



CENTRAL BANK *of* BARBADOS

2002 ANNUAL REPORT

Cover Image: The globes positioned on the map of the Caribbean illustrate the importance of the Caribbean region in international affairs. The globe on the left represents the global economy in its entirety. The highlighted Caribbean chain on the globe on the right illustrates the region's emergent strength through Caribbean integration. The Central Bank of Barbados' logo superimposed on the central globe emphasises the Bank's commitment to the process of Caribbean integration.

LETTER OF TRANSMITTAL

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


March 28, 2003

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, 2002 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2002.

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 14, 2003.

I am,
Yours faithfully,



Marion V. Williams
Governor

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



DIRECTORS AND SENIOR OFFICERS

BOARD OF DIRECTORS

Marion V. Williams, Ph.D., F.C.I.B., C.M.A. <i>Chairman</i>	Grantley W. Smith, Esq., B.A.(Hons.), D.P.A., B.C.H.
Miss Lynette V. Eastmond, LL.B., LL.M	Patrick B. Toppin, Esq., F.C.C.A., C.A.
Michael McG. Howard, Prof. Ph.D., G.C.M	Sonia L. Richards, Ph.D., F.C.I.S. <i>Secretary to the Board</i>
Patrick J. Mayers, Esq., B.C.H., J.P.	

SENIOR OFFICERS

Marion V. Williams, Ph.D., F.C.I.B., C.M.A. <i>Governor</i>	Sonia L. Richards, Ph.D., F.C.I.S. <i>Bank Secretary</i>
Darcy W. Boyce, Esq., M.B.A., C.M.A. <i>Deputy Governor (Operations)</i>	Victor M. Springer, Esq., M.B.A. <i>Director, Banking and Currency</i>
Carlos A. Holder, Esq., M.A.(Econ.) <i>Deputy Governor (Research and Supervision)</i>	Hensley T. Sobers, Esq., M.B.A. <i>Director, Human Resources</i>
Daniel O. Boamah, Ph.D. <i>Director, Research</i>	Mrs. Marlene E. Bayne, M.B.A. <i>Deputy Director, Bank Supervision</i>
Michael D. Carrington, Esq., M.B.A., F.C.C.A. <i>Financial Controller</i>	Anderson E. Best, Esq., C.G.A. <i>Deputy Financial Controller</i>
Ian DeV. Carrington, Esq., M.B.A., M.C.I.M. <i>Director, Bank Supervision (Resigned)</i>	Mrs. Sylvia E. Blenman <i>Deputy Director, Banking and Currency</i>
Harold E. Codrington, Esq., M.A.(Econ.) <i>Adviser</i>	David A. Boyce, Esq., M.B.A., Dip.M.S., A.F.A. <i>Deputy Director, Foreign Exchange and Export Credits</i>
Brian A. Greene, Esq., M.B.A., A.C.I.B. <i>Director, Internal Audit</i>	Roland Craigwell, Ph.D. <i>Chief Economist, Research</i>
Cleviston L. Haynes, Esq., M.A.(Econ.) <i>Director, Bank Supervision</i>	Miss Celeste J. Wood, M.Sc. <i>Deputy Director, (Statistics) Research</i>
Miss Janice D. Marshall, M.B.A. <i>Director, Management Information Systems</i>	Miss Julia A. Weekes, CFA. <i>Deputy Director, Banking and Currency</i>
Abdul R. Mehter, Esq., M.B.A., F.C.I.S. <i>Director, Facilities Management</i>	Peter H. Whitehall, Esq., M.P.A. <i>Deputy Director, (Economics) Research</i>
Jefferson O. Reeves, Esq., M.B.A. <i>Director, Foreign Exchange and Export Credits</i>	Geoffrey A. Yearwood, Esq., M.Sc. <i>Deputy Director, Management Information Systems</i>

CONTENTS

ECONOMIC REVIEW	1
Overview	1
Sector Reviews 2002	2
Production, Prices and Employment	2
Financial Sector	9
Government Operations	15
Foreign Trade and Payments	24
Regional Economic Developments	28
International Economic Developments	31
ECONOMIC OUTLOOK	35
International Economic Outlook for 2003	35
Prospects for the Barbados Economy in 2003	35
ADMINISTRATION	37
OPERATIONS	39
Central Bank Plans for 2003	49
ADOPTION OF FINANCIAL STATEMENTS – 2002	55
AUDITORS' CERTIFICATE AND FINANCIAL STATEMENTS	57

TABLES

Long-stay Tourist Arrivals by Month and Season	2
Tourist Arrivals by Market	3
Selected Indicators of Annual Sugar Production	4
Production of Selected Commodities	5
Number of New Licences Issued to Active IBFS Companies	6
Consolidated Statement of Condition for Offshore Banks	7
Selected Indicators of the Banking System	11
Credit to the Non-Financial Private Sector by Financial Institutions	11
Domestic Deposits at Financial Institutions	12
Summary of Government Operations	16
Government Financing	18
Central Administration National Debt	18
Contribution Option	22
Retirement Age/Contribution Option	22
Benefits Option	23
Balance of Payments	25
Commodity Prices	33
Foreign Currency Transactions	41
Purchase of Foreign Currency Notes by Commercial Banks	42
Key Indicators of ICF Operations	46

CHARTS

Real GDP Growth Rate	1
Cruise Passengers Arrivals and Cruise Ship Calls	3
Inflation Rate (12 - Month Moving Average)	8
Average Annual Unemployment Rate	8
Excess Liquidity Ratio	9
Selected Interest Rates	10
Commercial Banks' Credit to Private Sector and Domestic Deposits	12
Local Market Capitalisation	13
Cross Listed Market Capitalisation	14
Government Revenue by Source	17
Current Expenditure	17
Fiscal Deficit as a Percentage of GDP	19
Composition of Domestic Debt by Central Government	24
Travel Credits	26
Domestic Exports	27
Capital and Financial Account Flows	27
Summary of Commercial Banks' Statement of Excess Cash Reserve Position	39
ICF Annual Loan Approvals	45
ICF Annual Loan Disbursements	45

**ECONOMIC
REVIEW**

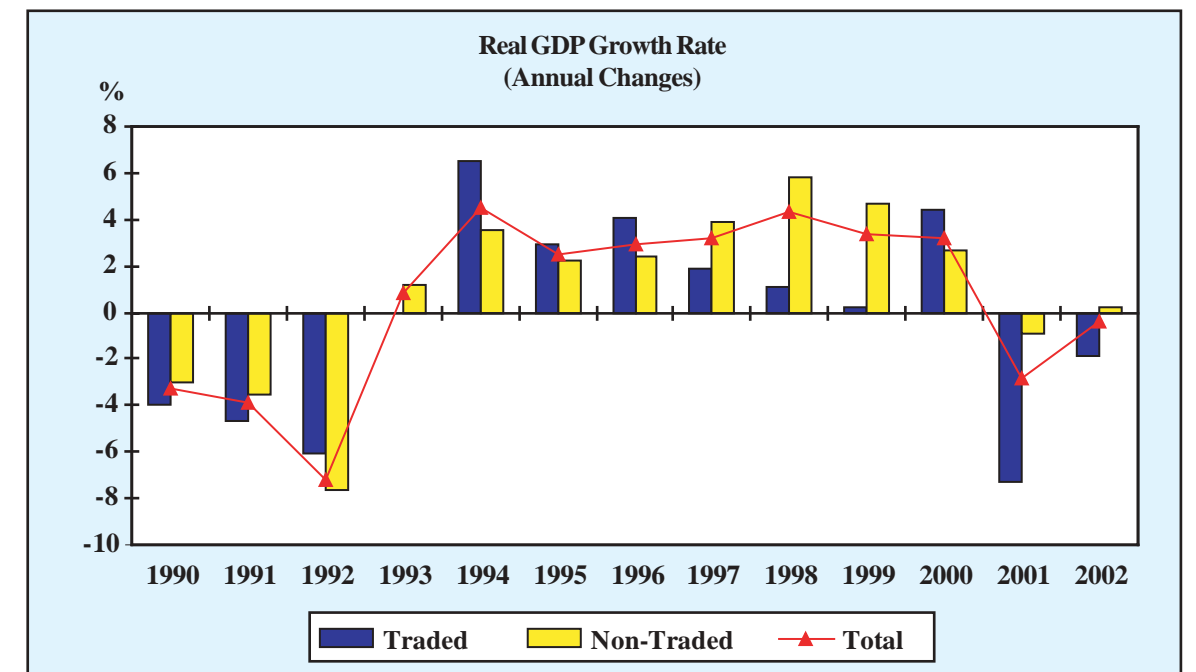
OVERVIEW

The economic downturn experienced during 2001 abated somewhat in the following year, as only a marginal (0.4%) contraction in real GDP was estimated for 2002. The performance of the economy during the first half of 2002 was particularly weak, characterised by a substantial decline in tourism and a poor sugar crop. Notably, there was further deterioration in the United Kingdom (U.K.) and Canadian tourist markets, which remained depressed from the previous year. However, encouraging signs of recovery emerged during the second half of the year, as tourism strengthened, after contracting for five consecutive quarters, and construction activity and wholesale and retail trade improved. Nevertheless, the weakness in the domestic economy, precipitated by the protracted uncertainty in the international economies, contributed to a slightly higher unemployment rate, but tempered retail price inflation as a result of lower import prices and subdued credit demand.

To provide a stimulus to real economic activity, Government undertook a series of counter-cyclical actions, which involved more stringent trade measures to safeguard domestic production, a major support programme to revive long-stay tourist arrivals and

additional spending on capital projects. With these additional demands on Government, including the need for supplementary capital injections to support the hotel capacity building efforts of Hotels and Resorts Ltd. (HRL), expenditure rose considerably. Moreover, in the context of shrinking revenues, the increase in expenditure resulted in a widening of the fiscal deficit to 6.3% of GDP, up from a deficit of 3.6% in calendar year 2001, representing the highest deficit-to-GDP ratio since 1990. Funding for the deficit came from the drawdown of Government's special deposits at the Central Bank and other domestic sources.

Throughout 2002, excess liquidity in the banking system gradually accumulated, reflecting sluggish domestic credit demand, the drawdown of special deposits at the Central Bank by Government and deposit transactions related to merger and acquisition activity in the financial sector. The Central Bank cut the minimum deposit rate and maintained its policy stance of setting indicative targets for the average lending rate on selected loans. This action resulted in a narrowing of the spreads between the interest rates on loans and deposits, thus facilitating a reduction in the cost of borrowing to the productive sectors.



With the weak performance of the foreign exchange earning sectors, the external current account deficit widened, after contracting significantly in 2001. In addition, net long-term private capital inflows fell sharply, owing to the sluggishness of the domestic economy and the persistence of international economic uncertainty. Consequently, the country recorded an overall balance of payments deficit of \$46.8 million, the first since 1998 and only the second such deficit in 11 years. The net international reserves (NIR) declined by approximately \$47.4 million.

Sector Reviews 2002

Production, Prices and Employment

Tourism

Buoyed by a rebound in long-stay arrivals during the second half of the year, the rate of decline in tourism

activity was not as steep as in 2001. Overall, real tourism value-added, taking into account the effect of discounting in the tourism sector, decreased by an estimated 2.4%, compared to a decline of 5.9% in the previous year.

Total long-stay arrivals contracted by an estimated 1.8% to 497,899, as a dismal winter season (January to April) and an average decline of 6% in visitors for May and June offset an improved performance in the latter half of the year. The domestic tourism industry was adversely affected by a combination of competition from low-priced destinations, the effect of the global economic uncertainty on vacation travel and the loss of charters out of the U.K. and Canada.

U.K. visitor arrivals, which have accounted for the majority share of total long-stay arrivals since 1994, fell by 11.4% in 2002, whilst the number of persons

Long-stay Tourist Arrivals by Month and Season

Month	1996 -2000*	2001	2002	% Change from 2001
January	43,746	45,499	39,915	-12.3
February	43,172	47,010	41,205	-12.3
March	48,140	49,256	48,583	-1.4
April	42,818	48,786	37,804	-22.5
Winter	177,875	190,551	167,507	-12.1
May	37,457	39,988	36,373	-9.0
June	34,075	34,980	33,426	-4.4
July	47,243	48,416	49,239	1.7
August	42,897	44,685	47,503	6.3
September	30,102	28,715	30,977	7.9
October	37,833	34,870	39,273	12.6
November	42,921	38,858	44,667	14.9
December	47,813	46,015	48,934	6.3
Summer	320,341	316,527	330,392	4.4
Total	498,216	507,078	497,899	-1.8

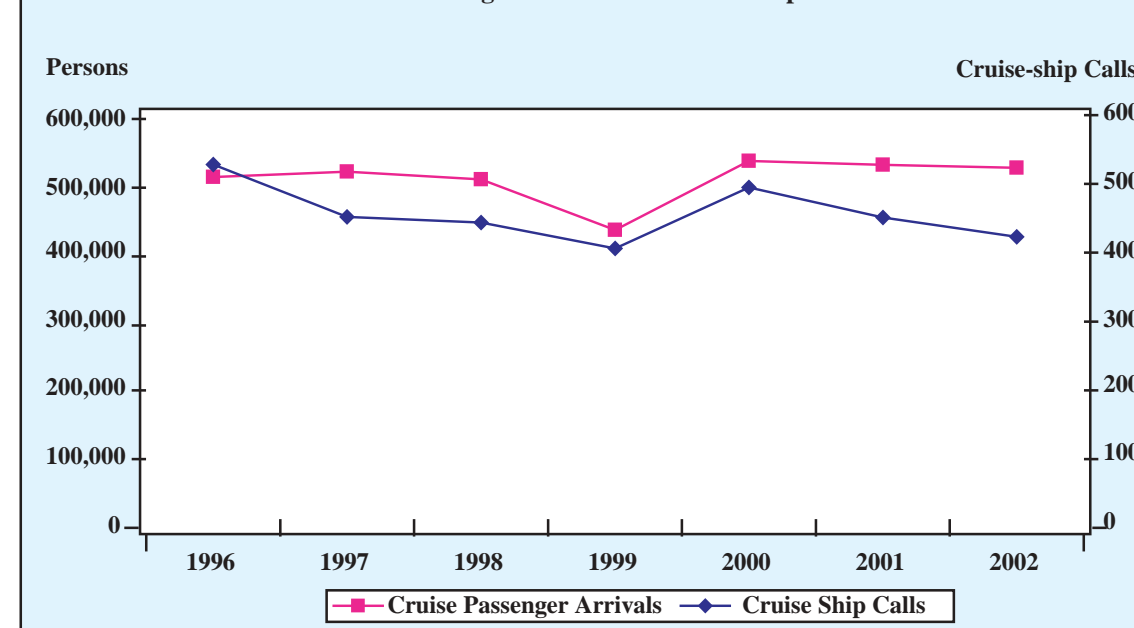
Source: Barbados Statistical Service
Note: * annual average

Tourist Arrivals by Market

Market	1996 -2000*	2001	2002	% Change in 2002
USA	109,203	106,629	123,429	15.8
Canada	58,370	52,381	46,754	-10.7
UK	182,402	217,466	192,606	-11.4
Germany	15,029	6,474	5,931	-8.4
Other Europe	38,363	22,185	19,397	-12.6
Trinidad	20,398	21,010	25,559	21.7
Other CARICOM	52,362	59,676	64,118	7.4
Rest of World	23,340	21,257	20,105	-5.4
Total	499,467	507,078	497,899	-1.8

Source: Barbados Statistical Service
Note: * annual average

Cruise Passenger Arrivals and Cruise Ship Calls



travelling from Canada were down 10.7%. In addition, the German and European markets continued to under-perform, falling by 8.4% and 12.6%, respectively.

Conversely, arrivals from the United States increased by 15.8%, the most impressive performance since the mid-1980s. The turnaround in this market can be attributed to the addition of US Airways to existing airlift capacity out of North America coupled with the introduction of the "Best of Barbados" promotion. Barbados also attracted more visitors from Trinidad and Tobago (up 21.7%) and visitors from other CARICOM countries (up 5.4%), helped in part by the promotion of two major regional sporting events hosted in Barbados as well as the Crop Over festival.

The number of cruise passenger arrivals fell by 0.8% to 523,253 in 2002, after decreasing by 1.1% in 2001, primarily reflecting the lingering effects of the world economic downturn on the demand for cruise vacations. In addition, changes in the itineraries of some cruise vessels resulted in a decline of 6.2% in the number of cruise-ship calls to Barbados.

Agriculture

Agricultural output declined by an estimated 5.8% in 2002, as both sugar and non-sugar sub-sectors performed poorly. Sugar production decreased by 10% to 44,818 tonnes, the second consecutive year of decline. The 2002 sugar harvest suffered from a short-

age of rainfall during the planting season in 2001, as well as delays in harvesting because of protracted wage negotiations. Together, these factors contributed to a decrease of 6.7% in the average yield of sugar per tonne of cane milled. As a consequence, Barbados was not able to satisfy its contractual obligation of supplying 54,000 tonnes of raw sugar to the European Union. The shortfall in the quota was met by other countries in the African, Caribbean and Pacific grouping.

Non-sugar agricultural output is estimated to have contracted by 3.6% during the year under review. After two successive years of growth, fresh milk production fell 7.4%, whilst fish catches decreased by approximately 7.0%. In addition, the amount of chicken produced was 1% lower than in 2001, as higher output in the first three months was offset by cutbacks in production in the second and third quarters in response to an increase of poultry imports.

Manufacturing

Real output in the manufacturing sector, as measured by the Index of Industrial Production, expanded by 0.3% in 2002, in contrast to a decline of 8.1% one year earlier. The industry, which has been hard-hit by the change to a liberalised trading regime, partly benefited from the continuation of the "Buy-Local" initiative and the imposition of a higher tariff rate on selected imports of foodstuff and other manufactured goods in 2002. Production of processed foodstuff

Selected Indicators of Annual Sugar Production

	1998	1999	2000	2001	2002 ^P
Canes Milled ('000 Tonnes)	449	522	538	420	418
Sugar Produced ('000 Tonnes)	48.0	53.2	58.4	49.8	44.8
Average Yields (Tonnes)					
Canes per Hectare	5.4	63.9	62.1	50.6	52.6
Sugar per Hectare	5.9	6.5	6.7	6.0	5.6
Sugar Exports ('000 Tonnes)	48.2	49.3	54.8	50.9	39.2

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

and miscellaneous manufacturing goods (printing, fabricated metals, machinery and equipment) increased by an estimated 6.5% and 1.8%, respectively. However, those categories of manufacturing that are predominantly export-oriented recorded lower levels of production. Output of electronic components and chemicals fell by 2.3% and 4.0%, respectively, whilst the fall-off in construction activity, particularly in the first half of the year, and machinery problems at a major producer of construction-related materials contributed to an estimated decrease of 9.0% in the manufacture of other non-metallic mineral products. In addition, production of beverages declined by 4.8%, largely because of competition from regional producers of non-alcoholic beverages.

Construction

Total value-added in construction increased by approximately 3.0%, compared to a decline of 4.5% in 2001, as the expansion in activity in the latter nine months of 2002 outweighed the downturn recorded in the first three months. Public sector construction provided the major impetus for construction activity in 2002. The new projects initiated were the rebuilding of the Hilton Hotel, the expansion of the Grantley Adams International Airport, renovations to the old Town Hall in Bridgetown and the building of a Coastal Defence Unit in Speightstown. The ongoing projects included the South Coast Sewerage System, which is in its final stage, the Solid Waste Management Project, the Urban Rehabilitation Programme and the Bridgetown Roads and Safety Improvement Project. The growth in construction output was partially constrained by a reduction in new residential building activity. For 2002, the number of loans from commercial banks, trust companies and the Barbados Mortgage Finance Co. Ltd for construction of new private

dwellings and purchase of land totalled 593, which was 2.8% below the total number of loans disbursed in 2001. By extension, the total number of electrical inspections for new residences fell by 7.3%, in contrast to an expansion of approximately 7.0% in 2001 and an average growth rate of 0.6% between 1997 and 2000. Approximately 76% of these new residences were walled structures, 12% were wooden and 12% made of wall and wood.

Mining and Quarrying

Value-added in mining and quarrying decreased by an estimated 5.4% in 2002, largely because of a deterioration of 15.8% in oil production. The continued decline in crude oil output was primarily due to lower than expected yields from new wells drilled. In addition, a reduction in the stimulation of wells, a process used to increase the output of existing wells, and natural decay in the productivity of old wells also contributed to the decline.

