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ECONOMIC REVIEW

Overview

During 2004, growth of the Barbadian economy was strong, particularly in tourism and the non-traded sectors, resulting in single digit unemployment levels for the first time since 2000. However, an accompanying surge in imports further widened the external current account and the net international reserves (NIR) declined significantly. A rebounding economy and decreasing interest rates also fuelled a resurgence in credit demand in the latter half of the year. Consequently, liquidity in the banking system tightened. Nevertheless, under-utilised resources remained relatively high so that the smaller fiscal deficit, emanating mainly from a contraction in Government capital spending, was mostly financed locally.

Bolstered by healthy outturns in tourism and the non-traded sectors, real economic activity grew by 3.7% in 2004, marking the third consecutive year of positive growth, after the 2.6% decline in real output in 2001. Tourism, which continued to be the mainstay of the economy, was the fastest growing industry, with an estimated expansion of 7.3%. Unlike the traded sectors, where the 3.1% pickup in economic activity was concentrated entirely in tourism, the increase of 3.9% in value-added in the non-traded sectors was broad-based, with the main impetus derived from wholesale and retail, transportation, storage and communication, and business and other services. The strengthening economy led to job gains but higher energy prices and the continued depreciation of the US dollar against other major currencies contributed to rising import prices. Nevertheless, inflation slowed as lower prices for housing and household operations and supplies partly offset increases in food prices.

Despite relatively strong growth in tourism receipts and a marginal increase in merchandise exports, the external current account deficit widened considerably as import demand surged. The deficit, estimated at $590.5 million (10.5% of GDP) or approximately $252.4 million (4.1% of GDP) more than for 2003, was the largest of the eight consecutive external current account deficits recorded since 1997 and reflected double-digit growth in all categories of imports. Coupled with lower capital and financial inflows, the result was a $314.1 million decline in the NIR which primarily occurred in the third and fourth quarters. This is in contrast to 2003, when the NIR rose by approximately $136.9 million mainly due to divestment proceeds of $189 million. Nevertheless, the liquid foreign assets of the monetary authorities remained adequate, with the import reserve cover at the end of 2004 at 24.8 weeks of merchandise imports, down from 35.2 weeks at the end of 2003. Outflows under the second-tier[1] reserve programme amounted to $99.2 million, bringing the accumulated funds under the programme to $184 million.

Liquidity in the banking system tightened as the growth in credit, spurred by strong demand for new mortgages, outpaced that of deposits. This followed a six-year period of marked increases in liquidity during which the demand for new credit was virtually flat. During 2004, the Bank relaxed monetary policy further by reducing the

[1]The second tier of reserves is a programme under which certain entities are allowed to invest funds overseas with the approval of the Central Bank, with the guarantee that such funds be repatriated on request. Commercial banks, insurance companies, pension funds and the National Insurance Scheme are allowed to invest under this programme.

securities reserve requirement from 16% to 12% of deposits in February and the minimum deposit rate by 25 basis points to 2.25% (the lowest on record) in March. Consequently, by the end of 2004, the weighted average interest rate on total loans had declined by 33 basis points to reach 9.83%.

Bolstered by the enhanced economic performance, Government's fiscal position improved with the fiscal deficit as a percentage of GDP falling to an estimated 2.4 % from 2.9% in 2003 and the three-year average of 4.3%. This reflects a higher indirect tax intake and lower on-budget capital expenditure. The deficit this year was financed primarily from domestic sources, with commercial banks and private non-banks providing most of the resources.

Sector Reviews 2004

Production, Prices and Employment

Tourism

For the year 2004, approximately 1.3 million visitors were recorded, representing an increase of around 16% or twice the rate of expansion for 2003. The increase in total visitors, unlike the previous year, reflected significantly higher growth of cruise-ship passengers than of long-stay tourists. As a result, real tourism value-added rose by an estimated 7.3%, on par with the performance in 2003.[2] The resurgence in the global tourism industry, coupled with an improved world economy and ongoing marketing and promotional programmes in core markets, underpinned the continued growth in domestic tourism activity. In particular, the staging of the third test match between the West Indies and England in early April and the diversion of some tourists from hurricane-affected Grenada to Barbados in September, also boosted arrival figures.

Long-stay arrivals, compared with growth of 6.7% in 2003, rose by an estimated 3.8% or 20,291 persons in 2004, primarily on account of an exceptional winter performance. During the winter period, a significant increase in airlift capacity from the major source markets paved the way for an 8.5% expansion in visitors, which was slightly above the growth rate for the previous winter. Summer arrivals grew by only 1.5%, following an increase of 6% in the summer of 2003. For 2004, the average length of stay of tourists and the percentage room occupancy at surveyed establishments were 6.8 days and 49.7%, respectively, both around the same level as in 2003.

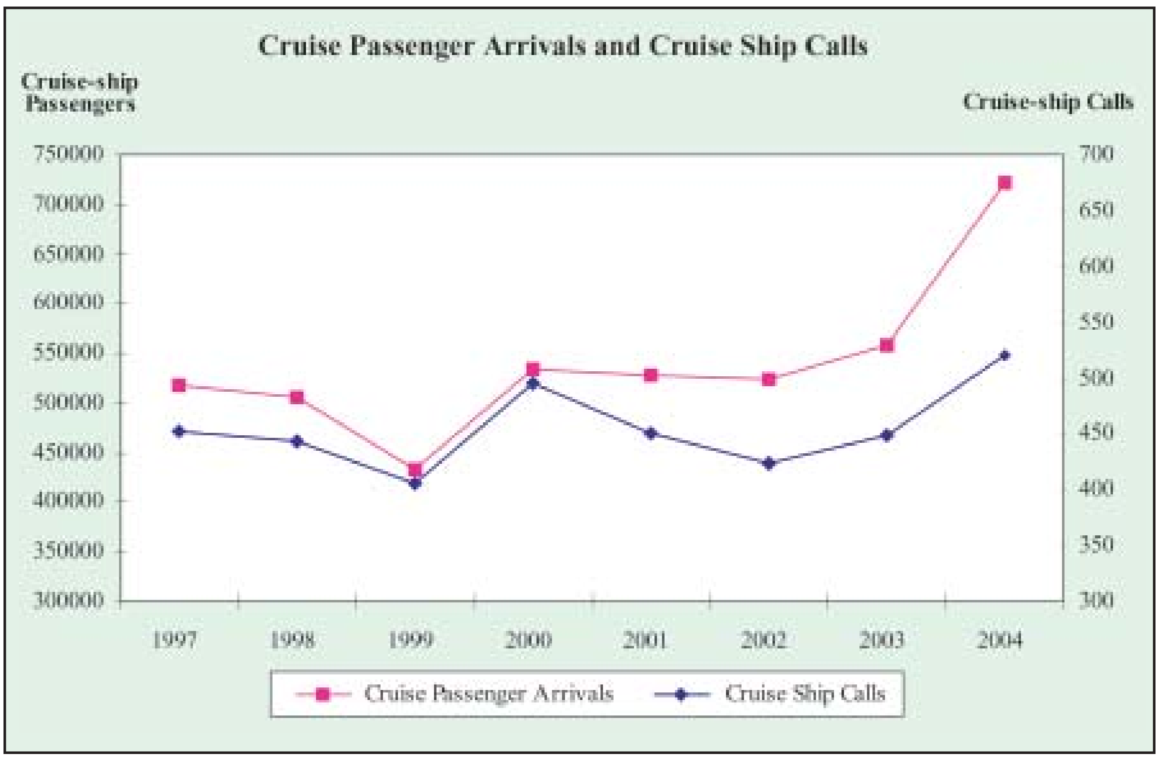
The UK and CARICOM were the best performing markets, posting increases of 5.6% and 8.2%, respectively. The upturn in persons travelling from the UK reflected strong source demand, buoyed by higher spending power arising from the appreciation of the British pound against the US dollar. The impetus for the expansion in visitors from CARICOM, notwithstanding an uncharacteristic fall-off in arrivals from Trinidad and Tobago, was driven by the intense promotional efforts in the region to buttress summer traffic. Arrivals from the

[2]The average expenditure of a cruise passenger is estimated to be one-sixth that of a long-stay visitor. As a result, the cruise industry accounts for about 14% or one-seventh of total real tourism value-added. Therefore, the impressive growth in cruise ship passengers of 29.0% in 2004 would have contributed an estimated three percentage points to the total increase in overall tourism value-added.

Long-stay Tourist Arrivals by Month and Season

Month	1996-2000*	2001	2002	2003	2004	% Change from 2003
January	43,746	45,499	39,915	40,743	**44,719**	9.8
February	43,172	47,010	41,205	43,643	**49,870**	14.3
March	48,140	49,256	48,583	49,016	**54,190**	10.6
April	42,818	48,786	37,804	47,504	**47,255**	-0.5
WINTER	**177,876**	**190,551**	**167,507**	**180,906**	**196,034**	**8.4**
May	37,457	39,988	36,373	40,750	**44,865**	10.1
June	34,075	34,980	33,426	39,994	**38,536**	-3.6
July	47,243	48,416	49,239	52,982	**57,285**	8.1
August	42,897	44,685	47,503	46,745	**45,625**	-2.4
September	30,102	28,715	30,977	28,737	**31,837**	10.8
October	37,833	34,870	39,273	38,210	**39,717**	3.9
November	42,921	38,858	44,667	45,924	**43,870**	-4.5
December	47,813	46,015	48,934	56,963	**53,733**	-5.7
SUMMER	**320,341**	**316,527**	**330,392**	**350,305**	**355,468**	**1.5**
TOTAL	**498,216**	**507,078**	**497,899**	**531,211**	**551,502**	3.8

Source: Barbados Statistical Service.
Notes: * indicates average monthly visitors.
P: Provisional.



US and Canada grew by 0.3% and 0.8%, respectively, after expanding by 4.8% and 6.2% respectively, in 2003. The number of visitors from other European countries (excluding Germany) was up 5.3%, owing to a modest improvement in airlift capacity, but the number of Germans vacationing in Barbados fell by 8.4%, a turnaround from the previous year of promising growth.

The number of cruise-ship passengers entering Barbados in 2004 increased by 29.0%, approximately four times the growth rate recorded in 2003. Critical to this outcome were the continuation of the homeporting of cruise ships during the winter months (October to April) and the replacement of three ships with two larger vessels, which in both instances were associated with more calls to the Bridgetown Port. As a consequence, cruise ship calls rose by 16% for the year, a marked improvement over the 6.1% expansion registered in 2003.

Manufacturing

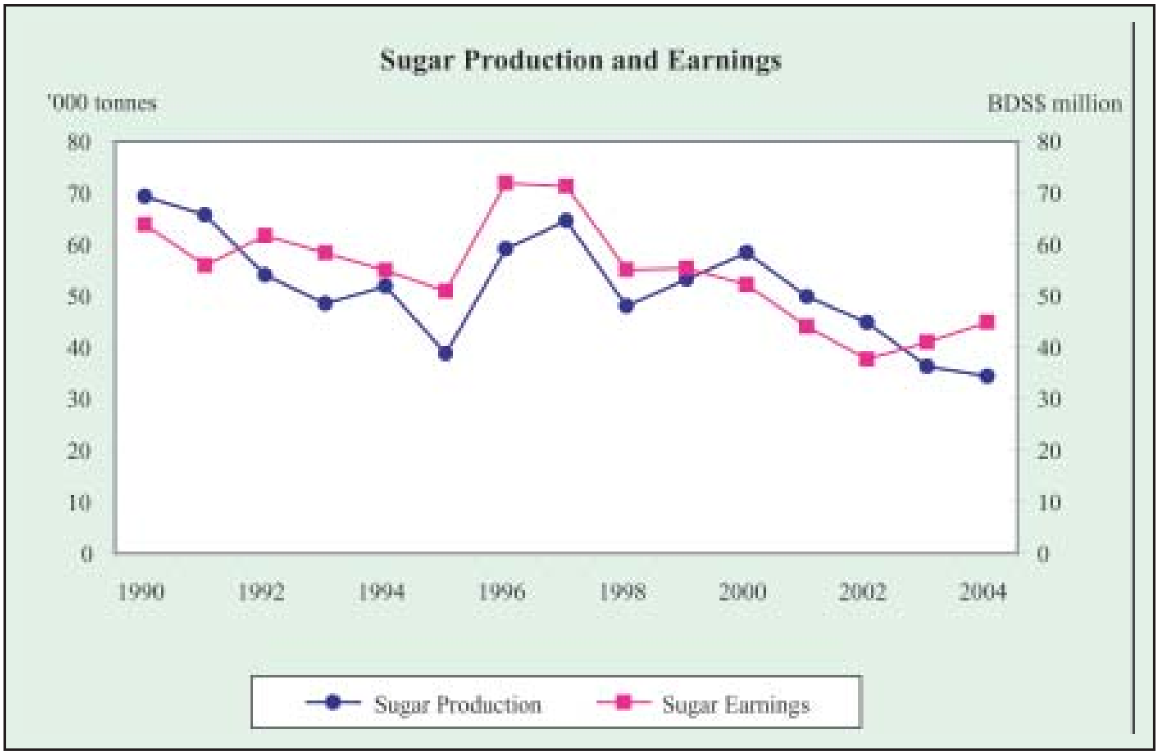
Manufacturing output rose by 1.4% in 2004, after exhibiting generally sluggish growth over the past five years. Non-metallic mineral products expanded by approximately 10%, while beverages, which benefited primarily from a higher production of rum and beer, grew by 3.8%, both occurring in the wake of three consecutive years of declining output. In addition, the production of chemicals and electronic components increased by 26% and 9.4%, respectively, following some six years of continuous annual contractions. These improvements overshadowed the reductions in output of 1.0% and 3.2% in the ‘other manufacturing’ and the food processing industries. In the case of food production, the deterioration partly reflected the scaling down and eventual closure of one company in 2003.

Agriculture and Fishing

Output of raw sugar fell by 5.4% to 34,400 tonnes, the fourth consecutive year of decline. The reduced sugar crop can be attributed primarily to excessive rainfall during the harvesting period, which effectively decreased the sugar yield per hectare. Over the last four years, the cumulative contraction in sugar production has been almost 50% or 25,000 tonnes. Despite the reduction in the amount of raw sugar produced, export earnings were up by roughly $4 million, on account of an appreciated euro-dollar exchange rate. Non-sugar agricultural output is estimated to have contracted moderately, after expanding by about 2% in 2003. Fresh milk production continued on the downward trend observed since 2002, decreasing by a further 6.9%. Fish catches were down by about 23%, mainly reflecting unfavourable weather conditions and sea temperatures particularly during the middle of the year. In contrast, chicken production increased by around 6% in response to buoyant local demand, while livestock production expanded by 9.8% on the strength of an 18% rise in pork slaughterings.

Construction

Total value-added in the construction industry increased by an estimated 3.5% during the year, as evidenced by expansions in its main performance indicators. Employment in construction, retained imports of construction-related supplies and cement consumption were up by 9.4%, 13.0% and 8.9%, respectively. The



number of electrical inspections for new residences rose marginally by 0.7% over the first nine months of 2004, in contrast to a decline of 5.3% over the same period of 2003. Furthermore, the number of loans from commercial banks, trust companies and the Barbados Mortgage Finance Co. Ltd for construction of new private dwellings and the purchase of land totalled 1,094, approximately 11.3% more than the total disbursed in 2003.

Indicators of Selected Commodities
('000)

	1999	2000	2001	2002	2003	2004P
Crude Oil Production (Barrels)	708.5	559.7	463.7	390.6	370.8	**376.7**
Natural Gas Production ('000 Cubic Metres)	46.9	37.9	35.0	28.8	23.0	**20.9**
Electricity Usage ('000 Kwh)	675.6	704.0	735.0	763.9	805.9	**831.3**
Cement Production ('000 tonnes)	251.5	142.9	248.5	297.7	325.1	**322.3**
Cement Consumption ('000 Tonnes)	129.6	121.2	127.4	131.1	134.0	**146.0**

Source: Arawak Cement Plant, Barbados Light & Power Ltd. and Barbados National Oil Co.
P: Provisional.

Electricity, Gas and Water

The production of electricity, gas and water rose by 2.4%, compared with an increase of 2.7% in 2003. Consumption of electricity during 2004 grew by 3.2%, which was about 2.3 percentage points slower than the rate observed in 2003. Buoyed by increased usage for businesses and apartments, industrial electricity consumption was up by 3.0%, with usage by residential customers and streetlighting registering a growth rate of 3.4%. The production of natural gas was estimated at 20.9 million cubic meters, approximately 8.9% less than the previous year's volume. In spite of this, natural gas sales rose by about 7.7% to 13.3 million cubic meters during the review period.

Mining and Quarrying

Value-added in mining and quarrying increased by an estimated 7.1% in 2004. Domestic crude oil production amounted to 376,655 barrels, a rise of 1.8% over output in 2003. This is the first time that crude oil output has expanded since 1999 and can be attributed to the commencement of a new drilling programme during the latter part of the second quarter and additional stimulation programmes. The 17.8% growth in the quarrying sub-category was largely due to higher output from stone quarrying.

Other Non-Traded Sectors

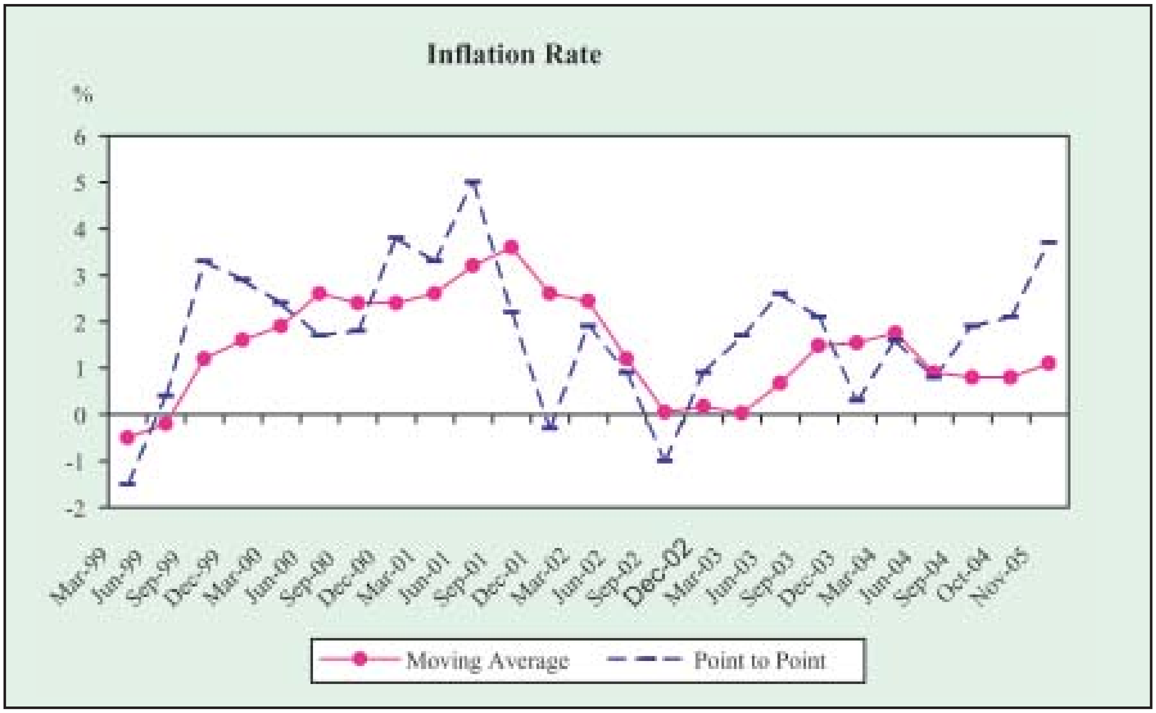
Driven by rising disposable incomes, wholesale and retail trade increased by 4.9% in 2004, about 0.8 of a percentage point above the rate achieved one year earlier, but 2.5 percentage points above the average for the last five years. In the transport, storage and communications sector, the intense competition for market share, following the liberalisation of cellular communications in the first half of the year, as well as increased activity at the air and sea ports, provided the impetus for the surge in value-added of 5.0%, compared with growth of 2.7% in 2003. Real output within business and other services and government rose by 3.9% and 2.6%, respectively, after mixed performances a year earlier.

International Business and Financial Services

In 2004, new licences awarded to companies in the international business and financial services sector increased by 37.8%, in contrast to a slight decline in the comparable period of 2003. Of the 445 new licences granted, 361 were for international business companies (compared with 274 in the previous year), 64 were for societies with restricted liability (33 more than in the similar period of 2003), fifteen were exempt insurance companies (the same number for 2003), and one went to an exempt insurance management company. At the end of December, there were 55 offshore banks, four more than the number at the end of 2003.

Prices and Unemployment

By the end of December 2004, the rate of inflation reached 1.4%, compared to 1.6% for the same period in 2003 as reductions in major categories like housing, household operations and supplies, partly offset the increase in food prices. The housing index moved down by 0.3%, while the costs for household operations and supplies fell by 1.4%, owing to depressed furniture and appliance prices. In addition, the average prices for alcoholic beverages and tobacco contracted


Inflation Rate
%
6
5
4
3
2
1
0
-1
-2
Mar-99
Jun-99
Sep-99
Dec-99
Mar-00
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
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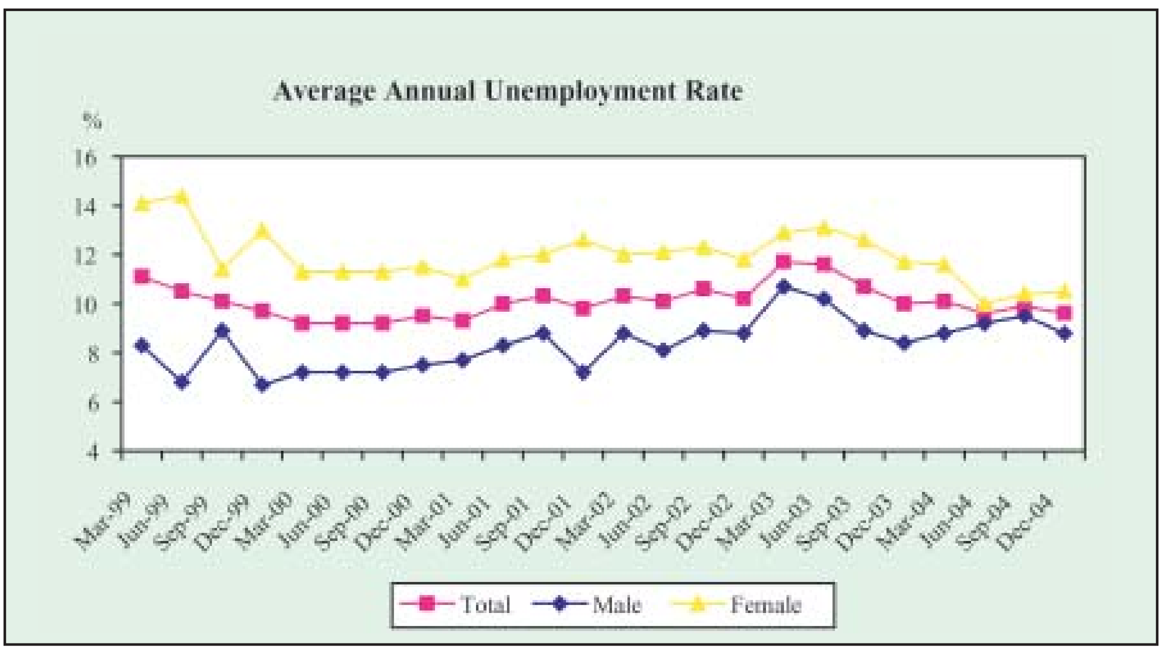
Sep-03
Dec-03
Mar-04
Jun-04
Sep-04
Oct-04
Nov-05
Moving Average
Point to Point


Average Annual Unemployment Rate
%
16
14
12
10
8
6
4
Mar-99
Jun-99
Sep-99
Dec-99
Mar-00
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Jun-03
Sep-03
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Total
Male
Female

by 1.2%, in contrast to a decline of 2.4% for the corresponding period in 2003.

Conversely, the average prices for food, medical and personal care and transportation, grew over the course of the year. Food prices recorded the most significant growth (4.5%), followed by medical and personal care, which expanded by 1.5%. Additionally, the average prices for transportation, and clothing and footwear registered increases of 1.2% and 0.4%, respectively.

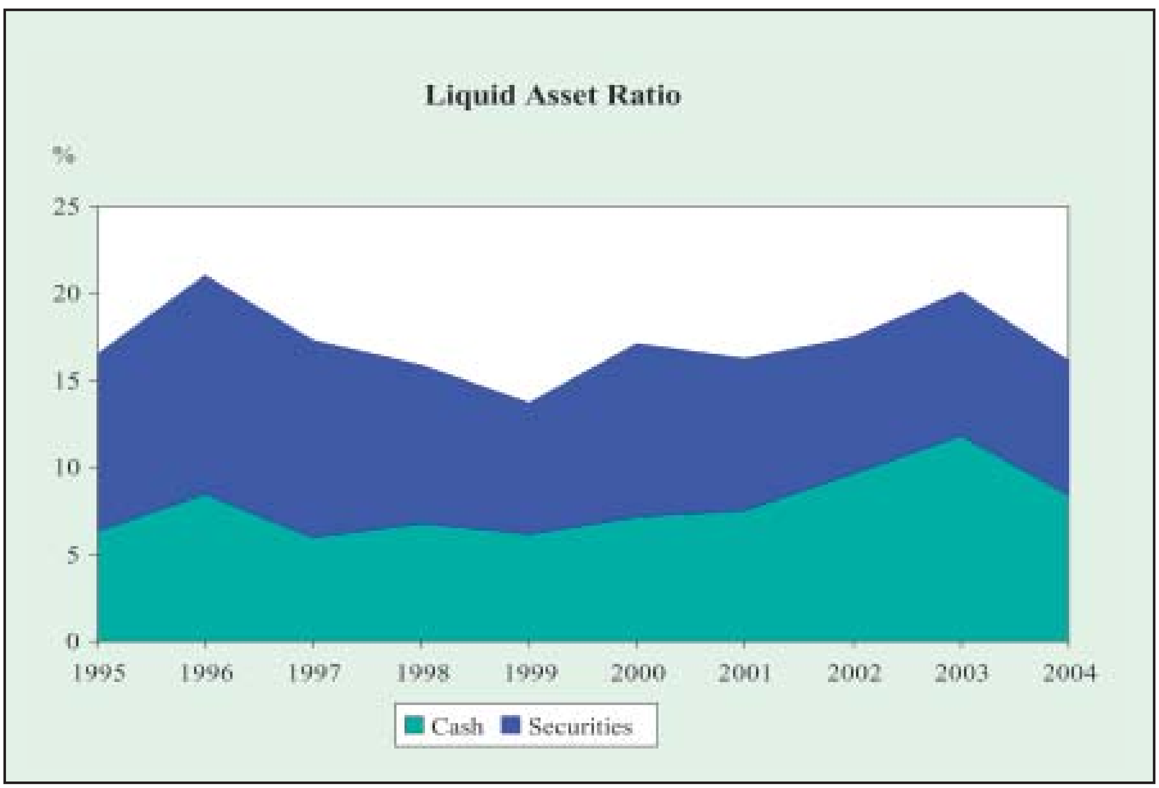
During 2004, the average rate of unemployment fell to 9.6%, the lowest level since 2000 and 1.4 percentage points below that recorded in 2003. This was primarily due to a two percent increase in the total number of employed individuals. The female unemployment rate reached 10.5%, moving down 2.1 percentage points from the 12.6% recorded in 2003, while the average unemployment rate for males fell by 0.8 of a percentage point to 8.8% for 2004.

