



**CENTRAL BANK**  
*of* **BARBADOS**

**2003 ANNUAL REPORT**

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*of* **BARBADOS**

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LETTER OF TRANSMITTAL

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

March 30, 2004

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, 2003 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2003

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 19th, 2004.

I am,  
Yours faithfully,

A handwritten signature in cursive script, appearing to read 'Marion V. Williams'.

Marion V. Williams  
Governor

The Rt. Hon. Owen S. Arthur, MP  
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Prime Minister's Office  
Government Headquarters  
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## CONTENTS

<b>ECONOMIC REVIEW</b>	1
<b>Overview</b>	1
<b>Sector Reviews 2003</b>	1
Production, Prices and Employment	1
Financial Sector	7
Government Operations	16
Foreign Trade and Payments	21
Regional Economic Developments	26
International Economic Developments	30
<b>ECONOMIC OUTLOOK</b>	37
International and Regional Economic Outlook for 2004	37
Prospects for the Barbados Economy in 2004	38
<b>ADMINISTRATION</b>	39
<b>OPERATIONS</b>	43
Central Bank Plans for 2004	54
<b>ADOPTION OF FINANCIAL STATEMENTS – 2003</b>	61
<b>AUDITORS' CERTIFICATE AND FINANCIAL STATEMENTS</b>	63

**TABLES**

Long-stay Tourist Arrivals by Month and Season	2
Selected Indicators of Annual Sugar Production	3
Production of Selected Commodities	4
New Licences Issued in the IBFS Sector	5
Credit to the Non-Financial Private Sector by Financial Institutions	8
Domestic Deposits at Financial Institutions	9
Selected Indicators of the Banking System	10
Barbados Stock Exchange End-of-Year Prices	11
Mutual Fund Performance	12
Summary of Government Operations	17
Government Financing	18
Central Administration National Debt	18
Balance of Payments	25
Economic Indicators, Industrial Markets	31
Selected Financial Indicators	32
Economic Indicators, Emerging Markets	33
Commodity Prices	34
Summary Projections for Growth	37
Foreign Currency Transactions	45
Purchase of Foreign Currency Notes	46
Key Indicators of ICF Operations	51

**CHARTS**

Cruise Passengers Arrivals and Cruise Ship Calls	2
Inflation Rate (12 - Month Moving Average)	6
Average Annual Unemployment Rate	6
Excess Liquidity Ratio	7
Commercial Banks' Credit to Private Sector and Domestic Deposits	8
Selected Interest Rates	9
Fiscal Balance as a Percentage of GDP	19
Direct Tax Revenue by Source	19
Indirect Tax Revenue by Source	20
Current Expenditure	20
Capital Expenditure	21
The Current Account (% of GDP)	22
Retained Imports	22
Domestic Exports	23
Travel Credits	23
Capital and Financial Account Flows	24
Summary of Commercial Banks' Statement of Excess Reserve Position	43
ICF Annual Loan Approvals	50
ICF Annual Loan Disbursements	50



## ECONOMIC REVIEW

### Overview

After showing signs of recovery in the latter half of 2002, the Barbados economy strengthened further in 2003 with real GDP expanding by an estimated 2.2%. The resurgence in economic activity was due largely to a rebound in tourism, as well as growth in the non-traded sectors. An improved global economic climate, the continuation of the "Best of Barbados" programme and other marketing initiatives provided the impetus for the strong growth in the tourism industry, following two consecutive years of decline. In contrast, sugar registered a relatively weak performance, owing to adverse weather conditions. As economic activity expanded, there was a commensurate increase in the average number of persons employed. However, the unemployment rate rose slightly as the rate of growth in the labour force outstripped that of job creation. Inflation remained low, though slightly higher than in 2002, reflecting rising import prices caused by the continued depreciation of the US dollar against other major currencies.

The pickup in economic activity spurred a surge in retained imports and, coupled with the continued poor performance of domestic exports, resulted in a further deterioration in the external current account position. Nevertheless, the net international reserves (NIR) rose by approximately \$135 million, primarily reflecting foreign exchange inflows of \$189 million obtained from the sale of Government's shares in the Barbados National Bank (BNB) Inc. to Republic Bank Ltd. When this transaction is excluded there is an underlying reserve loss of \$54 million, largely attributable to strong third and fourth quarter import activity. By year-end the import reserve cover remained comfortable at 35.5 weeks, down slightly from 35.7 weeks at the end of 2002.

The injection of the BNB divestment proceeds as well as other private sector flows into the financial system boosted deposit growth, which continued to outstrip the demand for new credit (which was virtually flat) resulting in a marked increase in liquidity. The Central Bank discontinued its policy of setting indicative targets for the average lending rate, which was intended as a temporary measure to contain spreads

and facilitate a reduction in the cost of funds to the productive sectors. As a result of the Central Bank's efforts, interest rates fell marginally but were still somewhat above desired levels by year-end.

Aided by the economic recovery, Government's fiscal position improved somewhat. The fiscal deficit of the Central Government as a percentage of GDP fell by 2.8 percentage points to an estimated 3.1%. Total tax revenue expanded, primarily on the strength of greater intake of corporate tax and VAT revenue, while total expenditure of the Central Government declined in contrast to one year earlier, as a result of lower capital outlays.

### Sector Reviews 2003

#### Production, Prices and Employment

##### *Tourism*

During 2003, the tourism sector continued on the path to recovery that began in the latter half of 2002, registering significant growth in both long-stay and cruise passenger arrivals. For the year, the total number of visitors to Barbados rose by 6.8% to an estimated 1,090,330 persons, with long-stay tourists totalling 531,211 persons and cruise passengers 559,119 persons. This improved tourism outturn generated an estimated increase in real value-added of 7.3%, ending two consecutive annual declines of 2.7% and 5.9%, respectively. The sector benefited primarily from the re-launch of the Best of Barbados programme, as well as other marketing and promotional initiatives abroad and in the region. To counter any fallout from the US-led invasion of Iraq, the Best of Barbados promotion was reintroduced between the first quarter and the end of July, and then, in response to the sluggish third-quarter performance, it was reinstated at the beginning of the fourth quarter and extended to mid-December. Additional seating capacity out of some gateways in the United States, Canada and the United Kingdom (UK) also contributed to the overall performance of the sector.

Long-stay visitors rose by 6.7%, in contrast to declines of 1.8% in 2002 and 6.9% in 2001, and the average length of stay increased marginally to 6.8 days. Room occupancy across surveyed establishments



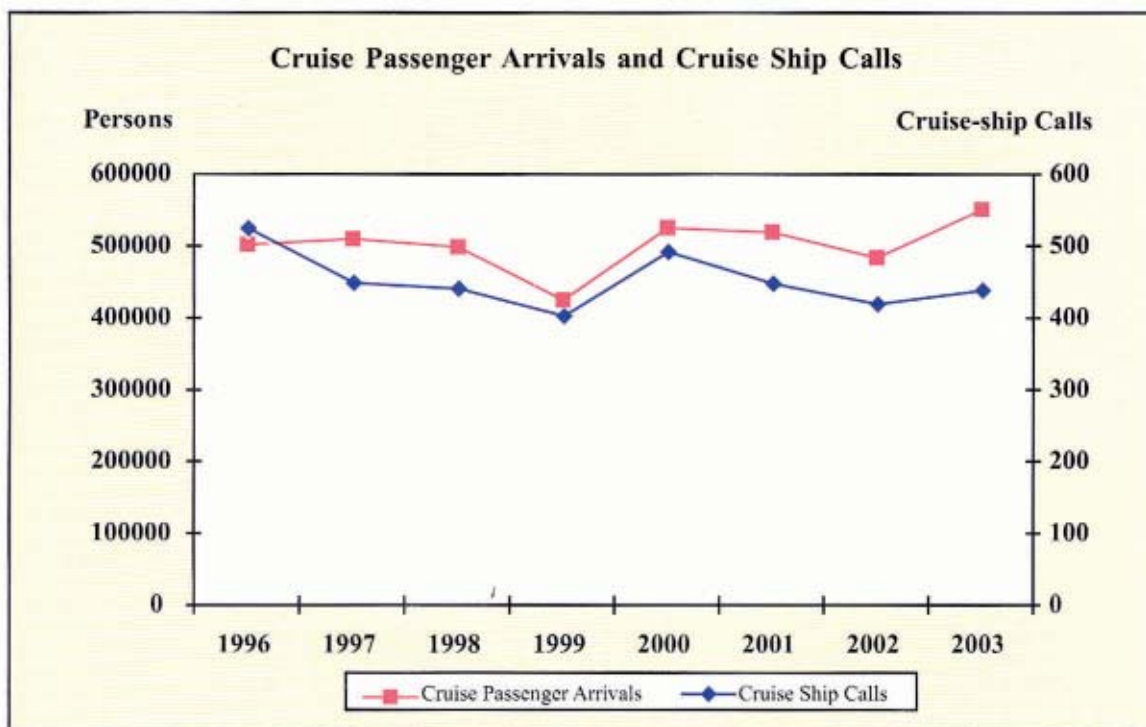
## Long-stay Tourist Arrivals by Month and Season

Month	1996 - 2000*	2001	2002	2003 <sup>P</sup>	% Change from 2002
January	43,746	45,499	39,915	40,743	1.4
February	43,172	47,010	41,205	43,643	5.9
March	48,140	49,256	48,583	49,016	0.9
April	42,818	48,786	37,804	47,504	25.7
<b>Winter</b>	<b>177,875</b>	<b>190,551</b>	<b>167,507</b>	<b>180,906</b>	<b>8.0</b>
May	37,457	39,988	36,373	40,750	12.0
June	34,075	34,980	33,426	39,994	19.6
July	47,243	48,416	49,239	52,982	7.6
August	42,897	44,685	47,503	46,745	-1.6
September	30,102	28,715	30,977	28,737	-7.2
October	37,833	34,870	39,273	38,210	-2.7
November	42,921	38,858	44,667	45,924	2.8
December	47,813	46,015	48,934	56,963	16.4
<b>Summer</b>	<b>320,341</b>	<b>316,527</b>	<b>330,392</b>	<b>350,305</b>	<b>6.0</b>
<b>Total</b>	<b>498,216</b>	<b>507,078</b>	<b>497,899</b>	<b>531,211</b>	<b>6.7</b>

Source: Barbados Statistical Service

\*: Average annual

P: Provisional





averaged 54.2%, compared with 42.5% in 2002. After a dismal 2001/02-winter season, a marked improvement of 8% in long-stay tourists was registered during the 2002/03 season. In the summer period, long-stay arrivals were up by 6%, which was moderately higher than the rate of increase for the previous summer.

For the year 2003, the number of UK visitor arrivals expanded by 5.2%, in contrast to a decrease of 11.4% in 2002. German and Other European arrivals were up by 28.3% and 13.0%, respectively, reversing the downward trend observed in these markets since 1999. The appreciation of the euro and British pound against the US dollar during 2003 would have enhanced the spending power of vacationers from the UK and Europe. Buoyed by the gradual strengthening of the US economy in the months following the war in Iraq, the number of persons travelling from the US picked-up, resulting in an overall increase of 4.8%, while the growth in Canadian arrivals was 6.2%. The total number of visitors from CARICOM countries increased by 7.9%, buttressed by the continued growth in arrivals from Trinidad and Tobago. In the case of the Other Countries grouping, there was a 16.1% expansion in visitor arrivals.

The number of cruise passengers entering Barbados during 2003 rose by 6.9%, eclipsing the contractions of 0.8% and 1.1% in the previous two years. In particular, during the fourth quarter, an additional 27,221 cruise visitors were registered, which represents a

17% increase over the corresponding figure in the fourth quarter of 2002. In addition, cruise ship calls were up by 4.5% to 442, after decreasing by almost 2% in the preceding year. The steady recovery in the cruise sector partly reflects the offering of discounted packages in the wake of the downturn that started in late 2001, and the home-porting of cruise vessels at the Bridgetown Port in the fourth quarter.

#### *Manufacturing*

Real output of manufacturing firms continued to be sluggish in 2003, a trend exhibited since 1999. Output of electronic components and chemical products (which are primarily exported) contracted further, by 12% and 3.9%, respectively, and there was an estimated reduction of 8.3% in the production of non-metallic mineral goods. In addition, the production of processed foods fell by approximately 1.7%, after expanding by 6.6% in 2002. The beverages industry grew by an estimated 2.7%, which was a turnaround from three successive years of decline.

#### *Agriculture*

The production of 36,325 tonnes of raw sugar in 2003, which represented a reduction of almost 8,500 tonnes from the level produced in 2002 and the lowest yield since 1995, marked the third successive year that output of sugar has fallen. The 2003 sugar crop was hampered by drought conditions and a contraction in the acreage of cane planted. After recording a reduction in output in the previous two years, the

### Selected Indicators of Annual Sugar Production

	1998	1999	2000	2001	2002	2003
Canes Milled (*000Tonnes)	449	522	538	420	418	365
Sugar Produced (*000 Tonnes)	48.0	53.2	58.4	49.8	44.8	36.3
Average Yields (Tonnes)						
Canes per Hectare	55.4	63.9	62.1	50.6	52.6	49.5
Sugar per Hectare	5.9	6.5	6.7	6.0	5.6	4.9
Sugar Exports (*000 Tonnes)	48.2	49.3	54.8	50.9	39.5	n.a.

Source: Barbados Agriculture Management Co. Ltd.  
n.a.: not available.



### Production of Selected Commodities

	1998	1999	2000	2001	2002	2003 <sup>P</sup>
Crude Oil Production (Barrels)	576,636	708,489	559,675	463,699	390,619	274,901
Natural Gas Sales ('000 Cubic Metres)	37,430	46,923	37,923	35,024	28,846	22,977
Electricity Usage ('000 Kwh)	657,850	675,610	704,043	734,992	763,859	805,876
Cement Production ('000 Tonnes)	259,181	251,543	142,883	248,465	297,667	325,106

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

P: Provisional

non-sugar agriculture and fishing sector expanded moderately, on the strength of higher catches of fish, particularly in the second quarter, and chicken production. The amount of fish landings rose by around 9%, while chicken production increased by 1.7%. In contrast, the production of fresh milk, which has been on the decline from 2002 on account of supply problems, contracted by a further 3.6% in 2003.

#### Construction

Total value added in construction expanded by an estimated 2.9%, following growth of 3.1% in 2002. The rise in economic activity was principally due to the building of new tourism infrastructure, the refurbishment of existing properties, the Airport expansion project and a surge in residential activity in the latter half of the year. The values of new mortgages issued by commercial banks, and the Barbados Mortgage Finance Co. Ltd. for the construction of private dwellings and the purchase of land increased by \$85.5 million, indicating an acceleration in residential construction activity.

#### Mining and Quarrying

Value added in mining and quarrying declined by 8.1% in 2003, the fourth consecutive annual decline in the industry, as poor returns from oil-producing assets continued to depress overall output in the sector. Crude oil output fell by a further 5.1% to 370,848 barrels, following average annual declines of 17.9% over the previous three years. The reduction was predominantly due to lower-than-expected yields from

new wells and the natural decrease in the productivity of old wells.

#### Electricity, Gas and Water

In line with the expansion in economic activity, the production of electricity, gas and water rose by 2.7% in 2003, one percentage point higher than the increase in 2002. Residential electricity consumption was up by 9.7%, while the demand at quarries and services establishments increased by 42.3% and 31.7%, respectively. In contrast, electricity usage by the industrial sector contracted by 4.6%, reflecting the overall decline in manufacturing output. The production of natural gas was estimated at 23.0 million cubic metres, 5.9 million cubic metres less than the previous year's volume, resulting from a reduction in oil production. Consequently, sales of natural gas also declined by almost 13%. Water consumption for the first eight months of the year remained basically unchanged from the 2002 figure.

#### Other Non-Traded Sectors

Driven by the strong performance in tourism, wholesale and retail sector activity climbed by 3.1% in 2003, compared to only 1.0% in 2002. In accordance with the slowdown in the rate of government expenditure, the rate of increase in real government value-added fell to 1.3%, following growth of 3.0% in 2002. Activity in transport, storage and communications strengthened by 1.3%, after a 3.0% contraction in the previous year, and reflected a surge in retained imports. Additionally, business and other services output rose by 2.0%, in contrast to a 2.4% reduction a year earlier.



### New Licences Issued in the IBFS Sector

	1999	2000	2001	2002	2003
International Business Companies	326	456	210	260	274
Exempt Insurance Companies	5	13	7	11	15
Exempt Insurance Management Companies	1	0	1	3	1
Societies with Restricted Liability	32	47	22	26	31
Offshore Banks	5	7	5	3	2
Total	369	523	245	303	323

Source: Ministry of Industry and International Business, International Business Division, Supervisor of Insurance and Central Bank of Barbados

#### *International Business and Financial Services (IBFS)*

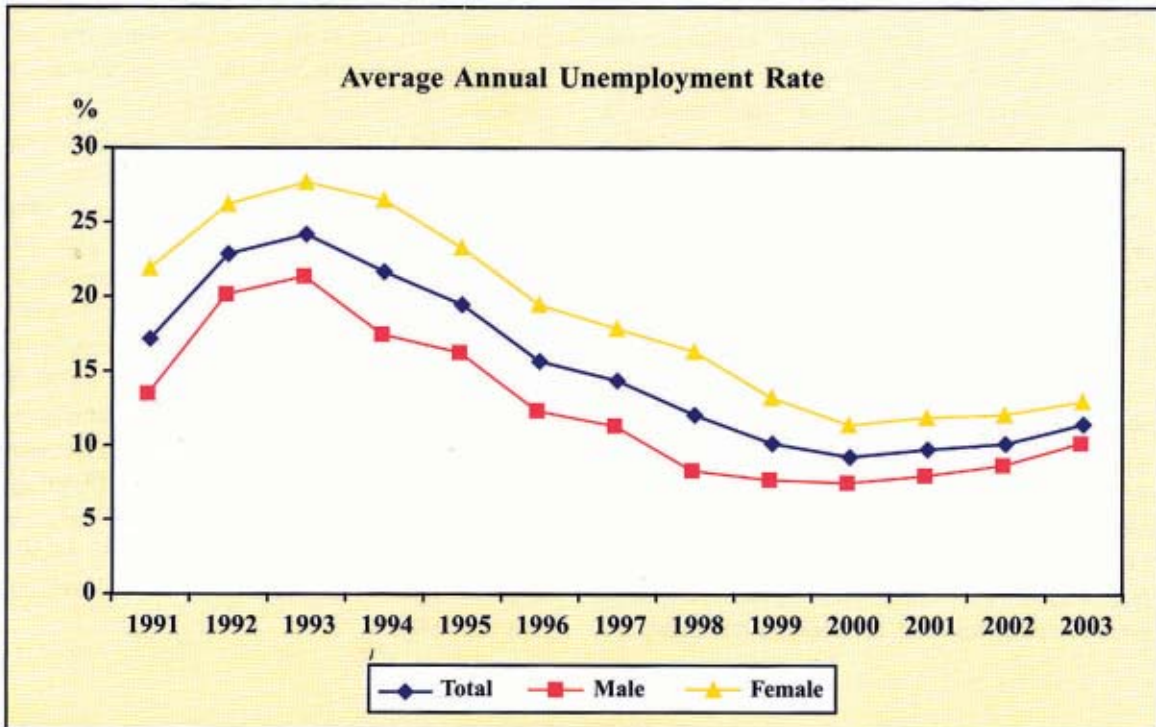
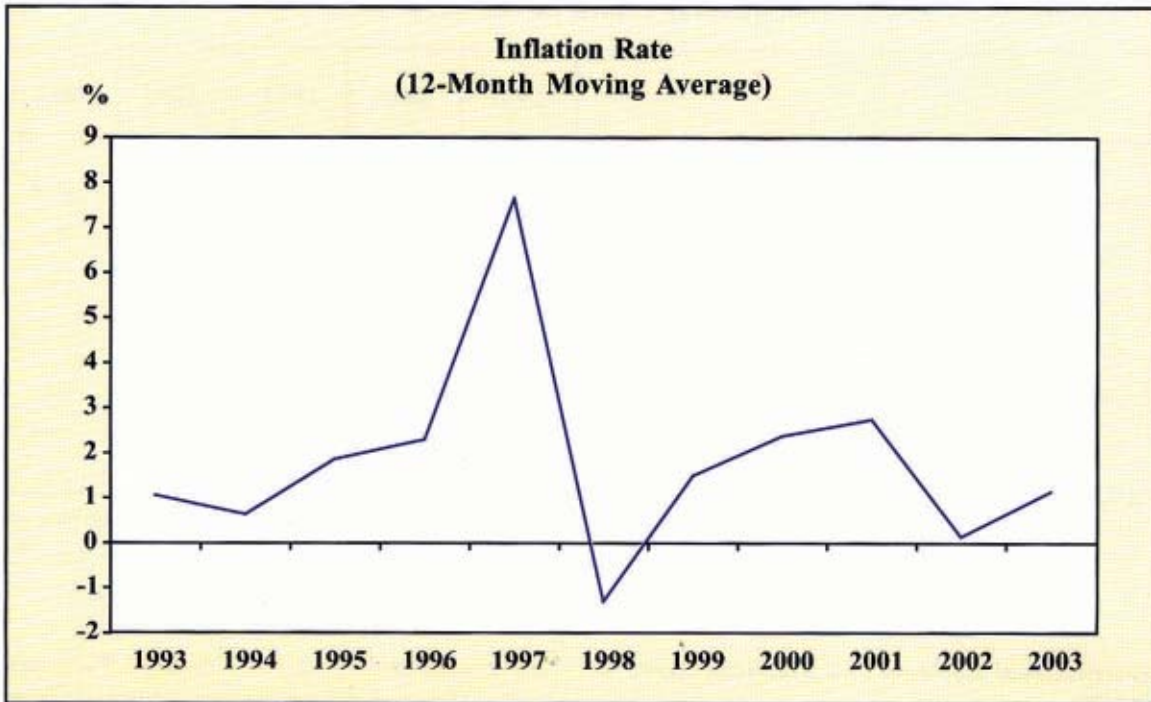
The IBFS sector performed relatively well during the review period, with 323 new licences being issued compared to 303 new registrations in 2002. Licences for new international business companies totalled 274, compared to 260 new licences in 2002. Fifteen licences were granted to exempt insurance companies in 2003, four more than in the previous year. Additionally, 31 new societies with restricted liability were licensed to operate internationally. However, licences issued to exempt insurance management companies and offshore banks declined to one and two, respectively, in 2003.

#### *Prices and Employment*

At the end of December, the rate of inflation was 1.5%, compared to the same period in 2002 when prices remained basically unchanged. The principal reasons for this development were accelerating fuel prices, and higher food and medical and personal care costs. The fuel and light index grew by approximately 3.7%, in contrast to a decline of 3.6% one year earlier, while price increases for food, transportation and medical

and personal care were 2.8%, 3.2% and 3.9%, respectively. However, there were notable declines in the average prices of clothing and footwear (3.1%), household operations and supplies (2.4%) and alcoholic beverages and tobacco (2.4%).

Although there was an increase in the number of persons employed during 2003, the average unemployment rate rose by 0.7 of a percentage point to 11.0%. In effect, the job opportunities generated were not sufficient to offset the expansion in the labour force. The average unemployment rate for males was 9.6%, approximately 0.9 of a percentage point higher than in 2002, while the female unemployment rate rose by 0.5 of a percentage point to 12.6%. The most significant job losses were recorded in the finance, insurance and business services, where almost 2,000 net jobs were lost due primarily to mergers and acquisitions of businesses. However, offsetting gains were recorded in general services, wholesale and retail and government services. Approximately 800 net new jobs were generated during the review period in contrast to the same period in 2002 when an estimated 2,200 jobs were lost.





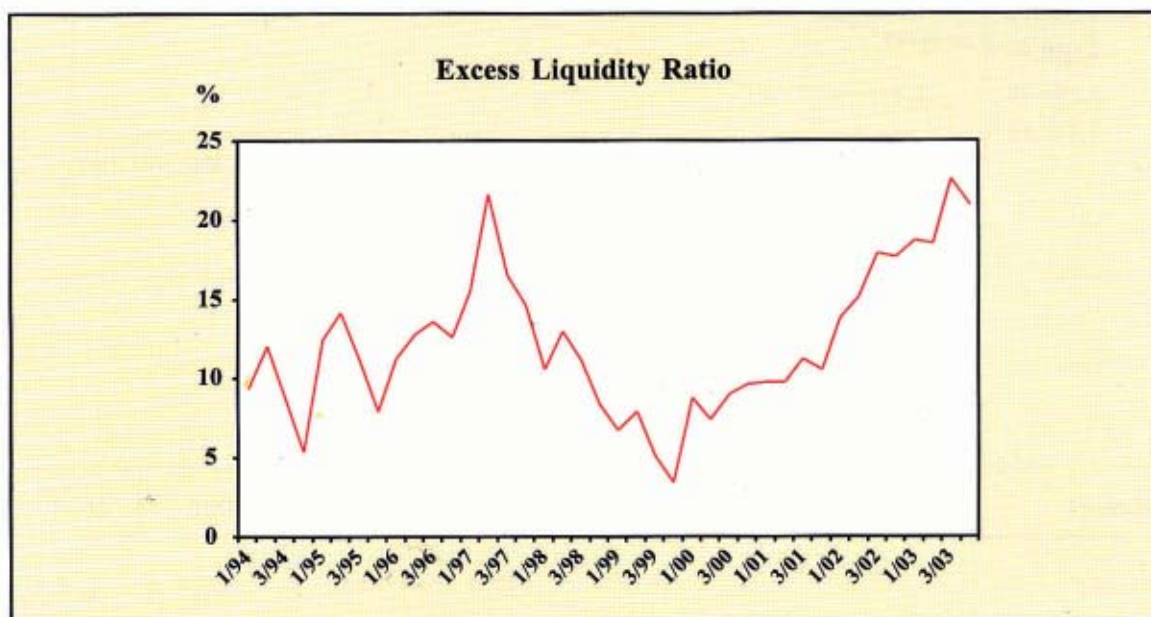
## Financial Sector

### *Liquidity and Interest rates*

High excess liquidity continued to be evident in the banking system in 2003 as credit demand lagged the expansion in economic activity. The excess liquidity ratio expanded by just over three percentage points in the review period, compounding the effects of the 8.6 percentage point increase in 2002. The 2003 end-of-year figure of 20.9% was over twelve percentage

points higher than the average excess liquidity ratio of the 1993 to 2000 period. Unlike the preceding year, however, most of the expansion in excess liquidity occurred in the third and fourth quarters as Government, and to a lesser extent, the private sector, deposited investment proceeds in the banking system.

