING RIGHTS

This amount represents the liability to the International Monetary Fund in respect of Special Drawing Rights (SDRs) allocated by the Fund. This allocation does not change unless there are cancellations or further allocations. Accordingly changes arise from annual revaluations done by the Fund.

Notes to Financial Statements, Continued
December 31, 2006**10. OTHER**

This amount comprises:

	<u>2006</u>	<u>2005</u>
	\$	\$
Accounts Payable	2,037,248	1,867,599
Barbados Tourism Authority Sinking Fund	184	515,381
BTII Special Development Bond Sinking Fund	3,889	304,313
Contribution payable - Deposit Insurance Fund	2,900,000	2,900,000
Contribution Payable - Establishment of a Chair at UWI	861,169	1,200,000
Contribution payable - Secondary Mortgage Market Project	242,319	242,319
Debenture Interest Payment Account	702,788	495,019
Domestic Clearing	5,110,016	3,764,187
Dormant Accounts - Commercial Banks*	13,291,721	12,333,986
Export Development Fund	201,169	201,169
Housing Credit Fund General Account	4,302,116	1,113,482
Industrial Credit Fund	23,360,785	15,154,460
Redemption of Debentures Account	72,880	372,120
Sinking Fund Contribution Account	108,049	424,711
Small Business Fund	330,000	330,000
Staff Pension Fund	37,462	12,143
Staff Welfare Fund	1,878,150	1,959,330
Sundry Balances	945,934	1,724,491
	<u>56,385,879</u>	<u>44,914,710</u>

* Dormant accounts – Commercial Banks represent abandoned property for which no activity has been evidenced for a period of 10 years and this property has been deposited with the Central Bank of Barbados under Section 88 (3) of the Financial Institutions Act, 1997-16.

Notes to Financial Statements, Continued
December 31, 2006**11. OTHER FUNDS**

This amount comprises the following balances:

	<u>2006</u>	<u>2005</u>
	\$	\$
Special Credit Trust	1,500,000	1,500,000
Unrealised loss on revaluation of investments (note 3)	<u>(2,965,055)</u>	<u>(4,483,525)</u>
	<u>(1,465,055)</u>	<u>(2,983,525)</u>

The Special Credit Trust was established under Section 41 of the Central Bank of Barbados Act.

12. COMMITMENTS

At December 31, 2006 the Bank had guaranteed settlement of approximately \$1,665,645 (2005: \$1,881,604) under the following scheme:

	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$
Export Credit Insurance & Guarantee Scheme	82,580	69,372
Credit Insurance Scheme for Small Businesses	<u>2,230,440</u>	<u>1,596,273</u>
	<u>2,313,020</u>	<u>1,665,645</u>

Additionally, at December 31, 2006, the Bank had contracts for capital expenditure in the amount of \$1.406 million (2005: \$1.073 million).

13. OTHER INCOME

Other income includes management fees received from Housing Credit Fund in the amount of \$471,595 (2005: \$860,252).

Notes to Financial Statements, Continued
December 31, 2006**14. DEBT IMPAIRMENT**

Debt Impairment comprises:

	<u>2006</u>	<u>2005</u>
	\$	\$
Provision for impairment of the CMCF debt (see note 2)	4,800,000	802,620
Provision for impairment of Other Assets	<u>180,000</u>	<u>-</u>
	<u>4,980,000</u>	<u>802,620</u>

15. RETIREMENT BENEFITS

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The most recent valuation carried out at December 31, 2006 revealed the following:

	<u>2006</u>	<u>2005</u>
	\$	\$
Fair value of plan assets	80,004,484	71,538,201
Actuarial present value of liabilities	<u>94,507,504</u>	<u>84,184,423</u>
Unfunded liability	<u>14,503,020</u>	<u>12,646,222</u>

The actuarial present value of the liabilities was determined using the Projected Unit Method. The principal assumptions used in the latest valuation were:

	<u>2006</u>	<u>2005</u>
Rate of return of assets	6% per annum	6% per annum
Rate of salary inflation and promotional increases	4% per annum	4% per annum
Rate of escalation of NIS Ceiling	3% per annum	3% per annum
Rate of pension increases	2% per annum	2% per annum

The actuary has recommended that a funding rate of 16.06% (2005: 17.40%) of covered payroll be used for new benefits, plus an additional rate of 6.43% (2005: 6.11%) to allow the amortization of the unfunded liability over a period of fifteen/sixteen years. The total recommended funding rate of 22.49% (2005: 23.51%) of covered payroll should obtain until the next valuation.



16. TAXATION

The Bank is exempt from corporation tax in accordance with Section 56 of the Central Bank of Barbados Act, Cap. 323C.

17. COMPARATIVE FIGURES

Certain comparative amounts for 2005 have been reclassified to conform to the current year's presentation.