An estimated 2,600 new jobs were generated in general services, construction, finance, insurance and business services.

Financial Sector

Liquidity and Interest Rates

During 2004, commercial banks' liquid asset ratio fell on an annual basis for the first time in three years, as previously under-utilised resources in the banking system were employed to finance strong credit demand and other private investments. The liquidity asset ratio – defined



Changing Trends in Manufacturing Output in Barbados

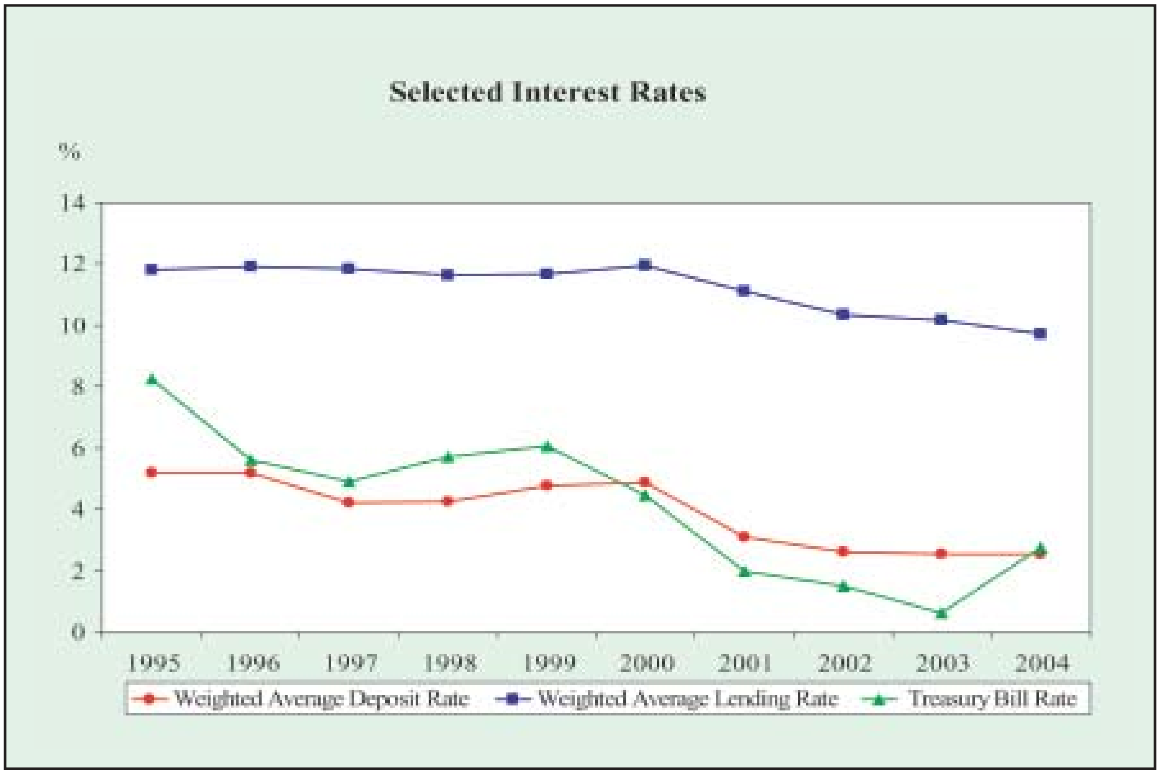
The onset of trade liberalisation during the late 1990s exposed the previously protected manufacturing sector to significantly greater regional and international competition for domestic market share. During this period of transition, which saw the top rate of the Common External Tariff systematically lowered to 20%, duties on extra-regional imports removed and/or reduced, and quotas replaced with tariffs (called bound rates), manufacturing firms have had to grapple with increasing quantities of imported substitutes.

Amid the intense battle for market share, some companies have shifted certain aspects of their operations or have relocated entirely to lower cost countries (particularly Trinidad and Tobago) to stay afloat. Of particular note is the fact that the closure of some manufacturing companies in the food processing and the non-alcoholic beverage industries has contributed to the strong growth in food and beverages imports observed during the last five years. These trends have emerged in recent times as regional companies seek to achieve economies of scale and scope through mergers, strategic alliances and other production-sharing arrangements. In effect, with an already high propensity to import, the result is that some commodities, which were previously domestically produced, are now imported, thus exerting additional pressure on the foreign reserves.

The Index of Industrial Production reveals that food production decreased roughly by 3% each year during the period 1999 to 2001, improved by 6% in 2002, but then contracted by approximately 2% in 2003 and 3% in 2004. This downward trend contrasts with average annual growth of 6% in the years preceding the implementation of trade liberalisation measures. In particular, there has been a fall off in biscuit production since 2000, partly because of the outsourcing of some aspects of the manufacturing operations of a leading producer to the parent company in Trinidad and Tobago. Moreover, the reduction in biscuit production has been accompanied by an almost commensurate increase in imports, especially from Trinidad and Tobago, whose share of total biscuit imports has grown from 57% in 1998 to 65% in 2004.

Domestic production of non-alcoholic beverages (mainly soft drinks), has exhibited a general upward trend during the 1990s. After the closure of a major beverage factory in the year 2000, production contracted by over fifty percent and has continued to deteriorate each year since. Again, the majority of imports of non-alcoholic beverages are from Trinidad and Tobago, which in 1998 accounted for 35% of total imports of non-alcoholic beverages. Since then, this share has steadily expanded to 84% by the end of 2004.

As CARICOM Governments proceed in earnest to operationalise a less restricted trading regime within the region, the kinds of responses observed in the manufacturing sector since the late 1990s will become more common. The sector is well aware of the challenges ahead and, with the support of various agencies, most notably the Barbados Industrial Development Corporation, has been working to make the appropriate adjustments to withstand the competitive pressures.

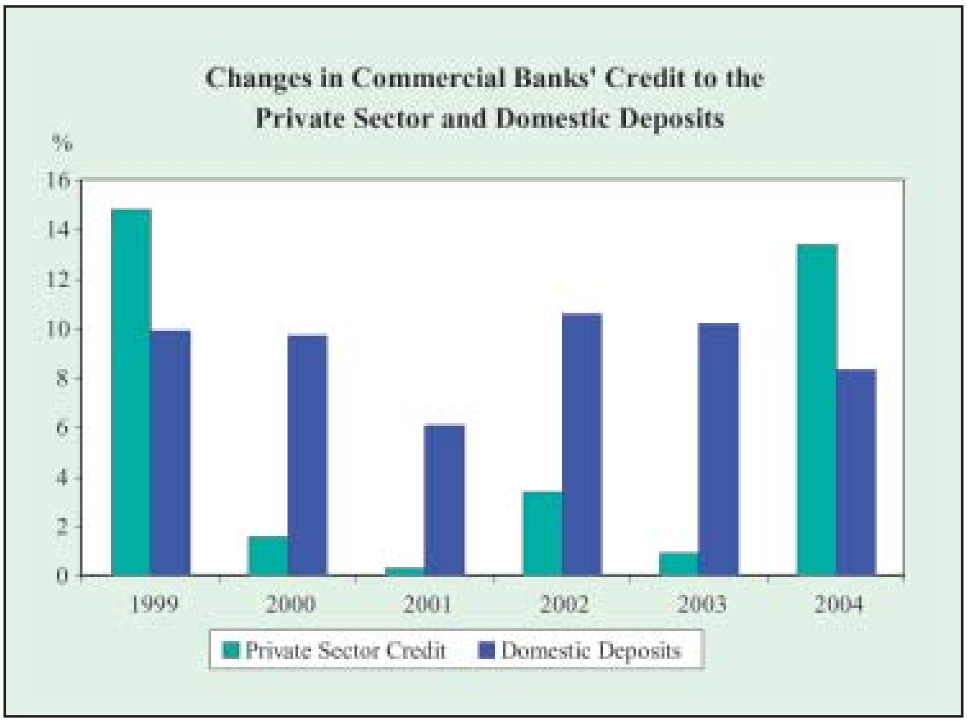


as cash, deposits held in the banking system and treasury bills expressed as a ratio of total assets – decreased by 6.1 percentage points to end the year at 14%, in contrast to an increase of 2.6 percentage points in 2003. The reduction in the ratio mainly reflected a sharp contraction in excess cash reserves held by commercial banks at the Central Bank in the second half of the year. As a result, by the end of 2004, commercial banks held only 5.6% of their assets in cash or deposits in the banking system, compared to 11.8% at the end of 2003.

In an effort to reduce the borrowing costs of the foreign exchange-earning industries, the Bank cut the minimum deposit rate from 2.5% to a historical low of 2.25% per annum in March of 2004, and lowered the minimum securities requirement of commercial banks from 16% to 12% of domestic deposits. As a result of these changes, the weighted average interest rate on total loans fell by 0.3 of a percentage point to 9.83%, while the minimum prime lending rate was reduced from 6.75% to 6.50%. The contraction in liquidity in the banking system, however, led to an increase in the average discount rate on treasury bills from 0.6% at the end of December 2003 to 2.76% at the end of 2004, just above the minimum deposit rate. Yields on new government debentures, in contrast, fell by 1.3 percentage points to 4.5% by year-end.

Credit

Due to strong growth in personal lending, the rate of change in commercial bank credit was the most robust since 1999. Commercial bank credit to the non-financial private sector grew sharply by $352.1 million (or 13.4%), compared to an increase of $23.5 million in 2003 and an average annual rate of expansion of $40 million over the previous four years. Personal lending, which accounted for 44% of total non-financial private sector credit, was up by $215.5 million, more than twice the level of growth registered in 2003. The expansion resulted principally from satisfy local demand for new homes and other private sector projects, credit to most business entities contracted. Construction loans grew by $58.5 million in contrast to a decline of $21.4 million in 2003. In contrast, establishments in the tourism, distribution, agriculture and manufacturing industries all reported declines in outstanding credit balances.



strong demand for mortgage loans during the year (up by $117.8 million) – as individuals and other entities sought to take advantage of historically low rates of interest – and the Christmas loan packages offered by a number of commercial banks. During the fourth quarter alone, personal lending grew by $112.7 million or almost twice as fast as in 2003.

With the exception of construction where companies in the building industry sought to

Commercial banks' advances to other financial institutions and statutory bodies, grew in the year under review. Lending to financial institutions rose by $52.7 million, largely due to a single loan from an institution's banking arm to its finance and trust unit. Credit to statutory bodies rose in 2004, as commercial banks held on their books, part of the bond issues of the National Housing Corporation - Warrens ($44.8 million) and the Barbados National Terminal Co. Ltd ($50 million). Consequently, credit to statutory bodies grew by $82.9 million, following an increase of $33.4 million in 2003.

Deposits

Benefiting from a pick-up in overall economic activity, domestic deposits at commercial banks expanded by $518.2 million, following an increase of $392.4 million in 2003. Deposits of private individuals accounted for over 50% of this growth, rising by $284.4 million in 2004. Most of the build-up in private individual deposits occurred in the first two quarters of 2004, while individuals drew down on their deposits in the latter months of the year to finance increased consumer expenditure. Due to strong growth in the balances of distribution, construction and tourism entities, business firms' deposits grew by $174.5 million during 2004, more than three times the rate of expansion recorded in 2003 and the largest since 1999. Deposits of statutory bodies were $14 million higher, as the funds from two major bond issues (National Housing Corporation and Barbados National Terminal Co. Ltd) were partly deposited in the financial system. Deposits of financial institutions at the end of 2004 were virtually unchanged from 2003, as increased deposit growth by the National Insurance Scheme during the latter half of 2004 – mainly as a result of greater contributions – offset the withdrawals made during the first half of the year.

Non-Bank Financial Institutions

The deposits at non-bank financial institutions increased by $77.2 million in 2004, in contrast to a reduction of $22.7 million in 2003. The growth in deposits was mainly attributable to a $34.5 million pick-up in deposits of trust companies. Similarly, deposits and share capital at credit unions advanced by $30.0 million and $44.2 million, respectively.

Domestic Deposits at Financial Institutions
($Millions)

Institutions	2000	2001	2002	2003	2004P
Trust Companies	390.5	398.3	426.8	388.0	**422.5**
Commercial Banks	3,693.4	3,923.3	4,442.9	4,850.5	**5,486.9**
Credit Unions	87.1	113.2	138.1	158.5	**188.5**
Finance Companies	177.8	235.6	250.9	246.6	**259.3**

Source: Central Bank of Barbados
P: Provisional

Credit by non-bank financial institutions expanded by $179.7 million in 2004, following an increase of $95.3 million in 2003. The loan portfolio of credit unions grew by $77.1 million, while lending by finance houses and BMFC increased by $58.3 million, double the figure in 2003. Loans issued by trust and mortgage finance companies advanced by $10.7 million, a reversal from the declines of $1.7 million and $4.1 million in 2003 and 2002, respectively. Despite the expansion in loans, the mortgage portfolio of trust companies fell marginally,

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

Source	2000	2001	2002	2003	2004P
BMFC	127.2	147.8	165.1	176.4	**198.7**
Credit Unions	302.8	349.3	387.0	457.7	**534.8**
Finance Companies	144.4	172.7	163.2	163.9	**211.5**
Commercial Banks	2,504.2	2,512.6	2,599.2	2,622.6	**3,061.8**
Trust Companies	423.0	446.4	442.3	440.6	**451.4**
Insurance Companies	355.7	344.8	348.1	350.0	**383.6**
Total	3,857.3	3,972.9	4,104.1	4,222.5	**4,841.5**

Source: Central Bank of Barbados
P: Provisional

Selected Indicators of the Banking System ($Million)

	2000	2001	2002	2003	2004P
Net International Reserves	1,080.8	1,533.7	1,711.2	2,087.1	**1,745.3**
Monetary Authorities	968.6	1,413.7	1,366.3	1,503.3	**1,189.1**
Commercial Banks	112.2	120.0	344.9	583.8	**556.2**
Net Domestic Assets	2,253.8	2,003.2	2,186.5	2,086.9	**3,138.8**
Credit to Public Sector	188.0	-66.7	347.7	480.8	**642.1**
Central Government (net)	471.4	242.0	654.4	722.7	**867.0**
Other Public Sector	-283.5	-308.7	-306.6	-242.2	**-225.0**
Credit to Rest of Financial System	137.3	115.9	167.1	155.6	**234.9**
Liabilities to Other Financial Inst.	301.7	265.8	403.8	390.0	**394.5**
Credit to the Private Sector	2,504.2	2,512.6	2,599.2	2,622.6	**3,061.8**
Liabilities to Private Sector	3,334.5	3,536.6	3,897.7	4,173.9	**4,884.2**
Monetary Base	562.9	647.4	908.3	1,082.7	**771.2**
Currency Held by Banks	92.0	105.7	103.9	145.5	**114.1**
Demand Deposits at Central Bank	160.2	229.3	466.9	608.2	**258.3**
Currency Held With the Public	310.7	312.4	337.5	329.0	**398.7**
Memo:					
Domestic Deposits+	3,362.7	3,971.8	4,524.7	4,917.1	**5,532.3** *

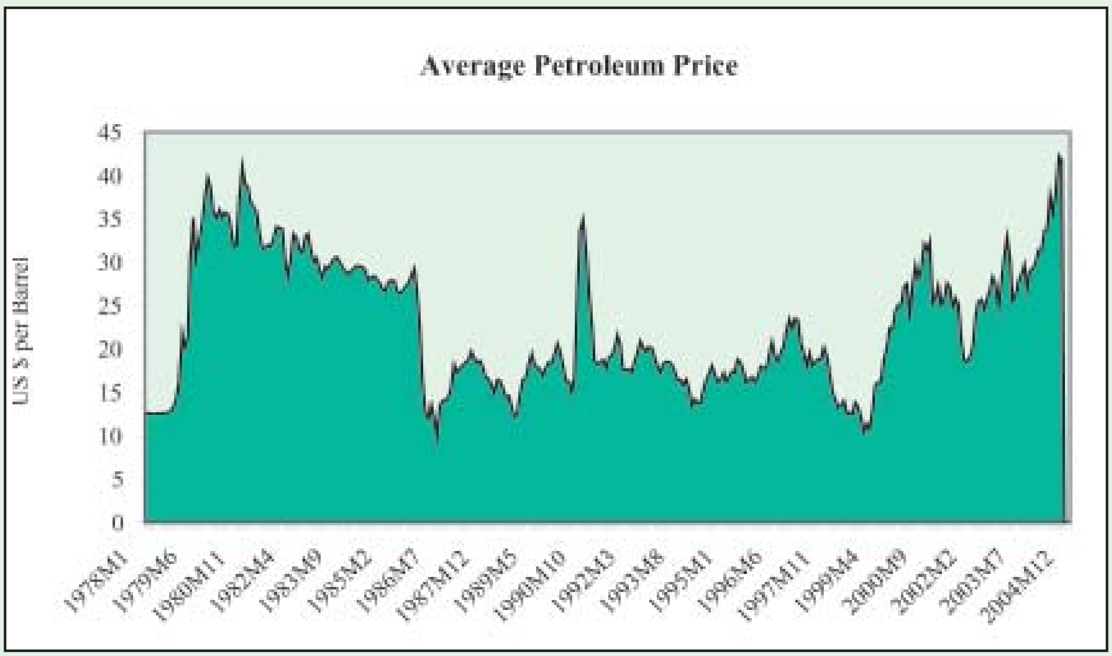
Source: Central Bank of Barbados
P: Provisional
+Domestic deposits comprise total deposits in BDS$ and foreign currency deposits of residents.

The Evolution, Causes and Consequences of Rising Oil Prices

The spectre of high oil prices, which had disappeared for most of the mid to late 1990s, has resurfaced in the new millennium. As prices rose, most governments have had no other alternative but to pass on some or most of the price increase. Unfortunately, this has not been received well by consumers in some countries, with street protests reported in parts of Europe, Asia and Latin America.

The increase in oil prices started in the latter half of December 2001 when the price of crude registered one of the largest one-day jumps on record, as traders became convinced that the Organisation of Petroleum Exporting Countries (OPEC) would follow through on planned production cuts in 2002. Since then, prices have fluctuated but have trended upward. The price increase in 2004 was, however, spectacular. Spot prices for West Texas Intermediate (WTI) and Brent – two of the leading benchmark physical crude oils – breached the US$40 per barrel mark in May and July of 2004, respectively - the first time this has occurred since the first Persian Gulf War. In August, prices for WTI leapt to US$47 per barrel and continued upward, peaking at US$56 per barrel in October. During the latter two months of the year, however, prices fell below the US$50 per barrel mark, as reported inventory levels were stronger than expected.

This expansion in price means that Barbados now requires more foreign exchange to purchase the same amount of fuel. Fuel imports in 2004 are estimated to have been $300.9 million, or $139.3 million and $40.1 million higher than in 2001 and 2003,



respectively. This has had obvious negative implications for the visible trade deficit. The trade deficit – which at the end of 2001 was estimated at $1.6 billion – was approximately $2.2 billion by the end of 2004, with approximately one quarter of this deterioration due to the increased expenditure required to purchase fuel.

The increase in international oil prices can be attributed to three major factors: strong demand, supply constraints and the action of speculators. With the three major industrial areas – the US, Japan and Europe – coming out of an economic slowdown and as China and the other Asian countries employ a greater amount of oil to power their expanding manufacturing sectors, the International Energy Agency (IEA) estimates that world oil demand rose by the greatest amount in 24 years during 2004. Unfortunately, supply is struggling to keep pace with demand. Whereas between 1996 and 2004 an average of 11.4 billion additional barrels of oil were found per year, only 6.8 million per year were retrieved between 2001 and 2003. Added to this, supplies from Iraq have continued to be low as a result of terrorist attacks on the pipelines, major producers such as Nigeria and Venezuela have had to cope with political unrests and strikes, and production from the Gulf of Mexico has been cut due to the effects of hurricane Ivan. This propensity for sudden price changes has also opened the door for hedge funds and for speculative activities. However, by betting on the possibility of higher prices, these investors have themselves exerted upward price pressures on the market.

The IEA argues that a US$10 increase in crude prices could cause a net fall in global GDP of about 0.5% or US$255 billion. The relative risk to global inflation is even larger, possibly pushing up prices on average by half of a percentage point in OECD nations and about one and a half percentage points in developing countries. An oil price increase also changes the balance of trade between countries. Usually, net oil-importing countries experience a deterioration in the balance of payments when oil prices rise, which leads to a loss in reserves, (if the exchange rate is fixed), or to currency depreciation under a flexible regime. Equity values, fiscal imbalances and corporate earnings also worsen if there are no monetary or fiscal policy changes to counteract oil price shocks.

Escalating oil prices are likely to have direct and indirect implications for the Barbadian economy. The direct impacts relate to the implications for domestic growth and inflation, while the indirect effects occur as a result of the influence of the oil price shock on the world economy and consequently, on Barbados' exports of goods and services. Simulations undertaken by the Central Bank of Barbados suggest that a $20 (US$10) rise in crude prices would reduce nominal GDP in Barbados by about 2 percent or around $100 million (US $50 million) and increase domestic inflation by around 0.5 percent. From the production side, increasing oil prices lower value-added, since they augment the costs of inputs used by firms, especially for oil-intensive industries such as manufacturing and utilities, and to a lesser extent tourism. From the expenditure side, the increase in energy prices implies that consumers now have less to spend on other goods and services after paying more cash at the pump and on other energy-related bills.

Government's fiscal outturn could also worsen, as the reduction in business value-added, combined with sluggish consumer spending coalesce to slow tax revenue growth, while spending on some public services could increase (for example, Transport Board and the Barbados National Oil Terminal). At the same time, the rise in the amount of foreign exchange required to purchase the same quantity of imported energy leads to a deterioration in the current account and a loss of foreign exchange reserves.

Although global oil demand is expected to expand again in 2005, most analysts expect prices to fall in 2005 and move towards the US$30-US$35 per barrel mark in the medium to long-term. The slowdown of the rate of growth in China and projected increase in US interest rates are lowering demand estimates for 2005, though not by a huge margin. The euro area is also showing weakness in the face of a falling US dollar, which keeps oil prices down but reduces the demand for exports from the area. Additionally, crude oil output is anticipated to increase in non-OPEC nations such as Russia and the other former USSR territories, Brazil and some African countries in 2005. In the case of OPEC, the cartel understands that in a globalised economy, excessively high prices will hurt the world economy; demand for oil will fall and, with it, OPEC revenues. It is therefore likely that the group of petroleum producing nations might act in the future to stabilise oil prices.

Although there still remains a risk that the current high level of oil prices could be maintained or increased further, most analysts think that this is an unlikely scenario. The impact on Barbados, if prices remain above US$40 per barrel in 2005, would be negative, but not as severe as that experienced in the late 1970s and early 1980s. Energy consumption as a ratio to GDP has fallen since this period, as energy savings have occurred due to the transition from a manufacturing-based economy to one in which services are predominant and advances in technology have led to energy savings in the home.

following a reduction in both private dwellings and industrial and commercial mortgages. However, credit from insurance companies rose by $33.6 million, reflective of increases in both residential and commercial mortgages.

Capital Market Developments

Stock prices of companies listed on the Barbados Stock Exchange (BSE) increased for the second consecutive year in 2004. Of the eighteen locally listed companies on the Exchange, thirteen registered an increase in their share price. As a result, the local market index rose by 26.4% during the year to reach 3711.31 points, while local market capitalisation totalled $10.4 billion compared to $7.1 billion for year-end 2003. The cross-listed index also performed well during the year, growing by 42.9%, as all of the cross-listed securities recorded double-digit rates of growth. However, due to the uncertainty surrounding the financial position of Sunbeach Communications Inc., the Stock Exchange temporarily suspended trading in that company's shares, after its price fell by 23%. Consequently, the junior market index contracted by 11.7% and closed the year at 1446.27 points.

The best performing local shares were those in the distribution sector. The share prices of Cave Shepherd and Goddard Enterprises Ltd more

Barbados Stock Exchange End-of-Year Prices

Company	2002	2003	2004	% Change
Almond Resorts	1.2	1.3	**1.8**	38.5
A.S. Brydens	4.1	4.3	**7.0**	64.7
Banks Holdings	3.0	3.0	**3.9**	32.2
Barbados Dairy Industry	8.1	8.0	**7.5**	-6.3
Barbados Farms	0.7	0.8	**1.4**	66.7
Barbados National Bank	1.8	3.5	**5.3**	53.6
Barbados Shipping and Trading	3.4	5.3	**7.3**	37.7
BICO	1.9	2.1	**1.9**	-9.8
BWIA	2.5	2.5	**2.5**	0.0
C&W Barbados	2.6	1.5	**1.7**	10.0
Cave Shepherd	2.7	2.8	**7.0**	150.0
First Caribbean International Bank	3.4	2.7	**4.3**	60.4
Courts	5.7	5.2	**5.0**	-3.9
Goddard Enterprises Ltd*	5.2	3.1	**7.1**	129.0
Grace, Kennedy & Co. Ltd	1.3	1.6	**3.2**	96.9
Insurance Corporation of Barbados	1.3	4.0	**3.9**	-3.8
Light and Power Holdings	8.8	9.0	**9.4**	4.4
McEnearney Alstons	5.0	4.5	**6.6**	46.7
Neal and Massy	4.5	7.6	**11.2**	47.4
RBTT Fin. Holdings Ltd	5.1	9.6	**13.3**	38.6
Sagicor	-	4.1	**4.4**	6.1
Trinidad Cement Ltd.	1.7	1.1	**2.2**	103.7
West Indian Biscuit Co.	6.6	7.3	**7.3**	0.0
West Indian Rum Distillery	3.2	5.9	**5.9**	0.9

Source: Barbados Stock Exchange
Note: * indicates this stock was split 2 for 1 in April 2003

than doubled during 2004. A.S. Brydens, benefiting from a takeover bid, saw its share price jump by 64.7%, while those for Barbados Shipping and Trading and McEnearney Alstons both recorded robust rates of growth. Although not on par with 2003, the financial industry also turned in a good performance. Share prices in both the Barbados National Bank and First Caribbean International Bank were up by over 50%, while the price of Sagicor's shares grew by 6.1%. With Government yet to announce a buyer for the Insurance Corporation of Barbados, the BSE's best performing share in 2003, fell by 3.7% during the year under review.