Despite the historically unprecedented level of surplus funds in the banking system, the overall loan rate declined by only 0.19 of a percentage point, while prime-lending rates remained unchanged throughout the year. In contrast, mortgage interest rates ranged from 6.5% to 7.5%, compared to the previous year's range of 7.5% to 9%. Treasury bill rates proved altogether more responsive to the burgeoning level of liquidity, with the resulting competitive bidding for the available supply of treasury bills pushing down



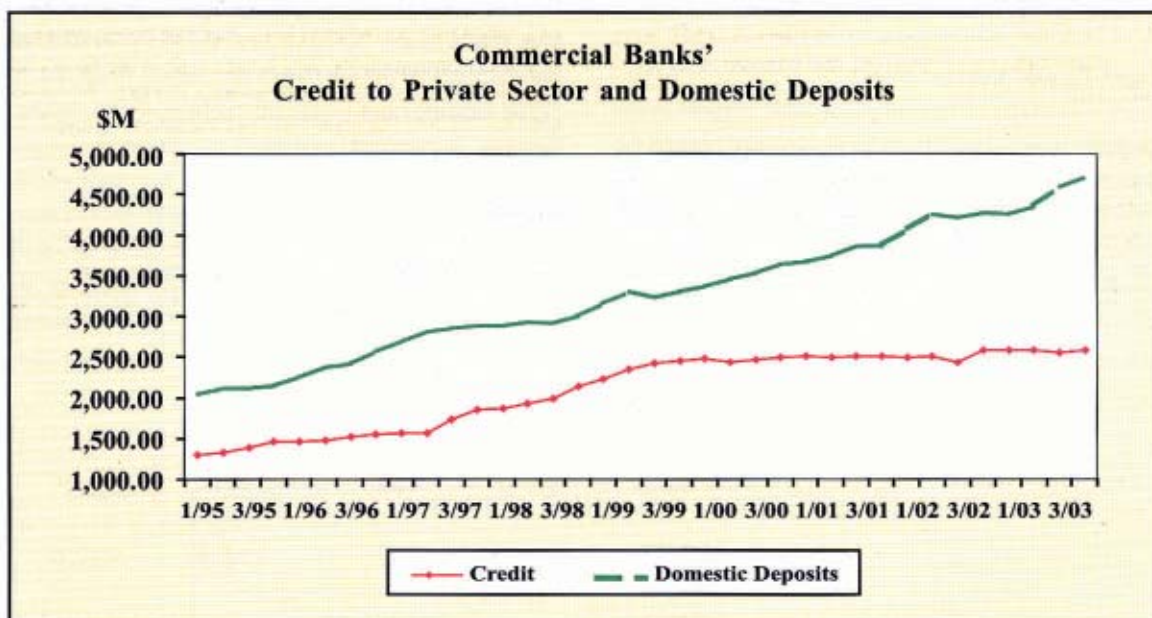
points higher than the average excess liquidity ratio of the 1993 to 2000 period. Unlike the preceding year, however, most of the expansion in excess liquidity occurred in the third and fourth quarters as Government, and to a lesser extent, the private sector, deposited investment proceeds in the banking system.

After the aggressive monetary easing of the previous year, the Central Bank held the minimum deposit rate unchanged at 2.5%, the figure at the end of 2002. One policy change implemented by the Bank in 2003, was the suspension of its policy that had been introduced in 2002 of imposing indicative interest rates on selected loans.

the yield by 0.87 of a percentage point, to a record low of 0.64% by year-end.

### *Credit*

Credit from commercial banks declined during most of 2003, with lending to the non-financial private sector falling by \$54.8 million between the start of the year and mid-November. However, the private sector credit demand rallied in the final six weeks of the year to end 1% above the 2002 end-of-year figure. Among sectors benefiting from an expansion in loan demand in 2003 was tourism, where borrowings surged by \$49.3 million, following an effective falloff in 2002. Similarly, rising credit flows to building material and



**Credit to the Non-Financial Private Sector**  
**By Financial Institution**  
**(\$Million)**

Source	1999	2000	2001	2002	2003 <sup>P</sup>
BMFC	110.9	127.2	147.1	164.3	175.0
Credit Unions	265.2	302.7	349.2	372.7	430.9
Finance Companies	126.6	143.2	171.5	124.3	128.1
Commercial Banks	2,465.7	2,504.2	2,512.6	2,599.2	2,626.3
Trust Companies	378.6	423.0	446.4	442.3	440.6
Insurance Companies	326.0	355.7	344.8	347.4	347.4
<b>Total</b>	<b>3,673.0</b>	<b>3,856.0</b>	<b>3,971.6</b>	<b>4,050.2</b>	<b>4,148.3</b>

Source: Central Bank of Barbados

P: Provisional

metal producers in the fourth quarter resulted in credit to manufacturers expanding by \$14.4 million in 2003, compared to a \$6.5 million in 2002. The bellwether personal lending category grew by \$56.9 million, due to a \$74.8 million upswing in mortgages for private dwellings, especially in the latter half of the year. Credit

demand was uneven, however, with several sectors registering declines in lending. The sharpest contraction in borrowing occurred in the miscellaneous category, where bank credit fell by \$77.4 million, as a telecommunications company repaid a large loan. Bank lending to agriculture fell by \$3.8 million, as



advances made to food-crop farmers contracted sharply. Other sectors posting declines in credit were transportation (\$10.2 million) and construction companies (\$21.4 million).

Outside the non-financial private sector, statutory bodies absorbed most of the increased bank lending for the second year in succession. Credit to statutory bodies rose by \$60.6 million during the year, with a large proportion of this accounted for by the expanding debts of the Barbados Water Authority and

the Transport Board. The repayment in January 2003 of a large merger-related loan that had been incurred in 2002, dominated lending trends within the financial institutions category. Consequently, credit to financial entities fell by \$98.7 million over the review period, to end the year at \$59.3 million.

#### Deposits

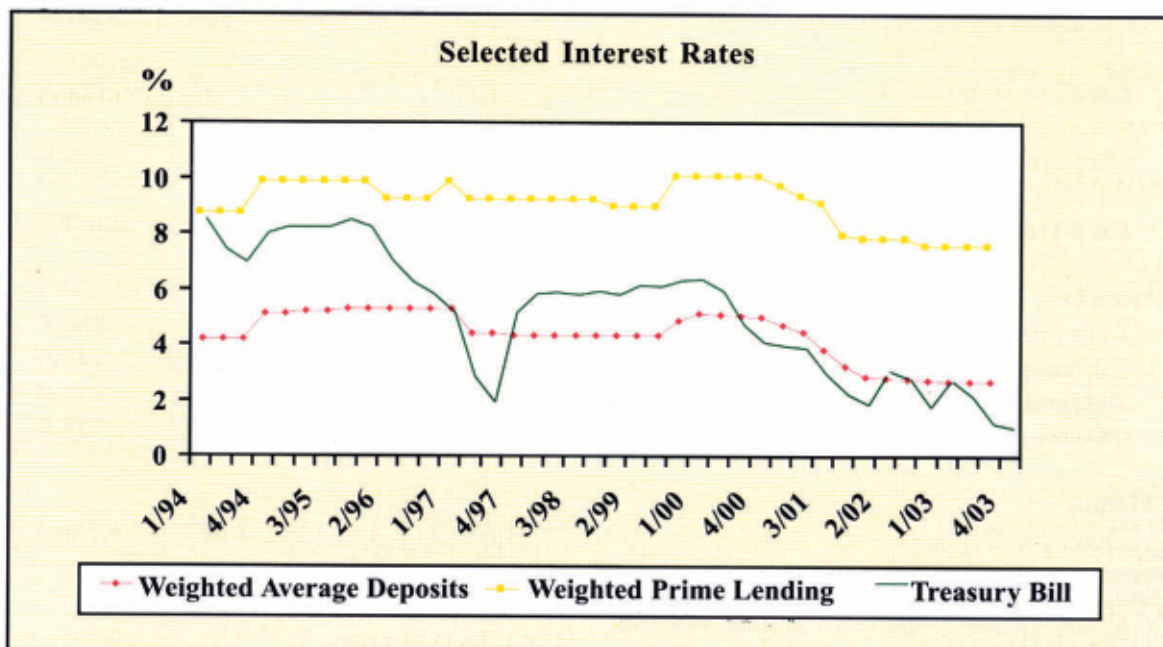
Domestic deposits grew by \$441.1 million (10.2%) in 2003, roughly in line with the 10.6% expansion of the preceding year. Deposits of private individuals

### Domestic Deposits at Financial Institutions (\$Million)

Institutions	1999	2000	2001	2002	2003 <sup>P</sup>
Trust Companies	336.8	390.5	398.3	426.8	388.0
Commercial Banks	3,390.0	3,693.4	3,923.3	4,448.1	4,858.7
Credit Unions	70.9	87.1	113.2	138.1	154.0
Finance Companies	132.5	177.8	235.6	162.1	168.5

Source: Central Bank of Barbados

P: Provisional





climbed by \$221.5 million, more than twice as fast as the \$82.9 million expansion in 2002, as increasing domestic incomes pushed up personal deposits. Business deposits also benefited from the resurgence in economic activity, growing by over \$70.2 million in 2003, compared to a \$28.3 million in 2002. Divestment proceeds stemming from the sale of the Barbados National Bank resulted in Government deposits climbing by \$41.6 million, while the deposits of statutory bodies expanded by \$3.3 million.

#### *Non-Bank Financial Institutions*

The deposits at non-bank financial institutions fell by an additional \$16.5 million in 2003, following the

\$20.1 million contraction of 2002. Deposits at trust and mortgage finance companies contracted sharply over the review period, while finance houses recorded a small improvement in their deposit base. However, savings at credit unions expanded by \$15.6 million to reach \$154 million, while share capital grew by \$37.1 million.

Lending by non-bank financial institutions increased by \$71.0 million in 2003, in contrast to the \$8.0 million reduction in 2002. Credit unions provided the principal impetus behind the expansion of non-bank lending, extending their loan portfolio by \$58.2 million,

### Selected Indicators of the Banking System (\$Million)

	1999	2000	2001	2002	2003 <sup>P</sup>
<b>Net International Reserves</b>	679.4	1,080.9	1,224.6	1,711.3	<b>2,077.3</b>
Monetary Authorities	612.8	968.6	1,413.7	1,366.4	<b>1,501.4</b>
Commercial Banks	66.6	112.2	120.0	344.9	<b>575.9</b>
<b>Net Domestic Assets</b>	2,391.1	2,253.6	2,002.9	2,186.4	<b>2,096.6</b>
Credit to Public Sector	322.5	188.0	66.7	347.7	<b>488.7</b>
Central Government (net)	573.9	471.4	242.0	654.4	<b>730.6</b>
Other Public Sector	-251.4	-283.5	-308.7	-306.7	<b>-242.0</b>
Credit to Rest of Financial System	94.6	137.3	115.9	167.1	<b>155.6</b>
Liabilities to Other Financial Inst.	250.1	301.7	265.8	403.9	<b>390.0</b>
Credit to the Private Sector	2,465.7	2,504.2	2,552.5	2,599.2	<b>2,626.3</b>
<b>Monetary Base</b>	501.3	562.9	647.4	908.3	<b>1,085.4</b>
Liabilities to Commercial Banks	198.7	252.2	335.0	570.8	<b>756.5</b>
Currency Held by Banks	88.8	92.0	105.7	103.9	<b>145.5</b>
Demand Deposits at Central Bank	109.9	160.2	229.3	466.9	<b>610.9</b>
Currency Held With the Public	302.7	310.7	312.4	337.5	<b>329.0</b>
<b>Memo:</b>					
Domestic Deposits	3,362.7	3,689.2	3,913.5	4,327.3	<b>4,768.4</b>

Source: Central Bank of Barbados

\*: All non-commercial bank data to September/October

P: Provisional



## Barbados Stock Exchange End-of-Year Prices

Company	2001	2002	2003	% Change
Almond Resorts	1.3	1.2	1.3	8.3
A.S. Brydens	4.9	4.1	4.3	4.9
Banks Holdings	3.0	3.0	3.0	(1.7)
Barbados Dairy Industry	6.5	8.1	8.0	(1.3)
Barbados Farms	0.6	0.7	0.8	15.7
Barbados National Bank	1.8	1.8	3.5	91.7
Barbados Shipping and Trading	3.0	3.4	5.3	58.2
BICO	1.9	1.9	2.1	10.8
BWIA	2.5	2.5	2.5	-
C&W Bartel	10.1	-	-	-
C&W BET	4.2	-	-	-
C&W Barbados		2.6	1.5	(42.3)
Cave Shepherd	3.1	2.7	2.8	7.4
CIBC W.I. Holdings	3.3			
First Caribbean International Bank		3.4	2.7	(22.1)
Courts	6.3	5.7	5.2	(8.8)
Goddard Enterprises Ltd*	5.9	5.2	3.1	19.2
Grace, Kennedy & Co. Ltd	1.3	1.3	1.6	28.0
Insurance Corporation of Barbados	1.3	1.3	4.0	220.0
Life of Barbados	2.7	5.1	-	-
Light and Power Holdings	8.9	8.8	9.0	2.3
McEearney Alstons	5.6	5.0	4.5	(10.0)
Neal and Massy	4.4	4.5	7.6	68.9
RBTT Fin. Holdings Ltd	4.5	5.1	9.6	88.2
Sagicor	-	-	4.1	-
Trinidad Cement Ltd.	1.5	1.7	1.1	(34.6)
West Indian Biscuit Co.	6.1	6.6	7.3	10.6
West Indian Rum Distillery	2.2	3.2	5.9	85.7

Source: Barbados Stock Exchange

\*:This stock was split 2 for 1 in April 2003



due to a stock-split. Holders of this stock from 2002 would however have garnered a 31% return over the year. Local market capitalisation rose by 2.4% during the year to surpass the \$7 billion threshold in December.

### ***Mutual Funds***

Domestic mutual funds benefited from rising equity prices on both the local and international stock markets during 2003. While most funds showed increases in net asset values, the performance of equity funds was particularly stellar. The best performing fund

was the Fortress Caribbean Growth Fund, which increased by 19.1% to \$2.81 per share. This was closely followed by the BNB Capital Growth Fund, that climbed by 17.5%, and the CLICO Balanced Fund (up 14.4%). Property funds also did well with the BNB Property and Unlisted Security Fund rising 10.7%, while Fortress Caribbean Property Fund was unchanged. The fund with the lowest percentage capital appreciation in the period under review was the Fortress High Interest Growth Fund, which grew by half a percentage point.



### **The Secondary Mortgage Market: History and Benefits**

The level of homeownership is a key indicator of the quality of life in a country. Despite a pervasive array of initiatives to boost owner-occupied housing, mortgage financing has often been the principal barrier to widespread homeownership in most countries. Currently, no other country equals the United States in offering mortgages with a thirty-year term to maturity, at fixed mortgage rates. In countries where fixed-rate mortgages are common, the average period over which the rate is fixed is usually between five and ten years. Typically, more countries offer variable-rate mortgages where the lender adjusts interest rate payments every month.

Where many lenders hold loans until maturity, difficulties exist in selling loan obligations to other parties. Furthermore, geographically limited lending can result in high default rates as a result of exposure to local economic fluctuations.

The US no longer holds a monopoly on Secondary Mortgage Markets (SMMs), as this financial innovation has spread throughout the developed world, and also, to the developing economies. Regionally, Trinidad and Tobago's Home Mortgage Bank was incorporated in 1985 with its primary function being the creation of an organised mortgage market, thereby enabling the bank to increase the volume and efficiency of residential mortgage supply at affordable rates. More recently, the Eastern Caribbean Home Mortgage Bank was set up to facilitate a similar objective. In each case, while the Government is a major investor in the secondary mortgage market institution, it was not the majority owner. This was to ensure that these institutions did not fall prey to the malaise of poor profitability, that commonly afflicts statutory corporations and government agencies.

Mortgage market institutions have been fairly successful in the Caribbean. Total mortgages at the Eastern Caribbean Home Mortgage Bank (ECHMB) for example, grew from \$11 million in fiscal year 1998/99 to \$66.7 million in 2002/03. Asset growth has not been at the expense of the quality of the mortgage

portfolio however, as the ECHMB has focused on mortgages that conform to its purchasing criteria, especially the debt-to-income and loan-to-value ratios. To reduce the incentive for mortgage originators to offload low quality loans on their books to the ECHMB, the Bank purchases these mortgages with a recourse option effectively shifting the default risk back to the originator. These policies have resulted in the net income of the ECHMB rising in every year over the past five years, including an 8.6% increase in profits in 2003. The broad similarities between Eastern Caribbean countries and Barbados suggest therefore, that it is possible for a secondary mortgage market to be successful despite the comparatively small size of our economies.

Barbados' proposed secondary mortgage market shares a similar objective with its regional counterparts. The secondary market institution would operate by purchasing loans from mortgage lenders and issuing bonds backed by the cash flows from the mortgages. Mortgage-backed securities are intrinsically more liquid than individual mortgages. The majority of investors value this liquidity, and are usually more than willing to accept a lower yield to get it. Thus, converting non-liquid mortgages into liquid securities puts significant downward pressure on the rates charged to borrowers. By infusing banks, credit unions, and other originating institutions with more cash, a virtuous cycle is established, which enables mortgage originators to make additional home loans. The incentive for mortgage originators in selling these mortgages to the secondary money market institution is that the mortgage originator can both earn fees and, at the same time, reinvest at a higher rate than the required rate for residential mortgages.

A useful spin-off effect of the SMM is the potential deepening of national capital markets, as more complex financial products, such as pass-through securities<sup>1</sup>, are created to meet the needs of an increasingly diverse pool of investors. Credit risk evaluation should also be enhanced because valuers use standardised mortgage criteria to assess loans.

Several key preconditions are required for the success of the secondary mortgage market. Among these



are a stable macroeconomic environment, a developed legal environment, and effective mortgage administration techniques. Barbados already possesses many of these characteristics. In addition, the success of the market requires that mortgage originators perceive an opportunity cost of holding mortgages. In the current environment of high liquidity, some mortgage originators may not have sufficient incen-

tive to sell loans to the secondary money market institution. However, this situation is unlikely to persist in the long run when the banking system reverts to more typical levels of liquidity. Thus, in the medium to long-term even these highly liquid institutions are likely to view the secondary mortgage market as an attractive proposition.

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<sup>1</sup> *Pass-through securities are the simplest form of SMM instruments where a proportion of the principal and interest paid by the original mortgagor is transferred to the holder of the investment certificate. The advantage of having a claim on a pool of mortgages rather than on an individual mortgage is that the buyer of the pass-through security is somewhat shielded from default risk.*



## Government Operations

### Revenue

During 2003, total Government revenue grew by 7.7% to an estimated \$1,843.8 million, a reversal from the decline of 2.0% during the previous year. Tax revenue, down by 3.0% in 2002, recovered in 2003 to grow by 8.8%. The improvement in this category occurred primarily on the strength of indirect taxes and to a lesser extent, direct taxes, on account of higher corporate revenues. On the contrary, non-tax revenue and grants registered a decrease of 6.1% during the review year. The total Government revenue to GDP ratio of 34.2% was two percentage points above the ratio a year ago.

Direct taxes rose by 5.7% during 2003, the result of growth of 26.0% in corporation taxes, surpassing the average expansion of 10% between 1997 and 2001. The increase in corporation taxes was boosted largely by higher corporate profitability as well as by the collection of arrears. In the previous year, corporation tax revenues declined by 21.7%. Property tax receipts were higher by about 4% or \$3.9 million during 2003 but personal taxes, up by 7.0% in 2002, were lower by 2.7% in 2003, as a result of a downward revision to the personal tax rate. It was the first occasion since 1999 that a contraction in personal tax revenue had been recorded.

Indirect tax collections were up by an estimated 11.2% during 2003, in contrast to a decrease of 0.1% one year earlier. The expansion was the highest since 1994 when growth of 10% was reported. Revenues from VAT, after increasing by 2.9% in 2002, grew by 9.2% in 2003, mainly the result of higher economic activity, while import duties rose by 4.9% on the strength of increased demand for imports. The improvement in excise taxes (\$22 million or 19.4%) was driven primarily by rising imports of motorcars.

### Expenditure

Total Government expenditure declined by 1.0% to an estimated \$2,009.2 million (or 37.2% of GDP), in comparison with growth of 5.1% during 2002. The contraction in expenditure reflected a sharp cutback in on-budget capital spending, which more than offset the rise in current expenditure.

Driven primarily by greater outlays on interest pay-

ments and transfers and subsidies, current expenditure grew by 3.9% in 2003 compared to 3.6% in 2002. Interest payments were higher by 1.6% on account of a rise in domestic debt. The expansion in transfers and subsidies (24.7%) largely reflected an expenditure reclassification as the administration of the Queen Elizabeth Hospital (QEH) was placed in the hands of a statutory board in the second quarter of 2003. Consequently reductions were recorded for wages and salaries (7.4%) and goods and services (7.2%).

Following an increase of 20.6% in 2002, Government's on-budget capital expenditure contracted by some 23.7% in 2003. The fall-off in capital expenditure reflected the winding down or completion of some of Government's major capital works projects such as the South Coast Sewerage Project and the Forensic Science Centre, as well as the reallocation of capital outlays on the QEH to transfers and subsidies. However, off-budget capital expenditure by Government on the Hilton Hotel and the Grantley Adams International Airport as well as spending by Barbados Tourism Investment Inc. (BTII) continued during 2003.

### Financing

The fiscal deficit of \$165.4 million was financed primarily from foreign sources. Receipts from foreign sources came from project funds (\$63.9 million) and divestment of shares in Barbados National Bank (\$189 million). As far as domestic financing was concerned, additional holdings of Government instruments amounting to \$45.7 million were attributed to the National Insurance Scheme while Government reduced its deposits at the Central Bank by \$69.3 million. Commercial Banks' holdings of Government instruments declined by \$1 million.

