CENTRAL BANK of BARBADOS

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of BARBADOS

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CENTRAL BANK
of BARBADOS

LETTER OF TRANSMITTAL

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

March 30, 2006

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, 2005 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2005

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 28, 2005

I am,
Yours faithfully,

Marion V. Wiliams
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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Peter H. Whitehall, Esq., M.P.A.
Deputy Director, (Policy & Operations) Research

CONTENTS

TABLES

CHARTS

ECONOMIC REVIEW

Overview

Strengthened mainly by significant increases in the non-traded sectors, especially construction, real gross domestic product (GDP) is estimated to have grown for the fourth consecutive year, rising by 3.8% in 2005, compared to 1.9 % and 4.8% in 2003 and 2004, respectively. Expanding activity in the non-traded sectors led to an improvement in the average unemployment rate, which fell below 10% for the second consecutive year. However, with a moderate decline in tourism (the main foreign exchange earning industry) coupled with strong import growth, primarily driven by the demand in the non-traded sectors and relatively high international energy prices, the deficit on the current account of the balance of payments reached 12.3% of GDP. Consequently, the net international reserves (NIR) of the monetary authorities came under severe pressure during the year and, as a result of an international bond issue of $250 million towards year-end, grew by approximately $47.4 million. The robust growth in imports was reflected in a surge in non-financial private sector credit, which the Central Bank endeavoured to curb by raising the minimum deposit rate on four occasions, as well as by raising the Bank rate. Nevertheless, adjustment lags and contractual agreements meant that credit continued to increase. With the rate of commercial bank credit growing faster than the rate of expansion in deposits, liquidity tightened. Government used both domestic sources (mainly in the first three quarters of the year) and foreign funds (mainly in the last quarter of the year) to finance its relatively higher deficit.

For the second consecutive year, traded sector growth was outpaced by that of the non-traded sectors. The weak performance of the traded sectors, which declined by 1.0%, was almost entirely due to a fall-off in cruise ship activity and in some of the major long-stay tourism markets. Non-sugar agriculture and fishing also contracted for the second successive year, while manufacturing and sugar production rose. In the non-traded sectors, there was broad-based expansion of 5.8%, as was the case in 2004. Construction was the dominant sub-sector, and activity was spurred on by residential and commercial building as well as activity related to Cricket World Cup 2007. However, with international oil prices rising significantly during 2005, inflation jumped to 6.1%, its highest level since the introduction of the value added tax (VAT) in 1997.

The current account of the balance of payments in 2005 recorded its ninth consecutive deficit and exceeded 12% of GDP for the second year in a row. This outturn was as a result of burgeoning consumer and intermediate goods imports and a marginal rise in tourism receipts that combined to offset a robust expansion in domestic merchandise exports. However, with the moderate rise in the NIR of the monetary authorities, the import reserve cover was kept at 22.4 weeks, on account of increased private capital inflows, repatriation of $79.0 million of second tier reserves and more importantly, Government borrowings on the international capital market towards the end of the year.

Government's fiscal position deteriorated during 2005 to an overall deficit of $239.4 million, compared to $124.1 million in 2004. The deficit resulted from higher current spending, especially on transfers and subsidies and goods and services, as well as a jump in net lending and increased capital expenditure, primarily on Cricket World Cup projects. These expenditures outweighed the intake from tax revenue, which was helped by a substantial rise in taxes from corporate profits and international trade.

Liquidity in the banking system continued to tighten over the review period as reflected in the reduction of the liquid asset ratio to 9.8% from 14.0% in 2004. This situation can be attributed to the stronger rate of increase in credit to the non-financial private sector relative to the rate of growth in deposits. In an attempt to reduce the impact on the NIR from the surge in private sector credit, the Central Bank adopted a tight monetary stance, raising the minimum deposit rate four times (a cumulative expansion of 2.5 percentage points) during 2005. However, at year-end the weighted average lending rate at commercial banks was less than one percentage point above the previous year's figure, on account of more intense competition within the banking industry as well as prior commitments on mortgage lending.

Sector Reviews 2005

Production, Prices and Employment

Tourism

The tourism industry experienced a moderate fall-off in activity during 2005, largely on account of the cruise segment. Overall, tourism value-added decreased by an estimated 3.8%, following average annual growth of 8.1% in the preceding two years. The number of cruise-ship passengers entering Barbados contracted by around 21.9%, after a cumulative increase of 35.9% in the period 2003 to 2004. The reduction in cruise visitors occurred throughout the year, and resulted from the combined effect of operational problems at the port in Puerto Rico and significantly higher fuel costs, which would have influenced some cruise lines to change itineraries to shorter routes. In addition, the continued competition from the United States (US) homeland ports located on the Northeastern and Southeastern coasts contributed to this outturn. Long-stay tourists dipped by approximately 1%, or by an estimated 4,001 persons, partly a reflection of reduced airlift capacity, particularly from the United Kingdom (UK)

Long-stay Tourist Arrivals by Month and Season

Month	2001	2002	2003	2004	2005	% Change from 2004
January	45,499	39,915	40,473	44,719	**47,242**	5.6
February	47,010	41,205	43,643	49,870	**49,338**	-1.1
March	49,256	48,583	49,016	54,190	**54,963**	1.4
April	48,786	37,804	47,504	47,255	**46,960**	-0.6
WINTER	**190,551**	**167,507**	**180,906**	**196,034**	**198,503**	**1.3**
May	39,988	36,373	40,750	44,865	**40,368**	-10.0
June	34,980	33,426	39,994	38,536	**36,289**	-5.8
July	48,416	49,239	52,982	57,285	**55,385**	-3.3
August	44,685	47,503	46,745	45,625	**42,742**	-6.3
September	28,715	30,977	28,737	31,837	**31,085**	-2.4
October	34,870	39,273	38,210	39,717	**39,292**	-1.1
November	38,858	44,667	45,924	43,870	**45,773**	4.3
December	46,015	48,934	56,963	53,733	**58,065**	8.1
SUMMER	**316,527**	**330,392**	**350,305**	**355,468**	**348,999**	**-1.8**
TOTAL	**507,078**	**497,899**	**531,211**	**551,502**	**547,501**	**-0.7**

Source: Barbados Statistical Service

and Canadian markets, and the dampening effect of surging international oil prices. During the winter period, long-stay visitors rose by 1.3%, which was considerably lower than the 8.4% growth rate recorded in the previous winter season, and summer arrivals were weak, falling by 1.8%, in contrast to an increase of 1.4% in 2004.

During 2005, the most noticeable decline in long-stay tourists was in arrivals from the UK and Canada. UK visitors were down by 5.2%, a sharp reversal from three successive years of growth, while the extent of the decline in arrivals from Canada was 4.7%, after expanding by 0.8% one year earlier. Marginal growth was recorded for the US market, which showed signs of recovery in the past two years, while the number of persons travelling from Germany rose slightly. The CARICOM market continued to register growth, as visitor arrivals rose by 9.9%, helped by a 16.6% expansion in arrivals from Trinidad and Tobago.

Manufacturing

In the face of decreasing protection and a saturated domestic market, the manufacturing sector improved for a second consecutive year. Total manufacturing output rose by an estimated 2.8%, slightly above the growth rate recorded in 2004. The main areas of expansion were beverage production, which increased by approximately 10%, reflecting mainly the continued foreign demand for rum, and the manufacture of non-metallic mineral products, which, spurred by the boom in construction, rose by a further 2.6%, after rising by 8.8% in 2004. In addition, output from the other manufacturing industries increased by about 4%. The manufacture of processed foods declined by 1.3%, representing the third consecutive year of lower output from this category, and the assembly of electronic components, which rose by 9.4% in 2004, returned to the previous downward trend exhibited since the late 1990s.

Agriculture and Fishing

Favourable rainfall during the planting stage of the sugar cane crop contributed in large measure to the higher production of raw sugar, which rose by 11.3% to 38,210 tonnes, following four consecutive years of declining output. Consequently, there was a marked increase in the tonnage of canes milled and higher yields. Barbados was able, therefore, to satisfy its contractual obligation of supplying 35,000 tonnes of raw sugar to the European Union.

During 2005, output from non-sugar agriculture contracted by 1.5%, a slowdown from the reduction

Selected Indicators of Annual Sugar Production

	1999	2000	2001	2002	2003	2004	**2005P**
Canes Milled ('000 Tonnes)	522	538	420	418	365	361	**442**
Sugar Produced ('000 Tonnes)	53.2	58.4	49.8	44.8	36.3	34.4	**38.2**
Average Yields (Tonnes)							
Canes per Hectare	63.9	62.1	50.6	52.6	49.5	51.7	**63.7**
Sugar per Hectare	6.5	6.7	6.0	5.6	4.9	4.9	**5.5**
Sugar Exports ('000 Tonnes)	49.3	54.8	50.9	39.5	34.6	33.7	**35.3**

Source: Barbados Agricultural Management Co. Ltd.
P: Provisional

of 4.7% registered one year earlier. Fresh milk production fell by 4.7%, in contrast to a rise of 3.7% one year prior, while the unseasonal rainfall conditions experienced for most of the year hampered the number of fish catches. The continued buoyant demand for chicken, fuelled in part by the scarcity of fish, pushed production up by around 1.9%. In addition, livestock production remained on an upward trend, expanding by an estimated 6.3% for 2005, due in large measure to an increase of almost 12% in the number of pigs slaughtered.

International Business and Financial Services

The international business and financial services sector received a total of 428 new licences during 2005, compared to 361 and 274 issued in 2004 and 2003, respectively. New licences for International Business Companies totalled 372, an increase of 11 companies over the previous year. Forty-two licences were granted to Societies with Restricted Liability, approximately 22 less than the number issued in 2004. Additionally, 14 new contracts were allotted to Exempt companies, 11 for exempt insurance and three for exempt management firms. The exempt companies comprised five from Canada and six from the United States. No new licences were offered to offshore banks.

Construction

Total growth in construction value-added picked up significantly during 2005. The estimated 13.5% surge outpaced that reported in 2003 and 2004 by 12.9 and 10.7 percentage points, respectively, and was the first double-digit increase since 1999. This improved performance was mainly attributed to the commencement of several Government infra-structural projects and ongoing private residential building. Major contracts included the re-building of Kensington Oval and the relocation of properties around the site, the completion of the Grantley Adams International Airport (G.A.I.A) and the expansion of the Bridgetown Port. There was also increased construction activity associated with the erection of tourism establishments along the west coast, in addition to work done on the extension of the University of the West Indies and final work on the Hilton Hotel. The rise in activity was reflected in the upward movement in most of the construction indicators. Retained imports of construction materials and domestic cement consumption increased by 27.5% and 13.2%, respectively, while employment in construction expanded moderately. Benefitting from relatively low mortgage rates, the number of new mortgages issued by commercial banks, trust companies and the Barbados Mortgage and Finance Co. Ltd for the construction of new private dwellings and the purchase of land

Production of Selected Commodities

	2001	2002	2003	2004	2005[P]
Crude Oil Production (Barrels)	463,699	390,619	370,848	376,655	**348,718**
Natural Gas Prod. ('000 Cubic Metres)	35,024	28,846	22,977	20,861	**23,997**
Electricity Usage ('000Kwh)	734,992	763,859	805,876	831,305	**792,868**
Cement Production ('000 Tonnes)	248,465	297,677	325,106	322,270	**340,696**

Source: Arawak Cement Plant, Barbados Light and Power Co. Ltd. and Barbados National Oil Company
P: Provisional
n.a: Not Available

continued to grow, with the number of new loans surpassing 1,000 for the second year in succession.

Electricity, Gas and Water

During 2005, the production of electricity, gas and water was estimated to have increased by approximately 5.0%, or more than twice the rate of growth recorded in 2004.Total electricity consumption contracted by an estimated 4.6%, compared to an expansion of less than 1.0% in 2004, as commercial and industrial users switched to generators powered by natural gas, as a result of the high oil prices. Consequently, natural gas production surged by 15% in 2005, a reversal from the 9.2% contraction one year prior.

Mining and Quarrying

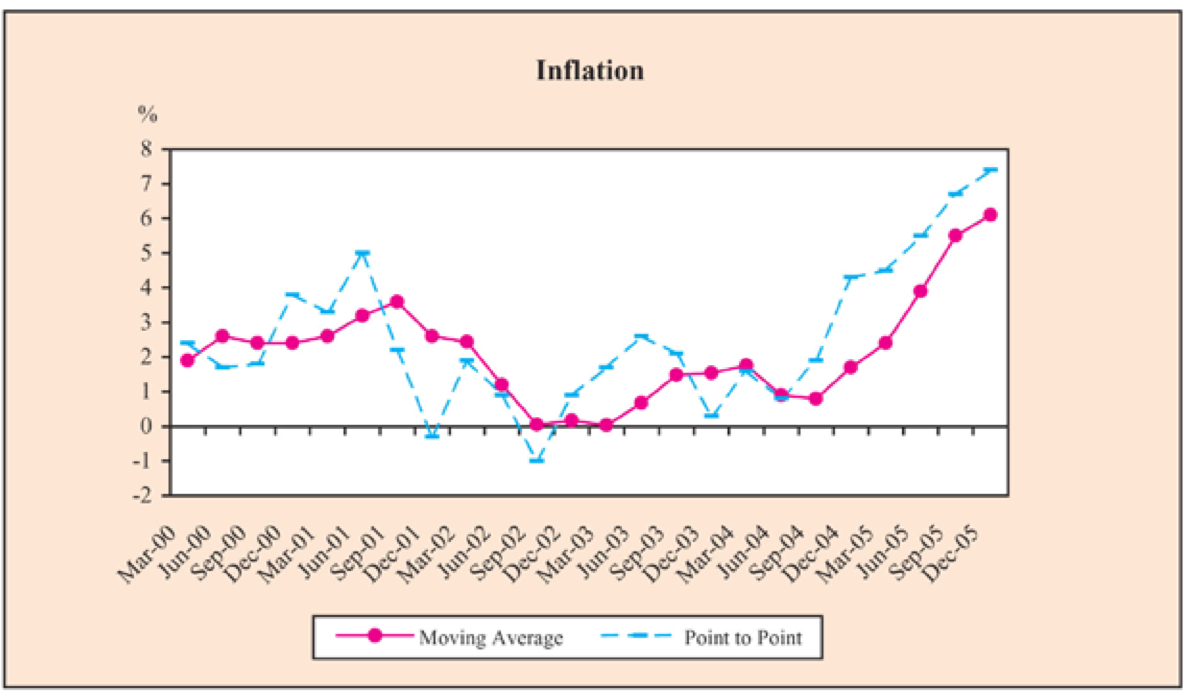
After rebounding by 7.1% in 2004 when a new drilling programme was implemented, activity in the mining and quarrying sector rose further, by an estimated 3.5% in 2005, boosted by a new and less expensive drilling programme. However, in light of budgetary constraints, drilling time was cut back to five months and only four oil wells were drilled as opposed to eight in 2004. Consequently, crude oil production at the end of 2005 was estimated at 348,718 barrels, down from 376,655 barrels produced one year ago.

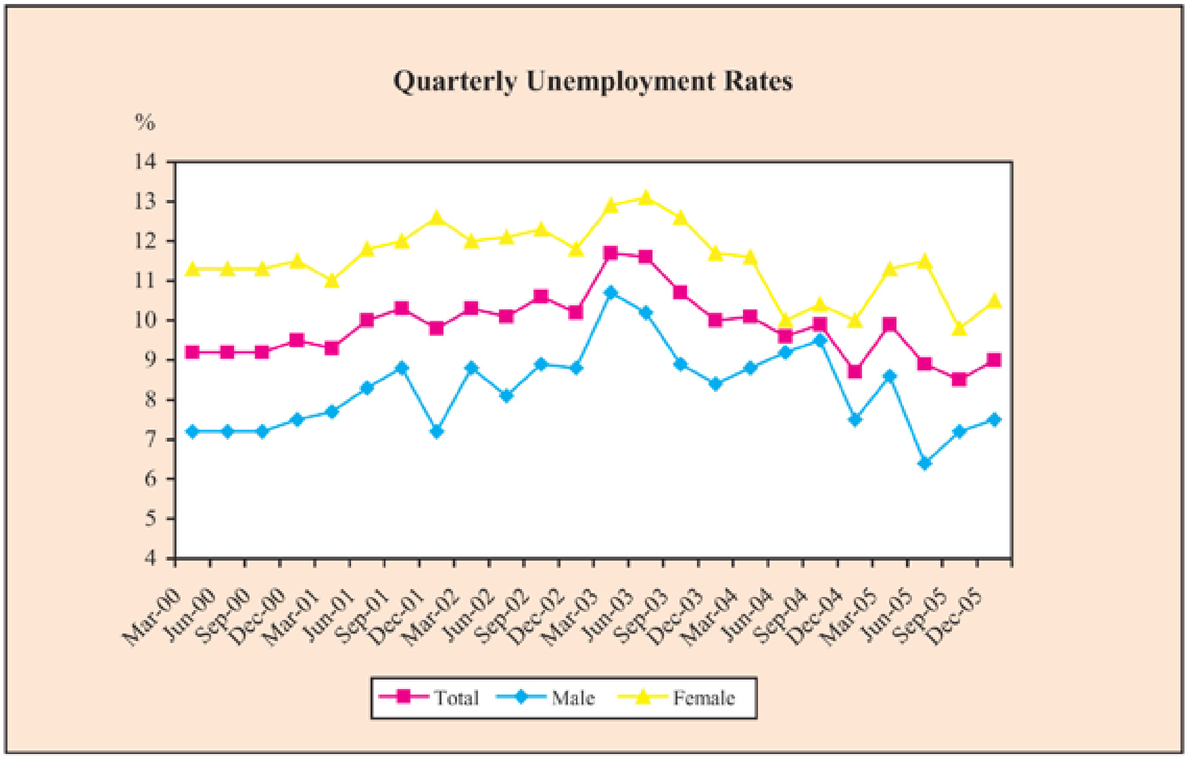
Other Non-Traded Sectors

In line with the increase in retained imports, value-added from wholesale and retail activity grew by 5.0% in 2005, compared to an expansion of 6.1% in 2004. Similarly, output from transport, storage, and communications advanced by 4.8%, after rising by 2.7% and 5.2% in 2003 and 2004, respectively. Real government value-added rose by 4.6%, following an expansion of 5.6% in the previous year. Output from the business and other services sector went up by 4.6%, a rate slightly higher than the 4.2% registered in 2004.

Prices and Employment

On account of increases in most of the categories of the retail price index, point-to-point inflation at

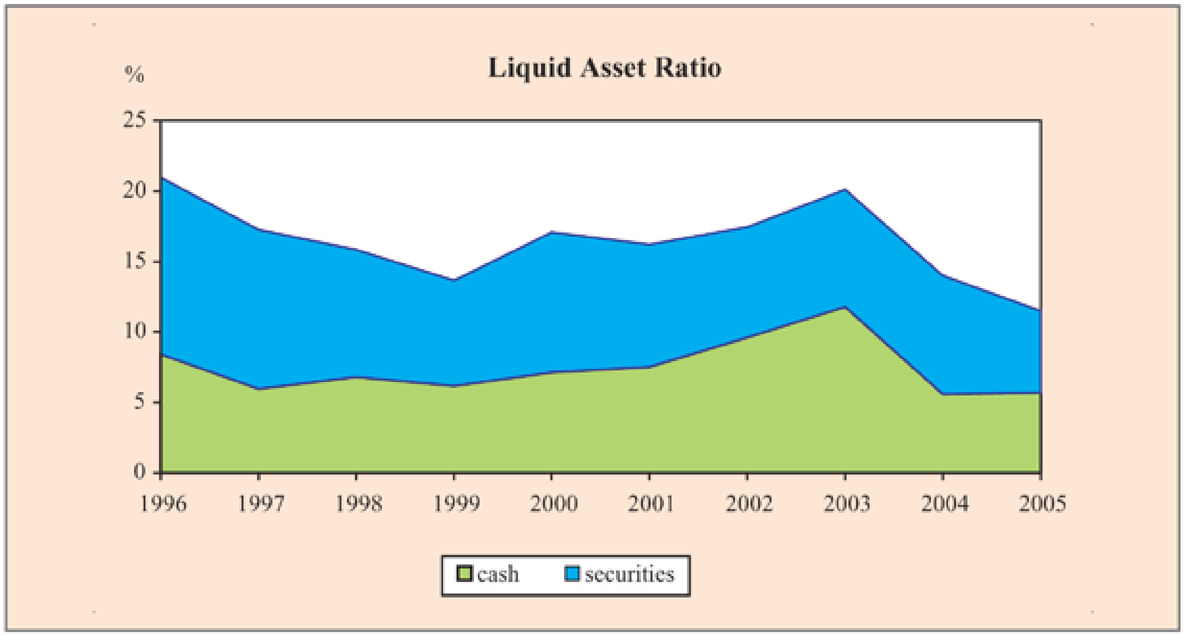




the end of 2005 was reported at 7.4%, while the twelve-month moving average rate of inflation was estimated at 6.1%, compared to growth of less than one percent recorded during the previous year. The upward movement in retail prices was driven primarily by higher prices for food, transportation, housing, fuel and light. Food prices rose by approximately 7.1%, or more than double the growth rate registered in 2004. Following the persistent expansion in fuel import prices and the resultant increase in domestic petroleum prices[1], the average price for transportation advanced by 8.1%, while the fuel and light index grew by 7.5%, compared to a growth of 3.7% recorded in 2004. The average price for housing grew by 10.5%. Prices for medical and personal care and alcoholic beverages and tobacco also rose, registering growth rates of 3.4% and 1.9%, respectively. Nonetheless, the average price for clothing and footwear declined marginally over the period.

The average rate of unemployment for 2005 was estimated at 9.7%, a marginal decline from the 9.8% reported in 2004. The average unemployment rate for males fell to 7.4%, a decline of about 1.8 percentage points below the rate observed in 2004. The unemployment rate for females was estimated at 10.8%, up slightly from the 10.5% recorded during the same period one year earlier. Net new jobs were generated, particularly in the areas of construction and quarrying, general services, government services, and finance, insurance and business.

[1] Government increased the price of gasoline by 27.3% to $2.10 litres per barrel in April 2005, following the hike in international oil prices.



Financial Sector

Liquidity and Interest Rates

Liquidity in the banking system tightened throughout the year, as commercial banks partially financed strong loan demand by drawing down on their cash and deposit holdings at the Central Bank. The liquid asset ratio of commercial banks declined by 4.7 percentage points to 9.3% in 2005, following a sharp contraction of 6.1 percentage points in 2004. Most of the reduction in liquidity occurred in the second half of 2005, with the liquid asset ratio falling by 3.1 percentage points compared to 1.6 percentage points in the first half of the year. Commercial banks' holdings of short-term securities and cash or cash-equivalent assets in the banking system at the end of December were 5.4% and 3.9%, respectively of deposits, following the 8.4% and 5.6% ratios recorded one year earlier.

