



CENTRAL BANK
of **BARBADOS**

2007 ANNUAL REPORT



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LETTER OF TRANSMITTAL

Central Bank of Barbados
Tom Adams Financial Centre
P.O. Box 1016, Spry Street
Bridgetown BB11126, Barbados, W.I.

March 31, 2008

Dear Prime Minister

In accordance with Section 52(2) of the Central Bank of Barbados Act, Cap 323C, Laws of Barbados, I have the honour to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2007 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2007.

The original of the Auditor's Report and Certificate was forwarded to you with my letter of March 25, 2008.

Sincerely,

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

Marion V. Williams
Governor

The Hon. David J.H. Thompson, MP
Prime Minister and Minister of Finance
Ministry of Finance
Government Headquarters
Bay Street
St. Michael



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ECONOMIC REVIEW

Overview

The Barbados economy grew for the sixth straight year in 2007, recording an estimated increase of 3.6%, compared to expansions of 3.9% in 2006 and 4.1% in 2005. Growth, which was led primarily by a continuation of robust activity in the non-traded sectors and relatively strong gains in the tourism industry, kept the unemployment rate in single digits, amid falling inflation. An encouraging increase in travel receipts offset higher imports of consumer and intermediate goods and sluggish domestic exports, leading to a contraction in the external current account balance. This improvement, combined with a huge surplus on the capital and financial account, facilitated a \$353.5 million expansion in the net international reserves (NIR) of the monetary authorities, the largest annual increase since 2001. The banking system benefitted from substantial capital inflows and liquidity rose, as the rate of deposit growth outpaced that of credit to the non-financial private sector. With liquidity high, the Central Bank reduced the minimum savings rate in November and Government financed its widening fiscal deficit from domestic sources.

Value-added in the traded sectors increased by approximately 2.0% in 2007, following slight advances in the two previous years. This moderate expansion principally reflected solid growth in tourism output that was occasioned by World Cup Cricket (CWC) activities, which led to higher long-stay and cruise passenger arrivals from traditional and non-traditional markets. Sugar output improved moderately, while milk production and fish catches increased significantly during the review year. In contrast, real manufacturing activity declined, on account of substantial reductions in the production of electronic components and garments.

During 2007, non-traded sector activity continued on a positive trend, driven mainly

by strong performances by electricity, gas and water, the wholesale and retail trade, transport, storage and communication as well as business and other services. Mining and quarrying was the only industry that registered a decline, owing chiefly to a significant decrease in oil production.

In line with the rise in economic activity, the average rate of unemployment fell to 7.4%, approximately 1.3 percentage points below that reported for the corresponding period in 2006. The twelve-month moving average rate of inflation was approximately 4.1% at the end of November, compared to 7.5% a year earlier, mainly reflecting a moderation in the growth of international prices from the high levels of 2006.

Domestic deposits in the banking system rose by 16.2% during 2007, due in large measure to the net long-term and short-term capital inflows received during the period under review. Lending to the non-financial private sector increased by 5.1% on account of an expansion in loans and advances to the personal sector, which outweighed a decline in credit to the distribution sector. With deposit growth being greater than that of credit, liquidity in the banking system strengthened. Accordingly, the Central Bank cut its minimum deposit rate by 50 basis points in November, while maintaining an adequate differential between local and United States interest rates. In keeping with its commitment to liberalise the financial sector, the Bank also reduced the securities reserve requirement in November.

Preliminary estimates indicate that after experiencing a deficit of \$129.5 million for 2006, the Government's deficit widened to approximately \$167.3 million in 2007. The deterioration of the deficit was mainly due to a substantial slowdown in the collection of both direct and indirect tax revenues relative to the



previous year. Moreover, continued expansion in current expenditure, especially wages and salaries and goods and services, offset the effect of lower capital outlays on government-funded projects.

The external current account deficit improved in 2007, largely as a result of persistent strong growth in travel credits, which averaged 9.3% in the previous three years. Earnings from domestic exports grew moderately, after showing encouraging signs in 2005 and 2006 with increases in excess of 16%, as declines were recorded for all categories of exports except food and beverages. Similarly, retained imports, which had dipped a year earlier, registered moderate growth in 2007.

During 2007 the performance of the capital and financial account remained robust and contributed to the highest increase in the NIR in six years. This strong outturn on the capital and financial account may be attributed to significant net long-term private sector inflows and other capital flows reflecting mainly non-resident deposits and other foreign currency inflows.

Production, Prices and Employment

Tourism

The tourism industry posted a stronger performance in 2007 after registering modest growth a year earlier. Real value-added from tourism grew by 3.1%, approximately 1.5

Long-stay Tourist Arrivals by Month and Season

Month	2003	2004	2005	2006	2007 ^P	% Change from 2006
January	40,473	44,719	47,242	48,888	47,012	-3.8
February	43,643	49,870	49,338	51,850	49,202	-5.1
March	49,016	54,190	54,963	53,169	47,267	-11.1
April	47,504	47,255	46,960	53,484	63,954	19.6
WINTER	180,906	196,034	198,522	207,391	207,435	0.0
May	40,750	44,865	40,368	41,849	46,263	10.5
June	39,994	38,536	36,289	38,708	42,044	8.6
July	52,982	57,285	55,385	52,315	54,443	4.1
August	46,745	45,625	42,741	48,366	46,991	-2.8
September	28,737	31,837	31,099	32,333	32,500	0.5
October	38,210	39,717	39,292	41,153	41,865	1.7
November	45,924	43,870	45,773	45,260	48,005	6.1
SUMMER	293,342	301,735	290,947	299,984	312,111	4.0
December	56,963	53,733	58,065	55,183	54,987	(0.4)
TOTAL	531,211	551,502	547,534	562,558	574,533	2.1

Sources: Barbados Statistical Service and Barbados Tourism Authority

P: Provisional



percentage points more than in 2006 when the industry bounced back from a 2.2% fall-off in 2005. In spite of persistently high fuel and travel costs, which were brought on partly by continued high international oil prices, tourist arrivals from the major as well as non-traditional markets increased markedly, following Barbados' hosting of some matches of the CWC in April. This, along with further appreciations of the pound sterling and euro currencies, and ongoing marketing and promotional programmes in core markets, provided the impetus for a moderate recovery of the cruise ship industry and continued growth in long-stay tourist arrivals.

The number of stay-over visitors rose by 2.1% in the review period, marking the second successive year of long-stay growth. A buoyant summer season and a sharp upturn in April helped to keep tourist arrivals in the winter season on par with the level reported in 2006. Tourist arrivals in April increased by 19.6%, but overall growth for the winter season was negligible, as the CWC stimulus was just enough to offset substantial declines in tourism activity registered over the first quarter of 2007. On the other hand, as a result of targeted summer specials introduced to compensate for the downturns experienced earlier in the year, summer arrivals went up by 4.0%, with expansions of 10.5% and 8.6% in arrivals for May and June, respectively.

The majority of tourist arrivals in 2007 originated from the United Kingdom (UK), Barbados' largest market. With stable output growth and increased spending power stemming from the continued appreciation of the pound sterling and Canadian dollar, tourist arrivals from the UK and Canada expanded by 5.9%, and 8.3%, respectively, up from 4.3% and 3.2% respectively, reported in 2006. Arrivals from the United States of America (US) grew by 2.5%, owing largely to intensified marketing efforts aimed at particular segments of that

market. Boosted by a five-fold increase in April, when CWC took place, visitors from other non-traditional markets such as Pakistan, India and New Zealand rose by 44.2% (10,790 persons) during the review period. In contrast, arrivals from CARICOM contracted by 15.2%, as higher air fares, driven partly by the repricing and rescheduling of regional air services, contributed to a decline of 12.2% and 16.0% in tourist arrivals from Trinidad and Tobago and other CARICOM countries, respectively. Furthermore, arrivals from Continental Europe (including Germany) fell slightly in the period under review.

Cruise ship passenger arrivals were at their highest level since 2004, increasing by 77,262 passengers or 14.3% in 2007, a turnaround from the contractions of 4.3% and 21.9% registered during 2006 and 2005, respectively. The pick-up in activity was propelled mainly by an expansion in cruise ship capacity, facilitated by the docking of bigger ships at the Bridgetown port, and a greater number of cruise ship calls. In 2007, cruise ship calls rose by 9.7% compared to 11.9% in 2006 and in contrast to a decline of 25.5% in 2005.

Manufacturing

In 2007, total output from the manufacturing sector declined for the first time since 2003. Manufacturing valued-added fell by 2.9%, 2.0 percentage points below the average for the previous five years. With the exception of food processing and beverages and tobacco production, all other sub-categories fell relative to the previous year. Food processing increased by 1.6% when compared to the level observed in 2006, while output of beverages and tobacco rose by 5.7%, on the strength of a substantial increase in rum exports. The improvement in beverages and tobacco was enough to offset a contraction in chemical production, traditionally one of the best-performing manufacturing components. The 8.5% decline in chemicals value-added was



Selected Indicators of Annual Sugar Production

	2001	2002	2003	2004	2005	2006	2007
Canes Milled ('000 Tonnes)	420	418	365	361	442	348	354
Sugar Produced ('000 Tonnes)	49.8	44.8	36.3	34.4	38.2	33.7	34.7
Average Yields (Tonnes)							
Canes per Hectare	50.6	52.6	49.5	51.7	63.7	52.2	56.1
Sugar per Hectare	6.0	5.6	4.9	4.9	5.5	5.0	5.5
Sugar Exports ('000 Tonnes)	50.9	39.5	33.6	32.9	33.8	32.4	32.8

Source: Barbados Agricultural Management Co. Ltd.

the first negative outturn since 2001, and resulted from the destruction by fire of one of the island's leading chemical plants. Additionally, production of electronic components fell by 25.3% after growth of 5.9% a year earlier, and output of garments and wooden furniture decreased by 1.6% and 11.9%, respectively. Value-added of other mineral products, sustained since 2002 by the robust expansion in the construction sector, contracted by 12.1%, whereas production from other manufacturing industries declined by 3.8% during the year.

Agriculture and Fishing

Despite a reduced sugar cane harvest, sugar output rose by 3.2% to 34,700 tonnes in 2007 from 33,600 tonnes in 2006. This outturn was largely influenced by the planting of a new high-sucrose variety, which yielded more sugar per tonne of cane than in 2006. The new approach is part of a larger initiative aimed at the rehabilitation of the sugar industry, through the production of ethanol and the sale of branded rather than wholesale sugar.

On account of expansions in fish, milk and chicken production, activity in non-sugar agriculture picked up during 2007, indicating a reversal of the problems experienced since 2001. During the year, growth was estimated at 2.1%, a rebound from the decline of 2.9% witnessed in 2006. Buoyed by a substantial rise in mahi mahi catches, fish production grew by 16.4%, after

suffering a decrease of 8.4% in 2006. Similarly, as a consequence of an increase in the demand for liquid milk, which was driven mainly by a shortage of powdered milk on the world market, and an expansion in incentives for local farmers, milk production rose by 9.6%, in contrast to an average reduction of 7.6% reported for the previous two years. Chicken production was up by 4.9%, as producers stepped up supply to meet the consumption demands of CWC, while output of other meats went up marginally (0.6%) after growing by 5.7% a year earlier.

International Business and Financial Services

In 2007, Barbados continued its efforts to widen its network of double taxation agreements, negotiating new tax treaties with ten countries – Brazil, Chile, Ghana, India, Ireland, Luxembourg, Malaysia, Mexico, Russia and South Africa. This followed the signature of two agreements in the prior year, with the Netherlands and Austria.

During the year, 672 new companies were registered in the international business and financial services sector, compared to 537 and 428 in 2006 and 2005, respectively. Licences of new international business companies totalled 506, an increase of 115 companies relative to the previous year. One hundred and fifty-one societies with restricted liability, nine exempt insurance companies and five new offshore



banks were approved for operation. One exempt insurance management company was registered during the year.

Construction

The construction sector increased by an estimated 2%, compared to 7% in 2006, signalling a slowdown in activity from the 2004 mortgage boom and CWC preparations that had produced a 13.5% spike in 2005. The positive outturn for 2007 may be attributed to ongoing work on the Barbados Road Network Infrastructure Project (ABC Highway Expansion Project), the development of the Judicial Centre, as well as continued residential and commercial real estate activity in the private sector.

Of the four leading indicators of output in the sector, construction employment recorded slower growth in 2007, while domestic cement consumption and the import of building materials both declined. Employment in the construction industry advanced for the third consecutive year, rising by approximately 5.8%, about four percentage points below the rate of expansion in 2006. After decreasing by 8.1% in 2006, imports of building materials remained virtually unchanged in 2007, following significant increases of 20.4% and 31.4% in 2004 and 2005, respectively, in line with the construction boom experienced at that time.

Domestic cement consumption fell by an estimated 5.0% but this followed extraordinary growth of 21.8% in the previous year. However, the actual level still remained relatively high when compared to 2005. The fall-off in domestic consumption may be attributed to the completion of most of the tourism-related building projects that were undertaken for CWC 2007, along with the conclusion of construction activity on other major public sector projects, including the new prison complex at Dodds in St. Philip. Similarly, loans from commercial banks, trust companies and the Barbados Mortgage Finance Co. Ltd (for the construction of private dwellings and the purchase of land) also decreased, by approximately 3.1%.

Utilities

Output in the electricity, gas and water sub-sector rose by 7.5%, compared to growth of 9.8% in 2006. Consumption of electricity during the year grew by 4.2%, with expansions being recorded in all categories. Commercial and industrial users increased consumption by 5.0%, residential users by 1.8% and energy for general services and street lighting by 8.7%. Conversely, the production of natural gas was estimated at 20.9 million cubic meters, approximately 10.8% less than the previous year's volume.

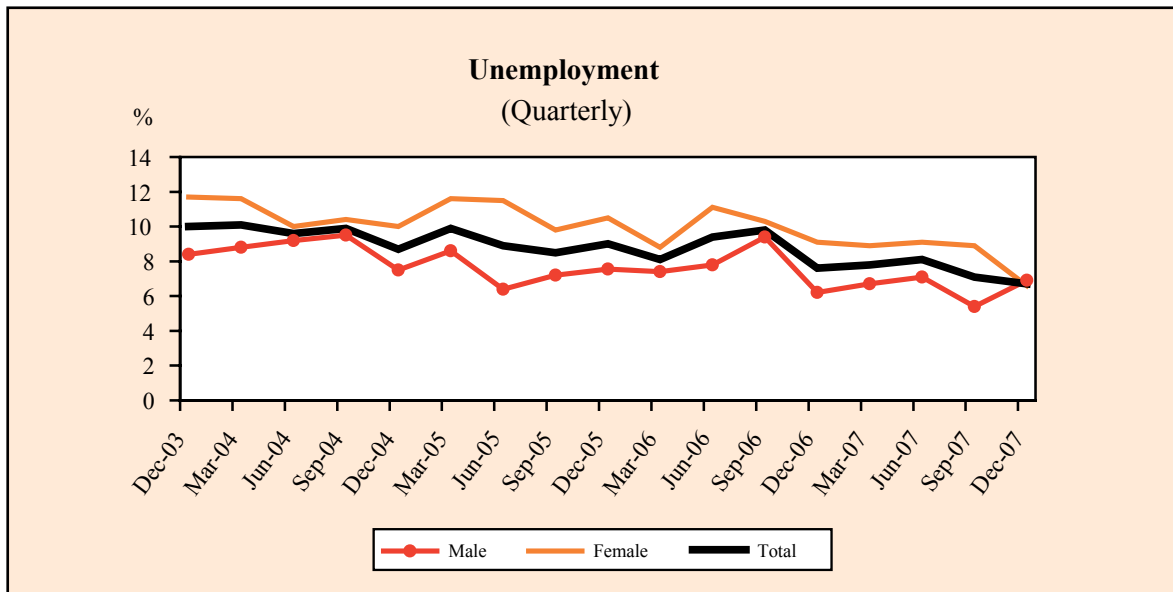
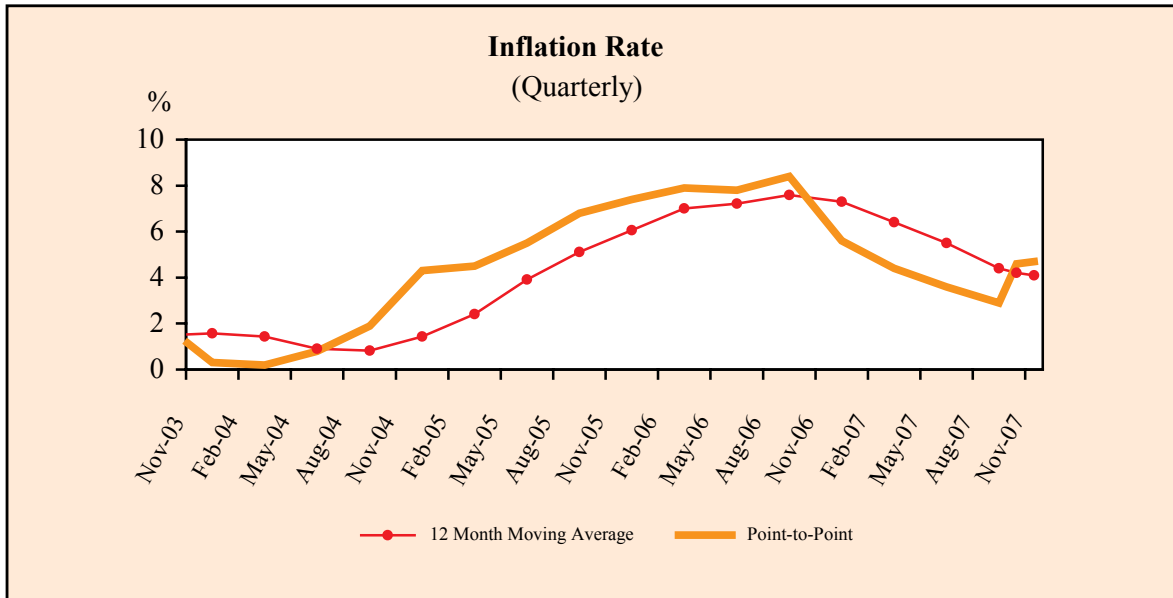
Production of Selected Commodities

	2002	2003	2004	2005	2006	2007 ^P
Crude Oil Production (Barrels)	390,619	370,848	376,655	348,718	343,412	302,729
Natural Gas Prod. ('000 Cubic Metres)	28,846	22,977	20,861	23,997	23,466	21,114
Electricity usage ('000Kwh)	763,859	805,876	831,305	792,868	903,398	924,394
Cement Production ('000 Tonnes)	297,677	325,106	322,270	340,696	337,801	294,184

Sources: Arawak Cement Plant, Barbados Light and Power Co. Ltd. and Barbados National Oil Company.

P: Provisional

Data to February



Mining and Quarrying

Value-added in mining and quarrying contracted by 7.5%, the second consecutive annual decrease in the industry. Output of crude oil declined by an estimated 14.6% to 293,283 barrels following a reduction of 1.5% in 2006.

Other Non-Traded Sectors

In line with the continued growth in tourism, wholesale and retail activity increased by approximately 5.9%, following three consecutive years of expansion in excess of 5%. The performance of the transportation, storage and



communications industry remained consistent with its trend of 5.2% for the period 2004 to 2006, growing by 5.6% in 2007. Likewise, real output in the business and other services sector rose by 5.1%, expanding for the fifth consecutive year since 2002.

Prices and Unemployment

The twelve-month moving average rate of inflation at the end of December 2007 was estimated at 4.0% compared to 7.3% and 6.1% registered for the corresponding periods in 2006 and 2005, respectively, when international oil prices grew the fastest. The slowdown in price growth was also reflected in the movement of the point-to-point price index, which rose by 4.7% compared to 5.6% in 2006 and 7.4% in 2005. The main drivers of the retail price index were food, household operations and supplies, housing, medical and personal care as well as alcoholic beverages and tobacco.

Food prices, the largest component of the index, expanded by 7.1% subsequent to an increase of 7.9% in the previous year. Similarly, prices for household operations and supplies, and housing went up by 5.4% and 4.2%, respectively, during the period, following growth of 8.3% and 9.7%, respectively, observed for the comparable period of 2006. The average costs of medical and personal care as well as alcoholic beverages and tobacco also advanced, rising by 5.9% and 4.6%, respectively, each approximately half of a percentage point above the figures recorded for these categories a year earlier. On the other hand, in line with the moderation of crude oil prices, transportation, the second largest component of the price index, fell by 2.9% after expanding by an average of 7.9% over the last two years. In addition, the average price of fuel and light

grew by a marginal 3.0%, slowing from growth of 8.7% in 2006 and 7.5% in 2005.

Benefitting from the rise in economic activity, the average rate of unemployment in 2007 was 7.4%, compared to 8.7% and 9.1% reported in 2006 and 2005, respectively. Increases in employment were recorded for both genders. The average rate of unemployment was 6.5% for males and 8.5% for females, respectively, approximately 1.2 and 1.3 percentage points lower than was estimated for these categories in 2006. The main sectors responsible for the generation of new jobs were construction and quarrying, wholesale and retail trade, transport and communication as well as general services.

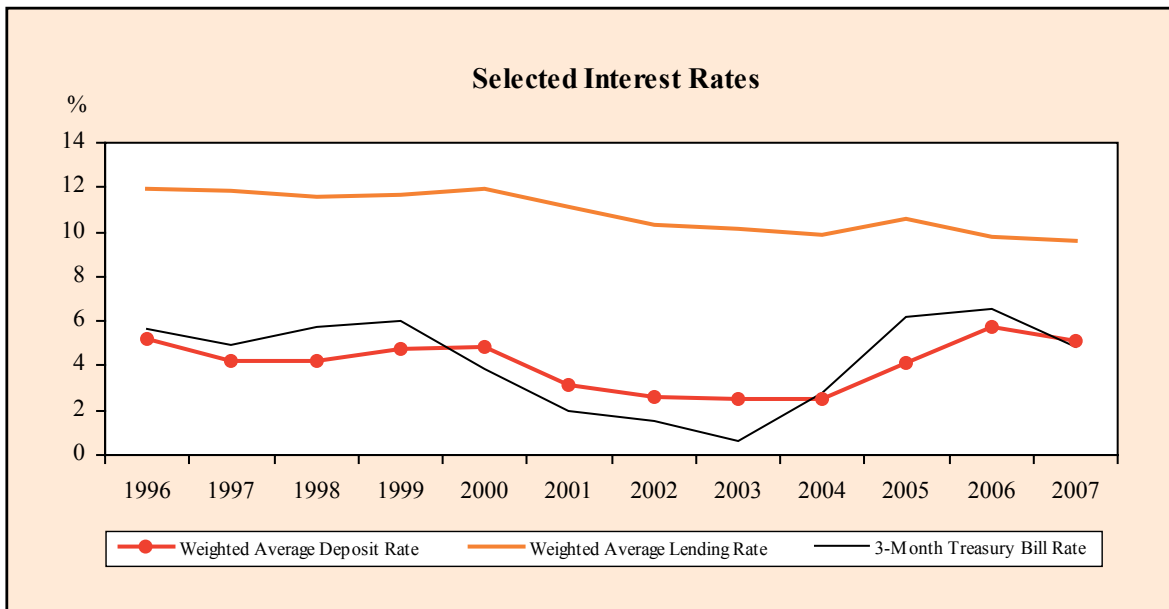
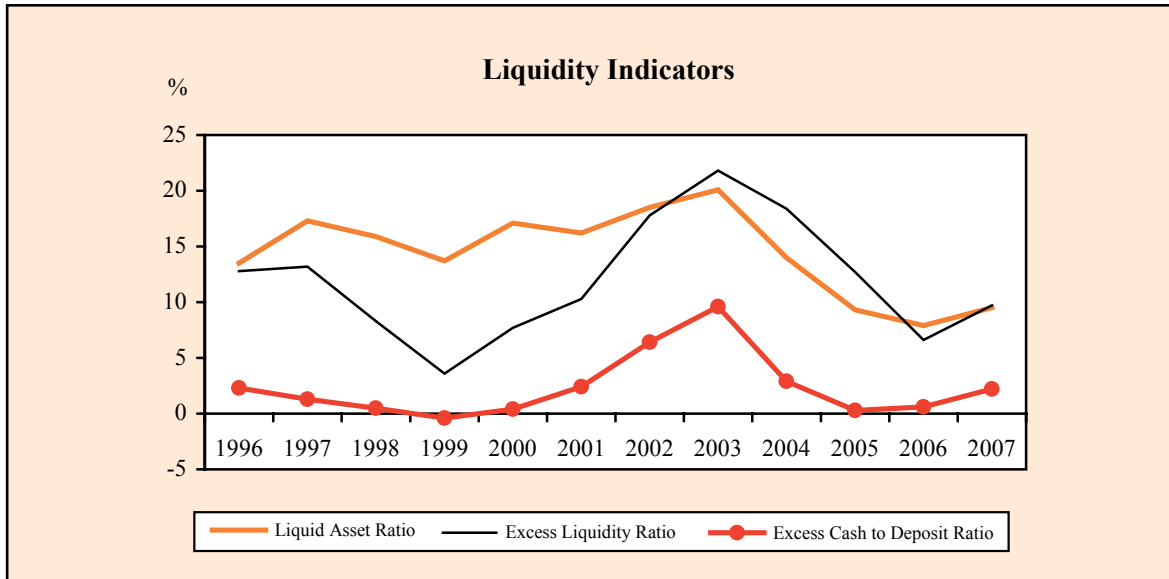
Within the manufacturing sector¹, total employment at the end of September 2007 was estimated at 9,636 persons, a decrease of 0.1% when compared to the 9,645 persons employed in the similar period of 2006. There were fewer workers employed in plastic products (28.8%), handicraft (14.5%), wooden product and fittings (14.2%), print and publishing (13.6%) and chemicals (8.7%) during the period. Nonetheless, partly offsetting these declines were increases in employment for the manufacturing of fabricated metal products (9.3%), food beverages and tobacco (6.5%) and non-metallic mineral products (4.9%).

Financial Sector

Monetary Policy

Since 2005, the Central Bank of Barbados had been increasing interest rates in an effort to limit the reserve losses that resulted from escalating credit growth and to prevent possible overheating of the economy. However, with the credit boom showing signs of easing and US

¹ Sources: Barbados Investment and Development Corporation (BIDC), *Statistical Report of Employment and Investment in Manufacturing and Services Companies*.



interest rates on the decline, the Bank lowered the minimum deposit rate by 50 basis points to 4.75% in November 2007. Concurrently, the securities requirement imposed on commercial banks was reduced from 12% of total deposits to 10%, in line with the Bank’s commitment to

further liberalise the financial system.