### Debt

The external debt stock of Central Government continued to fall and at the end of 2003 was estimated at \$1,333.1 million compared to \$1,345.3 million in the previous year and \$1,359.4 million in 2001. However, total domestic debt expanded by around 4.0% (\$104.7 million) to reach around \$2,710.1 million, after growing by 11.7% one year earlier. Long-term debt of approximately \$2,122 million was 1.1% higher (\$22 million) as a result of increased debenture holdings by deposit money banks, trust companies, insurance companies and the National Insurance Scheme. Short-term debt grew by \$82.5 million on account of a rise in



**Summary of Government Operations**  
(\$Million)

	1999	2000	2001	2002	2003 <sup>P</sup>
<b>Total Revenue</b>	1,560.8	1,707.0	1,746.5	1,712.2	<b>1,843.8</b>
Tax Revenue	1,472.8	1,589.0	1,634.6	1,585.0	<b>1,724.4</b>
<i>Direct Taxes</i>	608.6	679.7	739.9	691.3	<b>731.1</b>
Personal	257.9	288.7	316.1	338.0	<b>329.0</b>
Corporate	209.8	252.3	253.6	198.5	<b>250.1</b>
Levies	17.0	14.0	18.1	17.5	<b>4.7</b>
Property	91.5	91.9	108.1	97.8	<b>101.7</b>
Other	32.3	32.9	44.0	39.5	<b>45.6</b>
<i>Indirect Taxes</i>	864.2	909.2	894.7	892.8	<b>993.4</b>
Consumption	0.0	0.5	0.1	0.0	<b>0.0</b>
Stamp	13.2	12.1	16.5	10.9	<b>14.8</b>
VAT	438.0	501.0	488.4	502.4	<b>548.8</b>
Excises	174.6	158.8	154.6	113.4	<b>135.4</b>
Import Duties	138.9	132.7	131.5	162.6	<b>170.6</b>
Hotel and Restaurant	0.6	0.2	0.4	1.4	<b>0.0</b>
Other	98.9	104.1	103.6	104.3	<b>123.7</b>
<i>Non-Tax Revenue &amp; Grants</i>	88.0	118.0	111.9	127.2	<b>119.4</b>
Non-Tax Revenue	72.2	103.3	96.1	110.6	<b>102.7</b>
Grants	0.0	0.0	0.0	0.0	<b>0.0</b>
Post Office Revenue	15.8	14.7	15.7	16.6	<b>16.7</b>
<b>Current Expenditure</b>	1,410.9	1,502.8	1,612.4	1,671.0	<b>1,736.2</b>
Wages and Salaries	588.1	659.6	643.2	673.7	<b>632.6</b>
Goods and Services	163.0	181.7	197.9	217.4	<b>201.8</b>
Interest Payments	226.6	237.5	276.8	267.5	<b>271.8</b>
External	37.5	69.9	97.2	126.2	<b>105.2</b>
Domestic	189.1	167.6	179.6	141.3	<b>166.6</b>
Transfers & Subsidies	433.2	424.1	494.4	512.3	<b>638.9</b>
<b>Current Account Balance</b>	149.9	204.2	134.1	41.2	<b>107.6</b>
<b>Capital Expenditure and Net Lending</b>	267.1	282.4	316.1	357.6	<b>273.1</b>
Capital Expenditure	265.2	279.1	295.5	356.4	<b>271.8</b>
Net Lending	1.1	3.3	20.6	1.2	<b>1.3</b>
<b>Total Expenditure and Net Lending</b>	1,678.0	1,785.3	1,928.5	2,028.6	<b>2,009.2</b>
<b>Fiscal Balance</b>	(117.2)	(78.2)	(182.0)	(316.4)	<b>(165.4)</b>
<b>Fiscal Balance to GDP (%)</b>	(2.3)	(1.5)	(3.6)	(5.9)	<b>(3.1)</b>

Source: Accountant General and Central Bank of Barbados

P: Provisional



**Government Financing  
(\$Million)**

	1999	2000	2001	2002	2003 <sup>P</sup>
<b>Domestic Financing</b>	38.5	(130.5)	(145.4)	346.8	<b>(20.6)</b>
Central Bank	17.4	(267.3)	(297.4)	283.4	<b>69.3</b>
Commercial Banks	(88.5)	187.7	67.8	129.0	<b>(0.1)</b>
National Ins. Scheme	12.6	15.8	20.6	109.2	<b>45.7</b>
Other	(96.9)	66.7	63.7	(210.1)	<b>(138.7)</b>
<b>Foreign Financing</b>	78.7	208.7	327.5	(4.8)	<b>186.0</b>
Capital Markets	150.0	200.0	300.0	0.0	<b>0.0</b>
Project Funds	34.7	45.5	72.7	66.9	<b>63.9</b>
Amortisation	(106.0)	(36.8)	(45.3)	(62.1)	<b>(66.9)</b>
Divestment	0.0	0.0	0.0	0.0	<b>189.0</b>
<b>Total Financing</b>	117.2	78.2	182.0	316.4	<b>165.4</b>

Source: Accountant General and Central Bank of Barbados

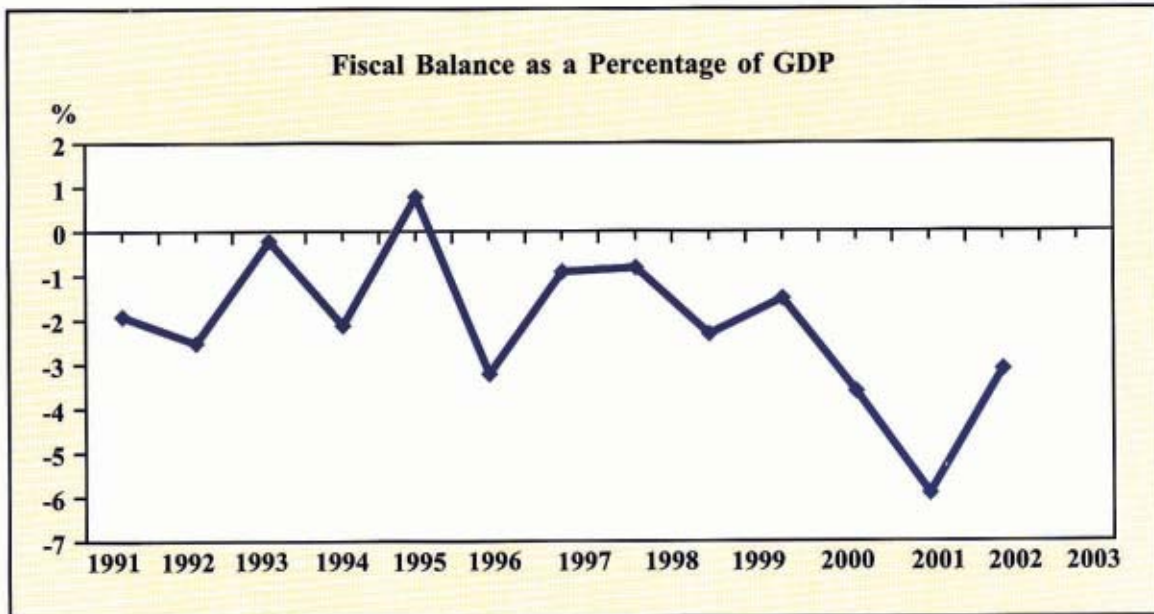
P: Provisional

**Central Administration National Debt  
(\$Million)**

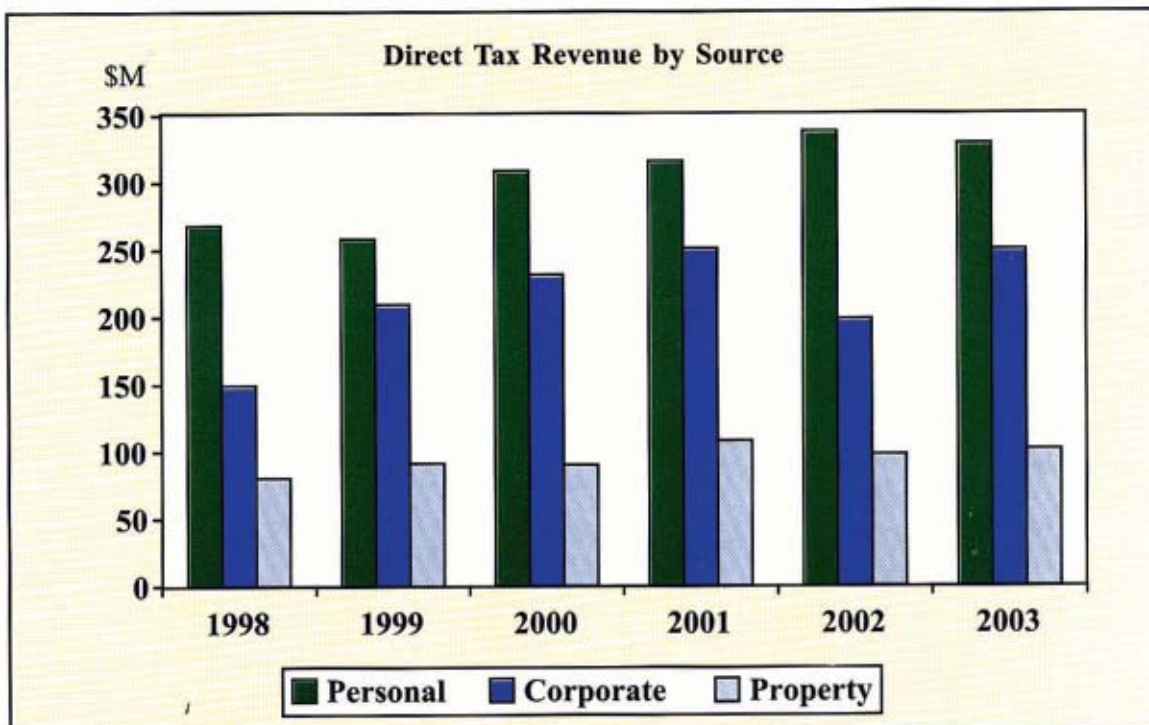
Period Ending	Domestic	External	Total
1998	2,141.4	677.7	2,819.0
1999	2,133.6	777.0	2,910.5
2000	2,204.0	1,028.3	3,232.4
2001	2,333.3	1,359.4	3,692.7
2002	2,605.4	1,345.3	3,950.7
<b>2003<sup>P</sup></b>	<b>2,710.1</b>	<b>1,333.1</b>	<b>4,043.2</b>

Source: Accountant General and Central Bank of Barbados

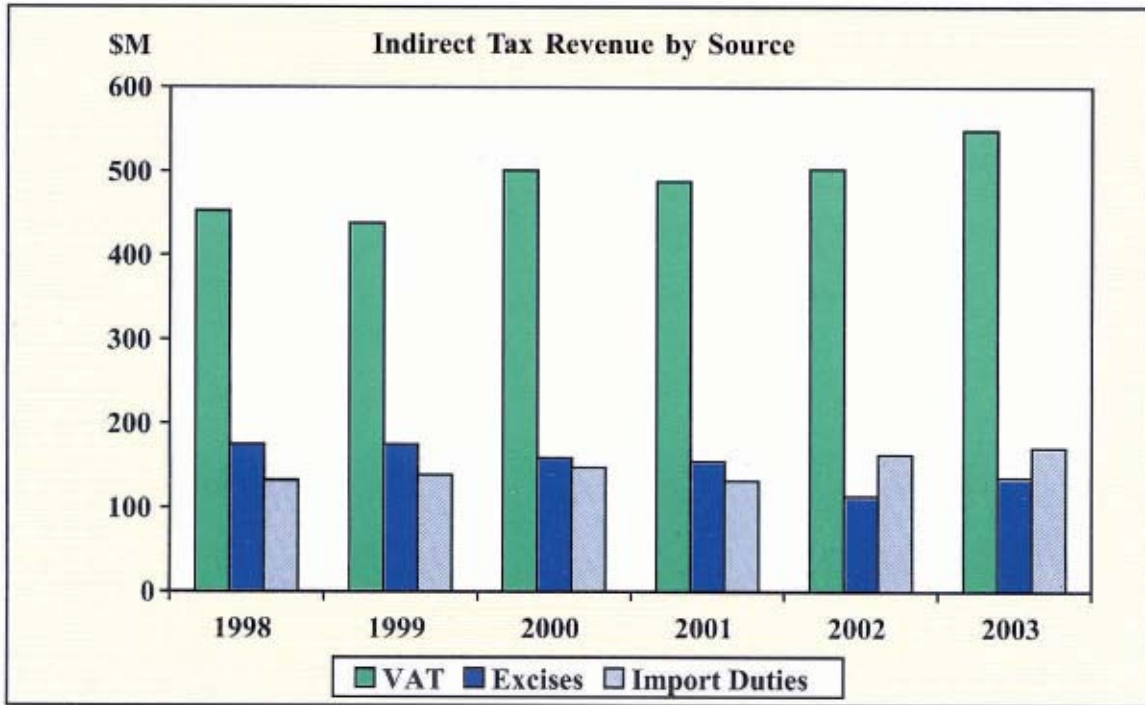
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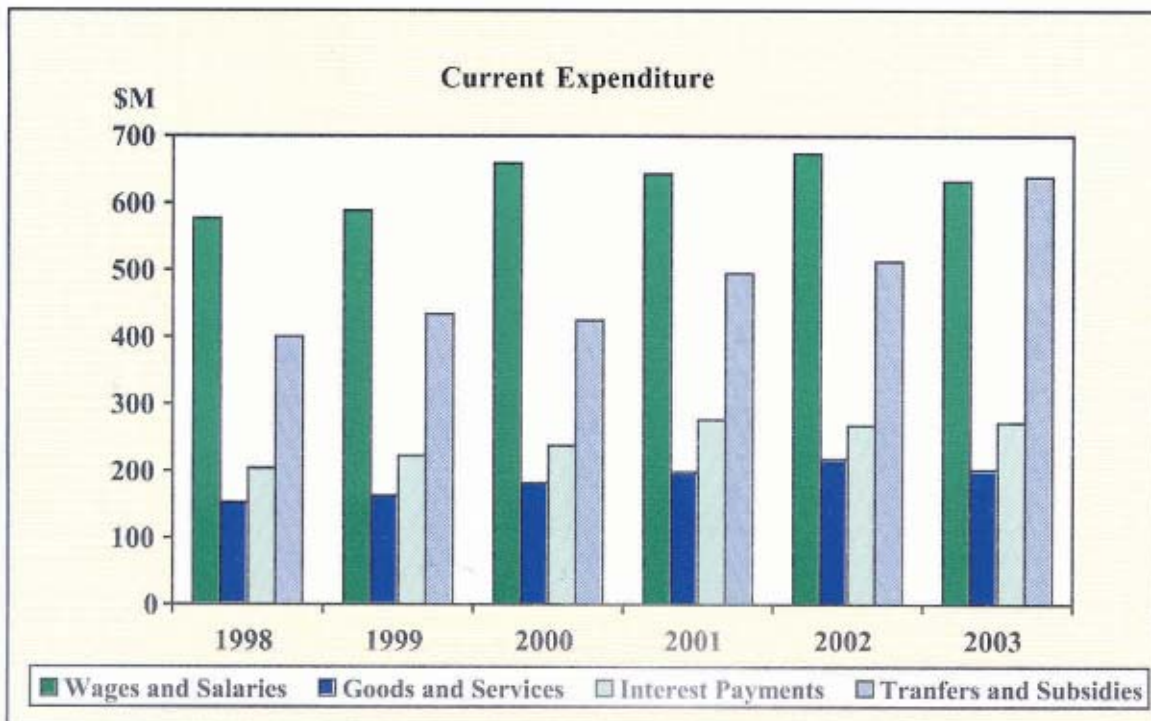
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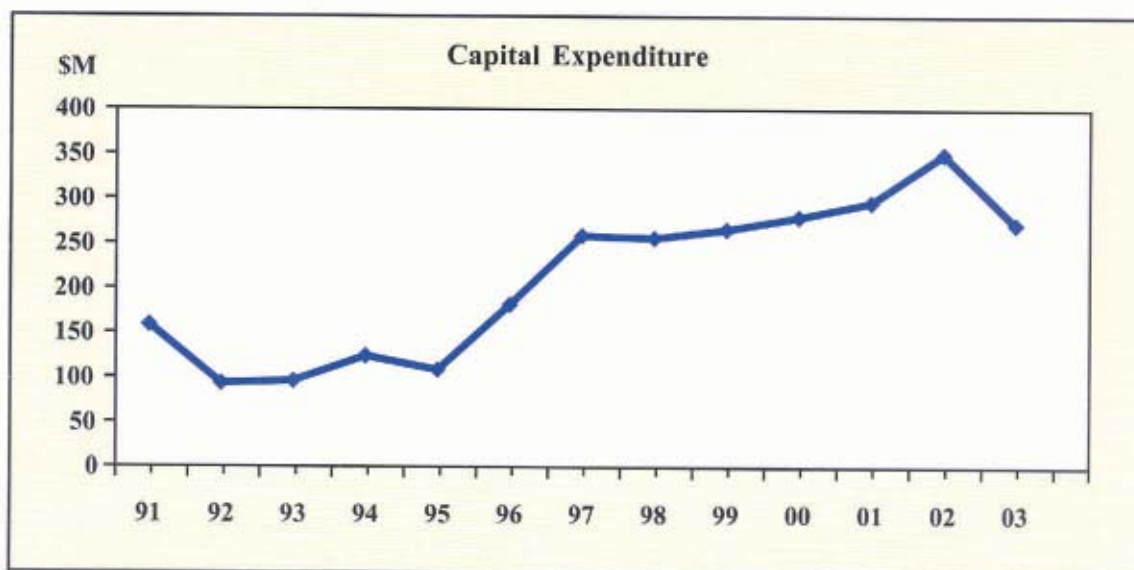
Source: Central Bank of Barbados



Source: Central Bank of Barbados



Source: Central Bank of Barbados



treasury bill holdings by commercial banks and trust companies.

At the end of 2003, the value of outstanding external debt guaranteed by Government totalled around \$94 million, compared to \$117.4 million at the end of 2002. The main beneficiaries of these guaranteed loans during 2003 were the Transport Board, the Barbados Light and Power Co. Ltd., the University of the West Indies, the Barbados Agricultural Management Company and the Barbados Agricultural Development and Marketing Corporation.

The value of outstanding guaranteed debt remained unchanged at the end of 2003 at \$344.7 million. The main beneficiaries were Barbados Tourism Authority (BTA), Barbados Tourism Investment Inc (BTII), Barbados Water Authority (BWA), Barbados Agricultural Management Company (BAMC) and National Housing Corporation (NHC)

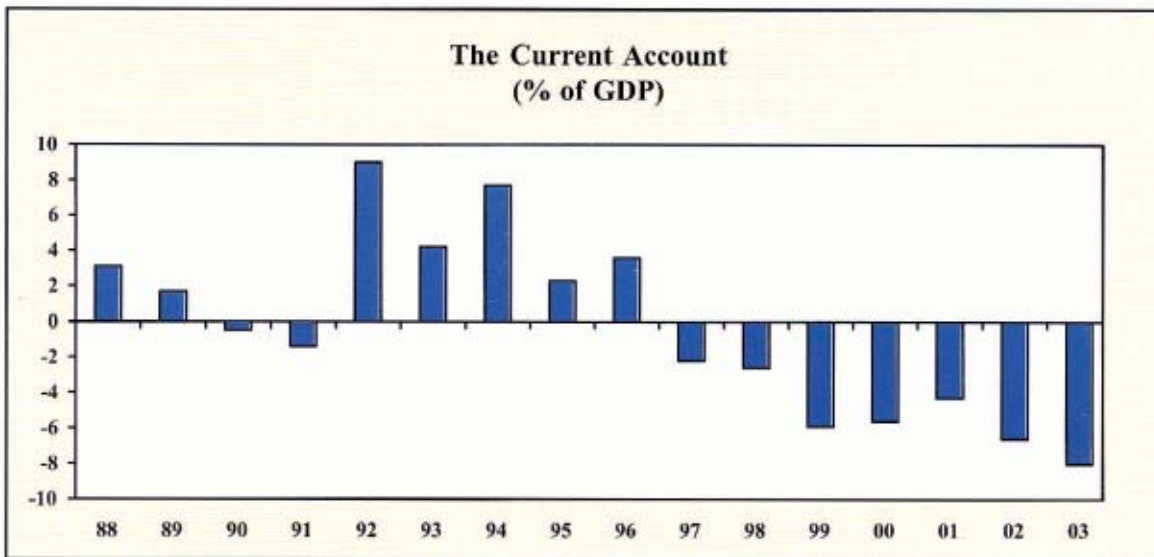
### Foreign Trade and Payments

#### *Current Account Developments*

During 2003, the current account deficit expanded to 8% of GDP (\$430.6 million), compared to 6.6% of GDP in 2002, and an average of 5% of GDP in the previous five years. This outturn, the highest level on record, was caused primarily by a surge in retained imports, which exceeded the higher earnings from net services.

Retained imports grew by 11.5%, ten percentage points greater than the increase recorded in the same period of 2002. Intermediate imports expanded for the second consecutive year, rising by 14% in 2003, mainly on account of higher imports of fuel, chemicals and construction materials, which advanced by 37.6%, 7.6% and 6.2%, respectively. Capital goods imports climbed by 14.2%, principally because of increased machinery imports. In addition, after advancing slightly by 0.5% in the corresponding period of 2002, consumer imports surged by 8.0%, buoyed by increased outlays of 5.8% on food and beverages, 22.9% on motor vehicles and 21.4% on furniture.

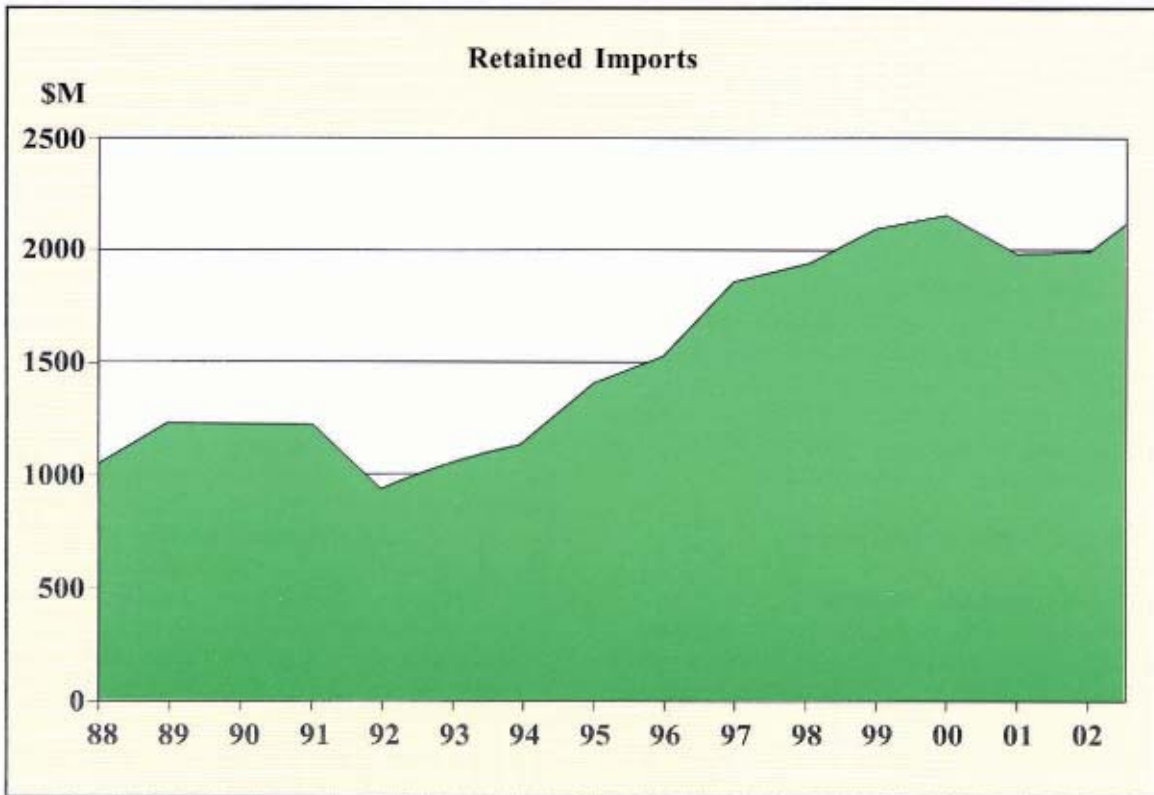
Domestic exports contracted by 1.1% compared to a fall of 5.5% a year ago, as gains in miscellaneous domestic exports were curbed by reductions in most of the other major categories. Exports of miscellaneous goods advanced by approximately 9.2%, compared to a relatively flat performance in 2002. The expansion in this category was led by growth in machinery and transportation equipment as well as fuel exports, which climbed by 111.4% and 9.6%, respectively. The appreciation of the euro against the dollar during the reporting period resulted in the value of sugar exports rising by 8.8% despite a significant fall in output. In contrast, food and beverages exports slumped by 18.2% during the review period, the fourth decline since 1999. Additionally, receipts from electronic components sold abroad contracted for the



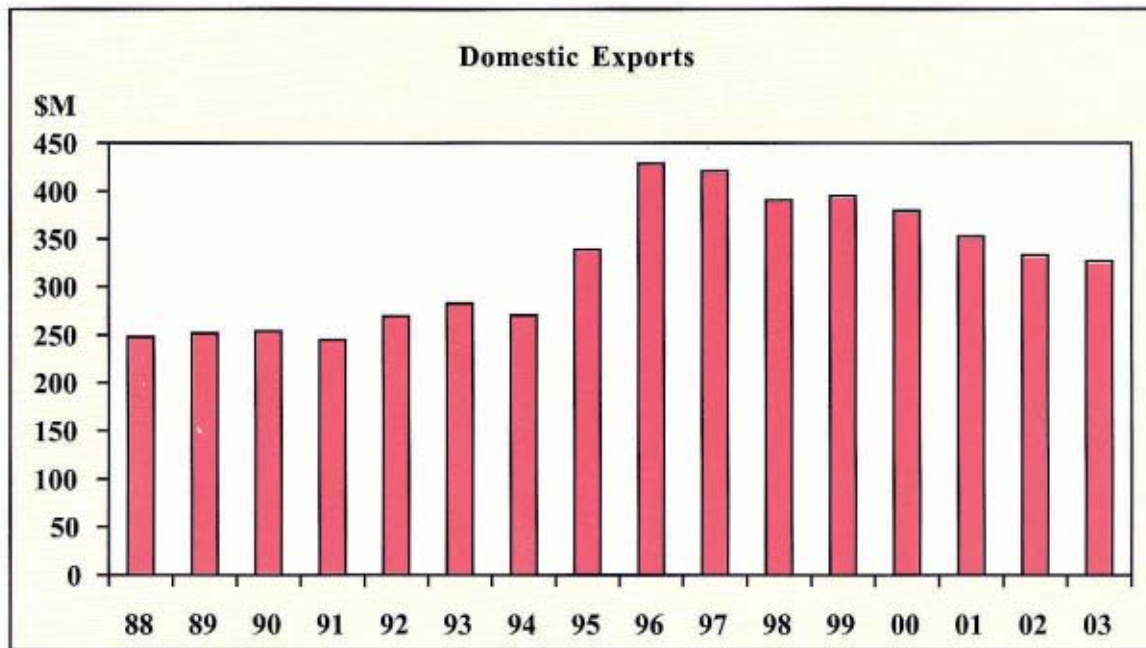
Source: Central Bank of Barbados

fourth consecutive year, decreasing on this occasion by 4.2%, while exports of chemicals remained virtually unchanged.