After a disappointing performance in 2003, share prices in Cable and Wireless Barbados and Banks Holdings recovered some ground in 2004. Share prices for Banks Holdings were up by 32.2%, in contrast to a decline of 1.7% in 2003, while those of Cable and Wireless Barbados grew by 10%. For the first time since 1998, the price of shares in Barbados Farms rose above the $1 mark to end the year at $1.35 while Almond Resorts' share prices turned in an increase of 38.5%. The other shares that went up during the review year were Light and Power Holdings (4.4%) and West Indies Rum Distillery (0.8%).

Barbados Dairy Industry, which has been embroiled in a dispute with local milk farmers, saw its share price fall for the second consecutive year and at year-end each share was valued at $7.50, compared to $8.00 at the end of 2003. Similarly, after reporting disappointing earnings results in the previous financial year, shares in both BICO and Courts contracted in 2004.

Mutual Funds

With the prices of shares on the regional and international stock exchanges expanding in 2004, most mutual funds continued to register rising

Mutual Fund Performance

Mutual Fund	**Net Asset Value $ Per Share**				
	2000	**2001**	**2002**	**2003**	**2004**
Fortress Caribbean Growth	1.9	2.0	2.4	2.8	**3.5**
Fortress Caribbean High Interest Funds Accumulation	-	-	1.0	1.1	**1.2**
Fortress Caribbean High Interest Funds Distribution	-	-	1.0	1.0	**1.0**
Mutual Global Balanced	1.5	1.4	1.5	1.7	**1.9**
Roybar Investment Corp.	11.0	10.4	10.5	11.3	**14.3**
BNB Income	1.0	1.0	1.0	1.2	**1.3**
BNB Capital Growth	1.0	1.0	1.0	1.2	**1.4**
BNB Gift & Trust	1.1	1.1	0.9	1.0	**1.0**
CLICO Balance Fund	1.0	1.0	1.0	1.1	**1.3**
BNB Prop. & Unlisted Sec. Inv.	1.1	1.2	1.2	1.4	**1.6**

Source: Barbados Stock Exchange

net asset values (NAVs). The best performing mutual fund was the Roybar Investment Corp., which reported an increase in its NAV of 26.5%, following growth of 7.8% in 2003. Just behind the Roybar Investment Corp. was the Fortress Caribbean Growth Fund, which ended the year at $3.54 or 26% higher than the year-end NAV for 2003. Three other mutual funds turned in double-digit returns: Mutual Global Balanced Fund (17.6%), BNB Capital Growth Fund (18.2%) and BNB Property and Unlisted Securities Inv. (18.5%). The Fortress Caribbean High Interest Funds Accumulation and the CLICO Balanced Fund grew by 6.4% and 14.4%, respectively. The remainder of the funds were virtually unchanged from 2003.

Government Operations

Revenue

During 2004, it is estimated that total Government revenue expanded by around 2.4% to $1,906.9 million, compared to growth of 8.4% one year earlier. This was equivalent to 34.2 % of GDP, marginally below that of 2003 but on par with the ratios for 2002 and 2001. Tax revenue increased for the second consecutive year, on this occasion by 4.2%, and was driven by good performances from indirect taxes, especially value-added taxes (VAT), excise taxes and import duties. However, direct taxes contracted during the review period. Non-tax revenue registered a decrease for the second year in succession as a result of a fall in miscellaneous non-tax revenue.

Underpinned by Government's deliberate policy of lowering the direct tax burden, direct taxes contracted by an estimated 1.8% in 2004, after increasing by 7.6% in 2003. It was only the second occasion in nine years that a decline had been recorded for this category. Personal tax receipts, which had slowed in 2003, fell by 6.0% in 2004, the first decrease since the 3.8% in 1999. This reflected the continuation of downward revisions to the tax rate from 22.5% to 20% on taxable income up to the first $24,200 and an increase in the individual personal allowance from $15,000 to $17,500. The reduction in the rate of corporation tax from 34.5% to 33%, resulted in a 1.1% decline in revenue from this source. However, property taxes rose by 10.7% ($10.8 million) as the collection of arrears continued and more properties were subject to taxation.

Buoyed by increased VAT receipts, excise taxes and import duties, indirect tax collections grew by 8.6% in 2004, compared to 11.2% in 2003. VAT receipts advanced by 9.5%, almost on par with the expansion of 2003, reflecting the higher level of economic activity. Excise taxes rose by 14.6% during the year on the strength of a pick-up in motor car imports while import duties expanded by 14.7%, on account of strong import demand.

Expenditure

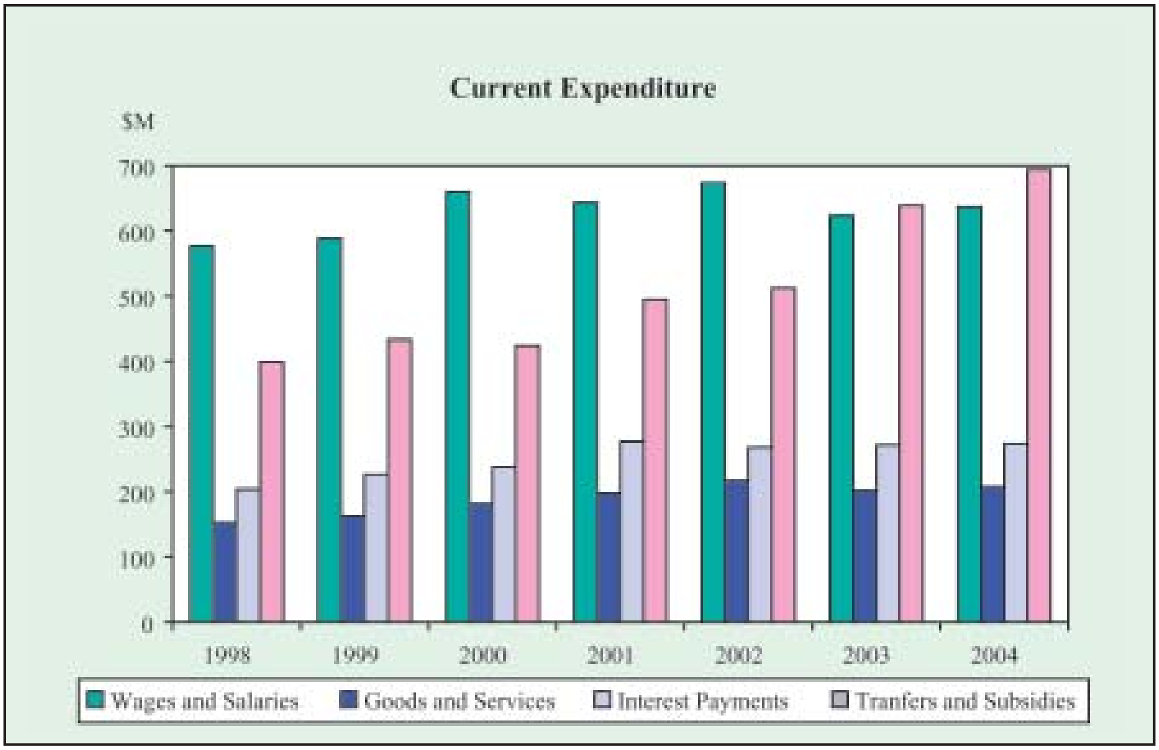
Total Government expenditure increased by an estimated 1.6% to $2,040.3 million during 2004, after falling by 1.0% in 2003. The expansion in total expenditure was attributed to higher current expenditure as capital expenditure fell for the second year in succession. The ratio of total Government expenditure to GDP, estimated at 36.7%, was close to the average annual ratio of 37.1% for the past five years.

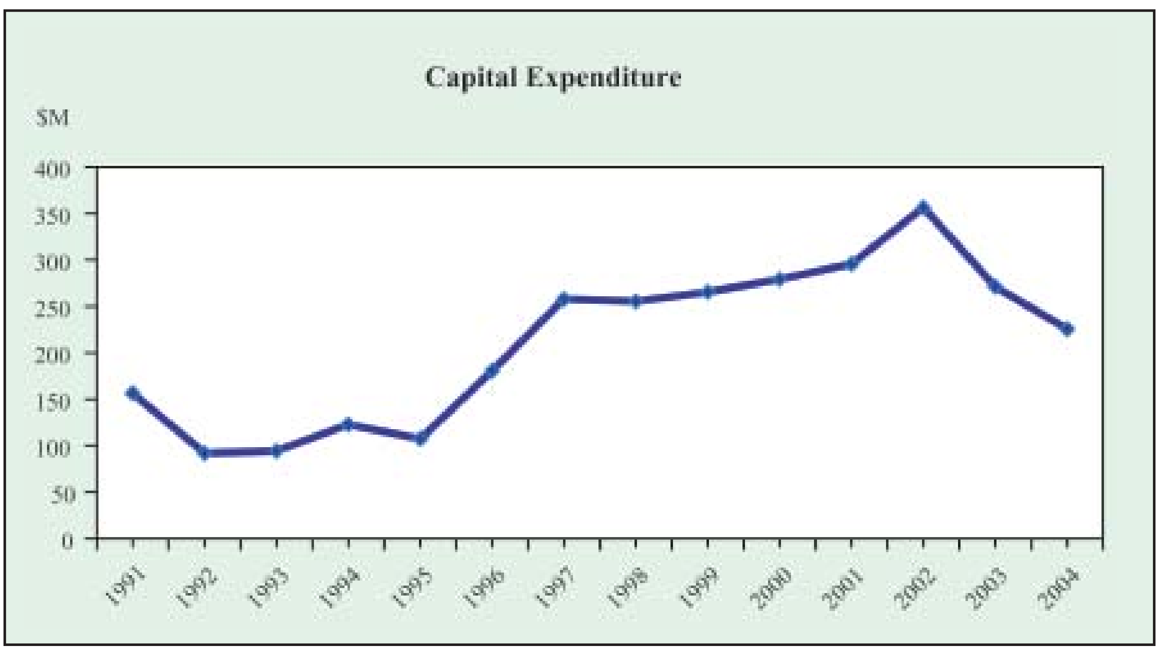
Current expenditure grew by 4.3%, compared to 3.9% in 2003 mainly, as a result of expansions

Summary of Government Operations
($Million)

	2000	2001	2002	2003	2004P
Total Revenue	1,707.1	1,746.5	1,712.2	1,856.8	**1,906.9**
Tax Revenue	1,589.1	1,634.6	1,585.0	1,737.4	**1,809.5**
Direct Taxes	679.8	739.9	691.4	744.1	**730.7**
Personal	288.7	316.1	338.1	342.0	**321.4**
Corporate	252.3	253.6	198.5	250.1	**247.3**
Levies	14.0	18.1	17.5	4.7	**1.2**
Property	91.9	108.1	97.8	101.7	**112.5**
Other	32.9	44.0	39.5	45.6	**48.2**
Indirect Taxes	909.2	894.7	893.6	993.4	**1,078.9**
Consumption	0.5	0.1	0.0	0.0	**0.0**
Stamp	12.1	16.6	10.9	14.8	**17.4**
VAT	501.0	488.4	502.5	548.6	**601.0**
Excises	158.8	154.6	113.4	135.4	**155.2**
Import Duties	132.7	131.5	162.5	170.6	**195.7**
Hotel and Restaurant	0.0	0.0	0.0	0.0	**0.0**
Other	104.1	1,03.6	104.3	123.7	**109.5**
Non-Tax Revenue & Grants	118.0	111.9	127.2	119.4	**97.4**
Non-Tax Revenue	103.3	96.1	110.6	102.7	**79.1**
Grants	0.0	0.0	0.0	0.0	**0.0**
Post Office Revenue	14.7	15.7	16.6	16.7	**18.3**
Current Expenditure	1,502.8	1,612.3	1,671.0	1,736.2	**1,811.3**
Wages and Salaries	659.6	643.2	673.7	623.6	**636.5**
Goods and Services	181.7	197.9	217.4	201.8	**207.5**
Interest Payments	237.5	276.8	267.5	271.8	**273.4**
External	69.9	97.1	126.2	105.2	**134.1**
Domestic	167.6	179.7	141.3	166.6	**139.3**
Transfers & Subsidies	424.1	494.4	512.3	638.9	**693.9**
Current Account Balance	204.3	134.2	41.2	120.6	**95.6**
Capital Expenditure and Net Lending	282.4	316.2	357.5	272.5	**228.9**
Capital Expenditure	279.1	295.5	356.4	271.2	**225.3**
Net Lending	3.3	20.7	1.2	1.3	**3.6**
Total Expenditure and Net Lending	1,785.3	1,928.5	2,028.5	2,008.5	**2,040.3**
Fiscal Balance	(78.2)	(182.0)	(316.3)	(151.8)	**(133.4)**
Fiscal Balance to GDP (%)	(1.5)	(3.6)	(6.3)	(2.9)	**(2.4)**

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


Current Expenditure
$M
700
600
500
400
300
200
100
0
1998
1999
2000
2001
2002
2003
2004
Wages and Salaries
Goods and Services
Interest Payments
Tranfers and Subsidies


Capital Expenditure
$M
400
350
300
250
200
150
100
50
0
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004

in transfers and subsidies, wages and salaries and goods and services. Transfers and subsidies were up by 8.6%, following the 24.7% increase a year earlier. Most of this increase occurred in the first quarter of 2004, and included expenditure on the Queen Elizabeth Hospital (QEH), re-classified as a statutory body in the second quarter of the previous year. Wages and salaries, down by 7.4% in 2003, rose by 2.1% in 2004 on account of wage settlements in the early part of the year while goods and services increased by 2.8%, a turnaround from the 7.1% contraction recorded one year earlier. The marginal growth of interest payments (0.6%) was the result of higher foreign interest commitments.

Government's on-budget capital expenditure, having declined by 23.9% in 2003, contracted by 16.9% in 2004 with the completion of major projects and the re-allocation of capital outlays on the QEH to transfers and subsidies during the first quarter of the review year. However, extra-budgetary spending by Government continued during 2004 and totalled $63 million, with outlays mainly on public sector enterprises and infrastructural development. The major recipients of these funds were the Enterprise Growth Fund Ltd. ($16 million), the Grantley Adams International Airport ($12 million), Barbados National Terminal Oil Co. ($10.2 million), Barbados Tourism Investment Inc. ($5.2 million) and the Industrial Investment and Employment Fund ($5.1 million).

Financing

Government financed its deficit from domestic sources. Commercial banks and private non-

Government Financing
($Million)

	1999	2000	2001	2002	2003	2004^{P}
Domestic Financing	38.5	(130.5)	(145.4)	311.5	(27.8)	**180.0**
Central Bank	17.5	(267.3)	(297.4)	283.1	69.6	**(22.8)**
Commercial Banks	(88.5)	155.6	85.2	139.2	(20.4)	**61.1**
National Ins. Scheme	12.6	15.8	20.6	109.2	45.7	**(19.5)**
Private Non-banks	(8.3)	11.5	11.9	48.0	19.5	**97.8**
Other	105.2	(46.1)	31.3	(268.0)	(142.3)	**63.4**
Foreign Financing	78.7	208.7	327.5	4.8	179.6	**(46.6)**
Capital Markets	150.0	200.0	300.0	0.0	0.0	**0.0**
Project Funds	34.7	45.5	72.7	66.9	57.5	**35.2**
Amortisation	(106.0)	(36.8)	(45.3)	(62.1)	(66.9)	**(81.8)**
Divestment	0.0	0.0	0.0	0.0	189.0	**0.0**
Total Financing	**117.2**	**78.2**	**182.0**	**316.3**	**151.8**	**133.4**

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

banks increased their Government securities by $61.1million and $97.8 million, respectively, but the National Insurance Scheme reduced its holdings of short-term instruments by $19.5 million. Government's net deposits at the Central Bank increased by $22.8 million. However, net foreign financing contracted by $46.6 million, as project fund inflows of $35.2 million were insufficient to offset foreign amortisation payments of $81.8 million.

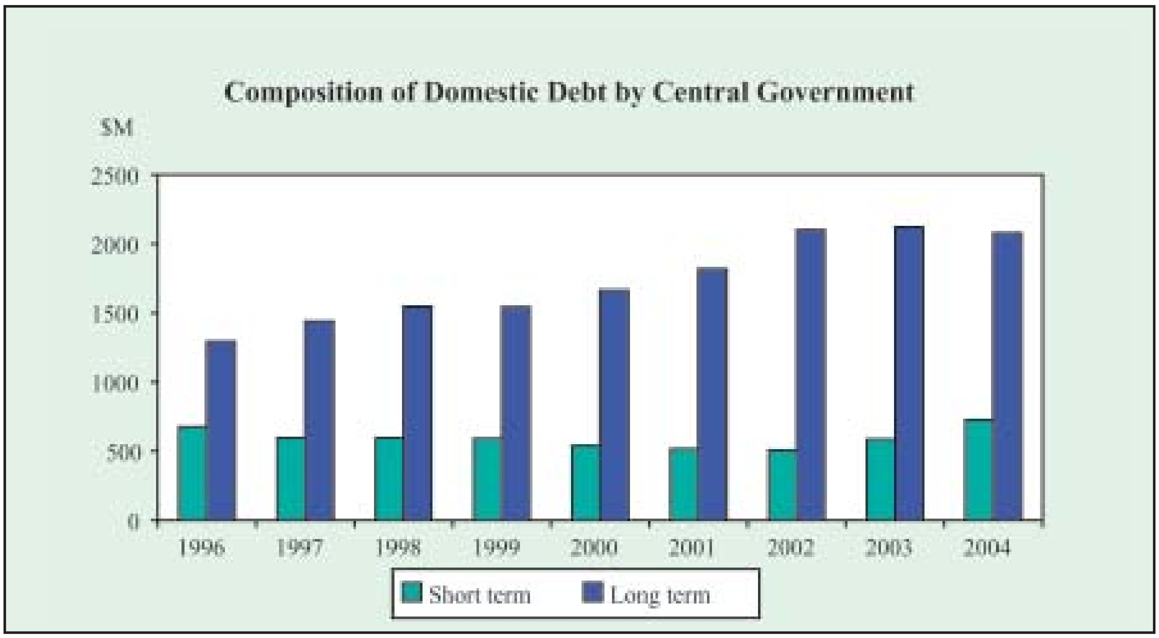
Debt

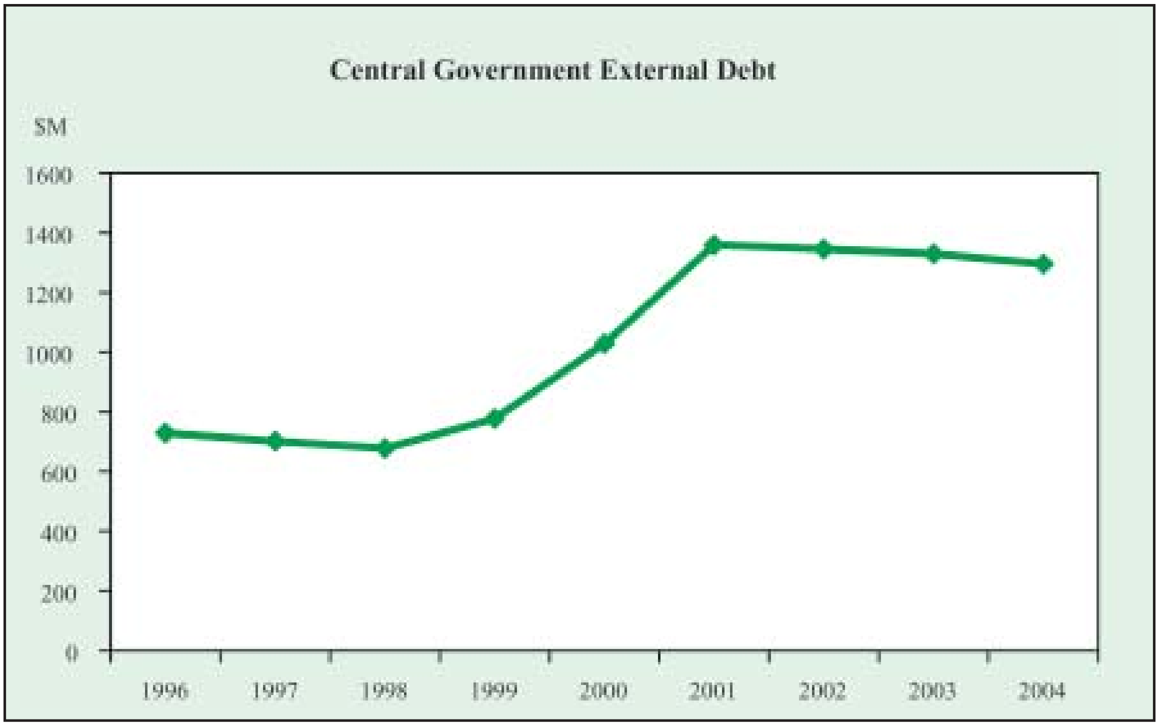
Boosted by rising domestic debt, the total national debt of the Central Government

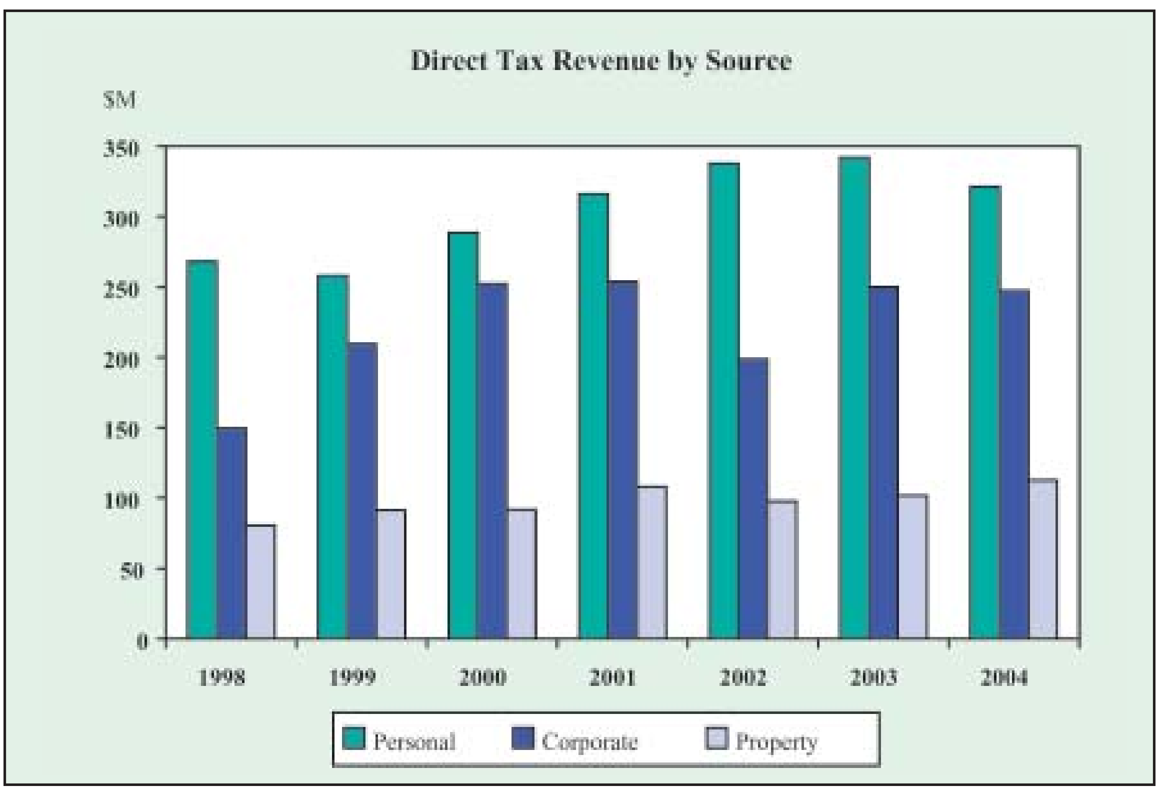
Central Administration National Debt
($Million)

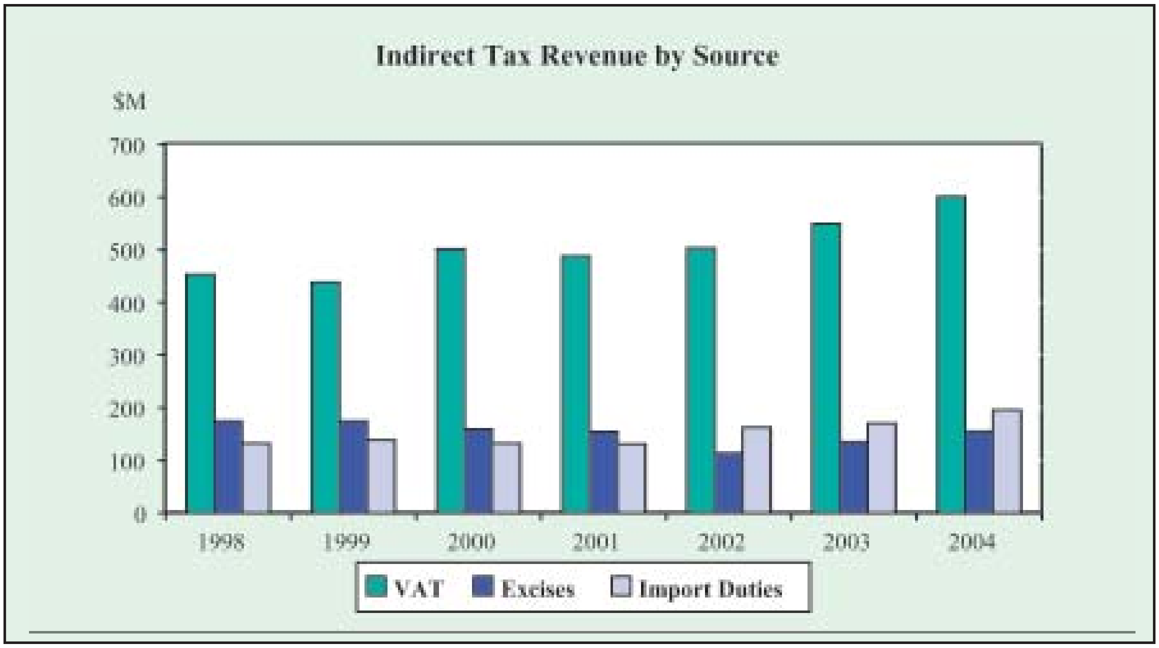
Period Ending	Domestic	External	Total
1998	2,140.8	677.7	2,818.5
1999	2,133.0	777.0	2,910.0
2000	2,204.0	1,028.3	3,232.4
2001	2,333.3	1,359.4	3,692.7
2002	2,605.4	1,345.3	3,950.7
2003	2,710.1	1,329.8	4,039.9
2004P	**2,803.1**	**1,287.0**	**4,090.1**

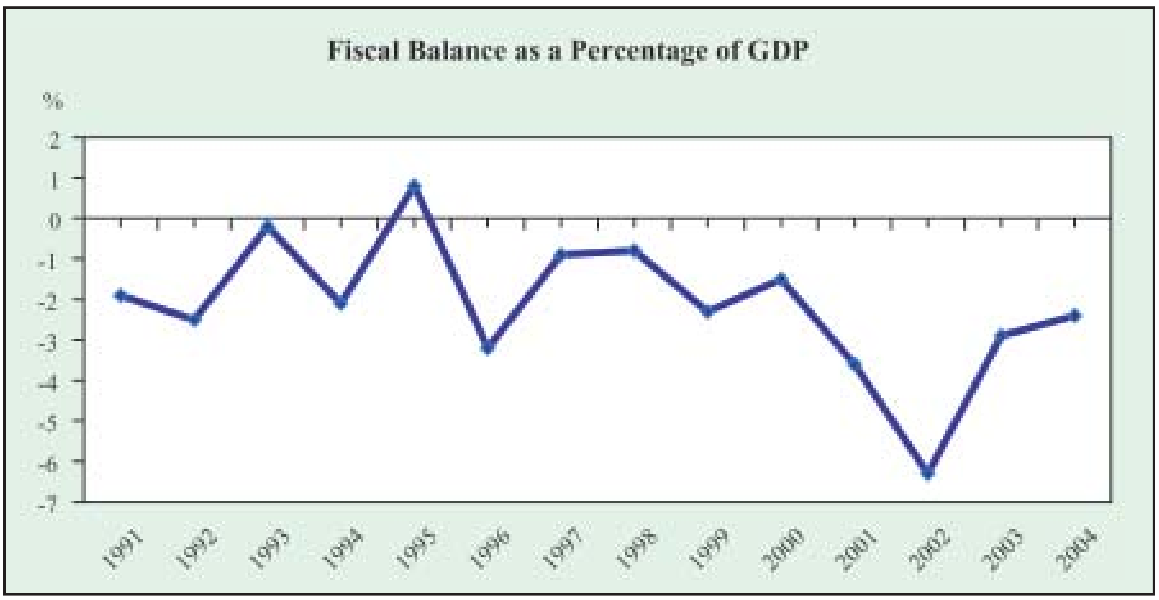
Source: Accountant General, Ministry of Finance and Central Bank of Barbados.
P: Provisional.