Commercial Banks

Commercial banks’ assets grew by 25.2% in 2007, compared to 9.3% in 2006 and 13.6% in 2005. Of particular note was the increase in their



foreign assets which surpassed the growth in all other asset categories, both in absolute terms and percentage changes. The approximately 75% expansion in foreign assets was facilitated by the substantial foreign inflows received during the year, which were, in turn, reflected in the increase in the net international reserves of the monetary authorities. On the other hand, the rate of accumulation of foreign liabilities was not as fast as in the previous year and this widening gap led to a larger expansion in the net foreign assets of the banking system relative to 2006.

Liquidity and Interest Rates

The financial system in 2007 was characterised by high liquidity, primarily owing to the increase in foreign capital inflows. The build-up in liquidity was evidenced by a rise in excess cash reserves held at the Central Bank in the second half of the year. As a result, by the end of 2007, the excess cash to deposit ratio climbed to 2.3% compared to 0.5% reported one year earlier. In addition, commercial banks significantly increased their holdings of treasury bills, by \$140.8 million, and this was mostly attributable to the growth in government securities available for purchase during the review period. With the expansion in both cash and Treasury bill holdings, the liquid asset ratio of commercial banks rose for the first time since 2003, increasing by 1.6 percentage points to end the year at 9.5% in contrast to a reduction of 1.4 percentage points in 2006.

The accumulation of surplus funds in the banking system pushed the 3-month Treasury bill rate down to 4.9% by December 31, from 6.57% at the end of 2006. Despite the rapidly expanding level of liquidity, the prime lending rate declined by only 0.4% while the weighted interest rate on selected loans remained unchanged.

Credit

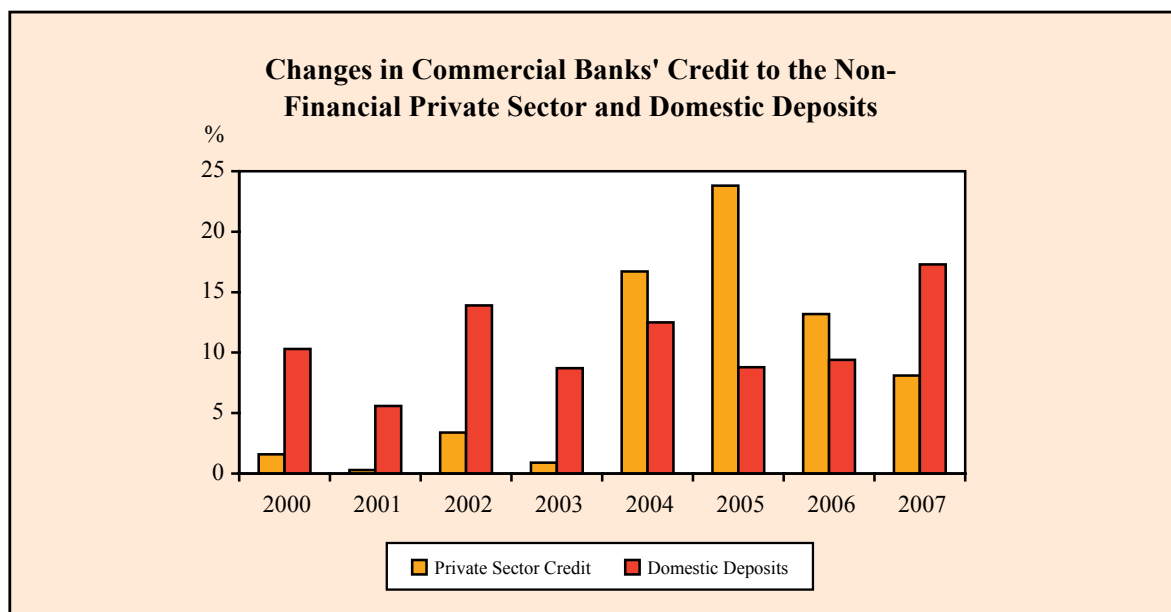
The loan portfolio of commercial banks expanded by 8.1%, a considerable slowdown from the

double-digit growth rates recorded between 2004 and 2006, as the credit market appeared to have returned to pre-2004 conditions. After registering robust increases over the previous three years (17.9% on average), expansion in credit to the non-financial private sector slowed to 5.1% in 2007, as private entities continued to respond to the tighter monetary initiatives implemented over the preceding two years.

Total personal sector lending, which propelled most of the credit growth in 2005 and 2006, advanced by 12.5%, significantly below the increase of 24.0% in 2005 and 19.7% in 2006. The slowdown was the result of a reduction in total consumer instalment loans outstanding, which contracted by 2.3% relative to 2006, reflecting declines in credit for miscellaneous purposes, home improvement and real estate and debt consolidation by \$8.3 million, \$4.2 million and \$3.3 million, respectively. Furthermore, the growth in outstanding personal credit card lending slowed to 13.0%, compared to the 18.1% expansion in 2006.

Lending to businesses declined by \$12.5 million during 2007, in contrast to an increase of \$177.2 million in 2006, as significant increases in their revenues obviated the need for additional funding during the year. Borrowing by tourism and construction firms fell by \$51.1 million and \$11.2 million, respectively, following increases of \$4.9 million and \$47.4 million, respectively, in 2006. In addition, credit to the manufacturing sector declined by \$10.8 million, primarily on account of a decrease in credit to alcoholic beverages and tobacco firms (\$24.9 million), while lending to distribution entities contracted by \$10.1 million.

In contrast, credit extended to providers of professional and other services rose by \$55.7 million, a reversal of the \$4.1 million fall in 2006, and borrowing by utility companies was



\$23.8 million above the amount outstanding at the end of the previous year, after registering declines over the preceding five years. Similarly, credit to agricultural firms grew somewhat as the 7.4% advancement in loans to businesses engaged in non-sugar agriculture offset the reduction in credit flows to sugar cane farmers; a trend exhibited since 2001. Establishments in the entertainment and catering as well as mining and quarrying industries also reported increases in outstanding credit of \$22.0 million and \$2.9 million, respectively.

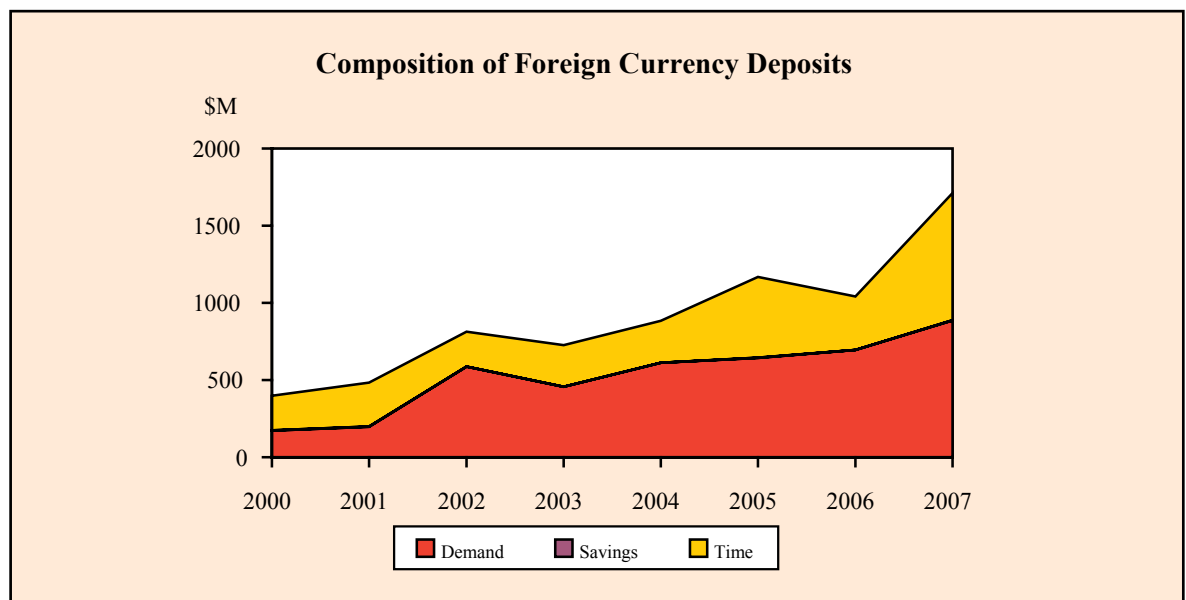
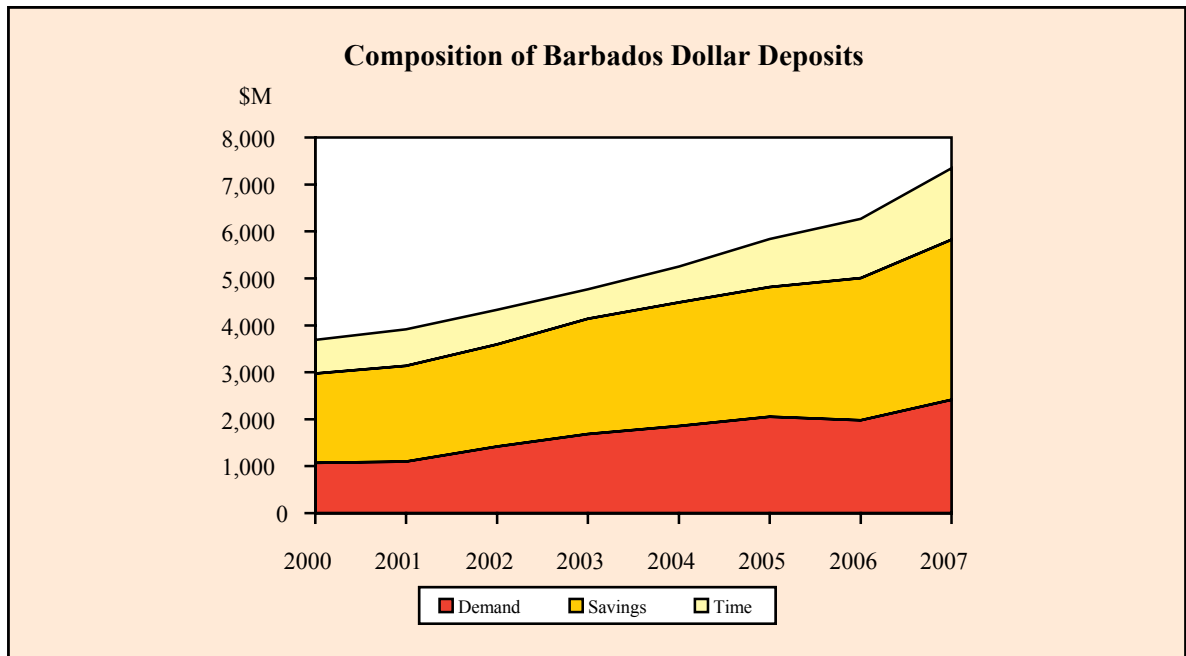
Commercial bank loans to other financial institutions and statutory bodies also expanded during the review period. Lending to private financial institutions advanced by \$66.1 million, in contrast to a fall of \$9.8 million in 2006, while credit to statutory bodies grew by \$50.5 million, some \$24.9 million less than the previous year's increase.

Deposits

The expansion in assets in the banking system was funded primarily by a build-up in total deposit liabilities² of 23.4%, the fastest rate of accumulation since 1996 (24.2%). Barbados dollar deposits rose by 16.6%, while foreign currency deposits registered a 64.5% increase in contrast to a decline of 10.8% in 2006. Although the extraordinary levels of foreign inflows received during the year were partially responsible for this outturn, attractive interest rates and faster economic growth relative to 2006 were also important motivators. The largest expansion was recorded in time deposits (46.1%) on account of a significant rise in the deposits of exempt insurance companies, while demand deposits and savings deposits grew by 22.1% and 12.6%, respectively.

Domestic deposits – that is, the deposits owned by residents – at commercial banks rose by

² Total deposits is the sum of deposits owned by residents and non-residents.



16.2% (\$1,070.9 million), considerably higher than the 10.0% (\$599.9 million) increase reported in 2006. In line with the previous four years, deposit holdings of private individuals accounted for most of the accumulation,

advancing by \$481.9 million. Similarly, financial institutions augmented their deposits by \$243.2 million (\$147.8 million above the expansion in 2006) owing to a broad-based upsurge in all categories.



Selected Indicators of the Banking System
(\$ Million)

	2003	2004	2005	2006	2007 ^P
Net International Reserves	2,087.1	1,746.7	1,607.7	1,691.2	2,247.3
Monetary Authorities	1,503.3	1,190.5	1,235.7	1,194.1	1,547.6
Commercial Banks	583.8	556.1	371.9	497.1	699.7
Net Domestic Assets	2,086.8	3,137.6	3,587.3	4,085.9	4,341.0
Credit to Public Sector	480.7	642.2	380.8	337.1	468.5
Central Government (net)	722.7	867.1	650.5	433.1	549.9
Other Public Sector	-242.0	-224.9	-269.7	-95.9	-81.5
Credit to Rest of Financial System	155.6	234.9	312.9	343.2	482.1
Liabilities to Other Financial Inst.	390.0	394.4	516.2	631.9	925.4
Credit to the Private Sector	2,622.6	3,061.8	3,791.8	4,292.9	4,513.5
Liabilities to the Private Sector	4,173.9	4,884.2	5,195.0	5,777.1	6,588.3
Demand Deposits	1,200.3	1,537.0	1,563.3	1,794.7	2,004.8
Time Deposits	313.2	381.8	491.1	552.7	763.9
Savings Deposits	2,331.5	2,566.7	2,692.1	2,964.7	3,327.6
Currency in Circulation	329.0	398.7	448.6	465.0	492.1
Memo:					
Domestic Deposits**	4,917.1	5,532.3	6,019.4	6,619.2	7,690.1

Source: Central Bank of Barbados

P: Provisional

**Domestic deposits include foreign currency deposits of residents.

Deposits of business firms advanced by \$125.9 million in 2007 compared to the \$141.7 million increase registered one year earlier, mainly on account of a \$49.2 million and \$32.2 million expansion in deposits of construction and manufacturing firms, respectively. The surge in the deposits of manufacturers, however, chiefly reflected a significant deposit of about \$30 million made by one firm. Distribution, miscellaneous, and agriculture entities also reported greater levels of deposits, amassing an additional \$18.7 million, \$21.0 million and

\$4.2 million, respectively. After experiencing a contraction of \$50.5 million in 2006, the deposits of statutory bodies increased by \$22.9 million, owing to the receipt of the proceeds of two bonds issued during the year.

Non-Bank Financial Institutions

Similar to commercial banks, the asset base of non-bank financial institutions (NBFI) rose appreciably during 2007, with most of the expansion occurring in cash and bank balances. Following an increase of \$94.7



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

Source	2002	2003	2004	2005	2006	2007
Credit Unions	372.7	457.7	571.9	691.7	784.7	873.4
Finance Companies	163.2	175.5	211.5	264.9	309.8	341.6
Commercial Banks	2,599.2	2,622.6	3,061.8	3,791.8	4,292.9	4,513.5
Trust Companies & Mortgage	606.6	617.0	650.1	698.8	783.6	834.8
Insurance Companies	348.1	350.0	360.9	398.9	354.7	354.7
Total	4,089.8	4,222.7	4,856.6	5,846.1	6,525.7	6,918.0

Source: Central Bank of Barbados

Domestic Deposits at Financial Institutions
(\$ Million)

Source	2002	2003	2004	2005	2006	2007
Trust Companies	426.8	388.0	422.5	495.3	501.0	534.4
Commercial Banks	4,371.2	4,776.1	5,418.7	5,789.6	6,419.4	7,252.4
Credit Unions	138.1	158.5	194.8	243.1	314.2	402.3
Finance Companies	250.9	246.6	259.3	407.0	399.1	452.3

Source: Central Bank of Barbados

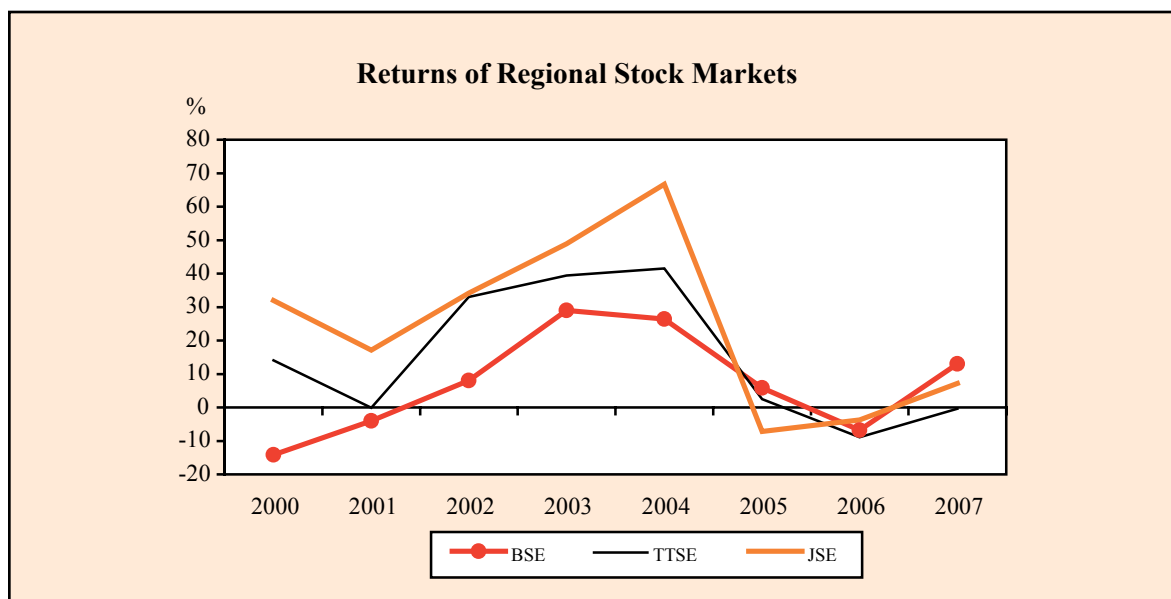
million in 2006, lending by non-financial private sector grew by \$48.0 million. Loans issued by finance companies advanced by \$31.8 million, \$13.1 million less than the figure in 2006, while credit extended by trust companies rose by a mere \$16.2 million, compared to \$49.8 million in 2006 and \$23.5 million in 2005.

The deposits at non-bank financial institutions grew by an additional \$86.6 million in 2007, following a \$2.2 million decrease recorded in the previous year. Finance and trust companies both expanded their deposit base, rising by \$53.2 million and \$33.4 million, respectively.

Capital Market Developments

Stock Market Activities

After a poor performance in 2006, the Barbados stock market rallied in 2007 to outperform both the Jamaica and Trinidad and Tobago stock markets. The local index closed the year at 4,123.07 points, a 12.6% increase relative to 2006, while the cross-listed and composite indices posted returns of 3.7% and 9.1%, respectively. As a result, local market capitalisation rose by 13.0% in contrast to an almost 10% reduction in 2006. However, the market capitalisations of cross-listed securities and the composite market declined by 27.9% and 8.1%, respectively.



The performance of the stock market in 2007 reflected the continuation of the trend towards consolidation observed in earlier years, with both Barbados Shipping and Trading Co. Ltd. (BS&T) and Barbados Farms Limited at the heart of takeover bids during the year. In the case of BS&T, ANSA McAl Ltd. and Neal and Massy Holdings, were competing for controlling interest in the local conglomerate. The initial bid for control of Barbados Farms Limited was initiated by Agricultural Investments Limited but, by the end of 2007, control of

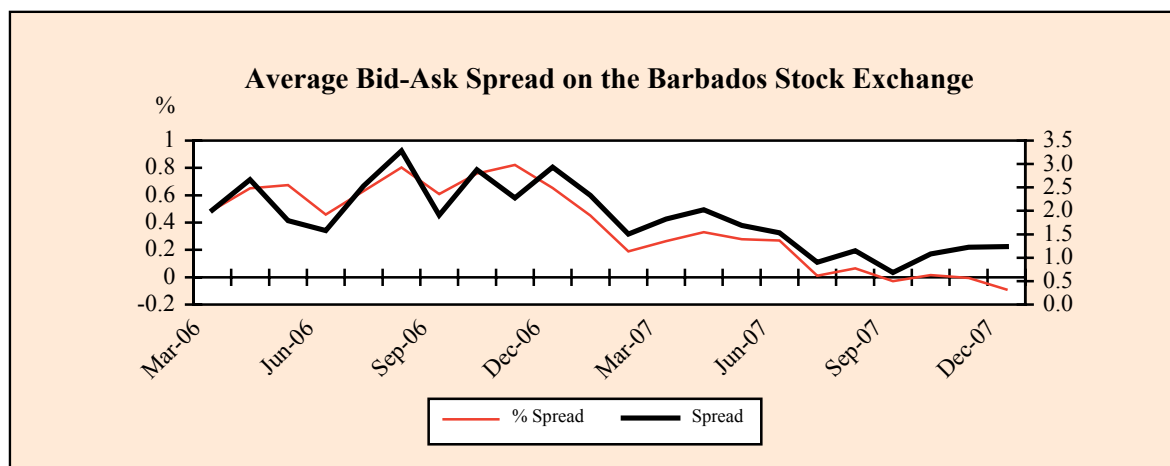
the company was also being contested by two rival insurance companies: Sagicor Financial Corporation and Clico Holdings (Barbados) Limited, through its subsidiary CLSS Holdings Limited. Understandably, BS&T and Barbados Farms Ltd. were among the top five in terms of share appreciations for the year, but mention should also be made of Banks Holdings, which managed to reverse a downward trend in its share price during 2007, as well as Cable & Wireless Barbados, which achieved its fourth consecutive year of double-digit share price appreciation.



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

Company	2004	2005	2006	2007 ^P	% Change
Tourism					
Almond Resorts	1.80	2.35	2.16	2.13	-1.4
Distribution					
Cave Shepherd	7.00	6.60	6.14	6.05	-1.5
Courts	5.00	4.40	6.00	6.00	0.0
Manufacturing					
BICO	1.85	1.80	1.80	2.00	11.1
Banks Holdings	3.90	4.14	3.80	4.30	13.2
Grace, Kennedy & Co. Ltd.	3.15	3.65	1.80	2.03	12.8
Trinidad Cement Ltd.	2.20	3.38	2.76	2.50	-9.4
West Indian Biscuit Co.	7.30	8.35	8.20	9.20	12.2
West Indian Rum Distillery	5.90	9.00	9.00	8.50	-5.6
Media					
One Caribbean Media Limited	n.a.	n.a.	6.15	6.25	1.6
Agriculture					
Barbados Dairy Industry	7.50	7.50	7.50	7.34	-2.1
Barbados Farms	1.35	1.67	1.95	4.00	105.1
Finance					
Barbados National Bank	5.30	6.50	6.80	6.63	-2.5
First Caribbean International Bank	4.25	4.23	3.60	3.95	9.7
Insurance Corporation of Barbados	3.85	2.60	3.50	3.85	10.0
Jamaican Money Market Brokers Ltd.	n.a.	0.50	0.55	0.55	0.0
RBTT Financial Holdings Ltd.	13.30	12.58	9.88	11.00	11.3
Sagicor Financial Corporation	4.35	4.30	4.13	5.20	25.9
Conglomerate					
Barbados Shipping and Trading	7.30	7.15	5.25	8.80	67.6
Goddards Enterprises Ltd.	7.10	9.35	6.30	6.45	2.4
ANSA McAl (Barbados) Ltd.	n.a.	18.35	24.85	20.14	-19.0
Neal and Massy	11.20	15.72	15.72	15.17	-3.5
Transportation					
BWIA (Suspended)	2.50	2.50	2.50	2.50	n.a.
Utility					
C&W Barbados	1.65	2.39	3.12	4.00	28.2
Light and Power Holdings	9.40	11.25	10.25	10.55	2.9

Source: Barbados Stock Exchange
P: Provisional



Liquidity on the stock market also improved during the year, as the average bid-ask spread³ for all stocks available for trade narrowed from 1.66 in 2006 to 1.26 in 2007, while the percentage bid-ask spread⁴ tightened from an average of 0.51 to -0.09 over the same period.

The most frequently traded stock for 2007 was FirstCaribbean International Bank, as the final transaction in the merger/acquisition of this institution was completed

during the year. BS&T was also among the volume leaders, with over six million shares traded during the year. Even without these two events, 2007 was a more active year than 2006, with nearly all of the listed stocks traded, unlike the prior year when four stocks did not cross the floor. Of particular note is Sagicor Financial Corporation, which would have been the volume leader for the second year in a row if not for the previously mentioned extraordinary activities⁵.

³ Bid-ask spread = Ask price – Bid Price.

⁴ Percentage Bid-Ask Spread = (Ask Price – Bid Price) / [(Ask Price + Bid Price)/2]. The percentage bid-ask spread eliminates the effect of differences in stock price levels.

⁵ Since its appearance on the Stock Exchange in 2003, Sagicor Financial Corporation has consistently been one of the most actively traded stocks and has only been edged out as volume leader when there has been unusual activity such as a merger/acquisition (2004 and 2007) or privatisation of previously Government-owned entities (2005).