Net receipts from services rose by an estimated 6.4% (\$69.4 million), the first expansion recorded in three years. The increase mainly resulted from growth in



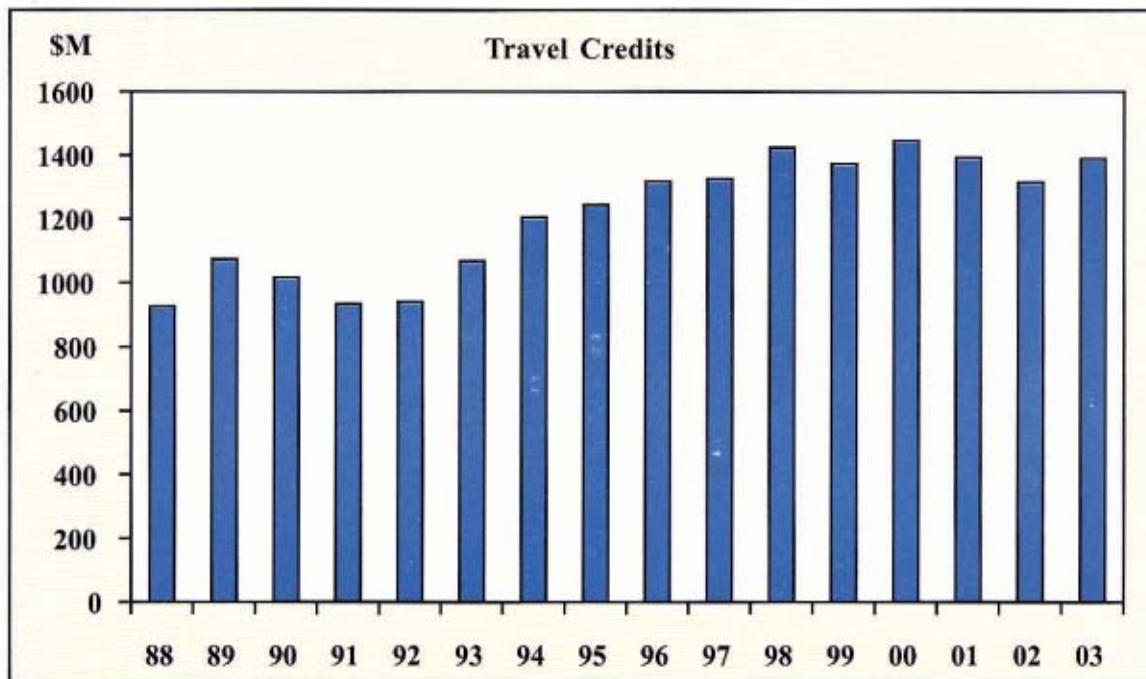
Source: Central Bank of Barbados



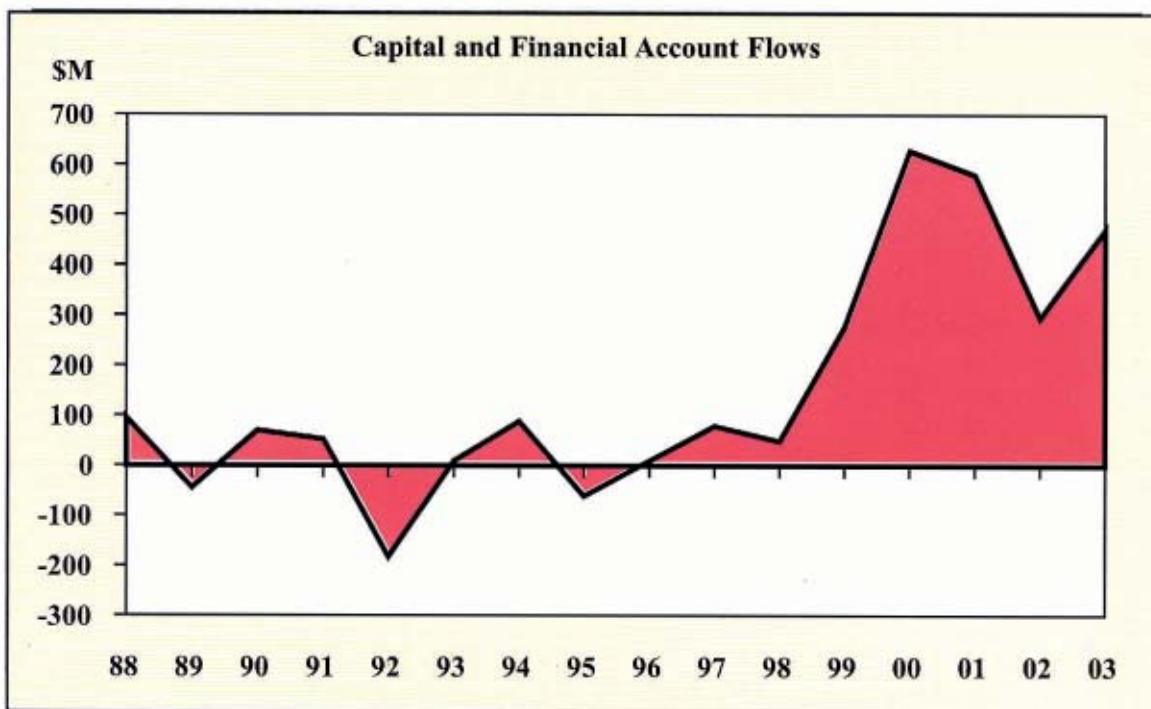
Source: Central Bank of Barbados

travel credits of 5.7% compared to a decline of 5.6% in 2002, and an average 1.3% reduction experienced during the last three years. Net transportation out-

flows rose when compared to 2002, on account of higher freight payments to non-resident firms as import demand stepped up, while net income outflows



Source: Central Bank of Barbados



fell because of lower foreign interest payments.

#### **Capital and Financial Account Developments**

The capital and financial account registered a surplus of approximately \$470.4 million, which was \$175.9 million more than in 2002. This was principally because of larger net long-term public and private capital and financial inflows. Net long-term public capital grew by \$141.7 million during the review period, in contrast to a decrease of \$58.3 million noted in the previous year; due in large part to government's receipt of approximately \$189 million in funds from its sale of shares in the Barbados National Bank to Republic Bank Ltd., as well as project fund inflows that amounted to approximately \$63.9 million. With regards to outflows, foreign public sector amortisation payments rose by about \$29 million to \$111.2 million in 2003, due mainly to an expansion of \$24 million in Government guaranteed payments. Net long-term private sector capital inflows of \$265.1 million, were approximately \$82.3 million more than a year ago, buoyed by investments in utilities, real estate and the receipt of funds from corporate divestment activities.

#### **Foreign Debt Service**

For the year 2003, foreign debt service payments grew by 13.6% to \$226.3 million, following an expansion of 42.3% in 2002, as an increase in amortisation payments outpaced the decline in interest payments. The repayment of the balance of a government-guaranteed loan in the first quarter of the year was mainly responsible for the 38.7% rise in foreign amortisation payments to \$129 million, while interest payments fell by 8.3%, largely due to a decrease of similar magnitude in central government's interest payments to \$97.3 million.

#### **Direction of Trade**

During 2003, total imports rebounded to register growth of 11.6% in contrast to a relatively flat performance in 2002. Domestic exports declined by 1.1% for the period, after a fall of 5.5% recorded in the previous year. CARICOM countries accounted for approximately 22.8% of imports in 2003, compared to an average of 18.6% logged over the previous five years. However, CARICOM's share of Barbados' exports was reduced slightly in 2003 as goods sold to this region as a percentage of total exports contracted to 50.3% compared to 50.8% in 2002 and an average



**Balance of Payments  
(\$Million)**

	2000 <sup>R</sup>	2001 <sup>R</sup>	2002 <sup>R</sup>	2003 <sup>P</sup>
<b>Current Account</b>	-290.0	-221.1	-342.3	<b>-430.6</b>
<b>Merchandise Trade Balance</b>	-1,487.9	-1,362.2	-1,403.9	<b>-1,598.2</b>
Total Credits	572.6	542.3	505.9	512.7
Exports BOP	454.3	436.1	402.2	379.6
Total Debits	2,060.5	1,904.5	1,909.9	2,110.9
Imports (BOP)	2,059.3	1,903.3	1,909.6	2,110.2
Domestic Exports	379.2	352.5	333.1	329.3
Retained Imports	2,146.7	1,971.0	1,991.7	2,220.5
<b>Services (Net)</b>	1,205.7	1,140.0	1,092.8	<b>1,162.2</b>
Of which Travel Credits	1,445.9	1,394.4	1,315.8	1,390.2
Income (net)	-164.6	-186.7	-203.6	-192.6
Current Transfers (net)	156.8	187.8	172.4	197.8
<b>Capital and Financial Account</b>	627.7	579.8	294.5	<b>470.4</b>
Errors and Omissions	63.8	94.1	225.3	334.5
Overall Surplus (+)/ Deficit (-)	401.6	452.9	177.5	374.3
Net Official Financing	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0
Other Monetary Authority	0.0	0.0	0.0	0.0
Other Financial Institutions	0.0	0.0	0.0	0.0
Change in Foreign Reserves (-increase/+decrease) (CBB basis)	-401.6	-452.9	-177.5	<b>- 374.3</b>
Adjusted by commercial banks' position (Net)	45.6	7.8	224.9	<b>238.8</b>
<b>Change in Net International Reserves (NIR) (IMF basis) ( -increase/+decrease)</b>	<b>-356.0</b>	<b>-445.1</b>	<b>47.4</b>	<b>- 135.5</b>

Source: Accountant General and Central Bank of Barbados

R: Revised

P: Provisional



of 48.3% during the period 1998-2002.

Imports from the US rose by 4.8% during the review period after decreasing by 3.0% in 2002, largely due to higher imports of chemicals, food and beverages and structural parts, which grew by 16%, 6.9% and 53.8% respectively. Imports of Canadian goods surged by 13.4% in contrast to a 7% decline recorded in the previous year. This outturn was principally attributed to greater imports of construction materials, machinery and chemicals, which rose by 72.9%, 16.0% and 37.5% respectively. The value of goods purchased from Japan rose by 18.7% because of expansions in imports of motorcars by 28.7% and machinery by 13.1%. In contrast, imports from the UK were down by 5.4% in 2003 after slumping by 8.5% in 2002, as an increase in imports of food and beverages of 18% was eclipsed by reductions in machinery and toiletry imports of 15.5% and 50.9%, respectively.

Goods imported from CARICOM recorded strong growth in 2003, advancing by 26.9% compared to a modest rise of 2.4% in the previous year. Higher imports of fuel as well as cigarettes, cigars and tobacco products, which rose by \$103.4 million and \$5.9 million respectively, were largely responsible for this outcome. Imports from Trinidad and Tobago expanded by 31.4%, compared to an advance of 3.2% in the previous year as a result of a 44.6% increase in fuel imports. The value of goods purchased from Jamaica climbed by 8.2% during 2003, in contrast to a decline of 6.1% registered in the previous year. The majority of the import growth was attributed to the food and beverages category, which rose by 4.7%. From Guyana, after an expansion of 3.3% in 2002, total imports grew by an additional 16.1% in 2003, because of higher imports of food and beverages as well as construction materials. In contrast, goods purchased from the OECS fell by 4.6% mainly because of a 10.8% slump in food and beverages imports.

Barbadian exports to the US market rose by approximately 9.4% in 2003, following a downward movement of 15.4% a year earlier, primarily due to expansions in exports of machinery (specifically aircraft engine components), and alcoholic beverages of \$3.2 million and \$1.6 million, respectively. However, exports to Canada contracted by 5.3% as a result of lower food and beverages as well as miscellaneous

product exports. Goods sold to the UK rose by 6.6% in 2003, in contrast to a decrease of 13.1% recorded in the same period in 2002, on account of an increase in the value of sugar exported.

Exports to Caricom declined by 2.0%, after registering relatively flat growth in 2002. Exports of beverages contracted by 24.3% as a major company shifted its production base to another country, while the sale of chemicals declined by 8.2%. The value of goods exported to Trinidad and Tobago fell by 3.8% as a reduction in food and beverages exports by 40% more than offset an increase in chemical and pharmaceutical exports of 12.7% and 25.3% respectively. Exports to Jamaica registered an increase in 2003, after three consecutive years of declines; the value of goods shipped expanded marginally by 1.5%, chiefly due to greater food and beverages as well as machinery exports. There was a 14.1% fall in products exported to Guyana, driven mainly by lower exports of food and beverages and chemicals. In contrast, exports to the OECS rose by 2.9% as decreased exports of food and beverages were outstripped by increased sales of construction materials and miscellaneous goods.

## Regional Economic Developments

### Overview

During the first nine months of 2003, most regional economies recorded improved levels of economic activity. Jamaica, the Bahamas and the OECS enjoyed higher tourist arrivals, while the performance in agriculture was varied across the Caribbean. Higher prices in the food, housing and transportation categories were responsible for increased rates of regional inflation. Losses in the stock of net international reserves held were reported and currency depreciations occurred in two of the countries with floating exchange rates. There were also mixed outcomes with respect to the fiscal and external accounts.

### Bahamas

Over the first three quarters of 2003, tourism value-added in the Bahamas improved slightly as compared to the same period of 2002. Total visitor arrivals rose by approximately 2.7%, driven by an expansion of 4.0% in cruise arrivals, which was moderated by the smaller growth in stopover arrivals of 0.9%. There was a strengthening in the pricing position in the



stopover sector and increased cruise passenger spending.

The annual rate of inflation at the end of September 2003 was estimated at 2.9%, about 0.6 of a percentage point more than in the corresponding period of 2002. Higher prices for recreation and entertainment, medical care and health, housing, transport and communications and furniture and household operations were the main contributors.

On account of an effective increase in net lending of B\$33.0 million, Bahamas' central government operations resulted in an overall fiscal deficit of B\$103.5 million, a deterioration of B\$48.9 million compared to the similar period of 2002. Inflows of taxes on international trade and transactions, business and professional licence fees boosted overall tax revenue by 6.1% to B\$630.7 million. In contrast, all categories of non-tax revenue declined with the exception of fines, forfeits and administrative fees, which rose by 5.1%, B\$17.5 million. Current expenditure expanded by 13.6% on account of increased consumption expenditure and transfer payments. The increase in current expenditure was moderated by reductions in capital expenditure, in particular capital formation which declined by B\$12.8 million and acquisition of assets down by B\$10 million, resulting in an increase of 8.2% in total expenditure.

Over the first nine months of 2003, the deficit on the external current account improved by B\$43.4 million. The improvement was due largely to a decline of B\$66.3 million in investment income outflows. Additionally, reductions in the merchandise and service balances of B\$2.5 million and B\$10.9 million slowed the increase in the current account balance. On the contrary, there was a fall-off in the external capital and financial account of B\$184.3 million to B\$95.4 million. Increased bank investment outflows of B\$385.8 million, moderated by higher central government long-term capital inflows of B\$222.3 million, contributed to the deterioration of the external capital and financial account.

The weighted average rate on deposits at the end of September 2003 was 3.89%, or 0.05 of a percentage

point below the rate at the end of December 2002. In contrast, the average rate of interest on loans and overdrafts increased from 11.4% to 11.6% at the end of the review period. Total deposits were B\$3,717.7 million, up by B\$68.3 million on account of higher deposits by private financial institutions, business firms and private individuals, which outweighed the declines in deposits by public corporations. Likewise, credit by commercial banks rose by B\$47.5 million, as the expansion in loans to the fisheries industry and individuals offset the reduction in lending to the construction industry.

#### *Guyana*

Economic activity within Guyana was relatively flat during the first nine months of 2003 compared to the rate of growth for the comparable period of 2002. Lower production in the mining and quarrying and sugar sectors were the principal reasons for the slow down in the rate of economic activity. The decline in mining was primarily because of a 17.4% contraction in gold, which outweighed the expansion in bauxite production. Overall agricultural and forestry output decreased, as there were negative outturns of rice, timber and sugar.

The 12-month moving average inflation rate at the end of September 2003 was 6.2%, compared to 4.3% at end September 2002. Higher prices in the food, housing and transportation and communication sub-categories were responsible for the increased rate of inflation.

The central government's fiscal deficit for the six months to June 2003 improved to G\$1,643.7 million, approximately G\$1,013.8 million less than for the same period of the previous year, as a surge in capital revenue offset modest increases in current outlays. Capital account receipts rose by approximately 89.2% to G\$3,411.4 million, boosted by higher debt relief of G\$1,832.1 million under the Heavily Indebted Poor Countries initiative. Current expenditure grew by 1.7%, on account of larger payments for electricity and transfers to Linden Mining Enterprise. In addition, current revenue fell by 3.1% because of lower tax receipts from both the Internal Revenue and Customs and Trade Administrations.

Guyana's exchange rate fell by about 1.0% over the



first half-year to G\$195.8 per US\$1. The external current account deficit widened to US\$62 million compared with US\$48.7 million for the first six months of 2002, as higher fuel imports surpassed the marginal rise in commodity exports. Due to a rise in debt-relief inflows, the external capital account over the first two quarters registered a surplus of US\$39.5 million as opposed to US\$33.6 million over the equivalent period of 2002. Guyana's net international reserves at the end of June 2003 were at US\$162.3 million, 11.5% below the December 2002 figure.

Total deposits held in commercial banks at the end of September 2003 increased by 5.6%, owing to higher private sector and non-bank financial institutions' deposits. On the contrary, total loans and advances fell by 22.3%, due largely to a fall in lending to business enterprises and households. Consequently, there was greater liquidity in the banking system and all interest rates fell. The small savings rate went down by 0.75 of a percentage point to 3.5%, whereas the average prime lending rate dipped by 1.4 percentage points to 14.9% during the nine-month period ending September 2003.

### **Jamaica**

Leading indicators of economic activity suggest that over the first nine months of 2003, real value-added was somewhat higher than in the same period of 2002. Overall agricultural output was above the level in 2002, on account of a rise in goods produced for the domestic market. Production of export crops fell, reflective of 13.1% and 6.9% contractions in sugar and banana production, respectively. Higher activity at two refinery plants boosted alumina output by 145,700 tonnes. Growth in the services sector was mainly due to a rise in tourism output. Increases of 6.3% and 34.7% in long stay visitors and cruise arrivals, together with higher levels of visitor expenditure were responsible for the expansion in tourism.

Prices in Jamaica rose by 8.5% as indicated by the 12-month moving average rate of inflation, approximately one percentage point above the rate for the comparable period of 2002. Higher prices in food and drink, fuel and other household supplies and housing and other expenses categories were the reason for the change in the inflation rate.

Over the first nine months of 2003, Jamaica's fiscal

deficit expanded by 14% mainly due to an increase in recurrent expenditure (in particular interest payments and wages and salaries) which was partly offset by a decline in capital expenditure. Total revenue rose by 23% due mainly to higher inflows of tax revenue.

A deterioration in the deficit on the goods balance of US\$153.8 million owing to a surge in imports, contributed to the worsening of the current account deficit for the January to June period 2003. In contrast, an increase in travel inflows of US\$1.45 million and a decrease in transportation outflows of US\$ 13.8 million resulted in improvement in the services balance. On the other hand, the financial and capital account moved from a surplus of US\$383.4 million during the review period in 2002, to a deficit of US\$27.4 million in 2003, because both other official and private investments decreased by US\$375.7 million and US\$ 35.1 million, respectively. The stock of reserves at the end of the second quarter declined by US\$469.6 million to US\$1,127.4 million

The exchange rate had depreciated by 17.1% to J\$59.71 per US\$1 by the end of September 2003. The major part of this deterioration took place during the first half of 2003, on account of instability in the foreign exchange market, caused by wavering market confidence.

As a result of the expansion in the demand for credit and the higher interest rates on Bank of Jamaica's open market instruments, the average lending rate rose to 25.6%, from 25.0% at the end of December 2002. On the contrary, Jamaica's average savings deposit rate, at 8.4%, registered a decrease of 0.58 of a percentage point from the rate at the end of 2002. Over the same period, total deposits at commercial banks rose by 8.7%, as increased deposits were held by other financial institutions, other public entities, business firms and other customers. Total loans and advances grew by 23.4% over the nine-month period ending September 2003, with most of the new lending going to tourism, construction, transport, storage and communications industries and private individuals.

### **Organisation of Eastern Caribbean States (OECS)**

Economic activity in the OECS, during 2003 is estimated to have grown by 3%. The expansion was mainly



driven by an improved tourism performance, owing to a 7.4% increase in long-stay visitor arrivals - primarily from the UK (13.4%) - while the number of cruise passengers went up by 8.9%. There was also growth in wholesale and retail activity on account of better tourism outturn. Reduction in the production of sugar cane (25.7%), bananas (31.9%), nutmeg (25.2%) and cocoa (29.4%), resulted in an overall decline in agriculture.

The overall fiscal deficit at the end of September 2003 improved by ECS\$87.7 million to ECS\$323.9 million as a result of a 10.6% rise in tax revenue from international trade transactions. Current expenditure grew by approximately 5.2%, on account of increases in external interest payments and transfers and subsidies.

Total deposits at commercial banks at the end of September 2003 were ECS\$9,050.2 million, an expansion of 6.0%, approximately 0.6 marginally higher than the growth in deposits for the same period of 2002. However, total loans at the end of the review period were down by 0.3%, as compared to the growth rate of 2.5% at the end of September 2002. Decreased lending to government statutory institutions, distributive trade and tourism outweighed increases in personal loans and lending to the agricultural and manufacturing industries.

After being a modest performer in the OECS grouping, Dominica's economic fortunes have changed over the last three years. Real GDP growth moved from an average increase of 2.5% between 1996-1999, to declines of 4.5% and 4.8% in 2001 and 2002, respectively. This reduction in growth can be attributed to the contraction in the banana industry, on account of decreasing prices in the industry and the loss of preferential access to the European Union, coupled with the weak growth in non-banana agriculture and tourism. Additionally, the overall fiscal deficit almost quadrupled over the 1997/98-2000/01 period to an average 11.5% of GDP during the fiscal year 2000/01 and 2001/02. On account of the declining economic performance, the Dominican authorities requested assistance from the IMF. Dominica is currently in the second phase of the programme and has requested assistance under the Poverty Reduction and Growth Facility arrangement, which was approved in Decem-

ber 2003.

#### *Trinidad and Tobago*

Trinidad and Tobago's economy grew at an estimated 3.4% by the end of September 2003, compared to 3.1% in the same period of 2002. Growth was concentrated primarily in the petroleum industry, which expanded by a further 12.6%, following a 8.0% increase in the corresponding period in 2002. The main contributors to the petroleum industry were the other petroleum and petrochemical categories which recorded rates of expansion of 14.2% and 6.1%. In contrast, growth of 0.6% was recorded in the non-petroleum sector, compared to 1.6% and 5.1% in 2002 and 2001, respectively. Reductions in the growth rates of agriculture, construction, distribution and the government sector were the main causes of this outcome. A weak performance was recorded in agriculture with a contraction in the production of sugar, as a result of restructuring, unfavourable weather conditions and cane fires.

The 12-month point-to-point rate of inflation at the end of September 2003 was 3.0% compared to 4.5% at the end of September 2002. Higher food and non-alcoholic beverage prices were primarily responsible for the change in the rate of inflation.

The unemployment rate at September 2003 was 10.3%, about 0.3 of a percentage point below the rate observed one year earlier.

For the first nine months of 2003, Trinidad and Tobago realised a surplus in the overall fiscal account of TTS\$1,158.4 million, as growth in current revenue of 21.2% outpaced the 16.7% increase in current expenditure. The expansion in revenue was attributed to higher oil receipts, whereas the rise in expenditure was mainly due to increases in wages and salaries, goods and services and transfers and subsidies.

The external current account surplus for the first six months of 2003 was estimated at US\$618 million, mainly on account of an upsurge in exports of US\$452.4 million. Additionally, travel credits improved by US\$59.6 million. In contrast, the external capital account deficit worsened by US\$553 million over the January-June period of 2003, principally due to a



considerable rise in the commercial banks outflows and other capital flows. Net international reserves were US\$1,955 million at the end of June 2003.

The Trinidad and Tobago dollar traded at TTS6.2928 to US\$1 at the end of September 2003, an appreciation of 0.1 percent over the review period.

At the end of September 2003, the ordinary savings rate was 2.1%, an increase of 0.1 of a percentage point over 2002. However, the prime lending rate remained unchanged at 11.5%. At the end of June 2003, total deposits increased by 3.3% over deposits at December 2002, while total loans grew by 2.8%.