Central Government External Debt
$M
1600
1400
1200
1000
800
600
400
200
0
1996
1997
1998
1999
2000
2001
2002
2003
2004


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





amounted to an estimated $4,090.1 million or 73% of GDP at the end of 2004. Domestic debt was higher by $92.9 million (3.3%), compared to growth of $104.6 million (4.0%) in 2003. Short-result of increased treasury bill holdings and loans and advances. On the contrary, long-term debt fell by $44.9 million as a result of reduced debenture holdings by insurance companies, miscellaneous entities, the National Insurance Scheme and deposit money banks and trust companies.

During 2004, the external debt stock of Central Government fell by around $42.8 million to $1,287.0 million (23% of GDP). This decline occurred as bonds amounting to $20 million matured and Government lowered its total borrowings from foreign Governments, international institutions and other entities by $22.8 million.

At the end of 2004, the value of outstanding external debt guaranteed by Government was estimated at $240.6 million, compared to $141.6 million at the end of 2003. The main beneficiaries of the increases were the Needham's Point ($62 Million), Barbados Light and Power Co. Ltd., ($26.4 million) and the Grantley Adams International Airport ($30 million)

Foreign Trade and Payments

Current Account Developments

During the year, the current account deficit worsened, growing to an estimated 10.5% of GDP, compared to 6.4% in the previous year, and an average of 5.8% in the past five years. The deterioration in the deficit was primarily due to robust growth in retained imports, which outstripped increases in domestic exports and net services receipts.

Retained imports registered their largest expansion since 1997, rising on this occasion by approximately 17.8% ($395.8 million). Increases were recorded in all of the major categories; imports of consumer goods, intermediate goods and capital goods grew by 14.1%, 17.0% and 26.6%, respectively. Consumer import growth was propelled principally by higher imports of motor cars (29.8%) and food and beverages (11.2%). The gains registered in food and beverages reflected in part increased imports of meat, milk and dairy products as well as beverages, which expanded by an estimated 28.4%, 14.2% and 10.6%, respectively.

Imports of fuel and construction materials drove the expansion in intermediate goods imports. Outlays on fuel moved upwards by approximately 31.3%, in the face of both heightened domestic demand and higher fuel prices[3], while construction imports surged by 13.0%, as building activity continued to grow. Moreover, the rise in capital goods was on account of higher imports of machinery (25.9%), including cellular equipment that accompanied the launch of two new communications companies in the first half of the year, as well as machinery for a local utility company.

After four consecutive years of decline, domestic exports increased by 5.3% ($17.7 million) in 2004, attributable to broad-based growth in all of the major categories. Despite a contraction in the quantity of sugar exported, receipts surged by 9.5% ($3.9 million), as a result of the continued appreciation of the euro against the US dollar during the year. Exports of electronic components and chemicals expanded for the first time in four years, growing by 5.5% ($1.5 million) and 1.2% ($0.5 million), respectively. Similarly, following two successive years of decreases, the value of food and beverages sold abroad grew by approximately 17.2% ($13.5 million), reflecting mainly growth in rum exports (32.8%) which was due in part to the installation of a new plant by a local

Productivity Growth for the Barbados Economy 1999-2004

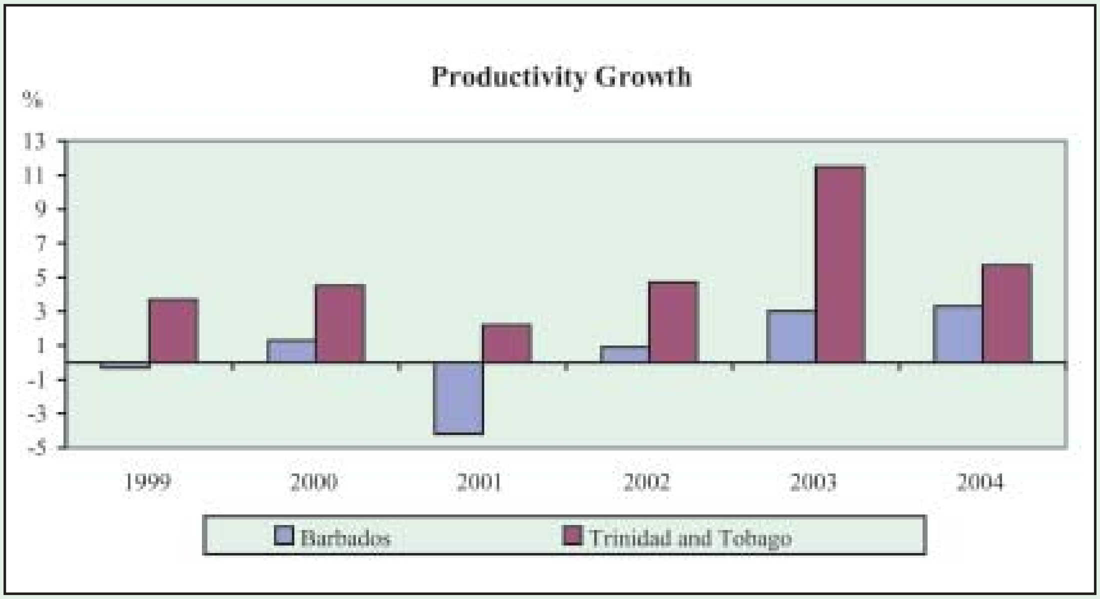
Productivity is a measure of the value of goods and/or services produced by a given amount of labour and capital inputs. It is especially important in a fixed exchange rate economy since increased productivity represents one of the means (the others include a wage cut or devaluation) of improving external competitiveness. Over the long term, higher levels of productivity usually lead to greater income per person and lower rates of poverty, so that productivity usually varies directly with the standard of living.

Productivity Development

Since the 1990-92 economic downturn in Barbados, successive governments have aimed at increasing productivity, through initiatives like the Social Partnership Agreement and the establishment of the Barbados National Productivity Council (BARNAPCO). BARNAPCO aims to create and develop methodologies for productivity measurement, management and improvement in the public sector and the private sector, while promoting and monitoring all aspects of productivity growth. In 2003, the BARNAPCO in collaboration with the Barbados Statistical Service and the Central Bank of Barbados launched the first national survey of productivity which sought to collect labour and output data, primarily for the manufacturing and tourism sectors, in an effort to examine and identify the factors affecting productivity in Barbados. In November 2004, the Barbados Government and the other social partners launched a National Initiative for Service Excellence (NISE) programme, which promotes the development of service standards and mechanisms for measuring service delivery, training, public education and awareness. It is expected that NISE will lead to improved service, higher levels of employment, greater national growth and increased productivity.

Measuring Productivity

Estimating productivity change will contribute to evaluating the progress of the NISE programme and, Barbados' overall external competitiveness. Among the measures used to estimate productivity, the most popular is labour productivity, which is usually stated as the amount of output generated per employee or per hours worked. An estimate of this indicator can be obtained by expressing real Gross Domestic Product (GDP) as a ratio of the total number of persons employed, where a rise in output or a reduction in employment represents an increase in productivity. The productivity estimates derived by this method, however, tend to be biased partly because of a lack of adequate information on worker absenteeism. Furthermore, the estimate does not take into account the total number of hours worked and for that reason, it is normally considered a crude measure of productivity. Nonetheless, previous research suggests that output per worker and output per hours worked are usually closely correlated. Therefore, bearing in mind its limitations, the output per worker ratio can provide some useful insight about changes in productivity.



Note: Information for this chart was drawn from Barbados Statistical Service and The Central Bank of Barbados (for Barbados) and the Central Bank of Trinidad and Tobago and the IMF website (for Trinidad and Tobago).

Figure 1

Productivity Growth

Output per worker in Barbados has been growing steadily since 2001(see Figure 1) when there was a decline of 4.2%. This resulted mainly from a significant downturn in total output, attributed to the negative fallout on local tourism and related industries arising from the September 2001 terrorist attacks in the United States. In 2004, productivity is estimated to have grown by 3.3%, slightly above the rate in 2003 and about 2% higher than the average for the review period 1999-2004. Between 2002 and 2004 output expanded by over 6.8% in contrast to a mere 0.4% increase in employment.

To put changes in productivity growth in Barbados in a proper perspective, especially in the emerging environment of the CARICOM Single Market and Economy (CSME), it is necessary to gauge where Barbados stands in relation to her major CARICOM trading partner, Trinidad and Tobago. Unlike Barbados, Trinidad and Tobago recorded fairly high levels of productivity growth throughout the entire review period, especially in 2003 when it registered growth of approximately 11.5%. Its worst performance occurred during 2001 with a marginal increase of 2.2%. However, growth for the remaining years, excluding 2001 and 2003, averaged approximately 4.6%, almost three times higher than the average expansion recorded for Barbados.

Figure 2 shows that most of the growth in productivity in Barbados, during the period 2002-2004, was attributed to increases in tourism (1%), construction (0.8%) and transport, storage and communications

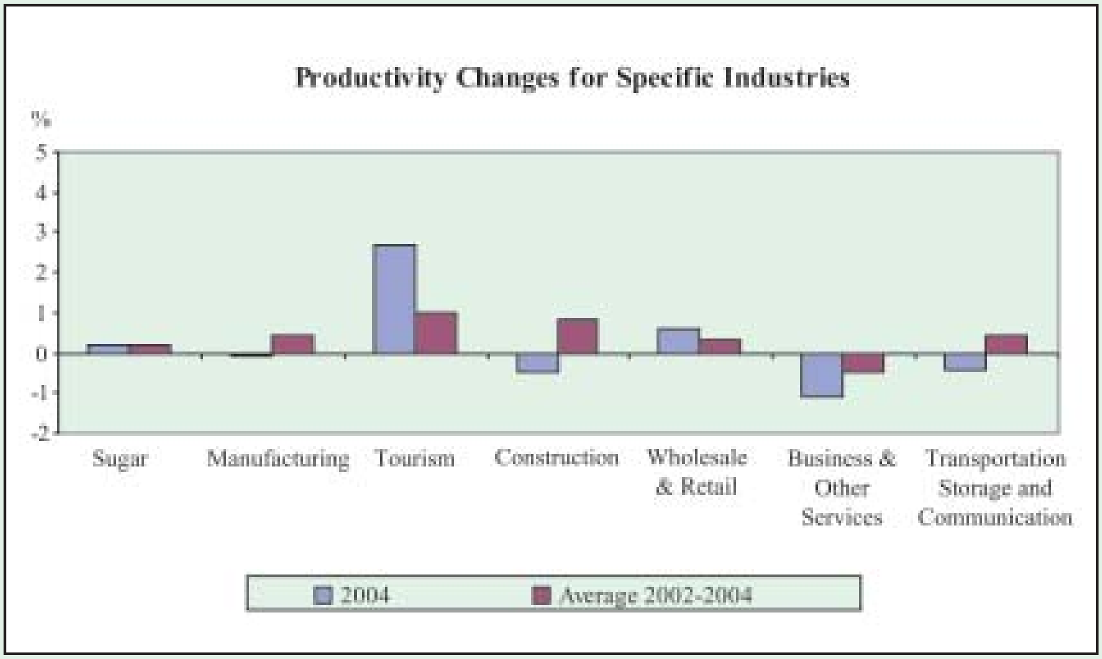


Figure 2

(0.4%). The tourism industry registered the largest expansion in productivity for 2004, expanding by 2.7% on account of a marked increase in real tourism value-added and lower employment. As a result of this expansion in tourism output, productivity for wholesale and retail rose slightly, by 0.6%, as output in the industry strengthened and the number of persons employed remained unchanged. The sugar industry also experienced marginal growth in productivity, owing to mechanisation, which forced a rapid cut-back in the number of workers employed. In contrast, business and other services recorded the worst performance, suffering a decline of an estimated 1.1% primarily due to strong employment growth, which was not matched by sufficient output. Additionally, during 2004, productivity decreases were also recorded for construction (0.5%), transportation and storage (0.4%) and manufacturing (0.1%).

Outlook

Although the indicator suggests that productivity in Barbados has risen in recent years, it is important to recognise that if the country is to compete in the global market place, there must be greater efforts aimed at attaining and sustaining higher levels of productivity comparable to levels attained in competing markets. The work undertaken can assist in developing quantifiable processes to link wage increases to productivity gains.

producer. In contrast, exports of miscellaneous products fell marginally.

Net receipts from services advanced by an estimated 5.8%, less than half the 17.6% rise recorded in 2003, but significantly greater than the average increase of 2.2% registered in the last five years. The slow pace of growth was primarily attributed to a moderation in the rate of expansion in tourism receipts (travel credits). Estimates indicate that travel credits rose by approximately 7.0%, compared to an increase of 15.2% in 2003, as the majority of the upward movement in tourism was due to a higher number of cruise ship passengers who generally spend considerably less than long-stay visitors. As a result of the expansion in imports, net outflows for transportation services rose by 10.7%, compared to the 9.1% increase in the previous year. Additionally, net income outflows worsened by approximately 3.3%, owing to higher external interest payments.

Capital and Financial Account Developments

During the year, the surplus on the capital and financial account was estimated at $183.5 million, approximately $420.0 million lower than the balance recorded in 2003. The deceleration in inflows was principally due to a turnaround in net long-term public sector flows and, to a lesser extent, reduced net long-term private sector inflows. Net long-term public capital outflows were estimated at $113.1 million during the year, as overall amortisation payments exceeded project fund inflows. Also, approximately $26.5 million was invested overseas by the National insurance Scheme under the second-tier reserve programme. In contrast, divestment-related inflows were mainly responsible for the long-term public sector inflows of about $154.0 million in 2003.

Compared to $289.3 million in 2003, net long-term private sector inflows were approximately $226.1 million in 2004 because of a decrease in the level of project financing for local utilities as well as lower receipts from the sale of assets to non-residents and increased overseas investments by a number of private sector entities under the second-tier reserve programme. Furthermore, preliminary estimates indicate that relative to the previous year, the level of short-term inflows in 2004 was significantly reduced.

Foreign Debt Service

In 2004, foreign debt service payments declined by an estimated 3.5% ($8.3million) in contrast to an 19.1% increase in 2003. The curb in outlays reflected the reduction in external amortisation of $29.5 million and a fall in interest payments of 25.3% ($21 million). Amortisation payments returned to their 2002 levels following the significant expansion that occurred in 2003, when government repaid the outstanding balance on a loan for a public enterprise. Interest payments increased by 20.3%, as both central government and government-guaranteed payments rose by $20.1 million and $1.7 million, respectively.

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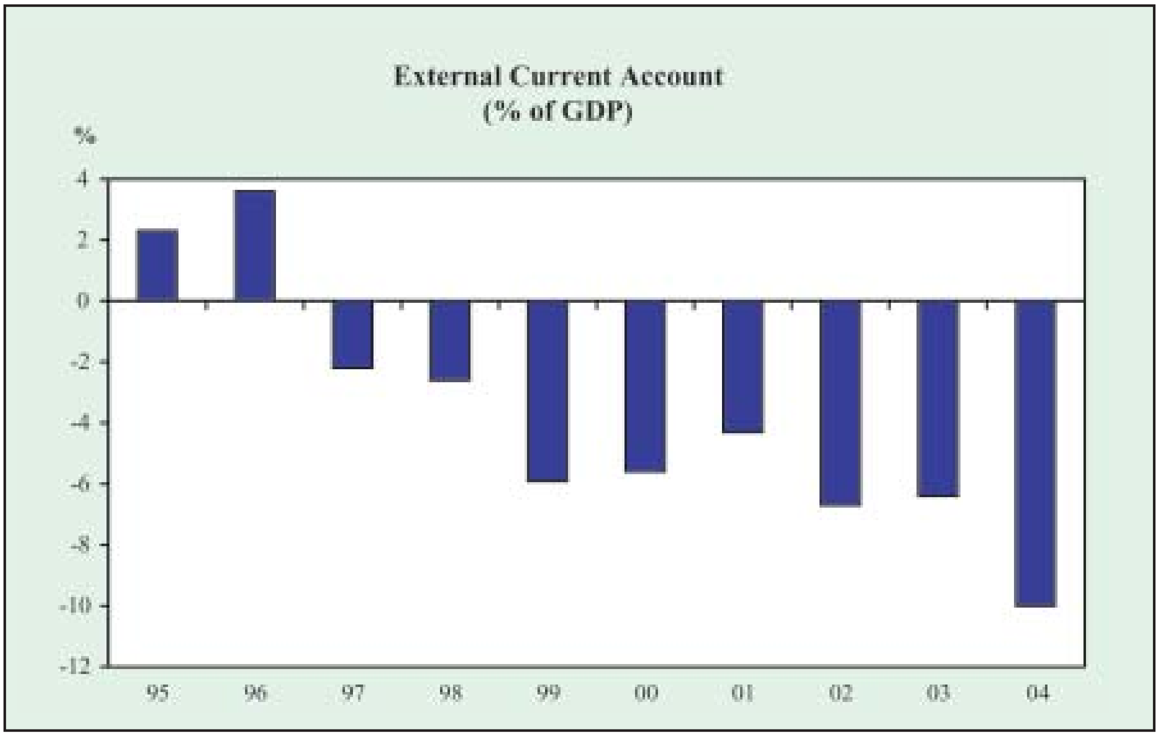

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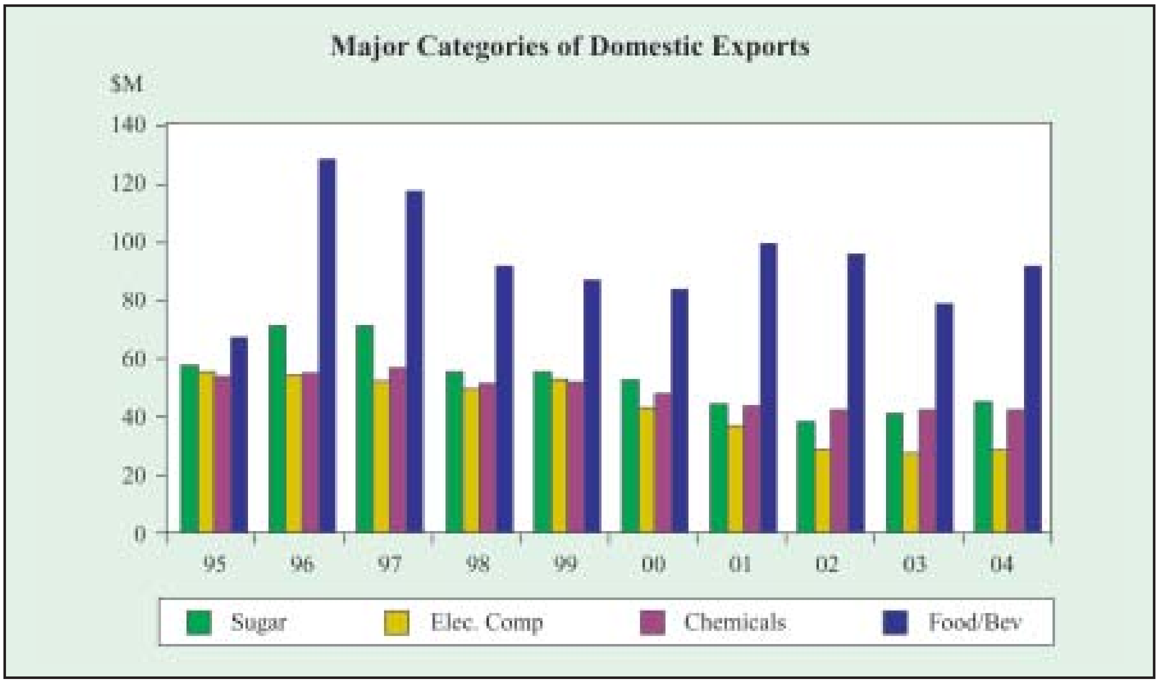
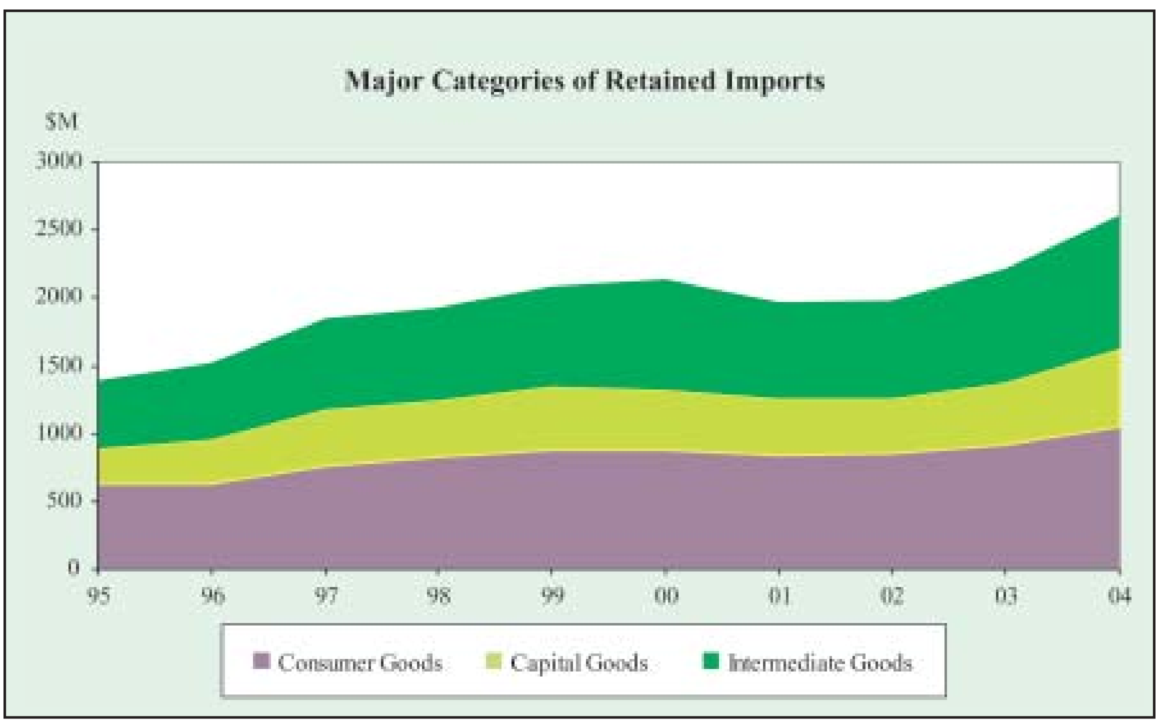
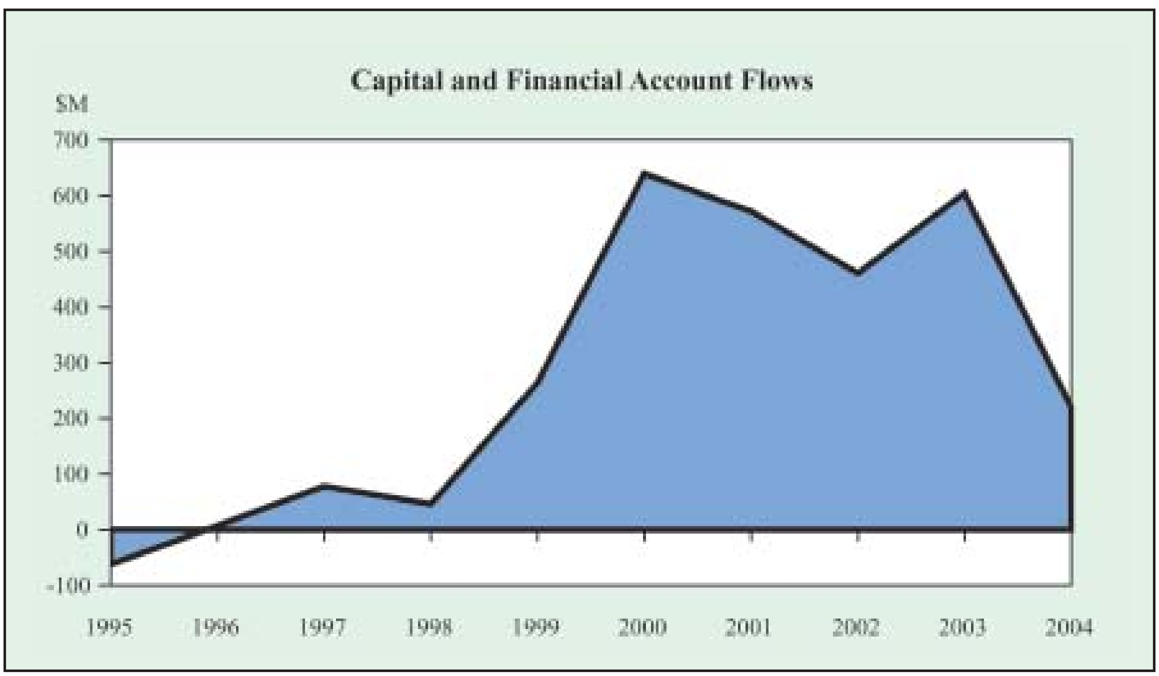
Direction of Trade