Barbados Stock Exchange: Volumes Traded

Company	2003	2004	2005	2006	2007 ^P
First Caribbean International Bank	208,859	77,473,655	1,119,681	588,929	131,665,288
Barbados Shipping and Trading	4,705,589	3,006,789	1,740,354	634,529	6,668,304
Sagicor Financial Corporation	44,186,801	22,374,635	4,896,678	2,188,939	3,238,427
Banks Holdings	354,216	451,857	580,374	469,574	2,862,381
Goddards Enterprises Ltd.	341,883	758,066	6,643,871	97,383	2,022,560
C&W Barbados	181,654	624,644	920,255	477,817	2,005,087
Insurance Corporation of Barbados	1,177,315	620,859	20,246,050	254,283	1,232,298
Barbados Farms	166,525	457,560	1,593,521	360,571	830,643
BICO	1,250	12,405	46,909	46,919	819,136
Neal and Massy	24,500	7,500	220,500	-	592,529
Almond Resorts	702,154	2,615,189	386,115	600,588	341,642
One Caribbean Media Limited	Not listed	Not Listed	Not Listed	-	288,512
ANSA McAl (Barbados) Ltd.	88,000	146,847	771,070	268,879	268,180
Grace, Kennedy & Co. Ltd.	1,499,867	14,199	134,273	57,500	202,175
West Indian Biscuit Co.	9,778	65,574	256,724	-	167,172
Cave Shepherd	953,379	1,197,613	302,603	912,591	164,616
Light and Power Holdings	48,021	61,727	158,534	72,932	103,549
Barbados National Bank	6,856,320	686,047	1,182,983	100,050	100,344
RBTT Financial Holdings Ltd.	14,003	36,569	348,960	22,232	76,567
Courts	1,400	28,500	49,000	27,000	28,200
Trinidad Cement Ltd.	40,000	110,949	30,808	26,000	28,076
West Indian Rum Distillery	29,146	4,040	8,820	-	14,202
Barbados Dairy Industry	7,772	2,600	-	-	2,000
Jamaican Money Market Brokers Ltd.	Not listed	Not listed	1,483,438	348,094	-
Total	61,598,432	110,757,824	41,638,083	7,206,716	153,721,888

Source: Barbados Stock Exchange

P: Provisional

Mutual Funds

The mutual fund market benefitted from the improved performances of regional stocks as international markets remained uncertain in light of the sub-prime crisis in the U.S. Accordingly, aggressive funds – that is, those with a greater proportion of equity holdings in

their portfolios – earned the greatest returns during the year, ranging from 6.6% to 11.9%. Balanced portfolios also performed well, averaging 6.9%, while those funds heavily skewed towards debt securities averaged a much lower return of 2.3%, primarily due to falling interest rates globally.



Mutual Fund Performance

Mutual Fund	Net Asset Value (\$ per share)					
	2002	2003	2004	2005	2006	2007 ^P
Fortress Caribbean Growth	2.40	2.81	3.54	3.93	4.36	4.86
Fortress Caribbean High Interest Funds Accumulation	1.00	1.10	1.17	1.25	1.33	1.42
Fortress Caribbean High Interest Funds Distribution	1.00	1.02	1.02	1.01	1.01	1.02
Fortress Caribbean Property	n.a.	1.30	1.40	1.60	1.44	1.52
Fortress Global Value	n.a.	n.a.	n.a.	n.a.	1.00	1.18
Sagicor Global Balanced	1.50	1.65	1.94	2.07	2.06	2.21
Sagicor Select Growth	n.a.	n.a.	n.a.	1.06	1.06	1.17
Sagicor Preferred Income	n.a.	n.a.	n.a.	1.03	1.02	1.04
Roybar Investment Corporation*	10.50	11.31	14.31	16.02	3.71	4.15
BNB Income	1.00	1.18	1.26	1.27	1.23	1.24
BNB Capital Growth	1.00	1.21	1.43	1.36	1.21	1.29
BNB Gift & Trust	0.90	0.97	1.01	1.05	n.a.	n.a.
CLICO Balanced	1.00	1.11	1.27	1.25	1.19	1.21
BNB Property & Unlisted Securities Investment	1.20	1.35	1.60	1.67	1.70	1.72

Source: Barbados Stock Exchange

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

n.a.: Not Applicable

P: Provisional

Government Operations

Revenue

Total Government revenue rose by 5.5% or \$125.5 million to an estimated \$2,404 million during 2007, compared to an expansion of 12.7% (\$257.4 million) in 2006. Nevertheless, the ratio of total revenue to GDP fell to 34.1%, approximately 0.9 percentage points below the ratio of 2006. Total tax revenue increased by 4.1% during the review period, compared to an upturn of 15.2% in 2006, owing to the revisions made to the direct and indirect tax categories during the year and the loss of tax revenue following the removal of the cess on imports in March 2007. Collections of non-tax revenue

rose by 34.7%, in contrast to a decline of 22.5% recorded in 2006.

During the year, direct tax revenue grew by 4.1%, compared to an increase of 25.1% in 2006 and an average rate of expansion of 5.8% between 2002 and 2006. Corporate tax receipts grew by 14.4% (\$62 million) on top of an upturn of 46.4% or \$136.6 million in 2006, due to a widening of the tax base and increased profitability of international business companies. Despite the upward revision of the personal allowance to \$25,000 from \$20,000 in 2007, personal tax revenue rose by an estimated 2.8%, due to the increased number of persons employed during the year. After improving by 19.1% (\$24.3

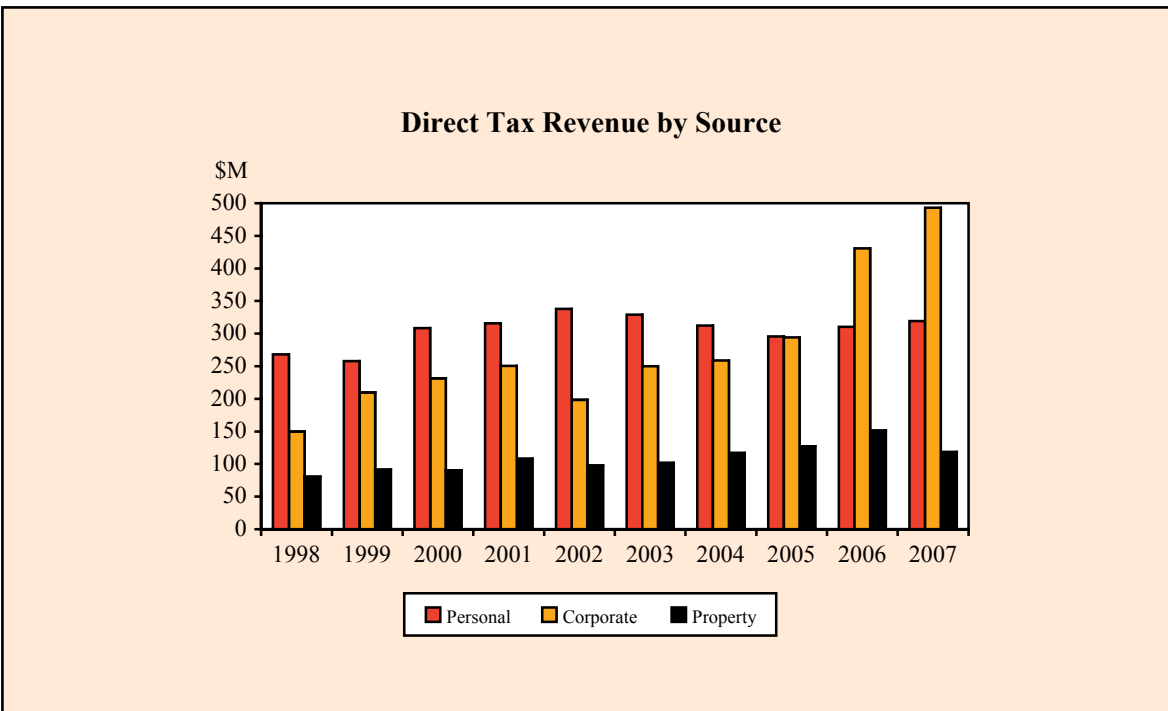
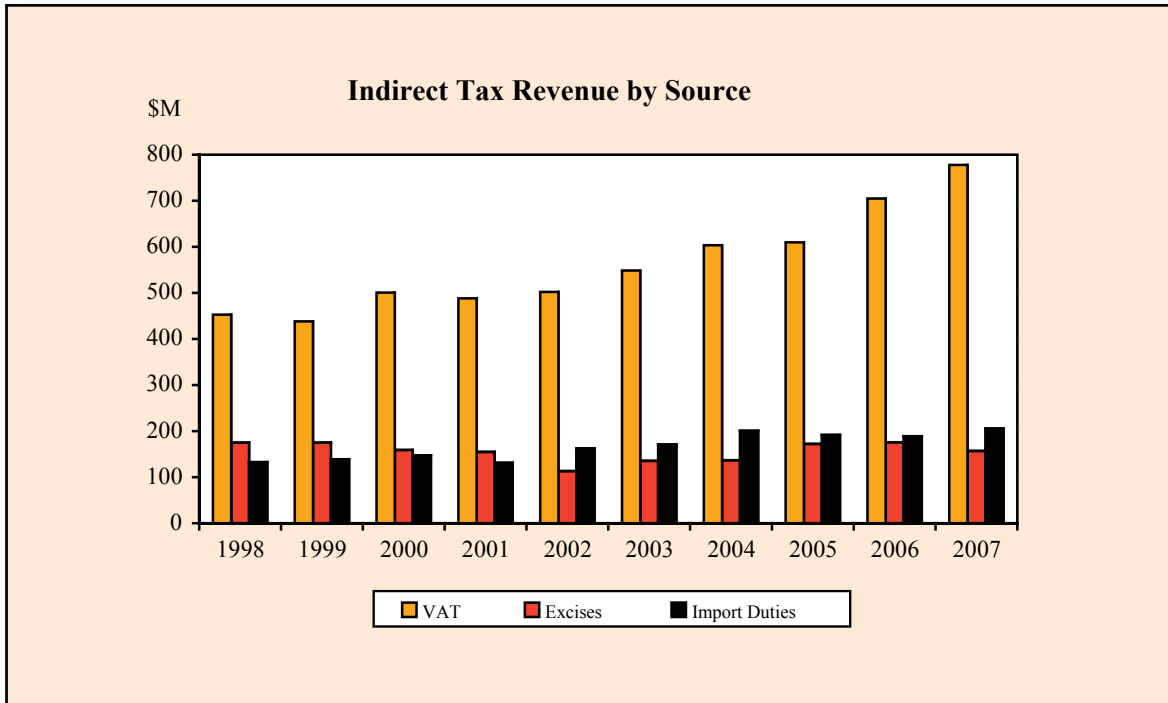


Summary of Government Operations
(\$ Million)

	2001	2002	2003	2004	2005	2006	2007 ^P
Total Revenue	1,746.5	1,712.2	1,843.8	1,895.6	2,021.1	2,278.5	2,404.0
Tax Revenue	1,634.6	1,585.0	1,724.4	1,812.7	1,888.9	2176.0	2266.0
<i>Direct Taxes</i>	739.9	691.4	731.1	739.5	766.8	959.2	998.4
Personal	316.1	338.1	329.0	312.6	295.7	310.3	319.1
Corporate	253.6	198.5	250.1	258.9	294.3	430.9	492.9
Levies	18.1	17.5	4.7	0.0	0.0	0.0	0.0
Property	108.1	97.8	101.7	116.9	127.4	151.7	118.3
Other	44.0	39.5	45.6	51.1	49.4	66.3	68.2
<i>Indirect Taxes</i>	894.7	893.6	993.4	1,073.2	1,122.1	1,216.9	1,267.6
Consumption	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Stamp	16.6	10.9	14.8	18.2	20.8	25.1	24.6
VAT	488.4	502.5	548.8	603.2	609.9	704.6	777.8
Excises	154.6	113.4	135.4	137.1	172.4	175.7	156.8
Import Duties	131.5	162.5	170.6	201.0	191.7	188.6	205.8
Hotel and Restaurant	0.5	1.3	0.2	0.0	0.0	0.0	0.0
Other	103.1	103.0	123.6	113.7	127.4	122.9	102.4
Non-Tax Revenue & Grants	111.9	127.2	119.4	82.9	132.2	102.5	138.0
Non-Tax Revenue	96.1	110.6	102.7	64.5	109.8	82.2	115.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Post Office Revenue	15.7	16.6	16.7	18.3	22.4	20.3	22.4
Current Expenditure	1,612.3	1,671.0	1,736.2	1,804.4	1,959.0	2,038.3	2,346.7
Wages and Salaries	643.2	673.7	623.6	639.1	676.0	694.1	799.2
Goods and Services	197.9	217.4	201.8	204.8	241.3	243.8	303.2
Interest Payments	276.8	267.6	271.8	272.1	291.0	324.3	344.6
External	97.1	113.3	105.2	114.2	106.1	121.4	111.9
Domestic	179.7	154.3	166.6	157.9	184.8	202.9	232.7
Transfers & Subsidies	494.4	512.3	638.9	688.4	750.8	776.1	899.6
Current Account Balance	134.1	41.2	107.7	91.1	62.1	240.2	57.3
Capital Expenditure and Net Lending	314.4	356.3	272.1	215.2	319.2	368.2	224.6
Capital Expenditure	293.8	355.2	270.5	213.5	233.4	267.6	224.0
Net Lending	20.6	1.2	1.6	1.7	85.8	100.7	0.6
Total Expenditure and Net Lending	1,926.8	2,027.3	2,008.3	2,019.6	2,278.2	2,408.0	2,571.3
Fiscal Balance	(180.3)	(315.2)	(164.5)	(124.4)	(257.1)	(129.5)	(167.3)
Fiscal Balance to GDP (%)	(3.5)	(6.4)	(3.1)	(2.2)	(4.3)	(2.0)	(2.4)

Sources: Accountant General and Central Bank of Barbados

P: Provisional





million) in 2006, a year in which there were property revaluations and greater compliance, revenue from property taxes declined by approximately 22.0% in 2007, as the property transfer tax rate was reduced from 7.5% to 2.5% during the year.

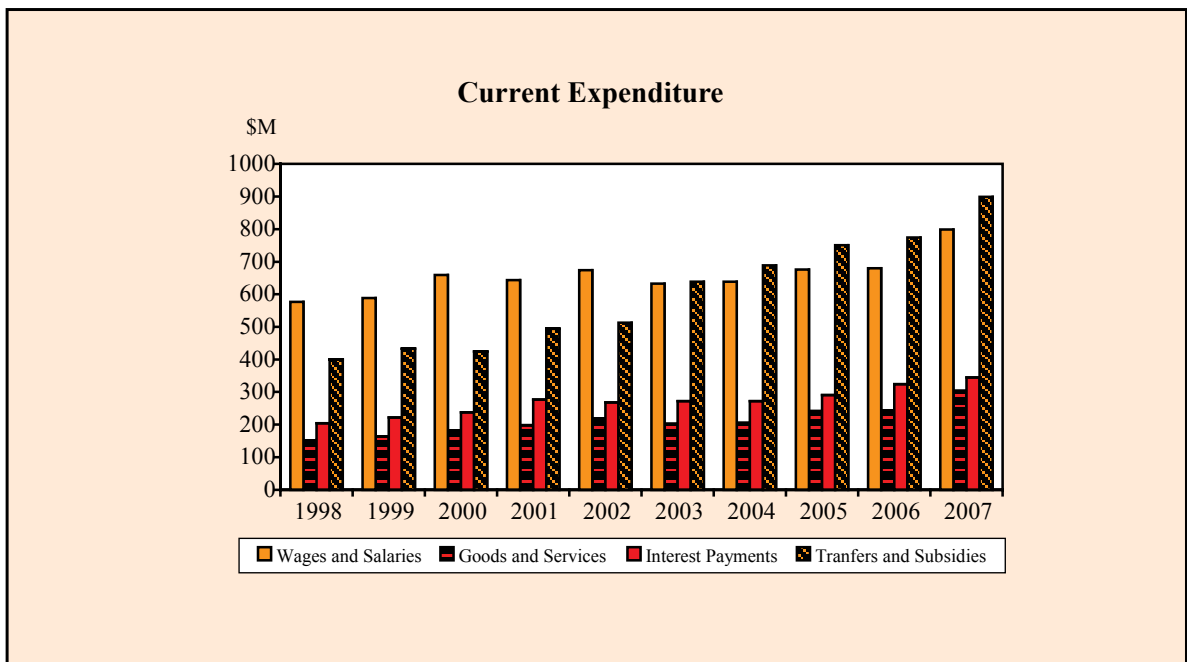
Boosted primarily by an expansion in VAT receipts, indirect tax collections grew by an estimated 4.2% (\$50.5 million) for 2007, compared to 8.4% (\$94.8 million) in 2006. The approximately 10.4% (\$73.2 million) increase in VAT receipts, coming after an expansion of 15.5% (\$94.7 million) in 2006, was in line with the rising level of economic activity. The robust growth recorded in 2006 mainly reflected tax payments received at the end of 2005 but registered in the first quarter of 2006. Tax revenue from import duties returned to normal levels in 2007, increasing by an estimated 9.1% for the year, in contrast to a decline of 1.6% in 2006 when retained imports contracted in response to monetary and fiscal

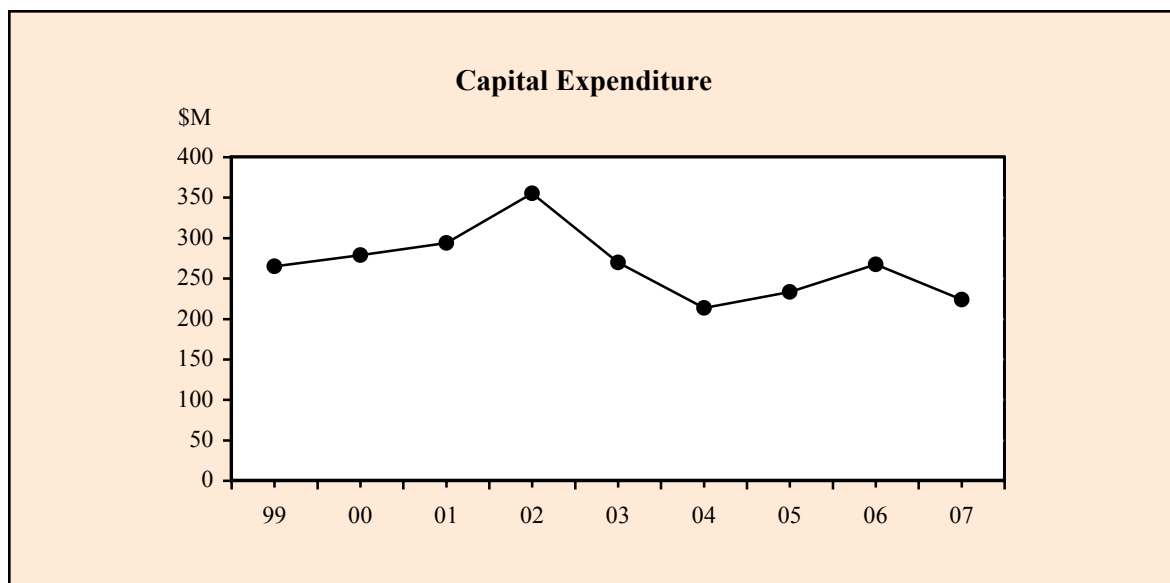
measures designed to dampen import demand. Revenue from excise taxes fell by 10.7%, after an increase of 1.9% in 2006.

Expenditure

Total government expenditure expanded to an estimated \$2,571.3 million in 2007, an increment of 6.8%, compared to 5.6% in 2006, and an average annual increase of 4.6% over the previous five years. The growth in expenditure was the result of a substantial upturn in current outlays, especially wages and salaries, goods and services and transfers and subsidies. Total spending by Government represented 34.6% of GDP in 2007, following the 37.0% recorded in 2006.

After a 4.0% rise in 2006, the rate of growth in current expenditure more than tripled in 2007 to an estimated 15.1%. Payments for wages and salaries were approximately 15.1% higher, following expansions of 2.7% and 5.8% in 2006 and 2005, respectively. The stronger growth





in wages and salaries was mainly attributed to a 7.5% increase in public workers' wages and salaries due in 2006 but paid in April of 2007.

Similarly, outlays on goods and services rose by 24.4% in 2007, reflecting the reclassification of some items previously recorded under capital expenditure. Supplementary payments to the University of the West Indies, the Transport Board along with payments in favour of the Harrison Cave Redevelopment Project and CWC 2007 led to a 15.9% increase in transfers and subsidies. In contrast, interest payments were up by approximately 6.3%, due to higher domestic interest payments.

After registering a substantial expansion in the last two years (12% on average), on-budget capital spending fell by 16.3% in 2007, following the completion of major government projects related to CWC 2007 and the shifting of some items previously classified under capital expenditure to goods and services.

Government's off-budget capital expenditure included one additional public-private partnership (PPP) agreement during the year. This is the Civic Centre at Tamarind Hall, St. Joseph. Of particular note is that the construction of the new prison complex at Dodd's in St. Phillip, which was undertaken using a PPP agreement between the Barbados Correction Corporation and the Government of Barbados, was completed during the year.

Financing

The operations of Central Government during 2007 resulted in an overall fiscal deficit of approximately \$167.3 million (2.3% of GDP), \$39.3 million more than the figure for 2006, which was 2% of GDP. With the high level of liquidity in the financial system, Government obtained funding for the deficit mainly from domestic sources. Commercial banks, private non-bank financial institutions and the National Insurance Scheme increased their holdings of Government securities by \$180.7 million,



Government Financing
(\$ Million)

	2000	2001	2002	2003	2004	2005	2006	2007 ^P
Domestic Financing	(163.1)	(136.5)	(345.7)	(5.7)	165.7	103.0	96.6	225.3
Central Bank	(267.4)	(297.3)	283.1	69.6	(22.7)	(103.4)	61.9	(40.3)
Commercial Banks	155.6	85.2	139.2	(20.4)	61.1	(73.4)	(168.9)	180.7
National Ins. Scheme	15.8	20.6	109.2	25.4	(19.5)	141.4	58.0	154.8
Private non-banks	(1.3)	28.4	19.9	16.1	97.8	190.9	138.9	144.9
Divestment	0.0	52.2	0.0	0.0	0.0	0.0	31.4	0.0
Other	(64.4)	(54.2)	(225.8)	(112.5)	48.7	(57.6)	34.9	(32.9)
Foreign Financing	208.7	316.8	(30.5)	152.0	(41.3)	154.0	31.4	(58.0)
Capital Markets	200.0	300.0	0.0	0.0	0.0	245.2	135.8	0.0
Project Funds	45.5	71.1	51.0	57.5	59.4	30.8	38.8	54.1
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	(36.8)	(54.3)	(81.6)	(94.5)	(100.8)	(122.0)	(143.2)	(146.0)
Divestment	0.0	0.0	0.0	189.0	0.0	0.0	0.0	0.0
Total Financing	77.9	180.3	315.1	163.9	124.1	257.1	128.0	167.3

Sources: Accountant General and Central Bank of Barbados

P: Provisional

\$154.8 million and \$144.9 million, respectively. Additionally, lending by the Central Bank fell by \$40.3 million. Government received project funds amounting to \$54.1 million while external amortisation payments totalled \$112.1 million.

Debt

Preliminary data show that during 2007 central government's total debt rose by 7.8% to \$5,367.9 million. This stock of debt represented 76.0% of GDP, 0.6 of a percentage point less than the ratio for 2006. The growth in Government debt over the review period reflected an estimated 14.1% increase in domestic debt, which offset a 5.6% decline in external debt. Government's outstanding external debt totalled \$1,508.5 million at the end of 2007, a reduction of \$90.3 million, following three years of expansion. Central government's domestic debt expanded for the

eighth consecutive year and was approximately \$3,859.4 million at the end of 2007. As a ratio to GDP, domestic debt rose from 52.0% in the previous year to 54.6%. Preliminary estimates indicate that over 2007 long-term central government domestic debt advanced by 11.1% to \$3,012.9 million, while short-term debt increased by 26.5% to \$837.5 million.

Foreign Debt Service

In 2007, foreign debt service payments by the public and private sectors amounted to \$331.2 million, approximately \$135.7 million below the level recorded one year earlier. Mainly on account of a decline in outlays by the private sector, total amortisation payments decreased by about 39.2% (\$122.5 million) to \$189.9 million. Interest payments totalled \$141.3 million, falling by around 8.6% (\$13.2 million).



Central Administration National Debt
(\$ Million)

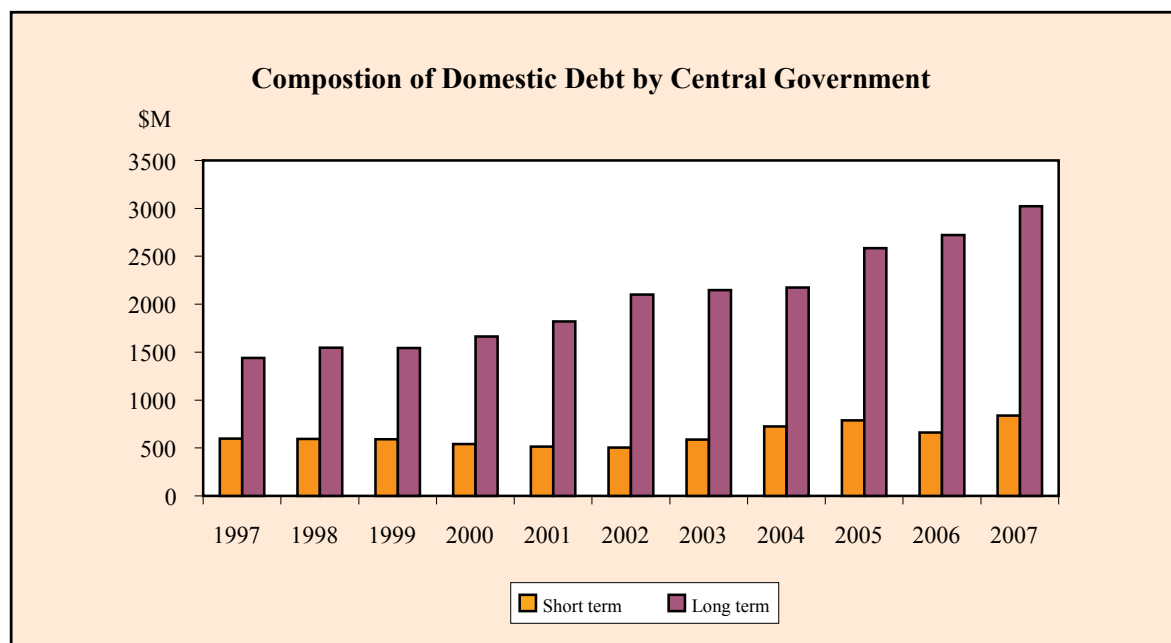
Period Ending	Domestic	External	Total
1999	2133.0	763.1	2896.1
2000	2204.1	1011.9	3215.9
2001	2333.3	1339.4	3672.8
2002	2605.4	1297.3	3902.7
2003	2736.1	1257.7	3993.8
2004	2901.5	1332.6	4234.1
2005	3373.4	1526.6	4900.0
2006	3382.7	1598.9	4981.5
2007^P	3859.4	1508.5	5367.9
% of GDP			
1999	43.0	15.4	58.4
2000	43.1	19.8	62.8
2001	45.7	26.2	71.9
2002	52.6	26.2	78.8
2003	50.8	23.3	74.1
2004	51.5	23.7	75.1
2005	56.1	25.4	81.5
2006	52.0	24.6	76.6
2007^P	54.6	21.4	76.0

Sources: The Accountant General and Central Bank of Barbados

Government Guaranteed Debt
(\$ Million)

Period Ending	Domestic	External	Total
1999	189.3	93.3	282.5
2000	341.5	127.9	469.4
2001	275.3	129.6	405.0
2002	362.0	116.4	478.4
2003	423.5	138.3	561.8
2004	387.1	243.0	630.0
2005	663.9	228.8	892.7
2006	748.9	207.2	956.2
2007^P	748.9	186.4	935.4

Sources: The Accountant General and Central Bank of Barbados



Understanding Financial Liberalisation and its Implications

What is Financial Liberalisation?