## International Economic Developments

### Overview

In spite of a sluggish first half performance in 2003, world economic growth accelerated during the remainder of the year, as many of the previous economic uncertainties diminished: oil prices declined from their previous highs in the first quarter, capital markets rebounded and Severe Acute Respiratory Syndrome (SARS) was contained. This US-led recovery was supported by accommodative monetary policy, generous tax cuts and improving corporate profitability. Additionally, Asia performed very well, as timely macroeconomic stimulus and judicious policy action by governments across the region helped to minimise the economic impact of SARS, and export growth rebounded. Latin America also showed signs of a tentative recovery, as demonstrated by the improved macroeconomic indicators across the region. However, growth in the Euro-zone remained tenuous, hampered mainly by low investment spending.

### Industrialised Economies

The US economy grew by an estimated 3.1% in 2003, fuelled by high consumer spending and revitalised business investment, particularly in the latter half of the year. As a result of the large fiscal stimulus, greater defence spending and slower economic growth in the first half of the year, the fiscal deficit doubled. The US dollar fell sharply against the major currencies (the euro, the British pound and the yen) during the year, reflecting concerns about the external cur-

rent account deficit and the attractiveness of better returns in other financial markets. Despite the falling dollar, a double-digit percentage increase of the current account deficit is expected, primarily on account of anaemic merchandise exports and a resurgence in imports. The Federal Funds Rate was cut to 1% at the end of the second quarter and maintained at this level throughout the second half of the year to facilitate a firmer recovery.

Following a creditable economic performance in 2002, real gross domestic product (GDP) in Canada expanded by a modest 1.9% in 2003, as SARS, the mad cow disease scare and a stronger Canadian dollar vis-à-vis the US dollar adversely affected the economy. Nevertheless, buoyant consumer spending and business investment shored up real activity. The inflation rate at the end of December was 1.7%, the third consecutive month below 2%. This reflected broad-based weakness in the price of goods, price discounts in the tourism industry because of SARS, and a stronger bilateral exchange rate with the US dollar. In light of these developments, the Bank of Canada lowered its overnight interest rate twice by 25 basis points on each occasion in an effort to spur economic growth, since the last interest rate hike during April 2003.

Economic activity in the Euro-zone grew marginally during the year, as moderate increases in consumer expenditure and government consumption partially offset falling investment spending. Recent indicators such as rising equity prices and business confidence suggest some improvement in the near future, but unemployment remains high at 8.8% and the industrial production growth rate has been sluggish. In line with this weak outturn, the fiscal performance was poor. For the second consecutive year, Germany and France breached the 3% ceiling on the fiscal deficit, as outlined by the Stability and Growth Pact. Moreover, Italy, the Netherlands and Portugal recorded deficit ratios close to the threshold.

Growth in real GDP in France and Germany was virtually unchanged during the review period, following modest expansions of 1.2% and 0.4%, respectively in 2002. The slower growth rate in both economies was on account of falling exports, investment stagnation



## Economic Indicators, Industrial Markets

Countries	Real Output (% Growth)		Unemployment (% Ave. Rate)		Inflation (% Ave. Rate)	
	2002	2003 <sup>P</sup>	2002	2003 <sup>P</sup>	2002	2003 <sup>P</sup>
Canada	3.3	1.9	7.6	7.5	2.2	3.5
Euro-zone	0.9	0.5	10.6	8.8	2.2	1.7
France	1.2	0.0	9.0	9.5	1.9	2.1
Germany	0.4	(0.2)	9.8	10.5	0.7	0.2
Japan	(0.3)	2.7	5.4	5.3	(0.9)	(0.2)
United Kingdom	1.7	2.1	5.2	5.0	1.6	2.9
United States	2.4	3.1	5.8	6.0	1.6	2.3

Source: The Economist and OECD estimates

P: Provisional

and weak consumer demand. Spain's economy, which rose by an estimated 2.7% in 2003, was the only one in the Euro-zone that maintained positive growth. This was spurred by greater domestic demand, resulting from the implementation of tax cuts and higher infrastructure investment by the public sector. In addition, data available up to September 2003 revealed that Spain's unemployment rate fell marginally to 11.2%, compared to 11.4% one year ago.

The UK economy increased by 2.1% during 2003, as service sector output recovered after dipping in the first half of the year, while construction activity was buoyant. In November, the Bank of England's Monetary Policy Committee raised the key short-term interest rate by 25 basis points for the first time since February 2000. This reflected the need to attenuate inflationary pressures due to strengthening domestic demand. The average inflation rate during 2003 was an estimated 2.9%, 0.4 of a percentage point above the inflation target of 2.5% set by the Monetary Policy Committee.

Japan's incipient recovery continued to gather momentum with real GDP growing at a rate of 2.7% in 2003; the expansion in the fourth quarter marked the sixth consecutive quarter of growth. This outturn

was mainly fuelled by double digit increases in business and consumer spending. However, Japan continued to struggle with deflation, as prices fell by 0.5% in December. Despite the Bank of Japan's currency interventions, the yen appreciated vis-à-vis the US dollar by approximately 7% in 2003, with the sharpest appreciation occurring in the fourth quarter.

#### Emerging Market Economies

China's economy rose by an estimated 9.1% in real terms during 2003, compared to 8.0% in 2002. This impressive performance was amply supported by double digit increases in industrial production, fixed investment, and exports over the review period. The inflation rate was 3.0% at the end of the year, fuelled primarily by a surge in food prices. Data available up to October revealed that China's foreign exchange reserves reached US\$400.9 billion, representing a 30% expansion over the end-December 2002 level. This outturn was largely attributed to substantial growth in foreign direct investment and large-scale foreign currency interventions by the Central Bank of China to maintain the peg to the US dollar.

Real GDP in Brazil declined marginally in 2003, as business investment and household expenditure sagged. The annual inflation rate fell in October to 14%, the



lowest level this year. Consequently, the central bank cut its key interest rate further, after lowering it in September in a bid to fuel economic growth. Brazil's currency, the *real*, depreciated by approximately 5% relative to the US dollar in 2003, recovering most of the value lost during the first quarter.

Led by strong exports, real economic activity in Argentina continued to recover, rising by 8.0% during 2003. As a result, Argentina's unemployment rate fell to 15.6% in May, 5.9 percentage points lower than that recorded one year earlier. The peso strengthened by approximately 16% in 2003. Consequently,

## Selected Financial Indicators

Countries	Short Term Interest Rates (End of Period)		Average Exchange Rates (Per \$US)		Current Account Balance (US\$ Billion)	
	2002	2003 <sup>P</sup>	2002	2003 <sup>P</sup>	Jan. - Sept. 2002	Jan. - Sept. 2003 <sup>P</sup>
<b>Industrial Countries</b>						
Canada	2.7	2.8	1.6	1.4	14.9	12.4
Euro Area	3.1	2.0	1.0	1.1	64.4	12.8
Japan	0.0	0.0	124.8	115.9	112.4	n.a.
United Kingdom	4.0	3.8	0.7	0.6	(2.2)	n.a.
United States	1.2	1.0	1.0	1.0	(503.4)	(412.1)
<b>Emerging Markets</b>						
Argentina	7.5	2.0	3.1	2.9	9.6	4.9
Brazil	24.9	16.5	2.9	3.1	(7.7)	0.1
Chile	2.9	2.3	688.9	691.4	(0.6)	0.1
China	2.0	n.a.	8.3	8.3	35.4	n.a.
Hong Kong	1.5	0.1	7.8	7.8	17.5	n.a.
Indonesia	8.9	7.1	9,311.2	8,577.1	7.5	n.a.
Mexico	7.6	6.0	9.7	10.8	(14.0)	(9.6)
Russia	5.1	9.9	31.4	30.7	29.9	20.4
South Korea	4.3	3.8	1,251.1	1,191.6	6.1	5.0
Venezuela	30.1	4.6	1,161.0	1,607.0	7.5	9.6

Source: The Economist, various central banks, the International Financial Statistics CD-ROM and Dresdner Bank Lateinamerika AG

P: Provisional

n.a.: not available



## Economic Indicators, Emerging Markets

Countries	Real Output (% Rate)		Inflation (% Ave. Rate)		Foreign Reserves (US\$ Billion)	
	2002	2003 <sup>P</sup>	2002	2003 <sup>P</sup>	2002	2003 <sup>P</sup>
Argentina	(10.9)	8.0	25.9	15.6	10.5	14.1
Brazil	1.7	0.3	8.5	15.3	37.7	54.1
Chile	2.1	3.2	2.5	2.8	15.3	15.8
China	8.0	9.1	(0.8)	0.7	291.1	406.0
Hong Kong	2.3	4.0	(3.0)	(2.7)	111.9	112.4
Indonesia	5.8	3.9	11.5	6.7	31.0	27.1
Mexico	(0.9)	1.2	5.0	4.6	50.6	59.0
Russia	8.8	5.5	15.8	13.5	44.1	64.4
South Korea	6.4	2.3	2.8	3.5	121.4	150.3
Venezuela	(8.9)	(10.5)	22.4	31.1	11.4	16.5

Source: The International Financial Statistics, Latin Focus, Asian Development Bank and Dresdner Bank Lateinamerika AG

P: Provisional

inflation fell to around 4.0% in December, compared to 39.2% one year earlier. In light of these developments, bond spreads declined substantially over the year.

#### Commodity prices

Overall, commodity prices in 2003 were significantly higher than in 2002, driven primarily by double-digit gains in metal and oil prices. Base metal prices were largely influenced by increased demand, reflecting the rapid expansion in China's industrial activity (one of the largest importers of base metals). Higher valuations for precious metals mirrored a steady weakening of the US dollar, as dollar-priced assets like gold

became cheaper in other major currencies, sparking greater demand. Moreover, continuing geopolitical uncertainty, along with increased volatility in the global stock markets, boosted the safe-haven appeal of precious commodities. The rapid expansion in average oil prices was due primarily to geopolitical tensions, such as the Iraq-US conflict, and political instability in Nigeria and Venezuela. In accordance with an approximate 11% fall-off in EU sugar production, average sugar prices on the European market increased by about 8.8% in 2003. This decline in production reflected adverse weather conditions and a reduction in the area planted.



## Commodity Prices

Commodities	Average		% Change
	2002	2003 <sup>P</sup>	
All Commodities Index	105.9	119.6	13.0
Non-Fuel Commodities Index	76.7	82.1	7.0
<b>Food</b>	81.3	86.1	5.9
EU Sugar (US cents/lb)	24.9	27.1	8.8
Bananas (US \$/metric tonne)	527.6	375.2	(28.9)
Rice (US \$/metric ton)	191.8	199.5	4.0
Wheat (US \$/bushel)	148.5	146.1	(1.6)
Soybeans (US \$/metric ton)	214.5	264.3	23.2
<b>Metals</b>	71.9	80.4	11.9
Iron Ore (US\$/metric ton)	29.3	31.5	7.4
Copper (US cents/lb)	70.8	80.7	14.0
Gold (US\$/fine troy ounce)	310.2	359.6	15.9
Silver (US cents/ troy ounce)	462.5	484.3	4.7
<b>Petroleum</b> (US\$/barrel)	25.0	28.8	15.4

Source: IMF/World Bank Commodity Prices

P: Provisional



### Mergers and Acquisitions in the Financial Industry

Heightened merger and acquisition activity, especially during the past ten years, have significantly remodelled the global financial services sector, blurring the distinction between commercial banks, investment banks, insurance companies and asset management firms. It is estimated that the value of global mergers and acquisitions peaked at about US\$ 2.4 trillion in 1998, compared to an estimated value of US\$500 billion in 1990. In Barbados there has been a number of corporate amalgamations within the insurance and the banking sector during the last five years. Republic Bank Limited of Trinidad and Tobago acquired Barbados National Bank while the Barbados Mutual Assurance Society took over Life of Barbados.

Several factors explain the motivation to merge. The principal objective is to increase corporate efficiency and competitiveness through economies of scale. Some of the other subsidiary factors are: globalisation of competition, technological change, strategic objectives and financial market conditions.

The globalisation of competition means that products and services usually bought by consumers from primarily domestic sources are now open to foreign competition. Therefore, merging is seen as a response to strengthen the international competitiveness of businesses. In addition, firms have been acquiring other companies in overseas territories in search of new opportunities.

Technological change often fuels economic progress. Mergers and acquisitions may be a contributor to or a consequence of technical progress. Hence, corporate amalgamations may help the firm to acquire the technology and expertise quickly to facilitate entry into a new market or to increase competitiveness.

There are also strategic considerations. Firms may merge to improve market share, eliminate competitors, or acquire a crucial supplier of inputs needed by the competitors. Additionally, financial conditions can motivate mergers and acquisitions. It has been shown in a study on merger activity<sup>1</sup>, that amalgam-

ations are more common when shares are overvalued. Hence, bidders are more likely to buy a company by paying in their overvalued shares rather than by using cash. This may reflect the buyers acknowledging that their shares are overpriced and it represents the desire to exchange their overvalued shares for hard assets before a downturn in their share price. Of course this motivation does not really apply to Barbados because the capital market is not fully developed and prices do not move that sharply.

Notwithstanding the above, amalgamated companies face a myriad of problems and many experts have concluded that, in the medium term, fewer than half of them meet initial expectations. Successful consolidations depend heavily on the ability to create added value after the deal. However, obstacles such as the linking of the distribution systems of the merged companies or the meshing of information technology platforms have at the very least delayed the predicted cost-savings.

Another drawback is the potential for corporate culture clashes within the amalgamated companies. Culture permeates a company and differences can complicate collaboration. Closely related to this problem is that each firm in the merger tends to think that it is better. Consequently, bitter rivalry can develop, with adverse consequences. Cross border mergers further exacerbate this issue with the introduction of national cultural differences, along with corporate behavioural clashes.

As a result, many managers of amalgamated companies have found that consolidation can engender such severe complexity that it could negate any cost savings or revenue synergies that were initially expected. Hence, it is essential that the management concentrate on the implementation stage rather than just the deal. Managers should make compromises to assuage culture clashes. Additionally, a clear strategy must be articulated, preferably before the merger, dealing with the integration of the firms' information systems and distributional channels.

<sup>1</sup> Dong et al (2003).



**Case Studies of Acquisitions Initiated by the Barbados Mutual Life Assurance Society (now Sagicor Financial Corporation) and the Republic Bank Ltd.**

According to Khan (2001), in a strategic planning session in 1994, the executives of the Barbados Mutual Life Assurance Society were very cognisant of increased competition due to globalisation. Consequently, they developed three key strategies to enhance their competitiveness. The first strategy was to strengthen the company's position as a regional provider of insurance services, particularly individual, group life and health insurance by being the dominant player in the major island markets of Barbados, Jamaica and Trinidad. The second strategy was to establish subsidiaries in the Spanish-speaking Caribbean (Dominican Republic, El Salvador, Costa Rica and Panama). The final strategy was to create a global presence by the acquisition of insurance firms already serving global markets.

Since 1996, the Mutual has consistently applied the above strategies. The firm expanded into the Spanish-speaking Caribbean by purchasing the health insurance portfolio of a local insurance company in the Republic of Panama. It acquired 64% of Island Life Insurance Company Ltd (a major provider of individual life insurance, group insurance, annuities and pensions) in Jamaica during 1999, and bought 66.7% of Life of Jamaica Holdings Ltd during 2001, thereby becoming the leading provider of life and health insurance and pensions in Jamaica. During 2001, the Mutual established a global presence by purchasing an American firm, Allnation Insurance Company, a provider of individual health insurance to international clients. Additionally, the Mutual was able to achieve overwhelming dominance in the Barbados market, as well as the rest of the Eastern Caribbean, by the acquisition of Life of Barbados Ltd in 2002.

Republic Bank's Ltd has enunciated that its corporate vision is to become the bank of choice in the Caribbean through acquisitions in order to improve its services and returns to shareholders and to spread geographical risks. As a result, the bank has executed many cross border acquisitions since 1992.

During 1992, the Republic Bank purchased 51% interest in the National Commercial Bank of Grenada Ltd, a

commercial banking operation with nine branches on the islands of Grenada, Carriacou and Petite Martinique. In 1994, it acquired 20% of the shares in CIBC West Indies Holdings Ltd to form a strategic alliance, which facilitated its purchase of the Bank of Commerce in Trinidad and Tobago. The former investment allowed the bank to gain valuable linkages with the holding company's branches in Barbados, St. Vincent, Antigua and Barbuda, St. Lucia and Jamaica. During 1997, the Republic Bank bought controlling interest in the National Bank of Industry and Commerce in Guyana, the largest commercial bank in that country. In 2003, it acquired 64% of the Barbados National Bank, with the goal of establishing a major presence in a key financial centre, and bought Banco Mercantil in the Dominican Republic, thereby expanding into the Spanish-speaking Caribbean. Additionally, at the end of 2003, the Republic Bank commenced the process of purchasing 20% of the shareholding in the Eastern Caribbean Financial Holding Company, which is the parent company of the Bank of St. Lucia – the largest bank in St. Lucia.

All of these case studies show that merger and acquisition activity throughout the Caribbean has been driven by some financial institutions' desire to become regional players. However, for these mergers to be successful they must seek to integrate their operations effectively with their acquired firms, while being mindful of the cultural sensitivities of the companies and markets that they control. Unfortunately, very few studies have been done on the success rate of corporate amalgamations, given the difficulty of obtaining information on firms in the Caribbean. Nevertheless, company executives should conduct these studies for their shareholders or allow external researchers to investigate the success of the merger movement.

**References:**

Dong, Ming; Hirshleifer, David and Richardson, Scott, "Does Investor Misperception Drive the Takeover Market?" Ohio State University working paper, February 2003.

Khan, Glenn A., "Caribbean Mergers and Acquisitions: Country Studies of the Financial Sectors of Guyana, Jamaica and Trinidad and Tobago", Caribbean Centre for Monetary Studies 2001.



## ECONOMIC OUTLOOK

### International and Regional Economic Outlook for 2004

Global economic activity is expected to strengthen further in 2004, supported by fiscal stimulus and accommodative monetary policy. Overall, world-wide GDP growth should accelerate to around 4% in 2004. The US is expected to remain the principal source of growth and the UK is forecasted to grow by about 3% in 2004, slightly above its trend rate of 2.5%, and is predicated on higher consumer spending, buttressed by rising house valuations and equity markets.

Amid the persistence of deflation and weakness in the corporate, financial and public sector balance sheets, a stronger forecasted global economic recovery is expected to have a positive impact on Japan's economy. Hence, real economic activity is predicted to rise by approximately 1.8% in 2004, underpinned by rapid growth in exports.

The outlook for emerging market economies is generally quite promising, although regional growth rates should vary considerably. Emerging Asia is expected to be the fastest growing region in 2004, averaging

about 5.2% in 2004. Additionally, domestic demand is likely to improve in some countries in Latin America, supporting the nascent export-led recovery.

Nevertheless, there remain some risks to the global recovery. These are: the over-dependence of the world's economy on growth in the US, sizeable budgetary imbalances in the US, large global current account imbalances, insufficient labour and product market reforms in Europe, inadequate corporate and financial sector reform in Japan, and high and unsustainable public debt in many of the emerging economies.

With the global economy forecasted to improve in 2004, the outlook for regional economies looks positive. Tourism activity is expected to increase, benefiting from the depreciation of the US dollar, the English cricket tour of the West Indies and the strengthened marketing efforts by Caribbean countries. Additionally, there should be some positive spillovers into the auxiliary services. The enhanced activity in these industries may also contribute to an upturn in the financial sector. The rate of inflation within the region is projected to remain low, in line with global price trends.

### Summary Projections for Growth

	2003	2004 <sup>P</sup>
<b>World</b>	3.2	4.2
<b>Developed Economies</b>	2.0	3.0
US	2.9	4.2
Canada	1.9	3.0
Euro Area	0.5	1.8
Japan	2.7	1.8
<b>Developing Economies</b>	5.0	5.6
Africa	3.7	4.8
Developing Asia	6.4	6.5
Middle East	5.1	4.6
Latin America	1.1	3.6

Source: IMF World Economic Outlook

P: Provisional



### Prospects for the Barbados Economy in 2004

The Barbados economy seems to have fully recovered from the depressed economic conditions that existed in 2001 and 2002. It is now expected that current growth trends should continue, with real GDP likely to grow by 3-3.5% in 2004, led by the tourism and wholesale and retail sectors. The strengthening of the global economy, continuing efforts to maintain Barbados' visibility in key markets and the expansion of home-porting cruise ship activities augur well for the future growth of the tourism sector. Indeed, positive spill-overs from tourism into the ancillary services sector should further boost economic activity. In addition, the economy is likely to benefit from the effective implementation of the liberalisation of the telecommunications market.

Clearly, there are downside risks associated with this forecast, related largely to unexpected adverse international developments, but also potentially from the country's inability to maintain the momentum in key sectors and slow the decline of flagging sectors. The results of international trade negotiations and the completion of the extensive integration agenda are key components of the positive short to medium term outlook for Barbados. The deadlines for the creation of the CARICOM Single Market and Economy and the Free Trade Area of the Americas, the conclusion of a partnership agreement with the European Union, and the wrapping up of the Doha Round of negotiations in the World Trade Organisation (WTO) are imminent. Acute resource constraints and other structural and logistical considerations will further limit Barbados' capacity to undertake all of these initiatives simultaneously, while there will inevitably be some fall-out from the removal of traditional protection in terms of labour market dislocations and restructuring costs. The impact is already being felt in the agriculture and manufacturing sectors, which have stagnated in recent times. In the short-run, export

demand for locally produced goods could slump further as the OECS economies, which account for about 20% of total exports, continue to tighten their fiscal policy stance in response to weak macroeconomic performance. In an effort to assist these sectors, the Central Bank will continue to utilise its special schemes to assist collateral-short businesses and, to that end, has recently expanded its facilities to include medium-sized businesses. However, over the medium term, the economic outlook is expected to improve as the agriculture sector benefits from the restructuring of the sugar industry and initiatives to develop the cotton sector.

In the area of services, the ongoing review of US legislation governing its relationship with its trading partners, including Barbados, and the review of the Canada-Barbados double taxation treaty should be closely monitored. The current projections are therefore predicated not only on the country's ability to successfully minimise the harmful effects of continued trade liberalisation but also on the assumption of an unchanged status quo with respect to these reviews.

Even with the pick-up in economic activity, slower accumulation in net international reserves is anticipated as a result of lower expected capital inflows. Inflation could grow a bit faster, especially if the dollar weakens further, resulting in higher import prices. Employment is anticipated to increase in 2004, as greater economic activity spurs faster job creation in tourism, wholesale and retail trade and transport and communications.

Government's fiscal position should improve somewhat owing to higher tax revenues (as economic activity expands further) and a cutback in the capital works programme. Commercial bank credit may remain sluggish initially, although a pickup is possible, given recent marketing promotions by commercial banks.



## ADMINISTRATION

**The Board of Directors**

There was one change in the composition of the Board of Directors in 2003. Ms. Jacqueline A.R. Cornelius was appointed to the Board of Directors with effect from June 20, 2003, replacing Ms. Lynette V. Eastmond, now Senator.

The Board met eleven times during 2003.

The Board recorded its gratitude for the contribution of Senator Eastmond and extended a warm welcome to Ms. Cornelius.

**Management and Staff**

During the year the Bank bade farewell to Mr. Peter Lewis, Manager of the Frank Collymore Hall and welcomed Mrs. Fran Wickham-Jacobs, the new Manager. Also joining the permanent establishment of the Bank during the year were: four Economists; two Analyst/Programmers; one Legal Officer; two Bank Examiners; one Banking Analyst; one Projects and Services Manager; one Technician I; three Secretary Is; one Clerical Officer and one Security Officer.

Twenty-seven persons were promoted during the year as follows: Miss Julia Weekes to the post of Investment Adviser; Mrs. Caryl Payne, Mrs. Michelle Doyle-Lowe and Mrs. Cheryl Greenidge to the posts of Assistant Director, Information Services, Banking and Bank Supervision, respectively; Miss Kim Reid and Mrs. Hazel Durant to the posts of Statistical Officer; Mr. Matthew Williams, Mrs. Maureen Hoyte, Mr. Roger Archer, Miss Shonda Forde to the posts of Examiner (V); Miss Donna Alleyne and Mr. Anderson Jordan to the posts of Examiner (IV); Messrs. Edgar Clarke, Preston Nurse and Lewis Babb to the posts of Technician II; Mr. Noel Reece to the post of Technician I; Mrs. Sonia Mayers to the post of Administrative Assistant; Miss Lisa Holligan to the post of Administrative Officer; Miss Octavia Gibson to the post of Projects Officer; Mr. Vincent Grosvenor to the post of Information Security Officer; Miss Angolyn Kirton to the post of Senior Operations Officer; Miss Sonja Gooding to the post of Senior Auditor; Mr. Winston Moore to the post of Senior Economist; Mr. Ryan Straughn, Ms. Kim Coppin and Mr. Ryan Skeete to the post of Economist and Miss Tracy

Maynard to the post of Research Officer.

During 2003, several members of staff earned new qualifications or completed additional training. Mr. Hensley Sobers, Director, Human Resources, gained a Ph.D in Business Administration. Also successfully completing degrees/professional qualifications were Miss Celeste Wood – MBA, Strategic Management, with distinction; Mrs. Inge Lucas – MBA Management Skills Development; Mr. Anthony Small – BSc. in Accounting, with Lower Second Class Honours; Mrs. Paulette Gibbons – BSc. in Management, with Upper Second Class Honours; Anderson Jordan – CGA; Mr. Geoffrey Yearwood and Mrs. Angela Smith-Callender – Certified Information Systems Auditor (CISA) and Mr. André Estwick – Certified Financial Services Auditor (CFSA).