Electricity, Gas and Water

The production of electricity, gas and water rose by 1.6% in 2002, approximately 2.1 percentage points below the rate of increase in 2001 and 2.7 percentage points lower than the average rise over the previous five years. Electricity consumption by residential users grew by 1.8% on account of the expansion in the housing stock. This contrasted with electricity usage by the industrial sector which rose by just 0.1%, reflecting the relatively sluggish performance in manufacturing, while demand by other business firms fell by 20.5%. Among the major industrial and commercial users, only reservoirs and tourism establishments recorded higher levels of consumption. In 2002, the production of natural gas was approximately 28 million cubic metres, 6.2 million cubic metres below the

Production of Selected Commodities

	1998	1999	2000	2001	2002 ^P
Crude Oil Production (Barrels)	576,636	708,489	559,675	463,699	390,619
Natural Gas Sales ('000 Cubic Metres)	37,430	46,923	37,923	35,024	28,846
Electricity Usage ('000 Kwh)	657,850	675,610	704,043	735,270	741,291
Cement Production ('000 Tonnes)	259,181	251,543	n.a.	248,465	297,667

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

2001 level, and the lowest level of production since 1997. This outcome resulted from the reduction in oil production. Sales of natural gas also declined, by almost 12%. Water consumption fell by 1.9%, in contrast to an estimated expansion of 5.1% in 2001, as an increase in consumption in the last six months was outweighed by reduced demand from the tourism and construction industries during the first half of the year.

Other Non-Traded Sectors

The expansion in public sector activity during 2002 was the dominant factor that fuelled growth in the foreign exchange-using industries. In 2002, real government value-added is estimated to have expanded by 2.8%, compared to an increase of 1% in 2001, while value-added in wholesale and retail trade rose by 0.1%, owing mainly to improvements in construction and tourism. In addition, transportation, storage and communications, as well as business and other services registered real growth rates below their average annual five-year trend.

International Business and Financial Services (IBFS)

The international business and financial services sector performed relatively well in 2002, partly due to the removal of Barbados from the OECD list of tax havens in 2002. Licences for new international business companies totalled 260, a 24% increase over the previous year, representing a substantial turnaround from the 54% decline registered in 2001. Twenty-six

licences were granted to societies with restricted liability, four more than in 2001. Additionally, eleven exempt insurance companies and three exempt insurance management companies were permitted to operate, giving rise to increases of four and two, respectively, over the previous year's new registrations.

In 2002, the Central Bank of Barbados issued licences to three offshore banks, two fewer than in 2001. Total assets of offshore banks grew by 13.1%, compared to an increase of 30.8% in 2001. Total investments of offshore banks rose by 20.6%, compared to a 15.7% expansion in 2001, resulting in an investment-asset ratio of 48.3%, three percentage points higher than in the previous year. Loans and advances disbursed by offshore banks jumped by 38.1% in 2002, the second successive year of double-digit growth.

The differential in corporate tax rates paid by international business companies (at most 2.5%) and local companies (37.5%) attracted the attention of the US in 2002. In their crackdown on US companies relocating to lower-taxed jurisdictions, the US Treasury Department submitted a report identifying Barbados as a tax haven. In an effort to narrow the differential, while at the same time reducing the tax burden of the domestic corporate sectors, Government introduced additional tax convergence measures in the Prime Minister's Financial Statement and Budgetary Proposals for 2003/04.

Number of New Licences Issued to Active IBFS Companies

	1998	1999	2000	2001	2002
International Business Companies	44	326	456	210	260
Foreign Sales Corporations	317	249	118	0	0
Exempt Insurance Companies	23	5	13	7	11
Exempt Insurance Management Companies	0	1	0	1	3
Societies with Restricted Liability	33	32	47	22	26
Offshore Banks	1	5	7	5	3

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

Consolidated Statement of Condition for Offshore Banks
(\$ Million)

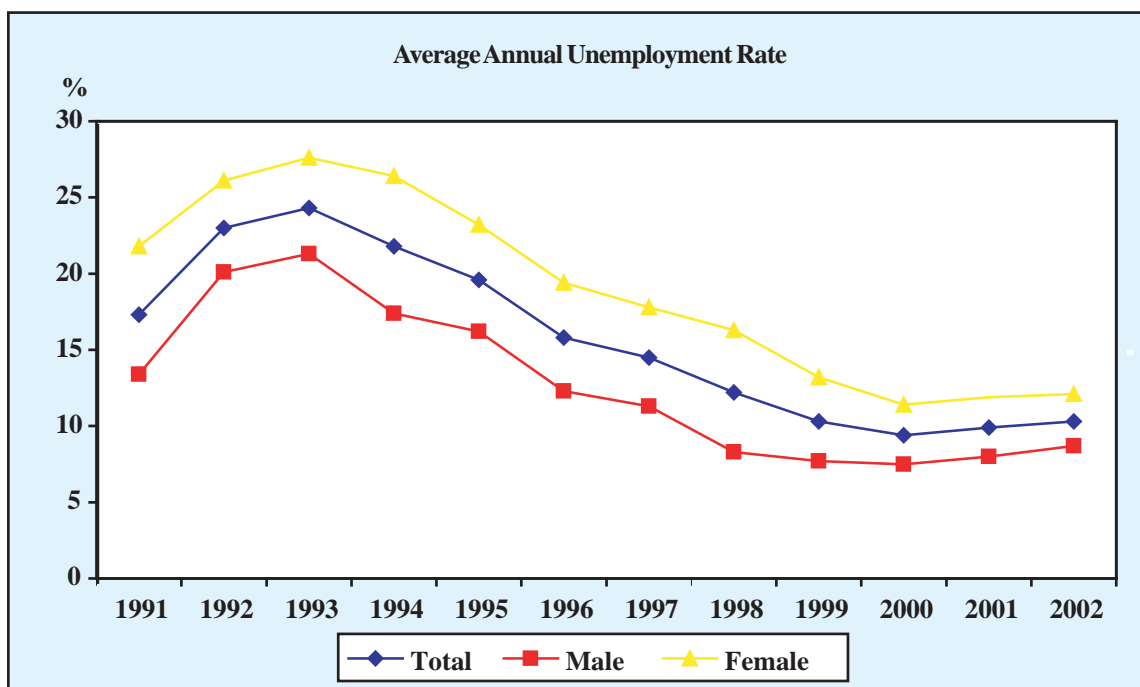
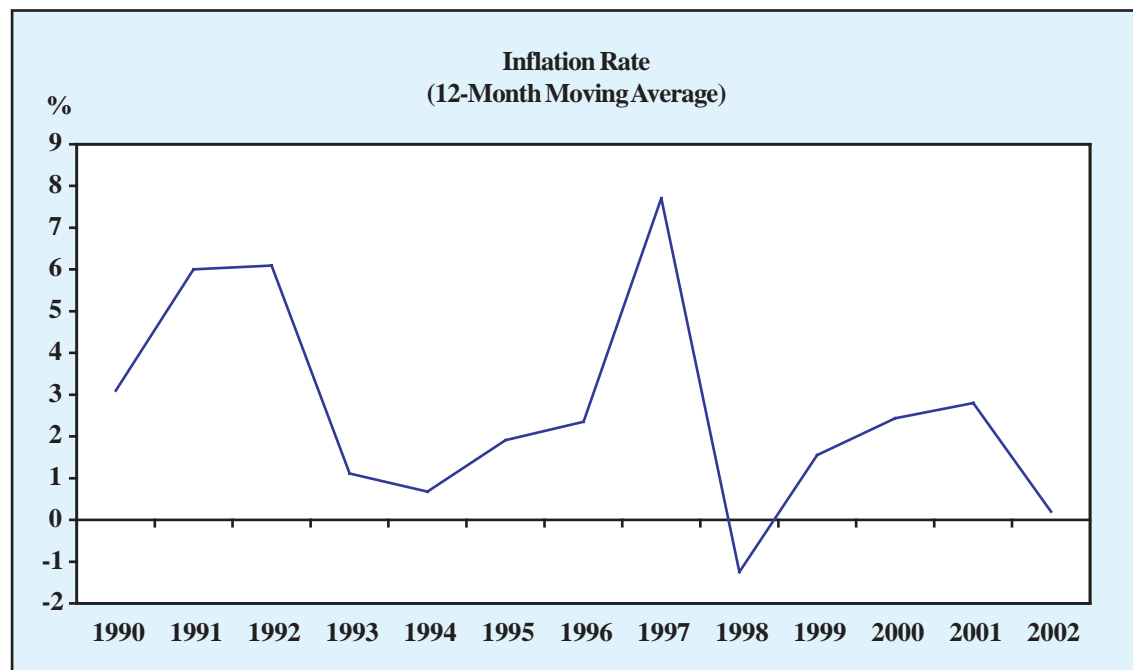
	1998	1999	2000	2001	2002
Assets					
Liquid Funds	17,426.1	17,966.3	18,335.4	27,826.0	29,180.8
Investments	17,424.5	22,418.2	22,418.2	25,941.5	31,288.1
Loans and Advances	1,523.8	1,663.5	1,663.5	2,033.6	2,809.1
Accounts Receivable	308.8	646.4	646.4	824.2	934.1
Fixed Assets	12.2	11.3	11.3	17.5	14.4
Other Assets	742.9	709.9	709.9	617.6	555.0
Total Assets	37,438.3	43,784.6	43,784.5	57,260.4	64,781.5
Total Liabilities	37,438.3	40,789.7	43,784.6	57,260.4	64,781.5
Total Deposits	1,917.5	2,507.7	2,255.3	818.3	2,752.6
Demand	496.5	775.7	753.5	620.0	829.8
Savings	19.9	31.9	69.4	1,250.0	186.3
Time	1,401.2	1,700.1	1,432.3	13,136.6	1,736.5
Memo:					
Contingent Liabilities	18.5	33.6	3,971.5	51.3	2,998.4

Source: Central Bank of Barbados

Prices and Employment

The average level of retail prices for 2002 rose by 0.2%, compared with an increase of 2.8% for 2001. Food prices, which rose by 1.7% over the year, had the greatest impact on inflation. The other components of the retail price index that registered increases were alcoholic beverages and tobacco (0.5%), housing (1.5%) and medical and personal care (4.5%). Despite the rise in the international price of oil during the latter half of 2002, the annualised rate of price increase for the fuel and light category contracted by 1.8%, as oil prices remained below the highs recorded in the latter half of 2000 which had pushed up inflation in 2001. The only other categories to register declines were household operations and supplies (-5%), transportation (-1.8%) and clothing and footwear (-5%).

The average rate of unemployment for 2002 was 10.3%, compared to an average of 9.9% for 2001. Unemployment for males was estimated at 8.7%, some 0.7 of a percentage point above the rate in the previous year. The rate of increase in female unemployment, (0.2 of a percentage point), pushed up the average rate of female unemployment to 12.1%. Overall, average employment fell to 128,600 or 2,300 fewer persons than in 2001. The reduction in employment reflected job losses in construction and quarrying, transport, storage and communications and general services. Marginal declines in employment were also recorded in the sugar and manufacturing industries. In contrast, there were slight employment gains in a number of sectors, including agriculture and fishing, electricity, gas and water, wholesale and retail trade, tourism and finance, insurance and business services.



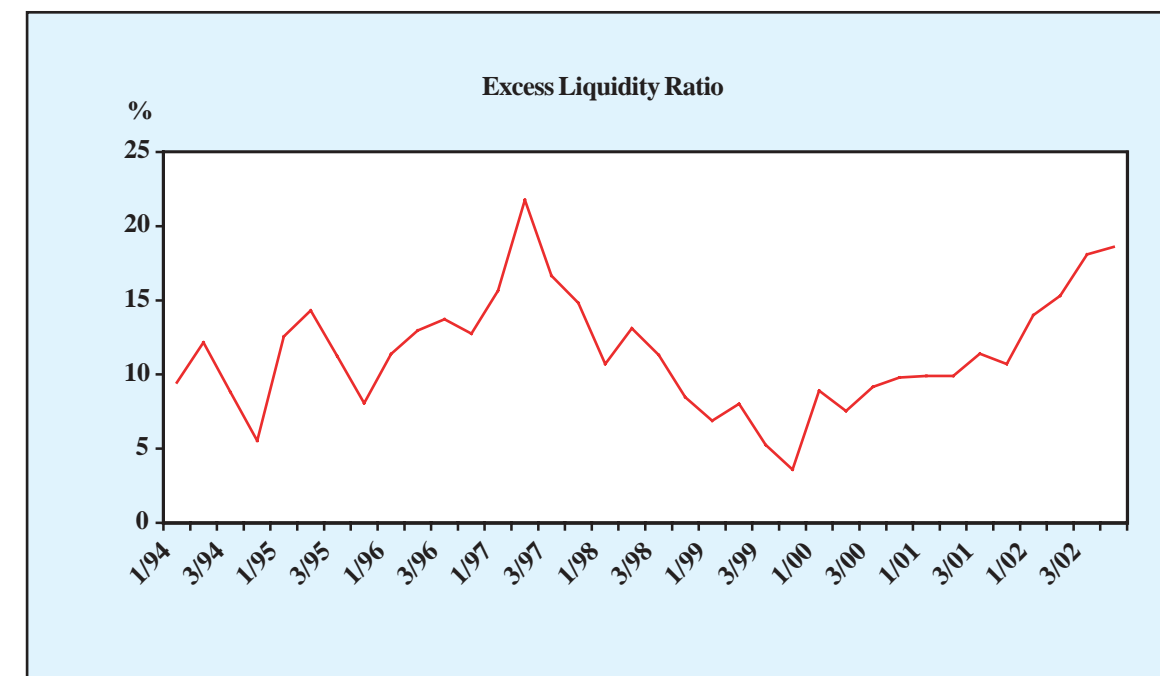
Financial Sector

Liquidity and Interest Rates

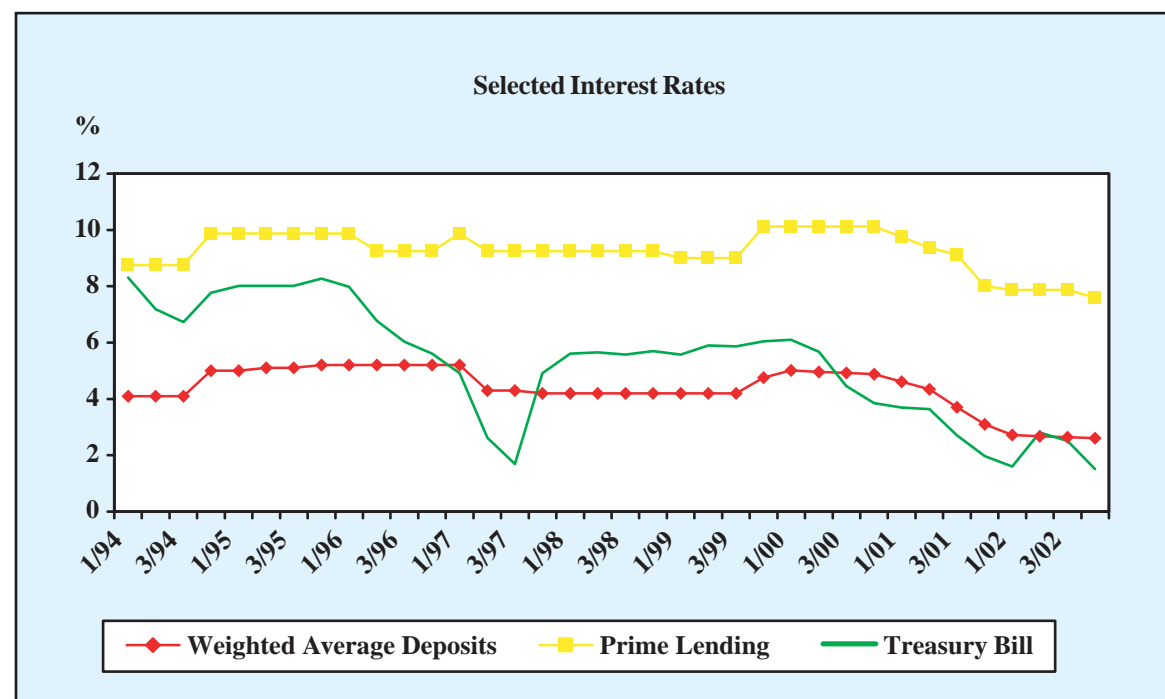
Excess liquidity in the banking system remained high throughout the year, as weak loan demand and private and public sector financial activity sustained the level of deposits. The excess liquidity ratio¹ rose by 9 percentage points to 19.4%, more than double the average excess liquidity ratio of the previous ten years. Most of this expansion in excess liquidity occurred in the first three quarters of the year, as commercial bank's excess cash holdings declined by 78.9 million between October and December of 2002. The primary reasons for the unusually large increase in liquidity were the depositing of proceeds from the sale of shares in Life of Barbados (LOB) to the Barbados Mutual Life Assurance Society (BMLAS) (\$151 million), and Government's expansionary fiscal policy. Even as these two events boosted the available sup-

ply of loanable funds, households and businesses were reluctant to take on additional debt, given the prevailing economic uncertainty.

In an effort to revive economic activity, the Central Bank eased monetary policy by reducing the commercial banks' required holdings of Government securities by three percentage points, to 16%, and lowering the minimum deposit rate to 2.5% in December. To further spur credit demand, the Central Bank required commercial banks to reduce the loan rate on selected loans by half a percentage point, to 8%, by the end of 2002. As a result of these efforts, the average interest rate on total loans fell by 0.75 of a percentage point to 10.35%. Burgeoning liquidity and the resulting competitive bidding for the available supply of treasury bills pushed down the treasury bill rate by 0.46 of a percentage point to a historical low of 1.51% by the end of 2002.



¹The excess liquidity ratio is calculated as the commercial banks' non-statutory holdings of cash and securities divided by the amount of domestic deposits.



Credit

Although recorded credit to the non-financial private sector expanded by \$86.6 million or (3.4%) over the review period, this outturn was the result of the reclassification of an offshore loan portfolio to the domestic lending section of a financial institution. Abstracting from these previously existing loans, credit to the non-financial private sector actually fell by \$60.7 million (-2.4%) in 2002, mainly because of the early repayment of a loan by HRL. This represents the second successive year of subdued non-financial credit activity, and is in contrast to the average rate of expansion of 7% for the period 1993 to 2000 when lending to the personal sector, which consists of consumer mortgage lending and all other types of personal loans, propelled much of the expansion in credit.

While the demand for mortgages remained robust, this was not enough to compensate for weaknesses in the other categories of consumer credit and, as a result, there was no expansion in total personal lending. Credit to businesses also showed little sign of a recovery, with bank lending to agriculture, construction, and manufacturing either contracting or stagnating. In contrast, bank lending to the distributive sector posted an underlying expansion of \$38.1 mil-

lion, as import growth resumed in the latter half of the year. Nominal credit to the tourism sector surged by \$42.2 million during the period under review. However, adjusting for the loan reclassification associated with the creation of a new financial institution, there was an effective decline in lending to tourism in 2002.

In contrast to stagnant non-financial private sector credit, merger and acquisition activity played a significant role in boosting credit to the financial sector. The merger of two insurance companies was largely responsible for the \$53.5 million expansion in credit to financial institutions.