Financial liberalisation can be viewed as consisting of three broad sets of measures. First, there is the opening up of a country to the free flow of international finance, often referred to as capital account liberalisation (CAL). Secondly, there is the removal of controls and restrictions on the functioning of domestic banks and other financial institutions, known popularly as domestic financial liberalisation (DFL). Thirdly, autonomy is given to the central bank so that its monetary, supervisory and regulatory roles are dissociated from the political process of the country – this is termed central bank independence (CBI). However, much of the discussion in the literature has tended to focus on issues surrounding CAL, which is not to say that the other two

dimensions of financial liberalisation are less important, but may be an indication that there is less controversy surrounding their implementation. On the other hand, the design and implementation of CAL are often plagued with a number of issues including, the extent and speed of the liberalisation process, its sequencing and coordination with other macroeconomic reforms, and the role and importance of pre-liberalisation macroeconomic conditions.

A Practical Definition of CAL

CAL does not imply the wholesale removal of restrictions on the flow of international finance but should be seen in the context of an overarching objective of achieving capital account convertibility (CAC), where CAC is the freedom to convert local financial assets into foreign financial assets and vice versa. As such, CAC can be, and is, coexistent with restrictions to ensure the health and stability



of the financial system. More importantly, it also does not preclude the imposition of monetary or fiscal measures relating to foreign exchange transactions, which are of a prudential nature. When viewed in this context, it is clear that CAL is compatible with prudential restrictions and regulations, and that the imposition of measures to insulate an economy from macroeconomic disturbances caused by volatile capital flows are consistent and compatible with an open capital account.

Benefits of CAL

The literature points to a number of benefits from CAL. For one there are greater inflows of foreign capital, which should allow for a more efficient allocation of resources. If managed properly, this should lead to accelerated growth. Then there is increased market discipline and efficiency necessitated by the creation of an appropriate environment for foreign investors. CAL also allows more flexibility for households and companies in accommodating income and production shocks as a result of greater access to credit and capital markets as well as the possibility of risk diversification on an international level. Moreover, it promotes development of the domestic financial system due to the intensified competition in the banking sector, which should result in a decrease in the operational costs of financial intermediaries.

Risks/Costs of CAL

There are also a number of risks and costs associated with an open capital account. The possibility exists that significant differentials between local and foreign interest rates can cause large and sometimes speculative movements of capital, which can heighten credit, liquidity and moral hazard risks

facing domestic financial institutions and threaten the stability of the financial system. Also there is the possibility of financial crisis if the capital account is liberalised in the presence of weak and/or inadequate macroeconomic conditions, such as high inflation and fiscal excesses. The risk of capital flow reversals caused by herding behaviour in international financial markets, which has nothing to do with conditions in the local economy but can have devastating effects on it, may also occur.

Benefits versus Risks – What is the Balance?

There is general consensus concerning the benefits and risks associated with CAL. However, the balance between them remains an open issue. Nonetheless, there now is general agreement on three points. First, any cost-benefit analysis of greater capital account openness is highly conditional on the nature and credibility of the exchange rate regime. A less than fully credible exchange rate arrangement is a recipe for financial sector instability and economic dislocation. Second, the sequencing and co-ordination of CAL, macroeconomic stabilisation and structural reforms aimed at strengthening the domestic financial sector are critical.

In this regard, domestic financial sector reform normally comes first in the order of sequencing, followed by macroeconomic stabilisation and, finally, the opening of the capital account. Third, CAL can be important in stimulating the development of capital and financial markets. However, such benefits only accrue when domestic institutional arrangements can support cross-border flows in financial instruments. The argument here is that foreign capital can complement, but not substitute for, a domestic investor base,



which is critical to developing resilient local capital markets. Critical mass must first be reached in terms of the depth of domestic markets, the diversity of local investors, the effective oversight and governance of market institutions, and the length and distribution of instrument maturities.

There are trade-offs between having good domestic institutions in place before undertaking CAL, on the one hand, and opening the capital account to encourage best practices aimed at strengthening domestic institutions, on the other hand. Thus, there is no unique optimal speed and order of liberalisation. They must be country-specific, that is, based on the circumstances and institutional characteristics of the respective country.

Approach to CAL in Barbados

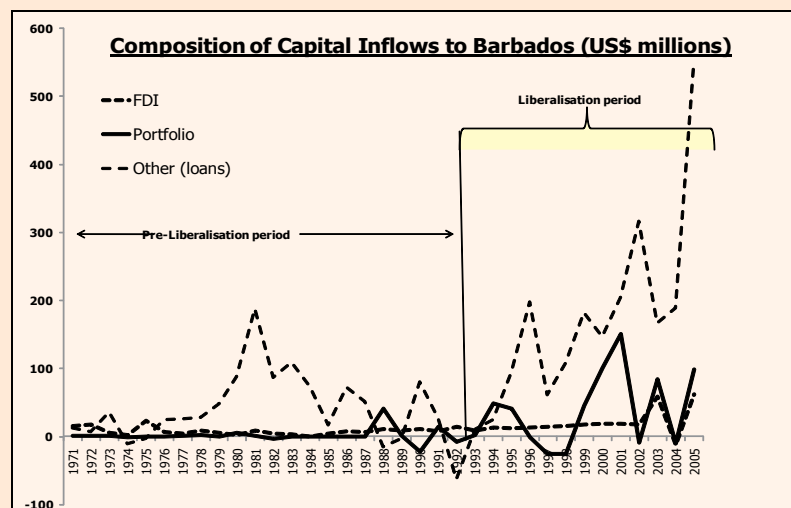
Barbados took a gradual approach to CAL, with the process commencing in 1991, and currently has very few restrictions in place on capital account transactions with respect to CARICOM. These are mainly controls on foreign currency accounts, purchase and sale

of real estate, and some categories of cross-border borrowing and lending, in the spirit of Article 43 of the Treaty of Chaguaramas, which allows member countries to impose certain restrictions to protect their balance of payments. Controls are also in place with respect to participation in securities issued by regional governments principally because of the size of these issues and their likely impact on financial stability. However, some capital controls exist with respect to third countries.

With regard to the non-CARICOM aspects of CAL, further liberalisation should be guided by the need to improve business facilitation but yet discourage the use of other liberalised Caribbean economies as a conduit for the outward movement of funds.

Some Implications for Barbados

Figure 1 shows the volume and composition of net capital inflows to Barbados since 1971 and what is clear from the figure is that the volume of inflows has increased significantly since Barbados embarked on the path of CAL in 1991. In addition,





most of the inflows have been in the form of loans, with this category rising from a net outflow of US\$67.2 million in 1992 to a net inflow of US\$548.5 in 2005. The majority of these inflows were for the private sector – in 2005, 56.2% went to the banking sector and 44% to other private sector entities.

The fact that most of the inflows have been predominantly loans has implications. The first point to consider is that both foreign direct investment (FDI) and portfolio investment give the recipient country access to international technology, enabling it to participate in a process of transformation and growth to a greater extent than is possible with loans. The second point is that countries' experiences suggest that FDI provides a pretty stable source of finance, while portfolio investment is more prone to reversals and tends to accentuate crises. However, the biggest source of instability comes from volatility in loans – the shorter the maturity period of the loan the greater the volatility.

Indeed loans, particularly bank lending, constituted the principal component of the capital flow reversal in the East Asian crisis. The third point is that loans (including sovereign borrowings) concentrate all commercial risks on the borrower.

Minimising the risks associated with foreign loans is also desirable when countries seek to open the capital account. Ensuring that foreign borrowing is destined for projects that earn foreign exchange is one way to hedge against such risk but can be perceived as undermining the notion of an open capital account. Some countries limit reliance on short-term credit on the grounds that such

funds are the first to exit if market sentiments change. While limiting unmatched foreign currency positions of domestic financial institutions is another approach, such institutions are not the only, and sometimes not the major, source of foreign borrowing in liberalised environments.

Limitations on short-term credit have been used by a number of developing countries in their management of capital account liberalisation. For example, Chile uses an unremunerated reserve requirements (URR) where anyone bringing loan capital into Chile is obliged to deposit 30% of the value of the loan in the central bank for one year, without receiving any interest payment on that deposit. This reduces the return to be gained from holding short-term assets, and, since the deposit is independent of the term of the asset being held, the reduction in the rate of return is greater the shorter the maturity of the asset. This has been effective in extending the maturity of Chile's foreign debt. URR as a policy can also be used to supplement prudential regulations that limit the unmatched foreign currency exposure of financial institutions in a way that will cover foreign investors interested in acquiring local currency assets and domestic corporations prepared to borrow in foreign currency. However, in the case of Chile, there are tremendous inflows of capital, which permitted the Central Bank of Chile the scope for restraining the volatility of inflows without significantly impacting on the volume of such flows.

Other Risks to Guard Against

With an open capital account, risks accumulated in the system can place pressure on the exchange rate. Korea is an example where a huge foreign currency exposure was



allowed to accumulate in the corporate sector and only became known after the collapse of the currency in 1998 and has since been cited as a major contributor to the crisis.

Unhedged foreign debt can also put pressure on the exchange rate. This has been cited as a key trigger in Argentina's crisis. However, this is often dealt with via prudential regulation on unmatched foreign currency exposures.

Summary

In summary, a number of points should be emphasised. First, CAL is desirable and inevitable, as it is part of the inexorable process of the Caricom Single Market and Economy and also of globalisation. In this regard, CAL comes with both benefits and risks, both of which are dependent upon the achievement of certain pre-conditions and sequencing patterns and an orderly liberalisation procedure. Second, the

literature also shows that in countries that do not have developed financial markets, it may be necessary to limit short-term flows in the initial stages since these countries often cannot intermediate funds from the short to the long end of the maturity spectrum and cannot therefore effectively bear the increased risk of financial intermediation. Third, CAL is not an 'all or nothing' affair and there may be justification for certain capital controls, which can be used in the transition phase, and those, which may be applied in the long run to ensure macroeconomic stability. Fourth, fiscal prudence is a necessary condition for successful liberalisation of the capital account. Financing a growing fiscal deficit through private capital flows or central bank accommodation can lead to increased vulnerability. Finally, successful CAL requires a heightened institutional capacity for setting prudential regulations and a sound supervisory framework for monitoring and enforcing them.



Foreign Trade and Payments

Current Account Developments

The current account deficit narrowed for the second consecutive year during 2007, falling to an estimated 6.9% of GDP in 2007, from 8.6% of GDP in 2006. The deficit was the lowest recorded since that of 2003, as robust growth in travel credits plus a marginal increase in domestic exports offset the growth in retained imports.

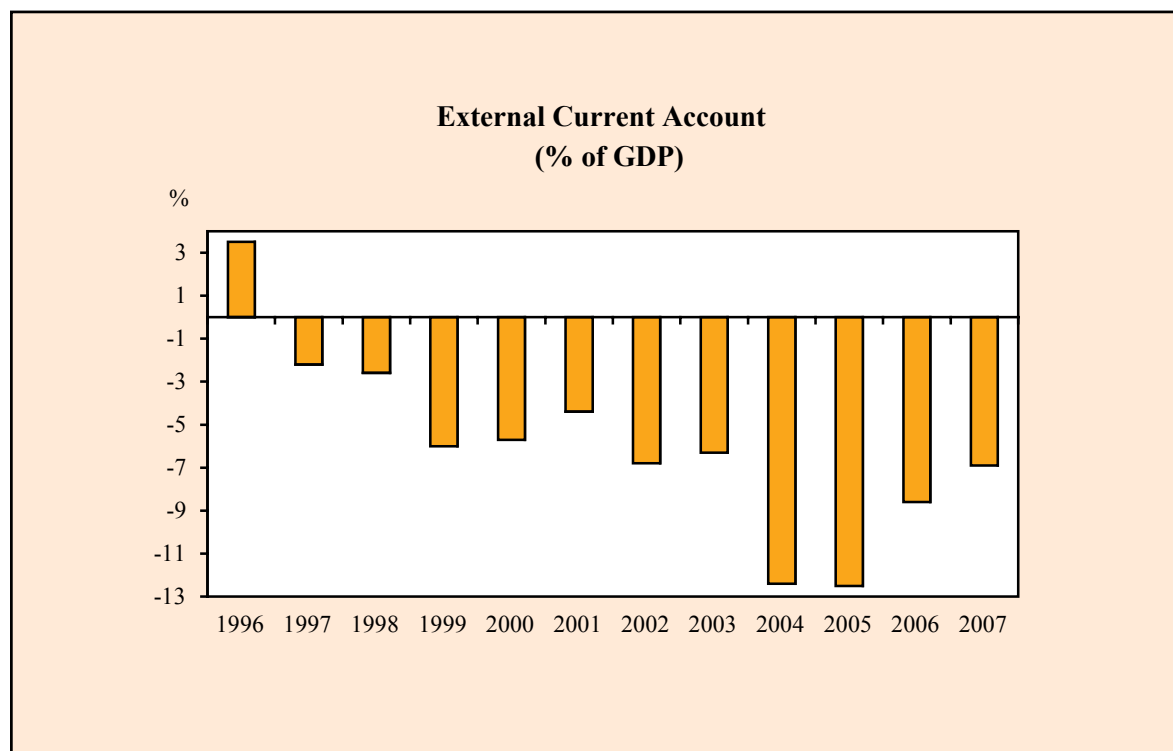
Retained imports grew by 4.4%, after contracting by 1.5% one year earlier. This growth was much smaller, however, when compared to the annual average expansion of 13.5% between 2003 and 2005, when extraordinary increases were reported.

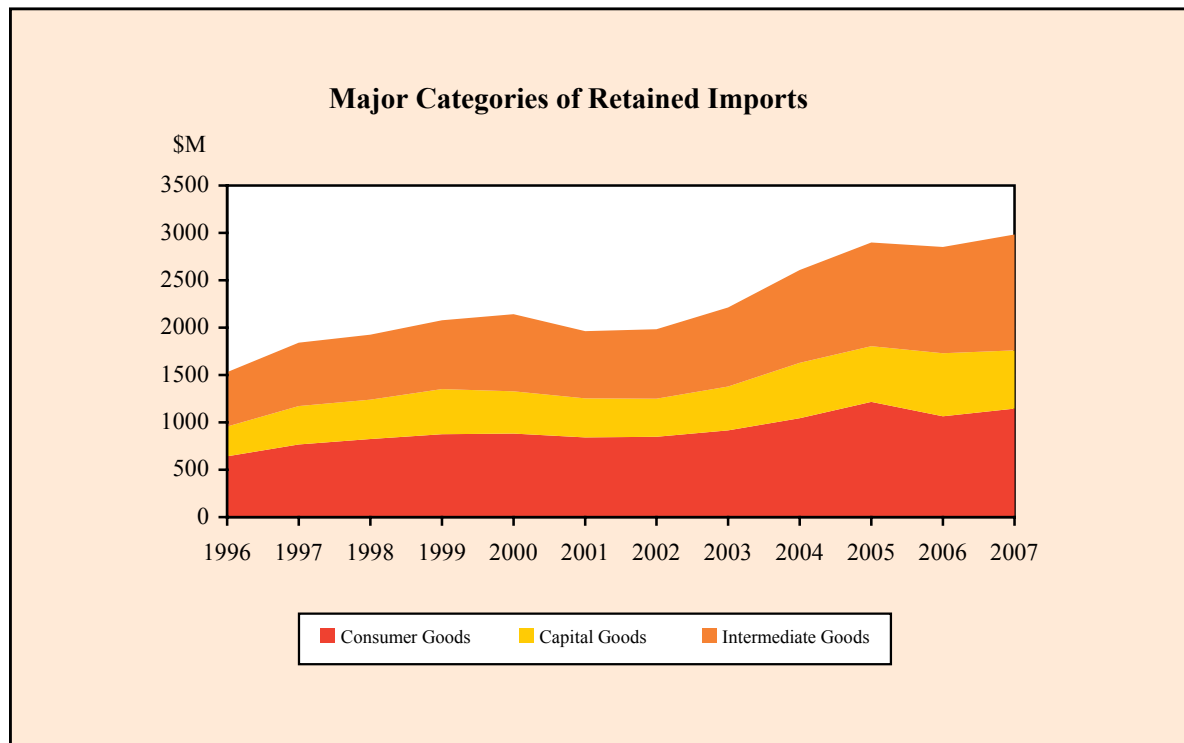
Consumer goods imports increased by 7.9%, a recovery from the 12.6% decline in the previous year, partly reflecting the removal of the cess on extra regional imports in March 2007.

During the review period, imports of food and beverages advanced by an estimated 8.0%, in contrast to a 1.0% drop in 2006. In addition, pharmaceuticals, motor vehicles and other manufacturing goods climbed by 17.7%, 15.7% and 7.6%, respectively.

Expenditure on imports of intermediate goods expanded by 8.9% in 2007, after advancing by 2.6% in 2006, owing to soaring oil prices. The value of retained imported fuel rose by an estimated 21.6%, in contrast to a decrease of 0.8% in 2006. Higher outlays were also registered for iron and steel (6.5%), cement (26.6%) and electronic components (10.3%) while structural parts (particularly doors, windows, scaffolding and other structures of iron, aluminium and steel) slumped by 36.2%.

Spending on capital goods fell by 8.0% during 2007, a turnaround from the 13.2% expansion





one year earlier. An estimated fall in imports of machinery for mixing, shaping or moulding mineral substances (\$18.7 million), coaches and buses (\$8.8 million), goods transport and other special purpose vehicles (\$5.2 million) and telecommunications equipment (\$12.2 million) was primarily responsible.

After four consecutive years of robust expansion, the exports of domestic goods rose by 4.4%, significantly slower than the 16.8% growth recorded in 2006. Despite robust growth in the export of food and beverages (34.5% or \$34.6 million), domestic exports was significantly constrained by the combined effects of a sharp reduction in electronic components (42.6% or \$16.0 million) and other manufactures (8.3% or \$12.4 million). Trade in the other manufactures category was restricted by a decline in the export of cement by 9.2% and other machinery and transport equipment by 37.2%. A reduction

of 31.3% in receipts from the export of variable resistors accounted for the weak performance in the trade of electronic components. The strong outturn in the export of food and beverages was led by a \$23.2 million expansion in the sale of rum, and was a reversal from the 9.3% contraction in 2006. In addition, the export of chemicals climbed by \$14.4 million. Receipts from sugar continued to fall, dipping by 4.9%, following an 11.5% decline one year earlier. The outturn in sugar was attributed to a 5.0% reduction in the price paid per tonne, as production for the year under review increased by 200 tonnes.

Net foreign receipts from services advanced by an estimated 9.9%, after rising by 6.5% in 2006. Tourism receipts grew for the fourth successive year, climbing by 8.0%, on top of the 7.8% rise in 2006, reflecting an estimated upturn in both cruise arrivals and long-stay tourist arrivals. In line with the improvement in business activity

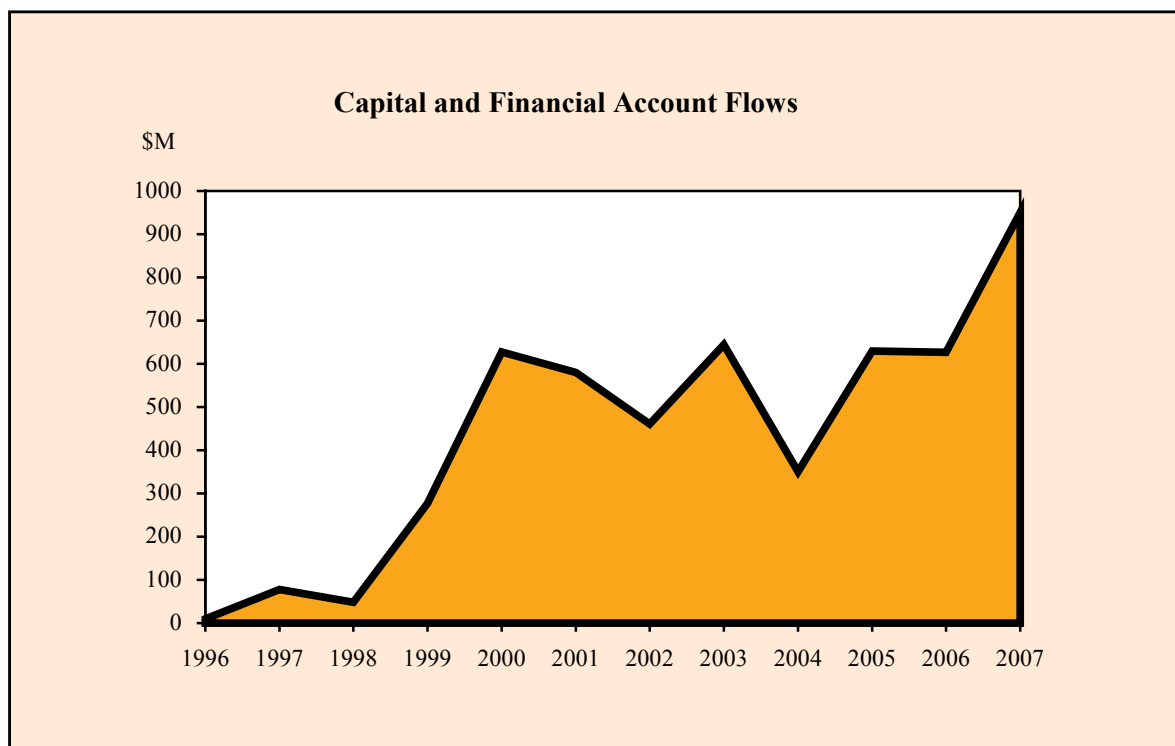


associated with the preparation and the subsequent staging of the CWC matches, net other services inflows grew by 15.8%, almost doubling the rate registered in 2006. In keeping with the expansion in retained imports and passenger arrivals, inflows for transportation services advanced by 44.9%, owing to increases in freight services, landing and passenger fees, harbour dues and other port services, while net income outflows continue to grow, climbing by a further 11.3%, on top of a 32.6% increase in 2006.

Capital and Financial Account Developments

The capital and financial account recorded its third year of improvement with an estimated surplus of \$950.2 million, approximately \$327.3 million above the balance reported in 2006, as net short-term inflows were recorded, relative to the large outflow one year earlier. In addition, amortisation payments were estimated at \$123.5 million, some \$40.2 million lower than the level in 2006.

Net long-term public sector inflows were estimated at \$38.1 million, compared to \$96.2 million in 2006. The public sector capital inflows mainly reflected proceeds from bonds issued on behalf of the Barbados Investment and Development Corporation (BIDC) and Barbados Agricultural Management Company Limited (BAMC) in the first and second quarter, respectively. Net long-term private sector inflows declined in 2007 to approximately \$662.6 million, relative to \$875.0 million reported during the previous year. The private sector inflows were earmarked principally for tourism-related projects, the purchase of real estate, proceeds for the construction of the prison and portfolio investment in one of the island’s largest conglomerates. Furthermore, net short-term inflows were estimated at \$66.6 million, in contrast to the outflow of \$429.0 million in 2006, and largely reflected inflows of loan proceeds for the airport project and pre-shipment financing for the sugar harvest. Other





capital flows amounted to \$182.8 million and comprised mainly of deposits of non-residents and other foreign liabilities.

Direction of Trade

Total imports of merchandise goods increased for the sixth consecutive year by 4.8% during 2007, when compared to 13.6% in 2005 and 1.5% in 2006. Imports from the US fell by 2.3%, during the year in review, following growth of 14.1% in 2005 and 2.8% in 2006. In 2006, purchases of telecommunications from the US were higher by \$41.6 million when compared to 2007. In addition, food and beverages and sound recording apparatus imported during 2007 climbed by \$16.7 million and \$8.0 million, respectively, over the amounts recorded in 2006. Imports from the UK continued to expand, surging by 12.4%, following a rise of 7.3% in the previous period, and was principally attributed to an increase in telecommunications equipment (\$17.0 million) and sound recording apparatus (\$11.9 million), primarily for use in the CWC 2007. In contrast, goods from Japan continued to decline, falling by 1.0% in 2007, following the 27.7% plunge one year earlier, when the purchases of motor vehicles fell by \$27.5 million. Goods from Canada also decreased by 1.5%, after a 4.9% rise in 2006.

Imports from CARICOM rose by 3.7% during 2007, on par with the 3.9% growth recorded in 2006. Goods originating in Trinidad and Tobago grew by 2.2%, as a result of an increase (8.2%) in imported fuel, a direct result of the high oil prices during the review period. Purchases from Guyana were up by 7.3%, on top of a 16.7% expansion in the previous year, due primarily to higher outlays

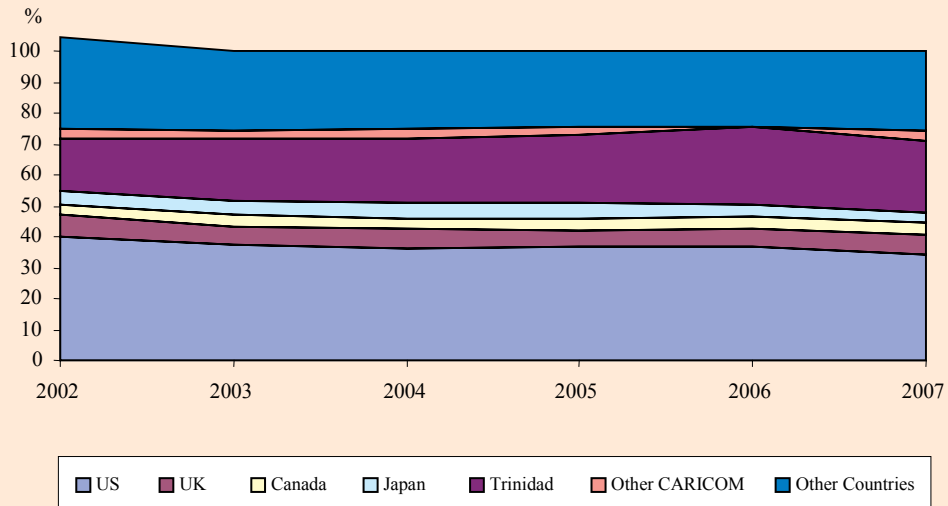
on food and beverages (\$4.2 million). Goods imported from Jamaica were higher by 29.6% (\$7.2 million) as a result of a \$10.8 million increase in the purchases of transmission and reception apparatus. Similarly, imports from the Organisation of Eastern Caribbean States (OECS) grew by 7.1%, or \$2.1 million.