Associate Degrees were awarded to Mrs. Janice Outram in Applied Arts (Marketing) and Miss Stephanie Bowen in Applied Science (Computer Studies). Mr. Wendell Cumberbatch, Mrs. Roseanne King and Mrs. Kimberley McDonald gained diplomas in Management and Mr. Noel Reece, a diploma in Refrigeration and Air Conditioning. In addition, a number of persons completed BIMAP and other certificate courses covering such subject areas as Accounting, Management, Economics, Occupational Health and Safety, Project Management, Security Management and Computer Studies.

In-house personal development seminars and skills training, including Hospitality and Customer Service were conducted for the maids, Team Building for the Security Officers and the application of CPR for Safety and Security Officers of the Bank.

There were four resignations and five retirements from the Bank during the year. At December 31, 2003 the number of established posts was 287, of which 259 were filled by permanent employees and 18 by temporary appointments.

**Public Affairs**

Public Affairs organised, or assisted with, a number of activities in 2003. These events related directly to the Bank's core business or to the development and growth of the arts, an area in which the Bank has been investing in acknowledgement of its social re-



sponsibility. The projects included the launch of the Bank's 30<sup>th</sup> Anniversary publication, the "University in the Community" series, the Secondary Schools Outreach programme, conferences and workshops, the Sir Winston Scott Memorial Lecture, sponsorship of the Life Time Achievement Award, the Crop Over Visual Arts Exhibition and "Pan in the Plaza" Extravaganza.

#### *CARICOM Governors' Conference*

Governor, Dr. Marion Williams hosted the 2003 Regional Central Bank Governors' meetings. Governors from the English-speaking Caribbean and their delegations assembled here in May and November. Also in attendance were representatives from regional and international financial institutions.

#### *Conference on Corporate Governance*

The two-day conference, titled **Corporate Governance with Special Emphasis on the Financial Services Sector**, was hosted in the context of worldwide corporate scandals that brought forcibly to the attention of the western world the importance of ensuring that corporations and institutions put good governance structures in place. The event provided an interactive forum for the presentation and discussion of standards and best practices in corporate governance.

Contributors, representing a mix of local, regional and international expertise, were selected from among leaders, policy makers, financial practitioners and analysts. Over 200 delegates from Barbados and overseas were in attendance. In an end-of-conference survey, the participants recommended a follow-up session.

#### *Barbados Financial Services Conference*

The Bank mounted a booth at this conference and exhibition to showcase its many publications and numismatic coins and to sensitise Barbadians to its work and operations, especially as they relate to the development and growth of the island's number two export industry – the financial services.

#### *London International Television Corporation (LITC) Feature*

The Bank, in collaboration with LITC, a British-based television company, produced a feature on Barbados

as a jurisdiction offering premier financial services for existing and potential investors. The five-minute production was broadcast to over sixty million people across Europe and used at the annual Canadian Risk Insurance Management Services exhibition in Canada. This year it will be aired at the American Risk Insurance Management Services Conference.

#### *Book Launch – Facing Globalisation: Impact and Challenges for Barbados and the Caribbean*

This book was produced as part of the Bank's 30<sup>th</sup> anniversary celebrations, and was published in 2003. The publication featured a series of papers by the Governor and several of the institution's economists. The titles included: Official Dollarisation: An Option Generally Rejected by CARICOM Countries, Labour Market Dynamics in Barbados: Policies and Implications of Globalisation, Social Partnerships in Economic Development: Lessons from the Barbados Experience, E-Banking in Barbados: Regulation and Monetary Policy, Globalisation: Some Challenges for the Caribbean in the First Decade of the 21<sup>st</sup> Century, Foreign Direct Investment Inflows and Their Impact on Barbados' Current Account: Implications for Policy, The Impact of WTO Agreements on Meat Demand in the Caribbean, The Impact of International Financial Liberalisation in Economic Growth: The Case of CARICOM, Financial Liberalisation and the Challenges for Policy Makers in Developing Economies.

The publication, which is available in local bookstores at BD\$30.00 a copy, provides economists, financiers, investors, academics, students and the ordinary person with detailed insights into the challenges that will confront Barbados and Caribbean countries in the new global environment, and suggests some likely responses.

#### *CBRTGS Brochure*

A brochure on the Bank's Real Time Gross Settlement System (RTGS) was completed during the year. This document, produced by Public Affairs and the former Electronic Payment Systems Coordinator, outlines the benefits of using the Real Time Gross Settlement System for large value, time-sensitive payments. It is intended for use by bankers, officials of other financial institutions and business people, in general.



#### *SALISES Conference*

In its ongoing partnership with the Sir Arthur Lewis Institute of Social and Economic Studies, the Bank co-sponsored a lecture titled **Private Sector Developments and Caribbean Economic Integration**. The well-known Trinidad and Tobago economist, Dr. Trevor Farrell gave an assessment of Caribbean economies, identified some challenges which they face in a globalised environment and offered likely responses.

#### *Sir Winston Scott Memorial Lecture*

Consistent with the tradition to attract the world's prominent intellectuals for this lecture, Professor Ian Wilmut, Head of Department, Gene Expression and Development at Roslin Institute and the scientist who cloned Dolly the sheep, was invited to present the 28<sup>th</sup> Sir Winston Scott Memorial lecture.

Professor Wilmut, who spoke on *Cloning in Biology and Medicine*, was able to simplify a seemingly difficult and technical subject for the comprehension of the layman. Before a capacity crowd in the Frank Collymore Hall, the professor articulated his subject in a stimulating and thought-provoking manner.

#### *University in the Community*

The Bank, in collaboration with the School of Continuing Studies of the University of the West Indies continued its series of lectures on the "The University in the Community". The lectures examined social, political, economic, environmental, health and other issues.

#### *Secondary Schools' Outreach programme*

The secondary Schools' Outreach lectures are designed to assist the Caribbean Examinations Council (CXC) and Advanced Level students in better understanding domestic, regional and international financial and economic issues. Students were therefore exposed to such subject matters as: *Money, The Role of the Central Bank vis-à-vis the Commercial Banks, the Role of the Barbados Stock Exchange, the Gross Domestic Product, Business, Finance and Accounting, Public Finance and the Operations of the Barbados Stock Exchange*.

#### *Frank Collymore Literary Endowment*

One of the highlights of the Frank Collymore Literary Endowment's work was the completion of "Remem-

bering the Sea", a book that reflects on the life and work of Frank Appleton Collymore, the literary icon for whom the Endowment is named.

Also, the Endowment staged the Sixth Annual Literary competition from which five winners emerged. Mr. Winston Farrell, Miss Cherie Jones, Mr. Jason Welch and Mr. Robert Sandiford were the first, second, third and fourth prize winners, respectively. They were rewarded a total of \$20,000 in prize monies. Mr. Raymond Lashley won the Prime Minister's Award, which for the second consecutive year, was donated by the Office of the Prime Minister, the Right Honourable Owen Arthur.

#### *The Lifetime Achievement Award*

The Lifetime Achievement Award is presented to a Barbadian artist who has excelled in the visual arts. It is aimed at recognising and encouraging artists to practise their craft. The Bank assisted the Collectors' Club and the Nation Publishing Company with the sponsorship of this award, which was presented to Fielding Babb.

#### *Pan in the Plaza Extravaganza*

The Pan in the Plaza programme begins with a two-week summer camp which is open to secondary school students who are already steelpanners or who are interested in learning the art form. Approximately 60 students participated in the programme, which culminated with an extravaganza in the Cathedral Plaza on August 9, 2003. It is hoped that a national steelpan orchestra will evolve from this project.

#### *Crop Over Visual Arts Exhibition*

The Crop Over Visual Arts Exhibition, which the Bank sponsored for the 10<sup>th</sup> consecutive year, attracted more than fifty of the island's most talented visual artists. The exhibition, featuring paintings, sculptures, fine craft and photography, was held in the Grande Salle and was viewed by more than 1600 Barbadians and visitors alike.

One of the innovations in this year's ceremony was the presentation of the Governor's Award. This award, presented for the piece of artwork deemed most appropriate by the Governor, was won by Mr. Ellon Lewis, a former NCF curator and prominent visual artist.





## OPERATIONS

**Accounts Department**

During 2003, the Department continued work on computerised accounting modules and implemented the budgeting module in order to enhance workflow and improve productivity. All other modules are operating successfully, providing the Bank with the capacity to exercise greater control over the custody, management and control of its expenditure and assets.

Officers attended local and overseas training courses to enhance their skills in various areas, including risk management, budgeting, corporate planning, strategic management and pension fund investments. The Automated Clearing House (ACH) operations were significantly enhanced with the utilisation of a new proof machine which performs data imaging, indexing and retrieval. The cheque clearing process through the ACH was also significantly improved.

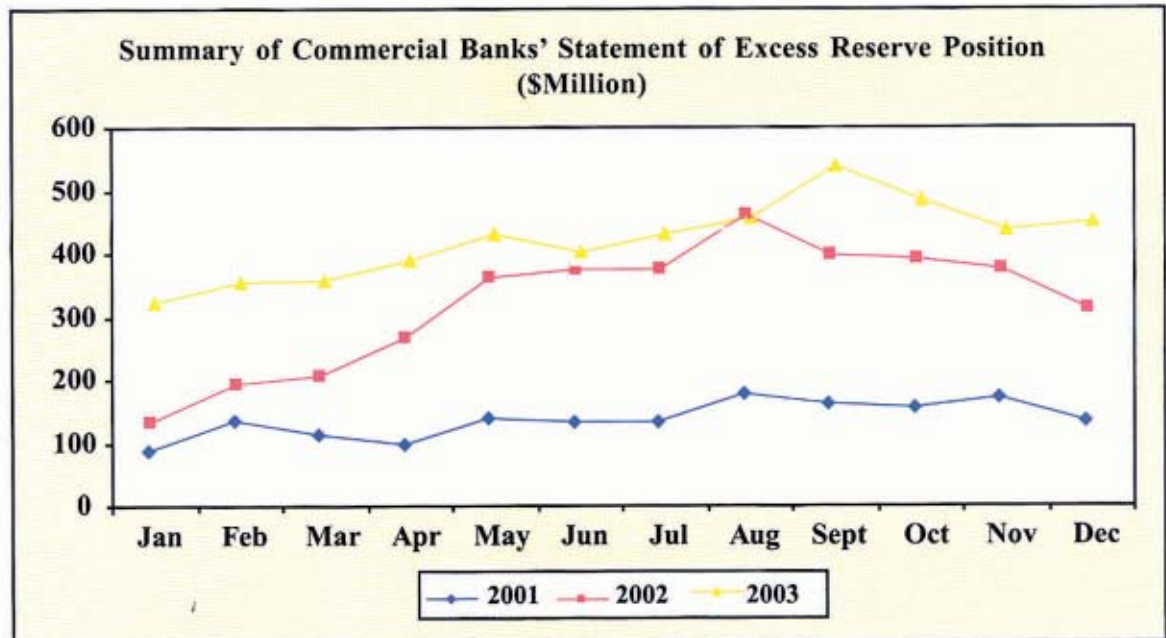
The Department related closely with external and internal users and there was successful testing and implementation of the Real Time Gross Settlement (RTGS) System. This System is seamlessly integrated with the Accounting System and there is minimum user involvement in the transfer of data between the RTGS and the Accounting System.

An account has been established for the Central Securities Depository to enable settlement of payments for security transactions conducted by the Barbados Stock Exchange in real-time through the RTGS. This feature will lead to further dematerialisation of securities and enhancement of the delivery versus payment system.

The Department worked closely with its publics and gained consistency in workflow, high-level co-operation and output. The Department also collaborated closely with the Ministry of Housing to effect the transfer of the management of the Housing Credit Fund to the Bank.

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

The level of excess cash in the banking system rose in 2003, from a weekly average of \$318.6 million in January to \$445.3 million by December. It peaked in September 2003, when deposits were supported by private and public sector divestment, coupled with a slow rise in commercial bank lending. The build-up in average weekly levels of excess cash nevertheless





represented a decline in the rate of growth for commercial banks' excess cash holdings, when compared to the previous year.

#### *Loans and Advances*

Due to the rising level of liquidity in the banking system and access to the interbank market, there were no advances to commercial banks over the last three years. During 2003, the Central Bank continued to accommodate the long outstanding CRL Ltd. loan facility, which remained at the level of \$9.0 million during the year.

#### *Relationships with Government*

##### *Treasury Bills*

All twenty-four Treasury Bill auctions for 2003 were oversubscribed, with the level of over-subscription per auction ranging from \$2.5 million to \$293.6 million. The high demand for these instruments led to the decline in the average discount rate on three-month Treasury Bills from 1.36% p.a. at the beginning of the year, to a record low of 0.64% p.a. by year-end. Similarly, the rate on six-month Treasury Bills declined from 0.93% p.a. in February 2003, when these Bills were first allotted for the year, to 0.86% p.a. in September. The latter was the effective year-end rate, as no six-month Treasury Bills were allotted for the remainder of 2003.

Approximately \$1.8 billion three-month Treasury Bills and \$144.3 million six-month Treasury Bills were allotted for the year. The Central Bank did not tender for Treasury Bills during 2003.

##### *Purchases and Sales of Treasury Bills*

As was the case for 2002, during 2003 the Central Bank did not engage in secondary market trading in Treasury Bills, as commercial banks maintained buoyant liquidity positions.

##### *Long Term Securities*

During 2003, \$56.8 million in new long-term government debt was issued. This consisted of one Treasury Note issue and four issues of Debentures, at a total nominal value of \$190.0 million, while \$133.2 million in securities matured during the year. Similar to the performance of issues of other instruments, all

issues of long-term securities were heavily over-subscribed. During the year, two hundred and six transfers of securities took place, representing a turnover of approximately \$4.0 million.

As at December 31, 2003, the total value of long-term government securities outstanding, including international bond issues, was approximately \$2.90 billion compared to a similar balance of \$2.87 billion at the end of 2002. The market value of Sinking Fund investments was approximately \$363.3 million as at December 31, 2003, compared to \$261.3 million at the end of the previous year.

##### *Savings Bonds*

The Central Bank, as Agent for Government, opened for subscription three issues of Savings Bonds during 2003. These issues carried a total nominal value of \$30.0 million and a yield to maturity of 4.77% p.a. A nominal value of \$20.5 million in Saving Bonds matured during the year, to result in an outstanding balance of \$119.5 million in that instrument by year-end. This represented an increase of \$9.5 million in the nominal value outstanding, compared to December 31, 2002.

##### *Ways and Means*

After beginning the year at a zero balance, the Ways and Means account fluctuated to reach a high of \$108.0 million in October 2003. This balance subsequently declined to zero by year-end.

##### *Trading in Foreign Currencies*

###### *Non-Regional*

For 2003, there was an increase of approximately 4.0% in the sale of non-regional currencies, compared to an expansion of 52.0% in 2002. The largest increases in the sale of drafts and telegraphic transfers were recorded for transactions denominated in the Euro, which more than tripled for the year, and Canadian dollars, which were up by 9.1%. US dollar-denominated sale transactions rose by 3.6%, while there was a 17.4% decline in pound sterling transactions. Overall, purchases of non-regional currency transactions increased by 61.6% from the 2002 level. The majority of this trading was led by Canadian dollar-denominated transactions, which more than doubled



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

	Sales		Purchases	
	2002	2003	2002	2003
<i>Non-Regional</i>				
EUR	2,380	10,735	759	1,174
CAN\$	13,956	15,232	625	1,389
STG	39,534	32,661	6,546	12,373
US\$	437,124	452,730	327,473	527,130
<b>Sub -Total</b>	492,994	511,358	335,403	542,066
<i>Regional</i>				
BZE\$	648	3528	2,844	1,952
EC\$	94,059	68,528	70,508	62,428
GUY\$	29,477	31,407	372	372
JAS	549	27	1,058	224
TTS	965	531	8,431	11,696
<b>Sub -Total</b>	125,698	100,845	83,213	76,627
<b>Total</b>	618,692	612,203	418,616	618,738

Source: Central Bank of Barbados

for the year. An expansion in purchasing volume was also recorded for euro-denominated transactions (54.7%) and pound sterling-denominated transactions (89.0%), while US dollar transactions declined by 61.0%. Net trading in non-regional currencies reflected a purchase position of \$30.7 million.

*Regional*

There was an overall decrease of approximately 20% in the sale of regional currencies for 2003, as trading in all currencies, with the exception of the Guyanese and Belize dollar, contracted. The sharpest decline in the sale of drafts and telegraphic transfers was for transactions denominated in Jamaica dollars (95.1%), compared to the fall in trading of Trinidad dollar trans-

actions (45.0%) and EC dollar transactions (27.1%). Even though there was a significant expansion in the sale transactions of Belize dollars by over 400% and Guyanese dollar transactions by 6.5%, this was not sufficient to stave off the overall reduction in the sale transactions of regional currencies.

During 2003, purchases of regional currencies fell by 7.9%. Similar to the sale transactions, this decline was led by a 78.8% contraction in trading of Jamaica dollar-denominated purchases. Declines were also recorded for transactions denominated in Belize dollars (31.4%) and EC dollars (11.5%). The only currency that recorded an expansion in trading was the Trinidad dollar, up by 38.7%. There was no change in the



trading of transactions denominated in Guyanese dollars. Trading in regional currencies indicated a net sale position of \$24.2 million.

#### *Foreign Currency Cash Transactions*

During 2003, a total value of \$96.6 million in foreign currency notes was purchased from the banking system. This represents a 19.3% increase in trading compared to 2002, and was primarily the result of a 63.9% rise in the redemption of euro notes. Purchases of US dollars increased by 25.6%, Canadian dollars by 11.6% and pound sterling by 9.2%. The redemption of Eastern Caribbean notes remained unchanged relative to 2002, at BDS\$1.2 million.

#### **Purchase of Foreign Currency Notes (\$Million)**

Currency	Amount Purchased	
	2002	2003
USD	35.2	47.3
GBP	36.5	40.2
CANS	3.8	4.3
EUR	1.3	3.6
<b>Subtotal</b>	<b>76.8</b>	<b>95.4</b>
ECS	1.2	1.2
<b>Total</b>	<b>78.0</b>	<b>96.6</b>

Source: Central Bank of Barbados

During the year, note processing operations in the Currency Section benefited from the introduction of the Currency Processing System machine and the use of a computerised currency inventory application.

#### *Foreign Assets*

As at December 31, 2003, the Bank's international reserves were recorded at \$1,494.9 million, representing an increase of 9.4% during 2003.

The low interest rate environment and rising bond prices resulted in significant appreciation in the value

of the underlying portfolio. As there was strong expectation for an increase in international interest rates during 2004, the Bank realised some of the embedded gains, which would have been eroded in a rising interest rate climate. Realised gains of \$3.9 million were invested in short-term securities.

The investment of a significant portion of the proceeds of the sale of shares of Barbados National Bank in foreign deposits and Treasury Bills, resulted in these two portfolios increasing significantly during the year. At year-end, the Bank had \$177.0 million in term deposits and \$170.1 million in Treasury Bills, compared to \$137.0 million and \$70.0 million for the corresponding period last year. At year-end, the Central Bank held approximately \$665.3 million in fixed income securities (inclusive of \$17.4 million in regional government securities), representing a decline of 10.6% for the year.

#### **Bank Supervision Department**

During 2003, the domestic financial system continued to undergo significant structural changes. This presented challenges for the Bank Supervision Department which processed applications for the sale of the Barbados National Bank and its subsidiaries, the BNB Finance & Trust and the Barbados Mortgage Finance Company, to Republic Bank Ltd. of Trinidad and Tobago, and for the sale of the Mutual Bank of the Caribbean Inc. to the Bank of N.T. Butterfield & Son Limited. One application for the sale of another local bank was outstanding at year-end. One licence was granted under Part 3 of the Financial Institutions Act while another licensee under this Part, General Finance Corporation, changed ownership. This entity was subsequently renamed the Signia Financial Group Inc.

Seven applications for international banking licences were processed during the course of the year and two new licences were granted. One application was rejected. The Department continued the process of winding up one international bank and seven other small banks ceased to conduct business under the International Financial Services Act. One of these licensees opted to operate as an international business company. International banks licensed to operate in Barbados by year-end totalled 51.



The Department intensified its onsite examination programme, conducting full "safety and soundness" inspections of eight institutions licensed under the Financial Institutions Act, together with 11 institutions licensed under the International Financial Services Act. In addition, three joint inspections of the largest credit unions were conducted in conjunction with the Registrar of Co-operatives. The Department maintained continuous off-site monitoring of the financial sector and met with the directors of domestic and international banks as part of its off-site surveillance procedures.

In 2003, Guidance Notes to domestic banks on the handling of Abandoned Property were issued. Also, the Department was represented on a regional working group, which studied the proposed new Capital Accord and provided a regional response to the Basel Committee on Banking Supervision. During the year, Bank Supervision also met with domestic bankers to apprise them of developments with the new Capital Accord. The Department was represented at meetings held to discuss the proposed revisions to the 40 Recommendations of the Financial Action Task Force.

Work continued on the establishment of a Deposit Insurance Scheme in Barbados and, by year-end, the legislation had been forwarded to the relevant ministry for finalisation.

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

### **Facilities Management Department**

The Facilities Management Department was able to fulfil its mandate to its internal and external stakeholders, as many of the targets established for 2003 were met.

#### **Services**

The Central Purchasing System was fully computerised and savings were realised while at the same time ensuring that high quality products and services were

sourced. Efficiency in travel arrangements improved as greater use was made of electronic bookings while assets and inventory management can now be better managed with the setting up of an electronic database to manage these activities. A number of ergonomic issues were solved as the Department tried to ensure that staff was comfortably housed. There was increased effort on air quality management and proactive measures were taken to ensure a healthier environment for staff and the public. The Emergency Evacuation Manual was produced and distributed to staff and tenants and a system for reporting unsafe conditions was implemented.

Staff played a major part in organising a number of Bank-sponsored events including the Barbados Financial Services Conference, the International Conference on Corporate Governance, meetings of the CARICOM Central Bank Governors and the Sir Winston Scott Memorial Lecture.

#### **Maintenance**

During the year the new currency processing system, which has improved operations in the Currency Section, was commissioned and installed. The preventative maintenance programme was improved with the implementation of the long awaited Building Management System and the Security and Currency areas were supplied with new air-conditioning units. The revolving doors were replaced and now carry improved security features, and a fire suppression system was installed in the Records Centre. By year-end, a new fire alarm system was in place.

#### **Security**

Internal and external surveillance was improved with the upgrading of the archival system and installation of additional closed circuit television facilities.

Several members of staff were trained in a number of areas including self-defense, customer relations, occupational health and safety, and management of hazardous situations.

#### **Frank Collymore Hall**

After the initial setback resulting from the resignation of the Manager early in the year, the Hall was still able to deliver a number of high quality events. The Frank Collymore Hall played host to the Sandy Lane



Gold Cup Premier Event - *Broadway to Barbados*, NIFCA Performing Arts Final, *The Final Truth, One Heart and One Voice, Portfolio* and the *Vagina Monologues*. Kean Springer, the St. Winifred's School Christmas CD and local jazz pianist, Adrian Clarke were also recorded at the Hall. Free lunchtime and sunset concerts continued to attract quality artistes and good patronage.

A number of lectures were also held in the main auditorium. These included the Sir Winston Scott and the Errol Barrow Memorial Lectures, and a series commemorating the 375<sup>th</sup> Anniversary of Bridgetown. Art critics and artists from all over the world attended the three-day Association of International Art Critics Congress.

The Grande Salle registered high occupancy levels as it continued to facilitate a number of diverse events. These included hosting of the National Cultural Foundation's Crop Over Arts and Craft Exhibition, the Broodhagen Exhibition, and works by Fielding Babb and by Haitian and Guyanese artistes. Several book launches also took place during the year at the Grand Salle.

### Foreign Exchange and Export Credits Department

#### *Foreign Exchange*

In an on-going effort to facilitate the execution of foreign exchange transactions in the CARICOM region and to satisfy requirements that relate to Barbados' commitment to the CARICOM Single Market and Economy (CSME), the Central Bank continued a process of progressive liberalisation and further relaxed exchange controls during the year 2003.

On April 15, 2003, further authority was delegated to commercial banks in respect of transactions relating to entrance and subscription fees to clubs, societies, and non-resident credit and travel card companies outside Barbados. Other transactions which no longer required Central Bank's approval included returns and refunds of deposits, disbursement of overpaid accounts and short postage payments, subscriptions to publications and cost of books purchased for personal use.

On September 15, 2003, additional authority was delegated to commercial banks to approve applications to transfer funds from Barbados to CARICOM countries in respect of all remaining current transactions with the exception of a very small number of specified transactions.

In addition, the limit of authority delegated to the Barbados Stock Exchange was increased to \$5.0 million in respect of investments in corporate equities cross-listed on stock exchanges in CARICOM.

In order to encourage Barbadian enterprises and individuals with excess cash to seek out alternative investment opportunities in CARICOM, commercial banks were allowed, without the prior approval of the Central Bank, to approve applications up to a limit of \$250,000.00 in respect of investment transactions in private sector unlisted equities in CARICOM countries.