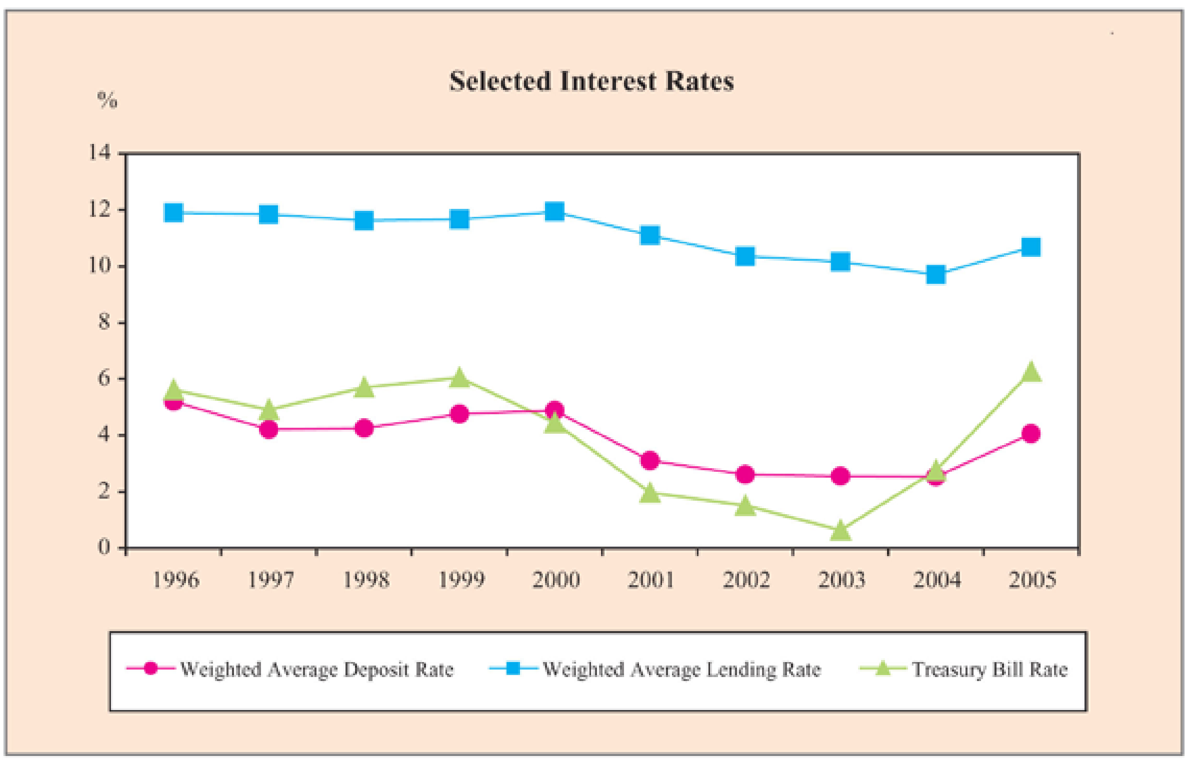
The reduced liquidity in the banking system led to an increase in the average discount rate on 3-month Treasury bills from 2.76% at the end of 2004 to 6.26% at the end of 2005. Similarly the minimum deposit rate ended the year at 4.75% or 2.5 percentage points higher than the year-end rate for 2004. In addition, the Bank rate – the interest rate commercial banks are charged on short-term loans from the Central Bank – was increased from 7.5% to 10% in July of 2005. These actions reflected the tight monetary policy stance adopted by the Bank in an effort to curb credit demand and thereby reduce the pressure on the NIR. As a result of these measures, by the end of 2005, the average interest rate on total loans rose by 0.8 of a percentage point to 10.63%, the highest average lending rate since 2001. Similarly, the weighted average deposit rate went from 2.53% in 2004 to 4.12% for the year ending December 31, 2005.

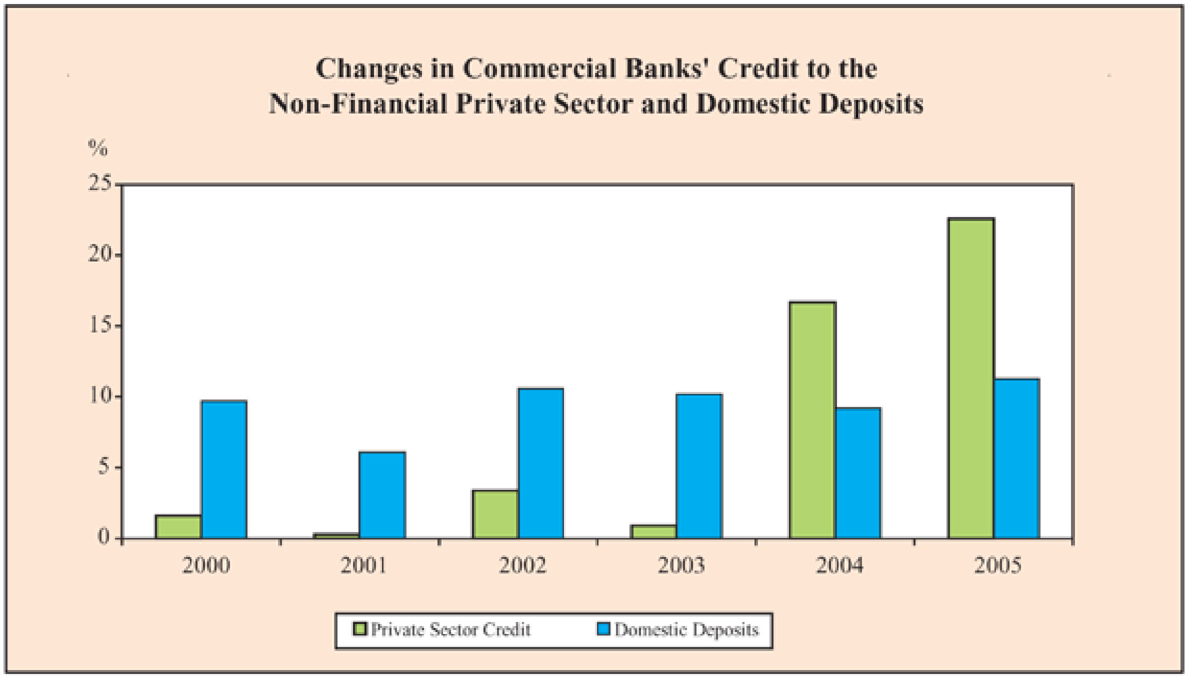
Credit

On the strength of continued demand for new credit by households as well as increased investment expenditure by businesses, lending to the non-financial private sector grew during most of 2005. Commercial bank credit to the non-financial private sector grew by $687.2 million (23.3%) during the year, marking the largest annual growth in credit since the Central Bank was established in 1972. This strong loan demand is in contrast to the average rate of expansion of $33.0 million for the period 2000 to 2003. The rise in credit reported in 2005, however, includes a number of one-time large loans to private sector entities, totalling around $260 million.

The demand for mortgages and consumer installment credit remained robust during the review period. As a result, household lending grew by $349.8 million in 2005, or $134.2 million more than the rise in 2004. Advances to households, however, slowed marginally in the fourth quarter of 2005, relative to 2004, as commercial banks scaled back their advertising. The value of outstanding residential mortgages increased to $659.9 million, compared to $461.2 million and $530 million at the end of 2003 and 2004, respectively. Most of the remaining expansion in personal lending occurred on account of a pick-up in consumer installment credit, mostly small general-purpose and credit card-related loans. Outstanding personal credit card debt ended 2005 at $189.4 million, compared to $127.8 million one year earlier.

As businesses sought to finance new investments and acquisitions, lending to most industries expanded during the year under review. Tourism entities, in particular, borrowed an additional $155.7 million, almost half of which was due to a $64 million loan to a hotel group in October 2005. Outstanding loans within the distribution industry rose by $47.1





million, mostly to finance a takeover, while construction and professional and other services firms both borrowed in excess of $50 million and lending to manufacturing firms increased by $12.5 million.

Statutory bodies and financial institutions, which are not part of the non-financial private sector, also largely financed their activities through funds from the banking system. Loans to private financial institutions went up by $59.3 million, mainly because of a loan to a major insurance firm. Outstanding credit to statutory bodies, on the other hand, fell by about $10.8 million during 2005 but this outturn primarily reflected a large loan repayment by a statutory corporation in the first quarter, through a $150 million bond issue. Since the second quarter, however, lending to statutory bodies expanded by $59.0 million, a large proportion of which went towards a single institution to supplement the financing of the extra expenditure associated with rising petroleum prices.

Deposits

Domestic deposits grew by $585.8 million (11.2%), following an increase of $484.7 (10.2%) million in 2004. Most of the expansion in deposits was due to a continued rise in private individual savings as well as an advance in the deposits of financial institutions. Boosted by the reduction in effective personal tax rates and increased employment opportunities, deposits of individuals at the end of December 2005 rose to $3.2 billion or about $221 million more than at the end of the previous year. Similarly, the deposits of financial institutions rose by $170.9 million as a result of broad-based expansion in all component categories.

After a marginal increase during the first half of the year, business firms' deposits recovered during the latter half to post an overall $50.4 million expansion, though this represented a significant slowdown from the deposit accumulation of $261.5 million in 2004. Deposits of tourism establishments grew by

Selected Indicators of the Banking System
($ Million)

	2001	2002	2003	2004	2005P
Net International Reserves	1,533.6	1,711.3	2,087.1	1,746.6	**1,610.3**
Monetary Authorities	1,413.7	1,366.4	1,503.3	1,190.5	**1,238.0**
Commercial Banks	120.0	344.8	583.8	556.1	**371.9**
Net Domestic Assets	2,002.9	2,186.4	2,086.7	3,137.6	**3,584.6**
Credit to Public Sector	-66.7	347.8	480.8	642.3	**380.4**
Central Government (net)	242.0	654.4	722.7	867.1	**650.5**
Other Public Sector	-308.7	-306.7	-241.9	-224.8	**-270.1**
Credit to Rest of Financial System	115.9	167.1	155.6	234.9	**312.9**
Liabilities to Other Financial Inst.	265.8	403.8	390.0	394.5	**514.6**
Credit to the Private Sector	2,512.6	2,599.2	2,622.6	3,061.8	**3,791.8**
Liabilities to the Private Sector	3,536.6	3,897.7	4,173.9	4,884.2	**5,195.0**
Demand Deposits	836.6	1,096.6	1,200.3	1,537.0	**1,563.3**
Time Deposits	413.1	345.9	313.2	381.8	**491.1**
Savings Deposits	1,974.5	2,117.7	2,331.5	2,566.7	**2,692.1**
Currency in Circulation	312.4	337.5	329.0	398.7	**448.6**
Memo:					
Domestic Deposits	3,971.8	4,524.7	4,917.1	5,253.1	**6,019.4**

Source: Central Bank of Barbados
P: Provisional

$23.4 million in 2005, as the proceeds from a $64 million loan to a hotel group were deposited in the financial system, while the accounts of construction entities advanced by $13.5 million. Similarly, the deposits of statutory bodies rose by $65.7 million, on account of higher deposits of three statutory corporations as well as the proceeds of a bond. In contrast, the balances of manufacturing firms contracted by $22.0 million.

Non-Bank Financial Institutions

The deposits at non-bank financial institutions grew by $174.0 million in 2005, compared to an increase of $83.5 million in 2004. The rise in deposits was primarily attributable to a $147.7 million pick-up in deposits of finance companies. Deposits at trust companies advanced by $72.8 million while deposits at credit unions declined by $46.5 million.

Credit by non-bank financial institutions expanded by $212.0 million, following an increase of $194.7 million in 2004. The loan portfolio of credit unions grew by $119.8 million, while lending by finance houses and Barbados Mortgage Finance Company (BMFC) rose by $82.6 million, 20.1% higher than the figure recorded one year earlier. Loans issued by trust companies increased by $23.5 million, compared to a $10.8 million growth in 2004.

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

Source	2001	2002	2003	2004	2005P
BMFC	147.8	164.3	176.4	198.7	**227.9**
Credit Unions	349.3	372.7	457.7	571.9	**691.7**
Finance Companies	171.5	163.2	175.5	211.5	**264.9**
Commercial Banks	2,512.6	2,599.2	2,622.6	3,061.8	**3,791.8**
Trust Companies	446.4	442.3	440.6	451.4	**474.9**
Insurance Companies	344.8	348.1	350.0	360.9	**347.4**
Total	3,971.5	4,089.8	4,222.7	4,856.6	**5,798.6**

Source: Central Bank of Barbados
P: Provisional

Despite the expansion in loans, the mortgage portfolio of trust companies fell marginally, following a reduction in both private dwellings and industrial and commercial mortgages.

Capital Market Developments

Notwithstanding a decline in trading activity during 2005, there was a general rise in stock market prices, with 18 of the 24 companies listed on the exchange reporting gains, albeit significantly below the returns obtained in 2004. As a result, both the local and cross-listed indices increased by 5.8%, following double-digit rates of growth in 2004 and 2003. The junior market index, in contrast, declined, as Sunbeach Communications Inc. remained suspended from trading and the Fortress Caribbean Property Fund was moved to the regular market on April 1, 2005. Two new companies were listed on the stock exchange during the year: Jamaican Money Market Brokers (JMMB) and ANSA McAl (Barbados). JMMB has been listed on the Jamaican Stock Exchange since December 2002, where it is recognised as the largest brokerage house in the country. The listing on Barbados' stock exchange is part of the company's vision to build stronger brand recognition across the region

Domestic Deposits at Financial Institutions ($ Million)

Institutions	2001	2002	2003	2004	2005P
Trust Companies	398.3	426.8	388.0	422.5	**495.3**
Commercial Banks	3,871.0	4,371.2	4,776.1	5,418.7	**5,789.6**
Credit Unions	113.2	138.1	158.5	194.8	**148.3**
Finance Companies	235.6	250.9	246.6	259.3	**407.0**

Source: Central Bank of Barbados
P: Provisional

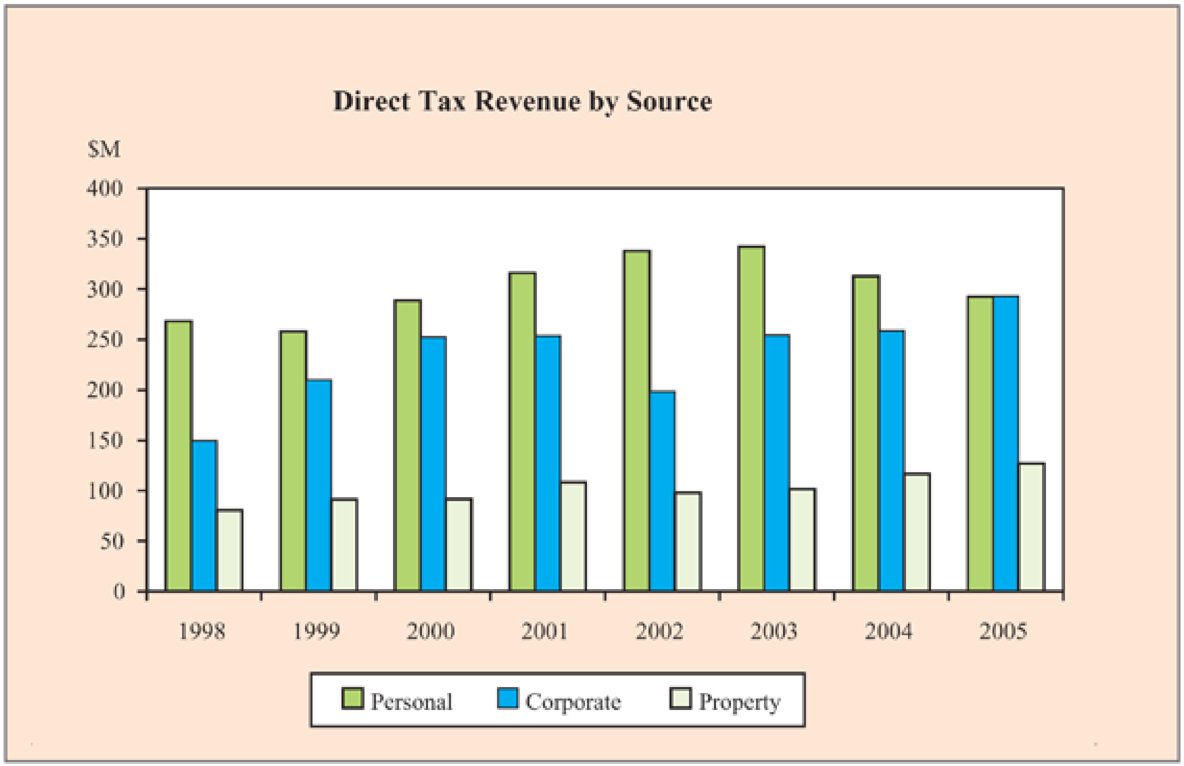
Barbados Stock Exchange End-of-Year Prices (BDS$)

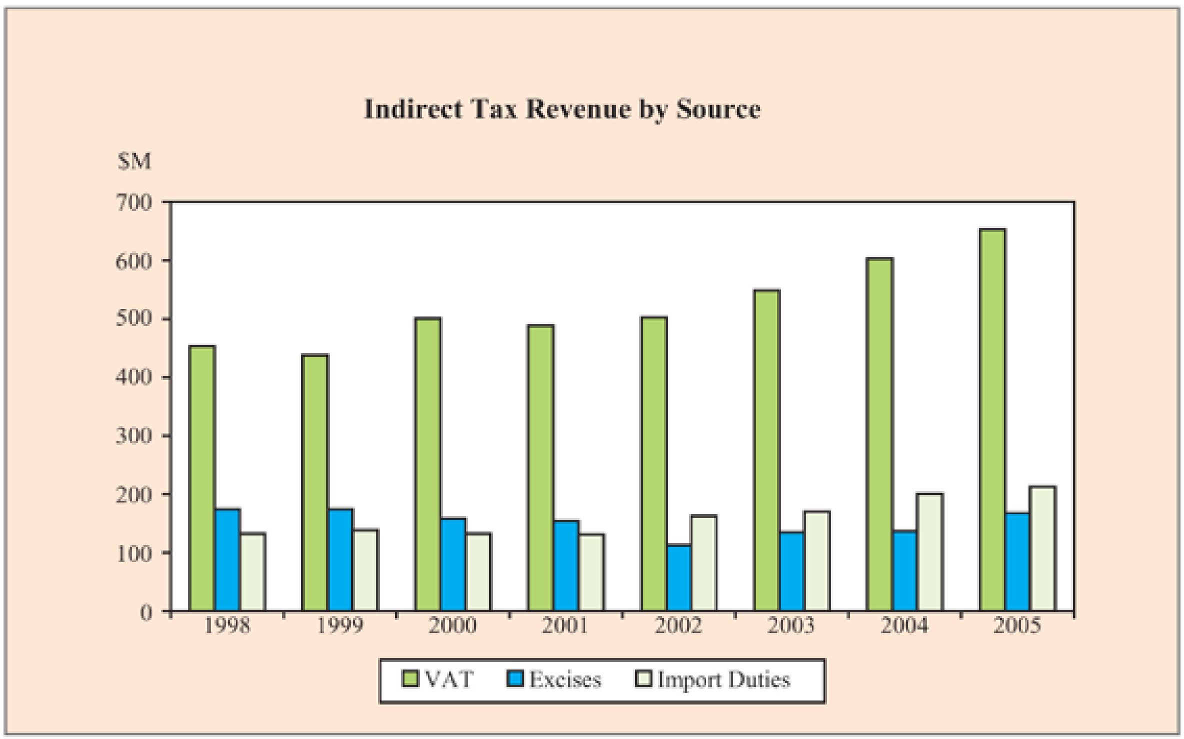
Company	2002	2003	2004	2005P	% Change
Tourism					
Almond Resorts	1.20	1.30	1.80	**2.35**	30.6
Distribution					
A.S. Brydens	4.05	4.25	7.00	+ +	n.a.
Cave Shepherd**	2.70	2.80	7.00	**6.60**	-5.7
Courts	5.70	5.20	5.00	**4.40**	-12.0
Manufacturing					
BICO	1.85	2.05	1.85	**1.80**	-2.7
Banks Holdings	3.00	2.95	3.90	**4.14**	6.2
Grace, Kennedy & Co. Ltd	1.25	1.60	3.15	**3.65**	15.9
Trinidad Cement Ltd.	1.65	1.08	2.20	**3.38**	53.6
West Indian Biscuit Co.	6.60	7.30	7.30	**8.35**	14.4
West Indian Rum Distillery	3.15	5.85	5.90	**9.00**	52.5
Agriculture					
Barbados Dairy Industry	8.10	8.00	7.50	**7.50**	0.0
Barbados Farms	0.70	0.81	1.35	**1.67**	23.7
Finance					
Barbados National Bank	1.80	3.45	5.30	**6.50**	22.6
First Caribbean International Bank	3.40	2.65	4.25	**4.23**	-0.5
Insurance Corporation of Barbados	1.25	4.00	3.85	**2.60**	-32.5
Jamaican Money Market Brokers Ltd.	n.a.	n.a.	n.a.	**0.50**	n.a.
RBTT Fin. Holdings Ltd	5.10	9.60	13.30	**12.58**	-5.4
Sagicor Financial Corporation	n.a.	4.10	4.35	**4.30**	-1.1
Conglomerate					
Barbados Shipping and Trading	3.35	5.30	7.30	**7.15**	-2.1
Goddard Enterprises Ltd*	5.20	3.40	7.10	**9.35**	31.7
ANSA McAl (Barbados) Ltd.	n.a.	n.a.	n.a.	**18.35**	n.a.
McEnearney Alstons	5.00	4.50	6.60	+ +	n.a.
Neal and Massy	4.50	7.60	11.20	**15.72**	40.4
Transportation					
BWIA	2.50	2.50	2.50	**2.50**	0.0
Utility					
C&W Barbados	2.60	1.50	1.65	**2.39**	44.8
Light and Power Holdings	8.80	9.00	9.40	**11.25**	19.7

Source: Barbados Stock Exchange
Notes: * indicates there was a 2 for 1 stock split on 1st April 2003
** indicates there was a 2 for 1 stock split on 31st March 2005
++ Delisted
n.a.: Not Applicable.
P: Provisional

as well as increased liquidity in its shares. ANSA McAl (Barbados), on the other hand, was formed when McEnearney Alstons (Barbados) took over the assets of A.S. Brydens and Sons.

Generally, the best performing equities were the utilities, whose average stock price was up by almost a third. Shares in Cable and Wireless (Barbados), in particular, advanced by 44.8%, mainly as a result of a significant upturn in the


Direct Tax Revenue by Source
$M
400
350
300
250
200
150
100
50
0
1998
1999
2000
2001
2002
2003
2004
2005
Personal
Corporate
Property


Indirect Tax Revenue by Source
$M
700
600
500
400
300
200
100
0
1998
1999
2000
2001
2002
2003
2004
2005
VAT
Excises
Import Duties

Trends in Mortgages 1997-2005

Introduction

For the past eight years, the competitive environment in the financial sector has led to a significant decline in mortgage rates as well as increased advertising. As a result of these developments, the value of outstanding mortgages at the end of 2005 was more than seven times the amount at the end of 1997. While greater residential construction has a number of benefits, such as increased employment opportunities and higher incomes, it can also result in an outflow of foreign reserves as many of the inputs used in building are imported. This note summarises the main trends in mortgage lending and the potential factors driving its growth.

Recent Trends in Mortgage Lending (1997 – 2005)

At the end of October 2005, the value of outstanding mortgages from commercial banks was estimated at $815.3 million, compared to $105.6 million at the end of 1997. This represents a cumulative growth of $709.7 million (an average of $88.7 million per year), or more than 70% of the expansion in total household credit. Moreover, the majority of this increase was mortgage lending for private dwellings, which was valued at $633.4 million by the end of the review year, compared to $101.9 million in 1997.

A large portion of the growth in mortgages stemmed from a significant expansion in the number of new mortgages issued by commercial banks. Since 2002, banks have supplied over 400 new mortgages annually, which is more than the cumulative number of mortgage loans issued between 1997 and 2000. Not only has the number of new mortgages grown during the period, but so has their value. Table 1 shows the size of the average new mortgage for each year over the last 8 years and reveals that in both nominal and real terms, the value of the average new mortgage increased substantially during that period.

Table 1: Mortgage Statistics

Year	No. of New Housing Loans*	Average New Mortgage (Current $)	Average New Mortgage (Real $)	Change in Real Average Mortgage (%)
1997	251	202,334	182,612	
1998	364	182,813	162,212	-11.2
1999	388	249,069	214,714	32.4
2000	796	250,593	208,134	-3.1
2001	948	242,477	203,933	-2.0
2002	946	223,777	224,676	10.2
2003	983	194,817	195,012	-13.2
2004	1,094	289,352	277,689	42.4
2005	**795**	**314,597**	**287,041**	**3.4**

Note: 2005 numbers are only up to October

* Includes new loans advanced by Commercial Banks, Trust Companies and Barbados Mortgage Finance Company.

In addition to commercial banks, trust and finance companies have also been active in the domestic mortgage market. Between 1997 and 2004, trust and finance companies issued a total 5,059 mortgages, compared to 2,547 for commercial banks. However, the value of the average mortgage from trust and finance companies is significantly smaller; for example in 2005, where the average new mortgage value from trust and finance companies was $135,000, the average for commercial banks was over $200,000.

The Effects of Interest Rates, Prices and Income

The rise in demand for mortgage loans can be attributed to two major factors: reduced mortgage rates and greater incomes. Mortgage rates, in particular, fell from about 9% in 1997 to about 6.9 % in 2004, and while this only represents a decline of 2.1 percentage points, it has a significant impact on the average mortgage payments. Assume that individual approached a commercial bank for a 20-year $250,000 mortgage. An interest rate of 9% resulted in monthly payments of $2,244. With an interest rate of 6.9%, however, monthly payments would decline by 17% to about $1,918. The reduction in mortgage rates, therefore, would have meant that potential homebuyers, who probably could not afford a mortgage at the higher interest rate, now had the means to do so.