Merchandise exports increased by 4.4% in 2007, significantly lower than the 16.8% expansion in the previous year. Exports to the US slumped by 7.3% (\$6.3 million) during the review period, after surging by 56.8% (\$31.4 million) in 2006. The deterioration was due largely to a fall in electronic components and other manufacturers of \$11.6 million and \$8.0 million, respectively. In contrast, the export of rum climbed by \$16.0 million. Domestic exports to the UK continued to decline, decreasing by 1.9% in 2007, owing to a \$3.3 million fall-off in sugar receipts. Merchandise exports to Canada grew by 14.3% (\$2.1 million) in 2007, following the 17.5% (\$2.2 million) increase in 2006, both attributed to the improved sales of rum.

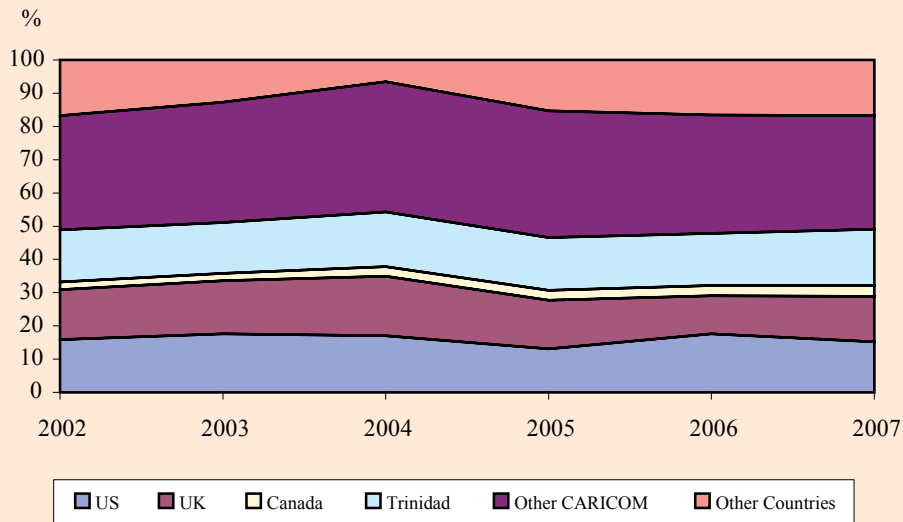
Following an expansion of 11.0% in 2006, exports to CARICOM rose by 4.5% during 2007. Exports to Trinidad and Tobago grew considerably in 2007, increasing by 12.9%, compared to growth of 14.8% in the previous year. Exports to Jamaica declined by 10.8% (\$4.0 million) in 2007, in contrast to a 6.7% expansion in 2006, principally as a result of a \$7.1 million down turn in the sales of cement, which were previously exported to ease supply constraints in the Jamaican construction industry. Sale of local goods to the OECS countries also fell by 2.0% in 2007, due primarily to reduced sales (\$6.1 million) in cement.

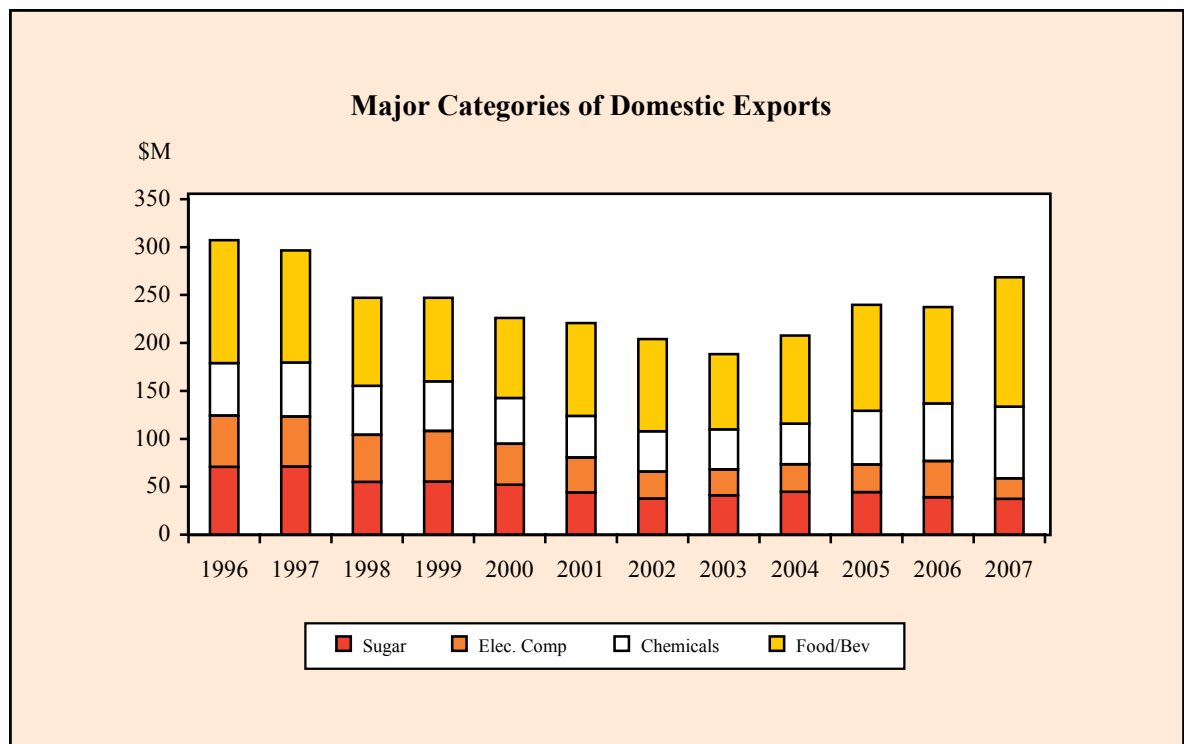
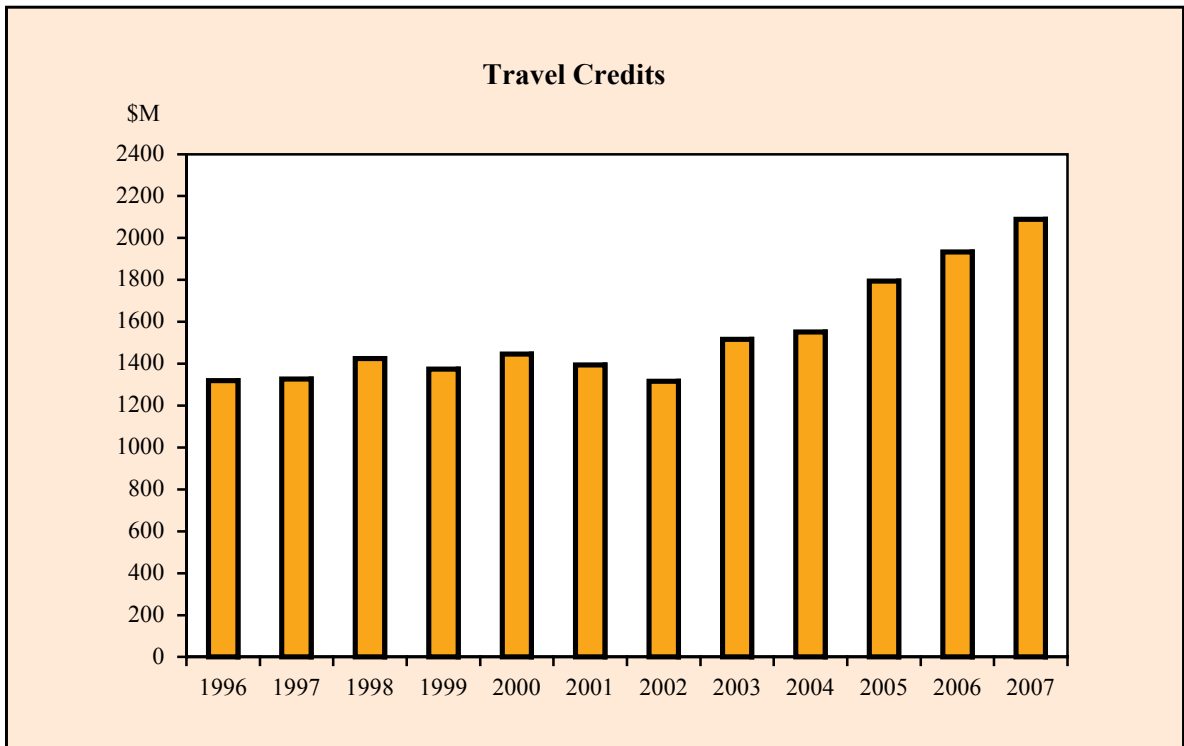


Major Trade: Imports



Major Trade: Domestic Exports







Balance of Payments
(\$ Millions)

	2002 ^R	2003 ^R	2004 ^R	2005 ^R	2006 ^R	2007 ^P
Current Account	-354.5	-364.2	-715.2	-725.0	-557.4	-489.1
Merchandise Trade Balance	-1,424.4	-1,630.3	-1,967.9	-2,137.7	-2,006.2	-2,103.4
Total Credits	509.5	527.9	587.2	756.3	929.4	968.8
Exports BOP	405.0	397.3	422.1	533.5	655.1	677.5
Total Debits	1,933.9	2,158.1	2,555.1	2,894.0	2,935.7	3,072.2
Imports (BOP)	1,909.6	2,130.9	2,520.0	2,862.9	2,905.2	3,039.9
Domestic Exports	333.1	329.2	346.9	421.1	491.7	513.5
Retained Imports	1,991.7	2,220.5	2,616.3	2,911.0	2,867.3	2,994.9
Services (Net)	1,073.1	1,264.9	1,294.9	1,522.9	1,621.4	1,781.6
Of which Travel Credits	1,315.8	1,515.7	1,551.0	1,793.5	1,934.3	2,088.7
Income (net)	-175.5	-184.4	-214.5	-303.3	-343.0	-381.6
Current Transfers (net)	172.4	185.6	172.3	193.1	170.4	214.2
Capital and Financial Account	460.9	644.3	350.7	629.5	626.8	950.2
Errors and Omissions	71.1	95.8	24.0	42.6	13.3	95.1
Overall Surplus (+)/ Deficit (-)	177.5	375.9	-340.6	-138.1	84.7	556.1
Net Official Financing	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Other Monetary Authority	0.0	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
Change in Foreign Reserves						
(-increase/+decrease) (CBB basis)	-177.5	-375.9	340.6	138.1	-84.7	-556.1
Adjusted by commercial banks' position (Net)	224.9	239.0	-27.7	-184.2	125.1	202.6
Change in Net International Reserves (NIR)	47.4	-136.9	312.9	-46.1	42.5	-353.5
(IMF basis) (-increase/+decrease)						

Sources: Accountant General and Central Bank of Barbados

P: Provisional

R: Revised



Regional Economic Developments

Preliminary macroeconomic data for CARICOM indicated growth in real GDP during 2007, attributed to an increase in construction, tourism and other investment activities, some of which were related to CWC 2007. Some countries reported higher fiscal deficits, as public spending continued to rise, while performances on the balance of payments accounts were mixed. Concern over rising prices prompted several regional territories to undertake monetary policy measures aimed at combatting inflation and a special meeting of the Caribbean Heads of Government and the CARICOM Council for Trade and Economic Development was convened in December to discuss possible strategies for dealing with the issue at the regional level.

In contrast to Barbados, growth in long-stay arrivals slowed in most of the other regional tourist destinations during the first half of the year. The disappointing long-stay performance was partly attributed to the increased airfares and reduced airlift capacity following the acquisition of one regional airline in the first half of 2007. After CWC, contractions in long-stay visitors were recorded, with St. Lucia and St. Vincent reporting declines of 6.8% and 4.7%, respectively. As a result, tourism was driven primarily by cruise arrivals in most of the islands.

Rather than by tourism, overall growth in many regional territories was boosted more so by construction, mining and quarrying activities. Preliminary data indicate that those territories hosting CWC 2007, benefitted significantly

Tourist Arrivals in Selected Caribbean Countries (*000)

Country	Stay-Over Visitors			Cruise Passengers		
	2006	2007 ^P	% Change	2006	2007 ^P	% Change
Bahamas (Jul)	1011.3	983.8	-2.7	1,883.8	1,778.1	-5.6
Belize (Jul)	157.4	159.9	1.6	365.2	385.5	5.6
Jamaica (Sept)	1,294.2	1,288.1	-0.47	950.3	898.4	-5.5
Guyana (Oct)	90.1	113.9	26.5	n.a.	n.a.	n.a.
OECS:						
Anguilla (Aug)	53.8	59.5	10.6	4.1	4.3	5.1
Antigua & Barbuda (Oct)	210.3	212.8	1.2	304.6	475.4	56.1
Grenada (Aug)	84.9	92.9	9.4	140.3	174.6	24.4
Montserrat (Sept)	5.3	5.2	-1.9	n.a.	n.a.	n.a.
St. Lucia (Sept)	233.8	217.9	-6.8	249.6	405.4	62.5
St. Vincent & Grenadines (Aug)	69.8	66.5	-4.7	63.7	105.7	65.9

Sources: Regional Central Banks and the Caribbean Tourism Organisation

P: Provisional

Notes: n.a.: Not Available



from private sector construction activities. For example, growth in the construction sector in Jamaica continued to be buoyed by expansions in the telecommunications infrastructure, as well as activities in the tourism sector and the North Coast Highway. Similarly, OECS private sector construction was driven mostly by tourism-related projects. Conversely, in The Bahamas indicators showed some slowing in construction activity by the end of the third quarter, in the midst of declining tourism-related foreign investment flows and residential building expenditures. Meanwhile, the discovery of commercial quantities of oil and the establishment of a new hydroelectricity facility in 2006 led to a boom in the petroleum and electricity sectors in Belize, whereas the pace of expansion in Trinidad and Tobago moderated to just around 5.5% on the basis of a sharp deceleration of activity in the energy sector.

The external current accounts of regional territories largely reflected real sector developments. In Belize, the external current account improved due to increased earnings from petroleum refining, while the initiation of the 'Western Travel Initiative' impacted negatively on North American tourist arrivals to The Bahamas, resulting in a fall in travel receipts. Higher domestic exports in the OECS were as a result of a rebound in the banana industry. Robust capital inflows were recorded for most of the Caribbean economies with Jamaica and The Bahamas being the largest recipients, receiving inflows amounting to US\$ 674.8 million and US\$ 469.8 million, respectively.

Within the region overall, fiscal balances varied. The OECS, Guyana and Trinidad and Tobago experienced fiscal surpluses as at the end of June 2007, whereas Belize and Jamaica recorded deficits, with the latter due, to lower revenue, along with a 22.3% increase in salaries.

As in Barbados, the average inflation rate moderated somewhat in three territories—Belize, Jamaica and Trinidad and Tobago—over the first nine months of 2007. The lowering of fuel prices in the earlier part of 2007 mostly influenced the moderation in the rates. Conversely, expansions were recorded for The Bahamas, the OECS and Guyana. Average inflation in Guyana rose to 12.2% in the first half of 2007 compared to 8.4% registered in the corresponding period of 2006. This outturn was attributed to the implementation of the VAT at the beginning of the year along with increased mark-ups.

In contrast to the slower growth rate in credit reported in Barbados, lending picked up in most regional territories. Credit growth in Guyana was driven by loans for real estate and personal consumption, which increased by 17.2% and 12.7%, respectively, partly reflecting the continued strong demand for homes. Similarly, the growth in lending in the OECS was spurred by expansions in credit to businesses (12.6%) and households (6%), which was mostly associated with CWC preparations.

International Economic Developments

The global economy performed well in 2007, driven by robust growth in China, India, Russia and other emerging markets, as well as continued moderate growth in the advanced economies. However, ongoing problems in the US sub-prime mortgage market were reflected in US GDP estimates, and the Euro Area and Japanese economies were also estimated to have slowed somewhat. The sub-prime issue also contributed in large measure to increased volatility in financial markets and tight financing conditions, particularly in the more developed markets. Nevertheless, the world economy on the whole appeared to remain buoyant during the year, with emerging and developing



economies continuing to act as the main engine of growth. However, the resulting rise in domestic demand, coupled with higher prices for oil and food, led to heightened inflation in these economies, which in turn spurred authorities to institute anti-inflation measures. In contrast, inflationary pressures were largely contained in the advanced economies, which provided scope for the central banks in these countries to relax their previously tight monetary policy stance in an effort to bolster economic activity and ease financial markets. Along with the turmoil in global financial markets, countries' disparate growth and inflation perspectives as well as the resulting differences in policy direction were generally reflected in currency movements.

Economic activity in the US remained relatively robust, driven by a strong export performance and private consumption, particularly in the third quarter. However, the housing market correction and financial market turmoil related to the sub-prime mortgage crisis, as well as high energy prices, had a dampening effect on residential construction and private consumption, curbing income and employment growth. Similarly, GDP expansion in both Japan and the United Kingdom was estimated to have decelerated in 2007. In Japan, healthy domestic demand and strong exports supported growth in

the face of a significant decline in construction activity, while private consumption and gross fixed capital formation offset a negative contribution from net exports to UK growth. With the more advanced economies weakening, the major emerging markets picked up the slack. Growth in Russia and China, as well as key Latin American markets was largely driven by domestic demand.

Whereas the impact of the US sub-prime crisis on real economic activity was not extensive up to the end of 2007 except in the construction and real estate sectors, there were significant repercussions in the financial markets. Financing conditions in the US deteriorated sharply in the latter half of the year, as rising delinquencies on US sub-prime mortgages drove up yields on mortgage-backed securities and widened spreads. The effects extended beyond the US market, affecting European and other advanced economies in particular, as investors' heightened risk perception led to increased volatility in financial markets and a significant flight to quality, which resulted in a decline in issuance of riskier assets and a reduction in liquidity. Emerging markets were also disrupted to some extent by these developments, with sovereign spreads widening, stock markets falling, and capital flows being scaled back, although the

Economic Indicators: Industrial Economies

Countries	Real Output (% Growth)		Unemployment (% Rate) *		Inflation (% Rate) **	
	2006	2007	Dec 2006	Dec 2007	Dec 2006	Dec 2007
Canada	2.8	2.7	6.3	6.0	1.7	2.4
Euro zone	2.9	2.7 ^p	8.3	7.4	1.9	3.1
Japan	2.4	2.1	4.1	3.9	2.2	0.7
United Kingdom	2.9	3.1	5.4	5.4 ^p	3.0	2.1
United States	2.9	2.2	4.6	4.6	2.5	4.1

Sources: Various Central Banks and National Statistical Offices

*: Average rate of unemployment Jan-Dec.

** : Point-to-point rate of inflation as at December of each year.

P: Provisional



effect was mitigated by strong fundamentals and policies in these markets.

The main issue affecting emerging markets and developing countries in 2007 was inflation, reflecting strong growth in domestic demand, soaring energy costs and the greater weight of rising food prices in the consumer price index. Oil prices reached record highs during the year, hitting the US\$100 per barrel mark for the first time towards year-end, as demand continued to rise for energy to fuel the economic expansion in China and other emerging markets, amid tight supply conditions and persistent geopolitical concerns. Higher food prices reflected the increasing use of corn and other food crops for biofuel production and lower production of soya beans and other oil seeds, as well as poor weather conditions and supply disruptions in a number of countries. The rising costs of energy and food also began to exert upward pressure on prices in advanced economies during the fourth quarter. Before that, inflation had generally remained within target ranges in these economies, due largely to the dampening effect of the sub-prime crisis on housing costs in the case of the US and softening demand elsewhere.

Therefore, while most central banks had previously been gradually pushing up policy rates to stave off inflationary pressures, the banks in the more advanced economies took advantage of relatively low inflation to ease monetary policy conditions from around the end of the third quarter. In the context of slowing economic activity, financial market volatility and tight credit conditions, the U.S Federal Reserve (US Fed) and the Bank of England both cut key policy rates (by a percentage point and a quarter-point, respectively) while the Bank of Japan and the European Central Bank decided to hold off on further monetary tightening. However, for most emerging markets inflation remained the primary target of monetary policy; China, for example, instituted several tightening measures during the year.

With the current account deficit widening, growth slowing and the US Fed cutting rates, the U.S dollar continued to depreciate in 2007. The yen also depreciated, despite Japan's rising current account surplus, as low domestic interest rates and renewed interest in foreign investment led to capital outflows. Meanwhile, the euro, the pound sterling and the Canadian

Economic Indicators: Emerging Economies

Countries	Real Output (% Change)		Inflation (% Rate)		Foreign Reserves (US\$ billion)	
	2006	2007	2006	2007	2006	2007
Argentina	8.5	7.5*	9.8	8.5	32.0	46.2
Brazil	3.8	5.5	3.1	4.5	85.8	180.4
Chile	4.0	4.1	2.6	7.8	19.4	16.9
China	10.7	11.4	2.8	6.9	1,066.3	1,582.5
India	9.7*	8.9*	6.1*	6.2*	177.3	275.3
Mexico	4.8	3.2	4.1	3.8	67.7	78.0
Russia	6.7*	7.0*	9.7*	8.1*	303.7	476.4

Sources: Various Central Banks and National Statistics Offices

* IMF Estimates from October 2007 World Economic Outlook



Commodity Prices

Market Price Indices	December 2006	December 2007	(% Change)
All	121.0	156.1	29.0
Food	114.8	145.1	26.4
Industrial Inputs	150.5	141.8	-5.8
Agro Raw Materials	113.7	113.0	-0.6
Metals	177.0	162.6	-8.2
Energy	114.1	163.9	43.6

Source: IMF Commodity Prices

dollar all appreciated against the US dollar. Despite turbulent global financial markets, the renminbi and other emerging market currencies also continued to appreciate gradually against

the dollar, with widening current and capital account surpluses and rising international reserves fuelling strong growth in domestic credit.





ECONOMIC OUTLOOK

International and Regional Economic Outlook for 2008

World economic growth is projected to slow in 2008, dragged down primarily by expected weakness in the US economy whose prospects are clouded by the ongoing sub-prime mortgage crisis and a depreciating currency. According to the forecasts of the International Monetary Fund (IMF) in the January 29, 2008 update to the *World Economic Outlook*, growth in the global economy should moderate to 4.1% in 2008 from 4.9 % in 2007, with growth in the US expected to be 1.5%, down from 2.2%. These reflect downward revisions from the previous October 2007 outlook driven by continued fallout from the credit crisis.

Despite having stronger currencies relative to the US dollar, the Euro area, Canada and Japan, where financial and trade spillovers from the US are likely to be largest, are also expected to record reduced growth in 2008. Many investors from these countries may register capital losses as a result of the weak dollar, while sluggish demand in the US might cut investment opportunities for multinational investors.

With the performances of developed countries likely to be sluggish, the IMF projects that the major emerging markets will continue to be the leading contributors to world growth. Indeed, it is anticipated that China, India and Russia will account for one-half of global growth. The Chinese economy is expected to increase by about 10% in 2008, India, by approximately 8.4% and Russia by almost 6.5%. Buoyant growth is also anticipated in other emerging and developing economies, including the low-income countries of Africa. The downside risks to these expected strong outturns in developing and emerging markets are turbulence in the global financial markets that could disrupt capital flows to these markets, triggering problems in domestic markets, and further inflationary pressures from

rising energy and other commodities prices. Another worrisome downside risk pertains to existing global imbalances but these are likely to moderate, as the US current account deficit should contract, while current surpluses of oil producing countries are expected to narrow. However, China's surplus is projected to remain very large.

According to the IMF *Regional Economic Outlook* for the Western Hemisphere, Latin American and Caribbean countries should record strong growth in 2008, to the tune of about 4.3 %, compared to five percent in 2007. The slowdown projected for 2008 reflects a less favourable external environment, with imports forecasted to grow quickly and stabilised commodity prices likely to cause exports to stagnate, while capacity constraints remain in some countries. Meanwhile fiscal surpluses, which appeared to peak in 2006, are projected to contract by approximately two percent in 2008, as revenues – heavily driven by commodity prices – slow, and government expenditures continue to grow. If global financial turbulence heightens and there is a further weakening of commodity prices, it is forecasted that Latin American economic growth could be as low as 2.5%. Rising inflation from energy and other commodities prices also pose a downside risk for these countries.

Prospects for the Barbados Economy in 2008

In 2008 Barbados is expected to record its seventh successive year of economic growth, increasing by between 3% and 3.5%. This projection is based on an improving tourism industry, a turnaround in manufacturing value-added and continuing broad-based advances in non-traded activity, all of which should combine to keep the unemployment rate low. Relatively high inflation is anticipated, dictated by trends in the international oil market, and this may lead to the introduction of measures aimed at easing the burden on consumers and producers.



With respect to the balance of payments accounts, policymakers could be faced with the challenges of containing the possible negative effects of capital account liberalisation with respect to the CARICOM Single Market and Economy (CSME), which is required if Barbados is to meet its obligations under the CSME. Assuming no deleterious consequences, there should be a surplus on the capital and financial account, largely attributable to inflows related to the construction of the Four Seasons Hotel and the Apes Hill Development project. However, total capital inflows are projected to be weaker than in 2007 and the surplus on the capital and financial accounts is likely to be insufficient to offset the external current account deficit, leading to a fall in the net international reserves of the monetary authorities. There is also a possibility that the

current account position will deteriorate relative to 2007 because of reduced passenger arrivals caused by competition for the Caribbean from the staging of the 2008 Olympics in China and the 2008 UEFA European Cup in Austria and Switzerland, and a possible slowdown in major source markets if those economies contract.

Liquidity in the banking system should remain high in 2008 as the rate of growth of deposits is projected to outpace that of private sector credit. Accordingly, there may be further pressure to cut interest rates, especially if international interest rates are reduced further.

Faster growth in government expenditure is anticipated and this could cause the fiscal deficit to widen further.



The Board of Directors

There was one change in the composition of the Board of Directors during 2007. Mr. Patrick Toppin resigned from the Board in April having served for nine years, and was replaced by Mr. Douglas Skeete, a Chartered Accountant.

The Board met 12 times during 2007.