Export receivables for the year 2003 were \$316.9 million as compared to \$321.6 million in 2002. Export receivables statutorily due decreased from \$73.6 million in 2002 to \$40.2 million in 2003.

Actual inflows of private foreign investment totalled \$101.8 million in 2003 compared to \$142.7 million in 2002. Real estate and equity capital inflows represented a significant portion of the private foreign investment inflows. However, whereas real estate and loan capital inflows decreased by \$7.5 million and \$59.6 million respectively, equity capital inflows increased by \$26.2 million.

#### *Staff Training*

Continued emphasis was placed on training and members of the Department benefited from further training on Guarantees in International Trade and in Finance and Accounting for the Non-Financial Executives, Central Bank Policy and Operations, and Management of Technical Cooperation Projects.

#### *Export Credits*

During the year export credit insurance coverage provided by the facility declined from \$0.12 million in 2002 to \$0.04 million. No transactions were covered in CARICOM.



The total maximum liability for insurance business underwritten during the year decreased from \$0.30 million in 2002 to \$0.04 million in 2003 and the total maximum liability at year-end was \$0.18 million compared to \$0.21 million at the end of 2002.

During 2003, a line of credit of \$51,875 was made available under the Export Finance Guarantee Scheme for pre-shipment financing purposes. A guarantee in the amount of \$167,800 was endorsed for post-shipment financing.

In 2003 there was a noticeable increase in the number of businesses using the Credit Guarantee Scheme for Small Businesses. At year-end there were sixteen guarantees outstanding with a maximum liability of \$828,809.00 compared to eleven guarantees with a maximum liability of \$606,809 at December 31, 2002. Total lines of credit grew from \$940,332 to \$992,207 during the year.

#### ***Barbados Investment Fund***

During the financial year ended August 31, 2003 the Barbados Investment Fund approved six new investments totalling \$1.7 million. Disbursements of \$0.4 million were made to four of these entities. This brought total investments to \$16.1 million in 41 projects since the Fund commenced operations in 1992. At year-end the Central Bank's investment in the Fund stood at \$14.0 million.

The opportunities for new investments remained limited throughout the year, as economic recovery was sluggish. Of the six investments approved in 2003, two were in tourism, two in manufacturing, one in the services sector and one in horticulture.

The Fund Manager continued to monitor closely all investments in the Fund. The revenue streams of many investments remained weak and the Fund Manager was forced to lower expectations in respect of dividends, interest income and capitalization. The Fund Manager has had to defer disposal of some investments pending the return to a more favourable business climate.

A net surplus of \$204,595 was reported for the year ended August 31, 2003, compared to \$138,484 for the

previous year. This consisted of an operating profit of \$127,996 and a gain of \$76,599 on the disposal of investments. The Fund continues to meet its operating expenses from operating revenues despite a decline of 20.9% in revenues for the year, due mainly to a 23.1% decline in interest income. Operating expenses declined by 9.4%.

At year-end the Fund revalued its portfolio in accordance with International Accounting Society's #39 standard and decided to write down its investments by \$667,297. This provisioning resulted in a net deficit of \$462,702 for the year.

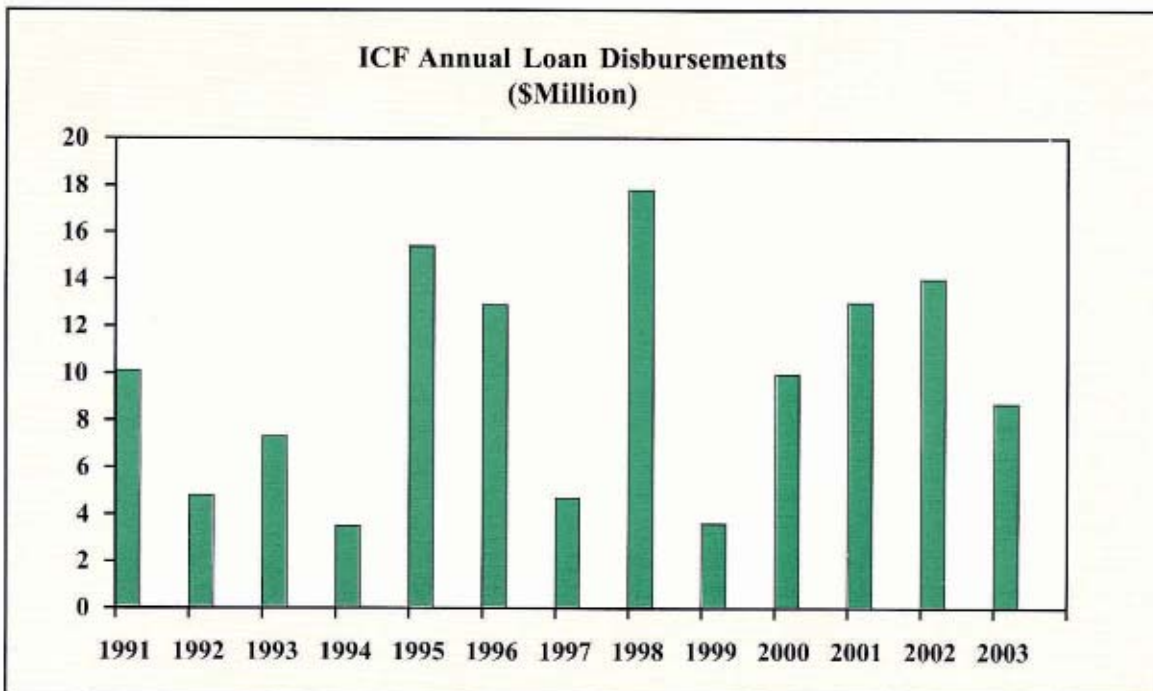
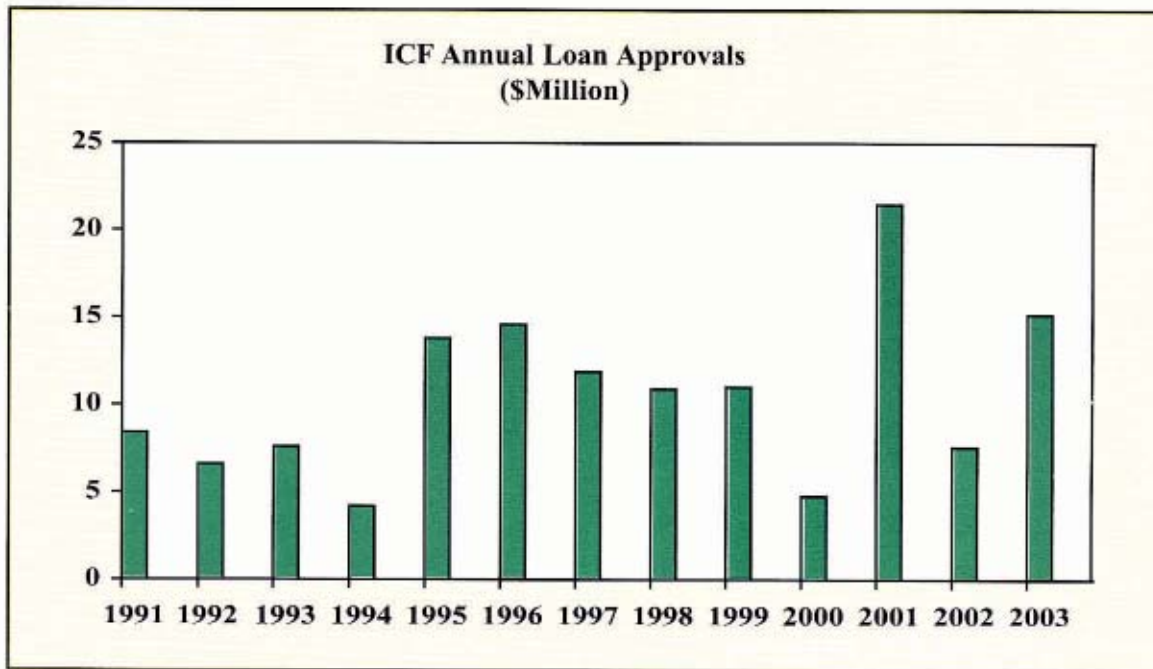
#### ***Industrial Credit Fund (ICF)***

In spite of the high liquidity in the commercial banking system throughout the year, the demand for ICF funding for new projects increased during 2003. As a result, the value of new loan approvals grew sharply during the year. On the other hand the level of disbursements was significantly below that of the previous year.

The ICF approved ten loan applications totalling \$15.2 million compared to nine applications valued at \$7.6 million in 2002. Cumulative approvals rose to \$168.8 million while new disbursements amounting to \$8.7 million increased net cumulative disbursements to \$158.7 million. Tourism accounted for most (\$5.9 million) of the new approvals with the remainder going to agro-industry (\$2.4 million) and manufacturing (\$4.1 million). The balance of loans approved but undisbursed was \$10.0 million at year-end.

Principal repayments of \$6.3 million received during the year brought the total cumulative repayments to \$119.4 million at December 31, 2003. The overall loan and investment portfolio declined by \$2.7 million to \$74.1 million. An equity investment of \$20.0 million in the Tourism Loan Fund is included in the loan and investment portfolio.

Capital contributions made to the ICF during the year amounted to \$3.0 million. After making a provision of \$1.2 million for principal and interest on the European Investment Bank loan, the ICF's net worth increased to \$82.6 million compared to \$79.9 million at the end of 2002. Net income has been provisionally estimated at





**Key Indicators of ICF Operations  
(\$Million)**

<b>Indicators</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003<sup>P</sup></b>
Loan Approvals	13.8	14.6	11.9	10.9	11.0	4.9	21.5	7.6	<b>12.4</b>
Loan Disbursements	15.4	12.9	4.7	17.8	3.6	10.3	13.7	14.0	<b>8.7</b>
Principal Repayments	5.6	6.1	21.7	8.3	4.7	6.4	12.6	11.1	<b>6.3</b>
Loans Outstanding	30.8	37.6	20.6	30.1	29.0	32.9	34.0	36.9	<b>39.3</b>
Net Income	2.4	2.6	2.0	2.2	2.1	2.1	1.7	1.7	<b>0.9</b>
Capital Inflows	1.9	0.0	0.0	0.0	0.0	0.0	4.0	10.5	<b>3.0</b>
Net Worth	57.6	59.6	61.1	62.5	63.6	64.8	69.5	79.5	<b>82.6</b>

Source: Central Bank of Barbados

P: Provisional

\$0.90 million for 2003.

### Human Resources Department

In an effort to produce enhanced real time demographics on staff, the Human Resources Department continued its focus on the development of the Human Resources Information System. The Applicant Tracking, Group Medical and Leave Management modules were documented.

With the planned implementation of a Pay-for-Performance programme, the Bank is set to launch a new phase in its compensation management system which will allow for recognition and reward of members of staff based on their contribution to the achievement of departmental targets and objectives.

Other major achievements were the revision of the Training and Development Policy, the introduction of the "Lunch and Learn", a component which represented another phase in the In-House Training Programme, a 360° evaluation for senior supervisory staff and an After School Programme as part of the

initiatives to cultivate work/family life balance.

### Internal Audit

The Internal Audit Department completed major reviews of the RTGS and the ACH systems during 2003. In addition, Audit continued to focus on the crucial areas of the Bank's operations including the Investment Portfolio Management System, Electronic Signatures Operations as well as SWIFT Operations and Staff Pensions Operations. A review of the New Currency Processing System was also conducted.

Audit staff continued to benefit from attendance at seminars sponsored by the Institute of Internal Auditors, locally and internationally. In addition they received in house training in Audit Command Language (ACL).

Internal Audit Week was again held in October during which the Regional District Leadership Conference was held in Barbados for the first time. Other features included hosting of an open day by audit departments and presentation of books to schools.



## Management Information Systems Department

During 2003, the MIS Department placed emphasis on the maintenance and streamlining of the RTGS infrastructure to ensure the smooth and efficient operation of the payment system. Enhancements were made to the Virtual Private Network and the hot site. Upgrades are planned for SWIFT and the RTGS in 2004. There were no major operational hiccups in this system during the first year.

An initial study for the selection and phased implementation of a Business Intelligence solution for the Bank was completed during the period.

### *Application, Development and Maintenance (ADM)*

During 2003, the MIS Department developed the Currency Inventory system and completed the rewrite of the Payroll system. The Currency system is in parallel mode and the Payroll system is expected to be in parallel mode during the first quarter of 2004. The Performance Module of the Portfolio Management System, the Central Purchasing System, Pensions Accounting Systems and the Budgeting module of the Prophecy Accounting System were implemented during 2003. Improvements were completed for the Pensions Systems to handle the payment of gratuities. Enhancements were also made to the Debentures/Treasury Notes system to enable the commercial banks to receive payments via the RTGS.

The applications development section was trained in the use of Rational Rose case tool, Portia Report-Writer and the new Portia Performance module.

### *Systems Administration and Technical Support (SATS)*

The implementation of the RTGS in 2002, introduced many new technologies to the department including the Virtual Private Network, SWIFT, and a new telecommunications infrastructure. During 2003 the SATS section ably supported these new technologies. Emphasis was placed on training of SATS personnel to manage the support of this network infrastructure.

### *Information Security*

An Information Security Officer (ISO) was appointed

in 2003 with responsibility for maintaining a secure network infrastructure, developing and policing of security policies and guidelines and ensuring that the Disaster Recovery Plan is kept updated. An Intrusion Detection study was completed and is presently under review.

### *Training*

The Department continued its extensive training of the Bank's staff in Windows 2000, Excel, PowerPoint 2000, and Lotus Notes mail and calendaring service.

## Research Department

The heavy demands on the Department's resources continued in 2003. Besides the usual economic reports and statistical documents, several positional papers on various economic policy issues challenging the Barbados economy were also produced.

Training again featured prominently in 2003 with economists attending, and presenting papers at various regional and international courses and conferences such as the Financial Programming and Policies course in Washington DC during December 2003. In addition, the Annual Review Seminar was held in July with the involvement of participants from Jamaica, Trinidad and Tobago, Guadeloupe, the OECS, USA as well as local entities. As has been the case for the past five years, the seminar was conducted over four days with 17 research papers presented in the first two days, and a panel discussion on "Financial Reforms in the Caribbean and a workshop, "Modelling Economic Growth using Panel Data", featured in the last two days. The Internship Programme also continued during the year with students from Bucknell University in the USA and various campuses of the UWI, giving economists valuable experience in testing their knowledge of the given subject matter.

The Department was involved in several public seminars, the Schools' Programme and presentations to the social partners, which were the main vehicles used to inform the public of emerging economic issues. In addition, economists also contributed to public knowledge by publishing articles in the Barbados Economic Society Newsletter. Regionally, economists were instrumental in helping to construct a forecasting model for the Bank of Aruba.



The Department completed the first draft of its operations manual along with two quarterly Statistical Bulletins – one on Trade and the other on Debt. Revision of the Chronicle of Central Bank Policy was also finished. In addition, the Section successfully undertook a series of in-house training to familiarise staff with the more technical aspects of AREMOS and the IMF Manual on Monetary and Financial Statistics 5<sup>th</sup> edition. Furthermore the data on the Internet were enhanced by the addition of select tables from the EFS covering commercial banks and Central Bank balance sheets and international reserves.

In 2003, the Library and the Records Management Centre were merged to establish the Library and Information Services Unit within the Research Department supervised by the Assistant Director, Information Services. In addition to providing library services, the Unit's portfolio is to manage the Bank's records, the Bank's Website and Intranet, and published information.

During the year, The Library and Information Services Unit coordinated the revision of the Frank Collymore Hall's Website, updated the Central Bank's main Website with regular press releases and statistical data and published full text of the Bank's 2002 Annual Report. It also instituted a schedule to coordinate the regular receipt of data from Departments for the Internet and Intranet.

Within the Library's INMAGIC databases, training was provided to select staff of some Departments to set up and maintain specialised databases, for example, photographs and records management. Indexing of the Bank's publications continued, in addition to that of the limited Caribbean journals. The online INMAGIC database was launched Bank-wide. Staff can now access all the databases created within the Library, with an additional advantage of seamless access to the Internet.

In Records Management, the full processing of the repatriated off-site records was completed, the records inventory process continued and the procedures manual for the Bank was updated and published. Research continued on determining record retention schedules for various Departmental records.

The staff of the Information Services Unit enhanced their individual competency by attending local and international courses and conferences as well as participating in workshops and seminars. Local courses included *supervisory management, risk and crisis management* and *information technology*. Both the Assistant Director and Librarian conducted a workshop in the Library Association of Barbados' week of activities.

### Publications by the Central Bank Staff during 2003

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

"The Impact of International Financial Liberalisation on Economic Growth: The Case of CARICOM" by Carlene Belford and Kevin Greenidge in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, *"Facing Globalisation: Impact and Challenges for Barbados and the Caribbean"*.

"Official Dollarisation: An Option Generally Rejected by CARICOM Countries", by Anton Belgrave, Trevor Campbell, Kevin Greenidge and Ryan Straughn, in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, *"Facing Globalisation: Impact and Challenges for Barbados and the Caribbean"*.

"Financial Liberalisation and the Challenges for Policymakers in Developing Countries", by Anton Belgrave and Kevin Greenidge in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, *"Facing Globalisation: Impact and Challenges for Barbados and the Caribbean"*.

"E-banking in Barbados: Regulation and Monetary Policy" by Anton Belgrave, Yvonne Parris and Warrick Ward in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, *"Facing Globalisation: Impact and Challenges for Barbados and the Caribbean"*.

"Foreign Direct Investment Inflows and their Impact on Barbados' Current Account: Implications for Policy" by Trevor Campbell in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, *"Facing Globalisation: Impact and Challenges for Barbados and the Caribbean"*.



"Determinants of Foreign Inflows from Current Transfers into Barbados" by Trevor Campbell in *Savings and Development*, Quarterly Review, Vol. 27, No. 2, pp. 119-134.

"Social Partners in Economic Development: Lessons from the Barbados Experience" by Harold Codrington in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, "*Facing Globalisation: Impact and Challenges for Barbados and the Caribbean*".

"The Impact of WTO Agreements on Meat Demand in the Caribbean" by Roland Craigwell, Tessa Fancillette and Winston Moore in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, "*Facing Globalisation: Impact and Challenges for Barbados and the Caribbean*".

"Will the Poultry Industry in Barbados Wither as a Result of Trade Liberalisation?" by Roland Craigwell and Winston Moore in the *Journal of Eastern Caribbean Studies*, Vol. 28, No. 1, pp. 67-70

"Labour Market Dynamics in Barbados: Policies and Implications for Globalisation" by Roland Craigwell and Ann-Marie Warner in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, "*Facing Globalisation: Impact and Challenges for Barbados and the Caribbean*".

"Globalisation: Some Challenges for the Caribbean in the First Decade of the 21<sup>st</sup> Century" by Marion Williams, in the Central Bank of Barbados' 30<sup>th</sup> Anniversary Publication, "*Facing Globalisation: Impact and Challenges for Barbados and the Caribbean*".

"The Determinants of Credit Union Efficiency in Barbados" by Winston Moore in the *Journal of Eastern Caribbean Studies*, Vol. 28, No. 3, pp. 40-55.

"The Relationship between Commercial Banks' Interest Rates and Loan Sizes: Evidence From a Small Open Economy" by Winston Moore and Roland Craigwell in the *Journal of Applied Financial Economics*, Vol. 13, No. 4, pp. 257-265.

"ATM Usage and Productivity in the Barbadian Banking Industry" by Winston Moore, Roland Craigwell

and Kim Coppin in the Central Bank of Barbados' *Economic Review*, Vol. XXX (1), June 2003, pp. 17-20.

### Papers Presented at Conferences during 2003

"Modelling the Tourism Life Cycle Using Regime Switching Models" by Winston Moore and Peter Whitehall at the XXXV Annual Monetary Studies Conference in November 2003 in St. Kitts.

"Does Exchange Rate Variability Affect Bilateral Export Volume In Caricom?" by Ryan Straughn at the XXXV Annual Monetary Studies Conference in November 2003 in St. Kitts.

"Exchange Rate Misalignment in Selected Caribbean Countries" by Winston Moore, Ryan Skeete and Kevin Greenidge at the XXXV Annual Monetary Studies Conference in November 2003 in St. Kitts.

### Central Bank Plans for 2004

#### *Accounts Department*

The Accounts Department will extend the process of automation to include the Purchase Order module of its Prophecy Accounting System. This module will be tested and implemented during the year. These modules will significantly improve the timeliness of data for management decision-making and ensure closer adherence to the system of purchases and budgetary control.

The Department will continue to work with the Accountant-General and other key Government departments to enhance data flow and access to their account activity in the Accounting Information System.

Significant emphasis will also be placed on data imaging to reduce the level of paperwork and improve productivity and data flow.

#### *Banking and Currency Department*

The Department's primary focus will be the contin-



ued improvement of its domestic and foreign payment systems infrastructure. Domestically, having introduced the RTGS system, the Department will engage in a more active marketing programme to increase the use of this system by private and public entities. The security of the Department's financial payments will be enhanced by further developments in the SWIFT Net service, which are due to be completed by the second quarter of 2004.

To intensify the strategic management of the increasing number of government securities, focus will be given to the more extensive use of electronic payments and the issuance and trading of securities in a dematerialised environment.

To further assist with the management of the Bank's portfolios, greater use will be made of the Portia Portfolio Management System and the Bloomberg system will be made more accessible to source financial data.

In an effort to improve efficiency, the Currency Section will be fully reorganised and optimal use of the Currency Processing System machine is to be achieved by the end of the first quarter.

#### ***Bank Supervision Department***

The Bank Supervision Department continues to operate in a rapidly changing environment. While the number of licensees should remain relatively stable, the Department will seek to balance its on-site inspections with the need to carry out research and strengthen the regulatory and legislative framework. In addition, the Department will continue to improve its capabilities in the areas of consolidated supervision and market risk assessment.

During 2004, work will continue on the amendment of the domestic and international financial services legislation. The Minister of Finance has sanctioned a merger of the two pieces of legislation and the Department will need to consult with domestic and international market participants to ensure a smooth transition.

The Department will continue its work in the Working

Groups set up by the Caribbean Group of Bank Supervisors to examine the implementation of consolidated supervision in the region and the New Capital Accord. Part of the work of the Capital Accord group will involve a quantitative impact study of the Accord on domestic banks. In an effort to keep abreast of domestic and international financial developments, resources will be dedicated to on-going monitoring of emerging regulatory issues and to working on changes to financial sector legislation, regulations and guidance notes. With the introduction of the revised 40 Recommendations of the FATF, amendments to the KYC guidelines will be necessary. The Market Risk Programme should also be launched during the year.

During the past two years, the Department's staff complement has increased in response to the growth in the number of institutions as well as to new and varied challenges. The Department is working with the Research Department to coordinate inputting of statistical data so as to avoid duplication of effort.

The Department will seek to accelerate formal training of staff, while maintaining and strengthening on-the-job training. Much of this training will be carried out as part of the programme developed by the Caribbean Group of Banking Supervisors.

The deposit insurance scheme is expected to come on stream during 2004. While the proposed entity will be legally independent of the Central Bank, the Department will work closely with it to promote a harmonious regulatory framework.

The Department will continue to maintain strong relationships with domestic and international agencies, and attempts will be made to strengthen its contact with other domestic regulators and with regional and international regulatory bodies such as the Basel Committee, the Offshore Group of Bank Supervisors (OGBS), Association of Supervisors of Banks of the Americas (ASBA), the Caribbean Financial Action Task Force (CFATF), CARIB and the Caribbean Group of Bank Supervisors (CGBS). In addition, the Bank is represented on the Anti-Money Laundering Authority and it will continue to work closely with its operating arm, the Financial Intelligence Unit.



### *Facilities Management Department*

In the year ahead, the Facilities Management Department will continue to maintain a safe and comfortable environment for the Bank's stakeholders. Efforts will also be increased to maximise the use of the recording equipment in the FCH and to reintroduce an annual season of performances.

#### *Services*

With the help of the new Assets and Inventory database, it is anticipated that the efficiency of the Services Unit will be improved. Efforts will also continue to maximise savings in purchasing and to improve skills in event management.

To ensure a safe and healthy environment, monitoring systems will be enhanced and compliance to safety guidelines by contractors and service providers will receive closer scrutiny.

#### *Maintenance*

With the Building Management System in place, preventative maintenance will be intensified. The public and staff elevators will be replaced and the main electrical transformer will be upgraded to cope with the increasing load. An emergency water supply system will be installed at the FCH and its air-conditioning unit replaced.

#### *Security*

The safety of staff and visitors will be improved with the introduction of scanning equipment. The CCTV system will be upgraded as additional cameras will be installed at strategic points and obsolete ones replaced. Archival capacity will also be increased.

#### *Frank Collymore Hall*

The next year is likely to be an exciting one as the FCH seeks to maximise use of its recording equipment and patrons experience the return of the annual season of performance. Two in-house productions are planned. One lunchtime and one sunset concert per month are envisaged in the various performing arts disciplines, as the FCH continues to play host to the best in local, regional and international art forms.