The US continued to be Barbados' major trading partner in 2004, accounting for 36.4% of total imports and 16.0% of domestic exports. Imports from the CARICOM grouping represented approximately 22.3% of total imports, a decline of half a percentage point from the previous year's ratio. However, exports to CARICOM as a percentage of total domestic exports


Major Categories of Domestic Exports
$M
140
120
100
80
60
40
20
0
95
96
97
98
99
00
01
02
03
04
Sugar
Elec. Comp
Chemicals
Food/Bev


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


Travel Credits
$M
1800
1600
1400
1200
1000
800
600
400
200
0
95
96
97
98
99
00
01
02
03
04


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

Balance of Payments
($Millions)

	2001R	2002R	2003R	2004P
Current Account	-221.1	-335.3	-338.1	**-590.5**
Merchandise Trade Balance	-1,362.2	-1,403.9	-1,602.9	**1,929.4**
Total Credits	542.3	506.0	528.4	**586.3**
Exports BOP	436.1	402.3	415.7	**466.7**
Total Debits	1,904.5	1,909.9	2,131.2	**2,515.7**
Imports (BOP)	1,903.3	1,909.6	2,131.0	**2,515.7**
Domestic Exports	352.5	333.1	329.2	**346.9**
Retained Imports	1,971.0	1,991.7	2,220.5	**2,616.3**
Services (Net)	1,140.0	1,099.8	1,293.2	**1,367.8**
Of which Travel Credits	1,394.4	1,315.8	1,515.7	**1,620.0**
Income (net)	-186.7	-203.6	-214.0	**-221.1**
Current Transfers (net)	187.8	172.4	185.6	**192.1**
Capital and Financial Account	571.4	460.3	604.2	**183.5**
Errors and Omissions	102.5	52.5	109.8	**65.3**
Overall Surplus (+)/ Deficit (-)	452.9	177.5	375.9	**-341.8**
Net Official Financing	0.0	0.0	0.0	**0.0**
IMF	0.0	0.0	0.0	**0.0**
Other Monetary Authority	0.0	0.0	0.0	**0.0**
Other Financial Institutions	0.0	0.0	0.0	**0.0**
Change in Foreign Reserves (-increase/+decrease) (CBB basis)	-452.9	-177.5	-375.9	**341.8**
Adjusted by commercial banks' position (Net)	7.8	224.9	239.0	**-27.7**
Change in Net International Reserves (NIR) (IMF basis) (-increase/+decrease)	-445.1	47.4	-136.9	**314.1**

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

remained relatively unchanged at 50% in 2004. Within CARICOM, Trinidad and Tobago was again the largest trading partner, accounting for an estimated 87.0% of imports and 29.0% of exports.

The value of goods imported from the US grew by 15.3% during the review year, a significant increase over the 4.8% rise registered in 2003. The expansion was mainly attributed to higher machinery, construction materials and food and beverages. In contrast, exports to the US market fell by 5.4%, as declines in exports of electronic components and miscellaneous goods overshadowed growth in rum sales. Imports from Canada, soared by 27.2% on account of expansions in purchases of chemicals, food and beverages and pharmaceuticals. Similarly, domestic exports to Canada surged by 29.6% in 2004, compared to a contraction of 5.3% in 2003, buoyed by higher rum sales. An increase in machinery, motorcars as well as iron and steel were the main causes of the 11.8% gain in UK imports, while exports to that country rose by 10.2% during the year, owing to increased sales of sugar and electronic components. In addition, purchases from Japan strengthened by almost twenty percent as a result of the heightened demand for motorcars.

The value of goods purchased from CARICOM expanded by 15.4%, the third consecutive year of growth. The main increases were registered in the fuel, food and beverages and construction materials categories. Likewise, goods exported to CARICOM grew by about 4.0%, in contrast to a 2% reduction in 2003. The expansion was principally driven by higher sales of fuel, food and beverages and cement.

Imports from Trinidad and Tobago expanded by 16.0% during the year on account of significant growth in purchases of iron and steel as well as food and beverages. Moreover, the continued upward trend in international fuel prices coupled with strong local demand, resulted in fuel imports increasing by 19.0%. In contrast, purchases of Barbadian goods by Trinidad and Tobago remained flat during the review period as declines in food and beverages, chemicals and other miscellaneous products offset increases in crude oil sales. Purchases from Guyana surged by 27.0% during the year, owing to higher imports of food and beverages, while the value of goods sold to Guyanese importers rose by 6.3%, as higher rum and cement sales countered contractions in feed exports. Imports from Jamaica rose by 6.7%, as increases in food and beverages and clothing, overshadowed contractions in toiletries and furniture. However, exports to Jamaica decreased by 10.9%, as contractions in chemical and machinery exports exceeded growth in construction materials. Imports from the OECS were up by 2.7%, reflecting higher imports of food and beverages and miscellaneous products. In contrast, increased sales of food and beverages and construction materials propelled the 11.6% expansion in exports to that region.

Regional Economic Developments

Overview

Regional economies recorded higher levels of economic activity during the first half of 2004. However, natural disasters such as Hurricane Ivan and the earthquake in Dominica slowed the pace of expansion during the second half of the year. Nonetheless, the region benefited from higher levels of tourist arrivals, particularly in the Bahamas and the OECS, while escalating oil prices sustained the economic fortunes of Trinidad and Tobago. Despite the hike in oil prices, inflation in most countries remained relatively stable. The fiscal performances of regional economies were mixed during 2004, with some countries recording surpluses or smaller deficits and others experiencing deteriorating fiscal conditions. Additionally, the external current account positions of most regional economies improved during the period. With regard to commercial bank activity, strong growth was recorded in deposits across the region, while total loans and advances also rose, albeit at a slower rate. Exchange rate depreciations were recorded for Guyana and Jamaica, while the rate for Trinidad and Tobago remained virtually unchanged.

Tourism

Total visitor arrivals increased throughout the region during 2004, with the numbers of both stay-over visitors and cruise passengers rising in all major tourist destinations. Total visitor arrivals to the Bahamas surged by 12.3% over the first nine months of 2004, a significant improvement when compared to the 2.5% observed one year earlier. Any losses incurred as a result of the unusually active hurricane season were offset by the buoyant first half performance, which resulted from increased hotel occupancy levels and robust cruise passenger arrivals. Tourism continued to boom in Belize, rising by approximately 50%, as this sector benefited from the strengthening of the US economy, targeted advertisements to the US and the use of larger cruise vessels. During 2004, the total number of visitors arriving in Jamaica increased by 3.2% due to the building

Tourist Arrivals
(January – September)

Country	Stay-Over Visitors			Cruise Passengers		
	2003	2004	% Change	2003	2004	% Change
Belize	155,039	**163,397**	5.4	309,647	**519,525**	67.8
Bahamas [a]	1,279,352	**1,337,561**	4.5	2,188,123	**2,555,989**	16.8
Jamaica	1,027,107	**1,097,035**	6.8	816,547	**805,595**	-1.3
OECS:	625,905	**690,186**	10.3	708,160	**1,173,789**	65.8
Anguilla	84,091	**92,722**	10.3	n.a.	**n.a.**	n.a.
Antigua & Barbuda	159,889	**186,414**	16.6	241,229	**358,177**	48.5
Dominica	53,829	**57,929**	7.6	96,362	**258,671**	168.4
Grenada	100,586	**108,017**	7.4	91,893	**169,451**	84.4
Montserrat	5,464	**6,365**	16.5	814	**363**	-55.4
St. Kitts & Nevis	n.a.	**n.a.**	n.a.	n.a.	**n.a.**	n.a.
St. Lucia	214,313	**226,346**	5.6	240,697	**344,936**	43.3
St. Vincent & Grenadines	56,935	**63,081**	10.8	37,165	**58,121**	56.4

Source: The Central Bank of the Bahamas, The Bank of Jamaica, The Eastern Caribbean Central Bank, The Central Bank of Belize,
[a] includes Day/Transit visitors
n.a.: not available

of new hotels and increased promotional activity. Tourist arrivals to the OECS were up by 35.2% as a result of stronger economies of the main tourist markets, a depreciated US dollar and increased airlift capacity.

The US, other Caribbean countries and the UK continued to be the largest markets for the region. In Belize, the United States and Europe accounted for 66.1% and 11.5% of stay-over visitors, respectively. The OECS, however, while still sourcing the majority of its visitors from the US (32.2%), continued to receive a high proportion of visitors from other Caribbean countries (29.0%) when compared to the rest of the region. The majority of landed visitors to Jamaica continued to originate from the United States (67.5%) and Europe (15.9%) but arrivals from Canada dropped by approximately 1.6 percentage points to a share of 6.7%.

Agriculture

The agricultural sectors in the region recorded mixed performances in 2004. In Belize, the agriculture, hunting and forestry and fishing industries grew by 11.4% and 2.1%, respectively during the first three quarters of the year. The rise in agricultural output was evident in higher yields of sugarcane, citrus, banana and papaya, and was the result of the combined effects of a two-year respite from hurricanes and greater usage of field inputs. The fishing industry, on the other hand, benefited from increased shrimp, conch and lobster catches.

In Guyana, during the January – September period of 2004, output from the major categories within the agricultural sector represented the highest production level recorded within the last five years. Sugar industry output amounted to approximately 231,247 tonnes, 14.5% above the yield for the same period one year earlier, while rice production rose by 3.3% to 252,150 tonnes. A boost in the production of roundwood was the main contributing factor behind the higher level of output from the forestry sector, while the output of the fishing sector declined, as the significant reduction in fish and shrimp catches offset the 8.4% rise in prawn catches.

Agricultural production in the OECS also increased, driven mainly by the improved performances of the banana and cocoa industries, which offset the decline in the production of sugar. The rebound in banana production - from a decline of 39.0% in 2003 to an increase of 23.8% in 2004 - was the result of favourable pre-hurricane weather, more land under cultivation and ongoing investment aimed at improving productivity in the industry.

In contrast, agricultural output in Jamaica and Trinidad and Tobago fell in 2004. Although the overall output of the Jamaican agricultural industry declined by 6.2% during the first nine months of 2004, the performances of the various sub-sectors varied. An improvement in the quality of cane led to a rise in sugar production and coffee production continued its upward trend, whereas output from the banana industry contracted as a result of the passing of Hurricane Ivan. The agricultural sector in Trinidad and Tobago experienced a 21.3% deterioration as a result of the fall-off in sugar production.

Mining and Quarrying

The mining industries in the region also had mixed fortunes in 2004. Activity in the mining industry of Jamaica expanded, as bauxite and alumina production increased by 0.1% and 4.6%, respectively, during the first three quarters of 2004. However, as a result of the damage caused by Hurricanes Charley and Ivan, factory utilisation in September fell to just over 50% and output for the remainder of 2004 was expected to have declined considerably. Despite some deceleration caused by industrial unrest, the energy sector continued to be a major contributor to GDP growth in Trinidad and Tobago, expanding by 4.8%; it also provided impetus for significant growth in the non-energy sectors which rose by 4.4%. In Guyana, on the other hand, increased gold output of 7.9% was insufficient to offset a 36.4% deterioration of the bauxite industry, which recorded falling levels of output in all the categories of bauxite except for Refractory Grade.

Prices and Interest Rates

With the exception of Jamaica, the average rate of inflation across the region continued to be relatively low to moderate, ranging from 0.5% in the Bahamas to 4.8% in Guyana and, for most countries, the rate of inflation was lower than in the same period of 2003. In Jamaica, however, the twelve-month moving average rate of inflation jumped 5.3 percentage points to 13.8% at the end of September as a result of increased prices for food and drink, transportation, fuel and other household supplies and housing and other expenses.

Exchange Rates

The value of the Jamaica dollar depreciated by approximately 2.1 percentage points to J$61.89 per US$1 at the end of September 2004, which compared favourably with the 17.2% decline in the previous year, when the foreign exchange market was characterised by instability. The Guyana dollar depreciated by 3.1 percentage points against the US dollar during the first nine months of 2004 to G$199.38 per US$1, representing an increased rate of depreciation. The exchange rate between the Trinidad and Tobago dollar and the US dollar remained virtually unchanged during 2004.

Government Operations

Fiscal performances improved during 2004 for all countries reviewed except Trinidad and Tobago. At the end of September, the central government fiscal deficit of the Bahamas was B$162.4 million, following a deficit of B$174.2 million in the previous year, as growth in revenue of 5.3% outpaced that of expenditure by 2.5 percentage points. During the January to September period of 2004, Central Government operations in Belize generated an overall deficit of BZ$70.7 million, an improvement of BZ$104.9 million over the previous year's deficit. Higher tax receipts, mainly from property taxes, together with a decrease in capital transfers and net lending, were responsible for this improved fiscal position. Increases in current revenue and grants led to the narrowing of the overall deficit of the member countries of the OECS to EC$265.7 million for the first nine months of 2004, compared with EC$276.8 million in the corresponding period of 2003.

The improvement of the overall balance of the public sector in Guyana from a deficit of G$3.9 billion to a surplus of G$1.8 billion was primarily due to a combination of stronger revenue inflows and reduced current expenditure, which offset a larger deficit on the capital account when compared to the previous year. Increased revenue inflows, in particular, sales tax and international trade tax receipts, and grants outpaced expenditure outflows during 2004, resulting in Jamaica's fiscal deficit narrowing by J$8.6 billion to J$15.7 billion. While the buoyancy of tax collections from the oil sector in Trinidad and Tobago led to a fiscal surplus of TT$437.1 million over the fiscal year ended September 2004, this represented a reduction from the TT$958.4 million surplus for 2002/2003.

Foreign Sector Developments

With the exception of the OECS and the Bahamas, most regional economies recorded an overall improvement in their balance of payments positions. A surge in tourism revenues, increased current transfers and a 9.2% reduction in the trade deficit contributed to an improvement in the external current account balance in Belize, which moved from a deficit of US$118.4 million to one of US$95.6 million at the end of September 2004. However, while the capital and financial account recorded a surplus during the period – the result of debt forgiveness from the British and US governments and increased direct investment inflows – this account worsened by US$30.4 million to reach US$68.1 million. The overall balance of payment account, therefore, recorded a deficit during the first three quarters of 2004, though much smaller than for the previous year.

The external current account deficit in Guyana narrowed considerably during the first half of 2004 as a result of increased receipts from gold, sugar and rice exports, coupled with a reduction in the value of imports of food, and intermediate and capital goods, while the external capital and financial account also registered a healthier performance. The overall balance of payments position in Jamaica improved significantly during the first ten months of 2004, moving from a deficit of US$465.9 million to a surplus of US$661.7 million. During the January to October period

Selected Economic Indicators

Country	Real Growth (%)		Inflation Rate (%)		Fiscal Balance ($M)		Net International Reserves (US$M)	
	2003	2004 p	2003	2004 p	2003	2004 p	2003	2004 p
Belize	12.0	**4.7**	2.3 d	**3.4 d**	-175.6	**-70.7**	n.a.	**n.a.**
Bahamas	n.a.	**n.a.**	2.9	**0.5**	-174.2	**-162.4**	n.a.	**n.a.**
Guyana	0.1	**0.8** *a*	6.2	**4.8**	-3,947.5	**1,768.7**	162.3	**163.9**
Jamaica	2.1	**1.8**	8.5	**13.8**	-24,250.9	**-15,663.1**	1,182.6	**1,616.5**
OECS	3.8 b	**4.3 b**	n.a.	**n.a.**	-276.8	**-265.7**	515.6	**556.2**
Trinidad and Tobago	3.3	**4.4**	4.1	**3.1**	958.4 c	**437.1 c**	2,198.6	**2,823.6**

Sources: The Bank of Jamaica, The Eastern Caribbean Central Bank, The Central Bank of Trinidad and Tobago, The Central Bank of the Bahamas, The Central Bank of Belize and The Central Bank of Guyana
a: As at June
b: As at December
c: For fiscal year October - September
d: As at August
P: Provisional
n.a.: Not Applicable

of 2004, the external current account deficit in Jamaica shrank, as increased travel inflows and higher export receipts were complemented by a reduction in imports. On the capital and financial account, a surplus was recorded, offsetting the deficit on the current account, due in large measure to the Government of Jamaica's successful debt-raising activities on the international capital market.

The OECS and the Bahamas, however, did not fare as well as the rest of the region. The external current account deficit of the OECS for the period ending September 2004 widened when compared to the corresponding period of 2003 on account of higher merchandise imports, lower domestic exports and increased debt service payments. In addition, higher principal repayments and a cut-back in loan receipts led to a deficit on the capital and financial account.

Preliminary estimates for the January to September period of 2004 indicate that the deficit on the external current account of the Bahamas worsened by B$58.4 million, while the capital and financial account balance dropped from a surplus of B$173.1 million to one of B$47.8 million on account of significantly lower net financial inflows.

Financial Sector

As a result of falling interest rates, credit in the region rose in all countries except Guyana, where total loans and advances shrank by 5.2% at the end of September, following a reduction of 22.0% in the corresponding period of the previous year. Commercial bank credit in the Bahamas increased by 6.4%, some 4.4 percentage points above the rate observed one year earlier, on account of a significant upturn in miscellaneous loans and lending to

Selected Financial Indicators
(As at September 2004)

Country	Savings/ Deposit Rate		Lending Rate		Treasury Bill Rate – 3 months		Exchange Rate Per US$1	
	2003	2004[p]	2003	2004[p]	2003	2004[p]	2003	2004[p]
Belize	4.80[a]	**5.30[a]**	14.40[a]	**13.90[a]**	3.20	**n.a.**	2.00	**2.00**
Bahamas	3.89[a]	**3.66[a]**	11.55[a]	**10.95[a]**	1.62	**0.28**	1.00	**1.00**
Guyana	3.54[b]	**3.42[b]**	14.88[c]	**14.54[c]**	3.40	**3.80**	195.30	**199.38**
Jamaica	8.43	**6.48**	25.60	**24.89**	n.a.[d]	**14.41**	59.71	**61.89**
OECS	3.80	**n.a.**	13.20[c]	**8.00[c]**	n.a.	**n.a.**	2.70	**2.70**
Trinidad and Tobago	2.10	**1.25**	11.50[c]	**9.50[c]**	4.76	**4.76**	6.29	**6.28**

Sources: The Bank of Jamaica, The Eastern Caribbean Central Bank, The Central Bank of Trinidad and Tobago, The Central Bank of the Bahamas, The Central Bank of Belize and The Central Bank of Guyana
a: Weighted Average
b: Small Savings Rate
c: Prime Lending Rate
d: There were no 3-month Treasury Bills issued in September 2003 for Jamaica
P: provisional
n.a.: not available

government and the agriculture, fisheries and transport industries. Similarly, loans and advances to the private sector in Belize were about 12.9% higher during the first half of the year, particularly to the agriculture, utilities and building and construction industries. In Jamaica, total loans and advances grew by almost 20%, with most of the new lending going to the tourism industry, as well as private individuals and the government. Total loans in Trinidad and Tobago increased by 23.1% or TT$3.5 billion, whereas in the OECS, total loans stood at EC$8,097 million, an increase of 6.6%.

Total deposits in the region also increased during 2004. Total resident deposits in the Bahamas advanced by 8.5% at the end of September 2004, compared to an expansion of 0.6% at the end of the corresponding period of 2003. Similarly, in Belize, local currency deposits grew by approximately 14.5%, with most of the new deposits being held by the Non-Central Government public sector and the private sector. Total deposits held at commercial banks rose by 14.7% in Jamaica, 7.9% in Trinidad and Tobago and 10.1-% in the OECS. In Guyana, contrary to the trend exhibited with regard to lending, total deposits at commercial banks increased by 4.2%, owing to higher deposits by business firms and private individuals, which offset decreases in deposits of non-bank financial institutions.

International Economic Developments

Overview

Following a 3.9% expansion in 2003, the global economy continued to gain traction in 2004, rising by an estimated 5.0% amid strong growth in the industrialised countries, especially the US, and rapid growth in China, the Asian newly industrialised countries (NICs) and Latin America. International trade flows and production volumes increased, in many cases accompanied by employment gains. However, the pick-up in global inflation was a significant dampening factor, as surging demand and various supply concerns helped to push up the price of oil and other commodities. Nevertheless, the increase in prices was largely confined to the energy sector and appeared to have peaked in late October, limiting second-round effects. Even so, most of the major central banks introduced tightening measures during the year. The US and other major industrial economies recorded a further deterioration in their fiscal positions, which was a cause for some concern.

During the year, the global economy also continued to be characterised by serious savings-investment imbalances, with the US current account deficit widening in step with mounting trade surpluses elsewhere, especially in Asia. This contributed to a relatively broad-based depreciation of the US dollar against other major currencies, with particularly strong declines relative to the euro and the Japanese yen.

Industrial Economies

According to preliminary estimates, economic activity in the United States advanced by more than 4.0% in 2004, compared with growth of 3.0% in 2003. The acceleration stemmed primarily from a significant rise in real personal consumption expenditure on durable goods.

Furthermore, the unemployment rate remained relatively low by historical standards. However, by the end of the year, consumer price inflation had risen substantially from a year earlier, mainly reflecting movements in the energy-related components of the index. In addition, the persistent current account deficit continued to depress the value of the US dollar, while the budget deficit deteriorated further. Nevertheless, with output and underlying productivity on the increase and core inflation contained, the US Federal Reserve Board (The Fed) perceived the upside and downside risks to be more or less in balance. The Fed therefore tightened monetary policy from the middle of the year, with the benchmark Fed Funds rate ending the year at 2.25%, following five 25-basis-point rate hikes.

The Canadian economy, after running at close to full capacity for most of the year, showed signs of increasing slack in the final quarter. Having driven economic performance in the first half, exports dipped in the second half as international demand weakened, while imports rose in most categories, leading to a narrowing of the current account surplus. Still, with the unemployment rate declining and other leading indicators remaining positive, the Bank of Canada continued to tighten its monetary policy up until October. However, the Bank thereafter maintained its target for the overnight rate at 2.5%, giving a spread of 25 basis points vis-à-vis its US counterpart. The decision to keep rates on hold was attributed to the strength of the Canadian dollar – it climbed to its highest value in nearly 13 years on November 26, closing at 85.04 US cents – which the Bank believed had the potential to exert a dampening effect on aggregate demand.

In Japan, the economic recovery continued, despite some loss of momentum in the second half. This was largely the result of a slowing in previously buoyant exports due to global supply-demand adjustments in IT-related sectors and a pick-up in imports of raw materials and consumer goods. In addition, public investment continued to decline on account of fiscal consolidation. On the other hand, business fixed investment rose, in line with higher corporate profitability and both domestic and external demand, while private consumption growth increased slightly, as labour market conditions continued to improve gradually. However, while headline inflation figures were positive, core inflation – as measured by the general index excluding fresh food – reflected lingering deflationary pressures. Overall, the weaker-than-expected outturn for the second half led the Japanese yen to lose some of its first-half gains against the US dollar, but still the yen ended the year up 3.6% on the dollar.

Estimates of the Euro Area national accounts point to a moderation of the ongoing recovery during the summer period. A preliminary decomposition of aggregate demand reveals that the contribution of trade to growth was strongly negative due to a deceleration in exports and robust imports. Continued weakness in private consumption also contributed to the slowdown. At the same time, investment rebounded and inventories made a strong positive contribution to GDP growth. The Euro Area unemployment rate remained at 8.9%, virtually unchanged since March 2003. In this regard, but also more generally, the performance of the German economy tended to impact adversely on regional aggregates, while the more dynamic French economy picked up much of the slack. Nevertheless, with the economic recovery still relatively tenuous, and with the euro persistently appreciating against the dollar, the European Central Bank (ECB)[4] kept its key policy rates at historical lows[4]. This was complemented by a slightly expansionary stance on the part of national fiscal authorities, which led to further weakening of budgetary positions during the year.

After recording a strong increase in output in the first half of the year, growth in the UK tailed off noticeably from the third quarter. Estimates of the components of aggregate supply showed that this was mainly due to a decline in oil and gas extraction in the North Sea and a fall-off in the manufacturing sector. On the demand side, growth in consumer spending moderated and the housing market slowed, whereas investment accelerated. The unemployment rate remained low; however, growth in employment was relatively flat, reflecting productivity gains. Higher commodity prices, particularly for fuel and other manufacturing inputs, led to a rise in retail price inflation. The pound sterling, like most other major currencies, appreciated against the US dollar, but depreciated relative to currencies of its other major trading partners, reflecting the weakening of consumer demand and concerns about the sustainability of the trade deficit. Although the lower value of the pound was seen as potentially adding to inflationary pressures, the weakness of second-half economic data and the fact that inflation was

[4] The ECB uses three rates as monetary policy tools: the minimum bid rate on main refinancing operations (2%), the deposit facility rate (1%) and the marginal lending facility rate (3%).

Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)*		Unemployment (% Rate)		Inflation (% Rate)**	
	2003	2004	Dec-03	Dec-04	Dec-03	Dec-04
Canada	2.0	#**2.7**	7.4	**7.0**	2.0	**2.1**
Euro zone	0.5	#**1.7**	8.9	**8.9**	2.0	**2.4**
France	0.5	#**2.3**	9.9	**9.9**	2.2	**2.0**
Germany	-0.1	#**1.5**	10.4	**10.8**	1.1	**2.1**
Italy	.0.3	#**n.a**	8.3	+**7.4**	2.5	**1.8**
Japan	1.4	#**2.7**	4.9	**4.1**	-0.4	**0.2**
United Kingdom	2.2	#**3.1**	4.8	**4.7**	2.8	**3.5**
United States	3.0	**4.3**	5.7	**5.4**	1.9	**3.3**

Source: Various Central Banks and National Statistical Offices,
Notes: # Indicates Eurostat Flash Estimate
+Indicates data as at September
*Indicates percentage change from previous year
** Indicates percentage change in price index

within monetary targets led the Bank of England to hold its benchmark repo rate at 4.75% throughout the fourth quarter.

Emerging Markets

Following a very healthy expansion in the first two quarters of 2004, economic activity in emerging Asia decelerated gradually thereafter, as growth in exports and industrial production seemed to peak at mid-year. Nevertheless, high rates of economic growth were recorded by most regional economies for the year as a whole. Meanwhile, inflation stabilised and even slowed in some parts of the region, after displaying an upward trend since the end of 2003. The Chinese economy continued to outperform those of the rest of the region, although tightening measures, including an interest rate hike at the end of October, appeared to have dampened the growth of monetary aggregates, as well as investment activity. Nonetheless, investment levels remained high and retail sales and exports continued to be very robust.

The available data for Latin America indicate that economic activity improved considerably during the year. Growth was strong and widespread within the region, with accommodative monetary conditions, higher commodity prices, buoyant exports and enhanced confidence and domestic demand supporting the expansion. Petroleum exporting countries in the region, for example, Mexico and Venezuela, benefited in particular from the rise in oil prices. However, at the same time, these higher oil prices, coupled with the healthy level of domestic demand, raised inflationary pressures and drove up interest rates for oil importers. On the other hand, increased non-fuel commodity prices helped exporters of metal and agricultural products like Chile to record export gains.

Economic Indicators: Emerging Markets

Countries	Real Output (% Change)		Inflation (% Rate)*		Foreign Reserves (US$ billion)	
	2003	2004	Dec-03	Dec-04	Dec-03	Dec-04
Argentina	8.8	**n.a.**	0.0	**6.1**	19.6	**14.1**
Brazil	0.6	**5.2**	9.3	**7.6**	49.3	**52.9**
Chile	3.3	**n.a.**	1.1	**2.4**	15.9	**16.0**
China	9.4	**9.5**	3.2	**2.4**	403.3	**609.9**
Hong Kong	3.2	**n.a.**	-1.9	**0.2**	118.9	**123.6**
Indonesia	4.5	**n.a.**	5.2	**6.4**	36.2	**36.3**
Malaysia	5.3	**n.a.**	1.2	**2.1**	44.9	**66.7**
Mexico	1.3	**4.4**	4.0	**5.2**	57.4	**61.5**
Singapore	1.1	**n.a.**	0.8	**1.5**	96.3	**112.8**
South Korea	3.1	**n.a.**	3.4	**3.0**	155.4	**199.2**
Venezuela	-7.6	**18.3**	27.1	**19.2**	21.4	**24.2**

Source: Various Central Banks and National Statistics Offices,
Notes: #Indicates IMF Estimates from World Economic Outlook
+ Indicates data as at September* Indicates percentage change in price index

Commodity Prices

Oil prices soared during 2004, pushed upward by a combination of strong demand, weather-related supply disruptions, limited spare capacity and concerns over the security of future supplies. After October, however, oil prices fell back below the US$40 per barrel mark.

By the end of the year, prices of non-energy commodities had also receded from the peak

Commodity Prices

Commodities	Dec-03	Dec-04	% Change
Total (Index of Market Prices)	127.0	**155.4**	22.4
Non-Fuel (Index of Market Prices)	89.4	**97.0**	8.5
Food (Index of Market Prices)	93.0	**94.6**	1.7
Sugar (US cents / lb)	29.0	**33.0**	10.2
Bananas (US $ / 40lb)	371.4	**497.2**	33.9
Rice (US $ / metric ton)	57.3	**55.0**	-4.1
Wheat (US $ / bushel)	165.6	**153.9**	-7.1
Soybeans (US $ / metric ton)	335.0	**264.9**	-20.9
Drinks	65.8	**77.6**	18.0
Metals (Index of Market Prices)	94.2	**117.3**	24.5
Aluminum	1557.8	**1852.9**	18.9
Iron Ore (US $ / metric ton)	31.9	**37.9**	18.6
Copper (US ¢ / lb)	2202.0	**3139.8**	42.6
Silver (US ¢ / oz.)	565.3	**712.4**	26.0
Gold (US $ / oz.)	407.0	**441.1**	8.6
Petroleum (US $ / barrel)	29.9	**39.1**	30.5

Source: IMF Commodity Prices

levels registered in April 2004. This development was driven by a substantial decline in food prices in the latter half of the year. Nevertheless, for the year as a whole, prices were substantially higher than a year earlier. Food prices went up slightly, although Caribbean export commodities such as bananas and sugar realized particularly steep price increases during the period. In addition, prices for both base metals and non-food agricultural raw materials expanded in response to heightened demand for industrial and agricultural inputs. Gold prices also rose significantly, as the depreciation of the US dollar prompted investors to move away from dollar-denominated assets and shift into precious metals.

ECONOMIC OUTLOOK

International and Regional Economic Outlook for 2005

The global medium-term outlook remains largely positive. The world economy is expected to continue to expand in 2005, fuelled by robust growth in China and the United States and moderate growth in Europe and Japan. Although elevated energy prices and the current trend toward higher interest rates may have a negative effect on global activity, the retreat of oil prices from their October peak, together with favourable financing conditions, should provide support for continued robust growth in the global economy.

However, significant downside risks remain in the form of a potential new spike in oil prices or a disorderly adjustment of existing global imbalances. In addition, the depreciation of the US dollar, which is expected to continue through the short-to-medium term, could negatively affect exports to the US market from countries such as Japan and the Euro Zone. The scope and timing of fiscal consolidation in some major industrial economies will also be another key determinant of world economic prospects.

Among emerging economies, the outlook for South East Asia will no doubt be overshadowed by the effects of the tsunami disaster that took place on December 26, 2004. The economies of the worst affected countries - Indonesia, Sri Lanka and Thailand - are expected to take some time to recover. Robust growth is projected for Latin America in the medium-term, as rising world incomes are expected to continue to generate strong demand for exports from the region. However, the sustainability of this performance will depend on the extent to which regional governments take the opportunity to press ahead with fiscal reforms.

With the global economy forecasted to continue strengthening, the outlook for regional economies remains positive going into 2005, with tourism maintaining its role as one of the leading sectors in the region. Expansion is predicted to be ongoing in the construction industry as a result of continued public and private sector investments, as well as in the financial services industry, which is expected to benefit from further improvement in the performance of international economies. Regional integration will be boosted by the introduction of the CSME, as it will present both opportunities and challenges for the region, particularly in the medium-term. Nevertheless, there are risks to regional growth such as the possibility of an international slowdown, the continued weakness in the value of the US dollar and rising oil prices.

Prospects for the Barbados Economy in 2005

The Barbados economy is projected to continue on the current growth path, albeit, at a slightly lower rate, with real GDP likely to increase by between 2.5% and 3% in 2005. Again, the pick-up in economic activity is expected to be led by tourism, business and other services, transportation, storage and communications and wholesale and retail trade. Aided by an improved global economic climate, the addition of the Hilton to the tourism plant and ongoing marketing, the tourism industry is expected to grow at around 5.9%, fuelling economic activity in the ancillary service industries and the wider economy. Furthermore, a pick-up in construction is anticipated with respect to the preparation for the Cricket World Cup in 2007. As a consequence of the expanded economic activity, some job creation is likely. The inflation outcome is uncertain, as inflationary pressures could ease if oil prices fall in response to planned increases in oil production by OPEC, but this may be counterbalanced by increasing interest rates. Inflation could also grow faster, if the dollar weakens further and oil prices rise again resulting in higher import prices.

When coupled with the robust pace of growth in imports, (which is likely to be further fuelled by higher disposable incomes as the effective income tax rate is lowered), and the significant external debt service payments scheduled from 2005 onwards, the poor performance of the merchandise export sectors is expected to persist

Moreover, ongoing trade negotiations and the prospect of further liberalisation of the capital account as part of Barbados' commitments under the CSME, may adversely impact on already struggling export sectors. The external account position is projected to remain weak and, as a result, the foreign reserves position of the country may be further strained.

The planned restructuring of the sugar industry and initiatives to develop the cotton sector could arrest the slump in agriculture. However, services remain a potential growth area.

Expanding economic activity should lead to higher indirect tax revenues, but with a lower direct tax intake and higher government expenditure, no significant improvement in the fiscal deficit is expected. A marked reduction in direct tax revenue is anticipated with the raising of personal allowances and the lowering of personal and corporate tax rates. However, the associated rise in personal consumption should result in some pick-up in collections of the VAT. Strong domestic demand should bolster commercial bank credit and, with the slower growth in domestic deposits, liquidity in the banking system is expected to tighten further.

ADMINISTRATION

The Board of Directors

In November, Dr. Marion Williams, Governor and Chairman of the Board was reappointed for another five year term.

There were no changes in the composition of the Board of Directors in 2004.

The Board met eleven times during 2004.

Management and Staff

During the year the staff of the Bank continued to improve on their skills. A number of persons also benefitted from promotions and upgrades. Growth of the staff complement was kept in check and only one position, that of Web Master was created. The position of Manager, Credit Operations was upgraded to Assistant Director, Foreign Exchange and Export Credits and one position of Senior Economist was upgraded to Chief Policy Analyst, Research Department.

During 2004, several members of staff earned new qualifications or completed additional training. Successfully completing degrees/ professional qualifications were: Mr. Roger Archer – MBA in Finance with merit, Miss Roslyn Harper, B.Sc. in Psychology, Messrs. Anderson Jordan and Louis Millar- CGA Programme and Mrs. Clovene Roach, AICB designation in the Business Programme for Bankers. Obtaining certification in other areas were Miss Shonda Forde as an Anti-Money Laundering Specialist from the Association of Anti-Money Laundering Specialists and Miss Sherry-Ann Mayers, the Certificate in Financial Services Practice from the Centre for Management Development, U.W.I., Cave Hill. An Associate Degree was also awarded to Miss Denisa Applewhaite in Applied Science (Computer Studies).

In addition, a number of persons completed BIMAP and other local institutional courses covering such subject areas as Accounting, Business Communications, Business Project Management, Desk Top Publishing, Principles of Economics, Fundamentals of Data-Base Management, Industrial Relations, Management of Human Resources, Information Technology, Occupational Health and Safety, Purchasing and Inventory Management, Project Management, Quantitative Managerial Decision-Making and Supervisory Management.

Staff Movements

Joining the permanent establishment of the Bank during the year were: one Senior Accounting Officer; five Examiners; three Secretaries; three Clerical Officers; one Security Officer and one Maid.

Seven persons were promoted during the year as follows: Miss Antaline King from the post of Clerical Officer to the post of Auditor; Mr. Roger Gumbs from the post of Examiner IV to the post of Examiner V; Miss Shonda Forde from the post of Examiner V to the post of Senior Examiner; Mrs. Karen Bostic from the post of Assistant Accounting Officer to the post of Examiner IV; Miss Jacqueline Goddard from the post of Secretary I to the post of Administrative Assistant; and Mrs. Suzanne Lawrence-Jordan from the post of Clerical Officer to the post of Accounting Officer.

There were nine resignations and nine retirements from the Bank during the year. At December 31, 2004 the number of established posts was 279 of which 251 were filled by permanent employees and 21 by temporary appointments.

Public Affairs

The Section continued its educational outreach programmes and its sponsorship of projects promoting the growth and development of the arts. The programmes in which the section was involved included: the University in Community, the Sir Winston Scott Memorial Lecture, the Crop Over Visual Arts Exhibition, Pan in the Plaza and the inaugural Information Technology Fair.

Seminar on the Caribbean, the Global Economy and the International Capital Markets

A distinguished group of local, Caribbean and international financial experts examined the state of the Caribbean and global economy, and the international capital markets at a seminar titled "The Caribbean, the Global Economy and the International Capital Market". The presenters discussed some very pertinent capital market issues in a Caribbean and global context. Among the topics examined were: (i) The Development of the Caribbean Capital Market; (ii) The Outlook for the Global Economy, Interest and Exchange Rates; (iii) The Caribbean and International Capital Markets; (iv) The Role of Rating Agencies in the Development of the International Capital Market; and (v) The Issuing and Trading of Notes and Bonds in the Caribbean Capital Market – a Commercial Banker's Perspective.

Close to two hundred bankers, economists, investment managers, brokers and financial and economic consultants attended the half-day session.

Seminar on Central Bank Risks

The Central Bank and the Centre for Latin American Monetary Studies (CEMLA) hosted a one-week seminar on Central Bank Risks. The first of its kind, the seminar examined the risks related to central banks' reputation, operations, foreign reserves, and liquidity situation, and suggested ways in which they can be mitigated. A session on corporate governance was held also.

Participants from Latin America, Spain, Haiti, Barbados and Trinidad and Tobago were in attendance. Dr. Elizabeth Mindlin of the New York Federal Reserve Bank and Dr. Alejandro Reveiz of the Banco de la Republica - Colombia were the main lecturers with support from Jimena Carretero of CEMLA.

Media Conference

The Bank believes that it is critical to contribute to the comprehensive and accurate coverage of economic and financial matters, with a view to informing and educating its publics. To this end, the institution held a workshop for local media, the principal purveyors of the Bank's messages. Titled "Demystifying Economic and Financial Journalism", the workshop attracted about 30 media practitioners. There were presentations on the "Role of the Bank as a Regulatory Agency" and on concepts used by economists and the analysis of information regarding the real, financial, public, and balance of payments sectors.

University in Community

This lecture series, co-sponsored with the University of the West Indies School of Continuing Studies, afforded distinguished and learned Barbadians the opportunity to share with the public their thoughts or findings of research in their respective areas of study. The lectures provided information and stimulated discussion on issues related to health, disaster management, music and the judiciary.

Secondary Schools' Outreach Programme

Designed for students of secondary schools preparing for the Caribbean Examinations Council (CXC), the Caribbean Secondary School Examination Certificate (CSEC) and the Caribbean Advanced Proficiency Examination (CAPE), this lecture series presented information pertaining to the workings of the Barbados economy. The series covered topics such as: Money, The Role of the Central Bank vis-à-vis the Commercial Banks, The Role of the Barbados Stock Exchange, Gross Domestic Product and Finance and Accounting. There was considerable interest in, and high attendance at, the lectures with some sessions attracting as many as two hundred students.

A survey on the lectures series conducted in 2004 revealed that participants found them informative, educational and very beneficial. The respondents in the survey also suggested that the lecturers should tackle regional issues. Consequently, in 2005, the Bank will include a lecture on the CSME.

Information Technology Fair

The Section partnered with the Management Information Systems Department, seven information technology vendors, Prisms Services and the Barbados Institute of Banking and Finance to host the inaugural information technology fair. Held over a three-day period, the fair attracted over eleven hundred students preparing for CXC, CAPE and CSEC examinations.

The Fair was designed to demonstrate to the students how information technology is employed in the business environment, especially in the financial services sector. With respect to the latter, a booth displaying the technology in the payment system was mounted.

The feedback on the event was very encouraging. Partners in the project, teachers and students have suggested that the fair be held again.

Sir Winston Scott Memorial Lecture

Dr. David Suzuki, world-renowned scientist, geneticist, and environmentalist delivered the 29th Sir Winston Scott Memorial Lecture. The broadcaster of the television series "The Nature of Things" attracted a huge crowd, despite the torrential showers on the night of the event. His very riveting presentation on "The Economy or the Environment: What is the Bottom Line" left the members of the audience in a very contemplative mood on how their consumption excesses are impacting on the environment.

Bank's Brochure

Public Affairs produced a brochure on the Bank's operations. The document outlined the core objectives, role and functions of the institution. Titled, ***The Central Bank of Barbados: Promoting Barbados' Economic***

Development for over Three Decades, the brochure explained the mission, role and function, and operations of the Bank.

The Arts

Frank Collymore Literary Endowment

The highlight of the Frank Collymore Literary Endowment's activities was the launch of ***Remembering the Sea***, a publication in honour of the late Frank Appleton Collymore. Written by Dr. Philip Nanton, Professor, Liberal Arts Department, St. Georges University, the book sought to situate the writer, author, and actor in time and place.

The Committee also staged the Seventh Annual Literary Awards competition. Of the twenty-eight entries, the work of Yvonne Mary Selina Weekes, Esther Phillips and Kerry Andre Belgrave won the first, second and third prizes, respectively.

The Lifetime Achievement Award

For the second consecutive year, the Bank joined with the Nation Publishing Company and the Collectors' Club to sponsor the Lifetime Achievement Award. Art educator, Mrs. Joyce Daniel won the prestigious award which is presented to a Barbadian who has excelled in the visual arts.

Crop Over Visual Arts

Interest and participation in this visual arts exhibition continues to grow, and as art critic Dr. Hugh Corbin opined, the exhibition lessens the divide between painting and other fine arts or craft. This year there was an array of paintings, craft and photographs by more than forty of Barbados' finest artists. Samuel Sealy won the Purchase Award for his painting **Crop's Over**, while Frank Lavine's **Today's Catch** captured the Governor's Award.

Among the other highlights of the exhibition were a dramatic and musical interpretation of the visual arts and an evening with a Haitian curator and two visiting Haitian artists.

Pan in the Plaza

Pan in the Plaza provided a structured dimension to the teaching of steelpan music, assisted with the development of young steel pannists and provided a forum for them to showcase their talents.

To this end, students of secondary schools were engaged in an intensive two-week pan camp. Under the tutelage of Mr. Kentley Gill, Tutor at the Manchester School of Music, the students were exposed to music theory and pan playing. After the workshop, the approximately 40 students who participated in the camp treated Barbadians to an evening of pan in the Cathedral Plaza.

The Inventor's Award

The Bank partnered with the Enterprise Growth Fund Ltd. to promote innovation and invention in this country. It sponsored one of the prizes in the Fund's inaugural Inventor's Award competition which was won by twenty-eight-year-old Handel Callender, the co-founder of the firm NRG, for his biodiesel - a fuel made from waste vegetable oil. The award prize was worth BDS$20.000.

OPERATIONS

Accounts Department

During the year, the Department co-operated with other departments to implement a cost reduction and control programme. This was ably assisted by the continued use of the Budgeting module, timely reporting procedures and feedback from users.

Training was concentrated mainly on in-house programmes to enable officers to become more knowledgeable and efficient in current processes, while updating their knowledge of technological developments. There was also continued training in the area of Risk Management.

The Automated Clearing House (ACH) continued to be a success and this, together with the proof machine, enhanced the data imaging, indexing and retrieval processes.

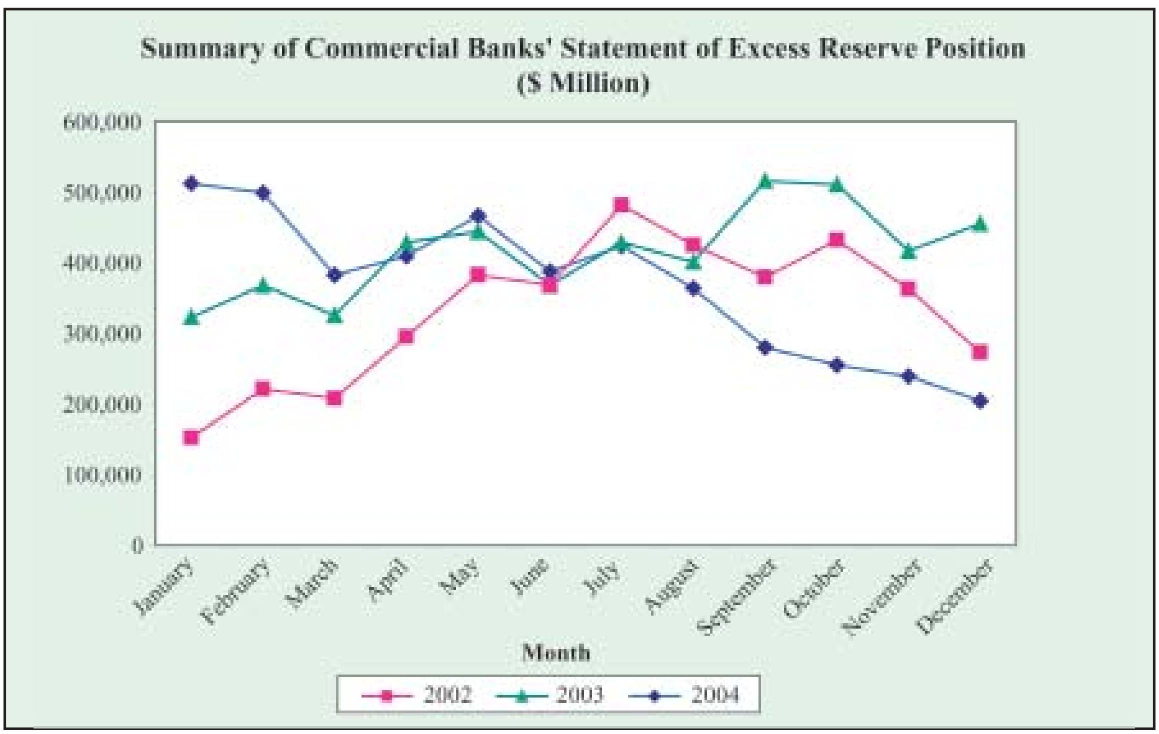
The Department continued to work closely with its publics, and sought improved productivity and efficiency in all processes. There was continued collaboration with the Ministry of Finance in respect of the Management of the Housing Credit Fund.

Banking and Currency Department

Relationships with Financial Institutions

Excess Liquidity

The level of excess cash in the banking system at the beginning of 2004 was at a high of $512.1 million but decreased by $129.6 million to end the first quarter at $382.5 million. This decline continued during all quarters with the level of excess cash ending the year at $204.2 million, which represented a decline of 55.1% over the 2003 year-end position. The decline of excess cash holdings in 2004 was accompanied by a significant increase in the level of imports.



Loans and Advances
During the year, one commercial bank took advantage of the discount window. This was the only use of the window over the past four years.

The Central Bank continued to accommodate the long outstanding CRL Ltd. loan facility. At year-end, $9 million of the $9.5 million facility, which was originally extended to the Barbados Development Bank, remained outstanding as an obligation of CRL Ltd., the successor institution.

Relationships with Government
Treasury Bills
During the year, there were twenty-four Treasury Bill auctions. These were all over-subscribed, with levels ranging from $22.9 million to a peak of $450 million in August when demand for short-term investments was at its highest.

The total accumulated sums allotted were $1.85 billion for the 3-month Treasury Bills and $352.73 million for the 6-month Treasury Bills. Average tender rates increased steadily throughout the year, beginning the year at 0.59% for the 3-month bill and 0.52% for the 6-month bill. At the end of the year, rates reached a high of 2.76% and 2.27% for the 3-month and 6-month bills, respectively. There was much less demand for six-month treasury bills than for 3-month treasury bills.

Purchases and Sales of Treasury Bills
With the high liquidity in the system, the Central Bank did not engage in any secondary market trading, as was the case in the past two years.

Long Term Securities
During 2004, the Government of Barbados floated $240 million in securities, consisting of three issues of Treasury Notes and one issue of Debentures. Of this amount, $61.9 million represented new long-term debt. At December 31, 2004, one debenture issue had not been fully subscribed. Three issues totaling $178.1 million matured during the year.

On November 24, 2004, the limit for the Local Loans Act, under which these securities are issued, was increased to $2.75 billion from $2.2 billion. This gave flexibility for issuing net new debt over the medium term to finance government's capital development programme. Seventy-eight transfers of securities were recorded, representing a nominal value of $37.0 million. At December 31, 2004, the total value of long-term domestic government securities outstanding was $2.12 billion and the value of foreign debt outstanding was $784.0 million. The market value of the sinking funds held against domestic debt was $396.5 million compared to $363.3 million at the previous year-end.

Government Agencies
No new issues were floated on behalf of Government agencies during the year. However, discussions were started with one agency, with a view towards raising a local bond issue early in the New Year.

Savings Bonds
The Central Bank, as fiscal agent for the Government of Barbados, opened for subscription, two issues of Savings Bonds of nominal value $10.0 million each on July 19 and September 27, 2004, respectively. The issue price was $83.34 per $100, with a yield to maturity of 4.00%. At December 31, 2004, $4.3 million of these issues remained unsubscribed.

Ways and Means
After starting the year with a zero balance, the Ways and Means account reached a high of $194.0 million during October 2004. At

December 31, 2004, the balance stood at $52.0 million.

Trading in Foreign Currencies

Non-Regional

There was an overall increase of approximately 39.0% in the sale of non-regional currencies compared with 2003. Sales of drafts and telegraphic transfers denominated in US dollars grew by approximately 38.9%, while transactions denominated in pounds sterling fell by 28.2%. There was a 20.4% increase in trading in Canadian currency- denominated transactions and Euro-denominated transactions increased by 36.5%.

Overall, purchases of non-regional currency transactions declined by 54.8% from 2003. There were significant declines in Sterling and US-dollar denominated transactions, which fell by 72.2% and 52.6%, respectively. There were also decreases in Euro and Canadian dollar-denominated purchases by approximately 17.6% and 73.9%, respectively.

Regional

Total sales of regional currencies decreased during the year by approximately 19.3%. Transactions denominated in Eastern Caribbean (EC$) dollars, declined by 18.9%, while transactions denominated in Guyana dollars fell by 21.7%. The sale transactions denominated in Trinidad and Tobago dollars and Jamaica dollars increased by 75.7% and 155.6%, respectively. Transactions denominated in Belizean Dollars (BZE$) fell by 94.5%.