Deposits

Domestic deposits rose by \$413.8 million (10.6%) in 2002, compared to an average annual growth rate of 14.8% over the 1993 to 2000 period. Much of this build-up in deposits occurred as a result of the \$151 million paid to private individuals who sold their shares in LOB to BMLAS in the second quarter. Domestic deposits increased only marginally in the second half of the year, as consumers drew down on some of their accumulated savings to finance consumption expenditures. As investment opportunities remained unat-

Selected Indicators of the Banking System

	1998	1999	2000	2001	2002 ^P
Net International Reserves	568.2	679.4	1,080.9	1,534.1	1,567.5
Monetary Authorities	538.7	612.8	968.6	1,414.1	1,366.6
Commercial Banks	29.5	66.6	112.2	120.0	200.8
Net Domestic Assets	2,197.4	2,391.1	2,253.6	2,002.5	2,330.2
Credit to Public Sector	333.3	325.8	188.1	-67.1	366.9
Central Government (net)	585.7	573.9	471.6	241.6	674.2
Other Public Sector	-252.4	-248.2	-283.5	-308.7	-307.3
Credit to Rest of Financial System	114.8	946	137.3	115.9	167.1
Liabilities to Other Financial Inst.	225.2	250.1	301.7	265.8	403.9
Credit to the Private Sector	2,152.6	2,464.5	2,504.2	2,512.6	2,599.2
Monetary Base	482.7	501.3	562.9	647.4	908.3
Liabilities to Commercial Banks	214.5	198.7	252.2	335.0	570.8
Currency Held by Banks	65.2	88.8	92.0	105.7	103.9
Demand Deposits at Central Bank	149.2	109.9	160.2	229.3	466.9
Currency Held With the Public	268.2	302.7	310.7	312.4	337.5
Memo:					
Domestic Deposits	3,060.2	3,362.7	3,689.2	3,913.5	4,327.3

Source: Central Bank of Barbados

P: Provisional

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

Source	1998	1999	2000	2001	2002 ^P
BDB	47.4	0.0	0.0	0.0	0.0
BMFC	107.9	111.0	127.2	147.1	164.3
Credit Unions	234.4	260.7	303.3	349.4	386.0
Finance Companies	76.8	126.6	143.2	172.1	151.2
Commercial Banks	2,152.6	2,464.5	2,504.2	2,512.6	2,599.2
Trust Companies	433.3	378.6	423.0	446.4	442.3
Insurance Companies	308.8	326.0	355.7	344.8	347.4
Total	3,361.0	3,667.3	3,856.6	3,972.4	4,090.4

Source: Central Bank of Barbados

P: Provisional

Domestic Deposits at Financial Institutions
(\$ Million)

Institutions	1998	1999	2000	2001	2002 ^P
Trust Companies	305.9	336.8	390.5	398.3	426.8
Commercial Banks*	3,043.8	3,351.5	3,655.5	3,871.0	4,371.2
Credit Unions	61.7	70.9	87.1	113.2	138.1
Finance Companies	97.5	132.5	177.8	235.6	250.9
Total	3,508.9	3,891.7	4,310.9	4,618.0	5,187.0

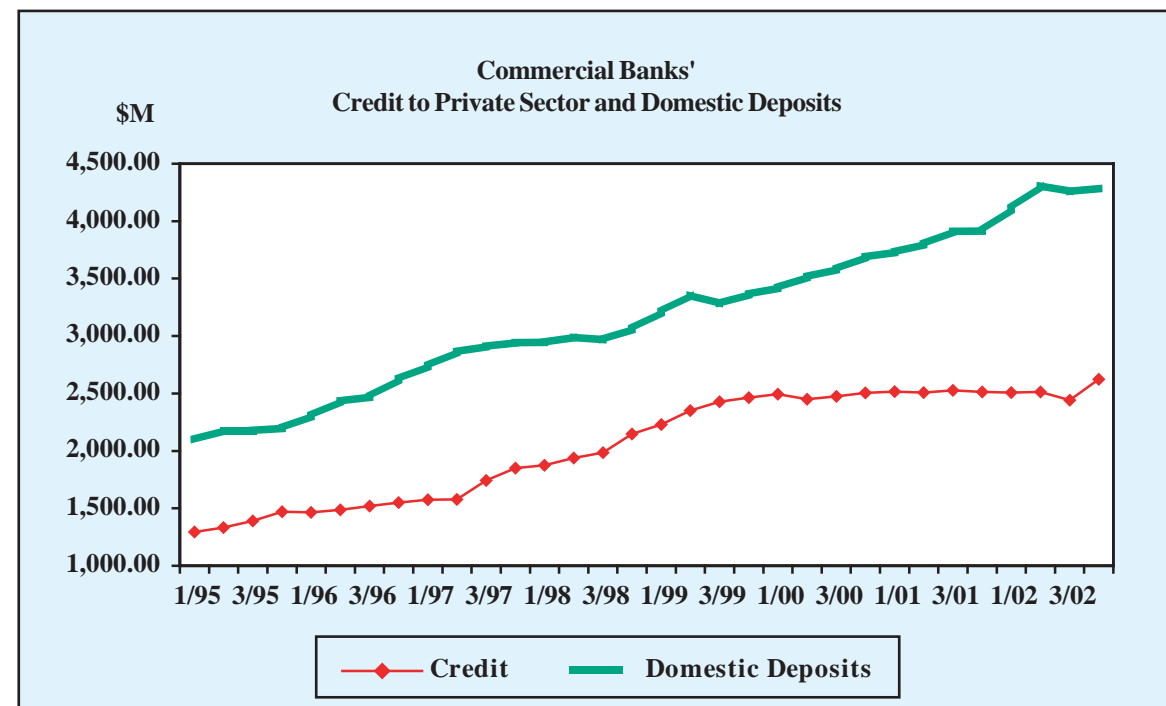
Source: Central Bank of Barbados

P: Provisional (Data to October)

*Excludes deposits of Credit Unions, Trust Companies and Finance Companies at Commercial Banks

tractive, an accumulation of funds by the National Insurance Scheme and other private financial institutions resulted in an expansion of financial institutions' deposits of \$150.2 million (27.9%). Deposits of statutory bodies rose by \$29.7 million (29.6%), as both

the Barbados Tourism Authority and the Caribbean Broadcasting Corporation recorded sharp increases in their deposit holdings. Total business deposits rose by \$28.4 million (4.7%) over the comparable end-of-year figure for 2001.



Non-Bank Financial Institutions

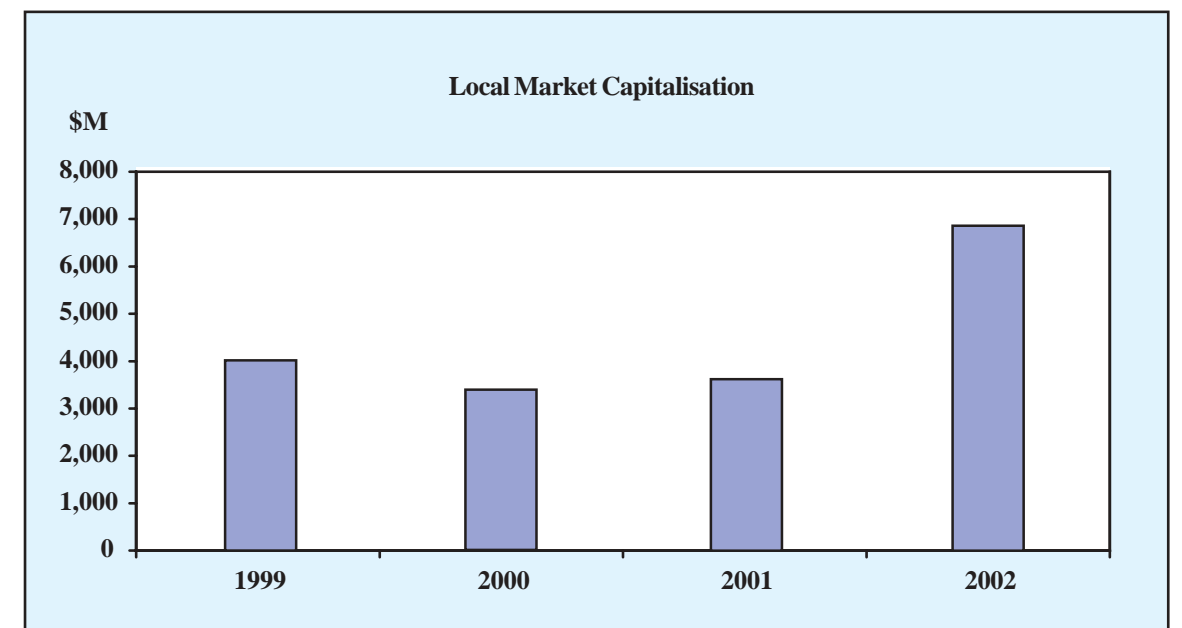
Deposits at non-bank financial institutions expanded by \$68.7 million during 2002, compared to an increase of \$91.7 million in 2001. The deposits at trust and mortgage finance companies expanded by \$28.5 million, as moderate expansions in the deposits of statutory bodies and business firms were offset by decreases in those of private individuals. However, finance houses recorded a small improvement in their deposit base, as the deposit holdings of private financial institutions grew moderately, while those of private individuals remained stagnant. Deposits at credit unions performed much better than those of the other non-banks, expanding by \$24.9 million to reach \$138.1 million, while their share capital increased by \$40.5 million to \$335.4 million.

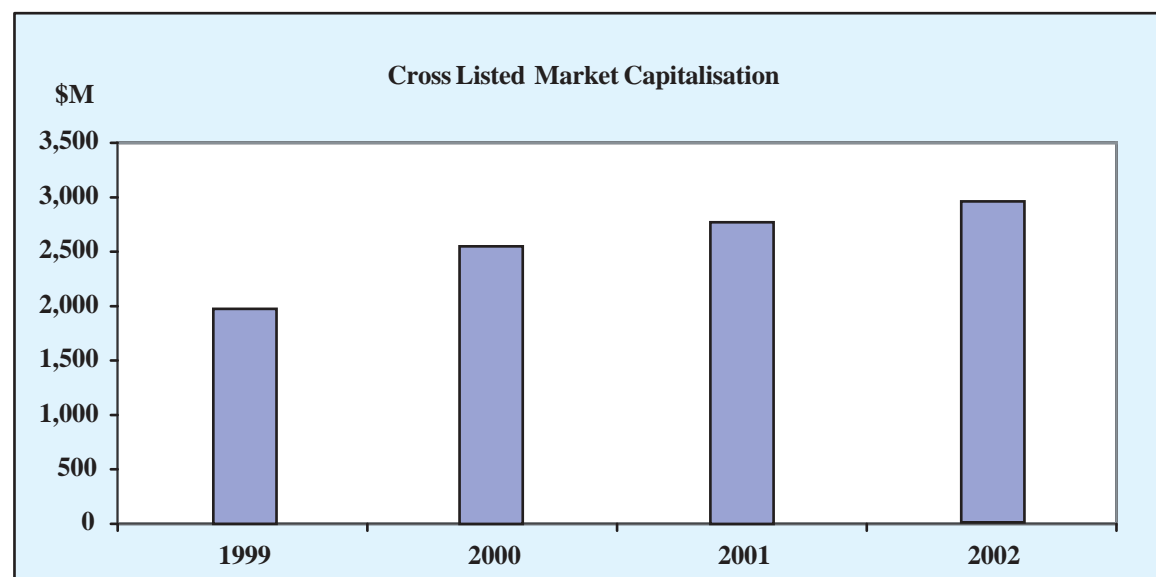
Lending by non-bank financial institutions increased by approximately \$31.4 million in 2002, in contrast to the \$78.4 million expansion in 2001. Loans disbursed by trust companies contracted by \$4.1 million, in contrast to an increase of \$28.9 million in the previous year. Although mortgage loans at trust companies were virtually unchanged, other loans and advances decreased over the period. Credit from finance houses fell by \$20.9 million during 2002, compared to a \$28.9 million rise in 2001. Credit unions extended their loan portfolio by \$36.6 million, about \$10 million less than

that in 2001. Most of the lending continued to be for personal expenditure and real estate purchases.

Capital Market Developments

There were a number of developments in the securities market during 2002. At the administrative level, the Securities Commission, which was established by the Securities Act 2001-13, increased its regulation of the market with the passing of the Take-Over Code Regulations and the enforcement of the new Mutual Funds Act 2002. At the market level, following the merger of Cable and Wireless' operations in Barbados, Cable and Wireless Bartel and Cable and Wireless BET were delisted from the Barbados Stock Exchange (BSE) during the month of April and Cable and Wireless (Barbados) Limited was listed for trading in the regular market. Since the amalgamated company also included the subsidiaries of the two previously listed companies, the local market capitalisation rose by approximately 55 million shares. In October, FirstCaribbean International Bank Limited, the entity created by the merger of the banking businesses of CIBC W.I. Holdings Limited and Barclays Bank PLC, was listed on the BSE. FirstCaribbean International Bank Limited replaced CIBC W.I. Holdings Limited on the Exchange, but its number of shares outstanding doubled, as the amalgamation process included the issue of over 600 million shares to Barclays Bank.





Reflecting mainly these new listings, the local market capitalisation rose by \$3,226.3 million to \$6.9 billion, an 88.3% increase on the position at the end of 2001.

The market capitalisation of the cross-listed securities also showed an improvement, expanding by \$190.9 million to conclude the year at a value of \$2.9 billion, a 6.9% gain.

With only nine of the twenty-four listed companies recording increases in their share prices, the index of the local companies rose by only 1.2%, to close at 2,276.1 points. The index of the foreign-domiciled listed companies registered a larger gain of 5.61%, to end the year at 952.4 points. Life of Barbados Limited, benefiting from the bidding between the Mutual and Guardian Holdings Limited, recorded the highest increase in share price of \$2.40 to close at \$5.10 per share, with 32.8 million shares traded. The share price of Barbados Dairy Industry Limited increased by \$1.60 to \$8.10 per share, with 20,688 shares being traded in the process, and after the trading of 48,574 shares, The West Indies Rum Distillery followed with an improvement of 95¢ in its share price to end the year at \$3.15 per share.

Among those companies whose share prices declined, A.S. Bryden and Sons (Barbados) Limited recorded the largest loss, as its share price slid by 85¢ to \$5.35, with roughly 41,000 shares traded. Goddard Enterprises Limited registered the second largest decrease

in share price, falling from \$5.90 to \$5.20, while the share prices of Courts (Barbados) Limited and McEneaney Alstons Barbados Limited recorded losses of 60¢ each, falling to \$5.70 and \$5.00, respectively. Among the new entrants, Cable and Wireless (Barbados) Limited started in April at \$3.25 per share, but by year-end the share price had plunged to \$2.60 per share, after trading 73,025 shares. FirstCaribbean International Bank, the other new listing, ended 2002 with an unchanged price of \$3.40 per share.

In 2002, approximately 511.6 million shares were traded on the BSE, with a combined value of \$1.6 billion. This contrasts with the previous year, when just over 3.7 million shares, valued at \$20.4 million were traded. CIBC W.I Holdings accounted for about 92% of the total volume traded, based on trades between its subsidiaries, while the purchase of Life of Barbados by the Barbados Mutual represented about 6%.

The capitalisation in the junior market increased by \$67.8 million to \$90.7 million, mainly because of the listing of Sunbeach Communication Inc. in August with a share issue of \$46 million. It was initially listed at 70¢ per share and registered an increase, by year-end, of 30¢ per share, after the trading of 683,828 shares. This contributed significantly to a 69.7% rise in the junior index, which climbed to 898.12 points. The Fortress Caribbean Property Fund traded 467,355 shares for a 5¢ increase in its share price.

The bond market was relatively active during 2002, with thirteen transactions in treasury notes for a combined value of \$15.7 million, forty-three trades in debentures amounting to \$6.4 million and four in private bonds. Private paper consisted of a Barbados Tourism Investment Bond valued at \$50,000, a Hotel and Resorts Limited bond for \$25,000, a Barbados Investment Development Corporation bond for \$275,000, and one National Housing Corporation bond valued at \$5,000. In 2001, eighteen treasury notes, twenty-one debentures and two private bonds were traded for a collective value of roughly \$10.2 million.

Mutual Funds

Mutual Funds had a relatively good year when compared to 2001, with eight of the ten funds showing marginal increases in their net asset value (NAV). In 2001, only four funds advanced their NAV, reflecting the fact that most of the international economies were in recession. In 2002, the international markets started to improve, but investors, with the Enron saga still fresh in their minds and the possibility of a Middle East war on the horizon, had not yet begun to show confidence in the stock markets. Nevertheless, returns were steady on the portfolios of local Mutual Funds since government securities comprised a significant proportion of these portfolios. The Fortress Caribbean Growth Fund turned in the best performance in the market, registering a gain of 37¢ in its NAV, and closing the year at \$2.37 per share. The NAV of the Barbados National Bank (BNB) Property and Unlisted Securities Investment Fund increased by 9¢ to \$1.24 per share, while the Roybar Investment Corporation Fund closed the year at \$10.45 per share, the same value as at the end of 2001. Only the BNB Gift and Trust Fund and the Fortress Caribbean Property Fund registered declines in their NAVs. The former fell by 24¢ to 90¢, while the latter slid by 5¢ to close at \$1.21

Fortress Mutual Fund Limited launched a new fund, the Fortress High Interest Fund, with two classes of common shares: Redeemable Distribution shares and Redeemable Accumulative shares. Both classes of shares were issued at \$1 per share, and ended the year at \$1.03 and \$1.01 respectively, for the accumulative and distribution shares. The total assets of the ten funds amounted to approximately \$206.4 million at the end of 2002.

Government Operations

Revenue

Total Government revenue declined by 1.7% to an estimated \$1,714.2 million, in contrast with an average annual increase of 7.6% during the past five years, marking the first occasion since 1992 that total revenue had contracted. Even so, the revenue to GDP ratio of 33.6% was still above the average of 32.5% since the introduction of the value-added tax (VAT) in 1997. Constrained by reduced collections of corporation and property taxes, the direct tax intake was much lower. Despite some improvements in the collection of value added taxes and import duties, revenue from indirect taxes recorded a decline although not as steep as in 2001. However non-tax revenue improved during 2002.

Revenues from direct taxes contracted by 6.5% during 2002. Collections from corporation taxes fell by approximately 21.7%, a reversal from the expansion of 9.5% in 2001, as the decrease in economic activity adversely affected companies' profits. Property taxes yielded \$97.8 million, a decline of 9.5% in contrast to an expansion of 19.7% in 2001, largely due to the early issuance of property tax bills for fiscal year 2001/02, which facilitated the collection of revenues ahead of schedule. The intake from personal taxes was up by 6.9%, but this rise was below the average increase of 7.5% since 1996.

Indirect tax collections were lower by 0.1% during 2002, after a decline of 3.2% in 2001, despite gains in import duties and VAT. Revenues from import duties grew by 23.6%, in contrast to a fall of 10.8% in the previous year. These additional collections reflected the impact of the 60% tariff on certain categories of imports introduced in 2001. Receipts from VAT rose by 2.9%, after decreasing by 2.5% one year earlier. Conversely, excise taxes, having declined by 2.6% in 2001, fell by 26.3% during 2002, largely because of a 12% decrease in motorcar imports. Non-tax revenue and grants, which rose by \$5.1 million during 2001, grew by \$19.2 million during 2002.

Expenditure

Total Government expenditure expanded by 5.5% to around 40.1% of GDP, in comparison to growth of 7.9% or 37.8% of GDP in 2001, as a result of significantly higher capital outlays and, to a lesser extent, increased spending on recurrent items.