Management and Staff

Academic Achievements

During 2007, members of staff continued to pursue training to improve their current performances and enhance their skills and knowledge. Several persons completed Masters' degrees: Mr. Albert Chesney, Masters of Science in International Management with distinction, from the University of the West Indies (UWI), Mr. Travis Mitchell, Masters of Science in Economics from the University of Warwick, Miss Angela Skeete, Masters of Arts in Cultural Studies from the UWI and Miss Tamara Hurley, Masters of Business Administration (Financial Studies) with merit from the University of Nottingham. The degree of Doctor of Philosophy from the University of Nottingham was conferred on Mr. Kevin Greenidge.

Mrs. Beverley Manning was awarded a Certificate in Property Management from the UWI School of Continuing Studies and Mrs. Arlette King and Mr. Troy Duguid, the Certificate in Effective Communications and Human Relations from Dale Carnegie Training. Security Officers Mr. Ryan Drakes, Mr. Dave Gittens, Mr. Othneil Mason, Miss Kay Reid and Miss Peggy Skeete successfully completed the Basic Handgun Handling and Proficiency Course.

Staff members attended seminars in Service Excellence, Corporate Governance, Leadership, Long Term Debt Sustainability,

Government Financial Statistics, International Financial Reporting Standards, Etiquette for the Receptionist, Negotiations, Conflict Management and Mediation to mention a few. In addition, members of staff pursued studies with the Barbados Institute of Management and Productivity (BIMAP) towards attaining the Diploma in Management Studies and the UWI towards achieving first degrees.

In-house workshops were held for Appraisers in Performance Management and Performance-Based Systems, and Conflict Resolution for Security Officers.

Staff Movements

Joining the Bank's permanent establishment during the year were one Bank Secretary, four Clerical Officers, one Examiner and one Economist.

Promotions

Twenty persons were promoted during the year as follows: Miss Denise Hinds from the post of Senior Examiner to Risk Assessment Analyst; Mr. Hartley Jordan from Chief Maintenance Officer to Deputy Director; Mrs. Beverly Manning from Secretary 1 to Administrative Assistant, Dr. Kevin Greenidge from Senior Economist to Chief Research Economist; Mr. Warrick Ward from Banking Analyst to Assistant Adviser; Mrs. Renee Babb from Secretary 1 to Administrative Assistant; Miss Donna Foster from Telephone Operator to Clerical Officer; Mr. Terry Burke from Systems Administrator to Information Security Officer; Mr. Anderson Best from Deputy Director to Director; Miss Angolyn Kirton from Senior Operations Officer to Deputy Financial Controller, Messrs. Estherlene O'Neal, Michele Johnson, Tamara Hurley, Andre Estwick and Jennifer Clarke-Murrell were promoted from Examiner 4 to Examiner 5; Mr. Alex Cummins from Clerical Officer to Statistical Officer; Mr. Sylvester



Nurse from Analyst/Programmer to Senior Analyst/Programmer; Miss Angela Skeete from Librarian to Assistant Director; Miss DeVon Hunte and Miss Wanda Massiah from Clerical Officer to Examiner.

Transfer

Mr. David Boyce, Deputy Director, Banking, Currency and Investments was transferred to Deputy Director, Foreign Exchange and Export Credits.

Resignation and Retirement

Eight persons resigned and five persons retired from the Bank during the year. In addition, one person Miss Sunielle Stanford, Economist, died in the employment of the Bank.

At December 31, 2007, the number of established posts was 272, and 247 of these were filled by permanent employees, and 25 by temporary appointments.



OPERATIONS

Accounts Department

During the year, the Department continued to closely monitor the administrative budget with a view to containing costs within approved limits. However, the Bank faced challenges in some areas. The cost of printing currency notes increased because of the significant appreciation of sterling, resulting in an excess of actual expenditure over the budgeted amount. Employment expenses also rose as the Bank made accelerated payments to reduce the pension scheme’s unfunded liability.

Income earned for the year was significantly higher than projected. This was occasioned mainly by expansions in foreign loan capital and required foreign deposits, which contributed to a higher income earning asset base. Additionally, interest rates remained steady during the first three quarters of the year but subsequently declined.

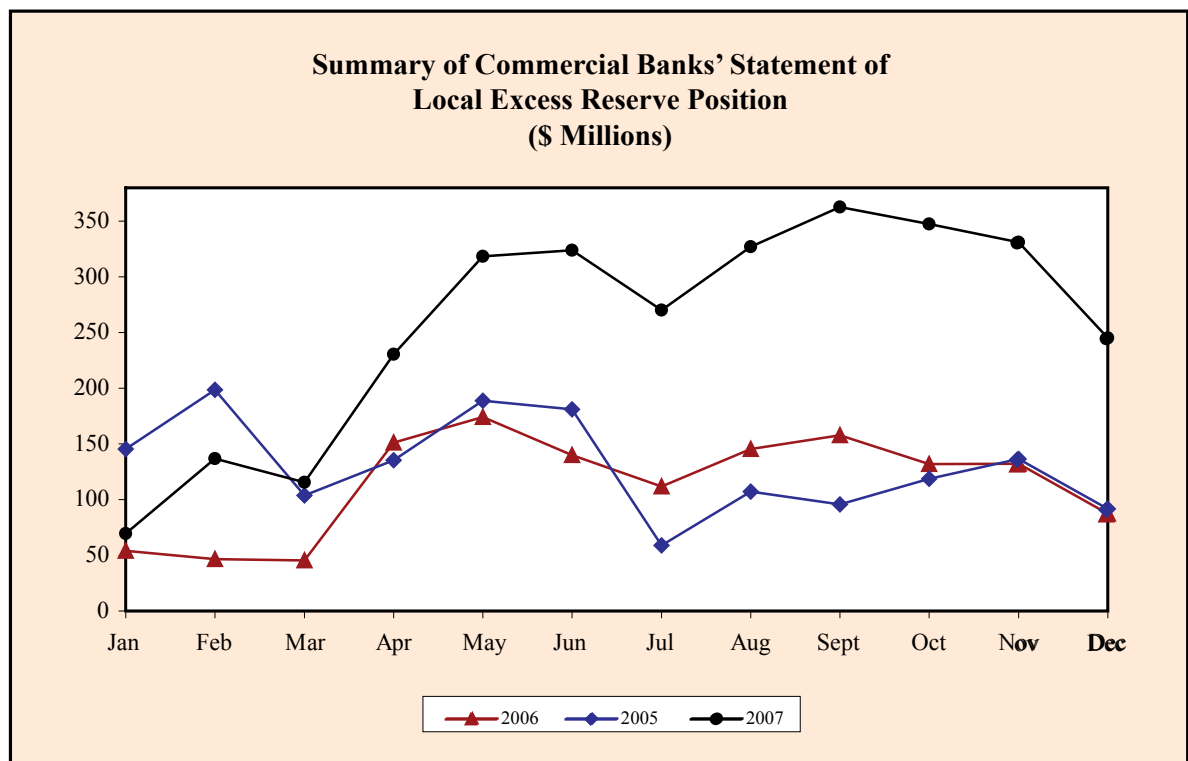
The Bank, the Barbados Automated Clearing House Services Inc. and commercial banks continued to work together to enhance the Payments System. The “direct credits” system, which allows for transfers of salary and similar type transactions, has been implemented and all participants are currently utilising this facility. However, the “direct debits” system is still to be implemented and the Bank will continue to work with stakeholders to modernise and further improve the total payments system.

Banking, Currency and Investment Department

Relationships with Financial Institutions

Excess Liquidity

The banking system was characterised by high levels of liquidity during 2007, primarily after the first quarter of the year. In September,





commercial banks' liquidity levels peaked at \$367 million, to register the highest excess balances held over the last three years. During the fourth quarter, these levels declined, with banks' local excess cash holdings ending the year at approximately \$245 million.

Foreign Deposits

At the end of 2007 commercial banks' foreign deposits with the Central Bank were recorded at \$157.2 million, representing a \$9 million (21.4%) increase over the 2006 level, when the foreign reserve requirement of six percent of banks' foreign liabilities was introduced.

Loans and Advances

Approaching the end of December 2007, commercial banks utilised the Central Bank's discount window for the first time for the year, to access \$26 million in short-term financing, which was \$10.5 million lower than the financing sought during 2006.

Relationships with Government

Treasury Bills

Of the 23 Treasury Bill auctions that occurred in 2007, approximately \$2 billion in three-month Treasury Bills were allocated, representing a 14.1% increase over the previous year, while the value of six-month Treasury Bills allotted declined by 41.3% to \$102 million.

Purchases and Sales of Treasury Bills

The Central Bank bought \$47 million in local Treasury Bills from the banking system during 2007, compared to the \$164.9 million purchased in 2006. For 2007, the Bank also sold \$29 million in Treasury Bills to the commercial banks. During the year, the Bank purchased \$40 million in three-month Treasury Bills in the primary market.

Long Term Securities

Government's total domestic securities outstanding rose by \$233 million to reach \$2.84 billion at the end of 2007 (the limit for Government's local debt issuance was increased to \$3.5 billion). Of the debt issued in 2007, some \$197 million related to the rollover of the seven issues of Debentures and Treasury Notes that matured during the year. In 2007, new debt was raised in the form of one Debenture issue and four Treasury Notes. A \$100 million Debenture, due to mature in 2020, was issued at a rate of 7.75% per annum (p.a.), while three \$100 million Treasury Notes, maturing in 2012, 2015 and 2017, were issued at rates of 7.5% p.a., 7.875% p.a. and 7.5% p.a., respectively. A \$30 million Treasury Note was issued at a rate of 7.75% p.a. with a maturity date of 2013.

During the year, 225 transfers were completed, representing a 10.7% reduction relative to 2006. The aggregated nominal value of these transfers also declined from \$10.39 million in the previous year to \$9.8 million in 2007. The market value of the sinking funds investments held against domestic debt at end-December was approximately \$355.3 million, compared to \$329.6 million at the previous year-end. The market value of the sinking funds investments held against foreign debt at end-December 2007 was approximately \$197 million, compared to \$159.5 million a year ago.

Government Agencies

No new bond issues were floated on behalf of Government agencies during 2007. Ten transfers of securities were recorded for the year under review, with a total nominal value of \$113.3 million, representing a 41.6% increase in nominal value transferred relative to 2006, when 11 transfers were undertaken.



Savings Bonds

The Central Bank, as fiscal agent for the Government of Barbados, opened a \$10 million Savings Bond issue during 2007, offered at a yield to maturity of 6.75%. This issue (S61) coincided with the July redemption of the S49 series, which carried a nominal value of \$10 million. By year-end, \$110,000 of the S61 series remained outstanding. At the end of December 2007, the value of Savings Bonds outstanding was \$101.58 million, a decline of 5.3% relative to the value outstanding at the end of 2006.

Ways and Means

The Ways and Means account balance was \$102.5 million at December 31, 2007.

Trading in Foreign Currencies

Non-Regional

The sale of non-regional currencies to the public and private sector decreased by 23.2% for 2007, primarily on account of a 22.2% (\$141.8 million) reduction in the sale of U.S. dollar-denominated drafts and telegraphic transfers. This contraction in foreign currency sales was reflected across all non-regional currencies, as transactions denominated in the Euro, Sterling and Canadian dollars declined by 8.1%, 46.8% and 16.8%, respectively, for the review period.

In spite of an \$11.3 million fall in the purchase of Canadian dollars, total purchases of non-regional currencies registered a \$73.8 million (10.9%) increase for 2007. Approximately \$54 million in funds purchased from financial institutions related to the 25% requirement that all foreign exchange borrowings must be sold to the Central Bank. This served to boost the level of U.S. dollar-denominated purchases to \$731.1 million for 2007. Currency purchases denominated in the Euro and Sterling recorded

expansions of 11.8% and 63.9%, respectively, for 2007. In 2007 the value of purchases of non-regional currency significantly outweighed the total sales of these currencies, and as a result, the Central Bank was a net purchaser of \$281 million in funds.

Regional

The sale of regional currencies declined by \$191.6 million in 2007, in spite of increased sales of \$5.5 million and \$2 million, respectively being reported for Guyanese and Jamaican dollar denominated transactions. The sale of Eastern Caribbean dollar-denominated drafts and telegraphic transfers was the primary contributor to this performance, recording a contraction of \$44.6 million for the review period. A reduction in sale transactions was also registered for the Trinidad and Tobago dollar (\$10.6 million) and the Belize dollar (\$0.12 million).

Reductions of \$0.54 million and \$0.31 million, in the purchase of drafts and telegraphic transfers were recorded, respectively, for the Belize dollar and the Trinidad and Tobago dollar in 2007. All other currencies registered increased purchases for the year, with the EC dollar posting the most significant rise of \$2.9 million. This outturn was followed by expansions in drafts and telegraphic transfers denominated in the Guyanese dollar (\$0.3 million) and the Jamaican dollar (\$0.001 million). Based on the outcome of these individual currencies, the net sale position of regional currencies was \$37.7 million.

Foreign Currency Cash Transactions

During the year, foreign currency notes valued at \$111.8 million were purchased from the banking system, representing a 21.4% rise over the \$92.1 million purchases recorded in 2006. Increased purchases were reported for all currencies with



**Foreign Currency Transactions
(\$'000)**

	Sales		Purchases	
	2006	2007	2006	2007
Non-Regional				
EURO	24,810	22,802	4,613	5,158
CAN\$	21,111	17,560	22,101	10,776
STG	42,189	22,466	2,610	4,278
US\$	523,942	407,436	648,107	731,066
Sub-Total	612,052	470,264	677,431	751,278
Regional				
BZ\$	142	21	1,157	619
EC\$	80,071	35,481	32,480	35,369
GUY\$	43,510	49,019	478	782
J\$	8	10	3	4
TTS\$	11,176	554	10,950	10,638
Sub-Total	134,907	85,085	45,068	47,412
TOTAL	746,959	555,349	722,499	798,690

Source: Central Bank of Barbados

the exception of the Canadian dollar, which registered a decrease of approximately 6% for the review period.

There were total sales of foreign currency notes with a value of \$2.9 million during 2007, a 50%

reduction from 2006, when total sales were recorded at \$5.8 million.

The total value of foreign notes repatriated in 2007 amounted to \$108.4 million, which generated income of \$0.98 million. In 2006, the amount repatriated was \$86.5 million, with income of \$1.1 million, which resulted from exchange rate gains.

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

Currency	Amount Purchased	
	2006	2007
USD	40.7	53.3
GBP	42.1	48.9
CAN\$	3.4	3.2
EUR	5.2	5.4
Subtotal	91.4	110.8
EC\$	0.7	1.0
Total	92.1	111.8

Source: Central Bank of Barbados

Currency Operations

During 2007, the Bank introduced enhancements in the design of currency notes issued to the public. The significant changes in the notes pertained to the security thread and the addition of electrotypes, both of which differentiated the higher denominations from the lower denomination notes. As a result of the introduction of the new family of notes, the Bank hosted a "Know Your Money" week that



included workshops for the financial and retail sectors. New circulation coins, manufactured using the Multi-ply technology, were also issued to the public in 2007. These new coins maintain the appearance of older coins in circulation, but are lighter in weight.

Two numismatic coins, minted in gold and silver, were launched in April 2007 to commemorate national hero The Right Excellent Sir Garfield Sobers and the famous 3Ws. The issue of these coins coincided with Cricket World Cup 2007, which was hosted in the Caribbean.

Foreign Assets

The net international reserves expanded by approximately 30% in 2007, to reach \$1,547.6 million at the end of December. Significant project funds inflows, in addition to funds pledged in relation to the commercial banks' foreign reserve requirement, supported the increase in most asset classes for 2007.

As the bond market rallied early in the year, the Bank sought to rebalance its portfolio by opting to divest some of its lower coupon bonds carrying embedded capital losses and replaced these with higher yielding securities. A total of \$50 million in bonds were sold, which generated a realised capital loss of \$474,100.00. However, these losses were recouped during the year, with the Bank earning higher levels of incremental income. As bond yields rose during the first half of the year, it presented the opportunity to improve the return on the portfolio; some \$54 million was divested from the Treasury Bills portfolio and reinvested in higher yielding foreign securities offering a minimum yield to maturity of 5%.

As US interest rates began to decline approaching year-end, the embedded call options on several of the US Agency bonds in the Bank's portfolio

were triggered. As at December 31, 2007, the market value of the fixed income securities portfolio was \$770.32 million (inclusive of externally managed funds and regional government securities), representing an increase of 28.6% over the previous year.

With interest rates on deposits being higher than Treasury Bills, an additional \$50 million in maturing Treasury Bills were reallocated to short-term deposits, later in the year. Deposit levels were also boosted by the placement of additional Canadian deposits in the amount of CAD\$7.5 million. These deposits were established to hedge against the exchange rate exposure of liabilities associated with funds deposited with the Bank. As at December 31, 2007, the Bank held \$226.05 million in term deposits and \$56 million in Treasury Bills, compared to \$89.75 million and \$119.2 million, respectively, in the previous year-end.

Housing Credit Fund (HCF)

The Housing Credit Fund recorded its third full year of operation since its transfer from the Ministry of Housing to the Central Bank, in February 2004. Loans approved during the year amounted to \$9.8 million and increased the total cumulative approvals to \$208.7 million, as at December 31, 2007. There was one loan of

Key Indicators of HCF Operations

(\$Million)

Indicators	2006	2007^(P)
Loan Approvals	18.1	9.8
Loan Disbursements	15.1	9.6
Principal Repayments	7.3	7.7
Loans Outstanding	126.4	128.7
Net Income	3.6	3.9
Capital Inflows	0.0	0.0
Net Worth	137.4	141.4

Source: Central Bank of Barbados

P: Provisional



\$3.2 million, which was approved but remained un-disbursed by the end of December 2007. Disbursements of \$9.6 million made during the year resulted in total cumulative disbursements of \$205.5 million at year-end. The HCF net worth was approximately \$141.4 million at December 31, 2007.

Bank Supervision Department

At September 30, 2007, the Department was responsible for six banks and 15 near banks in the domestic economy and 50 international banks. While a number of small licensees have ceased to do business, Barbados continues to be an attractive domicile for financial services as evidenced by the demand by new international banks seeking to benefit from Barbados' suite of double taxation treaties. Five international banking licences were granted during 2007 while two domestic licences and three international banking licences were being processed at yearend.

In its effort to improve efficiency of the supervisory process, the Department adopted a portfolio approach to supervision in the second half of 2007. Three supervisory streams were formed to manage portfolios of financial institutions on an ongoing basis. These teams are supported by an Approvals and Licensing Unit that reviews all applications submitted to the Department, including new banking applications and a Policy Unit, which is spearheading the Basel II project and conducting research on policy issues. Under the new regulatory framework, Examiners in the supervisory streams will be required to maintain close dialogue and monitoring of their licensees.

The Department made significant progress in its preparatory work for Basel II and a document encompassing the Areas of National Discretion with respect to the standardised approach for

credit risk and an updated Basel II Roadmap were sent to the industry. In addition, a consultative letter on the Internal Capital Adequacy Process was issued to the industry. The Department also issued Guidelines on Operational Risk Management and Outsourcing, while draft Guidelines were distributed for consultation on Managing Market Risk, Liquidity Risk Management, Foreign Exchange and Settlement Risk and Stress Testing. Other Guidelines are at an advanced stage of drafting for consultation with the industry.

In preparation for the Financial Sector Assessment Programme with the IMF and World Bank that was deferred during 2007, the Department conducted a self-assessment of its regulatory framework and identified the legislative changes that it considers necessary to enhance compliance with international standards.

The Department revised its prudential reporting forms for the domestic sector and drafted Basel II returns and instructions for the computation of capital adequacy using the standardised approach to credit risk. It also made substantial progress in its efforts to enhance its statistical database.

On-site inspections of select licensees were conducted by the Department during the year. In addition, the Department sustained its programme of meeting with the management and directors of licensees on a periodic basis. Discussions were also held with internal and external auditors of some licensees during the year.

The Department provided in-house training opportunities for staff together with exposure to select advanced external courses during the year. In addition, it was represented at several regional and international meetings of banking regulators.



Facilities Management Department

In 2007 the Facilities Management Department's major challenge was to complete critical projects aimed at ensuring that staff, tenants and the Bank's publics were accommodated in a safe and comfortable environment. However, the building boom fueled by activity surrounding the Cricket World Cup resulted in a number of initiatives, including routine maintenance falling behind schedule. Consultants and contractors encountered difficulties in meeting deadlines, resulting in deferral of some activity to 2008.

Services

During the year the Section again focused on reviewing its procedures to secure cost savings and on implementing new measures for the management of the Bank's assets. The emergency response team was severely tested, responding to incidents and resolving environmental concerns. However, efforts to ensure a healthy and safe working environment continued through quarterly meetings of the Occupational Health and Safety Committee. Staff and tenants received training in the use of fire extinguishers.

Maintenance

The Section continued its efforts with a number of projects in addition to routine maintenance. These projects included but were not limited to the replacement of the main chilled-water system in the Frank Collymore Hall, the upgrade of the freight elevator control system, the installation of the computerised monitoring systems for all elevators, and the installation of a back-up storage tank for the main air-conditioning cooling tower.

Security

The long awaited Scanning Programme was implemented without much dislocation. Good

progress was achieved in proficiency training modules and staff continued to be educated on security issues with the assistance of the Public Affairs Section.

The improved Visitor Management Programme implemented in 2006, was enhanced and dovetailed with the Security Screening Programme. Efforts continued to improve the Section's disaster preparedness capability with internal drills, briefings and the provision of hazardous environment protection equipment.

Foreign Exchange and Export Credits Department

During the year the Bank continued its phased approach to exchange control liberalisation, with a view towards facilitating business transactions and preparations were made in earnest to enable Barbados to meet its obligations under the Treaty of Chaguaramas to liberalise foreign exchange transactions with CARICOM Single Market and Economy countries.

In May 2007, further authority was delegated to commercial banks in respect of cash gifts, merchandise imports (undocumented) and the remittance of proceeds of unlisted equity investments and real estate. These measures apply to both CARICOM and non-CARICOM countries.

Export receivables for the year were \$361.7 million as compared to \$352.0 million in 2006 and export receivables statutorily due increased from \$106.7 million in 2006 to \$341.6 million in 2007.

Registrations of private foreign investment totalled \$1,104.0 million in 2007 relative to \$348.0 million in 2006. Real estate and loan capital inflows increased during the year but inflows of equity capital decreased, by \$45.9 million.



Export Credits

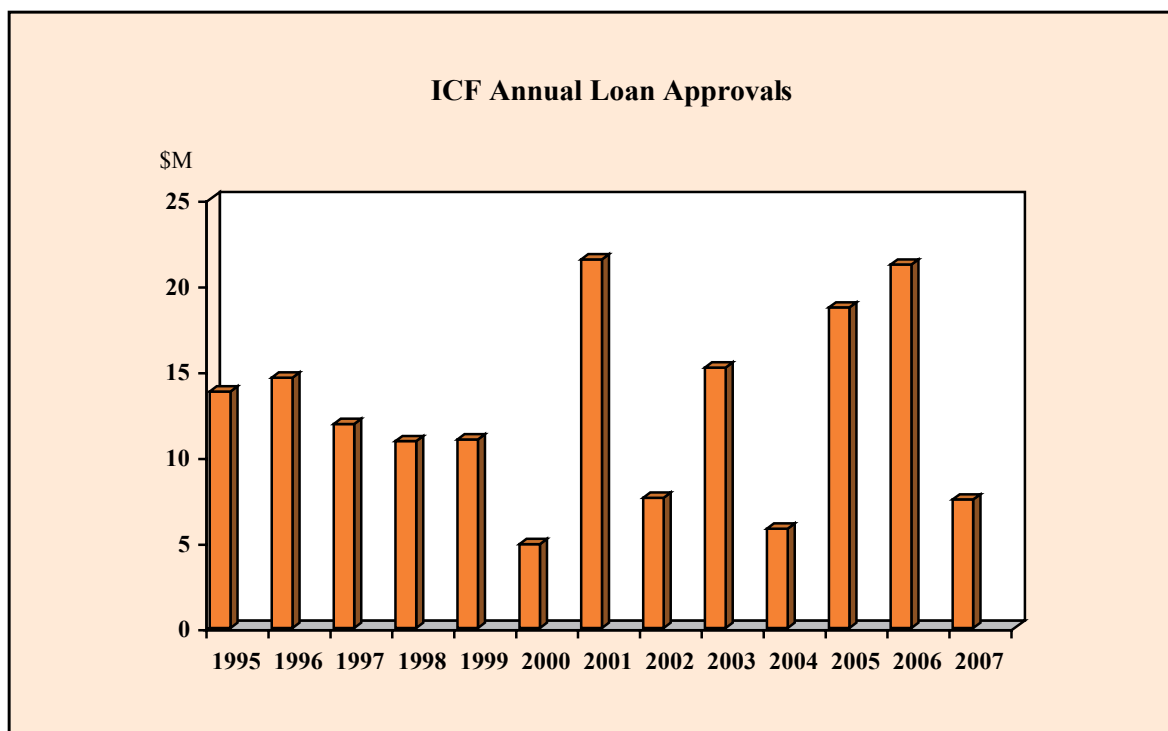
During the year export credit insurance coverage provided by the facility was \$0.15 million. No transactions were covered in CARICOM countries. Export Finance Guarantees of \$24,750 for lines of credit totalling \$33,000 were made available for pre-shipment finance purposes, while post-shipment financing guarantees amounted to \$44,622 for lines of credit of \$49,580.