Foreign Currency Transactions
($'000)

	SALES		PURCHASES	
	2003	2004	2003	2004
Non-Regional				
EURO	10,735	**14,649**	1,174	**967**
CAN$	15,232	**18,338**	1,38	**363**9
STG	32,661	**23,441**	12,373	**3,439**
US$	452,730	**628,897**	527,130	**249,757**
Sub-Total	511,358	**685,325**	542,066	**254,526**
Regional				
BZE$	352	**181**	1,952	**1,351**
EC$	68,528	**55,562**	62,428	**60,330**
GUY$	31,407	**24,599**	372	**1,153**
J$	27	**69**	224	**7**
TT$	531	**933**	11,696	**11,511**
Sub-Total	100,845	**81,344**	76,672	**74,352**
TOTAL	612,203	**766,669**	618,738	**328,878**

Source: Central Bank of Barbados

During 2004, purchases of regional currencies decreased by 3.0%. Transactions denominated in Belizean, Eastern Caribbean, Trinidad and Tobago and Jamaican dollars fell by 30.8%, 3.4%, 1.6% and 96.9%, respectively. There was a significant 209.9% increase in transactions denominated in Guyana dollars.

Trading in both regional and non-regional foreign currencies reflected a net sale position of $437.8 million as compared with a net purchase position of $6.5 million for 2003. The net sale position for 2004 was due mainly to a 38.9% increase in the sales of US dollars over the 2003 position.

Foreign Currency Cash Transactions

During the year foreign currency notes, with a total value of $116.5 million, were purchased from the banking system, representing an approximate 20.6% increase over 2003. Purchases of most currencies increased, except Canadian notes, which decreased by 11.6% when compared to 2003. Major increases occurred in euros and US dollars, which increased by 50.0% and 26.6% respectively.

Purchases of Foreign Currency Notes ($Million)

Currency	Amount Purchased	
	2003	2004
USD	47.3	**59.9**
GBP	40.2	**45.7**
CAN$	4.3	**3.8**
EUR	3.6	**5.4**
Subtotal	**95.4**	**114.8**
EC$	1.2	**1.7**
Total	**96.6**	**116.5**

Source: Central Bank of Barbados

The redemption of Eastern Caribbean notes increased to BDS$1.7 million, or 41.7% over 2003.

Currency Operations

During 2004, a comprehensive inventory of all currency registers was undertaken. The current system and the computerised system are still in parallel mode, with the final changeover scheduled to take place early in 2005.

Foreign Assets

The net international reserves (NIR) declined by 20.6% during 2004, to $1,191.5 million at December 31, 2004.

The investment strategy for 2004 concentrated on preserving the value of the underlying portfolio base and income enhancement in view of a rising interest rate environment. In an effort to preserve the value of the fixed income portfolio, in view of the rising international rates, and to supplement its income, the Bank, liquidated $71.0 million in fixed income securities and recorded realized embedded gains of $4.81million.

To meet the high demands for foreign exchange during the last half of the year, the Bank liquidated its Treasury Bills portfolio, and used part of its term deposits to fund cash requirements.

At year-end, the Central Bank held $62.0 million in term deposits and $29.85 million in Treasury Bills compared to $177.0 million and $170.1 million at the corresponding time in 2003. At December 31, 2004, the fixed income securities portfolio stood at $587.23 million, (inclusive of

$17.3 million in regional government securities), representing a decline of 12.7% for the year.

Bank Supervision Department

During 2004, the domestic banking system continued to undergo changes in ownership. Following the sale of the Barbados National Bank and its subsidiaries, to Republic Bank Ltd. of Trinidad and Tobago, and the sale of the Mutual Bank of the Caribbean Inc. to the Bank of N.T. Butterfield and Son Limited, in 2003, Caribbean Commercial Bank was sold to RBTT Bank Limited in 2004. This entity was renamed RBTT Bank (Barbados) Limited, while the former Mutual Bank was re-branded as Bank of Butterfield (Barbados) Limited.

One application for a licence under Part III of the Financial Institutions Act was processed and declined. Four applications for international banking licences were processed during the course of the year and three new licences were granted. The Department continued the process of winding up one international bank while five other small banks have indicated their intention to cease conducting business under the International Financial Services Act. International banks licensed to operate in Barbados by year-end totalled fifty-four.

The Department maintained its onsite examination programme, conducting full "safety and soundness" inspections of institutions licensed under the Financial Institutions Act and the International Financial Services Act. In addition, the Department continued its collaborative process with the Registrar of Co-operatives in the conduct of joint inspections of the largest credit unions. The Department maintained continuous off-site monitoring of the financial sector and met with the directors of domestic and international banks as part of its off-site surveillance procedures.

The Department was represented on a regional working group, which continued to study the proposed new Capital Accord and provided a response to the CARICOM Secretariat on the draft Financial Services legislation aimed at harmonising regional approaches to regulation. Work continued on the establishment of a Deposit Insurance Scheme in Barbados.

As part of its efforts to strengthen consolidated supervision of regional conglomerates and facilitate information sharing among regulators, the Department concluded a Multilateral Memorandum of Understanding among regional banking supervisors. Two other Memoranda of Understanding are under discussion.

Contacts were maintained with regional and international bodies, including the Caribbean Group of Bank Supervisors, the Offshore Group of Bank Supervisors and the Association of Supervisors of Banks of the Americas. The Department participated in various conferences and training courses hosted by these groups.

Facilities Management Department

During 2004, the Facilities Management Department successfully completed its major projects and continued to ensure that the staff, tenants and the public were accommodated in a safe and comfortable environment, conducive to service excellence.

Services

Heavy emphasis was placed on improving the Bank's health and safety programme. In anticipation of the enactment of the Health and Safety Act, a Health and Safety Committee comprising representatives of staff and management was established.

Safety Officers were trained in the use of fire extinguishers and several indoor air quality assessments were conducted which revealed that the Bank was free of contaminants. There was also a noticeable reduction in the number of reported incidents of injuries on the premises and ergonomic issues were expeditiously resolved. A successful fire drill was carried out in partnership with the Central Emergency Relief Organisation (CERO), the Barbados Fire Service, the Royal Barbados Police Force and the Barbados Defence Force.

The aesthetics of the courtyard was improved, transforming it into an alternative venue for functions, and the section successfully coordinated a number of seminars and meetings hosted by the Bank.

To enhance the Bank's firefighting capabilities, fire suppression systems were installed at its Hot Site, the telephone and security control rooms. Safety was further improved by the strengthening of the glass panels in the Library, against hurricane-force winds. A similar exercise was also carried out in the Grande Salle.

Maintenance

The section experienced a very active year. Of the 24 projects planned, 18 were completed. Inter alia, new air-conditioning systems were installed on level 2 and the staff entrance and an Uninterrupted Power Supply (UPS) system installed in the Frank Collymore Hall's (FCH) control room. There was also selected cleaning of the air-conditioning ducts. The refurbishment of the public elevators was completed with the staff elevator expected to be commissioned early in 2005. The enhancement of the maintenance and asset management systems started during the last quarter of the year should be completed by the second quarter of 2005.

Security

The proposed improvement in safety measures to protect staff, tenants and visitors materialised, but on a limited scale. The Closed Circuit Television (CCTV) system was upgraded but the introduction of the scanning equipment was delayed until 2005. The resignation of the Chief of Security slowed plans in this area. His replacement took up office in December.

Nevertheless, training of Security Officers proceeded as they were exposed to sessions on Personal Development, Customer Relations, Emergency Procedures, Self Defence, Health and Safety and firearms. An employee recognition programme was also introduced.

Frank Collymore Hall

The Frank Collymore Hall experienced a successful year. It hosted a variety of local, regional and international events. Occupancy levels doubled over 2003. It encouraged varied high quality productions and events, especially in dance since this art form has been neglected over the past decade. In addition, the FCH also introduced the element of film and literary arts and featured award ceremonies, lectures, music and drama. The in-house production of *Caribbean Screenings* highlighted the more unconventional arts – the literary, visual and audiovisual – as a refreshing alternative to the predictable production, *City Nights*.

The FCH hosted a number of local productions including *Vagina Monologues*, *Licks Like Peas, Rise Up My Children, Stinking Missy, Music from the Heart* and *El Verno Del Congo Best in Kindred*.

Several lectures were also held including the Sir Winston Scott Memorial Lecture delivered by Dr. David Suzuki, the 35th CARICOM Anniversary Lecture and the NCF/BWU/ Barbados Museum Lecture, *The Panama Migration from Barbados*. Twelve lunchtime and sunset concerts were staged covering various genres of music including folk, jazz, classical and calypso. Folk and contemporary modern dance also graced the stage as well as a unique UK dance company consisting of disabled and able-bodied dancers. International productions included the Barbados Gold Cup Festival's *Broadway Rocks and Swings*, violinist, Helena Baille, who was accompanied by Thomas Chiron on the piano, and the Moscow Bolshoi Ballet and Stanistarksy Opera.

The FCH's recording facilities were utilised by the public. The Royal Barbados Police Force Band recorded their new CD and Doris Provencal's protégée, Ms. Amanda Fields, also recorded a demo for an international classical competition.

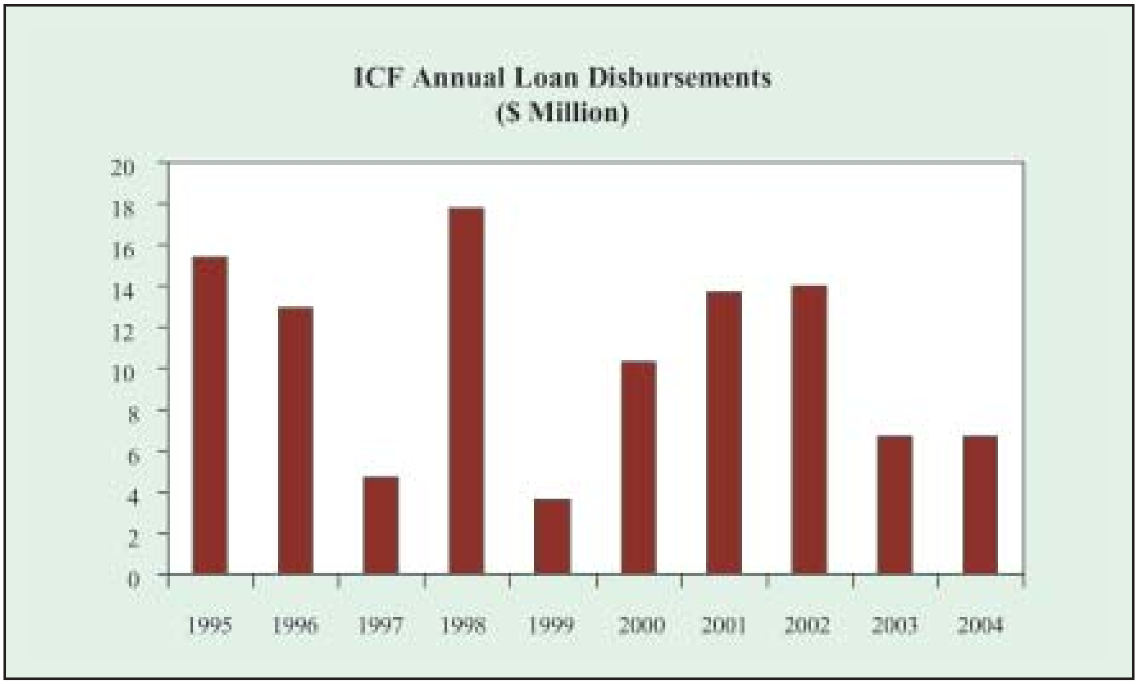
Foreign Exchange and Export Credits Department

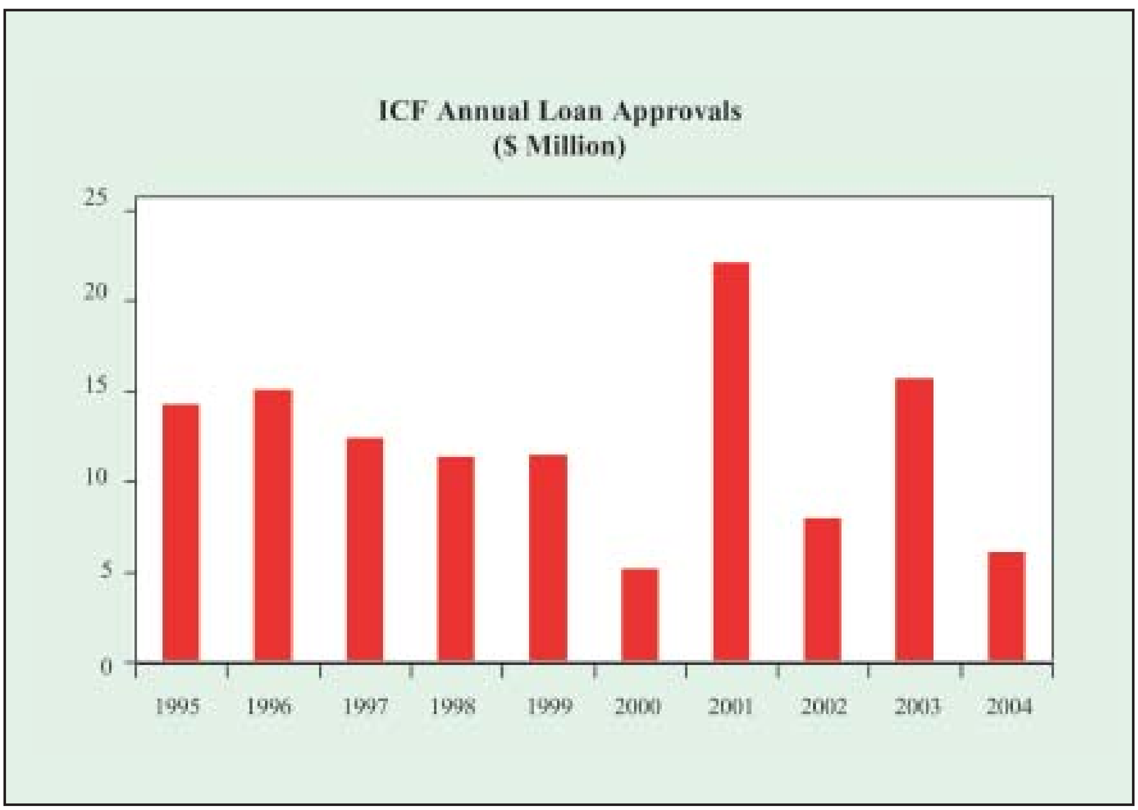
The Bank, in its efforts to facilitate the implementation of a gradual and phased programme of liberalisation of exchange controls, continued to identify areas where additional authority in respect of the execution of foreign exchange transactions could be delegated to commercial banks. This is to satisfy the requirements relating to Barbados' commitment to the CSME.

In January, further authority was delegated to commercial banks in respect of prepayment for imports into Barbados from CARICOM countries and management services rendered to residents of Barbados by non-residents from CARICOM countries. In addition, full authority was given to the Barbados Stock Exchange to approve, without limit, all investments in corporate securities in the form of equities which are cross-listed and cross-traded on the stock exchanges in CARICOM with the exception of government securities cross-listed and cross-traded on these stock exchanges.

In June, commercial banks were also granted delegated authority to approve applications to transfer funds from Barbados to CARICOM countries in respect of personal loans, maintenance and financial assistance.

Authority was also given to commercial banks to approve applications without limit in respect of investment transactions in private unlisted


ICF Annual Loan Disbursements
($ Million)
20
18
16
14
12
10
8
6
4
2
0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004


ICF Annual Loan Approvals
($ Million)
25
20
15
10
5
0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004

Key Indicators of ICF Operations
($Million)

INDICATORS	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004(P)
Loan Approvals	13.8	14.6	11.9	10.9	11.0	4.9	21.5	7.6	15.2	**5.8**
Loan Disbursements	15.4	12.9	4.7	17.8	3.6	10.3	13.7	14.0	6.7	**6.7**
Principal Repayments	5.4	6.1	21.7	8.3	4.7	6.4	12.6	11.1	6.3	**7.0**
Loans Outstanding	30.8	37.6	20.6	30.1	29.0	32.9	34.0	36.9	37.3	**37.1**
Net Income	2.4	2.6	2.0	2.2	2.1	2.1	1.7	1.7	0.9	**0.9**
Capital Inflows	1.9	0.0	0.0	0.0	0.0	0.0	4.0	10.5	3.0	**6.2**
Net Worth	57.6	59.6	61.1	62.5	63.6	64.8	69.5	79.5	82.6	**89.7**

Source: Central Bank of Barbados
P: Provisional

equities excluding real estate companies in CARICOM countries. This initiative is to encourage Barbadian enterprises and individuals with excess cash to seek viable investment opportunities in CARICOM.

Export receivables for the year 2004 were $346.8 million as compared to $315.2 million in 2003. Export receivables statutorily due increased from $52.3 million in 2003 to $58.2 million in 2004.

Registered inflows of private foreign investment totalled $30.4 million relative to $101.8 million in 2003. Real estate, equity and loan capital inflows decreased during the year. The decline in equity capital by $32.1 million was the most significant.

Export Credits

During the year export credit insurance coverage provided by the facility was unchanged at $0.4 million.

The total maximum liability for insurance business underwritten during the year increased from $0.04 million in 2003 to $0.15 million in 2004. By year-end, the total maximum liability was $0.15 million, down from $0.18 million at the end of 2003.

During 2004, Export Finance Guarantees of $37,200 for lines of credit totalling $49,600 were made available for pre-shipment finance purposes. In respect of post-shipment financing, guarantees amounted to $0.13million for lines of credit of $0.14 million.

There was a significant increase in the number of businesses using the Credit Guarantee Scheme for Small Businesses in 2004. At year-end, there were fifty-two guarantees outstanding with a maximum liability of $2.2 million as compared to sixteen guarantees with a maximum liability of $828,809 at the end of 2003. Total lines of credit grew from $992,207 to $2.5 million during the year.

Industrial Credit Fund (ICF)

The high liquidity in the commercial banking system throughout the year significantly reduced the demand for ICF funding for new projects during 2004. As a result, the value of new loan approvals declined sharply during the year. The level of disbursements was also below that of the previous year.

The ICF approved four loan applications totalling $5.8 million compared to ten applications valued at $15.2 million in 2003. Cumulative approvals rose to $179.3 million while new disbursements amounting to $6.7 million increased net cumulative disbursements to $167 million. Tourism accounted for most ($4.4 million) of the new approvals with the remainder going to manufacturing ($1.2 million) and management and other professional services ($0.20 million). The balance of loans approved but undisbursed was $8.9 million at year-end.

Capital Contributions of $6.2 million were received during the year compared to $3.0 million in 2003. After making a provision of $1.2 million for principal and interest on the European Investment Bank (EIB) loan, the ICF's net worth increased to $89.7 million at the end of 2004. Net Income has been provisionally estimated at $0.9 million for 2004.

Housing Credit Fund

In February 2004, the operations of the Housing Credit Fund were transferred to the Department from the Ministry of Housing. To date, loan applications totalling $7.1 million were approved. Principal repayments of $5.5 million have been received during the same period.

The Central Bank will continue work on the implementation of a secondary mortgage market for Barbados.

Barbados Investment Fund

During the financial year ended August 31, 2004, the Barbados Investment Fund concentrated on the funding of projects already approved in the previous year. To this end disbursements amounting to $1.3 million were made to six existing projects. Two new projects totalling $1.1 million were also approved during the year. Disbursements totalling $0.9 million have already been made to these two projects. This brought total investments to $18.2 million in 44 projects since the Fund commenced operations in 1992. At year-end the Central Bank's investment in the Fund remained at $14.0 million.

The business environment offered limited opportunities for investment during the year. There was a good recovery in the tourism sector but other sectors remained weak, especially manufacturing and agriculture. The two additional investments which the Fund made during the year were in the tourism and services sectors.

The Fund Manager pursued a conservative portfolio policy and devoted additional management resources to monitor more closely the performance of investments. Particular attention was paid to the enhancement of returns on the Fund's investments consistent with the overall objective of improving the performance and/or recovery of individual projects. These efforts resulted in the collection of higher revenue, mainly from interest income on the quasi-equity instruments.

A net operating surplus of $168,078 was reported for the year ended August 31, 2004 as compared to $127,996 for the previous year. The Fund continues to meet its operating expenses from operating revenues. The latter showed a 23.8% increase over the previous year while operating expenses expanded by 5.4%. There was a net loss of $36,720 on the sale of investments as compared to a net gain of $76,599 in the previous year.

For the year ended August 31, 2004, the Fund recovered $111,506 of the provision for bond and equity investments made in prior years. No further provisioning for investments was required at year-end. Net income for the year was $242,864.

Staff Training

During the year members of staff benefitted from further training in international trade and pre-export finance and risk management.

Human Resources Department

The Human Resources Department continued its focus on the enhancement of the Human Resources Information System (HRIS) in the interest of the production of real time data to assist in managerial decision-making.

With the planned implementation of a Performance-Related Payment Programme, the Bank developed Key Performance Indicators and revisited its compensation management system to introduce systems which will better allow for the recognition and reward of members of staff based on their contribution to the achievement of the Bank's targets and objectives.

Other major achievements were the implementation of in-house training for supervisory staff, a formal structure to enable improved Occupational Health and Safety Management and the launch of a Foreign Language Laboratory.

Internal Audit

The Internal Audit Department, in keeping with its role of providing independent and objective analyses of activities and controls, focused on the critical areas of the Bank's operations. Reviews conducted during 2004 included Government Tax Certificates, Sinking Fund Investments, Currency Operations – CPS Machine, Real Time Gross Settlement System, Projects and Related Expenditure, Administration of Staff Advances Scheme and Application Development Standards – CA Open Road.

During the year, staff attended local training courses in Identity Theft and Forensic Auditing, and a course organised by the Centre for Latin American Monetary Studies and the Central Bank on "Central Bank Risks".

The Department continued to ensure that sound controls were in place, to mitigate any risks which could impact negatively on the organisation. It also sought to add value, by providing timely and quality reviews of the Bank's operations.

Management Information Systems Department

In 2004, the MIS Department launched its Customer Service Centre as a mechanism for improving the quality of customer service rendered to staff. A more user-friendly helpdesk software which integrates fully with Lotus Notes was implemented, in accordance with the renewed emphasis on enhanced customer services.

For the first time, the MIS Department was involved in the Secondary Schools Outreach Programme through the hosting of an Information Technology Fair for approximately 1200 secondary school students who are preparing for CXC, CSEC and CAPE Examinations. The fair was designed around the CXC syllabus and demonstrated the use of technologies in a business environment. The Bank was partnered in this venture by a number of IT vendors, Prism Services and the Barbados Institute of Banking and Finance (BIBF).

Application, Development and Maintenance (ADM)

During 2004, the MIS Department developed the Staff Advances and the Non-Trade Outflows systems. They are due to be implemented in the new year. The Frank Collymore Hall and Children's websites were launched.

Systems Administration and Technical Support (SATS)

The Systems Administration and Technical Support Section skilfully managed the task of maintaining the Bank's complex network infrastructure. The migration to SWIFTNET from the SWIFT X.25 environment was successfully completed. The Bloomberg system was migrated to a network version. The department also installed new helpdesk software, Auxilor, which integrates with Lotus Notes, which was also upgraded to Release 6.

Information Security

The Information Security Officer (ISO) launched an Information Security Awareness Programme for staff. An Intrusion Detection system has been installed and is currently being tested and refined.

Training

The Department continued its extensive training of the Bank's staff in Lotus Notes Release 6 and Auxilor Help Desk.

Research Department

During 2004, the Department's resources were once again put under pressure as 34 economic policy papers on key issues facing the Barbados economy and the Caribbean region as a whole were written along with the production of the usual public and confidential economic reports and statistical documents. However, the Department was still able to perform its main operational functions in a timely and competent manner.

Several of the Department's economists undertook training courses on topics such as Financial Programming, Fiscal Policy and Portfolio Investment during the year at various institutions around the world. In addition, they attended and presented papers at various local, regional and international conferences. However, the Annual Review Seminar, which was held in July, remained the main method of training and involved participants from the regional Central Banks, the Caribbean Centre for Monetary Studies, the University of the West Indies, the Ministry of Finance, the Caribbean Development Bank, The Barbados National Insurance Scheme and private sector officials.

The Seminar lasted four days with 20 papers presented over the first two days, and a panel discussion on "Enhancing Investor Information on the Companies Listed on the Securities Exchange of Barbados" and a workshop on "Modelling with Limited Dependent Variables" undertaken over the latter two days.

The Department also participated in the "Week of Excellence" organised by the Social Partners. This was achieved through the hosting of a seminar on productivity and assisting in the production of the productivity survey.

The Internship and Schools' Programmes continued in 2004 but on a limited scale due to budgetary considerations. Three international students from Bucknell University, Pennsylvania, USA, two local students from the University of the West Indies and one person from the National Productivity Council were hosted by the Department. The Barbados Community College was once again part of the secondary schools' programme which featured seven lectures compared to nine in 2003.

During 2004, the Statistics section reviewed the concepts and methods used in the collection of financial data to bring them in line with the Fifth Edition of the IMF's Manual of Financial Statistics. The Section also continued to improve the collection and timely dissemination of data and widen the scope of the database to include prudential and/or financial stability indicators and offshore information. In addition, efforts to improve efficiency through wider use of technology to gather and disseminate information to the wider public continued.

The Library and Information Services Unit continued to utilise the Bank's website and intranet to provide Staff with current awareness services like online access to press releases, statistical data, select journals and online newsletters. In addition, The Frank Collymore website was revised and launched.

Users research profiles were reviewed and amended to enhance the service to select users. The book collection was also reviewed so as to update the stock and acquire newer editions of selected subject areas in 2005.

Staff of the Unit attended seminars, workshops, courses and one member pursued a postgraduate degree to ensure continued professional development in their disciplines. Additionally, The Library offered professional training to one postgraduate student in Library and Information Science.

The Records Centre continued to receive and store inactive records from various departments in accordance with precise control procedures. It also provided dependable retrieval service for requested records and implemented the disposal of obsolete records according to retention schedules.

A pilot database to identify files received was created and maintained. The collection of records inventory surveys forms of Departmental files continued and analysis of the information was done. Staff of the Centre prepared retention schedules for Departments without any and researched information to prepare a general policy manual for the Bank's records management programme. On the job training of staff in the Centre was undertaken in addition to operating in an advisory capacity to Departments.

Publications by the Central Bank Staff during 2004

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

"An Assessment of the Growth-Enhancing Size of Government in the Caribbean" by Kerry-Ann Alleyne, Denny Lewis-Bynoe, and Winston Moore in the *Journal of Applied Econometrics and International Development*, Vol. 4, No. 3, July September, 2004.