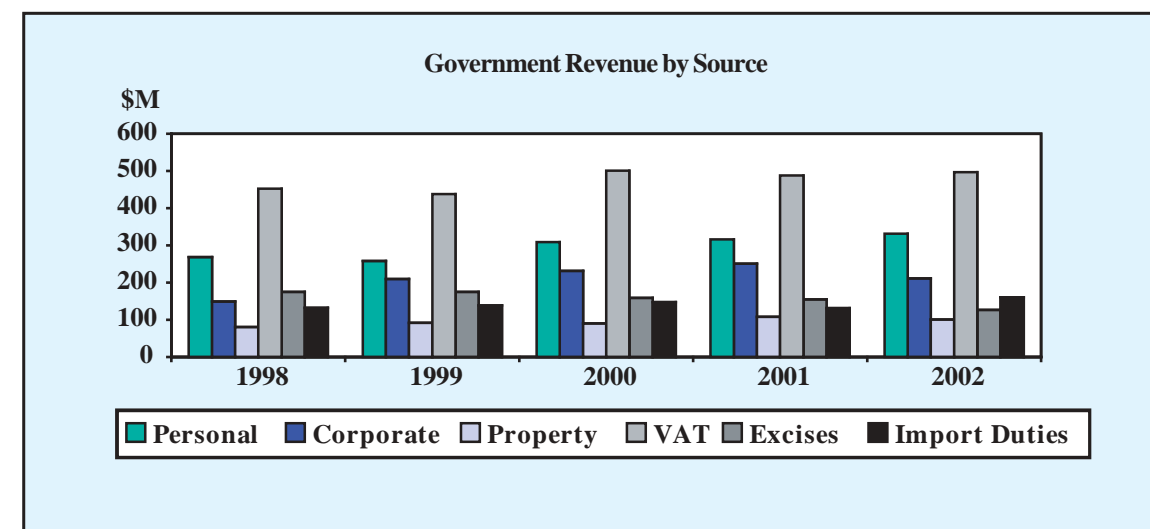


Summary of Government Operations
(\$ Million)

	1998	1999	2000	2001	2002 ^P
Total Revenue	1540.8	1560.5	1708.0	1744.9	1714.2
Tax Revenue	1427.3	1472.8	1602.8	1634.0	1584.2
<i>Direct Taxes</i>	548.7	608.6	679.7	739.9	691.4
Personal	268.2	257.9	308.6	316.1	338.1
Corporate	149.6	209.8	231.5	253.6	198.5
Levies	17.3	17.0	15.4	18.1	17.5
Property	80.8	91.5	90.3	108.1	97.8
Other	32.8	32.3	33.9	44.0	39.5
<i>Indirect Taxes</i>	878.5	864.2	923.1	894.1	892.8
Consumption	0.4	0.0	0.4	0.1	0.0
Stamp	15.1	13.2	13.1	16.5	10.9
VAT	452.8	438.0	500.9	488.3	502.5
Excises	174.6	174.6	158.8	154.6	113.4
Import Duties	132.5	138.9	147.4	131.5	162.5
Hotel and Restaurant	0.8	0.6	0.6	0.5	1.3
Other	102.3	98.9	101.8	102.5	102.2
<i>Non-Tax Revenue & Grants</i>	113.5	87.7	105.1	110.9	130.0
Non-Tax Revenue	98.3	72.0	89.8	95.2	113.4
Grants	0.0	0.0	0.0	0.0	0.0
Post Office Revenue	15.2	15.9	15.3	15.7	16.6
Current Expenditure	1332.5	1410.9	1502.8	1612.3	1677.5
Wages and Salaries	576.5	588.1	659.6	643.2	673.7
Goods and Services	152.6	163.0	181.7	197.9	223.9
Interest Payments	203.8	226.6	237.5	276.4	267.6
External	61.9	37.5	69.9	91.0	103.6
Domestic	141.9	189.1	167.5	185.7	164.0
Transfers & Subsidies	399.6	433.2	424.1	494.4	512.3
Current Account Balance	208.3	149.6	205.2	132.6	36.7
Capital Expenditure and Net Lending	247.2	267.1	282.4	314.7	355.1
Capital Expenditure	255.2	265.2	279.1	294.1	354.4
Net Lending	(7.7)	1.9	3.3	20.6	0.7
Total Expenditure and Net Lending	1580.0	1677.9	1785.2	1927.0	2032.6
Fiscal Balance	(39.2)	(117.4)	(77.2)	(183.6)	(318.4)
Fiscal Balance to GDP (%)	(0.8)	(2.4)	(1.5)	(3.6)	(6.3)

Source: Accountant General and Central Bank of Barbados

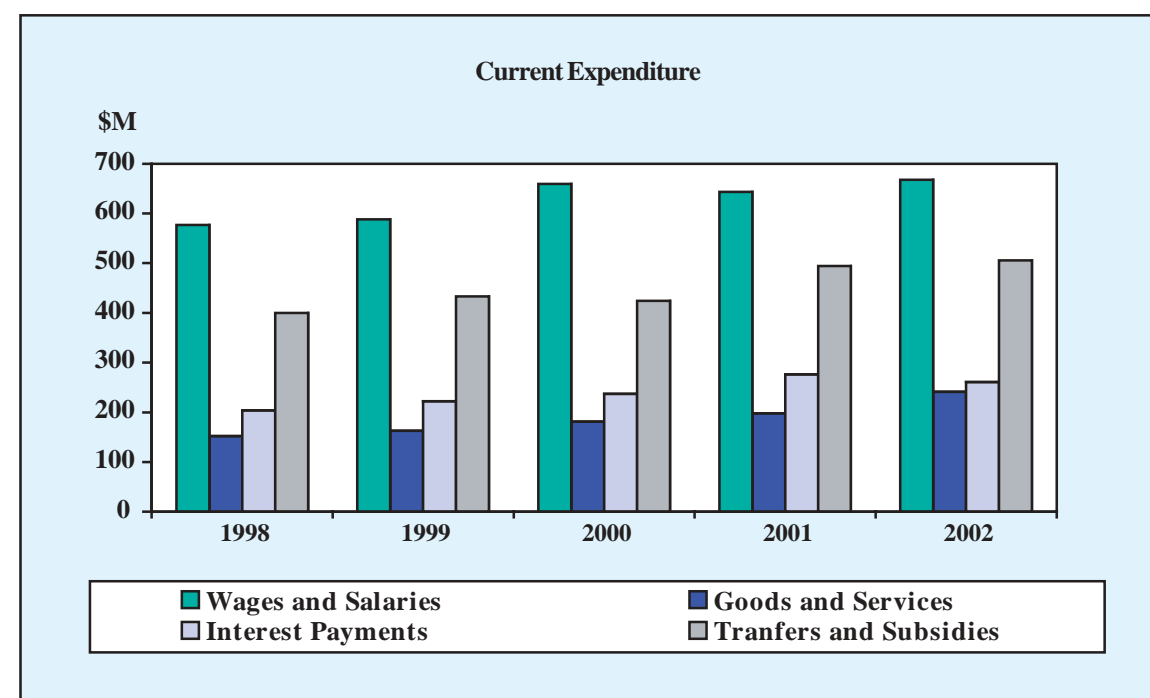
P: Provisional



Current expenditure was 4% higher in 2002, after growing by 7.3% one year earlier. During the first half of 2002, wages and salaries were 4.5% lower than in the corresponding period of 2001, when the final repayment of the 8% pay cut was made. However, this pattern was reversed during the last six months of the year, owing to the wage settlement and back pay, which occurred during the third quarter and, by year-

end, a 4.7% rise was recorded. Expenditures on goods and services grew by some 13.1%, compared to 9.0% during the previous year, while interest outlays, up by 16.4% in 2001, contracted by 3.2%, on account of lower domestic interest payments. Transfers and subsidies rose by an additional 3.6% during 2002.

As a result of the acceleration in Government's capi



Government Financing
 (\$ Million)

	1998	1999	2000	2001	2002 ^P
Domestic Financing	70.9	33.8	(164.5)	(148.5)	325.5
Central Bank	4.6	17.5	(267.5)	(297.3)	288.9
Commercial Banks	(63.1)	(88.5)	155.6	85.2	139.2
National Ins. Scheme	134.4	12.6	15.8	20.6	109.2
Other	(4.9)	92.3	(68.4)	42.9	(211.8)
Foreign Financing	(31.7)	83.6	241.7	332.1	(7.1)
Capital Markets	0.0	150.0	200.0	300.0	0.0
Project Funds	30.4	33.4	80.3	71.3	51.0
Policy Loans	20.0	0.0	0.0	0.0	0.0
Amortisation	(82.2)	(99.8)	(38.6)	(39.2)	(58.1)
Divestment	0.0	0.0	0.0	0.0	0.0
Total Financing	39.2	117.4	77.2	183.6	318.4

Source: Accountant General and Central Bank of Barbados

P: Provisional

tal works programme, capital expenditure surged by 20.5% during 2002, compared to an expansion of 5.4% in 2001. This increase was the highest since the 42.9% recorded in 1997. The main factors re-

sponsible for this growth were on-going work on the Educational Technology (Edutech) Improvement Programme, the South Coast Sewerage Project and upgrades at the air and sea ports.

Central Administration National Debt
 (\$ Million)

Period Ending	Domestic	External	Total
1997	2,036.9	701.5	2,738.3
1998	2,141.4	677.7	2,819.0
1999	2,133.6	777.0	2,910.5
2000	2,204.0	1,028.6	3,232.7
2001	2,333.3	3,353.3	3,686.6
2002	2,605.4	1,331.0	3,936.4

Source: Accountant General and Central Bank of Barbados

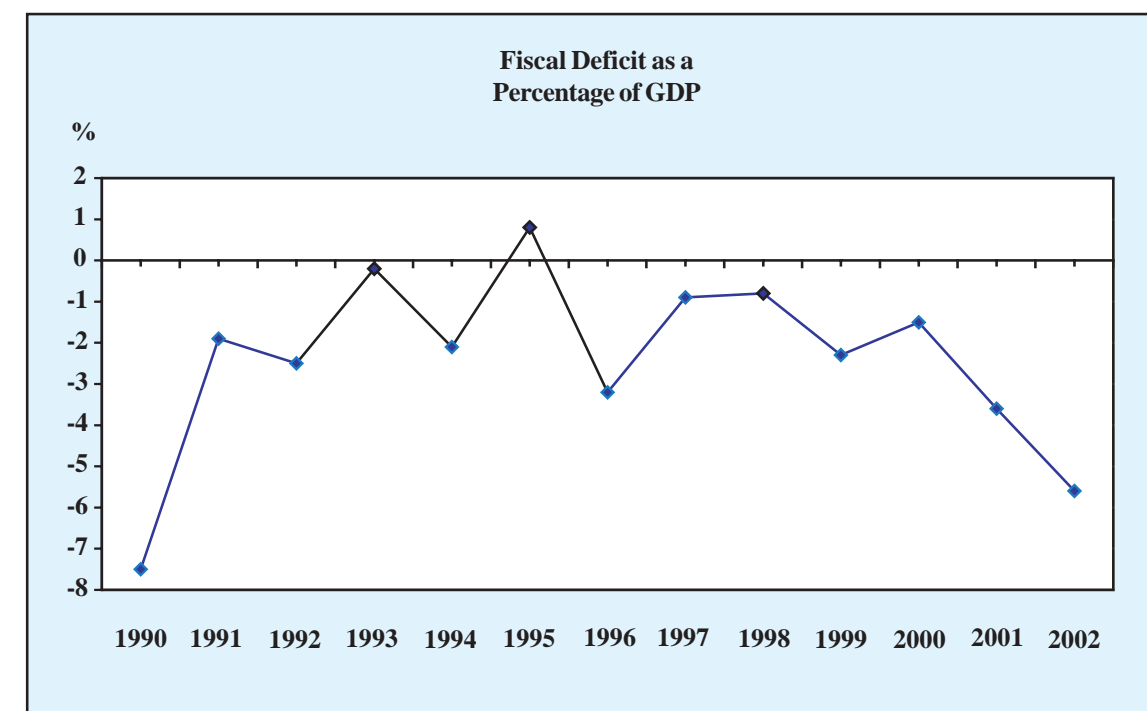
P: Provisional

Financing

Financing for the deficit of \$318.4 million came from domestic sources. Government reduced its net deposits at the Central Bank by \$288.9 million during 2002, in contrast to the previous year when Government's net deposits at the Central Bank rose by \$297.3 million. Commercial banks, the National Insurance Scheme and private non-banks held additional Government securities, amounting to \$139.2 million, \$109.2 million and \$48.0 million, respectively. Net

debt. Long-term debt rose by 15.4%, compared to 9.2% in 2001, the result of higher debenture holdings by deposit money banks and trust companies, insurance companies and the National Insurance Scheme. Some \$10 million in savings bonds were issued during 2002, all of which were fully subscribed. On the contrary, short-term debt fell by 1.7% during 2002, following the decline of 4.6% in 2001.

At the end of 2002, the value of outstanding external



foreign financing fell by \$7.1 million, as project fund inflows of \$51 million were offset by foreign amortisation payments by Central Government of \$58.1 million.

Debt

During 2002, Central Government's external debt stock was an estimated 26.1% of GDP, slightly below the 26.5% of 2001. Unlike in the previous three years, no new commercial foreign borrowings occurred in 2002.

Total domestic debt outstanding expanded by approximately 11.6% in 2002, compared to 5.8% one year earlier, with increases in both long and short-term

loans guaranteed by Government was recorded at approximately \$116.7 million, compared to \$127.2 million at end-2001. The main beneficiaries were HRL, the Transport Board, the Barbados Light and Power Co. Ltd., the University of the West Indies and the Barbados Agricultural Development and Marketing Corporation (BADMC). Domestic debt guaranteed by Government totalled \$315.6 million at the end of 2002, compared to \$405.4 million in 2001. On this occasion, the main beneficiaries were the Barbados Water Authority, the Barbados Agricultural Management Company Ltd (BAMC), the Barbados Tourism Investment Corporation and the National Housing Corporation.

The Case for Pension Reform in Barbados

The year 2002 was one of significant change for Barbados' National Insurance Scheme (NIS), as the issue of national insurance reform was one of the most discussed and debated topics. According to the experts, the NIS has to undergo significant adjustments or the scheme would go bankrupt within the next thirty years.

This revelation was based on information obtained from the 'Tenth Actuarial Report of the Operation of the Barbados National Insurance Scheme'. In that report, which was submitted in July 2001, the actuaries stated that as the proportion of persons eligible to receive a pension, (pension-age persons) increases relative to workers, the NIS funds would undergo some depletion because the expenditures of the fund would exceed the contributions. Currently, under Barbados' Pay-As-You-Go (PAYG)² system, the assets of the National Insurance Scheme are estimated at \$1.3 billion, which represents approximately five times the expenditure of the fund. However, this is based on the fact that for every person who receives a pension, there are approximately 6 working-age persons making contributions to the fund. Unfortunately, this ratio is expected to decline to just 2.5 working-age persons for every pension-age resident by 2030, due to anticipated reduced mortality and fertility rates. Consequently, if no steps are taken to rectify this problem, the actuaries estimate that by the said year, the reserves of the fund would be completely depleted.

It was against this backdrop that the administrators of the NIS, the National Insurance Board (NIB), embarked upon a campaign to sensitise the public to the challenges facing the NIS and to ascertain their input concerning three separate proposals aimed at ensuring that this outturn will be averted. In this regard, the campaign, which was launched in March 2002, consisted of advertisements in both the electronic and print media. In addition, the various reform options available were discussed at several "town hall" meetings between the Pension Reform Sub-Commit-

tee, which consisted of a panel of experts from the NIS, and representatives from both private and public sector organisations. The three options³ outlined were termed the contribution option, the retirement age/contribution option and the benefit option.

The contribution option would see the insurance rates increased by one percentage point each year from the current rate of 14% to 22% by 2010, with one-half of the rise being paid by the employee and the other half by the employer. The retirement age/contribution option entailed a gradual upward movement in the retirement age from sixty-five to sixty-seven, combined with a more modest increase in contribution rates. The benefit option proposed a substantial reduction in pensions over a fifteen-year period, from the current rate of 60% of the average best three years' earnings, to roughly 42% of the best three years' earnings, while contribution rates remained unchanged.

Following the results of the public awareness campaign and the advice of experts in the field, the Prime Minister decided on a reform proposal, which incorporated various aspects of options one and two. In summary, these reforms consisted of:

1. an increase in the NIS contribution rate by 1% of insurable earnings each year for four years, starting in 2003. The rise would be shared equally between employees and employers.
2. a change in the standard retirement age from 65 to 67 by gradually increasing the retirement age by six months for every four years until 2018.
3. an expansion in the time that it takes a person to receive a pension equal to 40% of insurable earnings from 10 years to 20 years.
4. an adjustment to the base on which a person's pension is determined, from the average of the best 3 years of insurable earn-

² Under a typical PAYG scheme, current workers' contributions are used to pay the benefits of today's retirees.

³ Appendix I shows the impact of the three options on contribution and pension rates.

ings to the best 5 years of insurable earnings; and

5. the phased introduction of flexibility in retirement between the ages of 60 and 70. However, those persons who retire before age 65 will receive an actuarially reduced pension, and those who retire after age 67 will get an increased pension.

These corrective measures should allow the NIS to remain solvent through 2030, as the ratio of net assets to expenditure would be maintained at 5:1. One key feature, which the pension reform programme highlighted, was the need to keep social security under the control of government as opposed to private sector entities. The argument for the privatisation of pension programmes has been that firstly, private investment accounts sensitise workers to financial issues and enterprise performance, thus reducing the dichotomy between capital and labour. Secondly, the system establishes a close link between contributions and benefits, thus reducing the labour market distortions with which traditional unfunded programmes are considered to be fraught. Thirdly, the reform approach furthers and accelerates financial market developments and thus the efficiency of resource allocation. Finally, it is claimed that funded systems positively affect national savings and capital accumulation and hence, contribute to economic growth (Holzmann, 1997).

However, opponents of the private pension plans argue that the transition costs incurred by government to fund the change from public to private pension plans will impose too great a burden on existing workers, as these costs may have to be met from either higher taxes or increased public debt. Moreover, the change from a public to a private pension scheme does not absolve government of all its responsibility with regard to pensions. For example, after Chile privatised its national insurance scheme, the state was still faced with the situation, where it had to contribute to the private pension scheme by redeeming recognition bonds⁴ and providing assistance to persons who did not have enough funds in their personal retirement account to receive a minimum pension. Secondly, according to Nicholas Barr (2002), private pension schemes are best suited for econo-

mies with well-established financial markets as well as adequate public and government understanding of, and trust, in them. In addition, given the heavy administrative demands of private pensions, private sector capacity is essential because the smaller the fund, the greater the risk that excessive administrative costs will erode the investment returns to pensioners. Also, the portfolio of assets held by private pension funds can create serious adverse distortions in the economy. For example, a private pension fund that invests entirely in government bonds is in reality a PAYG pension scheme, because both the interest payments and subsequent redemption depend on future taxpayers. In addition, private schemes that hold mainly overseas investments, forego the growth of domestic investment and domestic employment.

However, the choice as to whether a national insurance scheme should be privately or publicly funded is secondary to the broader economic considerations. For instance, if government fails to create the necessary climate to stimulate growth, then the structure of a national pension scheme is irrelevant. As Barr (2002) states, "The most vital (policy) is increasing output, which is the only way of assuring that the financial claims on future output can be converted into enough goods and services to meet pensioner needs". Therefore, concomitant with any plan for pension reform, should be strategies for raising the productivity of each worker, as well as increasing the number of workers. Examples of the types of strategies which could be implemented include promoting investment in more modern and improved capital equipment, training and education for workers and changing tax laws to induce more persons to join the workforce.

⁴ The recognition bond was created to compensate for the short periods of contribution to the private system by old affiliates who contributed sums to the defunct public system. It is payable by the state in one lump sum at the time of retirement. The bond is based on the needed capital to pay a pension equal to 80% of the insured earnings between June 1978 and June 1979, multiplied by the proportion of the insured's working life contributed to the old system, plus an annual interest of 4% accrued from the time of transfer, and all adjusted to the cost of living. (Mesa-Lago, 1994).

Appendix 1
Table 1

Contribution Option*

Year	Employee Rate	Employer Rate	Total
	(%)	(%)	(%)
2002	6.75	7.5	14.25
2003	7.25	8.0	15.25
2004	7.75	8.5	16.25
2005	8.25	9.0	17.25
2006	8.75	9.5	18.25
2007	9.25	10.0	19.25
2008	9.75	10.5	20.25
2009	10.25	11.0	21.25
2010	10.75	11.5	22.25

Source: Pamphlet of the Pension Reform Sub-committee (2001)

* Rates are expressed as a percentage of earnings up to a maximum NIS ceiling, currently \$3100 per month.