Another factor contributing to the growth in the value of residential mortgages outstanding is the rising cost of purchasing a new home. Such a gain in the price of housing naturally leads to higher average new mortgage values.

As incomes rise, more individuals become qualified for a mortgage and others find it feasible to obtain a larger mortgage. Between 1997 and 2005, personal income of households went up by a cumulative 30%, or about 4 percent per annum. One indicator of the impact of personal incomes on mortgage demand is the ratio of the average mortgage to per capita personal income. It represents the amount of years individuals would take to repay the mortgage principal if they used all of their income. In 1997, the ratio was estimated at 14.4, however, by 2003 it had fallen to 11.5, indicating that average incomes grew significantly faster than the average value of mortgages during the period. However, since 2004, this trend has changed, with the ratio moving to 16 in 2004 and 2005.

Conclusion

Both commercial banks, and trust and mortgage finance companies have benefitted from increased demand for residential housing, as shown by the recent growth in new housing loans per year coupled with the substantial rise in the average value of new mortgages. New, current and potential homeowners similarly enjoyed the fall in mortgage rates, which brought about a drop in monthly repayments and allowed for new home purchases and easier access to mortgages. Additionally, the jump in demand for mortgages may reflect speculative behaviour. Personal incomes rose at a faster rate than mortgages between 1997 and 2003, implying that more persons were able to afford their monthly repayments for that time. However, this trend was reversed by the end of the period.

Interest rates were adjusted upwards frequently in 2005 but the demand for mortgages remained strong. A pertinent question therefore is how will monetary policy during 2006 impact on the housing market? Available evidence appears to indicate that the demand for mortgages is not very sensitive to interest rate changes.

company's financial performance during the financial year ending March 2005 and expected gains from greater investment in its broadband network and Internet Protocol-based voice and data sources. Light and Power Holdings also saw its stock price climb to \$11.25 by the end of the year under review from \$9.00 and \$9.40 in 2003 and 2004, respectively.

Most manufacturing entities and the lone tourism enterprise listed on the stock exchange also reported noteworthy gains. Benefitting from another successful financial year, shares in Almond Resorts Inc. rose by 30.8%, while those in Trinidad Cement Ltd. and West India Rum Distillery were each up by over 50%. The only manufacturing firm to report a decline was BICO Ltd.

For the most part, conglomerates recorded above-average equity returns. Shares in Goddard Enterprises went up by a further 31.7% in the review year after doubling in 2004. Similarly, Neal and Massy's stock price rose by \$4.52 to end the year at \$15.72 – the third consecutive annual increase above 40%.

After being the leading industry on the stock exchange in 2004, the average returns for distribution companies fell by about 9% in 2005, primarily due to the delisting of A.S. Brydens and Sons and a stock split by Cave Shepherd Co. Ltd. Effective March 31, 2005, shareholders in Cave Shepherd and Co. Ltd were issued two shares for every one held in the company. As a result, the price of each new share fell by half to \$5.40 on the date of the stock split. Since the end of March, however, the price of shares in the company has risen to \$6.60, representing a gain of 22%, after the company reported a 25% increase in profits. Shares in Courts (Barbados), in contrast, fell for the third consecutive year, as the company reported a net loss of \$1.7 million, primarily because of a reduction in hire purchase income arising from customers taking

Mutual Fund Performance

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

Source: Barbados Stock Exchange
n.a. Not Applicable.
P: Provisional

advantage of cheap loans in the financial sector to settle hire purchase balances.

Mutual Funds

For the first time since 2002, the average return on mutual funds – calculated as the change in Net Asset Values (NAVs) – fell below the minimum deposit rate at commercial banks. Three funds reported declines during the year: Fortress Caribbean High Interest Funds Distribution, BNB Capital Growth Fund and the Clico Balanced Fund. The BNB Capital Growth Fund, which registered two consecutive years of double-digit gains, contracted by 4.9% from the previous year's closing value, while the Fortress Caribbean High Interest Funds Distribution and the Clico Balanced Fund both fell by around 1%. Similarly, the BNB Income Fund, subsequent to reporting returns of 18% and 6.8% in 2003 and 2004, respectively, rose by just under 1%. Despite a general downturn in the industry, some funds were able to buck market trends and obtain double-digit rates of growth. The Fortress Caribbean Property Fund was the leading performer, increasing by 14.3% during 2005, following a 7.7% expansion one year earlier. The Roybar Investment Corporation Fund and the Fortress Caribbean Growth Fund, the previous year's leading performers, also reported returns above the market average, rising by 12% and 11%, respectively. The remaining funds all had returns of between 4% and 7%.

Government Operations

Revenue

Total Government revenue rose by 6.4% during 2005, to an estimated $2,017.3 million, exceeding the 1.8% expansion in 2004 and the average annual increase of 4.1% since 2000. Tax revenue advanced by 4.0% during the year in review, attributed principally to steady growth in indirect tax receipts along with a robust corporate tax outturn. In addition, non-tax revenue and grants rose by $48.5 million, contrasting with the declines experienced in the previous two years. Nevertheless, by the end of 2005, the ratio of total revenue to GDP had fallen to 33.4% from the 33.7% recorded in 2004.

In 2005, direct tax revenues registered growth of 3.5%, following a 1.2% decline one year earlier, primarily reflecting higher revenues from corporate taxes and property taxes. In its third straight year of expansion, corporate taxes surged by 13.7%, owing largely to increased collections from the international business and financial services sector. Furthermore, property taxes continued their upward trend of the last two years, rising by 8.9% in 2005 as a result of revaluations, greater compliance and an increase in the tax base. However, personal tax revenues contracted by 5.4% during 2005, after an 8.7% decline in 2004, reflecting the downward revision of the marginal rate of personal income tax from 40.0% to 37.5% in addition to an increase in the personal allowance to $20,000 from $17,500.

Indirect taxes increased by 4.4% in 2005, after advancing by 8.0% in the previous year, on account of broad-based growth across the various sub-categories. VAT collections were higher by 1.1%, compared with a 9.9% rise in the preceding year when real economic activity expanded at a faster rate. Import duties fell by 4.7%, relative to 17.8% growth one year prior, largely reflecting the slowdown in import growth. Excise taxes improved by 25.9%, which compares favourably with the 1.2% increase in 2004, partly due to a higher rate of excise tax on selected motor vehicles which took effect from September 2005. With the imposition of a 3% cess on imported goods from outside the CARICOM region, as well as an increase in the environmental levy on all imported used vehicles, miscellaneous indirect tax receipts rose by approximately 10.4%, in contrast to a decline of 8.0% in 2004.

Summary of Government Operations
($ Million)

	2000	2001	2002	2003	2004[P]	2005[P]
Total Revenue	1,707.1	1,746.5	1,712.2	1,861.2	1,895.6	**2,018.8**
Tax Revenue	1,589.1	1,634.6	1,585.0	1,741.8	1,812.7	**1,885.7**
Direct Taxes	679.8	739.9	691.4	748.4	739.5	**765.6**
Personal	288.7	316.1	338.1	342.3	312.6	**295.6**
Corporate	252.3	253.6	198.5	254.2	258.9	**294.3**
Levies	14.0	18.1	17.5	4.7	0.0	**0.0**
Property	91.9	108.1	97.8	101.7	116.9	**127.4**
Other	32.9	44.0	39.5	45.6	51.1	**48.3**
Indirect Taxes	909.2	894.7	893.6	993.4	1,073.2	**1,120.1**
Consumption	0.5	0.1	0.0	0.0	0.0	**0.0**
Stamp	12.1	16.6	10.9	14.8	18.2	**20.8**
VAT	501.0	488.4	502.5	548.8	603.2	**609.8**
Excises	158.8	154.6	113.4	135.4	137.1	**172.4**
Import Duties	132.7	131.5	162.5	170.6	201.0	**191.6**
Hotel and Restaurant	0.6	0.5	1.3	0.2	0.0	**0.0**
Other	103.6	103.1	103.0	128.6	113.7	**125.5**
Non-Tax Revenue & Grants	118.0	111.9	127.2	119.4	82.9	**133.0**
Non-Tax Revenue	103.3	96.1	110.6	102.7	64.5	**110.6**
Grants	0.0	0.0	0.0	0.0	0.0	**0.0**
Post Office Revenue	14.7	15.7	16.6	16.7	18.3	**22.4**
Current Expenditure	1,502.8	1,612.3	1,671.0	1,736.2	1,804.4	**1,955.7**
Wages and Salaries	659.6	643.2	673.7	623.6	639.1	**674.3**
Goods and Services	181.7	197.9	217.4	201.8	204.8	**240.9**
Interest Payments	237.5	276.8	267.6	271.8	272.1	**289.7**
External	69.9	97.1	113.3	105.2	114.2	**103.7**
Domestic	167.6	179.7	154.3	166.6	157.9	**186.0**
Transfers & Subsidies	424.1	494.4	512.3	638.9	688.4	**750.8**
Current Account Balance	204.2	134.1	41.2	125.0	91.1	**61.6**
Capital Expenditure and Lending	282.1	314.4	356.3	271.5	215.2	**300.9**
Capital Expenditure	278.8	293.8	355.2	269.9	213.5	**233.3**
Net Lending	3.3	20.6	1.2	1.6	1.7	**67.6**
Total Expenditure and Net Lending	1,784.9	1,926.8	2,027.3	2,007.7	2,019.6	**2,256.7**
Fiscal Balance	(77.9)	(180.3)	(315.1)	(146.5)	(124.1)	**237.9**
Fiscal Balance to GDP (%)	(1.5)	(3.5)	(6.4)	(2.7)	(2.2)	**(3.9)**

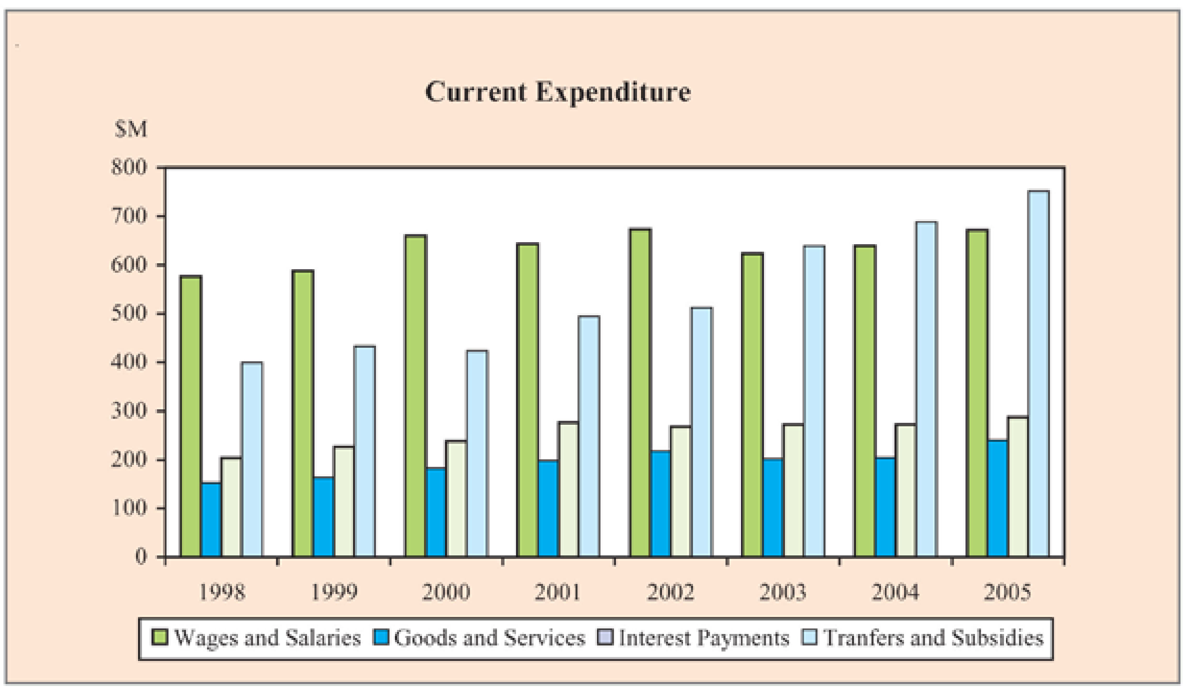
Source: Accountant General and Central Bank of Barbados.
P: Provisional.

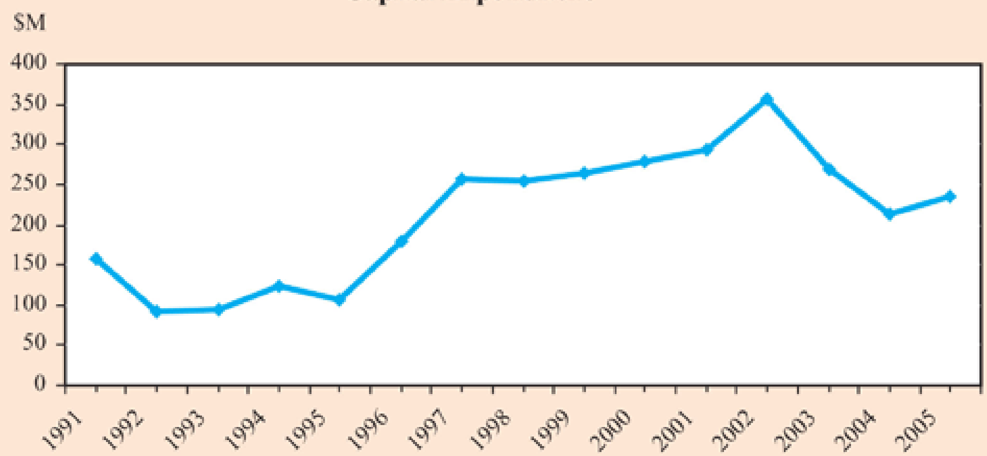
Expenditure

Following a small increase of 0.6% in 2004, total Government expenditure expanded by an estimated 11.7% during 2005 to approximately \$2,256.7 million or 36.3% of GDP. The growth in total expenditure reflected increases in both current and capital outlays, as well as a notable rise in net lending.

Current expenditure, boosted principally by higher spending on transfers and subsidies, goods and services and wages and salaries, rose by 8.4% in 2005, about 4.1 percentage points above the annual growth in the previous two years. Transfers and subsidies were up by 9.1%, owing primarily to supplementary disbursements to the University of the West Indies, the Barbados Tourism Authority and the Barbados Transport Board. Spending on goods and services expanded by 17.6% during the year, following a rise of 1.5% in 2004. Wages and salaries grew by 5.5%, compared with 2.5% a year earlier, due mainly to the negotiated increases in salaries and wages as well as the upward revision of salaries related to the public sector job evaluation exercise. Moreover, interest payments, which advanced marginally in 2004, grew by a further 6.5%, as a considerable jump in domestic interest payments outstripped a sizeable decline in external interest payments.

In 2005, Government's on-budget capital expenditure increased by an estimated 9.9%, largely attributable to infrastructure spending in preparation for Cricket World Cup 2007. This expansion contrasts sharply with contractions of 24.0% and 20.9% in 2003 and 2004, respectively, when some major Government capital works projects were completed and capital expenditures on the QEH were reclassified as transfers and subsidies. Net lending rose from \$1.7 million in 2004 to approximately \$70.0 million in 2005, the majority of which represented advances to the Barbados Tourism Investment Inc.





Financing

Government's deficit of $239.4 million was financed from a combination of foreign and domestic sources. With regard to foreign financing, the main injection was $250.0 million (net inflows $245.2 million) from a bond issue on the international capital market during the last month of 2005. There were also project fund inflows of $22.5 million while foreign amortisation payments amounted to $99.9

Government Financing
($ Million)

	1999	2000	2001	2002	2003	2004P	2005P
Domestic Financing	38.5	(130.8)	(147.2)	318.9	(5.5)	165.4	**(14.7)**
Central Bank	17.5	(267.3)	(297.4)	283.1	69.6	(22.7)	**(103.4)**
Commercial Banks	(88.5)	155.6	85.2	139.2	(20.4)	61.1	**(73.4)**
National Ins. Scheme	12.6	15.8	20.6	109.2	25.5	(19.5)	**141.4**
Private non-banks	(8.3)	11.5	11.9	48.0	16.1	97.8	**186.9**
Other	105.2	(46.5)	32.5	(260.6)	(78.3)	48.7	**(79.8)**
Foreign Financing	78.7	208.7	327.5	(3.7)	152.0	(41.3)	**167.8**
Capital Markets	150.0	200.0	300.0	0.0	0.0	0.0	**245.2**
Project Funds	34.7	45.5	72.7	66.9	57.5	59.4	**22.5**
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Amortization	(106.0)	(36.8)	(45.3)	(70.6)	(94.5)	(100.8)	**(99.9)**
Divestment	0.0	0.0	0.0	0.0	189.0	0.0	**0.0**
Total Financing	**117.2**	**77.9**	**182.3**	**315.1**	**164.5**	**124.1**	**239.4**

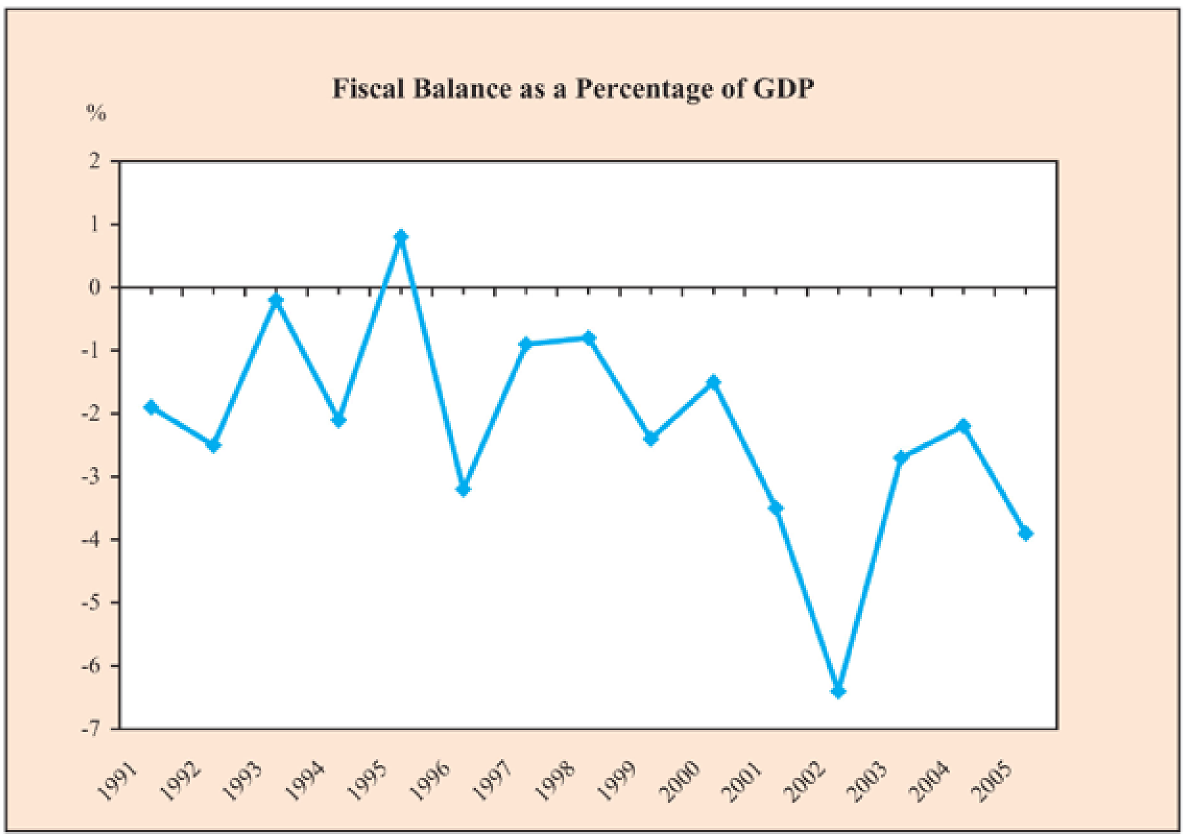
Source: Accountant General and Central Bank of Barbados.
P: Provisional

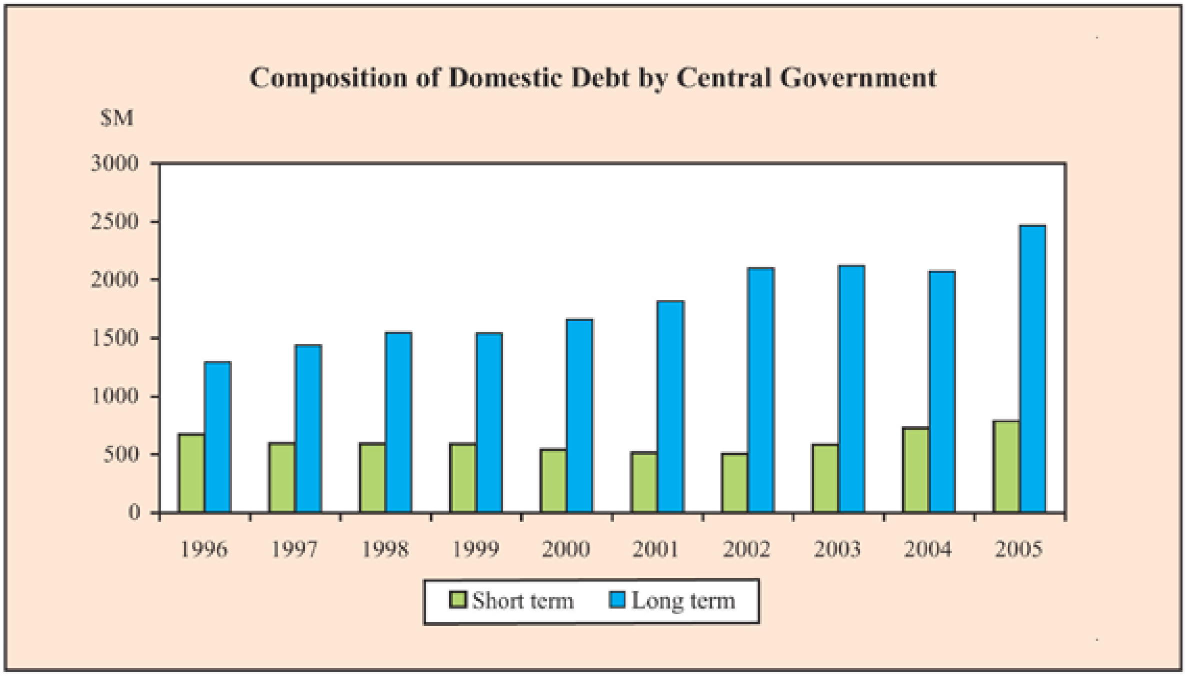
Central Administration National Debt
($ Million)

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	2,901.5	1,332.6	4,234.1
2005P	**3,382.1**	**1,522.5**	**4,904.3**

Source: Accountant General, Ministry of Finance and Central Bank of Barbados.
P: Provisional.

million. Domestic receipts throughout the year were provided by the National Insurance Scheme and private non-bank institutions, which increased their holdings of Government instruments by $143.4 million and $186.9 million, respectively. Meanwhile, Government's net

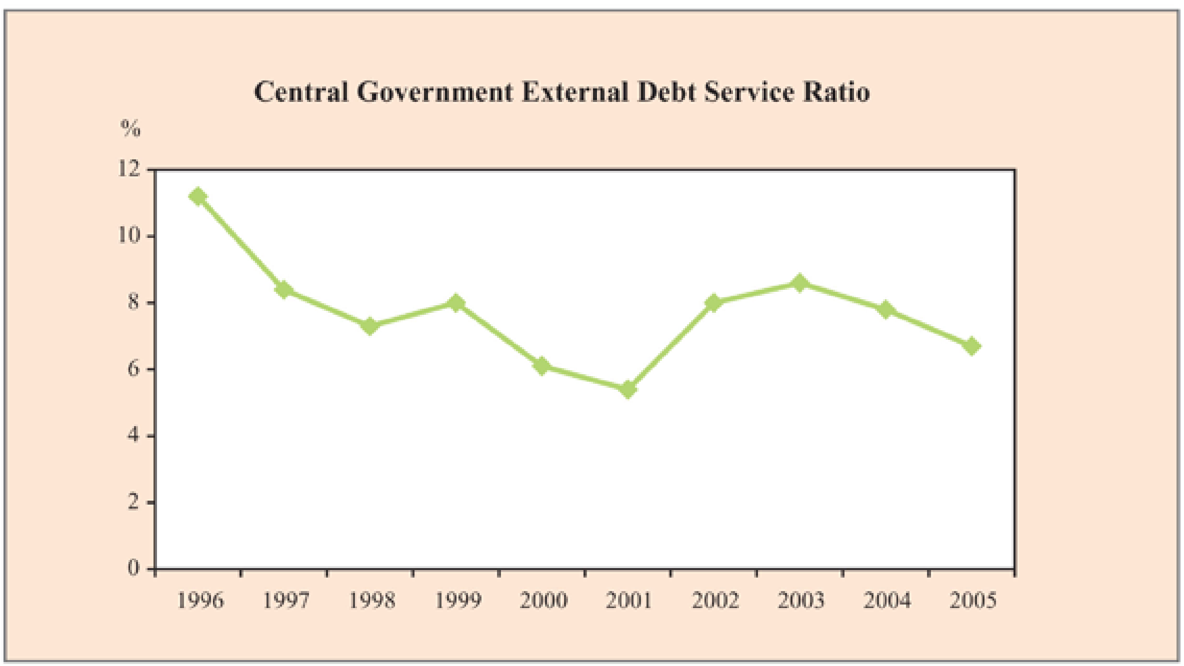




deposits at the Central Bank rose by $103.4 million, mainly on account of the sterilisation of the foreign bond proceeds.