"Savings, Investment and Growth and the Impact of International Financial Liberalisation in the Caribbean", by Carlos Holder and Kevin Greenidge, in *Economic Review*, Central Bank of Barbados, Vol. XXXI, No. 2, September, pp. 25-34.

"Estimates of the Long run Equilibrium Exchange Rate in Three Caribbean Countries" by Winston Moore, Ryan Skeete and Kevin Greenidge in the Central Bank of Barbados' *Economic Review*, Vol. XXX1, No 3, pp 28-38.

"Fiscal Policy in Post-Independence Barbados: Trends and Challenges Ahead" by Daniel Boamah and Darrin Downes in *The Fiscal Experience in the Caribbean: Emerging Issues and Problems*, edited by Ramesh Ramsaran, Caribbean Centre for Monetary Studies, UWI, St. Augustine, Trinidad and Tobago.

"Is International Co-operation on Taxation Possible?" by Daniel Boamah, in *International Financial Services Sectors in Small Vulnerable Economies: Challenges and Prospects*, edited by Andreas Antoniou, Commonwealth Secretariat, London.

"The Management of International Reserves", by Marion Williams, in *Boletin*, Vol. 2, No. 2, April – June 2004.

Papers Presented at Conferences during 2004

"An Appropriate Trade Strategy for Small Island Developing Economies: The Case of the Caribbean" by Denny Lewis-Bynoe at the 57th International Atlantic Economic Conference, in March, in Lisbon, Portugal.

"Caribbean Tourism Maturity and Response to Terrorism" by Peter Whitehall at the Travel and Tourism Research Association (TTRA) 35th Annual Conference, in June, in Montreal, Quebec, Canada.

"Financing Constraints and Corporate Growth" by Winston Moore at the 10th International Conference on Computing in Economics and Finance, in July at the University of Amsterdam in Netherlands.

"Measuring Risk on the Barbadian Stock Exchange" by Roland Craigwell and Kerry-Ann Alleyne at the 36th Annual Monetary Studies Conference, in November, in Trinidad and Tobago.

"Stylised Facts of the Business Cycle in Barbados" by Roland Craigwell at the 36th

Annual Monetary Studies Conference, in November, in Trinidad and Tobago.

"The New World Order and the Problems of Small States: Lessons from the Caribbean" by Harold Codrington and Carlos Holder at the Annual Conference of The Congress of Political Economists International, in July in Cairo, Egypt.

Central Bank Plans for 2005

Accounts Department

The Department will continue to work closely with the commercial banks and ACH operator to introduce a 'direct debit' payment system and to reduce the holding period for the settlement of transactions by cheque. The direct debit system will facilitate on-line payment of recurring transactions such as insurance premiums, salaries and related reductions. The holding period for cheques is further expected to be reduced to two days.

The Accounting Information System will be enhanced and integrated with the introduction of new payroll and staff advances systems. These systems will ensure real-time updating of accounting records. In addition, the accounting system will be strengthened by the use of a Purchase Order module. This module will significantly improve data flow and decision-making and will be integrated into the Accounting Information System.

Banking and Currency Department

The central focus of the Department during 2005 will be on ensuring an improvement in productivity. This will be achieved by meeting and exceeding the targets for the key performance indicators and accordingly, improving service to the Department's several stakeholders.

The Real Time Gross Settlement (RTGS) payment system is to be more aggressively marketed to the private sector so that a larger volume of private sector payments is made through this system.

The effort to ensure dematerialisation of securities will be strengthened, so that this becomes a reality during the course of the year. In addition, a review of the various electronic systems will be undertaken to improve their performance. This will include renewing the communications programme for SWIFT, to see if this system, our main foreign messaging system, can be used more cost effectively.

A programme will be undertaken to more actively market the inventory of numismatic coins.

Bank Supervision

The Bank Supervision Department continues to operate in a rapidly changing environment. In 2005, the department will seek to balance its on-site inspections with the need to carry out research and strengthen the regulatory and legislative framework.

During 2005, the Department will continue to amend the domestic and international financial services legislation in an effort to harmonise regional legislation. The Minister of Finance has sanctioned a merger of the two pieces of legislation and the Department will need to consult with domestic and international market participants to ensure a smooth transition.

The Department will keep abreast of domestic and international financial developments and will dedicate resources to on-going monitoring of emerging regulatory issues, regulations and guidance notes.

With the introduction of the revised 40 recommendations, amendments to the Know Your Customer (KYC) guidelines will be necessary. During 2005, the Department will continue to participate in the regional Working Group on the New Capital Accord. Part of the group's work will involve a quantitative impact study of the Accord on domestic banks. As part of the preparation for the new Accord, the Department will pay increasing attention to developing regulations on market risk.

To enhance efficiency, the Department will continue to work with the Research department to streamline the inputting of statistical data to avoid duplication of effort. The Department will seek to accelerate formal training of staff, while maintaining and strengthening on-the-job training.

The deposit insurance scheme is expected to come on stream during 2005. While the proposed entity will be legally independent of the Central Bank, the department will work closely with it to promote a harmonious regulatory framework.

The Department will attempt to strengthen its contact with other domestic regulators and will work with regional and international regulatory bodies such as the Basel Committee, the Offshore Group of Bank Supervisors, Association of Supervisors of Banks of the Americas, the Caribbean Financial Action Task Force and the Caribbean Group of Bank Supervisors. The Department plans to be represented at the various meetings held by these groupings. In addition, the Bank will continue to work closely with the Financial Intelligence Unit, the operating arm of the Anti-Money Laundering Authority.

Facilities Management Department

The coming year will see the Facilities Management Department continuing to ensure that health and safety standards are maintained and improved upon where possible. Business Continuity Planning will also receive priority as the Bank prepares itself to recommence operations in the shortest possible time and with minimum dislocation, in the event of a disaster. With the relocation of the Church Village residents expected to be completed during the year, the Department will focus on securing and maintaining the area. In addition, the phased replacement of some aging plant and equipment will also commence in 2005.

Services

With emphasis again expected to be placed on health and safety issues, staff will receive CPR and First Aid training; contractors will continue to be monitored for their adherence to safety guidelines; fire drills will be conducted and rodent and pest control measures enhanced. Air quality and general environmental assessments will also be increased. The first draft of a Business Continuity Plan is expected by June 2005.

Maintenance

During the coming year, preventative maintenance systems will continue to be improved. A very active 2005 should see a number of major projects being undertaken. With an aging plant, the phased replacement of the air-conditioning system and ceilings is planned along with the enhancement of the structure of the computer room to protect it against natural breaches. The Bank purchased the Masonic Lodge, an adjoining property, in 2004. As this is a listed National Trust building, it will require major renovations and general upkeep.

Security

The long awaited scanning equipment will be introduced and continuous training of officers will be emphasised. Security measures and systems will be improved where necessary to ensure that the Bank's internal and external environments remain safe for staff, tenants and visitors.

Frank Collymore Hall (FCH)

The coming year will be one of consolidation and fine-tuning. Patrons will enjoy the FCH's annual season, *Caribbean Screenings*, as the FCH shifts from being a venue solely for performance to one in which events are also produced. Two such productions are planned and one lunchtime and sunset concert per month, in the various performing arts disciplines.

Foreign Exchange and Export Credits

The Foreign Exchange and Export Credits Department will continue its policy of a phased and structured approach to exchange control liberalisation in accordance with Barbados' obligation under the CSME. Steps will be taken to review and liberalise, wherever practicable, the few remaining current account transactions. However, in respect of capital transactions, a more cautious approach will be adopted.

The Department will take steps to further computerize its operations in 2005. This will help to strengthen its capability to generate real time data to monitor foreign exchange flows and develop a strong database to facilitate analyses and forecasts using data supplied by exporters and the commercial banks.

In the Export Credits Unit, mechanisms will be put in place to facilitate the growth and development of service enterprises. Towards this end, special rates of premium for insurance and guarantee cover will be introduced and financial assistance will be provided for advisory services. The Department will also continue to promote its insurance and guarantee facilities with special emphasis on the services and export sectors.

During the year a special loan guarantee facility will be implemented to provide cover for the loans of the Enterprise Growth Fund Limited and Fund Access.

The Bank will continue its efforts in 2005 to seek out new sources for venture capital funding and put in place appropriate mechanisms to facilitate venture capital investment.

New initiatives will be taken to restructure the Housing Credit Fund and expand its capital base.

Human Resources Department

The Human Resources Department will continue its focus on the development of an enabling environment and on influencing motivational processes that would facilitate improved individual and organisational performance, job satisfaction, team spirit, accountability, communication and personal growth.

The Department will continue to conduct seminars/workshops tailored to satisfy the needs of the Bank and to meet the developmental requirements of its staff.

During the coming year major emphasis will be on the development of staff retention initiatives; the formulation of management training and development interventions; implementation of Succession Planning programmes to identify a cadre of highly skilled employees with prospective management potential; integration and implementation of the Performance Management and performance related payment systems; as well as continued involvement in engagement practices in Employee and Labour Relations.

Internal Audit

In the year 2005, the Internal Audit Department will continue to provide assurance services to the organisation by focusing on the Bank's high risk operational and information technology areas.

The Department will strive to ensure that the staff receives the necessary on-the-job training, as well as benefiting from courses sponsored by the Local Chapter of the Institute of Internal Auditors. Significant emphasis will also be placed on improving relationships with stakeholders and improving the timeliness and quality of reviews.

Management Information Systems (MIS) Department

The MIS Department will continue its thrust to capture data and disseminate information electronically and from source whenever possible. Accordingly, measures will be put in place to ensure the integrity, confidentiality, and availability of data to our constituents.

To achieve these objectives the MIS Department will initiate a comprehensive programme that focuses on **IT Governance**.

> IT Governance is integral to the success of enterprise governance by assuring efficiency and effective measurable improvements in related enterprise processes. IT governance enables the enterprise to take full advantage of its information, thereby maximising benefits, capitalising on opportunities and gaining competitive advantage.

For 2005 the Department intends to:

- Implement new technologies in a timely and efficient manner with a view to continuously improve the efficiency of information processing within the Bank.

- Utilise the successful implementation of the VPN solution together with the use of web-based technologies. These will provide the gateway for more or all of the external customers to commence electronic transfer of data and information.

- Research the use of a web-based application development tool e.g. Java as the front end for the Ingres database. The industry has embraced web-based development tools as the new application development platform. They integrate well with existing databases.

- Continue to highlight the Business Intelligence (BI) solution as a critical tool in the Bank's management of the economy.

- Increase the use of Workflow applications for internal paper-based processes. These applications will serve both to capture the data electronically and reduce the time currently spent processing forms within and across departments.

- Commence the process of computerising the Banks' document and records management systems.

- Implement bank-wide, a comprehensive Information Security Awareness programme. This will sensitise employees to the need to protect the Bank's most critical asset, its data, and to view it not only as the job of the MIS department, but as every employee's business.

- Review 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 the Bank's disaster recovery and contingency planning in light of recent disastrous hurricanes:
  - initiate an off-island backup procedure- Trinidad is the likely destination
  - strengthen the business continuity planning efforts

- Commence research on the possible need to implement a process for the archiving of e-mails. This method of communication is fast becoming a preferred method and the Bank must ensure that it will be protected in the case of any legal eventualities.

Development of New Applications

For 2005 the MIS Department will rewrite the Pensions System and the Bank Supervision Commercial Loans systems. In addition, the Staff Advances System and the new Non-Trade Outflow system which were designed in 2004, are expected to be implemented by the end of the first quarter.

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.

The CS-DRMS Debt Management System will be upgraded to run under Windows 2000 and the SQL Server 2000 Relational Database Management System in 2005. Two members of the Department have completed administrator training in readiness for the new release.

MISD Training

Emphasis will be placed on training in the following areas:

- Portia – Database Integrity and Fixed Income Reports
- LINUX- Operating System
- Enterprise web development

User Training

User training will be conducted in the following areas:

- Microsoft Office
- Microsoft Word
- Microsoft Excel
- Microsoft PowerPoint
- Windows /XP
- Windows Applications
- Lotus Notes
- Network orientation
- Information Security Awareness
- In-house developed applications

Public Affairs

In 2005, Public Affairs will build on the public outreach projects with a view to increasing their impact on the island's social, economic and cultural landscape.

In addition, to heighten the awareness among Barbadians of the CSME, the Section, in collaboration with the Research Department, will organize a one-day conference on the CSME.

Research Department

Economic Section

The short to medium-term will place great demands on the Central Bank of Barbados' resources, particularly the Research Department. Developments such as the liberalisation of the capital account within a fixed exchange rate regime, tax convergence and the country's role within the numerous trading blocks that are emerging, the CSME, the Free Trade Area of the of the Americas (FTAA) and the world Trade Organisation (WTO) will require the Department to keep abreast of new research techniques and undertake innovative research in key policy areas. Moreover, given the increasing ratios of total debt to GDP, strategies for effective debt management as well as issues like debt sustainability will feature prominently in the Department's research programme in 2005.

With the emergence of the CSME and the gradual liberalisation of the capital account, the stability of the financial system can no longer be taken for granted. The Bank should be in a position to identify possible threats to the stability and soundness of the system in a timely manner.

The Department will focus more on monitoring financial stability and undertaking research geared towards an understanding of the nature and form of risks that are likely to beset the major entities in the financial system. The Department will collaborate with the Bank Supervision and Banking Departments in this regard.

It is envisioned that this departmental structure would provide greater economies of scope and allow economists to keep abreast of ongoing occurrences in the areas that they are assigned.

Work is continuing in the areas of economic statistics and on the Bank's Outlook model. In the area of economic statistics, the methodologies for estimating real value-added in 'transport, storage and communications', 'finance' and 'general services', along with rebasing of the real GDP series are the department's primary areas of interest in the short- to medium-term. Meanwhile, with regards to the Outlook model, the modeling unit will be working on procedures to better predict and estimate real non-sugar agriculture value-added, as well as to upgrade the financial programming and financial stability models.

The Department has always had a high level of staff turnover; this trend is likely to continue in the future. It would therefore be necessary for the Department to be continuously engaged in the training of newer economists, in order to expose them to the frontiers of current economic research.

Economic conferences, particularly the Annual Review Seminar, permit economists to subject their work to critique by their peers and leaders in the field of economics. This improves a new economist's analytical and writing ability and has a spillover effect on the quality of his/her operational work. Efforts will be made to encourage continued regional and international participation in the Bank's Annual Review Seminar as well as to provide the opportunity for economists to attend major regional and international economic conferences. Economists will also be encouraged to participate in training provided by international institutions, such as the International Monetary Fund, in the areas of Financial Programming and Policies and other key areas of interest to the Bank.

The schools programme is the main vehicle through which the Department attempts to inform its publics about the key issues affecting the domestic economy. The Department plans to extend the programme to specific areas of interest to students. The Department also has an active internship programme – with students from the University of the West Indies (Cave Hill, St. Augustine and Mona) and Bucknell University being the key beneficiaries – and this will be continued in the upcoming year.

Statistics Section

The objective of the Section in 2005 will be to continue our efforts to provide timely and accurate economic data and analysis which support the formulation of policy as well as the information needs of internal and external publics. As the economy continues to evolve it would be necessary to introduce new systems. For instance, current trends suggest that financial globalisation will intensify. This could give rise to potential risks to the financial system, which could only be managed through timely and accurate information. One of the goals of the section is to review the concepts and methods used in the collection of financial data to bring them in line with the fifth Edition of the IMF's Manual of Financial Statistics.

It is also planned to continue to improve the collection and timely dissemination of data and widen the scope of the database to include prudential and/or financial stability indicators and offshore information. Efforts to improve efficiency through wider use of technology to gather and disseminate information to the wider public will also continue.

The Library and Information Services Unit (LISU).

In 2005 the book collection will be improved by purchasing newer editions of books in select subject areas. It will create and improve portals for more Departments on the Library's intranet.

It will also continue to maintain and improve the Bank's websites through coordination and posting of information from more Departments.

The Records Centre will continue to train staff and advise Departments on classification and filing of records and create policy manuals.

Adoption of Financial Statements 2004

The net operating surplus for the financial year ended December 31, 2004 was $2,846,861.

Income for the year totalled $47.8 million and is marginally higher than in the previous year. The interest rate on Fedfunds increased from 1.0% at the beginning of the year to 2.25% by year-end. The Bank had limited opportunities to take advantage of this increase as foreign reserves declined by $331.7 million. This decline is attributed to sales to commercial banks, investments in second tier reserves and sinking fund assets and external debt service. The Bank also commenced rebalancing the external asset portfolio by liquidating low earning securities and replacing same with higher yielding securities. This rebalancing is expected to continue in 2005 as interest rate on Fedfunds is projected to increase.

The liquidity in the banking system declined and the Bank earned interest of $0.8 million on advances to Government and commercial banks.

During the year, the Bank received $2.3 million in respect of interest on balances under the CMCF Agreement and $8.8 million in principal repayments. At December 31, 2004, the cumulative principal repayments received under the facility amounted to $115.2 million, leaving an outstanding balance of $39.6 million.

Operating expenses totalled $44.1 million and non-operating expenses for the current year include a total contribution of $0.8 million to the Deposit Insurance Fund and Barbados Investment Fund.

The Board of Directors, with the approval of the Minister of Finance, appropriated $2,846,861 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2004, the Profit and Loss Appropriation, the Profit and Loss Account, the Auditor's Certificate and the explanatory notes to the 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 2004.

KPMG

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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, 2004 and the related profit and loss and profit and loss appropriation accounts 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 opionion 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, 2004 and the results of its operations for the year ended in accordance with the Central Bank of Barbados Act, Cap. 323C. and the significant accounting policies stipulated in Note 1.

Bridgetown, Barbados
February 24, 2005

KPMG
Chartered Accountants

Balance Sheet
December 31, 2004
with comparative figures for 2003

ASSETS

	Notes	2004	2003
		BDS$	**BDS$**
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	123,630,945	246,849,808
Foreign Notes and Coins		14,811,652	3,570,152
Foreign Securities	3	620,514,007	840,245,775
		758,956,604	1,090,665,735
International Monetary Fund:			
Reserve Tranche	4	15,077,522	14,081,289
Total Reserve of External Assets		774,034,126	1,104,747,024
LOCAL ASSETS:			
Securities:			
Barbados Government Debentures	5	635,000	635,000
		635,000	635,000
Advances:			
Government		52,100,000	-
Fixed Assets (Net)	6	92,626,071	93,772,822
Other Assets	7	37,184,195	49,306,017
Total Local Assets		182,545,266	143,713,839
		956,579,392	1,248,460,863

See accompanying notes to accounts.

Balance Sheet
December 31, 2004
with comparative figures for 2003

LIABILITIES, CAPITAL AND RESERVES

	Notes	2004	2003
		BDS$	BDS$
LIABILITIES:			
Notes and Coins in Circulation	8	513,328,827	474,662,681
Deposits:			
Government		74,451,745	43,040,516
Banks		258,282,977	608,204,101
Financial Institutions		2,061,400	6,201,397
Other		2,180,570	2,321,714
		336,976,692	659,767,728
Other Liabilities:			
Allocation of Special Drawing Rights	9	23,532,201	22,431,310
Other	10	59,200,792	53,973,989
		82,732,993	76,405,299
Total Liabilities		933,038,512	1,210,835,708
Other Funds	11	11,540,880	25,625,155
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		
		956,579,392	1,248,460,863

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, 2004
with comparative figures for 2003

	Notes	2004	2003
		BDS$	**BDS$**
INCOME:			
Commissions and Fees		10,987,160	7,430,375
Discounts:			
Treasury Bills		1,102,463	1,415,663
Interest:			
Advances		1,339,817	881,957
Deposits		4,301,703	4,480,681
Securities		23,594,778	26,867,081
Other Income		1,342,900	741,144
Difference in Exchange		264,665	686,105
Gain on Sale of Foreign Securities		4,847,235	4,842,645
Total Income		47,780,721	47,345,651
EXPENSES:			
Operating:			
Administrative Expenses		11,216,006	12,895,194
Depreciation		5,049,525	5,200,819
Interest		28,085	30,776
Minting of Coins		1,341,366	643,695
Printing of Notes		2,977,054	2,997,152
Retirement Benefits	13	4,775,833	3,594,375
Salaries and Allowances		18,745,991	18,331,072
Operating Expenses		44,133,860	43,693,083
Net profit before undernoted items		3,646,861	3,652,568
Contributions:	14		
Barbados Investment Fund		500,000	-
Deposit Insurance Fund		300,000	1,600,000
		800,000	1,600,000
Net Profit Before Appropriation		2,846,861	2,052,568

See accompanying notes to accounts.

Profit and Loss Appropriation Account
For the year ended December 31, 2004
with comparative figures for 2003

	2004	2003
	BDS$	BDS$
Net profit before Appropriation	2,846,861	2,052,568
Deduct:		
Transfer to Consolidated Fund	2,846,861	2,052,568
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.

Notes to Accounts
December 31, 2004

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 losses on revaluation are deferred pending realization.

(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.

Notes to Accounts, continued
December 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES, continued

(*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.

2. BALANCES HELD ABROAD

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.

As at December 31, 2004, the C.M.C.F. balance included in Balances Held Abroad was $39,561,200 (2003 - $48,352,578). The Bank gave notice of withdrawal effective February 2004 and is awaiting finalisation of withdrawal from CMCF agent and other participants. The withdrawal is not expected to have any impact on the carrying value of the balance due.

As at the balance sheet date, interest accrued but not due in respect of the CMCF balance amounted to $494,515 (2003: $604,000). (See note 1(a)).

Notes to Accounts, Continued
December 31, 2004

3. FOREIGN SECURITIES

Foreign securities comprise:

	2004		2003	
	Amortised Cost	**Market Value**	**Amortised Cost**	**Market Value**
	$	**$**	**$**	**$**
At Market Value:				
(a) Bonds/Debentures	569,447,525	576,374,478	633,694,709	654,847,936
(b) Equities	1,174,053	4,287,980	1,174,053	4,145,981
	570,621,578	580,662,458	634,868,762	658,993,917
At Cost:				
(c) Treasury Bills	39,851,549	39,851,549	181,251,858	181,251,858
	610,473,127	620,514,007	816,120,620	840,245,775

The amount of $10,040,880 (2003: $24,125,155) representing unrealised profit on the revaluation of Securities is included in Other Funds. (See note 11)

4. HOLDINGS OF SPECIAL DRAWING RIGHTS

Holdings of Special Drawing Rights pertain to the value of Special Drawing Rights held at December 31, 2004. The rate of translation of SDRs into Barbados dollars at December 31, 2004 was SDR .341617 (2003 – SDR .358383).

Notes to Accounts, Continued
December 31, 2004

5. SECURITIES

Local securities comprise:

	2004		2003	
	Normal Value	Cost	Normal Value	Cost
	$	$	$	$
Barbados Government Debentures	635,000	635,000	635,000	635,000

6. FIXED ASSETS

Fixed Assets comprise:

	2004			2003
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	$	$	$	$
Freehold Land and Buildings				
Masonic Lodge	1,319,254	-	1,319,254	-
Office	85,130,083	12,599,632	72,530,451	73,802,828
Frank Collymore Hall	6,982,910	947,686	6,035,224	6,130,994
Residence	2,477,281	106,196	2,371,085	2,382,893
Furniture & Equipment	33,814,601	23,609,365	10,205,236	11,260,608
Vehicles	919,019	754,198	164,821	195,499
Total	130,643,148	38,017,077	92,626,071	93,772,822

Notes to Accounts, Continued
December 31, 2004

7. OTHER ASSETS

Other assets include:

	2004	2003
	$	$
Accrued income on local investments	1,256,754	1,330,619
Cheques in process of collection	9,267,773	16,505,905
CRL Limited [1]	9,000,000	9,000,000
Fiscal Agency Payment Account	541,331	600,924
Investment Deposits	-	5,500,000
Prepayments	747,233	638,973
Staff Advances	13,008,421	12,343,531
Sundry Balances	3,362,683	3,386,065
	37,184,195	49,306,017

[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 not recognised amounted to $2,817,040 (2003: $2,322,904) of which $494,136 (2003: $540,000) relates to the current year.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2004, the nominal value of numismatic coins sold totalled approximately $10.4 million (2003 - $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, 2004

10. OTHER

This amount comprises:

	2004	2003
	$	$
Accounts Payable	2,005,507	2,709,953
Barbados Investment Fund	500,000	-
Barbados Tourism Authority Sinking Fund	255,690	-
BTII Special Development Bond Sinking Fund	2,250,000	-
Contribution payable - Deposit Insurance Fund	2,900,000	2,600,000
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	536,329	597,296
Domestic Clearing	6,671,950	10,305,777
Dormant Accounts - Commercial Banks*	9,653,848	8,740,932
Export Development Fund	219,169	224,613
Housing Credit Fund General Account	9,492,073	-
Industrial Credit Fund	16,609,725	20,280,080
Redemption of Debentures Account	871,120	2,775,120
Sinking Fund Contribution Account	27,596	216,410
Small Business Fund	330,000	330,000
Staff Pension Fund	1,082,043	72,003
Staff Welfare Fund	2,147,204	2,300,986
Sundry Balances	2,206,219	1,378,500
	59,200,792	53,973,989

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

11. OTHER FUNDS

This amount comprises the following balances:

	2004	2003
	$	$
Special Credit Trust	1,500,000	1,500,000
Unrealised gains on revaluation of investments (note 3)	10,040,880	24,125,155
	11,540,880	25,625,155

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

Notes to Accounts, Continued
December 31, 2004

12. COMMITMENTS

At December 31, 2004 the Bank had guaranteed settlement of approximately $933,693 (2003: $728,248) under the following scheme:

	Value of Guarantee $	Contracts $
Credit Insurance Scheme for Small Businesses	1,188,293	933,693

Also at December 31, 2004, the Bank had contracts for capital expenditure in the amount of $0.7 million (2003: $2.1 million).

13. 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, 2004 revealed the following:

	2004 $	2003 $
Fair value of plan assets	64,555,937	57,976,341
Actuarial present value of liabilities	81,754,364	74,350,552
Unfunded liability	17,198,427	16,374,211

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

	2004	2003
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 17.24% (2003: 16.91%) of covered payroll be used for new benefits, plus an additional rate of 7.82% (2003: 7.24%) to allow the amortization of the unfunded liability over a period of eighteen/nineteen years. The total recommended funding rate of 25.06% (2003: 24.15%) of covered payroll should obtain until the next valuation.

Notes to Accounts, Continued
December 31, 2004

14. 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.

15. TAXATION

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

16. COMPARATIVE FIGURES

Certain comparative amounts for 2003 have been reclassified to conform to the current year's presentation.