Table 2

Retirement Age/Contribution Option

Year	Employee Rate (%)	Employer Rate (%)	Total (%)	Retirement Age
2002	6.75	7.5	14.25	65 yrs
2003	7.25	8.0	15.25	65 yrs
2004	7.75	8.5	16.25	65 yrs
2005	8.25	9.0	17.25	65 yrs...6mths
2006	8.25	9.0	17.25	65 yrs...6mths
2007	8.25	9.0	17.25	65yrs...6 mths
2008	8.25	9.0	17.25	66yrs
2009	8.25	9.0	17.25	66yrs
2010	8.25	9.0	17.25	66yrs
2011	8.25	9.0	17.25	66 yrs...6mths
2012	8.25	9.0	17.25	66yrs...6mths
2013	8.25	9.0	17.25	66yrs...6mths
2014	8.25	9.0	17.25	67 yrs

Source: Pamphlet of the Pension Reform Sub-committee (2001)

Table 3

Benefits Option

Year	Maximum Pension as a Percentage of Average Earnings (%)
2002	60.0
2005	56.4
2010	50.4
2017	42.0

Source: Pamphlet of the Pension Reform Sub-committee (2001)

References

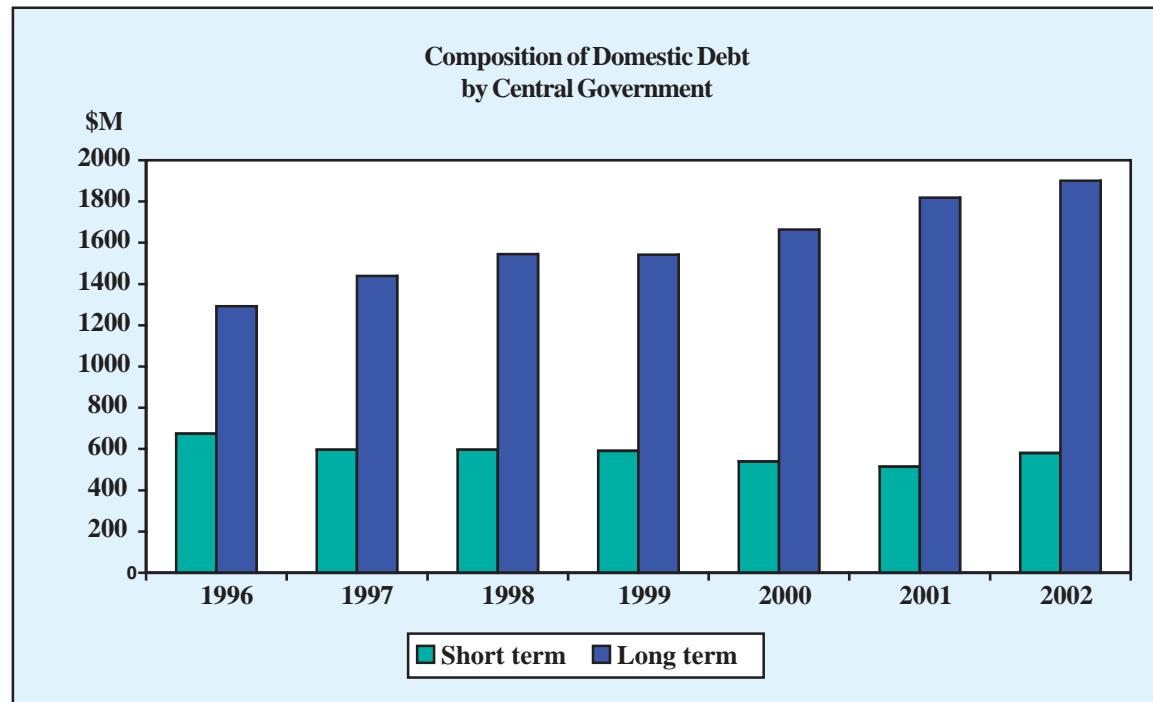
Barr, N. (2002). *"The Pension Puzzle: Prerequisites and Policy Choices in Pension Design"*. The International Monetary Fund's Economic Issues, No. 29, April 2002.

Holzmann, R. (1997). *"Pension Reform, Financial Market Development and Economic Growth: Preliminary Evidence from Chile"*. IMF Staff Papers, 44(2): 149-178.

Mesa-Lago, C. (1994). *"Changing Social Security in Latin America: Towards Alleviating the Social Cost of Economic Reform"*. Boulder, Colorado: Lynne Rienner Publishers.

The National Insurance Board, (2001). *"Understanding NIS Pension Reform"*. Pamphlet.

"The Tenth Actuarial Report of the Operations of the National Insurance Scheme". Submitted to the National Insurance Board in 2001.



Foreign Trade and Payments

Current Account Developments

The year 2002 was characterised by continued deterioration in the current account, as domestic exports of goods and services (especially travel credits) waned and retained imports, which decreased in the first half of the year, picked up strongly in the last six months. As a result, the current account deficit expanded to an estimated 5.5% of GDP, up from a ratio of 3.7% in 2001.

Domestic merchandise exports slumped by 4.9%, the third consecutive year of decline, as reductions were registered in all the major categories. Sugar receipts, which fell by 15.7% in 2001, were down by an additional 14.4% in 2002. Exports of electronic components plunged by 23%, after a 14.1% deterioration a year earlier. Additionally, exports of chemicals decreased by 3%, while sales of food and beverages contracted by 3.5%.

After falling by 7.1% during the first six months of 2002, retained imports increased by 8% in the second half of the year, resulting in an overall rise of 0.4%, in contrast to a sharp decline of 8.2% in 2001. Imports

of consumer goods grew marginally by 0.5%, compared to a decrease of 4.4% in the previous year, as imports of food and beverages, pharmaceuticals and toiletries rose by 2%, 21% and 22%, respectively, offsetting an 8% slump in motorcar imports and a 6.1% reduction in miscellaneous consumer products. Outlays on intermediate goods expanded by 1.3% on account of upturns in fuel and construction materials, in contrast to a fall of 12.5% experienced a year earlier. However, capital goods imports contracted by 1.7%, as a result of a 2.2% downturn in machinery imports.

Net foreign receipts from services decreased by approximately 5.1% during 2002, after contracting by 2.7% in 2001, and in contrast to an average increase of 1.8% over the previous five years. The decline was principally caused by a fall of 3% in tourist receipts, the second consecutive year of decrease, and a 4.7% deterioration in net inflows from other services. Net transportation outflows grew by 2.9%, as freight payments to non-residents were higher than in the previous year. In addition, net income outflows expanded by 3.8%, mainly reflecting rising foreign interest payments.



Capital and Financial Account Developments

During 2002, the capital and financial account surplus was estimated at \$97 million, which was significantly below the surplus of \$576.6 million in 2001, as both net long-term public and private sector capital

inflows contracted sharply. Net long-term public sector outflows were \$15.6 million, in contrast to expansions of \$294.7 million in 2001 and \$213.7 million in 2000, when Government borrowed \$300 million and \$200 million, respectively, on the international capital

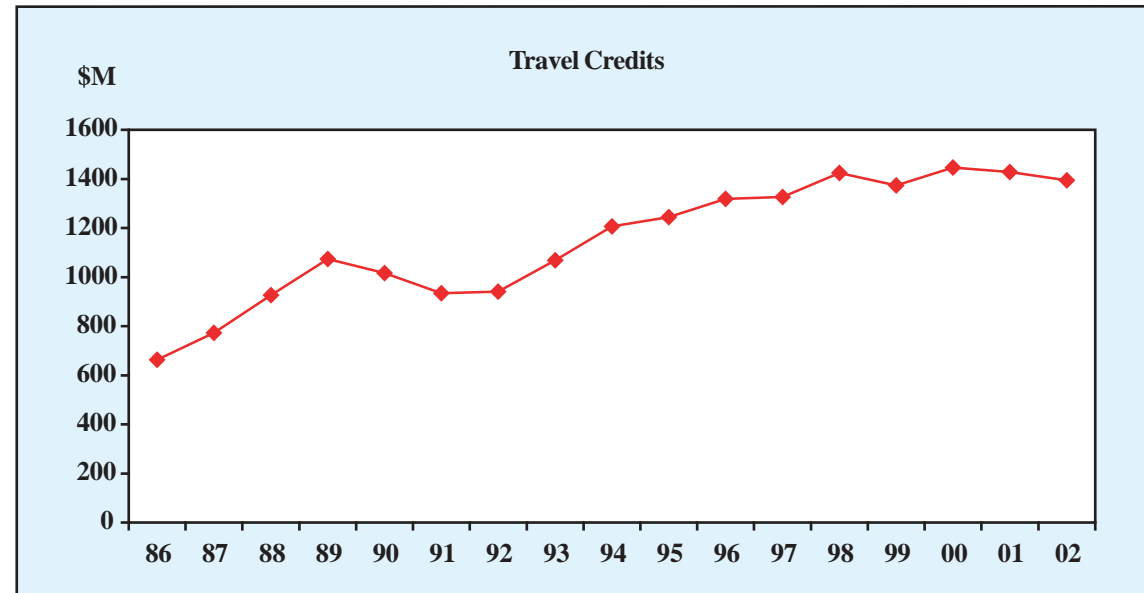
Balance of Payments (\$ Million)

	1999 ^R	2000 ^R	2001 ^R	2002 ^P
Current Account	-294.6	-289.9	-187.7	-279.8
Merchandise Trade Balance	-1,428.4	-1,487.9	-1,362.2	-1,392.4
Total Credits	550.5	572.7	542.3	501.3
Exports BOP	441.2	458.2	439.7	389.1
Total Debits	1,978.8	2,060.5	1,904.5	1,893.7
Imports (BOP)	1,976.2	2,059.3	1,903.3	1,885.2
Domestic Exports	394.9	379.2	352.5	335.4
Retained Imports	2,083.6	2,146.7	1,971.0	1,978.0
Services (Net)	1,142.3	1,205.7	1,173.4	1,103.9
Of which Travel Credits	1,373.6	1,445.9	1,427.8	1,385.0
Income (net)	142.9	-164.6	-186.7	-193.7
Current Transfers (net)	134.1	156.8	187.8	192.6
Capital and Financial Account	277.2	616.3	570.6	97.0
Errors and Omissions	128.6	69.6	64.6	149.3
Overall Surplus (+)/ Deficit (-)	111.0	401.6	453.2	-33.5
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)	-1,11.2	-401.6	-453.3	-33.5
Adjusted by commercial banks' position (Net)	37.2	45.6	7.8	80.9
Change in Net International Reserves (NIR) (IMF basis) (-increase/+decrease)	-74.0	-356.0	-445.5	47.4

Source: Accountant General and Central Bank of Barbados

R: Revised

P: Provisional



market. Project-related inflows fell by \$5.8 million to \$66.9 million, while the \$16.7 million increase in amortisation payments reflected the commencement of the repayment of the 1995 US\$40 million bond issue by Government. Additionally, private sector inflows for long-term projects fell by 59.1% (\$157 million) from the previous year's levels, as investment in the hotel sector continued to ebb.

Foreign Debt Service

During the year, government recorded foreign debt service payments of some \$186.1 million, representing 8.3% of exports of goods and non-factor services and \$24.7 million over the figure for 2001. Total foreign amortisation payments increased by approximately \$22.2 million to \$92.2 million, as a result of a \$16.7 million rise in the payments for central government debt, \$6.2 million for government guaranteed debt and \$0.5 million for private sector debt. Foreign investment payments also grew modestly by an estimated \$8.8 million to \$93.9 million, as both central government and private sector interest payments rose.

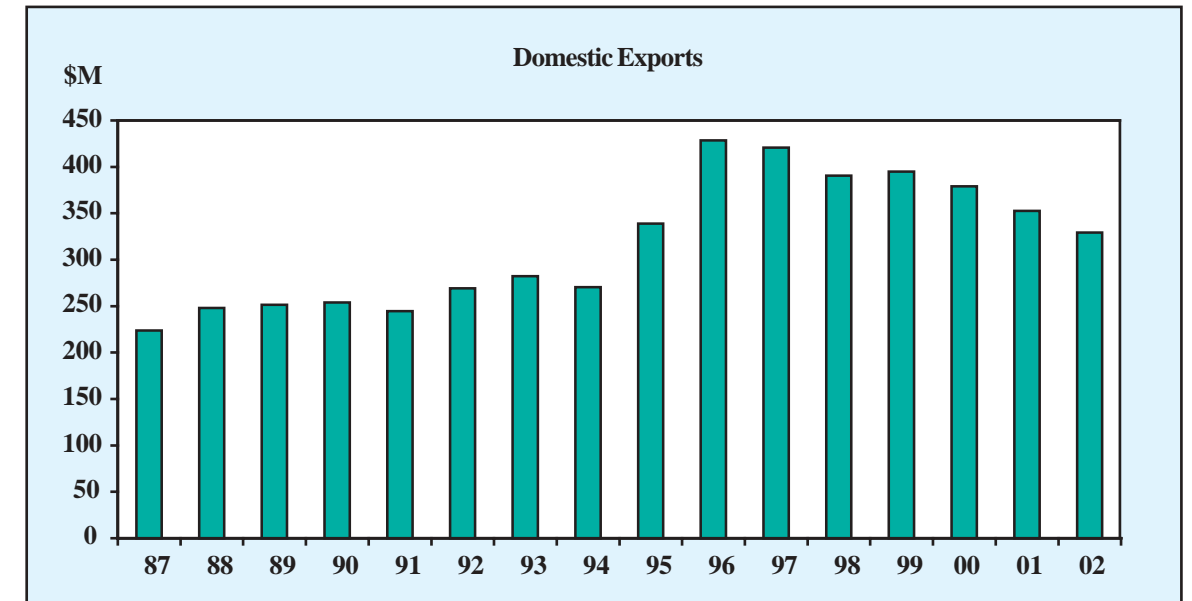
Direction of Trade

In 2002, Barbados' exports to the rest of the world declined for the third successive year, while imports remained lower than the levels reached in prior years. Non-Caricom countries accounted for approximately 80% of imports in 2002, which was slightly below the

83% average registered from 1997 to 2001. Barbados also exported approximately 48% of its goods to Caricom, a gain of nine percentage points when compared to the average over the previous five years.

Imports from the US decreased by just over 6% in 2002, slightly less than the 7.1% fall registered a year earlier. Imports of food and beverages, furniture and electronic components contracted by 5.6%, 28.2% and 16.8%, respectively, but purchases of machinery from the US rose by 5.5%. Imports from Canada fell by 8.6%, the second consecutive year of decline, as furniture and machinery imports slumped by 52% and 27.8%, in that order. For the fourth year in a row, goods bought from the UK decreased, on this occasion by 9.6%, or \$15.2 million, owing to reductions of 34% in furniture, 27.4% in construction materials, and 21% in machinery. Continued sluggishness in local car sales led to a 5.3% slide in the total value of goods imported from Japan. Motorcar imports fell by 10.8%, offsetting the 8.9% rise in machinery imports.

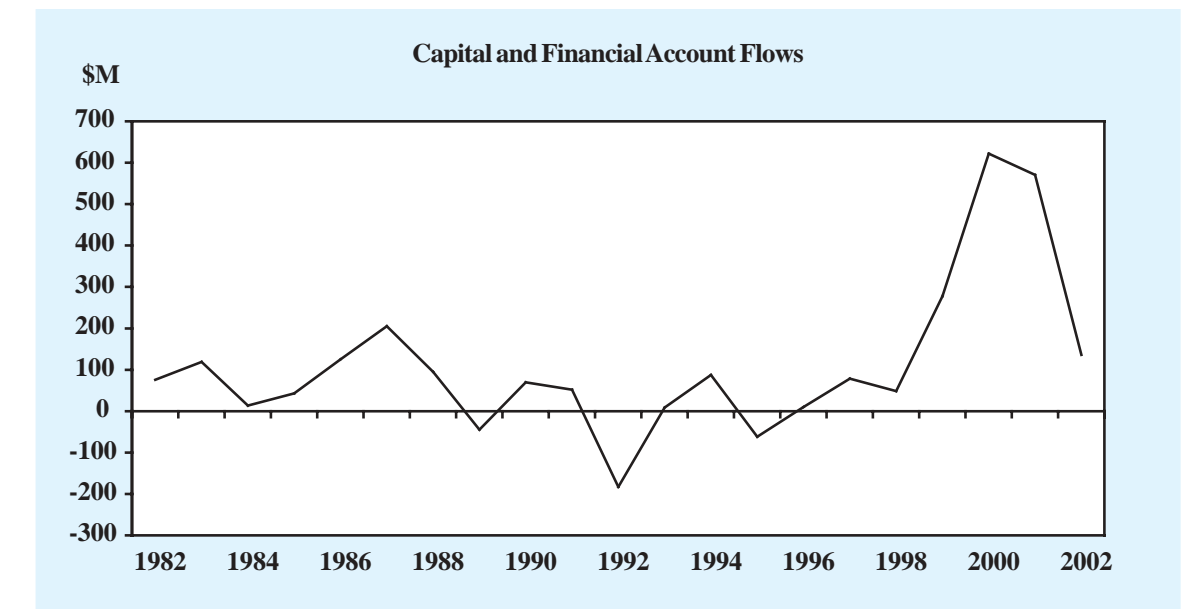
The value of imports from Caricom decreased by 1.9% (about \$7.3 million), as lower purchases of fuel, chemicals and construction materials surpassed increases in imports of furniture as well as food and beverages. Imports from Guyana grew by 4.3% in 2002, owing primarily to a 28% surge in imports of construction materials, which outweighed the 13% decline in food,



and beverage imports. Goods bought from Jamaica slid by 3.6%, in contrast to an expansion of 1.8% in the previous year, as contractions in food and beverages, as well as feeds, fats and crude materials, overshadowed gains in chemicals and clothing. Lower outlays on refined fuel from Trinidad and Tobago were largely responsible for the fall in imports from

that country, while purchases from the OECS region decreased by 8%, principally due to lower imports of clothing, food and beverages.

Domestic exports to the US moved downward by 18.5% (\$10.6 million), the third straight year of decrease. Sales of electronic components declined by



\$9.3 million and clothing by \$1.8 million, which together eclipsed the \$1.2 million increase in machinery. The value of goods exported to Canada contracted by 40.5% in 2002, in contrast to the 32.4% rise recorded in 2001. A slowdown in sales of food and beverages, as well as a reduction in machinery exports caused this outturn. Exports to the UK market fell for the fourth year in succession, this time by some 11.3%, on account of lower sales of machinery, food and beverages.

Overall exports to Caricom waned by an additional 5.2% in 2002, following a 10.8% reduction a year earlier. Exports to Guyana were higher by 5.9%, because the growth registered for construction materials exceeded the fall in sales of food and beverages, as well as feeds, fats and crude materials. The value of goods exported to Jamaica contracted by 17.5%, the sixth successive year of decline, as miscellaneous exports plunged by 30.7%, or \$3.9 million. Exports to Trinidad and Tobago slid by 7.1% mainly due to contractions in crude oil and machinery exports of \$4.2 million and \$1.2 million, respectively. Improvements were registered for food and beverages as well as construction exports, which grew by \$1.4 million and \$1 million. Products sold to the OECS however expanded for the first time since 1998, rising by 2% or \$1.3 million, due to a \$2.8 million increase in construction materials, which overshadowed the \$1.5 million decrease in miscellaneous exports.

Regional Economic Developments

Overview

Over the first three quarters of 2002, real economic activity in the Caribbean region was sluggish, as countries were faced with a slower-than-anticipated recovery in the global economy, as well as the uncertainty created by the on-going war on terrorism. Generally, tourism and agricultural sectors across the region returned below par performances, while rising costs for food and housing contributed to higher regional inflation. Nonetheless, increases in foreign reserves were recorded throughout most of the Caribbean, but in many cases, there were deteriorations in the fiscal position. Banking systems in the region were characterised by relatively high liquidity, and interest rates mainly trended downwards, as some central banks adopted a more relaxed monetary policy. Additionally, currencies depreciated in the three English-speaking economies with floating exchange rate regimes.

Tourism

Most Caribbean economies recorded lower levels of tourism activity during the review period, as the industry struggled to counter the effects of a depressed demand for travel. During the January-to-September period of 2002, stay-over tourist arrivals in Jamaica contracted by 5.0%, after a marginal reduction in the corresponding three quarters of 2001. Total long-stay visitors to the Dominican Republic decreased by 9.1%, while the Bahamas, Belize and St. Lucia experienced downturns of 6.1%, 2.0% and 2.8%, respectively. Significant declines in long-stay arrivals were also reported for the Cayman Islands (12.5%), Aruba (9.6%), and the US Virgin Islands (5.1%). In contrast, the number of stay-over visitors to Guyana increased by 17.5% and those travelling to Curacao rose by 5.9%. Grenada also registered a modest improvement in arrivals over the period.

During the nine months under review, cruise passenger arrivals to Antigua and Barbuda, St. Lucia and Grenada fell by 26.3%, 20.8% and 7.9%, respectively, while Jamaica and the US Virgin Islands both hosted 6.3% fewer cruise visitors. Despite the under-performance of many of the regional cruise industries, there was considerable growth in the number of cruise vacationers to Belize which experienced more than a six-fold increase in passenger arrivals, largely attributed to new agreements with various cruise lines for year-round port calls to the country. The Cayman Islands also recorded a robust 34.2% expansion, reflecting its close proximity to the US, as well as a strong marketing drive. Cruise arrivals to Curacao and St. Maarten were also up by 12.2% and 16.6%, respectively.