Debt

Central Government total national debt expanded to an estimated $4,904.3 million or 77.0% of GDP by



end-2005. Domestic debt advanced by $453.7 million (16.2%), well in excess of the $93.1 million (3.4%) rise in the prior year. Long-term debt surged by $392.1 million, in contrast to a decrease of $44.9 million in 2004, attributed chiefly to increased holdings of debentures by the National Insurance Scheme, miscellaneous entities, insurance companies, deposit money banks and trust companies. Short-term debt rose by $61.6 million (8.5%), as growth in loans and advances overshadowed a decline in Treasury bill holdings.

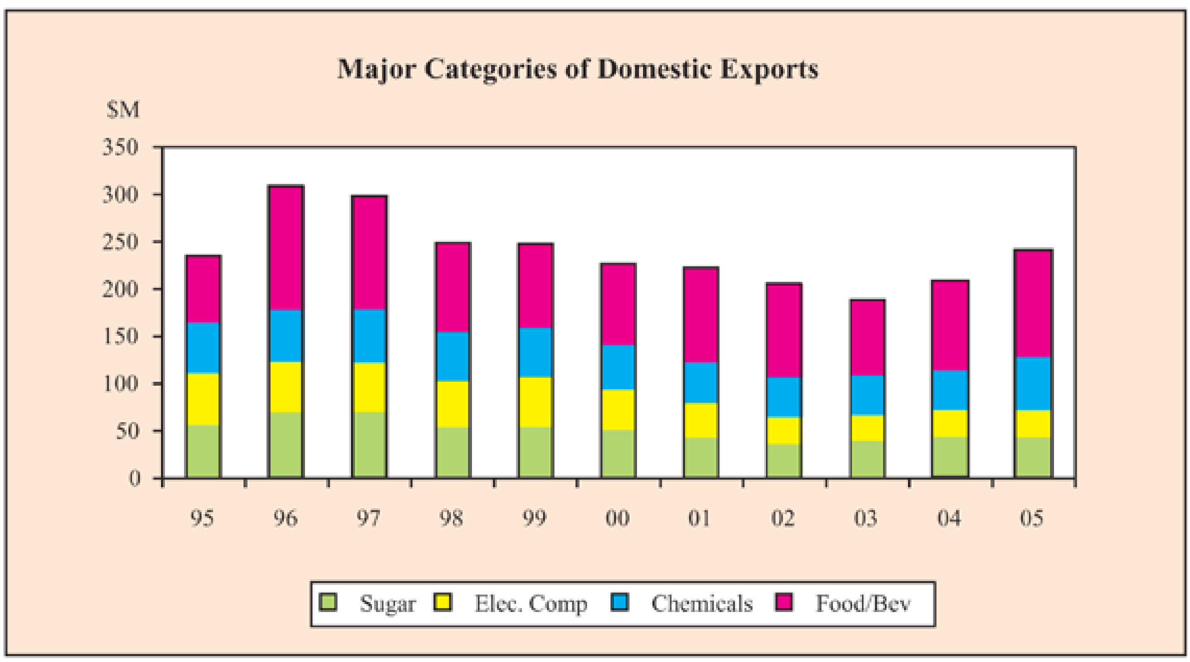
At the end of 2005, Central Government's stock of external debt grew by $189.9 million to approximately $1,522.5 million or 24.5% of GDP. The increase in foreign debt reflected the end of year international bond issue valued at $250.0 million. Government, however, reduced its debt from international institutions, other governments and other entities by $21.3 million.

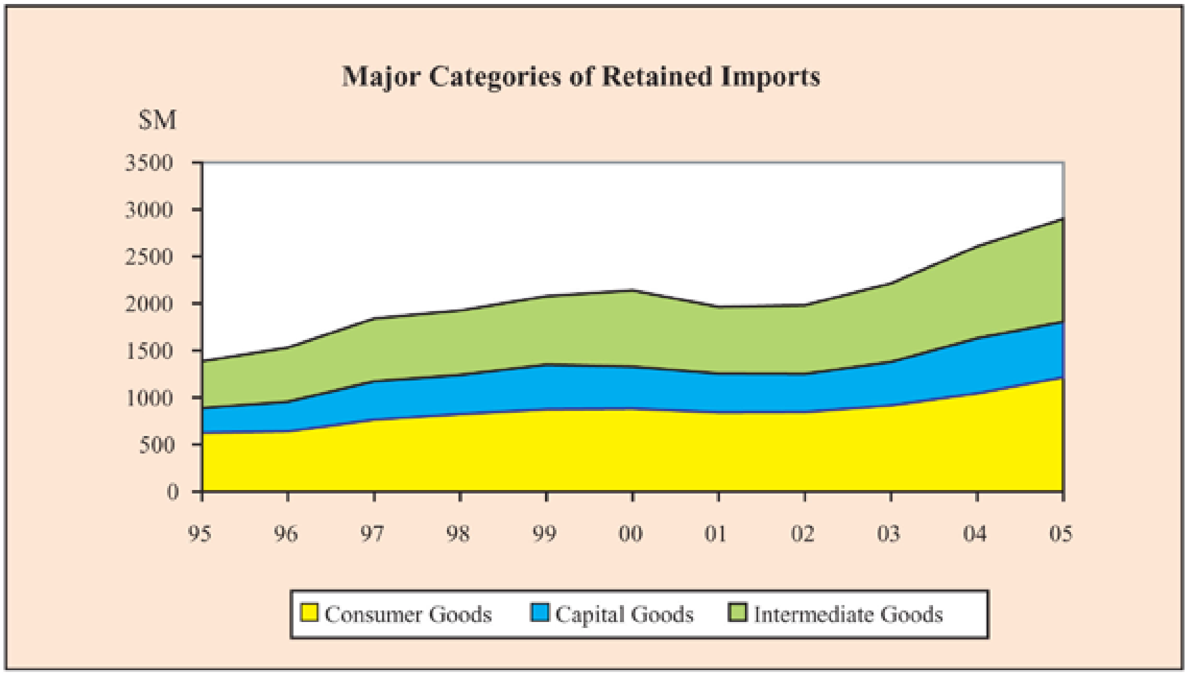
The value of outstanding external debt guaranteed by Government contracted during 2005, to an estimated $225.2 million from $243.0 million at the end of 2004. However, outstanding domestic debt guaranteed by Government rose by approximately $123.4 million to $486.8 million, with the Barbados Water Authority and Barbados National Terminals Company Ltd being the main entities that raised loans on the local market.

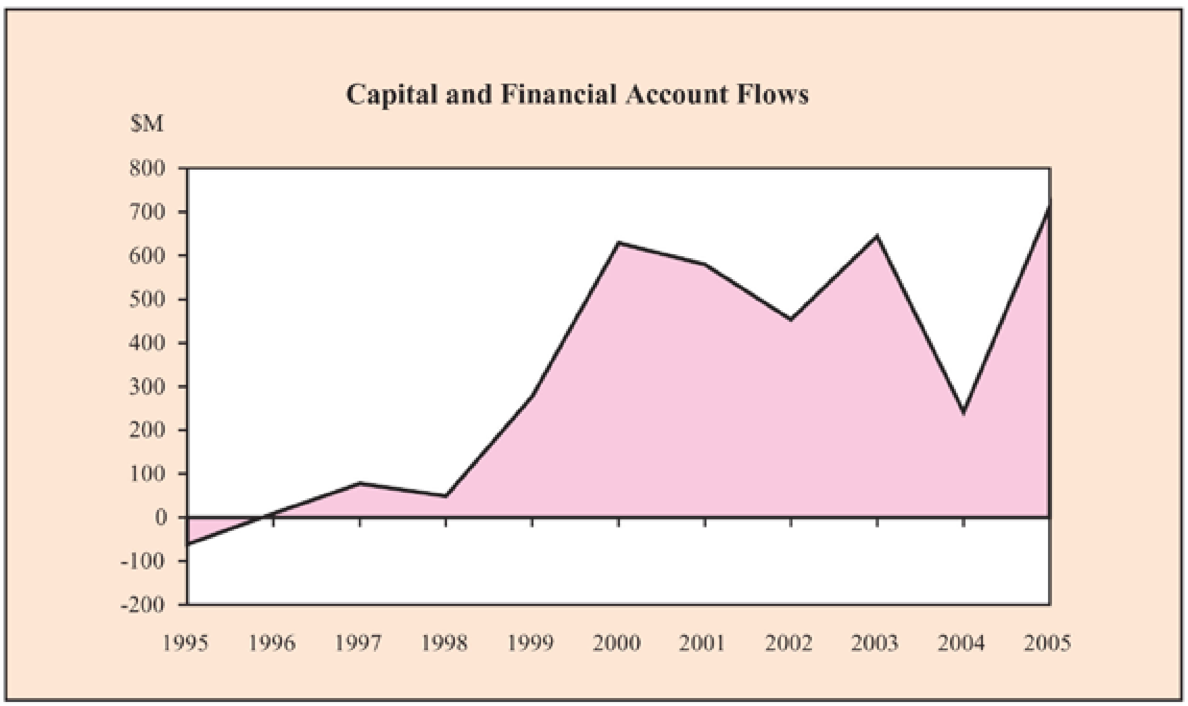
Foreign Trade and Payments

Current Account Developments

During 2005, the current account deficit deteriorated further when compared to one year earlier. A continued expansion in retained imports and a marginal increase in tourism receipts offset the upturn in domestic exports, particularly from food and beverages. As a result, the current account deficit expanded to




Major Categories of Retained Imports
$M
3500
3000
2500
2000
1500
1000
500
0
95
96
97
98
99
00
01
02
03
04
05
Consumer Goods
Capital Goods
Intermediate Goods


Capital and Financial Account Flows
$M
800
700
600
500
400
300
200
100
0
-100
-200
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005

an estimated 12.3% of GDP, up from a ratio of 12.0% in 2004.

Domestic exports advanced by 21.4%, approximately four times the rate of increase registered in the previous year. The categories responsible for the robust growth were food and beverages, which advanced by 20.3% ($18.7 million), reflecting principally higher rum exports, and chemicals, up by 32.4% ($13.7 million). Earnings from electrical components increased marginally by 0.4% ($0.1 million), compared to a rise of 5.5% in 2004. Additionally, sugar receipts fell by 1.2% ($0.5 million), following growth of 9.5% in 2004, mainly occasioned by unfavourable exchange rates and higher freight charges in 2005 relative to the previous year.

Growth in retained imports slowed somewhat during 2005 to an estimated 11.3% ($294.8 million), compared to 17.8% in the previous year. Consumer goods imports grew by 16.4%, relative to the 14.1% surge experienced one year earlier. The non-durables categories of consumer imports, particularly food and beverages, were the primary drivers behind the overall performance in imports of consumer products. During the review year, motor car imports rose by an estimated 20.9%, in contrast to 2004 when imports climbed by 29.8%. Expenditure on intermediate goods expanded by 12.0%, following a rise of 17.0% one year earlier and a three year annual average growth of 11.4%. In addition, imports of capital goods in 2005 increased by $4.0 million, after a 26.6% expansion during the previous year due to machinery imports by a utility company as well as cellular equipment for local telecommunication businesses.

Net services receipts went up by 10.4% or 7.0 percentage points above the outturn recorded in 2004. Growth in travel earnings remained virtually unchanged, contrasting with the 2.3% rise in 2004, primarily reflecting the estimated decline in tourist arrivals. Net transportation inflows rose by 15.5%, compared to a 10.3% expansion during 2004. Additionally, net income inflows increased by an estimated 21.2%, owing to higher interest receipts following a 14.0% upturn registered during 2004.

Capital and Financial Account Developments

The capital and financial account recorded an estimated surplus of $711.0 million or $469.6 million above the surplus of 2004, as both net long-term public and private sector inflows expanded. Net long-term public sector inflows were estimated at $165.7 million compared to a net outflow of $125.2 million in the previous year, benefitting primarily from Government's bond issue of $250.0 million (net $245.2 million) on the international capital market. In addition, project-related inflows during 2005 were approximately $18.3 million, while amortisation payments amounted to $115.6 million, some $4.2 million lower than the level one year earlier. Net long-term private sector capital outflows of $13.5 million in 2004 were reversed in 2005, with inflows of $479.6 million, mainly as a result of higher proceeds for real estate projects, coupled with lower amortisation payments by the private sector

Foreign Debt Service

For the year 2005, foreign debt service payments by government amounted to $235.5 million, approximately $6.4 million above the level recorded in 2004, and representing approximately 6.7% of exports of goods and non-factor services. Total foreign amortisation payments surged by $19.2 million, predominantly due to an increase in the payments for central government debt. Additional outflows were for government guaranteed debt ($18.1 million) and private non-guaranteed debt ($11.3 million).

The $12.7 million decline in total foreign interest payments was primarily on account of a $14.4 million reduction in central government's interest payments.

Direction of Trade

During 2005, the United States accounted for 36.5% of total imports to Barbados, virtually unchanged from the 36.4% share registered in the previous year. In addition, goods bought from the United Kingdom were approximately 5.5% of imports. Imports from Caribbean Community and Common Market (CARICOM) countries increased to 24.7% of total imports, following a ratio of 22.3% one year earlier. Barbados exported 14.6% and 13.1% of its goods to the United Kingdom and the United States, respectively, while exports to CARICOM countries as a percentage of total domestic exports rose to 54.0%, compared to 49.6% in 2004.

Balance of Payments
($ Million)

	2001[R]	2002[R]	2003[R]	2004[P]	2005[P]
Current Account	-223.3	-335.3	-339.2	-673.0	**-761.6**
Merchandise Trade Balance	-1,364.4	-1,403.9	-1,604.0	1,942.0	**-2,104.8**
Total Credits	540.1	506.0	527.3	585.8	**751.8**
Exports BOP	433.9	402.3	415.7	465.5	**617.1**
Total Debits	1,904.5	1,909.9	2,131.2	2,528.2	**2,856.6**
Imports (BOP)	1,903.3	1,909.6	2,131.0	2,520.1	**2,855.9**
Domestic Exports	350.3	333.1	329.2	346.9	**421.1**
Retained Imports	1,971.0	1,991.7	2,220.5	2,616.7	**2,911.0**
Services (Net)	1,140.0	1,099.8	1,293.2	1,336.6	**1,475.8**
Of which Travel Credits	1,394.4	1,315.8	1,515.7	1,551.0	**1,552.5**
Income (net)	-186.7	-203.6	-214.0	-244.0	**-295.6**
Current Transfers (net)	187.8	172.4	185.6	176.3	**163.0**
Capital and Financial Account	578.9	452.4	644.3	241.4	**711.0**
Errors and Omissions	97.2	60.4	70.8	91.2	**-85.7**
Overall Surplus (+)/ Deficit (-)	452.9	177.5	375.9	-340.4	**-136.3**
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)	-452.9	-177.5	-375.9	340.4	**136.3**
Adjusted by commercial banks' position (Net)	7.8	224.9	239.0	-27.7	**-184.2**
Change in Net International Reserves (NIR) (IMF basis) (-increase/+decrease)	-445.1	47.4	-136.9	312.7	**-47.9**

Source: Accountant General and Central Bank of Barbados
P: Provisional
R: Revised

Imports from the United States grew by 14.1%, slightly below the 15.3% level of import growth a year earlier. The fall-off was principally attributed to lower purchases of miscellaneous goods. The value of goods imported from the United Kingdom were up by 6.4%, compared to growth of 11.8% one year prior, as a result of downturns in motor car and furniture imports of 31.2% and 31.9%, respectively. Contractions in chemicals and crude materials were largely responsible for the lower 6.2% growth in Canadian imports, compared to a surge of 27.2% in 2004. In addition, goods purchased from Japan strengthened by 29.2%, following an expansion of 19.8% in 2004, because of a 19.3% growth in motor car imports.

Goods imported from CARICOM expanded by 26.1% during the review year, compared to growth of 15.3% in 2004. The main categories responsible for this outcome were food and beverages, fuels and machinery. Purchases from Guyana advanced by 46.5% principally because of higher imports in the wood and lumber and food and beverages categories. Imports from Trinidad and Tobago strengthened by 28.8% on account of higher purchases of fuels as well as food and beverages. The value of goods imported from the Organisation of Eastern Caribbean States (OECS) was up by 14.7%, an improvement over the 0.1% rise in 2004, with the main increases registered in the food and beverages and feeds, fats and crude materials categories. Goods bought from Jamaica rose by 7.6%, as increased sales of food and beverages outstripped the reduction in imports of chemicals.

Exports to the United States were up marginally by 0.6% as increased receipts from food and beverages and electrical components outweighed reductions in chemicals and capital goods sales. Domestic exports to the United Kingdom rose by 5.9% during 2005, after a 10.2% upturn in the previous year. Growth in exports to the Canadian market advanced by 34.6%, a moderate gain over the 29.6% rise registered in 2004, resulting from robust sales of food and beverages.

Exports to CARICOM surged by 32.3%, following a modest rise of 3.6% in 2004, mainly as a result of gains in sales of food and beverages and construction materials, in particular cement. The value of goods shipped to Jamaica improved by 43.5%, in contrast to a 10.9% reduction in 2004, owing to growth in exports of food and beverages, chemicals, cement and machinery. Increased sales of food and beverages, pharmaceuticals, cement and capital goods boosted a 36.9% expansion in exports to the OECS. The value of goods sold to Trinidad and Tobago surged by 32.4%, following flat growth of 0.2% in 2004, reflecting higher sales of chemicals and crude materials. Exports to Guyana slowed to 28.4%, approximately half the rate of increase recorded in the previous year because of a 39.9% slump in food and beverages and a 4.4% decline in cement sales.

Regional Economic Developments

Overview

During 2005 regional economies withstood the dampening effect of external shocks, such as rising international oil prices and an active hurricane season, to experience positive economic activity. Economic growth was fostered mainly by the strength of the non-traded sectors, as the main traded sectors within the region, tourism and agriculture, suffered major setbacks in 2005. This had negative repercussions on the external accounts, with only Trinidad and Tobago reporting an improved performance compared to 2004. Nevertheless, inflationary pressures remained relatively contained, with many regional central banks implementing interest rate changes during the year to temper rising inflation rates and/or combat the high levels of liquidity that persisted, despite strong private sector credit growth and increased public sector financing.

CSME and Exchange Control Liberalisation

Barbados operates under a fixed exchange rate regime. Therefore complete opening of the capital account brings with it significant risks.

Since the mid-1990s the Bank has moved to gradually liberalise the exchange control regime. This occurred primarily as a result of Barbados' commitments to the creation of a single market within CARICOM. The liberalisation programme is at a stage where most exchange controls have been eliminated with respect to current account transactions within CARICOM.

Similarly, there has been significant liberalisation of capital account transactions, with the Central Bank delegating authority to commercial banks and the Barbados Stock Exchange to allow:

- Purchase and sale of shares listed on CARICOM stock exchanges without limit, with the exception of government securities;
- Investment transactions in private sector unlisted equities in CARICOM countries without limit, subject to vetting of authenticity;
- Remittance of dividends and profits to non-resident beneficiaries of CARICOM without limit;
- Approval of applications in respect of bequests or inheritances due to beneficiaries resident in CARICOM without limit; and
- Inter company lending within CARICOM

Exchange control liberalisation has progressed further with respect to transactions between residents of Barbados and residents of the OECS in Eastern Caribbean Dollars. Since 1998, all such transactions were delegated to commercial banks, except for transactions relating to debt issues of OECS government, given the potentially large size of such transactions relative to the size of the capital market and the resulting potential for market disruption.

Transactions which were not liberalised are:

- Cash gifts and merchandise imports without documentation up to $5,000 (the limit under the anti-money laundering guidelines is BDS$10,000)
- Foreign currency accounts for individuals and entities not earning foreign exchange. Foreign exchange earners are allowed accounts with agreed limits
- Purchase and sale of real estate between residents of Barbados and residents of CARICOM countries
- Loans and deposit taking between residents of CARICOM countries and residents of Barbados

Transactions for private and business travel were liberalised effective February 1, 2006.

Tourism

The contribution of the tourism industry to real GDP weakened during 2005 following the adverse impact of the hurricanes of 2004 on many of the leading regional destinations, as well as the strong competition emanating from Mexico. Indeed, two large tourist destinations in the region, the Bahamas and Jamaica, both attributed the decline in tourist arrivals partly to the loss of rooms after the hurricanes. Nevertheless, long-stay arrivals showed some signs of recovery during the latter part of the year and these countries recorded marginal to moderate growth in long-stay arrivals in 2005. Belize and the countries of the OECS that were spared significant hurricane damage, however, fared reasonably well in 2005 and only Grenada's tourism industry continued to struggle.

An analysis of the markets served by Caribbean destinations indicates that the U.S. and Europe continued to be the most important sources of long-stay tourists to the region in 2005. However, the number of tourists arriving from these markets declined and increased arrivals from Canada and other Caribbean countries were insufficient to compensate.

The output of the regional cruise industry declined significantly during 2005. The effect of the 2004 and 2005 hurricane seasons on demand, operational difficulties at the hub in Puerto Rico and elevated fuel prices served as disincentives to carriers, which opted to change their itineraries in favour of shorter routes. As such, major cruise destinations like the Bahamas, St. Lucia and St. Vincent and the Grenadines recorded decreases during the year.

Agriculture

The performance of agriculture continued to be lacklustre in 2006, especially in light of recent decisions taken at the World Trade Organisation (WTO), which have already started to have a negative impact on the region's sugar and banana industries. In Belize, sugar production fell to the lowest level in over a decade due to a severe drought, although the full effect of the decrease was tempered somewhat by increased sucrose concentration and the higher price of sugarcane that resulted from supply constraints in major international sugar producing countries. The 29.1% contraction in sugar production in Jamaica during the January-September period of 2005 was attributed to industrial disputes and stoppages arising from mechanical problems, as well as reduced sucrose content in the sugarcane due to heavy rains during the reaping period. Trinidad and Tobago's sugar production fell by 22.7% during 2005 to 33,100 tonnes, mainly reflecting the delayed start of the crop due to heavy rains early in the year, mechanical problems at the mill and inferior sugarcane quality. Reduced acreage under cultivation led to a decrease in sugarcane output in the OECS during the first half of 2005, while sugar production in Guyana was down by 31.9%. The sugar industry in Guyana suffered as a result of floods, which inundated several major cane fields and labour-related difficulties, including twenty-four strikes, slow restructuring and worker absenteeism.

The regional banana industry did not fare any better. In the OECS, the lagged effects of damaged crops, the presence of leaf spot disease in St. Lucia and some farmers abandoning their plots in light of the uncertainty facing the industry, led to a 32.5% decline in banana production in the first half of 2005. In Jamaica, banana production was down by 53.2% during the first half of 2005, as the industry was still recovering from the damage caused by the hurricanes of 2004. The other major export crops of the region had mixed performances during 2005; rice production in Guyana was down by 23.0% over the first six months of the year and coffee production in Jamaica fell by 56.8% while citrus production in Belize rose by 9.2% in the January-August period of 2005.