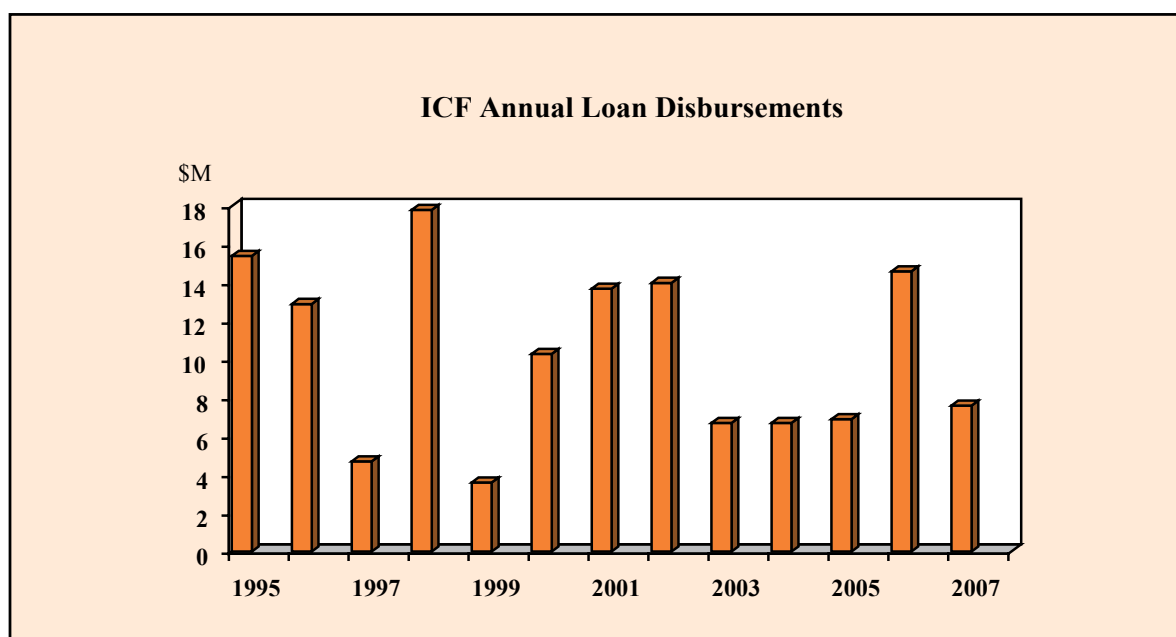
The number of small and medium-sized enterprises using the collateral support provided by the credit guarantee scheme declined during the year. At year-end, there were 39 guarantees outstanding with a maximum liability of \$2.0 million as compared to 53 guarantees with a maximum liability of \$2.7 million at the end of 2006. Total lines of credit declined from \$3.2 million to \$2.5 million during the year.

Industrial Credit Fund (ICF)

The ICF approved five loan applications totalling \$7.5 million compared to 10 applications valued at \$21.2 million in 2006. Cumulative approvals rose to \$219.9 million, while new disbursements grew to \$7.6 million, increasing net cumulative disbursements to \$192.6 million. Construction accounted for most of the new approvals (\$3.6 million) with the remainder going to manufacturing (\$3.3 million) and tourism (\$0.6 million). The balance of loans approved but undisbursed was \$16.5 million at year-end.

Capital contributions of \$11.96 million were received during the year. Net income for 2007 was estimated at \$1.8 million compared to \$1.4 million in 2006. The ICF's net worth increased from \$84.8 million in 2006 to approximately





Key Indicators of ICF Operations
(\$Million)

Indicators	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 ^P
Loan Approvals	11.9	10.9	11.0	4.9	21.5	7.6	15.2	5.8	18.7	21.2	7.5
Loan Disbursements	4.7	17.8	3.6	10.3	13.7	14.0	6.7	6.7	6.9	14.6	7.6
Principal Repayments	21.7	8.3	4.7	6.4	12.6	11.1	6.3	7.0	8.3	9.1	7.0
Loans Outstanding	20.6	30.1	29.0	32.9	34.0	36.9	37.3	37.1	35.6	41.2	41.8
Net Income	2.0	2.2	2.1	2.1	1.7	1.7	0.9	0.9	1.0	1.4	1.8
Capital Inflows	0.0	0.0	0.0	0.0	4.0	10.5	3.0	6.2	0.0	0.0	0.0
Net Worth	61.1	62.5	63.6	64.8	69.5	79.5	82.6	88.3	83.1	84.5	103.9

Source: Central Bank of Barbados

P: Provisional

Barbados Investment Fund

For the financial year ended August 31, 2007, the Barbados Investment Fund disbursed \$0.7 million to four clients. This year's investments brought cumulative investments to \$22.4 million in 55 projects since the commencement of operations in 1992. At year-end the Central Bank's capital contribution was \$14.5 million, unchanged from the previous year. There were no large divestments or recoveries during 2006/2007 and, with investment income falling, a deficit was projected.

Deposit Insurance Corporation

In 2007 the Barbados Deposit Insurance Corporation (BDIC) commenced the process of insuring eligible deposits of the public held with commercial banks. The Deposit Insurance Act was passed in November 2006 and proclaimed on June 8, 2007. The Deposit Insurance (Insured Limit) Order 2007 and the Deposit Insurance (Contribution and Premium Percentage) Order 2007 were both made by the Minister of Finance on July 9, 2007.



On March 1, 2007, Ms. Octavia Gibson, Deputy Director, Currency was seconded until further notice to head a team to set up the entity, and the Board, chaired by former Judge, Hon. Justice Leroy Innis, held three Board Meetings during the period April to December 2007.

During this time the annual budget was prepared and approved by the Board. The Central Bank of Barbados, the sole shareholder of the BDIC paid half of its equity contribution of \$500,000.00 as per the BDIC Act. Premiums were calculated and collected based on the 2006 deposit liabilities. For this first year, members paid the full initial contribution and half of the annual premium. At the end of December 2007, premiums collected stood at \$1,707,059.34 and initial contributions collected amounted to \$3,414,118.68. The Central Bank will match the initial contribution of members. Eligible deposits of commercial banks are therefore currently insured.

In 2008, the BDIC will complete the process of recruiting a Chief Executive Officer. The BDIC will collect a full year's premium from members and will be in a position to appoint staff, issue member certificates, proceed with reviews, risk profiling and ranking of members and embark on its training and education programme for members and the general public.

The Corporation became a member of the International Association of Deposit Insurers (IADI) in 2006.

Human Resources Department

Having piloted the Performance Based Payment system in 2006, the Department consolidated its efforts to work with staff and management to provide guidance, advice and audit support in the workings of the new system. Training courses were held to familiarise all staff with the intricacies of the new system and to ensure

that across the Bank, there was uniformity in the way it was administered.

Another highlight of the year was the commencement of a Bank-wide Job Evaluation exercise in fulfilment of an agreement between the Bank and the Barbados Workers Union. The appreciation sessions, Personal Analysis Questionnaires (PAQs) and revision of Job Descriptions were administered by the Department and the information forwarded to BIMAP for completion of the exercise.

In keeping with its commitment to adopt approaches that speak to best practice human resource management principles, the Human Resources Department reviewed and revamped its recruitment and selection procedures to include Aptitude Assessment Centres. A new approach was devised where new employees would be put through a 1-2 day programme prior to taking up duties at the Bank with the aim of acculturating and assimilating them into the organisational norms for excellent service delivery.

Internal Audit Department

The Department, in keeping with its role of providing independent and objective analyses of activities and controls in the Bank, focused its work on a comprehensive review of the Bank's physical security system, the Group life and Group Medical scheme, the Housing Credit Fund, the Export Credit special financing schemes, Sinking Fund Investments and the electronic payslips programme.

During the year, the staff attended training courses on internal controls and problem solving for Auditors sponsored by the local chapter of the local branch of the Institute of Internal Auditors. The Bank sponsored in-house training in ACL concepts and practice and Audit Leverage, an electronic work paper application. A Senior



Auditor represented the Department at the CEMLA Internal Auditors conference and the Director attended the Bank of England CBBS 2007 Internal Audit Course.

Management Information Systems Department (MISD)

In 2007 the MISD completed several projects. These included the implementation of a number of applications- Abandoned Property application for Bank Supervision and a Loans Management application for Credit Insurance. As a part of the strategy to reduce the quantity of paper being used in the Bank, two workflow applications were also completed in 2007 along with the production of Electronic Payslips for staff.

The project for the development of a Business Intelligence solution for Research and Bank Supervision and the Electronic Data Interchange project with the commercial banks, involving the electronic transfer of returns, were started during the year. The new website was also launched in December 2007.

The Department also successfully implemented a storage area network and a new internet security appliance. The Windows server operating system was upgraded and the Department successfully completed some Disaster Recovery Testing, including a fail-over test to the hot site.

Research Department

During 2007 the Bank continued to use its various economic and statistical publications to disseminate information on economic issues to its local, regional and international publics. In this endeavour, the Research Department was able to produce, within the specified deadlines, the 2006 *Annual Report*, the quarterly *Economic Reviews*, the monthly *Economic and Financial Statistics*, the *Balance of Payments of Barbados* and quarterly *Press Releases* on current and future economic developments.

Given the recent loss of staff from the Research Department, training was heavily emphasised in 2007. Officers were exposed to several in-house training workshops on various aspects of the Barbados economy. Economists also benefited from courses offered by international financial institutions like the IMF. In addition, they participated in various local, regional and international seminars and conferences, of which the Department's Annual Review Seminar provided an important avenue for learning, especially for the new and inexperienced staff members. Twenty papers were presented on the first two days of the review seminar covering a wide cross section of topics and authored by economists from the various regional central banks, the University of the West Indies, the Ministry of Finance, the University of Guadeloupe, the University of Nottingham and other local and regional organisations. The third and fourth days of the seminar were devoted to workshops and a panel discussion. The title of the panel discussion was "The Impact of Mergers and Acquisitions on the Barbadian Economic Landscape" while the two half-day workshops were on the retail mortgage market in Barbados and the more technical issue of co-integration modeling.

The Department continued to participate in the public outreach initiatives like the Week of Excellence, the Social Partners technical meeting and the Internship and Schools' Programme. Two interns from the Cave Hill Campus of the University of the West Indies, one from the Mona Campus and one from the University of the Nottingham benefited from the Internship programme. As in previous years an impressive number of schools turned out for the schools' programme, which included the much popular CSME and stock exchange lectures.

During 2007 the Statistical Unit prepared for the implementation of enhanced technological processing and dissemination of the data to



both internal and external users. The unit also maintained the timely and accurate production of its publications despite many challenges with staff changes and the incorporation of the prudential data into the recently-created central data-pooling database.

A requirement study was undertaken in collaboration with the consultants to determine all the inputs, processing and output necessary for the construction of the Research data mart next year. The data will be stored in a data warehouse providing easy access to the users within the Research and Bank Supervision departments. The unit in collaboration with the MIS department implemented the electronic transfer of the commercial banks' data. Automated procedures for updating the website were prepared and will be fully operational by early 2008. Further work was undertaken on the revised forms for the financial institutions.

In 2007 the Library focused on the redesign and re-launch of the Bank's website in December. Additionally there was the further expansion of the EBSCO electronic database services to broaden its scope to general information and access to international specialist economic journals. The programme to improve electronic access to the Bank's publications was enhanced by the creation of a full-text database of the Bank's publications to facilitate the launch of the new website.

Papers Presented at Conferences during 2007

The Bank's Economists presented the following papers during the year:

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

"Inflation Starts in Latin America and the Caribbean" by Denny Lewis-Bynoe, Winston

Moore and Natalia Morgan, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27.

"Financial Liberalisation and Economic Growth in Selected Caribbean Countries" by Kevin Greenidge and Chris Milner, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27. The paper was also presented at the Western Economic Association Annual Conference, Seattle, Washington, USA, June 27 – July 5.

"Exchange Rate Regimes and Monetary Autonomy: Empirical Evidence From Selected Caribbean Countries" by Roland Craigwell, Kevin Greenidge and Tracy Maynard, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27.

"Sustainable Tourism Development: The Case of Barbados" by Kevin Greenidge and Nathali Greenidge, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27.

"Current Account Deficit Sustainability: The Case of Barbados" by Kevin Greenidge, Carlos Holder and Alvon Moore, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27. The paper was also presented at the XXXIX Caribbean Centre for Monetary Studies Annual Conference, Belize, November 6-9.

"The Efficiency of Caribbean Stock Markets" by Vaalmikki Arjoon and Kevin Greenidge, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27.

"What are the determinants of Health Status in Latin America and the Caribbean?" by Sunielle Stanford and Kevin Greenidge, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27.

"Does Tourism Potential Influence Tourism Demand In The Caribbean?" by Peter Whitehall



and Roland Craigwell, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 24-27.

Publications by Central Bank Staff during 2007

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

"The Impact of Capital Account Liberalisation in the Caribbean", by Daniel Boamah, Roland Craigwell, Darrin Downes, Kevin Greenidge and Travis Mitchell in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 155-178.

"The Demand for International Reserves in Barbados: Empirical Evidence for the Past Three Decades", by Roland Craigwell, Darrin Downes and Kevin Greenidge, in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 179-199.

"Competition in the Commercial Banking Industry in Barbados", by Roland Craigwell, Darrin Downes, Kevin Greenidge and Travis Mitchell in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 223-248.

"A Sectoral Analysis of Barbados' GDP Business Cycle", by Roland Craigwell and Alain Maurin, *Journal of Eastern Caribbean Studies*, Vol. 32, No.1, pp. 21-52.

"Technology Adoption and Its Impact on Output, Employment and Wages" by Roland Craigwell and Winston Moore, *Journal of Eastern Caribbean Studies*, Vol.23, No. 2, pp. 73-81.

"A Comparative Analysis of the Barbados and United States Business Cycles", by Roland Craigwell and Alain Maurin, *Revue d'Economie Régionale et Urbaine*, No.1, pp. 57-78.

"A Review of Leading Composite Indicators: Making A Case For Their Use In Caribbean Economies" by Roland Craigwell, Gladys Cotrie and Alain Maurin, *Central Bank of Barbados, Economic Review*, Vol., XXXIV, No. 3, pp. 27-44.

"The Nature and Measurement of Financial Liberalisation: An Application to the Caribbean" by Kevin Greenidge and Chris Milner, in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 5-53.

"Financial Liberalisation and Economic Growth in Selected Caribbean Countries" by Kevin Greenidge and Chris Milner, in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 55-109.

"The Impact of Financial Liberalisation on Financial Development: Evidence from the Caribbean" by Kevin Greenidge and Alvon Moore, in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 111-132.

"Hedging: Is There Scope for an Active Derivatives Market in CARICOM?" by Marion Williams, in R. Craigwell, K. Greenidge and M. Williams (Editors), *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, Central Bank of Barbados, Barbados, pp. 209-218.



Public Affairs

Launch of World Cup Cricket Coins

The Section assisted with the launch of two commemorative coins in acknowledgement of the outstanding cricketing exploits of four legendary cricketers. One of the coins honoured the Right Excellent Sir Garfield Sobers and the other, the 3W's – Sir Everton Weekes, the late Sir Clyde Walcott and the late Sir Frank Worrell.

The honourees and/or their representatives, cricketers, cricket fans, business people and the media were in attendance at the unveiling of the 22-carat gold and silver coins.

35th Anniversary Celebrations

The Section supervised the events to commemorate the Bank's 35th Anniversary celebrations. The celebrations started with a Church Service and included a staff exhibition, a staff concert, the launch of a book and the unveiling of two portraits in honour of former Governors, Sir Courtney Blackman and the late Dr. Kurleigh King.

The Bank also hosted a lecture/panel discussion on the topic "**Central Banking in a Globalised Economic Context: Promoting Both National and Regional Economic Gains.**" The theme of the discussions reflected the increasing integration and interdependence of the region's economies as evident in greater and freer flows of goods, services, capital, and even labour, and the implications this has for central banks in the conduct of monetary policy and in promoting stability and economic growth. Speakers included: Dr. Gregor Heinrich, Chief Representative, Bank for International Settlements, Dr. José Alfredo Blanco, Executive Secretary, Central American Monetary Council, Dr. Trevor Farrell, an International Business Consultant and Governor, Dr. Marion Williams who delivered the feature address.

The book, *Aspects of Financial Liberalisation and Capital Market Development in the Caribbean*, was published during the Bank's 35th year. The collection of papers provides a comparative and in-depth analysis of the liberalisation process and outcomes in the Caribbean region, and should play an important role in helping to inform macroeconomic policy.

Dr. Sean Jackson, well-known Barbadian pianist and organist, and Dr. Stephen Clapp, Dean of The Juilliard School, entertained Barbadians with classical music at the Frank Collymore Hall. Billed "*Scarlatti to Spencer – Treasures from the Violin and Piano Repertoires,*" concert featured popular pieces from the violin and piano literature as well as the world's best of Christopher Spencer's two Sea Scapes.

Schools Outreach Programme

Given that it was the year of World Cup Cricket in the Caribbean, the Bank included two sessions on this subject in the Schools' Outreach programme. Mr. Terry Mayers of the Local Organising Committee spoke to 560 students about the World Cup, Barbados' preparations for the event, the likely benefits and the legacy. Other topics discussed were: The Role of the Central Bank, Understanding Gross Domestic Product, Rudiments of Investment and How the Stock Exchange Works. Additionally, the CARICOM Single Market and Economy (CSME) Unit was invited to present lectures on the CSME.

University In Community

This continuing series including lectures on: "*Regulatory Compliance, Evil Money and the Influence on the Business of Banking in a Single Market Environment*"; "*The Burden of Bad Ideas: The IMF, Standard & Poor's and Appraising Structural Change in the Barbados Economy*"; "*Hurricanes and the Regional Warning Systems*" and "*Knowledge Management: Ultimate Competitive Advantage*".



The Arts

The Crop Over Visual Arts Exhibition

The Bank sponsored this competition for the 13th consecutive year. Several veterans and younger artists participated in an exhibition that attracted 140 pieces of art and craft, and 25 Lisle Warner photographs.

For the first time, a CD featuring the arts and craft of the artists was produced. Rosemary Pilgrim captured the top award with an exhibit titled “Freedom to Be Me”.

Frank Collymore Literary Endowment

The Endowment marked its 10th Anniversary with the presentation of four awards to the country’s best writers, including the inaugural Special Prize for Lifetime Achievement. The winners were:

- 1st Prize - Mark Jason Welch – “Ackee Season”
- Special Prize for Commendation - Anoush Hope-Fischer - “Yesterday Was a Woman”
- Prime Minister’s Award - Alvin Cummins – “Body of Work”
- Special Award for Lifetime Achievement - William S. Arthur

Pan In The Plaza

The Pan in the Plaza camp and showcase activity -- the pan extravaganza – were very successful with more than 60 persons participating in both events. The many young steelpanners were taught the history of the steelpan, the rudiments of pan music, performance etiquette and basic music theory. Performers at the extravaganza included the Camp Band, St Paul’s Steel Band, Harrison College School Band and soloist, Marissa Callender.

Capital Markets Seminar

The Bank held the Fifth Biennial Capital Markets seminar against the background of a

bidding war for a local conglomerate by two Trinidadian companies, the subprime crisis in the United States of America and the pending liberalisation of the capital accounts by the Barbados Government with member states of the CSME. Approximately 300 participants attended the session which attracted a number of local, regional and international speakers to address a range of topics, including “The International Environment”; “Weakness in the Financial and Economic System that Can Contribute to Crises”, “The Impact of Volatility in Developed Capital/Credit Markets on Regional Investment Portfolios”, “Capital Account Liberalisation and the Process of Capital Market Development”, “Central Banks Intervention Through Open Market Operations – Can it Solve Capital Market Difficulties” and Regional Capital Markets - Issues and Challenges”.

Caribbean Centre for Monetary Studies/ Central Bank Seminar

The Caribbean Centre for Monetary Studies and the Central Bank of Barbados hosted a seminar on Operational Risk Management. Facilitated by Dragica Grbavac, Programme Director for Operational Risk Management at the Schulich School of Business, York University, the conference examined risks related to technology, loss of information, transfer of data, identity theft, and misappropriation. The risks associated with natural and other man-made disasters were also examined. The seminar attracted attendees from various financial institutions in Barbados and the region.

Sir Winston Scott Memorial Lecture

Nobel Prize laureate, former Chair of the President’s Council of Economic Advisers during the Clinton Administration, and Professor at Columbia University, New York, Joseph Stiglitz, delivered the 2007 Sir Winston Scott Memorial Literature. Professor Stiglitz who spoke to a large audience on the topic



“Making Globalisation Work for Developing Countries”, cited the following as manifestation of the current globalisation agenda: the growing imbalances between rich and poor countries; the failure of the present Doha Development Round of trade talks under the auspices of the World Trade Organisation; the harm created by the Washington Consensus fashioned by the US Treasury Department, the International Monetary Fund and the World Bank, and the pressure put on developing countries by international institutions to pursue an economic strategy of privatisation, currency adjustment and varying forms of liberalisation.

Frank Collymore Hall (FCH)

The FCH staged several high-quality performances, conferences and lectures which attracted over 150,000 patrons, distinguishing the Hall as the island’s premiere events venue. Audience attendance averaged 80% across the year, compared to 75% last year. Its marketing thrust via its website and the Chat Room played a major part in increasing audience attendance. Recording and broadcasting of events continued.

The implementation of new accounting procedures was instrumental in reducing accounts receivable to a manageable level. Parking continued to be a challenge resulting in fewer exhibitions.

Lunchtime and Sunset Concerts, inter alia, featured *Nuff Jazz* with Bert “Panta” Browne Quartet and U. BrazenBunch, the *Junior Calypso Monarch* and *Pan in the Plaza*. From Jamaica there was *Uptown Bangarang*. The Cricket World Cup Events included *Going for Love*, *Blithe Spirit*, *The Glass Menagerie*, and Tom Clarke’s *The Polished Hoe*, which performed to sold-out audiences. At *Jeanine DeBique in Concert*, Jeanne-Minette Cilliers and the Myriad Singers, showcased their talent. There was an audio/video recording of the Cavite Chorale’s

Christmas presentation which was broadcast throughout the region.

The 3rd Annual Tom Adams Memorial Lecture, *Fulfilling the Adams Land Legacy*, was delivered by The Right Honorable Owen Arthur, Prime Minister. Professor Johari Abdul Malik from the US, presented *Roots of Islam* under the auspices of the Barbados Muslim Association.

Central Bank Plans for 2008

Accounts Department

The Accounts Department will continue to integrate the Strategic Plan objectives into the Annual Administrative Budget in order to assist the Bank with the attainment of its objectives. It is planned to maintain close collaboration with other departments to ensure compliance with, and management of departmental budgets in order to reduce costs, while not threatening the operational efficiency and effectiveness of the Bank.

The Department will liaise with other departments to identify areas for non-investment income and cost recovery for services provided by the Bank.

The efficient operations of a payments system and its reliability is necessary for timely settlement of transactions while instilling confidence in the banking system. During 2008, the payments system will be further enhanced with the introduction of Straight Through Processing to allow for immediate settlement of transactions.

The Bank will also lend support to a project to standardise the magnetic ink character recognition code on cheques with a view to implementing cheque imaging, truncation and further enhancements in the near future.

The Accounting Information System will be modernised with the introduction of a



new general ledger system with enhanced features, user-friendly environment and the capacity to meet the needs of changing accounting requirements. In addition, the Department will be implementing a new computerised Staff Advances System during 2008. These systems will allow for real-time processing and seamless integration with mission critical systems.

The Bank will be adopting International Financial Reporting Standards (IFRS) for the preparation of financial statements. The adoption of these standards will conform to international best practice for banks and financial institutions. The preparation of these statements under IFRS will require some legislative changes to the Central Bank Act.

Banking, Currency and Investment Department

Enhancing operational efficiency will continue to be one of the primary objectives for the Banking, Currency and Investment Department during 2008, while maintaining a high quality of service to the Bank's internal and external publics. This will be embodied in initiatives to promote Straight Through Processing and the electronic availability of daily exchange rates to commercial banks.

In support of the dematerialisation of Government's securities, a new system to enhance the efficiency of local debt issuance will be introduced this year. During the last quarter of 2008, the Bank's SWIFT system will be switched from Bilateral Key Exchange to Relationship Management Access, to enhance the authentication of payment messages with other financial institutions.

In the Bank's asset management programme, the focus will continue to be earning an acceptable total rate of return, given the challenges currently being faced in international markets.

The Bank is actively engaged in acquiring a new bank notes processing system, which will be introduced by the end of the third quarter of 2008. With the introduction of new coins minted in 2007, there will be the phased withdrawal of the old coins and related cost recovery during 2008. In addition, it is intended that plans for the implementation of a numismatic museum will be completed by year-end.

Bank Supervision Department

During 2008, Barbados will be subject to a Financial Sector Assessment by the IMF and World Bank. This will, inter alia, involve an assessment of Barbados' compliance with international standards in the financial sector and the sector's vulnerability to external shocks. Preparation for this assessment is likely to start during the first quarter of the year.

On the basis of the self-assessment conducted during 2007, the Bank Supervision Department will pursue amendments to the legislation governing financial institutions regulated by the Central Bank. In this regard, it intends to build on the work of draft legislation prepared by the CARICOM Secretariat on a harmonised legislative framework for Caribbean jurisdictions. This will be complemented by the further issuance/revision of Guidelines and Regulations.

Other major challenges for 2008 include enhancing supervisory processes, accelerating preparations for Basel II and redefining approaches to the collation and processing of statistical information. In particular, Examiners are expected to increase dialogue with licensees to improve their understanding of risk management in individual entities. More dialogue will also take place with licensees on Basel II implementation to enable licensees to better understand the implications of the new capital standard. The Department expects to



realise efficiencies from its database project that will enable greater timeliness in the preparation of institutional and sectoral reports.

To achieve its long-term objectives, the Department will need to pay increased attention to training of its staff members and to retooling experienced staff to cope with new challenges. It has committed to the hosting of a junior examiners' course and the Caribbean Group of Bank Supervisor's annual conference during the year. Staff will also be exposed to additional in-house and external training.

The Department will maintain its contacts with domestic, regional and international regulators and will continue to work with, inter alia, the Basel Committee, the Offshore Group of Supervisors, the Association of Supervisors of Banks of the Americas, and the Caribbean Group of Bank Supervisors.

Facilities Management Department

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

Services

Efforts will continue to find new ways to improve on efficiency, cost and customer service, in Central Purchasing, Events Planning, Asset Management and Travel Service. Fresh impetus will be placed on health and safety programmes, such as CPR, fire extinguishers, evacuation, training and environmental monitoring.

The asset reconciliation project will be completed. The obsolete telephone system

will be replaced, the Business Continuity Plan finalised and CPR instructors retrained in new techniques.

The Section plans to implement an environmental management programme as part of the Bank's contribution to the island's greening thrust. Inter alia, in the short-term, it hopes to bring about a reduction in the use of paper and introduce energy saving initiatives.

Maintenance

The Section will continue to refurbish and replace systems due to breakdown, life cycle, changes in technology and operational requirements.

Some of the major projects for 2008 are replacement of the main chilled-water air-conditioning system for the Bank's building, refurbishment of the Masonic Lodge, the air-conditioning duct system on Levels 7 and 8 and the refurbishment of the Accounts Department.

Security

The Security Section plans to implement initiatives that were not completed in 2007. Emphasis will be placed on training officers to ensure that they achieve higher operational standards and there will be some re-organisation to better exploit the use of the changing technology. Efforts will also continue on designing policies and standard operating procedures that better support the Section's activities, buttressed by the requisite training.

The staff education programme will be re-energised with greater involvement by the Public Affairs Section.