Agriculture

Jamaica's agricultural sector was adversely affected by the impact of flood rains in May and September of 2002. During the first three quarters, sugar production, which was influenced not only by the unfavourable weather conditions but also by mechanical problems at some factories in the second quarter, shrank by 15.2% to 170,500 tonnes. Trinidad and Tobago's production of sugar fell by 15.3% to 104,500 tonnes, while the 2002 sugar crop in the OECS yielded 18,840 tonnes of sugar, 16.2% less than the previous year's crop, partly because of mechanical difficulties at the sugar factory in St Kitts and Nevis. However, output of sugar in Guyana grew by 13.9% to 198,684 tonnes, contrasting with a fall of 11.5% in the corresponding nine months of 2001. In addition,

the volume of sugar processed in Belize was 19.0% higher during the review period.

In Jamaica, the 30,631 tonnes of bananas produced were 4.9% lower than the output in the same period a year prior, as several hectares of banana plants sustained water damage. Belize also recorded diminished production of bananas. Conversely, the aggregate volume of banana output in the OECS grew to 76,230 tonnes, about 22.4% more than in the corresponding three quarters of 2001, as the industry benefited from better irrigation systems and a reduction in the incidence of leaf spot disease. Over the nine months ending September 2002, rice production in Guyana expanded to 247,118 tonnes from 213,490 tonnes in the comparable months of 2001.

Minerals

Between January and September 2002, the bauxite and alumina industries in Jamaica were affected by periods of excessive rain, which damaged railways and, hence, hampered the movement of raw materials and timely shipment of crude bauxite and alumina. Production of bauxite increased by 4.9%, considerably below the 91.1% surge in the equivalent nine months of 2001. However, output of alumina contracted by 4.0%, after an expansion of 4.3% a year earlier. In Guyana, bauxite production fell by 19.9%, following a decline of 27.7% during the comparable three quarters in 2001. Gold output also waned slightly over the nine-month period, slipping by about 0.7% from the quantity mined a year earlier.

Trinidad and Tobago's production of crude petroleum climbed by 13.1% in the three quarters under consideration, a turnaround from the 7.3% downturn in the comparable period of 2001. Output of petrochemical products was above the 2001 level, driven by growth of 8.2% in the production of fertilisers and a rise of 10.6% in natural gas output, in spite of a marginal decrease (0.1%) in the amount of methanol produced.

Inflation

The point-to-point rate of inflation in Guyana at end-September 2002 was 5.9%, some 4.4 percentage points above the corresponding rate a year earlier. Higher prices in the housing and food sub-groups were primarily responsible for boosting the inflation rate. Prices in Jamaica also rose by approximately 5.9%, following a 6.9% expansion at the end of September

2001. This outcome reflected, in large measure, higher prices for housing and related expenses. Inflation in Trinidad and Tobago was estimated at 4.6%, compared to 6.6% at the close of the third quarter of 2001, with the food and drink and tobacco categories experiencing the largest growth in the index, whereas the most pronounced declines were recorded for clothing and footwear. Belize, however, registered a more modest inflation rate of 1.9% at the end of the review period, while the OECS area collectively recorded a marginal fall of 0.1% in the average price level.

Financial Sector Developments

Generally, banking systems in the region continued to experience significant levels of liquidity between January and September 2002. In May 2002, the Central Bank of Trinidad and Tobago introduced a new framework for monetary policy, which involves the targeting of a short-term interest rate referred to as an overnight repurchase (repo) rate. An initial repo rate of 5.75% was announced, and the discount rate was simultaneously set at 7.75%. In the hope of stimulating domestic demand, the Bank reduced the repo rate by 50 basis points in August, with the discount rate, the reverse repo rate and the special deposit rate, all mirroring this movement. Consequently, the prime lending rate declined by 2.5 percentage points from the end of December 2001 to 12.0% at September 2002. The ordinary savings rate, however, remained unchanged at 2.75%. In the nine months to September 2002, total deposits decreased by 0.6%, after a rise of 10.6% in the similar period of 2001, while total loans went up by 0.4% compared to an upswing of 10.4% a year earlier.

The Bank of Jamaica adjusted monetary policy during the first three quarters of 2002, lowering the reverse repurchase rate six times and increasing it on the seventh and final occasion. The cash reserve ratio and the liquid assets ratio of commercial banks were also reduced from 10.0% to 9.0% and from 28.0% to 27.0%, respectively. By end-September 2002, Jamaica's average savings deposit rate was 8.96%, down from 9.08% at the end of 2001, and the average lending rate had slipped to 26.25% from 26.79%. Total loans and advances, therefore, grew by 36.7% over the period, spurred primarily by increased lending to the public sector, the tourism sector, private individuals and financial institutions. Likewise, deposits at commercial banks were higher by 11.9%, partly reflecting a substantial expansion in deposits of business firms and individuals.

In Guyana, the average prime lending rate at commercial banks dipped to 16.25% at September 2002, from 16.79% at year-end 2001. The rate of interest on small savings deposits also fell by 2.3 percentage points, to 4.40% at end-September of 2002. In the first three quarters of 2002, loans and advances decreased by 7.2%, mainly attributable to a reduction in borrowings by business enterprises and individual customers. In contrast, total deposits were up by 8.0%, as business firms, private individuals and private non-bank financial institutions expanded their deposits at commercial banks.

Aggregate commercial bank credit to the private sector in the OECS area expanded by 2.8%, compared to a 1.9% increase in the January-to-September period of 2001. Moreover, in the nine months under review, total EC\$ deposits rose by 8.7%, some 3.1 percentage points more than the growth in the previous year. Both the average loan rate and the average deposit rate declined slightly, with the former moving from 11.53% at end-September 2001 to 11.35%, while the latter fell by 0.5 of a percentage point to 3.93% at the close of the third quarter of 2002.

Exchange Rates

During the first nine months under consideration, the three floating currencies in the Anglophone Caribbean experienced depreciations. By end-September 2002, the value of the Jamaican dollar had decreased by 7.2% from its level a year earlier, to J\$49.27 per US\$1. The Guyanese dollar rate depreciated by 0.9%, to GUY\$191.00 per US\$1 and the Trinidad and Tobago dollar traded at TT\$6.18 per US\$1, a depreciation of about 0.4% from the corresponding period of 2001. This outturn contrasts sharply with an appreciation of 2.3% registered one year earlier.

Public Sector

Over the first three quarters of 2002, central government operations in Trinidad and Tobago resulted in a fiscal surplus of TT\$560.0 million, compared with a surplus of TT\$710.4 million in the equivalent period of 2001. Although current revenue rose by 3.3% to TT\$10,976.7 million, and capital expenditure fell by 16.3% to TT\$607.9 million, these movements were offset by a 6.7% expansion in current outlays, which reached TT\$9,841.8 million. Belize also registered an overall fiscal surplus of Bz\$29.2 million, in contrast to a deficit of Bz\$96.5 million in the equivalent three quarters of 2001. The improved performance was primarily

on account of an increase of 17.5% in current revenue, coupled with a 39.2% reduction in capital spending.

The fiscal deficit of the central government of Guyana amounted to G\$3,553.0 million during the period under review, down from G\$7,001.8 million in the corresponding nine months a year earlier, as significant growth in current and capital revenue outweighed rising current expenditure. Current revenue increased by 7.8%, boosted principally by larger intakes of corporate, personal, property and consumption taxes, while capital account revenue jumped by 159.9%. In addition, recurrent spending expanded by 3.6%, largely reflecting higher personal emoluments as well as greater subsidies and contributions to local and international organisations. The deficit was financed mainly from project loans and funds from the domestic banking system. Government operations in Jamaica produced an estimated deficit of J\$20,645.5 million over the first nine months of 2002, compared with a deficit of approximately J\$12,268.7 million in the similar period of 2001.

The central governments of the OECS collectively recorded a current account deficit of EC\$133.0 million for the January-to-September period, following a deficit of EC\$85.2 million in the corresponding months of the previous year. Total current revenue amounted to EC\$1,446.0 million, about 2.2% above the collections in the first nine months of 2001. However, this was outstripped by growth of 5.3% in current expenditure, which totalled EC\$1,579.0 million.

Foreign Sector Developments

At the end of September 2002, the NIR of the Bank of Jamaica was approximately US\$1,687.3 million, the equivalent of 28.8 weeks of goods imports, which represents an increase of US\$150.6 million above the stock of international reserves held a year earlier. Trinidad and Tobago's NIR rose to an estimated US\$1,990.9 million by the close of the period under review, US\$134.4 million in excess of the corresponding level in 2001. Furthermore, the NIR of both the Bank of Guyana and the Eastern Caribbean Central Bank also expanded, reaching US\$179.8 million and US\$661.4 million, respectively, compared to US\$162.9 million and US\$496.8 million at September 2001. In contrast, at the end of the third quarter, Belize recorded net foreign reserves of US\$ 111.1 million, a fall of about US\$7.8 million from the amount for the simi-

lar period in 2001. This deterioration in the NIR partly reflected notable reductions in earnings from exports of major commodities such as bananas, citrus concentrate and marine products.

International Economic Developments

Overview

Global economic conditions improved during 2002, despite the international uncertainty and corporate accounting scandals, which also contributed to financial market instability. Economic activity in the US strengthened over the year, whereas the Euro-zone economies remained sluggish. China and South Korea led the expansion in Asia, with the Japanese economy registering a modest expansion. Mexico and Chile were the only bright spots among the otherwise lacklustre performance of the Latin American economies. Global inflation rates were generally below trend, although commodity prices, spurred by higher petroleum costs, rose significantly over the year.

North America

After turning in its worst performance for a decade during 2001, the US economy, fuelled by higher consumer and government expenditure, posted real growth of 2.4% in 2002. The unemployment rate at the end of 2002 stood at 6.0%, an increase of 1.3 percentage points, whilst the inflation rate declined to 1.5% from about 3% in 2001. As a result of renewed consumer confidence, imports rose sharply and the current account deficit widened by approximately 23% to around US\$370 billion at the end of September. The US Federal Reserve Board cut its benchmark rate in November by 50 basis points to 1.25% due to the low inflationary environment and somewhat weak investor confidence.

The Canadian economy expanded by approximately 3% during the year, compared to 1.5% during 2001. Strong performances in personal, government and, to a lesser extent, business expenditure drove the expansion. Despite this, the unemployment level was 7.7% at the end of the year, up from 7.2% in 2001, whilst the inflation rate stood at 3.9%, a decline of 0.7% when compared to the previous year, but higher than the target rate of 2.5% set by the Bank of Canada. Since the economy grew faster than expected during the year, and the inflation rate was above the target, the overnight interest rate was raised by 0.75 percentage points to 2.75%.

Europe

In the euro area growth remained subdued in 2002, marked by weak domestic demand and higher than expected inflation. Real GDP increased by only 0.9%, in contrast to the modest growth of 1.5% recorded in 2001. The unemployment rate was 8.3%, some 0.3 percentage points higher than that recorded a year earlier. Also, the seasonally-adjusted inflation rate at the end of the year stood at 2.2%, some 0.3 percentage points lower than the rate recorded one year earlier. The appreciation of the Euro to slightly over parity with the US dollar by the end of December helped to contain the inflation rate, and reflected a shift away from US dollar assets. Given the lethargic pace of economic recovery among its member countries, the European Central Bank did not change its key interest rates.

The sluggish economic performance of the largest economy in the Euro-zone, Germany, was a source of concern. Marginal growth rate of 0.1% in 2002 was a result of weakened industrial production and domestic demand. Available data suggest that the inflation rate was comfortably below the European Central Bank's ceiling of 2.0%.

Real economic activity in the UK expanded by 1.4% during 2002, underpinned by robust private consumption and improved manufacturing and services sectors, owing to the various Jubilee celebrations. The average unemployment rate for the year was at 5.2%, virtually on par with that recorded in 2001. In addition, the inflation rate fell slightly to 1.6%, from 1.8% in 2001. Since the inflation rate was below the 2% target, the Monetary Policy Committee maintained the key interest rate at 4.0%, in light of weak equity prices and uncertainty surrounding the global economic recovery.

Asia

On the basis of the most recent data, GDP growth in Japan was positive and increasing during the first three quarters of 2002. The modest recovery was underpinned by a robust expansion in exports to other Asian countries in 2002. The unemployment rate was 5.4%, whilst the rate of inflation was minus 1.0%, which was slightly lower than that recorded a year earlier. Despite showing signs of economic recovery, asset wealth continued to decline, as the equity market index, the Nikkei 225, and real estate prices depreciated.

China's economy surged by 7.9% during 2002, as booming industrial production, coupled with strong public investment and export growth, propelled the economy. However, deflationary conditions persisted throughout the year, with an average inflation rate of minus 0.8%. Given the deflationary environment, the Central Bank of China eased monetary policy in February by reducing the discount rate.

In South Korea, real GDP grew by 6%, buoyed by strong domestic demand and, to a lesser extent, improved export earnings. The rate of unemployment was 3%, a decline of 0.7 percentage points from that recorded in 2001, whilst inflation for the year declined by about 1.4 percentage points, to 2.7%. In order to forestall inflationary pressures arising from soaring house prices, the Bank of Korea raised short-term interest rates in May. By year-end, the rate of inflation had declined by 1.4 percentage points to 2.7%, helped by the appreciation of the won.

Latin America

During 2002, the Argentine economy remained in a state of crisis. Private consumption and investment spending continued to decline, resulting in a 15% contraction in economic activity. At the end of May 2002, the unemployment rate was 21.5%, some five percentage points higher than for the corresponding period in the previous year. Following the flotation and subsequent depreciation of the national currency, inflation soared to 25.6%. The trade and current account balances improved over the half-year, reflecting a 63.4% reduction in imports, which overshadowed a 7.4% decline in exports. However, the Government was able to reduce its fiscal deficit by around 40%, due in part to their decision not to repay their creditors until an agreement was made with the IMF.

During the year, the Brazilian economy, whilst managing to resist direct contagion from the ongoing Argentine economic crisis, registered real economic growth of just under 1%. The modest growth was partly a result of the sudden deterioration of market sentiment towards the country in the middle of the year, which was reflected in a depreciation of the currency and widening bond spreads. The negative outlook was influenced by the uncertainty that surrounded the policy intentions of the new government and lingering doubts about the strength of the

global economic recovery. The average unemployment and inflation rates for the year were 7% and about 8%, respectively, compared to 6.3% and 7%, respectively in 2001.

Despite the region's problems, Chile and Mexico proved to be relatively resilient due to sound macro-economic management by their policy makers. Chile's real economic output expanded by 1.7% during the year, compared to 2.8% a year earlier. The average rate of inflation for the year was 2.5%, compared to 3.6% in 2001, and the unemployment rate stood at 8.5%, down marginally from 8.6% in 2001. The current account registered a surplus, in contrast to the deficit recorded in the previous year because of a decline in imports which overshadowed a contraction in exports.

Mexico's rate of growth over the year in review was an estimated 0.6%, reflecting the fall-off in activity of their major exporting market - the USA. Mexico's bond spreads widened, reflecting investors' risk averseness against Latin America, but they were low relative to those in other regional countries. The inflation rate (5.0%) and the unemployment rate (3.1%) were relatively subdued, and they were below those recorded for September 2001.

Political instability and labour unrest adversely affected economic activity in Venezuela during the year, and, as a result, oil production declined by 12.3%. Consequently, real GDP declined by more than 7%, compared to 2.5% growth in 2001. Inflation soared to nearly 30% in September, whilst the unemployment rate stood at just above 15%, compared to 12.5% and 11%, respectively, at the corresponding points in 2001 and 2000.

Commodity Prices

Commodity prices were generally higher during 2002 than in the previous year, with non-fuel commodity prices rising by just over 17%, and fuel prices soaring by over 50%. Gold enjoyed its biggest gain since 1979, as investors sought a haven from declining stock markets, a weakening US dollar, and threat of war against Iraq. These factors also influenced the prices of petroleum during 2002, resulting in an overall increase of about 53%.

Commodity Prices

Commodities	December		% Change
	2001	2002	
All Commodities Index	81.72	107.13	31.09
Non - Fuel Commodities Index	82.49	96.66	17.18
Food	87.14	102.48	17.60
Sugar (US cents/lb)	23.9	26.3	10.04
Bananas (US \$/metric tonne)	585.0	400.0	(31.62)
Rice (US \$/metric ton)	179.38	184.55	2.88
Wheat (US \$/bushel)	122.53	168.39	37.43
Soybeans (US \$/metric ton)	187.95	241.32	2839
Metals	71.1	74.05	4.15
Iron Ore (US\$/metric ton)	30.00	29.33	(2.23)
Copper (US cents/lb)	66.81	72.33	8.26
Gold (US\$/fine troy ounce)	275.9	319.10	15.66
Silver (US cents/ troy ounce)	436.70	459.40	5.19
Petroleum (US\$/barrel)	19.31	29.44	52.46

Source: IMF/World Bank Commodity Prices

ECONOMIC OUTLOOK

International Economic Outlook for 2003

The global economic recovery that began in 2002 may continue into 2003, but any such rebound is not expected to be very impressive as many downside risks to the outlook remain. The main source of uncertainty facing the global economy in 2003 is concern over the outcome of the precarious situation in Iraq. The increased likelihood of a Persian Gulf War has already resulted in the doubling of oil prices, which would seriously hamper the economic performance of Barbados' trading partners, if the crisis is prolonged. Already, there are other factors that are a source of significant drag on world economic growth in the near term. These include waning consumer confidence, high debt levels in the face of weak equity markets, the continued fallout from corporate financial scandals in the US, persistent investor worries over imbalances in the Japanese banking system, over-investment in telecommunications and other high-end technology in Europe, as well as debt problems in Latin America.

According to World Bank and IMF forecasts (which assume no war on Iraq, but take into account all of the other factors mentioned above), economic activity in the industrialised countries is expected to grow by about 2.1% in 2003, whilst, on average, developing countries are projected to expand by 3.9%. Consumer prices are expected to remain low in 2003, as the IMF forecast for the developed economies calls for an average annual increase of just 1.7%. However, consumer prices will rise if oil prices continue to increase significantly due to war in Iraq. With respect to international trade, growth in 2003 depends largely on the overall international economic outlook, with the IMF predicting a 6.1% increase in global trade volume in 2003.

The outlook for the US economy assumes no further interest rate cuts from the Federal Reserve Board, with economic growth of around 1.9% predicted. However, this forecast is conditioned on sustained consumer confidence, increased corporate earnings and business spending, an end to (or reduction in) corporate malfeasance and further strengthening of the measures designed to prevent/punish such activity, as well as an acceptable reduction in the threat of large-scale terrorist attacks.

Economic prospects for other developed countries are equally tenuous. In the long-term, Japan's efforts to address the problem of non-performing loans and to restructure the banking system, which if successful, will mean a boost for the Japanese economy, in particular, and for the global economy in general. However, on the downside, there will probably be some short-term pain to be endured, such as an increase in corporate bankruptcies and additional unemployment. Meanwhile, economic activity in Europe is expected to recover only gradually to around 1.5% in 2003. There is particular concern about the prospects for the German economy, with growth expected to be no more than around 1% on average in 2003. Inflation in the Euro-zone is likely to fall below 2% later this year, allowing the European Central Bank to keep rates low.

The figure for average growth in developing countries masks significant disparities between regions: East Asia looks set to expand by 6.1%, while growth in other regions is expected to be less than 4%, with Latin America and the Caribbean managing a mere 1.8%. Growth prospects in developing countries in 2003 hinge on the continued flow of foreign investment to these countries, especially to large emerging markets such as Brazil, which depend on foreign investment as part of their growth strategy. Brazil has embarked on an ambitious structural adjustment and reform programme aimed at addressing the country's deteriorating debt situation. Indeed, Brazil is one of the largest emerging markets and, with the current stagnation in Argentina, and concern over developments in the Persian Gulf, its future performance would be an important signal to continued investment flows to developing countries.

Prospects for the Barbados Economy in 2003

At the end of 2002, there were indications that the Barbados economy was poised for recovery in 2003. In the absence of an outbreak of war in the Middle East, the forecast for 2003 is for real GDP to expand by around 2%. This outturn is predicated mainly on the assumption that continued momentum in the tourism and construction sectors, which began in the latter half of 2002, would provide the impetus for growth in other areas of the economy. However, there is the

possibility that the performance of the tourism sector may be negatively affected by the prevailing global uncertain economic conditions, arising from the prospect of a US-led war against Iraq. Such a development would pose significant downside risks to tourism in particular, resulting in a less optimistic alternative growth scenario for 2003. In the event of war the economy is estimated to expand by between 0.5% and 1%.