Mining and Quarrying
The most controversial development in the mining and quarrying sector in the region in 2005 was the proposal of the Venezuelan government to form *PetroCaribe,* an oil distribution company that, *inter alia,* would channel Venezuelan oil to CARICOM countries under concessional financing terms. In light of the significant pressure that rising oil prices placed on regional economies during 2005, many territories welcomed this agreement and some of the countries that have signed on started to receive shipments from Venezuela in the fourth quarter of 2005. However, Barbados and Trinidad and Tobago were yet to sign at the end of 2005 because they expressed some difficulty with the proposal.

While elevated oil prices have been a source of alarm for many regional economies, Trinidad and Tobago's energy sector thrived as a result, with growth of 8.2% during the first half of 2005, as both the petrochemicals and other petroleum sub-sectors recorded solid growth. The petrochemicals sub-sector, in particular, flourished due to the two new petrochemical plants that were added in the latter half of 2004.

The remaining key products of the regional mining and quarrying industry recorded mixed performances during 2005. In Jamaica, alumina output rose by 5.7% during the first nine months of 2005 while crude bauxite production increased by 2.6% despite labour disputes and heavy rainfall, leading to overall growth of 0.5% in the output of the mining and quarrying sector. Guyana's bauxite production, on the other hand, declined by 8.4% during the January-June period of 2005 due to inadequate power supply and higher transportation costs, while gold output fell by 24.4% and diamond production decreased by 14.4%.

Construction
Construction activities throughout the region blossomed during 2005 as many countries engaged in rebuilding activities following the devastating 2004 hurricane season and, in most cases, reconstruction efforts were reinforced by other major developments within the sector. During the first nine months of 2005, Jamaica's construction and installation sector expanded by 9.1%, reflecting reconstruction activities in the aftermath of the hurricanes of 2004 and 2005, intensified hotel construction activities and increased expenditure on the Northern Coastal Highway Improvement Project. While post-hurricane reconstruction also spurred the first-quarter expansion in construction activity in the OECS, the sector further benefitted from road rehabilitation work and the construction of hotel and other tourism-related facilities, an international nursing school, commercial buildings and private residential properties. In the Bahamas, the domestic housing market continued to be robust, with more than double the number of residential mortgage commitments for new construction and repairs during the first half of the year, compared to the corresponding period of 2004.

Even for those countries that were spared significant damage in the aftermath of the hurricanes, construction activity expanded. In Belize, the output of the construction sector grew by 3.9% during the first half of the year as a result of large projects. Trinidad and Tobago recorded an even stronger growth of 14.2% in construction activity, as the industry benefitted from increased activity in both the public (housing and other infrastructural work) and private (energy- related projects) sectors. Guyana's engineering and construction sector grew by 6.1% in 2005, spurred by a higher level of public infrastructural investment.

Monetary Policy, Inflation and Liquidity
In 2005, inflationary pressures grew in most regional territories on account of rising international oil prices as well as country-specific factors, such as early seasonal droughts in Trinidad

and Tobago. Inflation rates ranged from 1.7% in the Bahamas to 15.2% in Jamaica at the end of September. Consequently, many monetary authorities sought to temper higher inflation as well as contain elevated levels of liquidity through either the use of open market operations or the manipulation of interest rates.

The Central Bank of Trinidad and Tobago raised its *repo rate* on four separate occasions during the year (March, July, September and November), from 5% to 6% at the end of the transition. However, the effect of these changes has been limited, prompting the Central Bank to increase its level of open market operations in an effort to absorb the excess liquidity. During the first half of 2005, the Bank of Jamaica lowered interest rates in February, March and twice in May despite higher than projected inflation and utilised open market operations to soak up excess liquidity. In the Bahamas, the Central Bank responded to mainly elevated liquidity levels, given that inflation has been on the decline, by adjusting the discount rate downward by 50 basis points to 5.25% in February 2005. The Central Bank of Belize increased the commercial bank reserve requirement in May by one percentage point in an effort to curb an upward surge in credit and the associated rise in foreign exchange demand.

The Banking Sector

Credit

Increased personal lending resulted in solid growth in private sector credit in the region during 2005. In most territories reviewed, personal lending represented more than half of total commercial bank lending, with growth rates over the first nine months of the year ranging from 9.6% in the Bahamas to 16.3% in Jamaica. Growth in personal lending was spurred primarily by increased residential mortgage loans and consumer credit across the board.

Lending to the business sector in most territories also grew in 2005, albeit at a slower rate than personal lending. In general, the construction sector in most regional economies received comparatively less financing in 2005, the only exception being the Bahamas where commercial banks increased their loans to this sector by 12.3% during the first half of the year, and the OECS where credit to the construction sector grew by 7.1% over the January to June period. Furthermore, with the exception of the OECS countries, credit to the tourism sector rose in most countries and was often the second or third largest recipient of funds after personal lending.

Deposits

In 2005, the stock of deposits held by regional financial institutions increased in all territories, except Trinidad and Tobago, where it fell by 2.3% at the end of October 2005. In the remaining territories, the stronger growth in total deposits relative to 2004 was due to an expansion in the deposits of government and public sector entities which compensated for a general slowdown in the accumulation of deposits of households and businesses.

In the Bahamas, the deposits of private individuals rose by 5.8% at the end of September 2005, down from 9.5% during the similar period of 2004, but somewhat faster than in 2003, while the growth of deposits of private individuals in Jamaica slowed to 3.4% at the end of September 2005 compared to 5.5% in the corresponding period of 2004. In Guyana, the growth in deposits of private individuals remained roughly the same, (5.2%) at the end of August 2005.

Similar to the performance of households, growth in business deposits slowed or declined in 2005, the only exception being Guyana, where deposits picked up by 11.3% by the end of August 2005. In the Bahamas, the rate of growth of business firms' deposits at the end of September, moved from 14.5% to 7.8%. Business deposits in Jamaica at the end of September 2005 was 1.1% lower than at the end of 2004, after increasing by 21.5% over the corresponding period of 2004. Business deposits in Trinidad and Tobago fell by 19.7% during the first ten months of 2005, a reversal from the 30.7% expansion in the same period of 2004.

Capital Market Developments

The two main regional stock markets faced significant challenges during 2005. After a strong performance in January and despite falling commercial bank interest rates and an Initial Public Offer in the second quarter, the Jamaica Stock Exchange (JSE) declined from February onwards to close at 103,465.07 points at December 14, 2005. This represents an 8.2% year-to-date decrease, as the stock market came under significant pressure due to the progressive deterioration of the macroeconomic environment, lower than expected earnings and a downturn in investor confidence. Moreover, according to reports from the JSE, since inflationary pressures were expected to increase, investors favoured foreign currency assets, thereby further weakening the demand for local equities.

During the first nine months of 2005, the Trinidad and Tobago Stock Exchange (TTSE) index increased by 0.8% to close at 1,345.91 points, mainly reflecting a 9% decline during the third quarter. It is believed that the contraction in securities trading experienced since the second quarter could be linked to higher interest rates. In March 2005, the TTSE introduced electronic trading in an effort to improve efficiency and assist in the reduction of the settlement time from time plus five days (T+5) to the international standard of time plus three days (T+3).

Government Operations

Government operations throughout the region yielded net deficits for the first half of 2005 in

Regional Economies: Selected Forecasted Economic Indicators

	Real GDP (%)		Fiscal Balance as a Percentage of GDP		External Current Account Balance as a Percentage of GDP		International Reserves (US$M)	
Country	2004	2005P	2004	2005P	2004	2005P	2004	**2005P**
Bahamas	3.0	3.5	-3.2	-2.6	-5.3	-11.2	-	**-**
Belize[1]	4.6	2.2	-8.7	-3.6	-14.4	-11.1	120.4	**107.9**
Guyana[2]	1.6	-2.6	-	-	-9.3	-24.9	255.1	**238.4**
Jamaica[3]	2.5	0.7	-	-	-8.5	-9.3	1,816.1	**2,093.8**
OECS	2.7	3.2	-4.9	-7.1	-16.8	-20.0	581.9	**628.1**
Trinidad & Tobago[4]	6.2	7.0	-	-	13.5	16.4	2,976.7	**4,213.1**

Source: Selected IMF Publications and Various Regional Central Banks

Notes: [1]indicates the Gross Official Reserves for Belize as at October,
[2]indicates the Gross International Reserves for Guyana are as at September,
[3]indicates the Net International Reserves for Jamaica are as at November,
[4]indicates the Net International Reserves for Trinidad and Tobago are as at September.

P: Provisional,

n.a.: Not Available

all countries reviewed with the exception of Trinidad and Tobago and Guyana. The fiscal surplus of the government of the twin island republic grew by 49.0% during the first eight months of 2005, on top of an almost triple expansion during the same period of 2004, driven by higher oil revenue. However, the non-oil fiscal deficit widened by over 50% as there were declines recorded across a broad range of revenue categories, along with increased government expenditure. Expenditure aimed at mitigating the impact of severe flooding, combined with higher capital expenditure, strained the resources of the central government of Guyana during the first half of the year. Nonetheless, a fiscal surplus was recorded at the end of June 2005, albeit smaller than that of 2004.

In Jamaica, the central government reported a marginally smaller deficit during the first nine months of 2005 compared to the corresponding period of 2004. This slight improvement was occasioned primarily by controlling expenditure, given that revenue flows were lower than expected. With the growth in revenue surpassing that of expenditure, the government of the Bahamas generated a fiscal deficit during the first nine months of 2005 that was 30.2% lower than the deficit registered during the similar period of 2004.

In the OECS, the combined position of the central governments reflected an increase in the overall deficit during the first half of 2005. The worsening of the OECS fiscal accounts was influenced by higher capital expenditure in all countries except Dominica and Montserrat, as the Grenadian government continued to rebuild post hurricane Ivan, road works progressed in Antigua and Barbuda, St. Lucia and St. Vincent and the Grenadines and the Anguillan government contributed to the airport expansion project.

Foreign Sector Developments

The Central Bank of Trinidad and Tobago reports that the surplus on the external current account expanded by an estimated US$1,301.3 million during the first half of 2005 to US$1,823.5 million. Given persistently high oil prices, it is not surprising that estimates of energy exports were significantly higher in 2005 than in 2003 and 2004 (by 93.4% and 60.8%, respectively); however, non-energy exports also registered a notable increase over their performances in the previous two years.

The non-oil producing countries, on the other hand, recorded trade deficits during 2005. In Jamaica, the external current account registered a deficit of US$286.5 million during the first seven months of the year, while the capital and financial account rose by US$141.8 million, primarily as a result of increased net private investment inflows. The worsening of the current account resulted from the combination of lower exports, especially agricultural goods, as well as higher imports. The Eastern Caribbean Central Bank (ECCB) estimated that the external trade deficit of the OECS deteriorated during the first half of 2005 as a result of increased imports coupled with a decline in export receipts due to lower exported volumes of bananas and sugar. The situation was roughly the same in the Bahamas as preliminary estimates indicate that the external current account deficit widened substantially during the first nine months of 2005.

International Economic Developments

Overview

Led by the industrial economies and China, global economic activity continued to grow at a robust pace in 2005, albeit at a slower rate than in 2004. This performance partly reflected expansions in domestic demand and investment expenditure,

CARICOM and the WTO in 2005

The year 2005 was an important one for relations between CARICOM member countries and the WTO. This was due to the completion of the Sixth WTO Ministerial Meeting in Hong Kong, which had as its central focus the needs of developing countries and because in 2005 there were some WTO rulings that will serve to erode the region's ability to compete on the international stage in its main export crops, namely sugar and bananas.

The long-standing banana dispute between nine Latin/Central American countries – Brazil, Costa Rica, Colombia, Ecuador, Guatemala, Honduras, Nicaragua, Panama and Venezuela – and the European Union (EU) surrounding the EU's import regime resurfaced in 2005 after unsuccessful consultations forced the involvement of the WTO. In 2001, the EU had agreed to move to a tariff-only regime by January 1, 2006 following complaints that the existing complex import system (which consisted of a combination of tariffs and quotas for Most Favoured Nation (MFN) bananas) was against the WTO rules as it gave preferential treatment to the bananas imported from African, Caribbean and Pacific (ACP) states.

The EU therefore agreed to reform their banana regime in two stages: the first stage would comprise a tariff rate quota system, moving in the second stage to a tariff only system no later than January 1, 2006. Caribbean banana producers had indicated that a tariff of €275 per tonne of MFN bananas would enable the continued competitiveness of regional farmers. However, by the end of 2005, the tariff proposed was €176 per tonne, which, if accepted, is expected to lead to plummeting banana prices on the world market, to the detriment of regional producers.

ACP banana suppliers have contended that the EU has a legal obligation to provide certain conditions of access to its market for ACP suppliers under the Cotonou agreement and their market share is not sufficiently large to pose any serious competition to MFN suppliers. The general consensus in the region is that most farmers will not survive and the regional banana industry could disappear.

In 2005, the EU also proposed to cut the guaranteed price of sugar from ACP and EU member countries by nearly 40% and extend the conversion period from two years to four years. This is in response to concerns from Australia, Thailand and Brazil that the preferential treatment accorded to European domestic producers (and indirectly to ACP member countries, since the price paid to them is indexed to the price paid to European domestic farmers) is contrary to WTO rules. Consequently, the guaranteed price of white sugar will be reduced from €632 per tonne to €404 per tonne, starting in 2007. Despite the reduction in price, however, the guaranteed price of the region's sugar would still be significantly higher (more than 50%) than market prices. To assist with the mitigation of the negative consequences of this action, the EU has earmarked €40 million to be shared amongst the eighteen ACP sugar-supplying countries affected.

Regional critics were disappointed by this development since the ACP countries directly affected were not invited to participate in the negotiations and the funds allocated to compensate for the fallout pale in comparison to the €2.2 billion the EU set aside to assist EU farmers who will be adversely affected. Regional sugar industries have already begun to suffer as a result of this decision. In St. Kitts and Nevis, the government closed the sugar industry (which consists mainly of the St. Kitts Sugar Manufacturing Corporation) in July 2005, citing the removal of EU preferences as one of the main reasons. In Jamaica, the government decided to close the two state-owned sugar factories in St. Catherine and Trelawny and use the five remaining factories to concentrate on the production of raw sugar, molasses and ethanol. The Barbadian government has announced plans to reform the sugar industry and shift from the sale of bulk sugar to the European market to the production of value-added goods from sugarcane and its by-products; the bulk sugar generated will instead be sold on the domestic market. While the details have yet to be finalised, suggested options for the industry included electricity generation, molasses production for use in the rum industry and the production of specialty sugar aimed at the European market.

In light of these developments, CARICOM leaders approached the Sixth WTO Ministerial Meeting in Hong Kong in December 2005 with a fair amount of distrust, with regional observers questioning whether the interests of small and vulnerable economies, such as the member countries of CARICOM, are being considered at the international level.

If nothing else, the events of 2005 have served to reinforce the need for the countries of the region to pool their resources to create one economic space capable of higher visibility on the global stage.

as well as strong export growth. As a consequence, unemployment rates fell in both industrialised and emerging market economies. At the same time, significant upward movements in energy prices and expansions in metal as well as food prices contributed to higher headline inflation, though underlying price increases remained contained. Nevertheless, with inflationary pressures mounting, most of the world's central banks tightened their monetary policy, raising benchmark interest rates.

Industrial Economies

Despite the damage caused by hurricane activity and the impact of monetary tightening by the Federal Reserve Board, real output in the United States increased by an estimated 3.5% during 2005, compared with 4.2% in 2004. The expansion in real gross domestic product primarily reflected increases in fixed investment, personal consumption expenditure and federal government spending, which offset a slowdown in exports and an upturn in imports. In line with this robust economic performance, the unemployment rate remained low; the average rate of unemployment for 2005 was 5.1% or 0.4 of a percentage point below the rate for the previous year. However, the average rate of consumer price inflation rose from 2.7% in 2004 to 3.4% in 2005, on account of higher energy prices. In an effort to sustain economic development and achieve price stability, the Federal Reserve Board raised interest rates on eight occasions during the year. Consequently, by the end of December 2005, the Federal Funds rate had climbed by two percentage points to 4.25%.

In Canada, with the economy still operating at close to full production capacity, real value-added increased by 2.9% during the year, on par with the rate recorded one year earlier. The rate of unemployment fell to 6.8% compared to 7.2% at end of 2004, whereas prices increased somewhat during the year, with an inflation rate of 2.2%, marginally higher than the 1.8% recorded one year earlier. In an effort to maintain a balance between aggregate supply and demand and keep the inflation rate on target in the medium term, the Bank of Canada pushed up the overnight target rate from 2.50% to 3.25%.

Economic activity within the Euro area remained solid, as a pick-up in the latter part of the year offset a slowdown in the first. This expansion was buoyed by export growth, strong demand and robust investment. Average annual inflation in the Euro area for 2005 was 2.2%, just above the rate in 2004, as increased prices were recorded for the alcohol and tobacco, housing and transportation categories. The average unemployment rate was 8.6% for 2005; however, rates across the region ranged from as low as 4.3% in Ireland to as high as 10% in Greece. In December 2005, the Governing Council of the European Central Bank increased all three of its benchmark interest rates (the minimum bid rate on main refinancing operations and the interest rates on the marginal lending facility and the deposit facility) by 25 basis points each. This was the first change in these rates since June 2003, when they were decreased by 50 basis points each. Real gross domestic product for Germany, the Euro area's largest economy, grew somewhat more slowly than in the previous year. The inflation rate in 2005 was 2.0%, up from 1.7% rate in 2004, while the unemployment rate remained unchanged from the previous year at 9.2%. In France, another key Euro area member, real output growth was moderate but lower than in 2004. The inflation rate was estimated at 1.7%, down from 2.1% in 2004, despite higher energy prices and

Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)		Unemployment (% Rate)		Inflation (% Rate)	
	2004	2005	2004	2005	2004	2005P
Canada	2.9	2.9	7.2	6.8	1.8	**2.2**
Euro Zone	2.1	1.3	8.9	8.6	2.1	**2.2**
France	2.1	1.4	10.0	9.9	2.1	**1.7**
Germany	1.4	0.8	9.2	9.2	1.7	**2.0**
Italy	1.3	n.a.	8.0	n.a.	2.2	**2.0**
Japan	2.3	2.8	4.7	4.4	0.0	**-0.3**
United Kingdom	3.2	1.8	4.5	4.7	1.4	**2.0**
United States	4.2	3.5	5.5	5.1	2.7	**3.4**

Source: Various Central Banks and National Statistics Offices
n.a.: Not Available
P: Provisional

services costs. The average unemployment rate fell marginally to 9.9%.

Real gross value-added in the United Kingdom expanded by 1.8% in 2005, driven by robust growth in the services industries, particularly construction and transport, storage and communications. The average annual rate of consumer price inflation was up by 0.6 of a percentage point to 2.0%, due in part to higher oil prices and transportation costs. The rate of unemployment decreased from 4.4% to 4.2% at the end of the review period. During August 2005, the Monetary Policy Committee of the Bank of England lowered its repo rate by 0.25 of percentage point to 4.50%, in an effort to stimulate private investment and consumption.

Boosted by strong private consumption and a recovery in private final domestic demand, the Japanese economy recorded its strongest expansion in five years in 2005. The average unemployment rate for the year was 4.4%, an improvement over the 4.7% registered in 2004. Mild deflation continued in Japan, with consumer prices declining by 0.3% relative to the previous year.

Emerging Markets

In 2005, growth in emerging Asian economies slowed when compared to the previous year, while inflation was generally contained. The Chinese economy remained the top performer in the region, on the strength of high domestic demand and rising exports. In line with this excellent economic performance, employment in the urban areas continued to increase during the year. Inflation was relatively stable, as the consumer price index increased by 1.8% on a year-on-year basis.

After rebounding sharply in 2004, growth in the Latin American economies moderated to a more sustainable pace in 2005. In most economies, growth was driven primarily by higher export proceeds, while inflation was relatively stable during the year. In Brazil, Latin America's largest economy, real gross domestic product expanded moderately during

Economic Indicators: Emerging Markets

Countries	Real Output (% Growth)		Inflation (% Rate)		Foreign Reserves (US $ Billion)	
	2004	2005	2004	2005	Dec-04	Dec-05P
Argentina	9.0	**n.a.**	6.1	**12.0**	19.6	**28.1**
Brazil	4.9	**2.3**	6.6	**6.9**	52.9	**53.8**
Chile	6.1	**5.9**	1.1	**0.3**	16.0	**16.8**
China	9.5	**n.a.**	3.9	**1.8**	609.9	**n.a.**
Hong Kong	8.1	**n.a.**	0.2	**1.7**	123.6	**122.4**
India	7.3	**n.a.**	3.8	**n.a.**	131.2	**142.3**
Indonesia	5.1	**n.a.**	6.4	**n.a.**	36.3	**n.a.**
Malaysia	7.1	**n.a.**	2.1	**n.a.**	66.7	**n.a.**
Mexico	4.2	**3.0**	4.7	**4.0**	61.5	**68.7**
Nigeria	6.0	**n.a.**	15.0	**16.8**	12.8	**17.6**
Singapore	8.4	**n.a.**	1.5	**n.a.**	112.8	**n.a.**
South Africa	3.7	**n.a.**	1.4	**n.a.**	n.a.	**n.a.**
South Korea	4.6	**n.a.**	3.0	**2.6**	199.2	**209.9**
Venezuela	17.9	**9.3**	22.1	**16.1**	24.2	**30.4**

Source: Various Central Banks and National Statistics Offices
P: Provisional

2005, in spite of monetary tightening implemented in the latter part of 2004. The increase in economic activity reflected strong domestic demand, continued external demand and favourable credit conditions. As a result, labour market conditions improved, with the unemployment rate falling from 11.5% in 2004 to 9.8% in 2005. Similarly, economic activity in Argentina continued to grow at a firm pace in 2005, with a consequent decline in the unemployment rate.

Most African economies experienced growth in 2005, albeit at a slower rate than in 2004, partly reflecting strong global demand and improved domestic macroeconomic policies. The oil exporting countries within Africa benefited from higher oil prices, while the other countries, in particular cotton exporters, faced a more challenging environment. Looking at individual countries, growth in South Africa was moderate in 2005, while inflation remained relatively stable in spite of higher energy prices. Real GDP growth in Nigeria slowed, due in part to moderate growth in the oil sector, while activity in the non-oil sector continued to be robust. Additionally, inflation increased during the year, partly on account of higher food prices.

Commodity Prices

During 2005, world commodity prices were considerably higher than for the corresponding period of 2004, driven primarily by double-digit rates of expansion in metal and petroleum prices. The overall commodity price index increased by 34.5% during the year. Petroleum prices rose significantly, by 44.4%, reflecting strong growth in crude oil consumption and supply constraints. The non-fuel commodities price index went up by 18.4% during the review period, led by metal and food prices. Metal prices rose by 36.2%, largely because of robust demand for construction and manufacturing products, low levels of inventory and strikes by mining workers. Food prices rose by a more moderate 5.6%, driven by expansions in the prices of soybeans and bananas. These higher prices resulted from strong growth in China's demand for soybeans and unfavourable weather conditions in several growing regions.

Commodity Prices

Commodities	Dec-04	Dec-05[P]	% Change
Total (Index of Market Prices)	155.3	**208.9**	34.5
Non-Fuel (Index of Market Prices)	97.0	**114.9**	18.4
Food (Index of Market Prices)	92.9	**98.1**	5.6
Sugar (US ¢ / lb)	32.0	**29.3**	-8.4
Bananas (US $ / metric ton)	497.2	**568.2**	14.3
Rice (US $ / metric ton)	278.4	**277.3**	-0.4
Wheat (US $ / metric ton)	153.9	**164.4**	6.8
Soybeans (US $ / metric ton)	198.6	**216.5**	9.0
Metals (Index of Market Prices)	117.3	**159.8**	36.2
Aluminum (US $ / metric ton)	1,852.9	**2,250.9**	21.5
Iron Ore (US ¢ / metric ton unit)	37.9	**65.0**	71.5
Copper (US $ / metric ton)	3,139.8	**4,577.0**	45.8
Silver (US ¢ / troy ounce)[1]	712.4	**868.1**	21.9
Gold (US $ / troy ounce)[1]	442.1	**510.1**	15.4
Petroleum (US $ / barrel)	39.1	**56.5**	44.4

Source: IMF Commodity Prices,
P: Provisional
[1]indicates data as at October 2005

ECONOMIC OUTLOOK

International and Regional Economic Outlook for 2006

The continuation of accommodative macroeconomic policies internationally, low long-run interest rates and solid corporate balance sheets are anticipated to underpin strong global growth in 2006. However, high and volatile oil prices will continue to be a significant global risk, particularly if they have a significant effect on consumer confidence and, by extension, spending. In addition, the rising tide of protectionist sentiment in developed countries, driven primarily by global imbalances and fears of competition from emerging markets, could have a negative influence on trade and stifle long-term growth in developing countries.