Foreign Exchange and Export Credits Department

The Central Bank will continue its strategy of gradual liberalisation of exchange controls, with an emphasis during 2008 on



removing remaining controls on transactions with CARICOM. Consideration will also be given to the further liberalisation of some transactions with Non-CARICOM countries. In this regard, more liberal arrangements will be effected in respect of foreign currency accounts during 2008 and higher limits will be given to authorised dealers to make transactions under delegated authority.

The Department will continue to work closely with the MISD on the application of the computerised Business Intelligence System to facilitate monitoring of foreign transactions.

It is also intended to gradually shift the focus of the Department from exchange control to foreign exchange monitoring and business facilitation and a public education programme will be implemented to sensitise the public to this new approach.

Through the Export Credits Unit, the Department will continue to encourage financial institutions to make greater use of the Bank's special financing schemes for small and medium-sized enterprises.

Human Resources Department

The Human Resources Department will be championing the operationalisation of the Succession Management Programme to facilitate the functional continuity at all levels in the Bank. Negotiations for a new collective agreement will follow the completion of the job evaluation exercise, which has been undertaken to determine salary relativities and equity between benchmarked positions internally and in the marketplace.

Another major emphasis of the Department will be organisational redesign in which the staffing needs will be reassessed using the 'Organisational Review' report as a backdrop.

In addition, the formalisation of accountability sessions to lend objectivity, transparency and credibility to the Performance Management System will be promoted.

Internal Audit Department

During 2008 the Internal Audit Department will continue to provide assurance services to the Bank by focusing on its high risk and operational and information technology areas. In addition, the Department will be increasing the use of audit command language to enhance audit coverage and efficiency, and implementing the use of electronic working papers as it continues to improve the way it documents its audits. The staff will continue to be exposed to courses sponsored by the local chapter of the Institute of Internal Auditors and any other available training opportunities to improve their skills and continual professional development.

Management Information Systems Department

In 2008 the main thrust of the Management Information Systems Department will be in the area of managing data as a corporate resource. To this end, the Department will seek to establish a data governance framework which would ensure that maximum benefit can be derived from the use of the organisation's data.

The Bank will continue to expand its Electronic Data Interchange (EDI) programmes, in an effort to capture data electronically and from source wherever possible. Accordingly, the EDI project with the commercial banks, which currently consists of the Real Time Gross Settlement and the commercial bank returns, will be expanded to include the transfer of data pertaining to the inflows and outflows of foreign currency.

Work on the Business Intelligence project for the Research and Bank Supervision departments will continue in 2008 and the Department is expected to install a new Accounting system.



On the Systems Administration side the plan is to upgrade the Lotus Notes Application, and enhance the Virtual Private Network (VPN). Improvements to the hot site are also scheduled for 2008.

Research Department

Given the expanding volume of statistical data available to users, the focus for 2008 will, again, be to train, orient, equip and deploy new staff to ensure efficient and effective functioning of the Research Department. Structured in-house training will be intensified. This would be achieved through various workshops, seminars and paired mentoring to facilitate the progress of the new staff as they grapple with understanding developments in their assigned sectors and the interrelationships in the Barbados economy. Concurrent with this policy advice and training will be a drive to minimise delays caused by data suppliers, to update the existing methodologies and to expand critical databases like debt and international financial services.

The Bank is often called upon to use its economic outlook and financial programming models to estimate and forecast key economic indicators and simulate the impact of economic policies. As a result, a main activity during 2008 would be to implement the rebased real GDP estimates into these models as well as continue to explore and implement new techniques for measuring the contributions of certain sectors like non-sugar agriculture and international financial services.

In 2008, the work of the recently set-up Financial Stability Unit will include compiling a database of financial soundness indicators as well as developing a financial stability model for stress testing of the financial sector.

Training

A training course to improve the writing skills of economists, especially the new recruits, will be

introduced in 2008. In addition, the Department will enhance the research and analytical skills of its economists by continuing to expose them to various local, regional and international conferences as well as facilitate their progress at the courses offered by the IMF and other international institutions.

Public Outreach

Participation in the public outreach initiatives like the Week of Excellence and the Social Partners technical meeting will continue, as will the secondary schools and internship programmes, which are used to enhance students understanding of economic issues facing Barbados and the Caribbean in general.

Statistical Section

In 2008, the Section will further rely on technology solutions to gather and disseminate information. It will continue to collaborate with the MISD, to improve the flow of electronic data interchange with commercial banks through the VPN link-up and will extend this to the other financial institutions, Government (Barbados Statistical Service, Accountant General etc) and other data suppliers in the near future.

Training will be heavily emphasised in 2008, as the unit needs to be brought up to date with respect to the Accrual System of accounts for the Government data. Also, with the IMF new guide on monetary and financial statistics and its call for immediate implementation, additional training for senior officers will be required to maintain the expected standard. Moreover, the unit is being called upon more and more to carry the burden of the compilation of the Balance of payments, Coordinated Portfolio Investment and the International Investment Position.

Library and Information Services Unit (LISU)

The LISU will set out to strengthen its role to support the Bank's strategic vision of providing



timely, well thought-out responses to fast paced global changes, based on rigorous analysis and visionary thinking. The Unit will do this by participating in the management of information as a major corporate resource. This entails not only the provision of information resources through the use of traditional sources such as books and journals but also through modern modes of communication. This will include a number of online services selected to support the activities of the different departments across the Bank. The need to diversify these components has become especially important because of factors such as the rising cost of print materials and its shipping, the space limitations of both the Library and Records Centre and the need to respond to the present speed of information transfer.

Additionally the Unit as part of its Records Management mandate will seek to further facilitate the storage and maintenance of the Bank's records. The Centre will commence work on plans for its full automation programme. LISU will also utilise its expertise to assist other departments to improve the management of their information resources as well as provide support services for the recently redesigned Internet and Intranet websites.

Public Affairs

With the advent of full liberalisation with CARICOM commencing in 2008, the Bank will focus on educating and informing the various publics about the new monetary framework within which it will be operating. To this end, a special session for the media and the general public is to be held. Additionally, the Bank will join with the Latin American centre for Economic Studies (CEMLA) to host a conference on Open Market Operations.

Frank Collymore Hall (FCH)

The FCH will continue plans to develop educational and entertaining programmes. Its after-work events will increase as it seeks to enhance its services to audiences, promoters and performers.

Several plays will be staged during the year including the British-directed Gale Theatre Productions of the UK and Barbados, Shakespeare's *Macbeth*, featuring UK, Canadian and local actors, while another theatre group will present Moliere's *Tartuffe*. A dance concert produced by Friends of Richild Springer, bringing together local dance companies and French dancers, should be a major attraction for the dance and theatre-going community.





Adoption of Financial Statements 2007

The net operating surplus for the financial year ended December 31, 2007 was \$8,107,804.

Income for the year totalled \$66,341,806 and represents an increase of \$8,191,477 compared to the previous year. This increase is attributed to higher holdings of foreign income earning assets. Also, the statutory foreign currency reserves for local regulated entities increased by \$54.2 million during the year to reach \$152.7 million at year-end. The fedfunds rate stood at 5.25% at the beginning of the year and declined to 4.75% at September and to 4.25% by year-end.

The Bank finalised rebalancing the external asset portfolio by liquidating low earning securities and replacing same with higher yielding securities. No significant gains or losses were incurred and Fedfunds rate is projected to decline in the short-term.

Advances to Government under the Ways and Means Facility were within the statutory limit and interest earned amounted to \$4.7 million.

The Bank performs treasury management operations for the Housing Credit Fund. At December 31, 2007 fees earned amounted to \$0.5 million and outstanding assets were \$142.0 million.

Under the eHIPC initiative, CMCF creditors are required to provide debt relief to Bank of Guyana. During the previous year, the Bank provided a cumulative provision of \$5.6 million for debt impairment. No additional provisions were required at December 31, 2007 and the debt matures on April 01, 2009.

Operating expenses totalled \$58.2 million and include accelerated payments to fund the deficit of the Staff Pension Fund. Expenses also include interest payments on statutory foreign reserves deposited with the Bank.

The Board of Directors, subject to the approval of the Minister of Finance, transferred \$6,000,000 to the General Reserve and appropriated \$2,107,804 to the Consolidated Fund.

The Board of Directors has adopted the Financial Statements duly certified by the Auditors of the Central Bank for the year ended December 2007.





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AUDITORS' CERTIFICATE TO THE BOARD OF DIRECTORS

We have audited the accompanying financial statements of Central Bank of Barbados ("the Bank"), which comprise the balance sheet as at December 31, 2007, the profit and loss account, profit and loss appropriation account and the cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2007, its financial performance and its cash flows for the year then ended in accordance with the Central Bank of Barbados Act, Cap. 323C and the significant accounting policies stipulated in Note 1.

Chartered Accountants
Bridgetown, Barbados



Balance Sheet
December 31, 2007
with comparative figures for 2006

ASSETS

	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	400,341,199	112,550,484
Foreign Notes and Coins		1,460,769	1,101,358
Foreign Securities	3	<u>825,749,993</u>	<u>759,354,383</u>
		1,227,551,961	873,006,225
International Monetary Fund:			
Reserve Tranche	4	<u>17,365,896</u>	<u>16,225,608</u>
Total Reserve of External Assets		<u>1,244,917,857</u>	<u>889,231,833</u>
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	5	19,895,858	-
Barbados Government Debentures	5	<u>635,000</u>	<u>635,000</u>
		<u>20,530,858</u>	<u>635,000</u>
Advances:			
Government		102,500,000	133,400,000
Fixed Assets (Net)	6	85,910,432	87,547,849
Other Assets	7	<u>30,900,210</u>	<u>31,752,225</u>
Total Local Assets		<u>239,841,500</u>	<u>253,335,074</u>
		<u>1,484,759,357</u>	<u>1,142,566,907</u>

See accompanying notes to accounts.

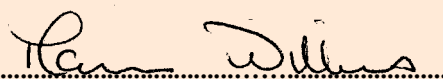


Balance Sheet
December 31, 2007
with comparative figures for 2006

LIABILITIES, CAPITAL AND RESERVES

	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
		BDSS	BDSS
LIABILITIES:			
Notes and Coins in Circulation	8	635,172,597	596,056,993
Deposits:			
Government		99,135,208	113,688,772
Banks		629,790,212	334,616,246
Financial Institutions		5,871,997	3,035,192
Other		7,514,255	3,702,400
		<u>742,311,672</u>	<u>455,042,610</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	24,704,903	23,843,916
Other	10	57,102,913	57,088,443
		<u>81,807,816</u>	<u>80,932,359</u>
Total Liabilities		<u>1,459,292,085</u>	<u>1,132,031,962</u>
Other Funds	11	7,467,272	(1,465,055)
CAPITAL AND RESERVES:			
Authorised capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		16,000,000	10,000,000
Net Capital and Reserves		<u>18,000,000</u>	<u>12,000,000</u>
Commitments	12	<u>1,484,759,357</u>	<u>1,142,566,907</u>

Approved on behalf of the Board of Directors on March 10, 2008

 Governor

 Financial Controller



Profit and Loss Account
For the year ended December 31, 2007
with comparative figures for 2006

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
INCOME:			
Commissions and Fees		7,767,013	9,677,484
Discounts:			
Treasury Bills		4,387,790	4,909,088
Interest:			
Advances		5,312,912	4,343,762
Deposits		8,168,902	5,005,226
Securities		39,265,620	30,044,349
Other Income	13	1,550,216	1,663,186
Foreign exchange gains		22,889	971,900
Loss on sale of Foreign Securities		<u>(133,536)</u>	<u>(1,581,297)</u>
Total Income		<u>66,341,806</u>	<u>55,033,698</u>
EXPENSES:			
<i>Operating:</i>			
Administrative Expenses		13,636,749	11,429,880
Depreciation		3,855,733	4,458,588
Amortization		-	122,375
Interest		4,403,569	2,730,414
Minting of Coins		1,274,339	921,860
Printing of Notes		4,471,942	4,617,123
Debt Impairment	14	180,000	4,980,000
Retirement Benefits	15	8,167,103	3,991,729
Salaries and Allowances		<u>22,244,567</u>	<u>20,895,929</u>
Operating Expenses		<u>58,234,002</u>	<u>54,147,898</u>
Net Profit before Appropriation		<u>8,107,804</u>	<u>885,800</u>

See accompanying notes to accounts.


Profit and Loss Appropriation Account

 For the year ended December 31, 2007
 with comparative figures for 2006

	<u>2007</u>	<u>2006</u>
	BD\$	BD\$
Net profit before Appropriation	<u>8,107,804</u>	<u>885,800</u>
Deduct:		
Transfer to General Reserve	6,000,000	-
Transfer to Consolidated Fund	<u>2,107,804</u>	<u>885,800</u>
Balance carried forward	<u><u>-</u></u>	<u><u>-</u></u>

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

See accompanying notes to accounts.



Statement of Cash Flows
For the year ended December 31, 2007
with comparative figures for 2006

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
Cash flows from operating activities			
Net profit before appropriation		8,107,804	885,800
Adjustments for:			
Depreciation		3,855,733	4,458,588
Amortization		-	122,375
Gain on sale of capital assets		(49,377)	(6,819)
Debt impairment	14	<u>180,000</u>	<u>4,980,000</u>
Operating profit before working capital changes		12,094,160	10,439,944
Decrease in other assets		672,015	2,239,873
Net increase in foreign securities		(120,733,474)	(62,798,545)
(Increase) decrease in Holdings of Special Drawing Rights			(1,140,288)
26,070			
(Increase) decrease in local securities		(19,895,858)	74,068,500
Decrease (Increase) in discounts and advances		30,900,000	(8,900,000)
Increase (decrease) in deposits		279,161,258	(48,424,914)
Increase in other liabilities		<u>14,470</u>	<u>12,173,733</u>
Net cash from (used in) operating activities		<u>181,072,283</u>	<u>(21,175,339)</u>
Cash flows from investing activities			
Purchase of fixed assets		(2,227,999)	(1,989,274)
Proceeds from sale of fixed assets		<u>59,060</u>	<u>16,727</u>
Net cash used in investing activities		<u>(2,168,939)</u>	<u>(1,972,547)</u>
Cash flows from financing activities			
Increase (decrease) in allocation of Special Drawing Rights		860,987	(741,009)
Decrease in CMCF		9,691,700	-
Increase in general reserve		6,000,000	-
Increase in notes and coins in circulation		<u>39,115,604</u>	<u>20,194,861</u>
Net cash from financing activities		<u>55,668,291</u>	<u>19,453,852</u>



Statement of Cash Flows, Continued
For the year ended December 31, 2007
with comparative figures for 2006

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
Net increase (decrease) in cash and cash equivalents		234,571,635	(3,694,034)
Cash and cash equivalents at beginning of year		<u>198,427,133</u>	<u>202,121,167</u>
Cash and cash equivalents at end of year		<u><u>432,998,768</u></u>	<u><u>198,427,133</u></u>
Cash and cash equivalents comprise:			
Current Account Balances	2	376,074,319	78,591,904
Foreign Notes and Coins		1,460,769	1,101,358
Foreign Treasury Bills	3	<u>55,463,680</u>	<u>118,733,871</u>
		<u><u>432,998,768</u></u>	<u><u>198,427,133</u></u>

See accompanying notes to accounts.

**Notes to Financial Statements**

December 31, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

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

(a) *Use of Estimates and Judgment*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(b) *Income and Expenses:*

Income and expenses are accounted for on the accrual basis except that interest on the Caricom Multilateral Clearing Facility and the CRL Ltd loan facility is recognised when received.

(c) *Translation of Foreign Currencies:*

Assets and liabilities designated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Gains and losses resulting from foreign currency translations and transactions are included in the Profit and Loss Account.

(d) *Foreign Securities:*

Treasury bills and unquoted securities are valued at cost.

Other securities are valued at market and the resulting gains and/or losses on revaluation which are deferred pending realization, are included in other funds and/or other assets.

(e) *Numismatic Coins:*

The nominal value of numismatic coins sold is not included in 'notes and coins in circulation' while the net proceeds from sales are included in the Profit and Loss Account under Other Income.

(f) *Local Securities:*

Local securities are valued at cost.

(g) *Depreciation:*

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

(h) *Retirement Benefits:*

The Bank contributes to a defined benefit plan. The plan is funded by payments from the Bank, by taking account of the recommendations of an independent qualified actuary. The cost of providing retirement benefits is determined using the Projected Unit Method. However, for financial reporting purposes, the contributions are charged against income as they are accrued.

(i) *Impairment of financial assets:*

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss (for securities carried at amortised cost) is calculated as the difference between the assets' carrying amount and the value of expected future cash flows discounted at the financial instruments' original effective interest rate. Impairment losses are recognized in the profit and loss account.

**Notes to Financial Statements**

December 31, 2007

(j) Amortised Cost:

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

2. BALANCES HELD ABROAD

Balances held abroad comprise:

	<u>2007</u>	<u>2006</u>
	\$	\$
Current Accounts and deposits with foreign banks	376,074,319	78,591,904
Caricom Multilateral Clearing Facility (C.M.C.F.) (Net of provision: 2007: \$5,602,620 (2006: \$5,602,620))	<u>24,266,880</u>	<u>33,958,580</u>
	<u>400,341,199</u>	<u>112,550,484</u>

Under a rescheduling arrangement with other participants of the Caricom Multilateral Clearing Facility (CMCF), the Bank agreed to consolidate balances of principal and interest due to the Bank by CMCF as at September 30, 1989. The agreed consolidated total was \$154,744,770, which is repayable over ten years after a moratorium of ten years commencing October 1, 1989 at an interest rate of 5% per annum.

By interim arrangement of December 2, 1994, it was agreed that Barbados may offset against the principal amount due under CMCF, balances on bilateral accounts due by Barbados to Guyana.

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

An additional provision of \$4,800,000 was made during 2006, bringing the total provision for impairment to \$5,602,620 (see note 14).

During the year, the Bank of Guyana authorized the debit of BDS\$9,691,700 against the Bank of Guyana's bilateral account to be applied to the principal payment of the Central Bank of Barbados' share of the CMCF debt. The CMCF account is inactive and matures on April 1, 2009. The outstanding amount is recoverable from the CMCF Trust Fund and the eHIPC Trust Fund.

**Notes to Financial Statements, Continued**

December 31, 2007

3. FOREIGN SECURITIES

Foreign securities comprise:

	2007		2006	
	Amortised Cost	Market Value	Amortised Cost	Market Value
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	764,042,600	769,952,296	643,279,046	640,286,495
(b) Equities	<u>306,521</u>	<u>334,017</u>	<u>306,521</u>	<u>334,017</u>
	764,349,121	770,286,313	643,585,567	640,620,512
At Cost:				
(c) Treasury Bills	<u>55,463,680</u>	<u>55,463,680</u>	<u>118,733,871</u>	<u>118,733,871</u>
	<u>819,812,801</u>	<u>825,749,993</u>	<u>762,319,438</u>	<u>759,354,383</u>

The unrealized gain of \$5,967,272 (2006: unrealized loss \$2,965,055) arose on the revaluation of Securities and is included in Other Funds. See note 11.

4. RESERVE TRANCHE

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

The Reserve Tranche pertains to the value of Special Drawing Rights at December 31, 2007. The balance held at December 31, 2007 amounted to SDR 5,582,046 (2006: SDR 5,470,480) and the rate of translation of SDRs into Barbados dollars at December 31, 2007 is BDS\$1 = SDR 0.325401 (2006: BDS\$1 = SDR 0.337151).



Notes to Financial Statements, Continued
December 31, 2007

5. SECURITIES

Local securities comprise:

	2007		2006	
	Nominal Value	Cost	Nominal Value	Cost
	\$	\$	\$	\$
Barbados Government Treasury Bills	20,000,000	19,895,858	-	-
Barbados Government Debentures	<u>635,000</u>	<u>635,000</u>	<u>635,000</u>	<u>635,000</u>

6. FIXED ASSETS

Fixed assets comprise:

	Freehold Land and Buildings	Furniture, Plant and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$
<i>Cost:</i>				
December 31, 2005	95,909,528	35,270,867	948,992	132,129,387
Additions	-	1,989,274	-	1,989,274
Disposal/write-offs	-	(254,878)	-	(254,878)
December 31, 2006	95,909,528	37,005,263	948,992	133,863,783
Additions	30,791	2,048,545	148,663	2,227,999
Disposal/write-offs	-	(771,006)	(303,021)	(1,074,027)
December 31, 2007	<u>95,940,319</u>	<u>38,282,802</u>	<u>794,634</u>	<u>135,017,755</u>
<i>Depreciation:</i>				
December 31, 2005	15,020,042	26,259,208	823,066	42,102,316
Charge for the year	1,366,527	2,991,029	101,031	4,458,587
Eliminated on disposals	-	(244,969)	-	(244,969)
December 31, 2006	<u>16,386,569</u>	<u>29,005,268</u>	<u>924,097</u>	<u>46,315,934</u>
Charge for the year	1,366,528	2,389,865	99,340	3,855,733
Eliminated on disposals	-	(761,358)	(302,986)	(1,064,344)
December 31, 2007	<u>17,753,097</u>	<u>30,633,775</u>	<u>720,451</u>	<u>49,107,323</u>
<i>Net Book Values:</i>				
December 31, 2007	<u>78,187,222</u>	<u>7,649,027</u>	<u>74,183</u>	<u>85,910,432</u>
December 31, 2006	<u>79,522,959</u>	<u>7,999,995</u>	<u>24,895</u>	<u>87,547,849</u>

**Notes to Financial Statements, Continued**

December 31, 2007

7. OTHER ASSETS

Other assets include:

	<u>2007</u>	<u>2006</u>
	\$	\$
Accrued income on local investments	1,307,454	1,256,754
Cheques in process of collection	3,666,772	4,465,100
CRL Limited ⁽¹⁾	9,000,000	9,000,000
Fiscal Agency Payment Account	3,869	4,499
Prepayments	909,739	1,040,931
Staff Advances	15,447,829	15,260,452
Deferred Asset ⁽²⁾	66,455	66,455
Sundry Balances	<u>498,092</u>	<u>658,034</u>
	<u>30,900,210</u>	<u>31,752,225</u>

(1) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank and was guaranteed by the Government of Barbados. During 1998, the facility was transferred to CRL Limited. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2007, the cumulative interest not recognized was \$3,240,493 (2006: \$2,700,493).

(2) Deferred asset represents the value of the net amortization of the set-up costs of the Barbados Automated Clearing House Services Incorporated (BACHSI). The amount is being amortized over a period of five years.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2007, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2006:\$10.4 million) and are excluded from 'Notes and Coins in Circulation' (See note 1 (e)).

9. ALLOCATION OF SPECIAL DRAWING RIGHTS

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



Notes to Financial Statements, Continued

December 31, 2007

10. OTHER

This amount comprises:

	<u>2007</u>	<u>2006</u>
	\$	\$
Accounts Payable	2,868,514	2,037,248
Barbados Tourism Authority Sinking Fund	305	184
BTII Special Development Bond Sinking Fund	3,889	3,889
Contribution Payable - Deposit Insurance Fund	2,963,968	2,900,000
Contribution Payable - Establishment of a Chair at UWI	-	861,169
Contribution Payable - Secondary Mortgage Market Project	242,319	242,319
Debenture Interest Payment Account	854,157	702,788
Deposit Insurance Company Accounts	5,515,824	-
Domestic Clearing	3,162,421	5,110,016
Dormant Accounts - Commercial Banks*	15,168,373	13,291,721
Export Development Fund	201,169	201,169
Housing Credit Fund General Account	7,092,248	4,302,116
Industrial Credit Fund	3,261,685	23,360,785
Redemption of Debentures Account	10,541,620	72,880
Sinking Fund Contribution Account	194,600	108,049
Small Business Fund	330,000	330,000
Staff Pension Fund	13,740	37,462
Staff Welfare Fund	1,722,541	1,878,150
Sundry Balances	2,965,540	1,648,498
	<u>57,102,913</u>	<u>57,088,443</u>

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

11. OTHER FUNDS

This amount comprises the following balances:

	<u>2007</u>	<u>2006</u>
	\$	\$
Special Credit Trust	1,500,000	1,500,000
Unrealised gains (losses) on revaluation of investments (note 3)	5,967,272	(2,965,055)
	<u>7,467,272</u>	<u>(1,465,055)</u>

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

**Notes to Financial Statements, Continued**

December 31, 2007

12. COMMITMENTS

At December 31, 2007 the Bank had guaranteed settlement of approximately \$1,250,539 (2006: \$1,665,645) under the following scheme:

	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$
Credit Insurance Scheme for Small Businesses	<u>1,623,977</u>	<u>1,250,539</u>
	<u>1,623,977</u>	<u>1,250,539</u>

Additionally, at December 31, 2007, the Bank had contracts for capital expenditure in the amount of \$1.874 million (2006: \$1.406 million).

13. OTHER INCOME

Other income includes management fees received from Housing Credit Fund in the amount of \$483,109 (2006: \$471,595).

14. DEBT IMPAIRMENT

Debt Impairment comprises:

	<u>2007</u>	<u>2006</u>
	\$	\$
Provision for impairment of the CMCF debt (see note 2)	-	4,800,000
Provision for impairment of Other Assets	<u>180,000</u>	<u>180,000</u>
	<u>180,000</u>	<u>4,980,000</u>

**Notes to Financial Statements, Continued**

December 31, 2007

15. RETIREMENT BENEFITS

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The most recent valuation carried out at December 31, 2007 revealed the following:

	<u>2007</u>	<u>2006</u>
	\$	\$
Fair value of plan assets	91,585,935	80,004,484
Actuarial present value of liabilities	<u>99,773,681</u>	<u>94,507,504</u>
Unfunded liability	<u>8,187,746</u>	<u>14,503,020</u>

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

	<u>2007</u>	<u>2006</u>
Rate of return of assets	6% per annum	6% per annum
Rate of salary inflation and promotional increases	4% per annum	4% per annum
Rate of escalation of NIS Ceiling	3% per annum	3% per annum
Rate of pension increases	2% per annum	2% per annum

The actuary has recommended that a funding rate of 14.89% (2006: 16.06%) of covered payroll be used for new benefits, plus an additional rate of 3.53% (2006: 6.43%) to allow the amortization of the unfunded liability over a period of fifteen/sixteen years. The total recommended funding rate of 18.42% (2006: 22.49%) of covered payroll should obtain until the next valuation.

16. TAXATION

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

17. COMPARATIVE FIGURES

Certain comparative amounts for 2006 have been reclassified to conform to the current year's presentation.