### *Foreign Exchange and Export Credits*

The Foreign Exchange and Export Credits Department will continue its policy of a phased and structured approach to exchange control liberalisation in accordance with Barbados' obligations under the Caribbean Single Market and Economy. Wherever practicable, steps will be taken to remove the existing controls in non-critical areas, especially in relation to current transactions. In respect of capital transactions, a more liberal approach to investments in CARICOM will be intensified.

Consistent with Barbados' obligations under the Caribbean Single Market and Economy. The Department will seek to put in place new mechanisms to strengthen its capability to monitor foreign exchange flows and enhance the quality of its databases thereby enabling it to provide earlier and more detailed analyses and forecasts based on the information received from commercial banks and exporters.

The Department will participate in a business intelligence study with a view to further computerisation of its operations and the strengthening of its capabilities to monitor foreign exchange flows and enhance the quality of its databases. This will enable the Department to generate earlier and more detailed analyses and forecasts from the information supplied by commercial banks and exporters.

The Export Credits Unit will assume responsibility for the Housing Credit Fund which will be transferred from the Ministry of Housing during the first quarter of 2004. The Unit will promote its Credit Guarantee Scheme more actively among the small and medium-sized enterprises and financial institutions so as to enable these enterprises to gain access more readily to the financial resources needed to retool and/or restructure their operations and meet the competition in the domestic and external markets. Increased emphasis will also be placed on making export credit insurance and guarantee facilities available to enterprises operating in the services sector. The Industrial Credit Fund will seek to broaden the scope of its operations so as to enable it to fully utilise the resources at its disposal.



The Export Credits Unit will review its guarantee schemes to further improve their administration and will increase its promotion of the insurance and guarantee schemes with special emphasis on the services sector. The existing guarantee facilities will be expanded to cater to wider interests, including the larger credit unions and other financial institutions. As soon as the loan facility of the Caribbean Development Bank has been activated a mechanism will be put in place to accommodate the financing of rum exports and other projects eligible for financing from the Industrial Credit Fund. There will also be a review of the current structure of the Industrial Credit Fund.

#### ***Human Resources Department***

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

Particular attention will be given to conducting seminars/workshops to launch the new Performance Management System. The revised labour-management relations protocol will also be adopted.

Major emphasis themes for the ensuing year will be Risk Management of Human Talent in the Bank; The Learning Institution; Know Your Organisation; Achieving Excellence through Participation; Valuing our Human Talent and HR Metrics Breakthrough.

#### ***Internal Audit***

In the Year 2004, the Internal Audit Department will continue to focus on the crucial areas of the Bank's operations with close attention being paid to the risks associated with these operations. Specific areas related to Banking and Information Technology will be examined.

Staff will continue to attend courses sponsored by the Institute of Internal Auditors as well as workshops and seminars put on by the Local Chapter.

The Department will strive to improve the timeliness and quality of its reviews in order to continue to add value to its stakeholders.

#### ***Management Information Systems (MIS) Department***

##### *Overview*

In 2004, the Department's strategy will focus on deriving value from previous investment in Information Technology, and from e-business opportunities.

##### *Accordingly, the MIS strategy will focus on*

- Expanded use of the VPN offering additional functionality to our external customers through:
  - More extensive Electronic Data Interchange (EDI) between ourselves and our business partners
  - Expanding the use of the VPN to other customers e.g. other Government departments
- Expanded use of the web infrastructure by:
  - Creation of web browser interfaces for use by external customers for transmission of data
  - Publishing more Bank related data on the Internet from our back-end databases
- Application focus on workflows, e-business, business intelligence
- Enhanced customer support services
- Increased emphasis on vendor management

##### *Development of New Applications*

The major focus for applications development will be the creation of electronic interfaces for data interchange with the external customers. With the appropriate network and security infrastructure in place, it is timely that the Bank intensifies its efforts to have data electronically transmitted. This should result in more timely and accurate reporting from external sources.

Work on the Staff Advances and Non Trade Outflows applications, which were deferred from last year, are expected to commence within the first quarter of 2004. In addition, the Purchase Order module of Prophecy will be implemented along with some new workflow applications, which are aimed at reducing the amount of paper being utilised.

##### *Business Intelligence (BI)*

The initial BI study was completed in 2003 and the Bank is desirous of implementing the BI solutions recommended. These solutions are designed to



achieve integration of all databases and to create opportunities for research and data analysis. The BI solutions if implemented will provide a single source of data entry and storage and thus enhance the decision support mechanisms. The solutions will make the data more easily accessible and fully integrated across operational areas (initially in the areas of Exchange Control, Bank Supervision and Research where large amounts of data remain outside the databases of MIS). The integrated database would provide business users with access to a repository of clean and consistent data- both current and historical. BI will also provide easier access and more user-friendly tools to the vast mounds of data that exist within the organisation.

*Some expected benefits of BI include:*

- Integrated business view – for example a more comprehensive view of data from financial institutions
- Timely access to reliable intelligent data originating at various sources
- Increased responsiveness – more up-to-date information on the health of the financial system with the ability to perform user analysis and disseminate information quicker
- Valuable analytical insights from available data to help regulate and supervise the banking and financial services industry
- Ability to exploit historical data for analysis and forecasting
- Ability to identify early warning signals in the economy and marketplace

The implementation of this programme will be dependent on resources.

*Support For Major Applications*

The MIS Department will continue to offer installation and maintenance support for the LOTUS NOTES, RTGS, SWIFT, INGRES, PROPHECY, AREMOS, and CS-DRMS environments during the year. It will also continue its support of the standard office automation software, including a major upgrade of the CS-DRMS Debt Management System.

*Systems Administration and Technical support*

*Support For Major Applications*

The Systems Administration and Technical Support section will be challenged to continue to maintain the complex network infrastructure. Major activities in this area for 2004 will include the upgrade to SWIFT net and RTGS. In addition, the Windows operating system will be upgraded to Windows XP at the client and server levels. As a part of the effort to improve the client support services, a Customer Support Area will be created for users to receive hands-on technical assistance. New HelpDesk software will be installed with additional functionality for users.

More frequent meetings are planned with the hardware and software vendors with a view to improving the quality of service being rendered.

*Training*

*MISD Training*

Emphasis will be placed on training in the following areas: Lotus notes Workflow for Applications developers and PORTIA Advanced Administration for SQL.

*User Training*

User Training User training will be conducted in the following areas: New HelpDesk software, Lotus Notes Release 6, Prophecy Open Purchase Order module, Windows XP and in-house developed applications.

**Public Affairs**

Informing and educating the public about the Bank's policies, programmes and initiatives will continue to be the focus of the Public Affairs Section. The section will therefore persist with many of the initiatives of previous years, including the Sir Winston Scott Memorial lecture, the Secondary School's Outreach Programme, a media conference, a workshop for teachers, the Crop Over Visual Arts Exhibition, Pan in the Plaza Extravaganza, Frank Collymore Literary Competition and a range of lecture series on pertinent economic and financial events. Also this year, the Section and the CSME Unit will be producing a panel discussion on the CARICOM Single Market and Economy.



Finally, consistent with the Bank's strategy to promote the arts, the Frank Collymore Literary Endowment Committee which is sponsored by the Bank will be publishing "Remembering the Sea", a tribute to Frank Appleton Collymore.

### Research Department

The international environment has become more unpredictable owing to the impacts of recent international economic crises, the concerns of international standard-setting bodies, continued developments in international trade policy and negotiations management, particularly the proposed creation of a Caribbean Single Market and Economy and the Free Trade Area of the Americas. These developments necessitate a greater focus on regional and international trade and finance by the department.

The Department continues to make improvements in its analytical capability and its advice is well respected. However, there is a need for more relevant policy research to meet growing demands. It is also important to upgrade the on-line provisions of statistics to meet the needs of the modern user. To accomplish these goals the Department will be implementing operational and structural changes.

#### *Economics Section*

The functional classification of the Economics Section of the Department will be further rationalised to facilitate greater exposure of senior staff to administration and policy-making, improve the output of sector specific, policy-oriented research and also to generate a more rapid response to policy requests by the Bank's main publics. The department will also continue on-going efforts to strengthen its trade expertise and publication of commentary on trade policy issues.

The Annual Review Seminar, which facilitates inter-

action with regional economists, will continue to be the main training tool for the professional staff. This local training effort will be supplemented by the continued exposure of research staff to regional and international seminars. Public outreach will continue to be varied in order to keep the public informed of emerging economic issues. It includes the Internship Programme (designed to expose local and international university students to research methods), the Schools' Programme (designed to encourage young students to make economics a viable career objective) and occasional presentations to the social partners to keep them abreast of economic developments.

#### *Statistics*

An important objective is the general rationalisation of the Statistics Section to facilitate eventual data warehousing, improvement in the accuracy and timeliness of publications and the on-going closure or minimisation of data gaps. Staff will be encouraged to participate in specialised in-house and other training courses of an economic, statistical or financial nature subject to budgetary limitations. Periodic training seminars will also be organised to upgrade the skills of statistical officers in relevant software. The Department will also continue its efforts to improve efficiency through wider use of technology to gather and disseminate information to the wider public.

#### *Library and Information Services unit (LISU)*

During 2004, measures will be implemented to make materials in the Library available on the desks of staff members, and to enhance the provision of records management services to the wider Bank. To facilitate this objective, the LISU will continue to take advantage of suitable training courses in library science and records management when possible in order to upgrade the skills of staff in this section. In addition, efforts will be made to upgrade the Bank's Intranet to facilitate the retrieval of statistical tables for download by users on the worldwide Web.



### Adoption of Financial Statements 2003

The net operating surplus for the financial year ended December 31, 2003 was \$2,052,568.

Current income totalled \$47.3 million and represented a decrease of \$14.5 million compared with the previous year. This decrease is attributed to the change in rate of Fedfunds from 1.25% to 1% effective June 25, 2003 and the resulting declines in interest rates on short-term securities, treasury bills and deposits by between 25 and 135 basis points. The Bank continued its aggressive investment policy and outsourced an additional \$20.0 million of foreign reserves to an external fund manager. At December 31, 2003, the total funds under external management amounted to \$172.1 million. Market conditions enabled the Bank to realize gains of \$4.8 million from sale of short and medium-term securities. Continued excess liquidity in the local banking system contributed to negligible earnings from dealings in local treasury bills. Government maintained a net credit balance during the year and no income was earned under the Ways and Means Facility.

During the year, the Bank received \$2.75 million in respect of interest on balances under the CMCF Agreement and \$8.8 million in principal repayments. At December 31, 2003 the cumulative principal repayments received under the facility amounted to \$106.6 million, leaving an outstanding balance of \$48.4 million.

Operating expenses totalled \$43.7 million and non-operating expenses for the current year include a contribution of \$1.6 million to the Deposit Insurance Fund.

The Board of Directors, with the approval of the Minister of Finance, appropriated \$2,052,568 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2003, the Profit and Loss Appropriation, the Profit and Loss Account, the Auditors' Certificate and the explanatory notes to the financial statements.

The Board of Directors has adopted the Financial Statements duly certified by the Auditors of the Central Bank for the year ended December 31, 2003.



## Chartered Accountants

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### AUDITORS' CERTIFICATE TO THE BOARD OF DIRECTORS

We have audited the accompanying balance sheet of the Central Bank of Barbados as of December 31, 2003 and the related profit and loss and profit and loss appropriation accounts for the year then ended. These financial statements are the responsibility of the management of the Central Bank of Barbados. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Central Bank of Barbados as of December 31, 2003 and the results of its operations for the year then ended in accordance with the Central Bank of Barbados Act, Cap. 323C. and the significant accounting policies stipulated in Note 1.

Bridgetown, Barbados  
March 08, 2004

  
Chartered Accountants



KPMG a Partnership, is a member of KPMG International, a Swiss Association

Jeffrey W. Gelfinetu  
Irving F. Burrows  
Michael A. Edgill  
Carol L. Nichols

James M. Payne  
Brandi A. Pope  
Frank V. Myers (Non-resident)

Cleveland S. Seaforth (Non-resident)  
Brian A. Glasgow (Non-resident)  
Reuben M. John (Non-resident)



**Balance Sheet**  
December 31, 2003  
with comparative figures for 2002

**ASSETS**

	NOTES	<u>2003</u>	<u>2002</u>
		<b>BDSS</b>	<b>BDSS</b>
<b>RESERVE OF EXTERNAL ASSETS:</b>			
Balances Held Abroad	2	246,849,808	209,537,052
Foreign Notes and Coins		3,570,152	1,879,043
Foreign Securities	3	<u>840,245,775</u>	<u>806,542,644</u>
		<u>1,090,665,735</u>	<u>1,017,958,739</u>
<b>International Monetary Fund:</b>			
Holdings of Special Drawing Rights	4	<u>14,081,289</u>	<u>12,603,787</u>
		<u>1,104,747,024</u>	<u>1,030,562,526</u>
<b>Total Reserve of External Assets</b>			
<b>LOCAL ASSETS:</b>			
<b>Securities:</b>			
Barbados Government Debentures	5	<u>635,000</u>	<u>635,000</u>
		<u>635,000</u>	<u>635,000</u>
<b>Fixed Assets (Net)</b>	6	93,772,822	94,047,018
<b>Other Assets</b>	7	<u>49,306,017</u>	<u>57,027,359</u>
		<u>143,713,839</u>	<u>151,709,377</u>
<b>Total Local Assets</b>		<u>1,248,460,863</u>	<u>1,182,271,903</u>

*See accompanying notes to accounts.*



**Balance Sheet**  
December 31, 2003  
with comparative figures for 2002  
**LIABILITIES, CAPITAL AND RESERVES**

	NOTES	<u>2003</u>	<u>2002</u>
		<b>BD\$</b>	<b>BD\$</b>
<b>LIABILITIES:</b>			
<b>Notes and Coins in Circulation</b>	8	<u>474,662,681</u>	<u>441,827,871</u>
<b>Deposits:</b>			
Government		43,040,516	161,616,243
Banks		608,204,101	466,938,739
Financial Institutions		6,201,397	3,606,060
Other		<u>2,321,714</u>	<u>1,968,048</u>
		<u>659,767,728</u>	<u>634,129,090</u>
<b>Other Liabilities:</b>			
Allocation of Special Drawing Rights	9	22,431,310	20,547,805
Other	10	<u>53,973,989</u>	<u>38,854,562</u>
		<u>76,405,299</u>	<u>59,402,367</u>
<b>Total Liabilities</b>		<u>1,210,835,708</u>	<u>1,135,359,328</u>
<b>Other Funds</b>	11	<u>25,625,155</u>	<u>34,912,575</u>
<b>CAPITAL AND RESERVES:</b>			
Authorised capital: BD\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		<u>10,000,000</u>	<u>10,000,000</u>
<b>Net Capital and Reserves</b>		<u>12,000,000</u>	<u>12,000,000</u>
<b>Commitments</b>	12		
		<u>1,248,460,863</u>	<u>1,182,271,903</u>

Approved on behalf of the Board of Directors:

*Harri Dhillon* Governor

*Michelle Harrington* Financial Controller



**Profit and Loss Account**  
For the year ended December 31, 2003  
with comparative figures for 2002

	Notes	<u>2003</u>	<u>2002</u>
		<b>BDSS</b>	<b>BDSS</b>
<b>INCOME:</b>			
Commissions and Fees		7,430,375	8,051,070
Discounts:			
Treasury Bills		1,415,663	3,041,156
Interest:			
Advances		881,957	2,093,876
Deposits		4,480,681	5,916,911
Securities		26,867,081	32,768,949
Other Income		741,144	1,351,963
Difference in Exchange		686,105	287,606
Gain on Sale of Foreign Securities		4,842,645	8,320,858
		<u>47,345,651</u>	<u>61,832,389</u>
<b>Total Income</b>			
<b>EXPENSES:</b>			
<i>Operating:</i>			
Administrative Expenses		12,895,194	13,470,511
Depreciation		5,200,819	4,226,362
Interest		30,776	19,342
Minting of Coins		643,695	455,312
Printing of Notes		2,997,152	2,896,342
Retirement Benefits	13	3,594,375	5,977,717
Salaries and Allowances		18,331,072	17,697,333
		<u>43,693,083</u>	<u>44,742,919</u>
<b>Operating Expenses</b>			
<i>Net profit before under noted items</i>		<u>3,652,568</u>	<u>17,089,470</u>
<i>Contributions:</i>			
Barbados Investment Fund	14	-	1,000,000
Deposit Insurance Fund		1,600,000	1,000,000
Secondary Mortgage Market Project		-	250,000
		<u>1,600,000</u>	<u>2,250,000</u>
<b>Net Profit Before Appropriation</b>		<u>2,052,568</u>	<u>14,839,470</u>

*See accompanying notes to accounts.*



**Profit and Loss Appropriation Account**  
For the year ended December 31, 2003  
with comparative figures for 2002

	<u>2003</u>	<u>2002</u>
	<b>BDSS</b>	<b>BDSS</b>
Net profit before Appropriation	<u>2,052,568</u>	<u>14,839,470</u>
Deduct:		
Transfer to Consolidated Fund	<u>2,052,568</u>	<u>14,839,470</u>
Balance carried forward	<u>          -</u>	<u>          -</u>

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

*See accompanying notes to accounts.*



**Notes to Accounts**  
December 31, 2002

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

(a) *Income and Expenses:*

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

(b) *Translation of Foreign Currencies:*

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

(c) *Foreign Securities:*

Treasury bills and unquoted securities are valued at amortised cost.

Other securities are valued at market and the resulting gains and losses on revaluation are deferred pending realization.

(d) *Numismatic Coins:*

The nominal value of numismatic coins sold is excluded from the balance of 'notes and coins in circulation' while the net proceeds from sales are included in the Profit and Loss Account under Other Income.

(e) *Local Securities:*

Local securities are valued at amortised cost.

(f) *Depreciation:*

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

(g) *Retirement Benefits:*

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

**2. BALANCES HELD ABROAD**

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

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



**Notes to Accounts, Continued**  
December 31, 2003

**2. BALANCES HELD ABROAD, CONT'D**

As at December 31, 2003, the C.M.C.F. balance included in Balances Held Abroad was \$48,352,578 (2002 - \$57,143,956). The Bank gave notice of its intention to withdraw from CMCF. The withdrawal is not expected to have any impact on the carrying value of the balance due.

As at the balance sheet date, interest accrued but not due in respect of the CMCF balance amounted to \$604,000 (2002: \$714,301). (See note 1(a))

**3. FOREIGN SECURITIES**

Foreign securities comprise:

	<u>2003</u>		<u>2002</u>	
	<u>Amortised Cost</u>	<u>Market Value</u>	<u>Amortised Cost</u>	<u>Market Value</u>
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	633,694,709	654,847,936	684,894,448	718,132,677
(b) Equities	<u>1,174,053</u>	<u>4,145,981</u>	<u>440,000</u>	<u>614,346</u>
	634,868,762	658,993,917	685,334,448	718,747,023
At Cost:				
(c) Treasury Bills	<u>181,251,858</u>	<u>181,251,858</u>	<u>87,795,621</u>	<u>87,795,621</u>
	<u>816,120,620</u>	<u>840,245,775</u>	<u>773,130,069</u>	<u>806,542,644</u>

The amount of \$24,125,155 (2002: \$33,412,575) representing unrealised profit on the revaluation of Securities is included in Other Funds. (See note 11).

**4. HOLDINGS OF SPECIAL DRAWING RIGHTS**

Holdings of Special Drawing Rights pertain to the value of Special Drawing Rights held at December 31, 2003. The rate of translation of SDRs into Barbados dollars at December 31, 2003 was SDR .358383 (2002 - SDR .39123<sup>A</sup>).



Notes to Accounts, Continued  
December 31, 2003

## 5. SECURITIES

Local securities comprise:

	2003		2002	
	Nominal Value	Cost	Nominal Value	Cost
	\$	\$	\$	\$
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:

	2003		2002	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Freehold land and building				
Office	85,130,083	11,327,255	73,802,828	75,079,779
Frank Collymore Hall Residence	6,982,910	851,916	6,130,994	6,209,678
Residence	2,477,281	94,388	2,382,893	2,358,222
Furniture and equipment	31,292,269	20,031,661	11,260,608	10,120,924
Vehicles	<u>919,019</u>	<u>723,520</u>	<u>195,499</u>	<u>278,415</u>
	<u>126,801,562</u>	<u>33,028,740</u>	<u>93,772,822</u>	<u>94,047,018</u>

## 7. OTHER ASSETS

Other assets include:

	2003	2002
	\$	\$
Accrued income on local investments	1,330,619	1,256,859
Cheques in process of collection	16,505,905	14,900,113
CRL Limited <sup>(1)</sup>	9,000,000	9,000,000
Fiscal Agency Payment Account	600,924	2,621,102
Investment Deposits	5,500,000	11,598,364
Prepayments	638,973	1,680,924
Staff Advances	12,343,531	12,419,408
Sundry Balances	<u>3,386,065</u>	<u>3,550,589</u>
	<u>49,306,017</u>	<u>57,027,359</u>



**Notes to Accounts, Continued**  
December 31, 2003

**7. OTHER ASSETS, CONT'D**

<sup>(1)</sup>The CRL Limited amount represents a loan facility, which bears interest at a rate of 6% per annum. Prior to 1997, the loan was due from the Barbados Development Bank and was guaranteed by the Government of Barbados. During 1998, the facility was transferred to CRL Limited. The Government has undertaken to repay the debt on behalf of CRL Limited. As at the balance sheet date, the cumulative interest not recognised amounted to \$2,322,904 (2002: \$1,782,904) of which \$540,000 (2002: \$540,000) relates to the current year.

**8. NOTES AND COINS IN CIRCULATION**

At December 31, 2003, the nominal value of numismatic coins sold totalled approximately \$10.4 million (2002 - \$10.4 million). See note 1 (d).

**9. ALLOCATION OF SPECIAL DRAWING RIGHTS**

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

**10. OTHER**

This amount comprises:

	<u>2003</u>	<u>2002</u>
	\$	\$
Accounts Payable	2,709,953	2,054,762
Barbados Investment Fund	-	1,000,000
Contribution Payable - Deposit Insurance Fund	2,600,000	1,000,000
Contribution Payable - Establishment of a Chair at UWI	1,200,000	1,200,000
Contribution Payable - Secondary Mortgage Market Project	242,319	250,000
Contribution Payable - Staff Pension Fund	-	2,500,000
Debenture Interest Payment Account	597,296	2,617,234
Domestic Clearing	10,305,777	2,620,158
Dormant Accounts - Commercial Banks*	8,740,932	7,498,888
Export Development Fund	224,613	224,613
Industrial Credit Fund	20,280,080	7,697,952
Redemption of Debentures Account	2,775,120	963,120
Sinking Fund Contribution Account	216,410	4,453,570
Small Business Fund	330,000	330,000
Staff Pension Fund	72,003	529,951
Staff Welfare Fund	2,300,986	2,470,807
Sundry Balances	<u>1,378,500</u>	<u>1,443,507</u>
	<u>53,973,989</u>	<u>38,854,562</u>

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



**Notes to Accounts, Continued**  
December 31, 2003

**11. OTHER FUNDS**

This amount comprises the following balances:

	<u>2003</u>	<u>2002</u>
	\$	\$
Special Credit Trust	1,500,000	1,500,000
Unrealised gains on revaluation of investments	<u>24,125,155</u>	<u>33,412,575</u>
	<u>25,625,155</u>	<u>34,912,575</u>

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

**12. COMMITMENTS**

At December 31, 2003 the Bank had guaranteed settlement of approximately \$728,248 (2002: \$656,698) under the following schemes:

	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$
(i) Credit Insurance Scheme for Small Businesses	<u>898,978</u>	<u>728,248</u>

Also at December 31, 2003, the Bank had contracts for capital expenditure in the amount of \$2.1 million (2002: \$2.3 million).

**13. RETIREMENT BENEFITS**

The Bank contributes to a retirement plan established 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, 2003 revealed the following:

	<u>2003</u>	<u>2002</u>
	\$	\$
Fair value of plan assets	57,976,341	48,758,056
Actuarial present value of liabilities	<u>74,350,552</u>	<u>70,618,003</u>
Unfunded liability	<u>16,374,211</u>	<u>21,859,947</u>



**Notes to Accounts, Continued**  
December 31, 2003

**13. RETIREMENT BENEFITS, CONT'D**

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

	2003	2002
Rate of return of assets	6% per annum	6% per annum
Rate of salary inflation and promotional increases	4% per annum	4% per annum
Rate of escalation of NIS Ceiling	3% per annum	3% per annum
Rate of pension increases	2% per annum	2% per annum

The actuary has recommended that a funding rate of 16.91% (2002: 15.89%) of covered payroll be used for new benefits, plus an additional rate of 7.24% (2002: 8.80%) to allow the amortization of the unfunded liability over a period of eighteen/nineteen years. The total recommended funding rate of 24.15% (2002: 24.69%) of covered payroll should obtain until the next valuation.

**14. CONTRIBUTIONS**

These contributions are made in accordance with Section 8(b) of the Central Bank of Barbados Act, Cap. 323C. As at the balance sheet date, the Bank had made cumulative contributions of \$13 million and \$11 million to the Barbados Investment Fund and Industrial Credit Fund respectively.

**15. TAXATION**

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

**16. COMPARATIVE FIGURES**

Certain comparative amounts for 2002 have been reclassified to conform to the current year's presentation.