Nevertheless, the International Monetary Fund (IMF)'s World Economic Outlook (September 2005) is projecting that the world economy will increase by around 4.3 percent in 2006, which is just about the same rate as in 2005. The United States is expected to be one of the fastest-growing developed nations, as fixed investment is forecasted to pick up, reflecting firms' healthy balance sheets, strong profitability and below-trend capital stocks. In addition, moderate growth is forecasted for the Euro area despite significant downside risks, helped by a relatively weak Euro and low long-run interest rates. China and India should continue to lead growth in emerging Asia, based on an anticipated pick-up in global manufacturing and trade, though higher commodity prices could take a toll. In Latin America, continued application of prudent economic policies should help to maintain favourable conditions for export-led growth.

The outlook for Caribbean economies also looks positive, particularly for Trinidad and Tobago, as strong expansions in tourism, construction and financial sector activities are expected to drive economic growth in 2006. These growth projections take into account the anticipated increase in activity in the run-up to the Cricket World Cup 2007, as well as assumptions of global growth in output, an expansion in international trade, higher commodity prices and relatively low interest rates. Nevertheless, external events, such as slower-than-anticipated growth in the output of key trading partners or a deceleration in international trade, possibly triggered by a continued surge in oil prices and/or rising protectionist sentiment, could have a negative impact on this outlook.

Prospects for the Barbados Economy in 2006

The Barbados economy is forecasted to expand around 4% in 2006, led by a rebound in tourism and continued growth in the non-tradable sectors. Construction activity is likely to be boosted by the staging of the ICC Cricket World Cup final in 2007 and activities surrounding that event. The non-traded sectors of wholesale and retail trade, transportation, storage and communications and utilities production should be the main beneficiaries from the expected growth in tourism and the significant planned expenditure to upgrade and expand existing infrastructure to facilitate the staging of the cricket matches and the accommodation of the influx in visitors. This anticipated momentum in the economy is likely to keep the unemployment rate under 10% while inflation is expected to be within the range of 3.0% – 3.5%, provided that international oil prices return to favourable levels.

The faster expansion in the non-traded sectors relative to traded activity is likely to result in a further deterioration in the external current account deficit. The net international reserves are projected to contract steadily. The rise in retained imports, which underpins the growth in non-traded activity, is expected to outpace net earnings from services, particularly tourism, and domestic merchandise exports whose outturn should be helped by the efforts of the proposed new export promotion agency. With the projected loss in foreign reserves, the import reserve cover is anticipated to decline to 18 weeks by the end of 2006.

The overall fiscal deficit to GDP ratio is likely to moderate slightly in 2006. Total revenue is forecasted to increase by about 4%, on the strength of indirect taxes collections, which should be bolstered by the new cess tax introduced in September of 2005. Direct tax receipts are projected to be sluggish in 2006. The expected increase in total expenditure is around 5%, based on the assumption of higher outlays for capital projects, as financing for the redevelopment of the Kensington Oval and the surrounding areas should add significantly to government's planned expenditure.

The strong demand for commercial bank credit by the private sector observed during 2005 is forecasted to dampen somewhat in 2006, when the rate increases implemented in 2005 take effect. As a result liquidity in the banking system should tighten further.

ADMINISTRATION

The Board of Directors

Mr. Bernard Codrington was welcomed as a Board member in June, 2005.

The Board met eleven times during 2005.

Management and Staff

During 2005, Mr. Victor Springer was promoted from Director, Banking and Currency to Deputy Governor, Operations; Mrs. Patricia Forde Blanchard was appointed to the post of Director, Internal Audit for two years.

Several members of staff attained new qualifications or completed additional training. Successfully completing degrees or professional qualifications were: Dr. Denny Lewis-Bynoe, PhD, Economics; Miss Novaline Brewster, M.Sc. Public Relations; Mr. Louis Millar, M.Sc., Banking & International Finance; Mrs. Cheryl Greenidge, MBA, Finance; Miss Chanelle Maxwell, International Masters Degree, Business Administration; and Miss Kim Coppin, Master of Philosophy, Economics and Econometrics. Earning Bachelor's degrees were Mr. Jason Lynch, B.Sc., Economics and Accounting, Miss Wanda Massiah, B.Sc., Management Studies, Miss Stacey Walcott, B.Sc., Management Studies and Mrs. Eurcil Weekes, B.A. Linguistics.

Completing professional certification were: Mr. Roger Gumbs, Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), Mr. Andre Estwick (CIA) and Mrs. Terry Gittens-Jordan, AICB designation from the Institute of Canadian Bankers.

Public Affairs

Seminar on the Caribbean Single Market and Economy (CSME)

To assist with national efforts to promote the CARICOM Single Market and Economy (CSME), the Bank hosted a one-day public conference in May titled "*Charting Our Course in the CSME*". The conference highlighted the challenges and opportunities which the trading bloc will present and recommended ways in which the region could prepare in a more focused way for the trade and economic arrangement. The topics discussed included: "Trade and Competitiveness", "Caribbean Integration and Corporate Barbados", "Movement of Capital and Rights of Establishment", "Toward CSME and Beyond", "Financing Integration", "The Role of the Caribbean Court of Justice (CCJ)", "Possibilities for Monetary Union" and "CSME in a Global Context". Over three hundred persons attended the event.

Alternates Meeting

The Central Bank of Barbados hosted a meeting of Alternates to the Board of Directors of the Latin American Centre for Monetary Studies (CEMLA) in March. CEMLA's membership includes all the central banks in the Western Hemisphere as well as the Central Bank of Spain. The meeting in Barbados was the first time that the Alternates convened in an English-speaking country. Delegates from Argentina, Mexico, Brazil, Guatemala, Spain, the United States and Venezuela were in attendance.

Commonwealth Governors' Meeting

In September, the Bank chaired the second Commonwealth Governors' meeting. This meeting, which coincided with that of the Commonwealth Finance Ministers, had as its theme *"Basel II: Implementation Strategies, Alternatives and Implications for Developing Countries*". BASEL II refers to the new regulatory standards under which commercial banks and other financial institutions must operate.

In her remarks, Governor, Dr. Marion Williams focused on some of the key concerns for the Caribbean with respect to BASEL II. Dr. Avinash Persaud, Chairman, Capital Intelligence Limited in his presentation entitled, *"BASEL II: Implementation Strategies, Alternatives and Implications for Developing Countries"* was of the opinion that

BASEL II was not in the interest of small developing countries. Mr. Cesare Calari, Vice President (Financial Sector) World Bank, spoke on "*Strengthening the Financial Sector*", and warned developing countries against embracing BASEL II too quickly. Ms. Lisa Kaess, President, Atrium Advisors for International Institute of Finance, gave some insights into the International Institute of Finance's Work with the new accord.

In October, Governor, Dr. Marion Williams published her third book, "*Strategic Repositioning: A Caribbean Perspective On Economic Policy Making*". The book emphasises the importance of sound macro-economic policies, skilful economic planning and management, financial sector development, human resources development, good corporate governance, continuous training and education, and strong commitment to service excellence. Critics described the publication of essays as well written, bold and full of judicious comments and practical advice.

Sir Winston Scott Memorial Lecture

Dr. Edward de Bono, a pioneer in the concept of lateral and creative thinking was the guest lecturer at the 30th Sir Winston Scott Memorial Lecture in November. Dr. de Bono introduced the large audience to his many techniques, tools and methods that have revolutionised business operations internationally. One of the techniques he shared was the concept of the "Six Thinking Hats" which promotes exploration argument over adversarial argument.

Schools' Outreach Programme

As a result of the heavy demands for the Schools Outreach programme in 2005, in addition to holding seminars at the Bank, Public Affairs and the Research Department organized visits to several schools.

The lecture on the CSME was particularly popular among the teachers and students who wanted to be acquainted with the various protocols, the progress towards implementation and the merits and demerits of moving towards the trade and economic bloc.

Other topics addressed in the sessions included: "The Role of the Barbados Stock Exchange", "Investing", "Our Money: A Means of Exchange", "Gross Domestic Product", "The Role of the Central Bank vis-a-vis the commercial banks", "Public Finance" and "Accounting".

The Arts

Crop Over Visual Arts Exhibition

The Visual Arts Exhibition commenced on July 10 and concluded on August 7. Public Affairs worked very closely with the National Cultural Foundation to coordinate this event. Eight Prizes were awarded – three in craft and five in the visual arts. Among the visual arts awardees was Mr. Don Small who won the Governor's Prize for his painting, "The Reckoning".

Pan in the Plaza

The Bank and the Barbados Secondary Steel Pan Teachers' Association organised the Pan in the Plaza. During 2005 there were two camps. The camps culminated with an extravaganza in the Cathedral Plaza which featured the summer campers, a guest band, the Holetown Harmonites, and soloist, Mr. Dwain Gill, a NIFCA awardee.

Lifetime Achievement Award

The Bank joined with the Nation Publishing Company and the Collectors' Club to recognise Ms. Norma Talma, a veteran visual artist, at the Fourth Annual Lifetime Achievement Awards. Ms. Talma played a pivotal role in the development of art.

Frank Collymore Literary Endowment

The Endowment awarded seven prizes to local writers in 2005. Ms. Linda Deane emerged as the first prize winner for her work, "*Cutting Road Blues: a narrative*". Her entry also received the Prime Minister's prize. This award recognizes the piece of work that best captures Barbadian mores and norms.

Mr. Robert Sandiford, a previous winner in the competition was the recipient of the second prize for his work, "*The Next Time"*.

Ms. Nailah Falomi Imoja and Mr. Glenville Lovell were adjudged joint third prize winners. Ms Imoja's entry is titled "*Colour Blind*" and Mr. Lovell's, "*Ruins of a Great House*".

Mr. Thom Cross, a previous first prize winner, Ms. Elzing Lurline and Mr. Anthony Hinkson received honourable mention.

Choir Concert

Under the patronage of Governor, Dr. Marion Williams and Mr. Clyde Williams, the Bank's choir staged a Christmas Concert at the Frank Collymore Hall. The highlight of the presentation was the performance of "*Gloria*" by the great Italian composer, Vivaldi.

Charitable Programmes

The Public Affairs section spearheaded the drive to assist Guyana which was ravaged by a flood. Just under BDS$7,000 was raised in the corporate-wide venture. In addition, the Bank supported the "*For Guyana with Love Concert*" to raise funds for flood victims.

OPERATIONS

Accounts Department

The use of the Automated Clearing House (**ACH**) was extended to include direct credits, a mechanism whereby institutions can forward payroll and related transactions to one commercial bank for settlement. In addition, the settlement period for cheques was reduced from four to three days. Currently, cheque payments are processed the same day with the physical exchange of instruments on the next business day. These enhancements to the ACH have strengthened the payment system. The ACH is complemented with data imaging, indexing and retrieval.

In view of the declining income earning asset base, there were definitive efforts to control cost and adhere to cost reduction programmes. These efforts were successful and the Bank maintained administrative expenses below the budgeted levels. The rate of consumption of new notes was higher than anticipated resulting in incremental budgeted expenditure.

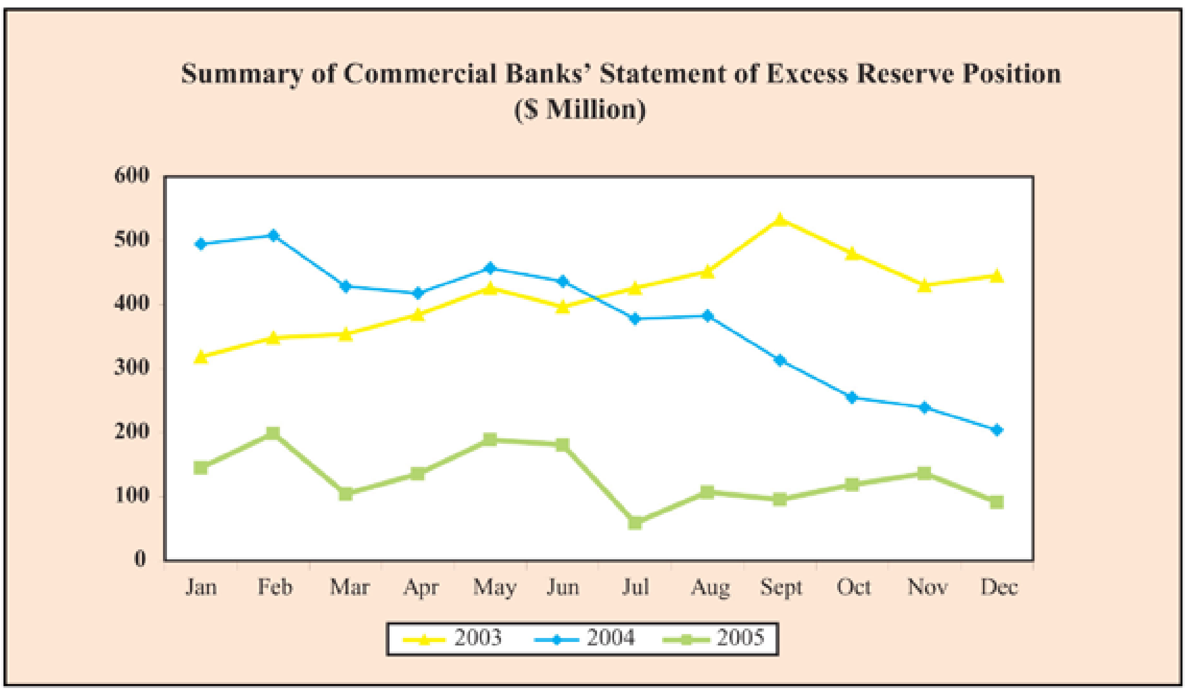
The management of the Caribbean Multilateral Clearing Facility (CMCF) was a challenge to the Bank as the Bank of Guyana discontinued debt service in anticipation of benefits under the Enhanced Highly Indebted Poor Countries Initiative (HIPC). The Bank, along with other central banks in the region, is exploring avenues for providing debt relief to Guyana under this Initiative.

Banking and Currency

Relationships with Financial Institutions

Excess Liquidity

The average excess cash in the banking system declined throughout the year, ending the year at $73.0 million, compared to the $204.2 million recorded at the end of 2004. The sharpest reduction in excess cash was recorded during the first and third quarters of the year, when commercial banks reduced their cash holdings by $83.5 million and $81.2 million, respectively, due to strong growth in private sector credit.



Loans and Advances

One commercial bank utilised the Central Bank's discount window towards the end of 2005. The total advance of $13.0 million in 2005 was significantly less than the $238.3 million extended to commercial banks during 2004.

Relationships with Government

Treasury Bills

There were 25 Treasury Bill auctions during the year, with the majority of these issues being oversubscribed. Approximately $1.60 billion in 3-month Treasury Bills and $320.9 million in 6-month Treasury Bills were allotted in 2005. Reduced liquidity in the banking system and an overall upward trend in interest rates supported the steady increases in the average tender rate on 3-month Treasury bills from 2.75% p.a. at the end of 2004 to 6.22% p.a. at the end of 2005, and the increase in 6-month Treasury bills from 1.52% p.a. to 5.33% p.a. for the same period.

During the fourth quarter of 2005, the Bank tendered for and was allotted a total of $75.0 million in 3-month Treasury bills in the primary market, and these were held by the Bank at year-end.

Purchases & Sales of Treasury Bills

As liquidity in the banking system tightened early in 2005, a commercial bank discounted $10.0 million in 3-month Treasury Bills to provide liquidity for the institution.

Long Term Securities

For 2005, Government's total domestic debt outstanding was recorded at $2.34 billion, compared to a balance of $2.12 billion at the end of the previous year. Over the period the Government of Barbados floated $335.0 million in securities, consisting of three Debenture issues and three Treasury Notes. Of this amount $115.0 million represented a rollover of existing debt, as five issues for the equivalent amount matured during the year.

One hundred and seventy-nine transfers of securities were performed during 2005, with an aggregate nominal value of $50.9 million. The market value of the sinking fund investments held against domestic debt at end-December was approximately $323.4million, compared to $283.3 million at the end of the previous year.

On December 5, 2005 the Government issued a US$125.0 million international bond, under Government's External Loans Act. The proceeds of this issue would be primarily geared towards financing certain infrastructure projects in preparation of the Cricket World Cup 2007. The market value of the sinking funds investments held against foreign debt at end-December was approximately $127.6 million, compared to $131.7 million at the previous year-end.

Savings Bonds

The Central Bank of Barbados, as fiscal agent for the Government of Barbados opened for subscription, three issues of Savings Bonds during 2005. The first bond that was issued on June 20, 2005 carried a nominal value of $10.0 million and was offered at a yield to maturity of 5.25%. The two subsequent issues for a nominal value of $5.0 million each were offered at a yield to maturity of 5.25% and 5.75%, respectively. By year-end, $1.5 million of these issues remained unsubscribed. As three issues of Savings Bonds for a total nominal value of $20.0 million also matured in 2005, the value of Savings Bonds outstanding as at December 31, 2005 was $116.9 million, compared to $114.9 million as at December 31, 2004.

Ways and Means

After starting the year at a balance of $52.0 million, the Ways and Means account fluctuated during the year to end 2005 at $124.5 million.

Trading in Foreign Currencies

Non-Regional

For 2005, there was an increase of 2.2% in the sale of non-regional currencies to the public and private sectors, representing a slower rate of growth compared to the 39.0% increase in sales for 2004. Trading in both the Euro and the US dollar remained relatively unchanged for 2005, at 0.7% each.

In contrast to the previous year, during 2005 the $420.7 million rise in the purchase of non-regional currency significantly outweighed the sales of these currencies for the year. US dollar-denominated transactions accounted for the majority of these purchases, as commercial banks sought to fulfill the requirement to surrender 25% of all foreign exchange borrowings to the Central Bank of Barbados. Purchases of euro-denominated transactions increased more than four-fold for 2005, while the value of Canadian and pound sterling-denominated transactions declined by 33.6% and 73.3% respectively for the year. In spite of the increase in purchases of non-regional currencies for 2005, overall there was a net sale position of $25.2 million for the year.

Regional

There was an overall decrease of approximately 9.9% in the sale of regional currencies for 2005, as trading in all currencies, with the exception of the Trinidad and Tobago and Belize dollars, contracted. The sharpest decline in the sale of drafts and telegraphic transfers was recorded for transactions denominated in Jamaica dollars (97.1%), compared to the decline in trading of Guyanese dollar and EC dollar transactions of 12.8% and 9.7%, respectively. Even though there were sizeable expansions in sale transactions

Foreign Currency Transactions

($'000)

	Sales		Purchases	
	2004	**2005**	**2004**	**2005**
Non-Regional				
EURO	14,649	**14,747**	967	**4,788**
CAN$	18,338	**16,442**	363	**241**
STG	23,441	**36,246**	3,439	**918**
US$	628,897	**632,995**	249,757	**669,306**
Sub-Total	685,325	**700,430**	254,526	**675,253**
Regional				
BZE$	181	**274**	1,351	**1,225**
EC$	55,562	**50,163**	60,330	**56,144**
GUY$	24,599	**21,461**	1,153	**533**
J$	69	**2**	7	**4**
TT$	933	**1,364**	11,511	**9,283**
Sub-Total	81,344	**73,264**	74,352	**67,189**
TOTAL	766,669	**773,694**	328,878	**742,442**

Source: Central Bank of Barbados

related to the Belize and Trinidad and Tobago dollars of 51.4% and 46.2%, respectively, these did not offset the overall decline in the sale transactions of regional currencies for 2005.

Similarly, the purchase of these currencies declined, by 9.6% for the year. This compares to a 3.0% decline in 2004, with the fall-off for 2005 being the result of declines in the trading of all regional currencies. The most significant contraction was recorded for Guyanese dollar-denominated purchases which fell by 53.8%. This was followed by declines of 42.9% and 19.4%, respectively in transactions denominated in Jamaican and Trinidad and Tobago dollars. Trading in Belize dollars fell by 9.3% while purchases of EC dollars declined by 6.9%. Based on the performance of individual currencies, overall trading in regional currencies recorded a net sale position of $6.1 million.

Foreign Currency Cash Transactions

During the year, foreign currency notes with a total value of BDS$94.9 million were purchased from the banking system, a reduction of 23% over the BDS$116.5 million recorded in 2004. Declines were recorded for all currencies with the largest extra-regional fall-off of 28.3% being registered for US dollars.

Purchases of Foreign Currency Notes ($Million)

Currency	Amount Purchased	
	2004	2005
USD	59.9	**46.7**
GBP	45.7	**39.5**
CAN$	3.8	**3.2**
EUR	5.4	**4.5**
Subtotal	**114.8**	**93.9**
EC$	1.7	**0.97**
Total	**116.5**	**94.87**

Source: Central Bank of Barbados

Foreign currency notes with a value of BDS$3.8 million were sold to the banking sector. This was a decline from 2004 when total sales were BDS$5.7 million.

The total value of foreign notes repatriated in 2005 amounted to BDS$104.6 million; income earned on these was BDS$0.74 million. In 2004, the amount repatriated was BDS$99.7 million, with earnings of BDS$0.78 million. Fluctuations in rates accounted for the difference in earnings.

Currency Operations

During 2005, work continued on the development of modules for the Currency Inventory System. The Notes and Coins, the Foreign Currency, and Cash Float registers went live. Still in parallel mode are the Travellers Cheques and Foreign Cash Float registers. Work has been rescheduled for 2006 for the Numismatics Module to accommodate new requirement specifications.

Foreign Assets

The net international reserves (NIR) increased by 3.9% for 2005, to $1,238.0 million as at December 31, 2005.

The Bank's investment strategy for 2005 concentrated on preserving the value of the Bank's asset base, while enhancing the income potential of the portfolio as international interest rates continued to rise. To achieve this objective, the Bank disposed of $249.0 million in fixed income securities, which were predominantly low yielding and invested in higher yielding coupon bonds for shorter periods of time. These bond sales for 2005 generated realized capital gains of $0.80 million. In addition to the bond sales, the Bank took advantage of gains that had accumulated on other securities and sold the majority of these securities to earn a significant capital gain.

In an effort to meet the cash requirements for foreign exchange during the second half of the year, the Bank liquidated its portfolios of Treasury Bills and term deposits, in addition to selling $71.0 million of its bond portfolio. In December 2005 these holdings were replenished from the proceeds of Government's foreign borrowing of US$125.0 million.

As at December 31, 2005, the Central Bank held $102.0 million in term deposits and $69.3 million in Treasury Bills, compared to $62.0 million and $29.85 million, respectively for 2004. At December 31, 2005, the fixed income securities portfolio was $599.15 million, (inclusive of $17.6 million in regional government securities), representing an increase of 2.02% for the year.

Bank Supervision

The Bank Supervision Department continued to operate in a dynamic environment during 2005. The asset base of the offshore financial sector continued to grow but at year end there was evidence of imminent change in the composition of the sector. In the offshore sector one licence was revoked and nine relatively small licensees commenced the process of voluntary wind up.