Sugar production is anticipated to be marginally higher, while manufacturing output is expected to benefit from the continuation of the "Buy Local" campaign, the 60% tariff on selected imports and the application, where appropriate, of the World Trade Organisation (WTO) special safeguard measures. Non-traded output is also likely to improve moder-

ately, as construction and wholesale and retail activities pick-up. With an anticipated expansion in real economic activity, the average unemployment rate is expected to be slightly below the rate at the end of 2002, while inflation is forecasted to remain low, albeit somewhat higher than the current trend, because of higher oil prices.

The fiscal deficit, as a proportion of GDP, is projected to decline, as the resumption of economic activity should stimulate business and consumer spending, with the related intake of indirect taxes. However, this outcome will be tempered by the downward adjustments in the rates of personal and corporate taxes outlined in the 2002 Economic and Financial Statement.

ADMINISTRATION

Board of Directors

There were no changes to the composition of the Board of Directors in 2002.

The Board met eleven times during 2002.

Management and Staff

The following posts were created: one Projects and Services Manager, one Legal Officer, two Economists, two Statistical Officers, four Examiners and one Secretary 1, and six positions - Chief Security Officer, one Human Resources Administrator and four Security Officers - were upgraded.

Mr. Ian Carrington, Director, Bank Supervision, who was assigned to the United Nations Offshore Forum for two years, resigned from the Bank, effective August 2, 2002, in order to take up an appointment with the International Monetary Fund (IMF). Mr. Peter Whitehall, Deputy Director, Research, returned to the Bank in September 2002, at the end of a two-year secondment to the IMF and in the same month, Mrs. Denny Lewis-Bynoe, Senior Economist, began a one-year secondment to that institution.

During 2002, several members of staff attained new qualifications or completed additional training. Mr. Hartley Jordan and Mr. Neville Pollard achieved the Masters of Business Administration degree, while Mr. Winston Moore achieved the Master of Science in Economics. Miss Kim Reid and Miss Tracy Maynard successfully completed Bachelor of Science degrees in Computer Science and Accounting and in Economics and Accounting, respectively. Miss Roslyn Harper and Miss Elaine Bourne achieved Associate Degrees in Psychology, while Mrs. Arlette King successfully completed her Diploma in Management.

In addition, the following persons received certificates during the year: Mr. Jeffrey Allamby - Introduction to Computers; Mrs. Paula Trotman, Miss Sherry-Ann Mayers and Miss Margaret Nurse - Supervisory Management; Miss Deborah McCollin - Programming in Visual Basic; Mr. Ernie Charlemagne - Customer Service; Mr. Peter Bishop - Basic and Advanced Security Management; Mr. Andrew Layne - Advanced Security Management; Mr. Troy Duguid - Microsoft Certified Systems Engineering; Miss Gail Best - Administrative Professional Secretarial Studies and Mr. Andre Estwick - Certified Investments and Derivative Auditing.

Staff Movements

Joining the permanent establishment of the Bank during the year were: one Economist, one Research Officer, one Analyst/Programmer, one Secretary 1, six Clerical Officers, one Personnel Assistant, two Maids and one Security Officer.

Eleven persons were promoted during the year as follows: Messrs. Anton Belgrave and Darrin Downes to the post of Senior Economist; Miss Chanelle Maxwell and Ms. Xiomara Archibald to the post of Economist; Miss Pamela Arthur to the post of Senior Human Resources Administrator; Miss Maureen Wiltshire to the post of Accounting Officer; Mrs. Jestina Fox-Neblett to the post of Senior Administrative Officer; Miss Kim Reid to the post of Statistical Officer; Messrs. Trevor Callender, Andrew Layne, Ian Cumberbatch and Wendell Cumberbatch to the post of Senior Security Officer.

There were seven resignations and two retirements from the Bank during the year. At December 31, 2002, the number of established posts was 281 of which 251 were filled by permanent employees and 30 by temporary appointments.

Public Affairs

30th Anniversary Celebrations

The Bank celebrated its 30th anniversary in May with an array of social, community and academic activities. The events commenced with a service of thanksgiving and concluded with an awards ceremony for staff. Other functions included a staff exhibition, the presentation of an autorefractometer to the Sir Winston Scott Polyclinic, a health fair, an excursion, a steelpan extravaganza, an awards ceremony and two panel discussions titled "*Reform of the International Financial Architecture*" and "*Caribbean Economic Integration: Challenges and the Way Forward*".

Central Bank Governor, Dr. Marion Williams, former Governors, Sir Courtney Blackman and Mr. Winston Cox were among the panellists in the discussion on the international financial architecture. Other presenters included Professorial Fellow at the Institute of Development Studies, University of Sussex, Professor Stephany Griffith-Jones and Director of the Institute of Economic Development, University of Guyana, Professor Clive Thomas. They examined the

impact of reforms of the international financial institutions and markets on economic and financial activities and recommended how developing states should respond to the reformation process.

In the discussion on Caribbean economic integration, Professor Thomas, Governor Williams, Mrs. Denny Lewis-Bynoe, then Acting Chief Economist of the Central Bank of Barbados, and Professor Andrew Downes, Director of the Sir Arthur Lewis Institute of Social and Economic Studies provided many insights into the issues confronting the formation of the CARICOM Single Market and Economy.

Sir Winston Scott Memorial Lecture

The Bank's first Governor, Sir Courtney Blackman, delivered the 27th Sir Winston Scott Memorial Lecture in the Frank Collymore Hall on Monday, November 25, 2002. In his lecture, "The Free Market in the Context of Globalisation: Myth, Magic or Menace", Sir Courtney reminded the audience that the greatest challenge facing the Caribbean will be in the area of trade negotiations in respect of the World Trade Organisation, the Free Trade Area of the Americas as well as Lomé and suggested that developing countries must engage the world economy on their own terms, not on those set by the global markets and institutions. To this end, he advised the Caribbean to define its objectives, fight hard to defend its regional interests and place its fullest support behind the Regional Negotiating Machinery.

Sir Courtney's presentation was intellectually stimulating and provided much food for thought for all developing countries, especially those in the Caribbean, as they confront the challenges of globalisation.

University in the Community

The Bank, in conjunction with the University of the West Indies (UWI), Cave Hill Campus again hosted public lectures on a variety of topics. Among the issues discussed were: "The University Community and Distance Education: The Way Forward" by Professor Badri Koul, Director, Distance Education Centre, UWI, Cave Hill; "Decision Making for Improving Productivity and Achieving a Competitive Advantage" by Dr. Stephen Harewood, Lecturer, Department

of Economics, UWI, Cave Hill; "Forecasting Hurricane Tracks" by Dr. Colin Depradine, Principal, Caribbean Institute for Meteorology and Hydrology; and "The Importance of Health Research in Barbados" by Professor Henry Fraser, Dean, School of Clinical Medicine and Research and Director, Chronic Disease Centre, UWI.

Secondary Schools' Lecture Series

The lectures, designed for Caribbean Examinations Council (CXC) and Advanced Level students, were extended to the Barbados Community College. They explored such subjects as: "Money: The Role of the Central Bank vis-a-vis the Commercial Banks" and "Investing: The Gross Domestic Product and Business Finance and Accounting"

A representative of the Barbados Stock Exchange also spoke to students about the role and function of the Exchange.

Crop-over Visual Arts Exhibition

For the ninth consecutive year, the Bank sponsored the Crop Over Visual Arts Exhibition. The exhibition, which was held at the Grande Salle, showcased the sculpture, paintings, and photography of some of the island's veteran and young artists. Patrons to the exhibition were also treated to a display of steelpan skills by the island's schoolchildren.

The Frank Collymore Literary Endowment

The Endowment continued to fulfil its mandate of encouraging and promoting the literary arts in Barbados. The highlight of its activities was the Frank Collymore Literary Endowment Competition. A joint first prize was awarded to Mr. Glenville Lovell and Ms. Claire Ince.

The Endowment hosted its first public reading entitled "For My Next Piece". The reading featured writers specifically invited by the Endowment and an open mike session.

Also in 2002, the Endowment sponsored two scholarships to the Creative Writing Workshop held at the UWI, Cave Hill Campus.

OPERATIONS

Accounts Department

The Department continued work on computerised accounting modules, enhanced workflow and improved productivity. The fixed assets module is operating successfully and the Bank now exercises greater control over the custody and management of its fixed assets.

Officers attended local and overseas training courses to enhance their skills in various areas, including risk management and budgeting. The Department now participates in a 'Live' Automated Clearing House (ACH). Officers were trained extensively in this area.

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 tightly integrated with the Accounting System and there is minimum user involvement in the transfer of data from the RTGS to the Accounting System.

The Department worked closely with its publics and gained consistency in workflow, high-level co-operation and resulting productivity.

Banking and Currency Department

Relationships with Financial Institutions

Excess Liquidity

The average excess cash reserve level of the commercial

banks rose consistently during the first three quarters of 2002, from an average balance of \$184.4 million in the first quarter to \$364.7 million in the fourth quarter. The high level of liquidity was due to slow demand for credit, lower payments for imports and an increase in deposits arising from private capital inflows. In 2001, excess liquidity also started the year at very high levels, and had increased to an average of \$175.3 million in the last quarter.

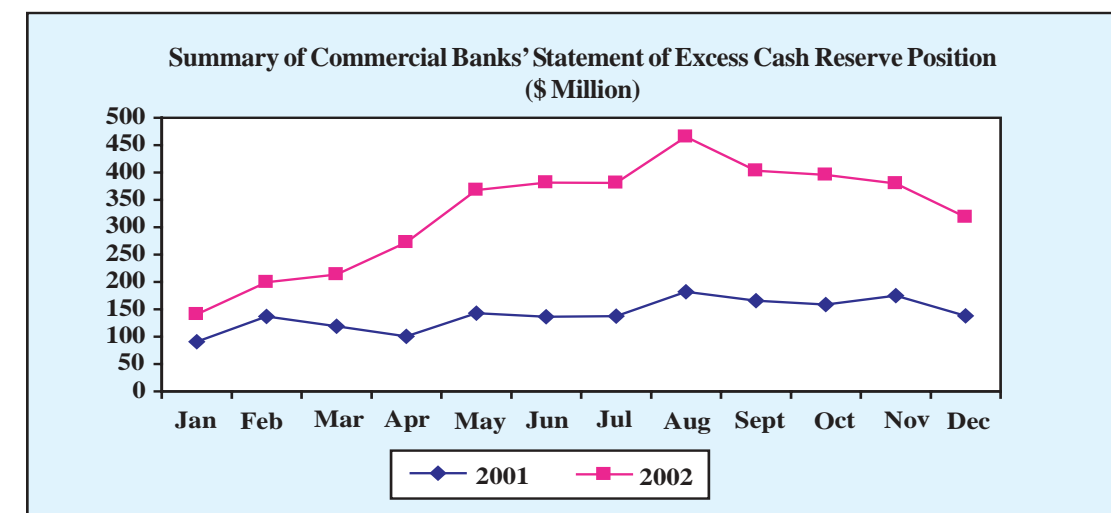
Loans and Advances

As in 2001, there were no advances to commercial banks during 2002, due to the extremely high levels of excess liquidity in the banking system. At year-end, \$9 million of the \$9.5 million facility that was originally extended to the Barbados Development Bank remained outstanding as an obligation of CRL Ltd., the successor institution.

Relationships with Government

Treasury Bills

There were twenty-four issues of Treasury Bills during the year with most issues being oversubscribed. The Bank did not tender for any Treasury Bills during the year. Average tender rates fluctuated throughout the year, primarily due to the increasing excess liquidity in the banking system. At the beginning of the year, the average tender rate was 1.51% p.a. for ninety-one day Treasury Bills but it peaked at 2.91% for the July issue before declining to 1.51% p.a. at the December auction date. The lowest average tender rate during 2002 was 1.06% on the April 6 auction date.



During the year under review, there was very little demand for six-month treasury bills. There were three issues with average tender rates ranging from 1.52% to 2.83%.

Purchases and Sales of Treasury Bills

Due to the high levels of liquidity, there were no transactions in Treasury Bills with the commercial banks. In comparison, in 2001 purchases and sales totalled \$20.0 million and \$19.1 million, respectively.

Long Term Securities

During 2002, \$96.26 million in long term government securities matured. There was a heavy demand for government securities. The Central Bank as Agent for Government opened for subscription, three issues of Treasury Notes and six issues of Debentures, with a total nominal value of \$366.26 million. The majority of the issues were over-subscribed. Two hundred and one transfers of securities took place, representing a turnover of approximately \$32.9 million.

At year-end, the outstanding balance of long-term government securities, including international bond issues, was approximately \$2.87 billion compared with \$2.66 billion at the end of 2001. The market value of Sinking Fund Investments was approximately \$312 million at December 31, 2002, compared to \$261.3 million at the previous year-end.

Savings Bonds

In 2002, three issues of Savings Bonds with a nominal value of \$20.0 million matured. The Central Bank raised one new issue with a nominal value of \$10 million, in July 2002. At year-end, the nominal value of savings bonds outstanding stood at \$110 million, in comparison to \$120 million at December 31, 2001.

Ways and Means

The Ways and Means account fluctuated during the year, peaking at \$147.4 million during July 2002 and declining to a zero balance at December 31, 2002.

Trading in Foreign Currencies

Non-Regional

There was an overall increase of approximately 52% in the sale of non-regional currencies compared with 2001. Sales of drafts and telegraphic transfers denominated in US dollars and the Euro grew by approximately 58% and 53%, respectively. Trading in the

Pound Sterling rose by 30% in 2002, and there was a 14% decrease in trading in Canadian currency denominated transactions when compared to 2001. Overall, purchases of non-regional currency transactions decreased by 51% from the 2001 amount. There was a significant increase (32%) in Euro-denominated transactions while US dollar-denominated transactions fell by approximately 50%. There were also declines in Pound Sterling and Canadian dollar-denominated purchases by approximately 77% and 65%, respectively.

Regional

Sale transactions in regional currencies declined during the year by approximately 3%, primarily due to a significant decrease in transactions in the Trinidad and Tobago (TT\$) dollar. The sale of TT\$-denominated transactions fell by \$262,000, representing a 21% decline over 2001 and those denominated in EC\$ fell by 6% during the period. There was an increase in transactions denominated in Guyana Dollars (GUY\$) by approximately 5% to \$29.5 million, and the nominal value of Belizean Dollar (BZE\$) transactions increased from \$549,000 in 2001 to \$648,000 during 2002.

During 2002, purchases of regional currencies declined by 7%. Transactions denominated in EC Dollars fell by 3% during the period to \$70.5 million and those denominated in BZE\$ and TT\$ declined by 20% and 16%, respectively. Purchases of GUY\$ fell \$372,000 to \$2.4 million in 2001. Trading in foreign currencies reflected a net sale position of BDS\$122.06 million.

Foreign Currency Cash Transactions

During the year foreign currency notes with a total value of \$78.0 million were purchased, representing an approximate 6.7% increase on the 2001 level. Purchases of the US Dollar increased by 15.8% when compared to 2001, and those of the Euro notes were 8.3% higher than in the previous year. Purchases of Canadian dollars declined by approximately 11.6% when compared to 2001 and redemptions of Eastern Caribbean notes contracted by approximately 50%.

Foreign Assets

The net international reserves (NIR) managed by the Bank, as at December 31, 2002 stood at BDS\$1,267.6 million, representing a decline of approximately 5.9% during the year.

Foreign Currency Transactions (\$'000)

	Sales		Purchases	
	2002	2001	2002	2001
Non - Regional				
EUR	2,380	1,553	759	573
CAN\$	13,956	16,195	625	2,776
STG	39,534	30,520	6,546	18,524
US\$	437,124	276,572	327,473	655,947
Sub - Total	492,994	324,840	335,403	677,820
Regional				
BZE\$	648	549	2,844	3,550
EC\$	94,059	99,706	70,508	72,441
GUY\$	29,477	28,148	372	2,353
JAS\$	549	21	1,058	910
TT\$	965	1,227	8,431	10,095
Sub - Total	125,698	129,651	83,213	89,249
Total	618,692	454,491	418,616	767,069

Source: Central Bank of Barbados

During 2002, the Bank significantly reduced its US Treasury Bill portfolio, and in pursuit of income enhancement and yield pickup, the proceeds from the maturing Treasury Bills deposits were invested in bonds. At the beginning of 2002, the Bank held \$137.0 million in foreign deposits and there was no growth in the fixed deposit base during the year.

In an effort to minimise the loss in investment income due to the deteriorating interest rate environment in the United States, the Bank sought to alter its maturity profile by investing mainly at the shorter end of the yield curve. In addition, the Central Bank supplemented its income by liquidating \$87.0 million in Euro bonds, recording realised gains of \$4.7 million. At year-end, there were \$708 million in fixed income securities, inclusive of \$17.9 million in regional government securities.

Bank Supervision Department

The Bank Supervision Department continued its "safety and soundness" inspections during the year, conducting eight full inspections of institutions licensed under the Financial Institutions Act. With the passage of the International Financial Services Act in June 2002 the Department now has the authority to conduct onsite inspections of offshore banks. Such inspections commenced immediately after the proclamation of the Act in June. A special Internal Services Unit was formed under the Financial Controller to launch these new activities. The Unit's work was later absorbed into the normal activities of the Bank Supervision Department. Joint inspections of the largest credit unions in conjunction with the Registrar of Cooperatives also commenced at that time.

**Purchase of Foreign Currency Notes
by Commercial Banks
(\$ Million)**

Currency	Amount Purchased	
	2001	2002
USD	30.4	35.2
GBP	36.4	36.5
CAN\$	4.3	3.8
EUR	1.2	1.3
Subtotal	72.3	76.8
EC\$	0.8	1.2
Total	73.1	78.0

Source: Central Bank of Barbados

The Department maintained continuous off-site monitoring of the financial sector and met with the directors of domestic and offshore banks as part of its offsite surveillance procedures. Nine applications for offshore banking licences were processed during the course of the year and four new licences were granted. Two offshore banks were voluntarily wound up, while one licence was revoked. Offshore banks licenced to operate in Barbados by year-end totalled 56.

Working in conjunction with regional regulators, the Department approved the combination of the branch business of Barclays with that of CIBC. As a result, FirstCaribbean International Bank Limited was licensed as the parent of the FirstCaribbean group which operates in 15 regional jurisdictions. Subsidiaries exist in the Bahamas, the Cayman Islands and Jamaica. The licensees of CIBC Caribbean, CIBC Trust and Merchant Bank and Barclays Finance Corporation were renamed FirstCaribbean International Bank (Barbados) Limited, FirstCaribbean International Trust and Merchant Bank (Barbados) Limited, and FirstCaribbean International Finance Corporation (Barbados) Limited, respectively. In addition, the offshore bank CIBC West Indies Offshore Banking Corporation was renamed FirstCaribbean International Bank (Offshore) Limited.

During the first half of the year, preparations were

made for a Financial Sector Assessment, which was conducted at midyear by the IMF. The banking sector (domestic and offshore) was assessed to be compliant in most of the areas under review, but the IMF identified several areas for further improvement.

The Department continued its work on the establishment of a Deposit Insurance Scheme in Barbados and by year-end had gained industry commitment for the implementation of such a scheme. The preparatory work for the Scheme is ongoing.

The Department also continued to monitor developments with the proposed new Capital Accord, which is slated to come into effect in 2006, and the proposed revisions to the 40 recommendations of the FATF. Progress was made with respect to new regulations and guidelines, which should be issued in 2003.

Contracts 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 (ASBA) and the Department participated in various conferences hosted by these groups.

A member of the Department served as a financial expert for the team which performed a Mutual Evaluation of the Cayman Islands as part of the Caribbean Financial Action Task Force Mutual Evaluations programme.

Facilities Management Department

The Facilities Management Department accomplished its major objectives for 2002, including the timely delivery of services and savings on many of its projects.

Services

Full computerisation of the Central Purchasing System was almost complete by year-end, with the manual system operating in parallel with the electronic system. Savings were made on a number of capital purchases and efforts were redoubled to reduce the cost of services purchased.

A comprehensive Risk and Disaster Management Manual was completed. Efforts were increased to maintain a healthy and safe internal environment and to this end monitoring of the air quality was stepped

up. The Bank also increased its efforts to maintain the external facade of the building.