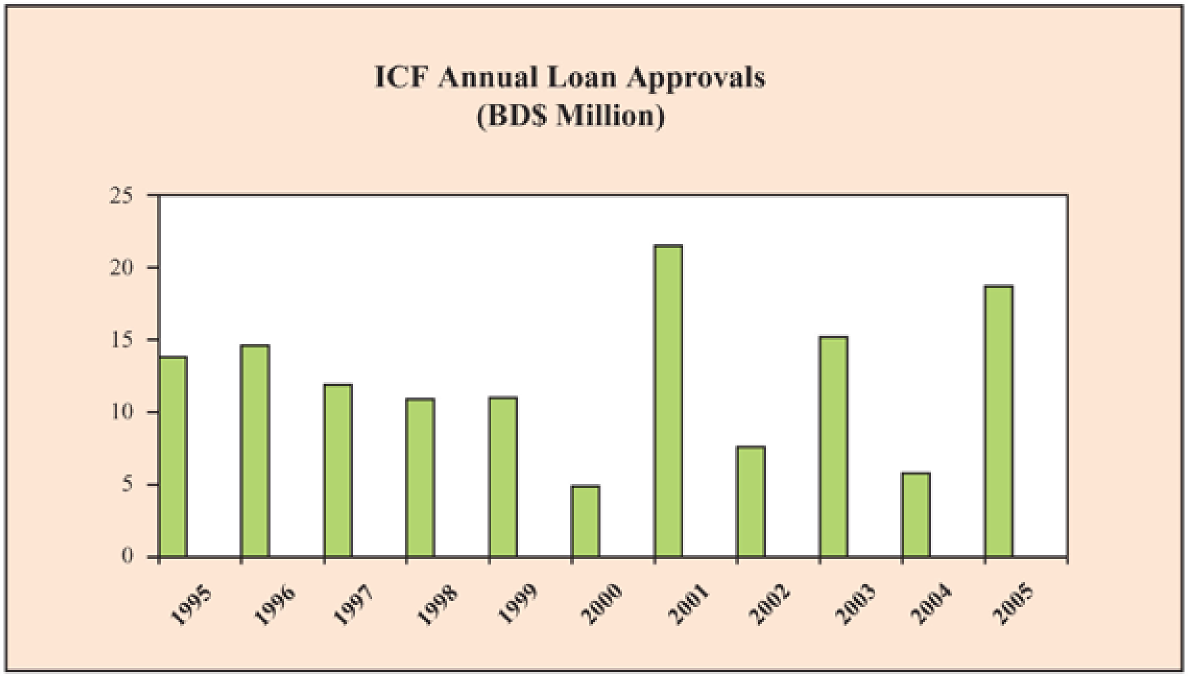
One new entity was licensed under Part III of the Financial Institutions Act, while one application for a licence under Part II of the Act was received. Three applications were received to license entities under the International Financial Services Act.

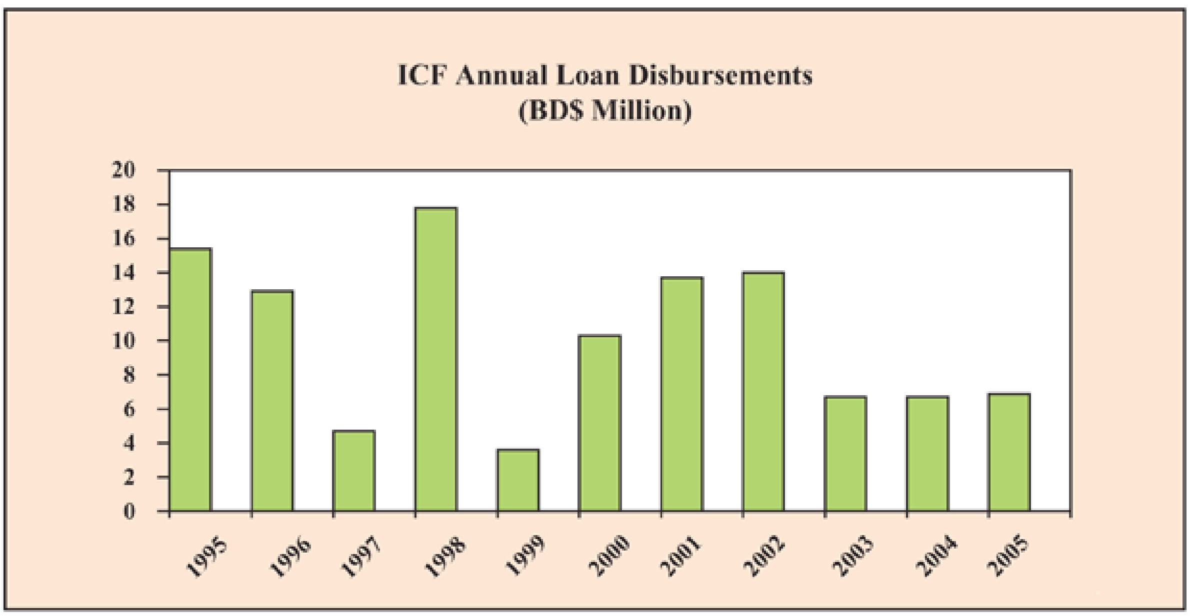
The Central Bank continued its vigilance over the financial system through its onsite examination programme, and conducted "safety and soundness" inspections of institutions licensed under the Financial Institutions Act and the International Financial Services Act. In addition, several specialised inspections were conducted. The Department maintained offsite monitoring of the sector and, as part of its offsite surveillance procedures, met with directors and senior management of both domestic and international banks.

The Bank intensified its work on the new Capital Accord and meetings were held with licensees in preparation for the issuance of consultative papers to the industry. The Bank concluded its work on the deposit insurance legislation. As part of its ongoing efforts to ensure that Barbados' anti-money laundering framework is robust, the Department implemented a special project to conduct focused examinations of targeted licensees and revised the *2001 Know Your Customer Guidelines*.

The Bank Supervision Department participated in a technical working group of the Caribbean Group of Banking Supervisors to review the draft Caricom Financial Institutions Bill, the Caricom Financial Services Agreement and the Caricom Agreement on Investments. A comprehensive report was prepared and presented to the Governors of the regional Central Banks in December 2005.

The Department maintained a close interaction with both regional and international bodies involved in the supervision of financial institutions, including the Caribbean Group of Banking Supervisors, the Offshore Group of Banking Supervisors, the Association of Supervisors of Banks of the Americas, the Financial Services Authority of the UK and the Office of the Superintendent of Financial Institutions of Canada. The Department participated in various conferences and training courses hosted by these groups.



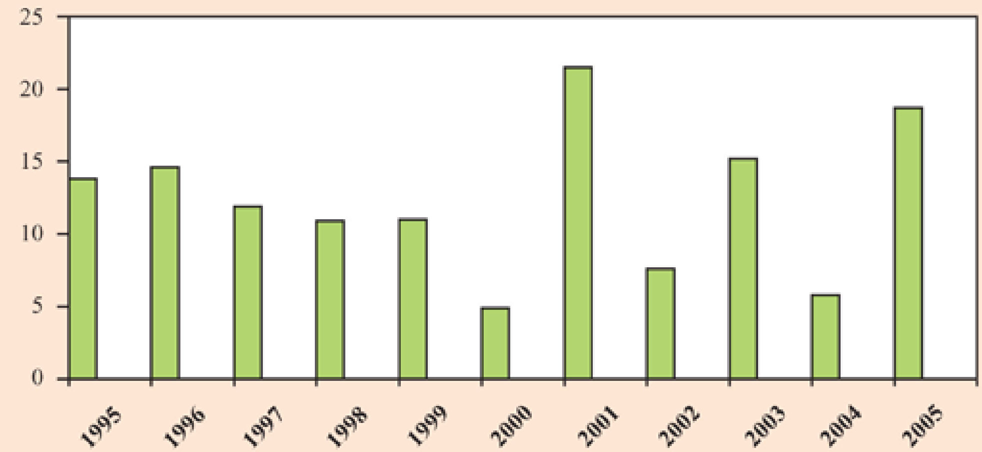


investment in subsidiaries and/or affiliates outside of CARICOM, authority has been delegated within a prescribed limit.

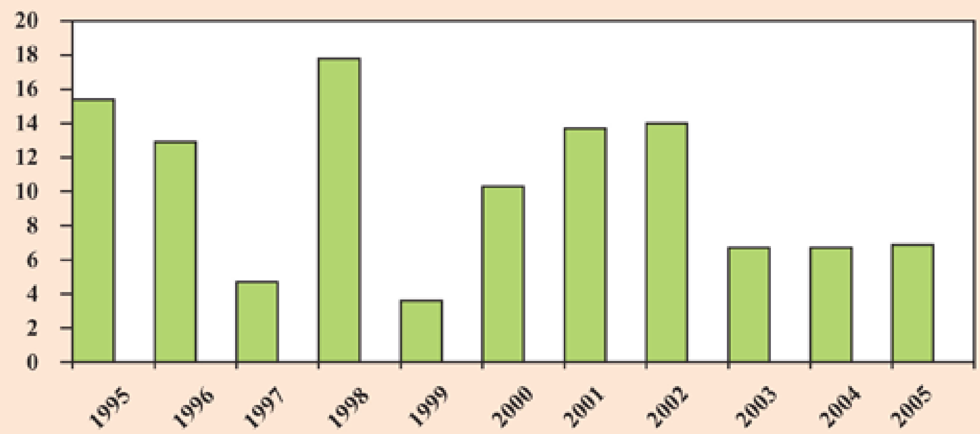
Export Credits

During the year export credit insurance coverage provided by the facility was $0.15 million.

ICF Annual Loan Approvals
(BD$ Million)



ICF Annual Loan Disbursements
(BD$ Million)



investment in subsidiaries and/or affiliates outside of CARICOM, authority has been delegated within a prescribed limit.

Export Credits

During the year export credit insurance coverage provided by the facility was $0.15 million.

Key Indicators of ICF Operations
($Million)

Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005P
Loan Approvals	13.8	14.6	11.9	10.9	11.0	4.9	21.5	7.6	15.2	5.8	**18.7**
Loan Disbursements	15.4	12.9	4.7	17.8	3.6	10.3	13.7	14.0	6.7	6.7	**6.9**
Principal Repayments	5.4	6.1	21.7	8.3	4.7	6.4	12.6	11.1	6.3	7.0	**8.3**
Loans Outstanding	30.8	37.6	20.6	30.1	29.0	32.9	34.0	36.9	37.3	37.1	**35.6**
Net Income	2.4	2.6	2.0	2.2	2.1	2.1	1.7	1.7	0.9	0.9	**1.0**
Capital Inflows	1.9	0.0	0.0	0.0	0.0	0.0	4.0	10.5	3.0	6.2	**0.0**
Net Worth	57.6	59.6	61.1	62.5	63.6	64.8	69.5	79.5	82.6	88.3	**88.1**

Source: Central Bank of Barbados
P: Provisional

The total maximum liability for insurance business underwritten during the year remained at $0.15 million. During 2005, Export Finance Guarantees of $66,000 for lines of credit totalling $99,600 were made available for pre-shipment finance purposes. In respect of post-shipment financing, guarantees amounted to $0.13 million for lines of credit of $0.15 million.

During the year, small and medium-sized enterprises continued to use the collateral support provided by the credit guarantee scheme. At year-end, there were 58 guarantees outstanding with a maximum liability of $2.9 million as compared to 52 guarantees with a maximum liability of $2.2 million at the end of 2004. Total lines of credit grew from $2.5 million to $3.2 million during the year.

Industrial Credit Fund (ICF)

Reduced liquidity levels in the commercial banking system throughout the year significantly increased the demand for ICF funding for new projects during the latter half of 2005. As a result, the value of new loan approvals increased sharply during the year. The level of disbursements was slightly above that of the previous year.

The ICF approved eight loan applications totalling $18.7 million compared to four applications valued at $5.8 million in 2004. Cumulative approvals rose to $191.2 million while new disbursements amounting to $6.9 million increased net cumulative disbursements to $170.4 million. Tourism accounted for the most ($16.9 million) of the new approvals with the remainder going to manufacturing ($1.6 million) and agro-industry ($0.2 million). The balance of loans approved but undisbursed was $12.1 million at year-end.

No capital contributions were received during the year as compared to $6.2 million in 2004. After making a provision of $1.3 million for principal and interest on the EIB loan the ICF's net worth declined slightly to $88.1 million at the end of 2005. Net income has been provisionally estimated at $1.0 million for 2005.

Key Indicators of HCF Operations
($Million)

Indicators	2005P
Loan Approvals	**9.3**
Loan Disbursements	**11.3**
Principal Repayments	**6.7**
Loans Outstanding	**118.7**
Net Income	**4.6**
Capital Inflows	**0.0**
Net Worth	**133.8**

Source: Central Bank of Barbados
P: Provisional

Housing Credit Fund (HCF)

The Housing Credit Fund recorded its first full year of operations since its transfer from the Ministry of Housing to the Central Bank in February 2004. Loans approved during the year amounted to $9.3 million and increased the total cumulative approvals to $180.8 million at December 31, 2005. Disbursements of $11.3 million made during the year brought the total cumulative disbursements to $180.8 million at year-end. There were no loans approved that remained undisbursed at December 31, 2005 compared to $2.0 million that had been approved but remained undisbursed at the end of 2004.

Unaudited statements for the HCF show net income of $4.6 million for fiscal year 2005. The HCF net worth was $133.8 million at December 31, 2005.

Barbados Investment Fund

For the financial year ended August 31, 2005, the Barbados Investment Fund approved funding of BDS$1.91 million to four new projects. Additional funding of $71,709.00 was also provided to two existing investments. Total disbursements to these projects amounted to $1.78 million while disbursements to two other previously approved projects totalled $243,928.00. Total disbursements for the year were $2.0 million, and this brought total investments to BDS$20.2 million in 48 projects since the Fund commenced operations in 1992. At year-end the Central Bank's contribution was $14.5 million, an increase of $0.5 million over the previous year.

Investment opportunities improved during the year. Although the tourism sector continued to offer the greatest potential for investment, the Fund Manager was still able to identify other opportunities for investment. Approximately, 43% of the Fund's new investment for the year went to manufacturing and construction sectors; the remaining 57% went to the hotel/tourism sector.

Wherever practicable, investment partners were given the opportunity to participate in workout/or refinancing arrangements with a view to disposal of the investment at a more opportune time in the future.

A net operating surplus of $262,415.00 was reported for the year ended August 31, 2005, as compared to $168,078.00 for 2004. Operating revenues showed a 42% increase over the previous year, while operating expenses showed a 33.5% increase due mainly to the payment of incentive fees on the gain on disposal of investments. The gain on disposal of investments was $615,000.00, as compared to a net loss of $36,720.00 for 2004.

The Fund's net income for the year was $534,811.00, a 120% increase over that ($242,864.00) for the previous year.

Human Resources

In 2005 the Bank embarked on a programme of Job Rotation in order to broaden the scope and knowledge base of employees and, at the same time, enhance individual and organisational growth and development. The rotations so far have been among some of the Administrative Assistants, the Secretary 1's and Clerical Officers.

A new process to enhance employee development was introduced at the beginning of the fourth quarter. This is geared towards determining the extent to which the Bank's human resource competencies can be aligned to its organisational goals. It also acts as a guide to training and development programming and succession planning.

Internal Audit

The Central Bank continued to provide objective and independent review of critical aspects of the Bank's operations through the work of its Internal Audit Department. These included a post implementation review of the Real Time Gross Settlement system, the Bank's investments, and the Bank's fixed assets - in particular its Artwork collection - and a review of the payroll system conversion, among other areas.

The Department was represented at the 2nd regional meeting of central bank internal audit directors, which was held in Jamaica. This was an excellent opportunity for the various heads of departments to share ideas and discuss ways forward for the departments.

Internal audit week was again held in October. The Department decided to market the work of internal auditors by hosting a series of activities. A "lunch and learn" session was held with the subject "*The role of the audit committee*" as the theme. This was led by a member of the audit committee. In addition, an initiative to allow staff to "*spend a day with Internal Audit*" was developed to enable members of staff to learn more about the Department. Other activities included a book display and a Power Point presentation on the intranet.

Management Information Systems

In 2005, the Central Bank embarked on the first business intelligence project, in order to meet the information needs of its executives for analysis, reporting and decision making. The Bank has taken up the initiative of implementing a state of the art Data Warehouse/Business Intelligence solution. The envisaged solution will help to rationalise information processed across multiple systems (both internal and external), streamline data flows, eliminate data duplication, and effectively support analytical and reporting requirements. This project will be done in phases. The first phase started in November 2005 for the Exchange Control datamart.

Application, Development and Maintenance (ADM)

During 2005, the Business intelligence project was started which will lead to the development of a datamart for the Foreign Exchange and Export Credit Department. The MIS Department also handed over the Non-Trade Outflows system and made major enhancements to the Human Resources Information System. The Commonwealth Secretariat Debt Recording Management System CSDRMS was successfully upgraded.

Systems Administration and Technical Support (SATS)

The Systems Administration and Technical Support Section continued to skillfully manage the task of maintaining our complex network infrastructure. The SWIFTNET system and the Inmagic system for the Library were upgraded. A number of security tools were installed to strengthen our network security. Asymmetric Digital Subscriber Lines (ADSL) were installed in the Library, the Language Centre and the Training Room Level 4.

Information Security

The Information Security Awareness Programme for staff continued. The Intrusion Detection system was completed during the year, all implementation and configuration issues were fully resolved.

Training

The Department continued its training of the Bank's staff in Microsoft office products and Visual HelpDesk Specialized training was conducted at the Customer Service Centre which was launched the previous year.

Research Department

As in the previous three years, the Department in 2005 was stretched with requests from Government for policy papers on various economic issues affecting Barbados and the other Caribbean nations. This demand for economic intelligence and policy advice was delivered with no noticeable drop in timeliness and general competence in the execution of the Department's core operational functions such as the production of the economic and statistical publications.

The Department continued to work on the Bank's forecasting and financial programming models, developing and upgrading links between the various sectors as well as incorporating new techniques for estimating real value added and forecasting data series. These models were used to undertake several scenario analyses during the year. The Department also made significant strides in updating total external debt owed by the private sector. This should allow for more accurate forecasts of future external debt service payments. In addition, the Department began work on the revision of the financial system data collection forms as well as the offshore banks' data. Furthermore, the Department helped in the coordination of the revision and re-launch of the Frank Collymore Hall website and the Bank's intranet.

Economists in the Department attended various training workshops and seminars throughout the year, covering topics like Financial Programming, Portfolio Investment and Remittances. They also participated in the "*Week of Excellence*" organised by the social partners and assisted in the production of the productivity survey. In addition, they wrote and presented papers at various local, regional and international conferences. However, the Department's *Annual Review Seminar* continued to be the main training tool, and as usual, received participants from the regional central banks, the Caribbean Centre for Monetary Studies, the University of the West Indies, the University of Guadeloupe, the Ministry of Finance, the Caribbean Development Bank, the National Insurance Scheme and the corporate sector. The seminar was conducted over four days with 22 papers presented in the first two days, while the last two days featured a panel discussion on "*Can Caribbean Labour Unions Survive in a Liberalised Environment? Challenges Ahead*" and a workshop on " *Interpreting Company Reports and Accounts*".

For the second year straight, the Internship and Schools' Programmes were scaled down because of budgetary constraints. Compared to the six international and local students entertained in 2004, there were only four interns in 2005. Students came from Bucknell University, Pennsylvania, USA, the University of Guadeloupe and the Cave Hill and Mona campuses of the University of the West Indies. With respect to the schools' programme, the Department tackled the constraint on the number of lectures occasioned by the budget by incorporating other interesting topics like CSME and Financial Planning into the programme.

Papers Presented at Conferences during 2005

"Foreign Exchange Reserves: How Much is Enough?" by Marion Williams, at the 37th Annual Conference of the Caribbean Centre for Monetary Studies for the 20th Adlith Brown Memorial Lecture, Central Bank of The Bahamas, November 2, 2005.

"Sectoral Output Growth and Economic Linkages in the Barbados Economy Over the Past Fifty Years" by Roland Craigwell, Kevin Greenidge, Keva Steadman and Darrin Downes, at the International Atlantic Economic Society Conference in London, England, March 9 - 13, 2005.

"Debt and Fiscal Sustainability in Barbados" by Carlos Holder, Xiomara Archibald and Kevin Greenidge, at the International Atlantic Economic Society Conference in London, England, March 9 - 13, 2005.

"Labour Market Flexibility in Barbados" by Xiomara Archibald, Denny Lewis-Bynoe and Winston Moore at the Western Economic Association Conference 2005, San Francisco, U. S. A.

"Does Capital Account Liberalisation lead to a Boom in Foreign Direct Investment" by Daniel

Boamah, Roland Craigwell, Darrin Downes and Travis Mitchell at the 37th Annual Conference of the Caribbean Centre for Monetary Studies, The Bahamas.

Publications by Central Bank Staff during 2005

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

"Ground Rules for Regional Integration: Lessons from Planning for the Caricom Single Market and Economy" by Marion Williams and Harold Codrington in the *Cemla Boletín*, Vol. L1, No. 2, April-June, 2005, pp. 54-59.

"Barriers to Starting a Business in Barbados" by Winston Moore, Xiomara Archibald and Denny Lewis-Bynoe in the *Journal of Eastern Caribbean Studies*, Vol. 30, Issue 3, pp. 1-27.

"Is Efficiency Imperative for the Growth of the Barbadian Credit Union Industry" by Winston Moore, in the *Journal of Eastern Caribbean Studies*, Vol. 30, Issue 3, pp. 28-43.

"Financing Preferences and Firm Growth" by Winston Moore, Chanelle Maxwell and Roland Craigwell in *Savings and Development*, 2005, Issue 1.

"The Tourist Area Lifecycle and Regime Switching Models" by Winston Moore and Peter Whitehall in *Annals of Tourism Research*, 2005, Vol. 32, Issue 1, pp. 112 - 126.

"Tourism Maturity and A Ranking of Relative Tourism Potential in the Caribbean", by Roland Craigwell and Peter Whitehall, in the *Central Bank of Barbados Economic Review*, Vol. XXXII, No. 2, pp.28-40.

Central Bank Plans for 2006

Accounts Department

The Bank will work closely with Barbados Automated Clearing House Services Inc. (BACHSI) and the commercial bank to implement a '*direct credits*' payment system. This system will replace standing orders and similar transactions effected by insurance companies and similar entities. The Bank will provide infrastructural support and settlement for the system.

The Bank through BACHSI is exploring the framework for the introduction of an Item Processing Centre (IPC), which will effectively function as a Clearing House and Cheque Processing Centre. This will effectively centralise the processing of cheques with the Bank maintaining oversight and responsibility for settlement.

The Accounting Information System will be significantly upgraded through a new version of Prophecy Software to provide seamless integration of accounting modules and other modules used in the Department.

Banking and Currency

The main objective of the Central Bank's banking facilities to its constituents will be to ensure increased productivity and improved service to its several stakeholders. Efforts will be further extended to market the Bank's Real Time Gross Settlement (CBRTGS) payments system to the private sector, so as to ensure that domestic financial transactions are settled more efficiently. The integrity of the CBRTGS system will be enhanced during the first half of the year, by further improvements to the Bank's contingency plans for this system.

Under public debt management, the dematerialisation of securities will continue to be pursued, with a view to making this a reality as soon as is practicable. In investment management, there will be continued focus on the Bank's external asset management programme to add specialised skills and to diversify the management of the foreign reserves. To assist with performance measure-ment on the in-house managed portfolios, further strides towards upgrading the cash management process in the Portia Portfolio Management system will be undertaken.

The currency section will focus on the development of modules on the Currency Inventory System (CIS) to capture mutilated notes redeemed from the general public, as well as large and unusual transactions. In addition, the CIS modules related to numismatic coins and specimen notes will be completed during the year. Greater emphasis will be placed on the development of web pages for information on local currency and numismatic coins for the purpose of promoting public education on the Bank's coin programme, while also serving as a marketing tool for the Bank's numismatic coins.

Bank Supervision

In executing its supervisory function, the Bank will continue its preparation for the Caribbean Financial Action Task Force's Mutual Evaluation of Barbados' anti money laundering framework. It will also continue efforts to strengthen the regulatory framework through the review and harmonisation of the domestic and international legislation, the issuance of Guidance Notes and the adoption of the revised Core Principles. With the proposed 2009 target for the implementation of the Basel II, the Bank will accelerate its preparations by administering a quantitative impact study and intensifying training for staff and the industry during the year. The Bank will also continue its focused examinations of targeted licensees and maintain discussion with other local financial sector regulators to enhance the anti-money laundering framework.

The Bank is cognisant that, with the move to the CSME, accelerated efforts must be made to implement systems for the harmonisation of regulatory and supervisory practices with its CARICOM counterparts. The Bank will work in conjunction with the Caricom Group of Banking Supervisors, of which the Department is a member, and Caricom Secretariat to finalise framework legislation, Agreements, and supporting Directives relative to the CSME.

The Bank will continue to maintain close relationships with both regional and international bodies involved in the supervision of financial institutions, including the Caribbean Group of Banking Supervisors, the Offshore Group of Banking Supervisors, the Association of Supervisors of Banks of the Americas, the Financial Services Authority of the UK and the Office of Superintendent of Financial Institutions of Canada. In this regard, the Bank Supervision Department will seek to capitalise on training programmes offered and be represented at the various meetings held by these groups.

Facilities Management

It is expected that some projects deferred from 2005 will materialise in 2006. Some aging plant and equipment should be replaced to ensure that the internal environment remains safe and healthy. In the event that the remaining Church Village residents are relocated, the area will be cleared and secured.

Services

The Bank will endeavour to improve on its service standards inter alia, in central purchasing, conference and seminar organisation, CPR and First Aid Training and environmental management. It hopes to conduct a twice-yearly inventory of the Bank's assets and to improve the write-off and disposal process.

Maintenance

The Services Section will continue its efforts to replace and upgrade some plant and equipment. Also scheduled is the refurbishment of the Masonic Lodge.

Security
It is anticipated that Security at the Tom Adams Financial Centre will be enhanced in 2006 with the introduction of the scanning and other related equipment. Also, physical upgrades to enhance security at offsite locations should be completed. New initiatives are also expected by the first half of 2006 for improving visitor management and relations. New security hardware and software should be in place early in the year and this will enhance the Section's monitoring and response capabilities.

Frank Collymore Hall (FCH)
The Central Bank will continue its outreach programme through the Frank Collymore Hall which will be taking innovative steps to improve its services and to make it more accessible to a wider community through after-work and weekend programming. It is hoped that the FCH's Annual Season will return to boost its developmental role.

Efforts will increase to market its facilities through its website and mailing list. Planning to stage a Cricket World Cup 2007 cultural production will be intensified.

Public Affairs
In 2006, the Bank will play a critical role in the organisation of the Euromoney/Latin Finance conference, the CARIBIZ Conference and a workshop for the media.

The Euromoney conference, which the Bank is coordinating on behalf of the Government of Barbados, will be a highlight of activities for 2006. It is expected that this conference will attract senior personnel from finance, business and politics across the world.

Foreign Exchange and Export Credits
The Bank, having liberalized almost all current transactions with CARICOM countries, will continue to strengthen its monitoring mechanisms and, wherever practicable, review and liberalise additional current and capital account transactions.

During the year, the Exchange Control Department will place major emphasis on the implementation of a new computerised system for the collection and reporting of data by commercial banks. The Department will also work closely with the Customs Department of the Barbados Government to ensure the successful implementation of the ASYCUDA++ system in accordance with the requirements of the Exchange Control Act, CAP 71.

Greater use will be made of the Internet to assist the public in accessing the various forms used in the execution of foreign exchange transactions. The Bank will work closely with commercial banks to facilitate e-banking and e-commerce transactions.

Through its Export Credits function, the Bank will continue its thrust to put in place mechanisms to facilitate the growth and development of services enterprises. Towards this end, financial institutions will be once again encouraged to make greater use of the Department's schemes, especially the Credit Guarantee Scheme for Small Businesses.

The search for new sources of venture capital funding will continue in the on-going effort to provide additional resources for the financing of new investment opportunities.

The Industrial Credit Fund will seek to encourage the utilisation of its reserves for use by the rum industry for the financing of aged rum.

Human Resources
The major emphasis for the HR function during 2006 includes:

- accentuating employee recognition for their contribution to achieving the operational and organisational goals of the Bank
- facilitating greater employee participation
- augmenting departmental employee development strategies with an ongoing training process that seeks to enhance core competencies identified in performance appraisal

- maintaining strict relationship between value of the work performed and individual and departmental goals
- increasing Union-Management Cooperative programmes

Internal Audit

In 2006, the Bank, through its Internal Audit Department will continue to provide independent review and assessment of the Bank's critical areas of activity.

Staff training needs will be reviewed and emphasis will be placed on marketing the Internal Audit function to its stakeholders and improving the timeliness and quality of reviews.

In addition, the Department will be challenged to be ready for an external quality assurance review at the end of the year.

Management Information Systems

Overview

The Bank will continue to upgrade its Management Information Systems and its thrust to capture data and disseminate information electronically and from source whenever possible. To this end the MIS Department has devised a multi-faceted approach to electronic data capture. This would include: Implementation of business intelligence solutions for the Exchange Control and Research Departments; continuation of the Electronic Data Interchange (EDI) project which commenced in 2005; continued use of workflow applications for internal paper-based processes; and the use of web-based technologies to publish back-end databases.

The Department will:

- Utilise the successful implementation of the VPN solution together with the use of web-based technologies to provide the gateway for more or all external customers to transfer data and information electronically.
- Set up a test lab for at least two new web-based applications development tools. The industry has embraced web-based development tools as the new application development platform. They integrate well with existing databases.
- Implement a business intelligence solution for Exchange Control and start the design of datamarts for Research and Bank Supervision.
- Continue to increase the use of Workflow applications for internal paper-based processes.
- Implement bank-wide, a comprehensive Information Security Awareness programme.
- Review and update as necessary the security measures with the view to continuous fortification of the Bank's computer environment.
- Review and update all policy documents to ISO standards compliance.
- Strengthen disaster recovery and contingency planning in light of recent disastrous hurricanes.

In addition, the Department will:

- Implement a process for the archiving of e-mails in line with existing international standards.
- Train IT staff to ensure that they have the required skills to support new technologies.
- Develop the IT skills of users.
- Create and manage a secure IT infrastructure.
- Promote the use of the Internet/Intranet for disseminating and receiving information in a more timely and efficient manner.
- Refine remote access capabilities.

New Applications

For 2006 the major implementation will be the datamart for Exchange Control. The next planned phases of the Business Intelligence (BI) project are the Research and Bank Supervision datamarts, which are expected to commence in the latter half of 2006. The rewrite of the Pensions system, deferred from 2005, will also be a priority. The Electronic Data Interchange (EDI) project with the commercial banks will continue in 2006.

Support For Major Applications
The MIS Department will continue to offer installation and maintenance support for the AREMOS, CS-DRMS, and SWIFT environments during the year. The department will also continue its support of the standard office automation software and provide first level support for the RTGS System, INGRES, PORTIA, PROPHECY, CPS and the Electronic Signatures solutions.

MISD Training
- Emphasis will be placed on continued user training.

Research
The Bank's Research Department will need to recruit new replacement personnel during the year. Adding to the challenge is the increased demand for comprehensive and timely analysis of the numerous issues arising from the country's integration efforts within the CSME as well as those posed by other ongoing negotiations. The Department will also focus on updating existing methodologies and particularly develop critical databases relating to debt and international financial services. This will require a concerted departmental effort involving the re-deployment of resources and the adoption of a programme of monitoring new personnel.

Capital account liberalization under CSME raises issues of financial stability, which the Department has sought to address with the formation of a new cross functional unit called *"The Financial Stability Unit"*. In addition to their substantive assignments, 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 will continue on the Bank's Economic Outlook model, which has been critical in the GDP estimation and forecasting process. More creative approaches to assessing the impact of economic policy simulation exercises will be put in place. The enhancement of methodologies for the traded sectors, especially non-sugar agriculture, and the development of new techniques for measuring the contributions of the international business and other services sectors will continue to feature prominently in the Department's work. Also efforts will continue to rebase real GDP estimates to a more current year (perhaps 2000), this exercise should provide an opportunity to identify the contribution to GDP arising from the financial services sector.

Training
The major focus of the Department will be training and nurturing the research capabilities of economists. The Annual Review Seminar will remain the main training tool and will be supplemented by exposure at regional and international conferences. In this regard, the Bank will this year be hosting the annual Caribbean Centre for Monetary Studies (CCMS) conference, which will offer a greater number of the economists an opportunity to interact with some of the best economic thinkers in the region. Courses provided by the International Monetary Fund Institute on the balance of payments, government finances and financial programming also provide another opportunity for sharpening the analytical and research skills of economists.

Public Outreach
The school's outreach programme will continue to be an important feature of the Bank's public education programme. The internship programme will be encouraged as another important vehicle for enhancing the understanding by students of economic issues confronting small economies, like Barbados, through practical on-the-job experience that augments students' economic theory work. As usual, the various campuses of the University of the West Indies and two students from the

Bucknell University in Pennsylvania, U.S.A will continue to benefit from this programme.

Statistics

In 2006, the Statistical section will continue to implement technology solutions to gather and disseminate 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 starting with the commercial banks in 2006. The other financial institutions, Government and other data suppliers will be incorporated in later phases. New tables relating to credit cards, employment and public debt will continue to be added to the EFS to widen the scope and coverage of the database. In addition, the monthly issue of the EFS will be made available on the Website and hard copies will be issued quarterly. This will result in cost savings and an opportunity to focus more on the provision of online materials.

Library and Information Services

In 2006, the Central Bank through its 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 Library's intranet page. The Records Management Centre will continue to assist selected departments in evaluating their records with the emphasis on disaster preparedness and recovery; it will ensure that the Bank operates according to records management standards and will assist in the creation of policies and procedures for the management of records.

ADOPTION OF FINANCIAL STATEMENTS 2005

The net operating surplus for the financial year ended December 31, 2005 was $1,074,162.

Income for the year totalled $47,269,413 and is marginally lower than in the previous year. The interest rate on Fedfunds increased from 2.25% at the beginning of the year to 4.25% by year-end. However, Foreign Reserves available for investment declined by $162.8 million during the period January – November 2005. This decline is attributed to sales to commercial banks for imports and external debt service. During early December 2005, reserves were increased by $250.0 million, namely through proceeds from Government Foreign Loan borrowings.

The Bank continued rebalancing the external asset portfolio by liquidating low earning securities and replacing same with higher yielding securities. This rebalancing generated income of $2.10 million and is expected to continue in 2006 as Fedfunds rate continues an upward trend.

Interest earned on Advances to Government under the Ways and Means Facility amounted to $1.9 million.

During the year, the Bank of Guyana suspended servicing of the CMCF debt.

Interest earned included a non-recurring amount of $1.1 million, representing capital appreciation and interest on a Sinking Fund asset which matured during the year.

The Bank performs treasury management operations for the Housing Credit Fund. At December 31, 2005 fees earned for the period February 2004 to December 2005 amounted to $0.86 million and outstanding assets at December 2005 were $133.7 million.

Operating expenses totalled $46.2 million and include a provision of $0.8 million in respect of CMCF debt impairment. The increase over 2004 is attributed to the replenishment of the stock of notes and coins available for circulation.

The Board of Directors, with the approval of the Minister of Finance, appropriated $1,074,162 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2005, the Profit and Loss Appropriation, the Profit and Loss Account, Statement of Cash Flows, Auditor's Certificate and explanatory notes to financial statements.

The Board of Directors has adopted the Financial Statements duly certified by the Auditors of the Central Bank for the year ended December 2005.

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AUDITORS' CERTIFICATE TO THE BOARD OF DIRECTORS

We have audited the accompanying balance sheet of the Central Bank of Barbados as of December 31, 2005 and the related profit and loss and profit and loss appropriation accounts and the statement of cash flows for the year then ended. These financial statements are the responsibility of the management of the Central Bank of Barbados. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Central Bank of Barbados as of December 31, 2005 and the results of its operations 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.

Bridgetown, Barbados
February 23, 2006

KPMG
Chartered Accountants

Balance Sheet

December 31, 2005
with comparative figures for 2004

ASSETS

	Notes	2005	2004
		BDS$	BDS$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	147,164,561	123,630,945
Foreign Notes and Coins		1,223,167	14,811,652
Foreign Securities	3	668,795,516	620,514,007
		817,183,244	758,956,604
International Monetary Fund:			
Reserve Tranche	4	16,251,678	15,077,522
Total Reserve of External Assets		833,434,922	774,034,126
LOCAL ASSETS:			
Securities:	5		
Barbados Government Treasury Bills		74,068,500	-
Barbados Government Debentures		635,000	635,000
		74,703,500	635,000
Advances:			
Government		124,500,000	52,100,000
Fixed Assets (Net)	6	90,027,071	92,626,071
Other Assets	7	34,294,473	37,184,195
Total Local Assets		323,525,044	182,545,266
		1,156,959,966	956,579,392

See accompanying notes to accounts.

Balance Sheet
December 31, 2005
with comparative figures for 2004

LIABILITIES, CAPITAL AND RESERVES

	Notes	2005	2004
		BDS$	**BDS$**
LIABILITIES:			
Notes and Coins in Circulation	8	575,862,132	513,328,827
Deposits:			
Government		297,709,858	74,451,745
Banks		198,800,499	258,282,977
Financial Institutions		1,839,795	2,061,400
Other		4,231,572	2,180,570
		502,581,724	336,976,692
Other Liabilities:			
Allocation of Special Drawing Rights	9	24,584,925	23,532,201
Other	10	44,914,710	59,200,792
		69,499,635	82,732,993
Total Liabilities		1,147,943,491	933,038,512
Other Funds	11	(2,983,525)	11,540,880
CAPITAL AND RESERVES:			
Authorised capital: BDS$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		10,000,000	10,000,000
Net Capital and Reserves		12,000,000	12,000,000
Commitments	12		
		1,156,959,966	956,579,392

See accompanying notes to accounts.

Approved on behalf of the Board of Directors:

.... **Governor**

.... **Financial Controller**

CENTRAL BANK *of* BARBADOS

Profit and Loss Account
For the year ended December 31, 2005
with comparative figures for 2004

	Notes	2005	2004
		BDS$	**BDS$**
INCOME:			
Commissions and Fees		10,381,697	10,987,160
Discounts:			
Treasury Bills		1,876,210	1,102,463
Interest:			
Advances		2,452,275	1,339,817
Deposits		1,739,462	4,301,703
Securities		24,987,751	23,594,778
Other Income	13	3,772,672	1,342,900
Difference in Exchange		-	264,665
Gain on Sale of Foreign Securities		2,059,346	4,847,235
Total Income		47,269,413	47,780,721
EXPENSES:			
Operating:			
Administrative Expenses		11,095,468	11,216,006
Depreciation		4,417,603	5,049,525
Difference in Exchange		427,192	-
Interest		29,432	28,085
Minting of Coins		1,846,213	1,341,366
Printing of Notes		4,407,448	2,977,054
Provision for Debt Impairment	2	802,620	-
Retirement Benefits	14	4,064,461	4,775,833
Salaries and Allowances		19,104,814	18,745,991
Operating Expenses		46,195,251	44,133,860
Net profit before undernoted items		1,074,162	3,646,861
Contributions:	15		
Barbados Investment Fund		-	500,000
Deposit Insurance Fund		-	300,000
		-	800,000
Net Profit Before Appropriation		1,074,162	2,846,861

See accompanying notes to accounts.

Profit and Loss Appropriation Account
For the year ended December 31, 2005
with comparative figures for 2004

	2005	2004
	BDS$	BDS$
Net profit before Appropriation	1,074,162	2,846,861
Deduct:		
Transfer to Consolidated Fund	1,074,162	2,846,861
Balance carried forward	-	-

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, 2005
with comparative figures for 2004

	Notes	2005	2004
		BDS$	BDS$
Cash flows from operating activities			
Net profit before appropriation		1,074,162	2,846,861
Adjustments for:			
Depreciation		4,417,603	5,049,525
Gain on sale of capital assets		(22,111)	(1,378)
Provision for debt impairment	2	802,620	-
Operating profit before working capital changes		6,272,274	7,895,008
Decrease in CMCF balance		-	8,791,378
Decrease in other assets		2,889,722	12,121,822
Net (increase) decrease in foreign securities		(10,165,444)	64,247,184
Increase in Holdings of Special Drawing Rights		(1,174,156)	(996,233)
Increase in local securities		(74,068,500)	-
Increase in discounts and advances		(72,400,000)	(52,100,000)
Increase (decrease) in deposits		164,530,870	(325,637,897)
(Decrease) increase in other liabilities		(14,286,082)	5,165,615
Net cash from (used in) operating activities		1,598,684	(280,513,123)
Cash flows from investing activities			
Purchase of fixed assets		(1,818,611)	(3,859,820)
Proceeds from sale of fixed assets		22,117	19,612
Net cash used in investing activities		(1,796,494)	(3,840,208)
Cash flows from financing activities			
Increase in allocation of Special Drawing Rights		1,052,726	1,100,891
Net increase in notes and coins in circulation		62,533,305	38,666,146
Net cash from financing activities		63,586,031	39,767,037

See accompanying notes to accounts.

Statement of Cash Flows (Cont'd)

For the year ended December 31, 2005
with comparative figures for 2004

	Notes	2005	2004
		BDS$	BDS$
Net increase (decrease) in cash and cash equivalents		63,388,221	(244,586,294)
Cash and cash equivalents at beginning of year		138,732,946	383,319,240
Cash and cash equivalents at end of year		202,121,167	138,732,946
Cash and cash equivalents comprise:			
Current account balances	2	108,405,981	84,069,745
Foreign Notes and Coins		1,223,167	14,811,652
Foreign Treasury Bills	3	92,492,019	39,851,549
		202,121,167	138,732,946

See accompanying notes to accounts.

Notes to Accounts
December 31, 2005

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) *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.

(b) *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.

(c) *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.

(d) *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.

(e) *Local Securities:*
Local securities are valued at cost.

(f) *Depreciation:*
Furniture, equipment, motor vehicles and buildings including the Frank Collymore Hall are depreciated on the straight-line basis over their estimated useful lives.

(g) *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 made.

Notes to Accounts, Continued
December 31, 2005

2. BALANCES HELD ABROAD

	2005	2004
	$	$
Balances held abroad comprise:		
Current Account Balances	108,405,981	84,069,745
CARICOM Multilateral Clearing Facility (CMCF)	38,758,580	39,561,200
	147,164,561	123,630,945

Under a rescheduling arrangement with other participants of the Caricom Multilateral Clearing Facility (C.M.C.F.), the Bank agreed to consolidate balances of interest and principal due to the Bank by C.M.C.F. 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. Interest is charged at the 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 C.M.C.F., balances on bilateral accounts due by Barbados to Guyana.

In November 2003, Barbados withdrew from the C.M.C.F. in order to permit other creditors to deliver debt relief to Guyana through C.M.C.F under the Enhanced-HIPC. By letter of February 24, 2005, the Bank of Guyana served notice of its intention to suspend further debt service payments to the C.M.C.F. with effect from April 01, 2005. The participating members of the C.M.C.F. have since agreed to distribute part of the C.M.C.F. accumulated fund to creditor members of the C.M.C.F. so as to facilitate debt reduction for Guyana under the Enhanced-HIPC initiative.

As at December 31, 2005, the Bank has established a provision of $802,620 in respect of the possible impairment of this debt.

Notes to Accounts, Continued
December 31, 2005

3. FOREIGN SECURITIES

Foreign securities comprise:

		2005		2004	
		Amortised Cost	Market Value	Amortised Cost	Market Value
		$	$	$	$
At Market Value:					
(a)	Bonds/Debentures	580,480,501	575,969,480	569,447,525	576,374,478
(b)	Equities	306,521	334,017	1,174,053	4,287,980
		580,787,022	576,303,497	570,621,578	580,662,458
At Cost:					
(c)	Treasury Bills	92,492,019	92,492,019	39,851,549	39,851,549
		673,279,041	668,795,516	610,473,127	620,514,007

The unrealized loss of $4,483,525 (2004: gain of $10,040,880) arose on the revaluation of Securities and is included in Other Funds. See note 11.

4. RESERVE TRANCHE

The Reserve Tranche pertains to the value of Special Drawing Rights at December 31, 2005. The balance held at December 31, 2005 amounted to SDR 5,314,120 (2004: SDR 5,150,738) and the rate of translation of SDRs into Barbados dollars at December 31, 2005 was SDR 0.326989 (2004 – SDR .341617).

Notes to Accounts, Continued
December 31, 2005

5. SECURITIES

Local securities comprise:

	2005		2004	
	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:

	2005			2004
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	$	$	$	$
Freehold Land and Buildings				
Office	85,130,083	13,849,624	71,280,459	72,530,451
Frank Collymore Hall	6,982,910	1,052,430	5,930,480	6,035,224
Residence	2,477,281	117,988	2,359,293	2,371,085
Masonic Lodge	1,319,254	-	1,319,254	1,319,254
Furniture & Equipment	35,270,867	26,259,208	9,011,659	10,205,236
Vehicles	948,992	823,066	125,926	164,821
Total	132,129,387	42,102,316	90,027,071	92,626,071

Notes to Accounts, Continued
December 31, 2005

7. OTHER ASSETS

Other assets include:

	2005	2004
	$	$
Accrued income on local investments	1,856,243	1,256,754
Cheques in process of collection	6,625,430	9,267,773
CRL Limited [1]	9,000,000	9,000,000
Fiscal Agency Payment Account	495,019	541,331
Prepayments	984,260	747,233
Staff Advances	14,419,222	13,008,421
Sundry Balances	914,299	3,362,683
	34,294,473	37,184,195

[1] The CRL Limited amount represents a six month revolving loan facility, which bears interest at a rate of 6% per annum. Prior to 1997, the loan was 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. As at the balance sheet date, the cumulative interest recognised amounted to $1,244,054 (2004: $1,244,054) and the amount not recognised amounted to $2,160,494 (2004: $1,620,494) of which $540,000 (2004: $540,000) relates to the current year.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2005, the nominal value of numismatic coins sold totaled approximately $10.4 million (2004 - $10.4 million). See note 1 (d).

9. ALLOCATION OF SPECIAL DRAWING RIGHTS

This amount represents the liability to the International Monetary Fund in respect of Special Drawing Rights allocated by the Fund.

Notes to Accounts, Continued
December 31, 2005

10. OTHER

This amount comprises:

	2005	2004
	$	$
Accounts Payable	1,867,599	2,005,507
Barbados Investment Fund	-	500,000
Barbados Tourism Authority Sinking Fund	515,381	255,690
BTII Special Development Bond Sinking Fund	304,313	2,250,000
Contribution payable - Deposit Insurance Fund	2,900,000	2,900,000
Contribution Payable - Establishment of a Chair at UWI	1,200,000	1,200,000
Contribution payable - Secondary Mortgage Market Project	242,319	242,319
Debenture Interest Payment Account	495,019	536,329
Domestic Clearing	3,764,187	6,671,950
Dormant Accounts - Commercial Banks*	12,333,986	9,653,848
Export Development Fund	201,169	219,169
Housing Credit Fund General Account	1,113,482	9,492,073
Industrial Credit Fund	15,154,460	16,609,725
Redemption of Debentures Account	372,120	871,120
Sinking Fund Contribution Account	424,711	27,596
Small Business Fund	330,000	330,000
Staff Pension Fund	12,143	1,082,043
Staff Welfare Fund	1,959,330	2,147,204
Sundry Balances	1,724,491	2,206,219
	44,914,710	59,200,792

*This account represents balances deposited with the Central Bank of Barbados in accordance with Section 88(3) of the Financial Institutions Act, 1997-16.

Notes to Accounts, Continued
December 31, 2005

11. OTHER FUNDS

This amount comprises the following balances:

	2005	2004
	$	$
Special Credit Trust	1,500,000	1,500,000
Unrealised (loss) gain on revaluation of investments (note 3)	(4,483,525)	10,040,880
	(2,983,525)	11,540,880

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

12. COMMITMENTS

At December 31, 2005 the Bank had guaranteed settlement of approximately $1,881,604 (2004: $933,693) under the following scheme:

	Value of Contracts	Guarantee
	$	$
Export Credit Insurance & Guarantee Scheme	49,580	-
Credit Insurance Scheme for Small Businesses	2,395,965	1,881,604
	2,445,545	1,881,604

Additionally, at December 31, 2005, the Bank had contracts for capital expenditure in the amount of $1.073 million (2004: $0.7 million).

Notes to Accounts, Continued
December 31, 2005

13. OTHER INCOME

Included in other income are the following items:

- Management fees received from Housing Credit Fund in the amount of $860,252.
- Interest received in the amount of $1,138,907on a Sinking Fund Asset which matured on November 15, 2005. Of this amount, $199,992 relates to the current period, $155,688 relates to 2004 and $783,227 relates to prior periods.

14. 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, 2005 revealed the following:

	2005	2004
	$	$
Fair value of plan assets	71,538,201	64,555,937
Actuarial present value of liabilities	84,184,423	81,754,364
Unfunded liability	12,646,222	17,198,427

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

	2005	2004
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 17.40 % (2004: 17.24%) of covered payroll be used for new benefits, plus an additional rate of 6.11% (2004: 7.82%) to allow the amortization of the unfunded liability over a period of sixteen/seventeen years. The total recommended funding rate of 23.51% (2004: 25.06%) of covered payroll should obtain until the next valuation.

Notes to Accounts, Continued
December 31, 2005

15. CONTRIBUTIONS

These contributions are made in accordance with Section 8(b) of the Central Bank of Barbados Act, Cap. 323C. As at the balance sheet date, the Bank had made cumulative contributions of $13.5 million, $2.9 million and $11 million to the Barbados Investment Fund, Deposit Insurance Fund and Industrial Credit Fund respectively.

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 2004 have been reclassified to conform to the current year's presentation.