Maintenance

During the year, the Section completed a number of projects on schedule and was also able to execute some that were unplanned. As part of its preventative maintenance programme, the Vault and the Frank Collymore Hall roof were extensively refurbished to international standards. The Bank's energy efficiency programme was completed as the final phase of the re-lamping process ended. A major accomplishment for 2002 was the relocation and expansion of the Bank's training facilities and the creation of the staff recreation area. The original freight elevator was also extensively refurbished and its safety features enhanced.

On short notice, the Bank was able to refurbish the accommodations to house the offices of the Caricom Single Market and Economy Unit.

Security

In 2002, the electronic security system was upgraded and operational systems were implemented to enhance surveillance on all of the Bank's properties. The Section's oversight increased during the year, as it took responsibility for the security at the Bank's offsite Hot Site facility. Four Senior Security Officers were appointed through internal promotions as the Section's management structure was strengthened. Training efforts were also stepped up as officers were exposed to internal and external courses. They attended sessions on self-defence, operational security matters, occupational safety and health, basic network applications, human resource management and security management.

Frank Collymore Hall

This past year at the Frank Collymore Hall (FCH) has been quite an exciting one. The Hall completed its technical equipment upgrade, allowing the venue to boast the most up-to-date technical facilitation services in the region. Additionally, as a means of servicing its clientele more efficiently, the FCH sought to improve its booking system with the introduction of a new booking policy; and the development of show reports, as a means of further monitoring the quality of events being presented at the island's premier venue.

During this period too, the venue played host to the usual national events including the NIFCA Fine Arts Exhibition, and the Finals of the Performing Arts competition. New to the NIFCA calendar as well, was the launch of NIFCA itself as a national festival, which was facilitated in the Cathedral Courtyard and attended by over 300 persons.

The FCH played a significant part in the Central Bank's 30th anniversary celebrations, by producing four nights of entertainment. These nights celebrated the performing arts disciplines, dance, folk music and classical music and reviews of the event indicated that they were high quality productions.

The year ended with the sold-out musical production Just Dance and the Central Bank Choir, in conjunction with the Barbados Chamber Orchestra, delivering a masterful performance of several old favourites as well as sections from The Messiah and other classical seasonal works.

The Grande Salle requested an occupancy rate of 82% during the year. It played its part in the facilitation of events as diverse as national exhibitions, financial seminars and business expositions. Several value-added services were added to this facility during 2002, including an independent sound system, which facilitates the recording of functions, as well as a new track lighting system for exhibitions.

Given its popularity and size, the Grande Salle is now once again poised to take its position as an up-to-date conference and exhibition space on the local and regional market.

Foreign Exchange and Export Credits Department

Foreign Exchange

In keeping with the commitment to a gradual process of liberalisation the Central Bank further relaxed exchange controls during the year 2002. On June 1, additional authority was delegated to commercial banks to approve all transactions in respect of payments for advertising, commissions and fees, insurance and freight, cash currency swaps by in-port ships and cruise liners. Authority was also delegated to commercial banks to approve transactions in respect of legacies due to non-resident beneficiaries of Caricom and up to a limit of Bds\$100,000.00 per annum, per non-resident beneficiary outside Caricom.

Export receivables for the year 2002 were Bds\$321.6 million as compared with Bds\$313.0 million in 2001. Export receivables statutorily due increased from Bds\$38.6 million in 2001 to Bds\$73.6 million in 2002. However, documentation evidencing receipt of an amount of Bds\$37.7 million into the banking system was not reported until January 4, 2003.

Registration of inflows of private investment rose significantly during 2002, totalling Bds\$181.0 million as compared to Bds\$126.7 million in 2001. This was mainly due to registration of loan capital inflows, which increased by Bds\$105.5 million. However, real estate and equity capital inflows decreased by Bds\$15.4 million and Bds\$35.8 million, respectively.

Export Credits

During the year the facility provided insurance coverage for exports totalling \$0.12 million, compared to \$0.27 million in 2001, largely because of a 45% decline in cover for the decreasing level of business in the OECS market, and zero coverage of exports to Trinidad and Tobago and Jamaica.

The total maximum liability for insurance business underwritten during the year decreased from \$0.43 million in 2001 to \$0.30 million in 2002, and the total maximum liability at year-end stood at \$0.21, million compared to \$0.34 million at the end of 2001.

During 2002, a line of credit totalling \$59,000 was made available under the Export Finance Guarantee Scheme for pre-shipment financing purposes. A guarantee in the amount \$118,000 was endorsed for post-shipment financing.

No claims were made on export credit insurance policies or export finance guarantees during 2002, and no recoveries in respect of previous years claims were received.

In 2002 there was no significant change in the number of businesses using the Credit Guarantee Scheme for Small Businesses even though there was a 6.7% increase in the level of utilization when compared to 2001. Total lines of credit grew from \$881,332 to \$940,332 during the year. At year-end there were 10 guarantees outstanding with a total maximum liability of \$642,550.

There were no Small Business Guarantee claim settlements in 2002.

Barbados Investment Fund

During the financial year ended August 31, 2002 the Barbados Investment Fund approved five new investments totalling \$3.2 million. Disbursements of \$2.2 million were made to four of these investments. This brought total investments to \$15.0 million in 37 projects since the Fund commenced operations in 1992. At year-end the Central Bank's investment in the Fund stood at \$13.0 million.

Despite the economic slowdown during the year the Fund Manager identified new opportunities for investment. Of the five investments approved in 2002 two were in manufacturing, one in tourism, one in information technology and one in the services sector.

The Fund Manager continued to monitor closely all investments in the Fund. Wherever practicable those investments adversely affected by the events of September 11, 2001 were restructured to enable them to meet current obligations until revenues return to normalcy.

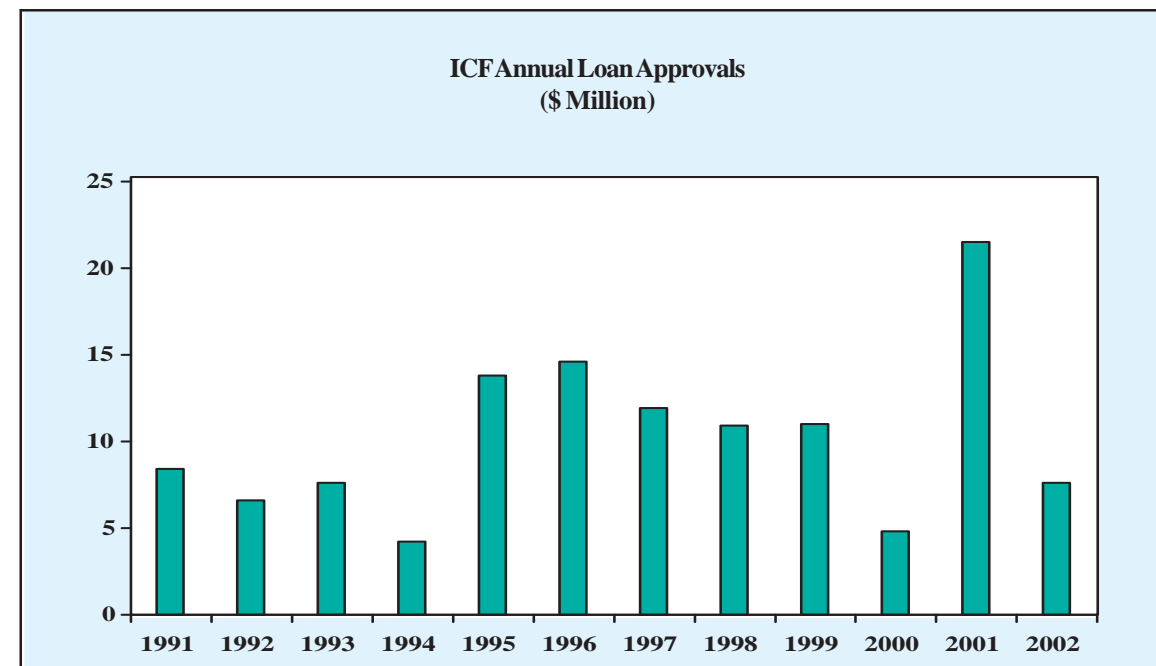
The Fund reported a net surplus of \$138,489 for the year ended August 31, 2002, compared to \$199,234 for the previous year. This consisted of an operating surplus of \$204,042 and a loss of \$65,558 on the disposal of investments. The Fund continues to meet its operating expenses from operating revenues. The Fund recorded an increase of 32.7% in revenues for the year, due mainly to a significant increase (82%) in interest income. Operating expenses increased by 8%.

At year-end the Fund revalued its portfolio in accordance with IAS 39 standards and decided to write down its investments by \$473,299. This provisioning resulted in a net deficit of \$334,815 for the year.

During the next year the Fund looks forward to new opportunities for investment and to the broadening of its capital base.

Industrial Credit Fund (ICF)

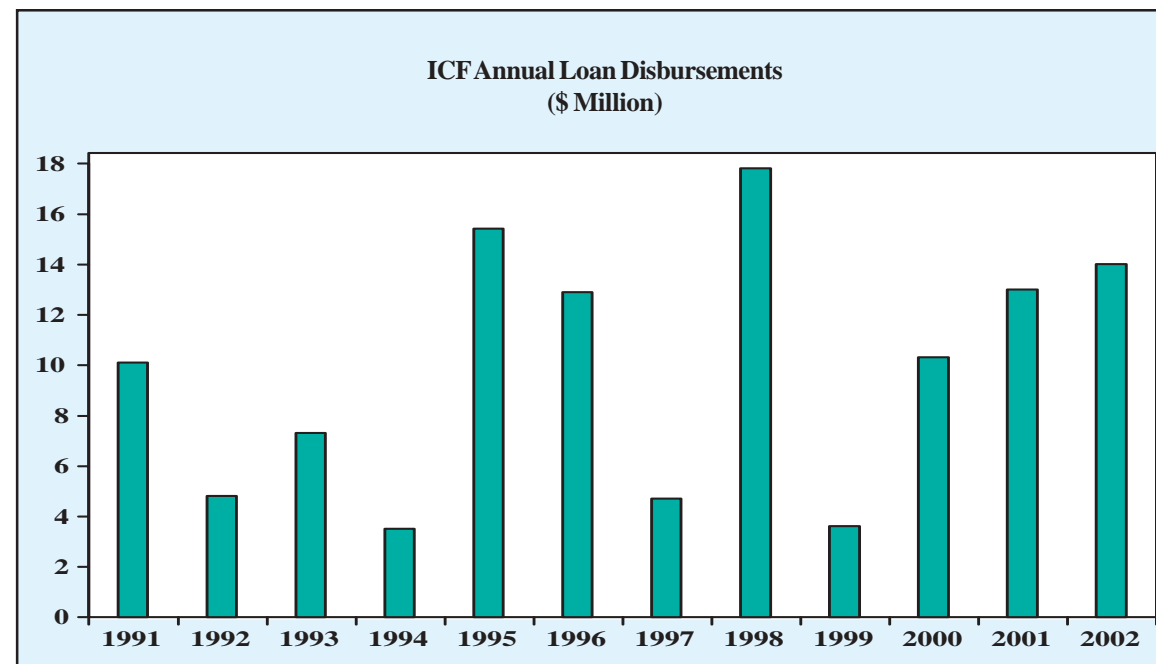
Continuing high liquidity in the commercial banking system throughout the year resulted in a significant decline in the demand for ICF funding for new projects. As a result, the value of new loan approvals fell sharply during the year. On the other hand, the level of disbursements rose marginally as drawdowns



largely made in respect of loans approved during 2001.

The ICF approved nine applications totalling \$7.6 million, compared to fifteen loan applications totalling \$21.5 million in 2001. Cumulative approvals in-

creased to \$153.9 million, while new disbursements totalling \$14.0 million increased net cumulative disbursements to \$150.0 million. Tourism accounted for most (\$6.6 million) of the new approvals, while the remainder went to agro-industry (\$0.6 million) and manufacturing (\$0.4 million). The balance of loans



Key Indicators of ICF Operations
(\$ Million)

INDICATORS	1994	1995	1996	1997	1998	1999	2000	2001	2002 ^(P)
Loan Approvals	4.2	13.8	14.6	11.9	10.9	11.0	4.85	21.5	7.6
Loan Disbursements	3.5	15.4	12.9	4.7	17.8	3.6	10.26	13.7	14.0
Principal Repayments	4.0	5.6	6.1	21.7	8.3	4.7	6.4	12.6	11.1
Loans Outstanding	21.0	30.8	37.6	20.6	30.1	29.0	32.9	34.0	36.9
Net Income	1.8	2.4	2.6	2.0	2.2	2.1	2.1	1.7	1.7
Capital Inflows	0.37	1.9	0.0	0.0	0.0	0.0	0.0	4.0	0.0
Net Worth	54.0	57.6	59.6	61.1	62.5	63.6	64.8	69.5	69.4

Source: Central Bank of Barbados

P: Provisional

approved, but undisbursed, stood at \$3.9 million at year-end.

Principal repayments received during the year amounted to \$11.1 million, bringing total cumulative repayments to \$113.1 million at December 31, 2002. The overall loan and investment portfolio rose by \$18.6 million to \$76.7 million. This amount includes an equity investment of \$20.0 million in the Tourism Loan Fund.

Capital contributions to the Fund during the year totalled \$10.5 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 \$79.9 million compared to \$69.5 million at the end of 2001. Net income has been provisionally estimated at \$0.93 million for 2002.

Human Resources Department

The Human Resources Department continued to concentrate on upgrading its information systems technology as a means of improving the efficiency in the delivery of human resource services and facilitating human resources decision-making within the Bank. In particular, the pensions accounting system and the process to record securities held under the Staff

Advances Scheme were computerised. Modules to manage leave records, expenditure on training and conferences and a database for career planning were developed, and the Group Medical module, which captures claims experience, was activated. In addition, the Department undertook the design and development of a process to conduct job evaluation in-house.

The Department also engaged in a programme of developing Key Performance Indicators for all departments as part of the Bank's initiative to improve its performance management. Other major achievements included the revision of the Bank's Staff Performance Appraisal form, the Training and Employee Development Policy, and the launching of a foreign language component in the internal training programme.

Internal Audit Department

During 2002, monitoring of major projects, including the RTGS and ACH, and critical systems under development substantially engaged the resources of the Internal Audit Department. Simultaneously, audits of key operational areas, including one special audit, were executed and one new audit area- Audit of CCTV Surveillance- was reviewed.

Various staff members attended and benefited from seminars sponsored by the local chapter and international body of the Institute of Internal Auditors in pertinent technical areas.

During Internal Audit Week, which was held in October, the Department again hosted a successful Open Day and facilitated an informal discussion on Corporate Governance held in the FCH meeting room.

Management Information Systems Department

During 2002 the MIS Department worked assiduously with operational departments, commercial banks and vendors to ensure the smooth implementation of the RTGS System. In addition to collaborating with Montran and SWIFT in testing of the system the Department also worked with the commercial banks in the implementation of access to the Bank's Virtual Private Network (VPN) through which they can securely access the new system. In recognising the critical importance of automated payment systems, the Department also established an alternative site where systems and data are replicated, providing some redundancy should the main site fail. The RTGS was officially launched in December 2002 but had gone live from October 11, 2002.

Application, Development and Maintenance (ADM)

During 2002, the MIS Department completed and implemented applications on the RTGS System and for Electronic Signatures on Cheques. The Investment Portfolio and Central Purchasing systems were in advanced parallel mode at year-end and the Pensions Accounting has been computerised and was ready to go parallel at December 31, 2002. Most of the development work on the revised Payroll system and on the Currency Inventory system had also been completed by year-end.

The intranet, which was launched in 2001, continues to be used for the publication of internal Bank information. Emphasis was placed on expanding the deployment of information through Internet-based technologies. In addition, a concerted effort was made to ensure that the MIS Department develops the skills base to properly support and administer our use of Internet-based technologies.

Systems Administration and Technical Support (SATS) Section

The major project for the Systems Administration and Technical Support Section in 2002 was the establishment of the infrastructure for the RTGS System. This included the provision of VPN access to all external customers using the RTGS system. Some basic training was also provided. The section also worked very diligently in the establishment of the alternative site. All servers were migrated from Windows NT to Windows 2000.

Policies

The Department also finalised its Disaster Recovery Plan and updated its security and Internet policies.

Training

The Department continued its extensive training of the Bank's staff in HelpStar (Help Desk software), Windows 2000, Excel, PowerPoint 2000, Lotus Notes mail and calendaring service. The Department also produced four volumes of its quarterly newsletter PC Headlines for 2002

Research Department

The year 2002 proved to be demanding in terms of the quality and quantity of research output related to the increased demand for economic intelligence and policy advice in light of the challenges facing the economy. The Research Department was able to execute its core operational functions on time and with a general degree of competence. The Department produced the 2001 Annual Report, three quarterly Economic Reviews and various policy documents (Economic Outlook and Monetary Policy Papers). The fortnightly meetings to review trends in financial statistics incorporated discussions on current economic topics. The Department also disseminated statistical information to its publics with the Annual Statistical Digest, the monthly Economic and Financial Statistics and the annual Balance of Payments publications. In addition, the Department produced a number of position papers on various economic issues (including trade policy) that were of interest to its publics.

Work continued on improving the accuracy and efficiency of the Bank's forecasting model. Links between the various sectors were either developed or upgraded and in some sectors, new techniques for

estimating and forecasting real value-added were incorporated. To this end, processes were put in place to improve the availability and quality of source data. A scenario analysis of the possible US-IRAQ conflict was done in the latter half of the year.

The Schools' Outreach Programme continued to be the main medium for educating the young people of Barbados about the economy. During the year the programme was extended to include the Barbados Community College, while lectures were delivered to eight secondary schools. Other outreach efforts included several lectures to various groups in the society, presentations to the Central Bank staff as part of the Human Resources Department training programme and contributions to the Bank's newspaper supplements. Individual economists also published articles in the Barbados Economics Society Newsletters.

Several of the Department's economists undertook training courses during the year. These included a course on Financial Programming and Policies hosted by the IMF in Washington, D.C. a workshop on Services Statistics given by the CARICOM Secretariat, and several regional and international conferences at which participating economists were required to present papers. However, the Department's Annual Review Seminar continued to be the main training tool and as usual received participants from the regional Central Banks, the UWI, the Ministry of Finance, the Caribbean Development Bank and the corporate sector. The seminar was conducted over four days; fifteen papers were presented in the first two days, while the last two days featured a panel discussion on the Impact of Capital Account Liberalisation on the Barbados Economy and a workshop on Modelling with Panel Data. The Department also opened its doors to a number of interns from the UWI via the Internship Programme. The programme has been an invaluable training ground for those young people who have chosen the discipline by offering them the opportunity to work with professional economists. The interns were required to produce publishable research papers by the end of their stint and to present their findings during the Annual Review Seminar.

The statistical section produced its main publications on schedule. Two staff members from the section were involved in training for CS-DRMS where they learnt techniques for compiling private sector data. The

Unit also updated the Chronicle to incorporate all policy measures since 1997. This will be published early in 2003.

The Library continued to enhance its services to the Bank staff through the management of its databases, delivering newsletters online as a current awareness service and collaborating with the MIS Department on the revision process of the Central Bank of Barbados' website and intranet.

Work continued on the revision of the Disaster Preparedness manual specifically for the Library and the finalisation of the general Response and Disaster Recovery Management Manual for the Bank. A proposal to merge the Library and the Records Management Centre into a new Information Services Unit was favourably considered.

The librarians prepared three papers as part of a newspaper publication to commemorate the 30th Anniversary of the Central Bank and two were presented at the Annual Seminar of the Library Association of Barbados. In addition, discussions related to electronic records and e-governance, as they relate to records and records management, were held with visiting librarians from the IMF and the World Bank. The Records Management Centre commenced a records inventory survey of all Departments' records in order to ascertain the quantity and series of records and to determine retention and destruction schedules for the records.

Publications by Central Bank Economists during 2002

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

"Measuring Financial Development in Barbados: 1978-1998" by Roland Craigwell and Nola Bynoe-Mayers, in *Journal of Eastern Caribbean Studies*.

"Economic Policy Evaluation in a Small Open Economy with a Fixed Exchange Rate" by Winston Moore and Daniel Boamah, in *Social and Economic Studies*, Vol. 50, Nos. 3 and 4.

"Measuring International Financial Liberalisation in CARICOM" by Kevin Greenidge and Carlene Belford, in *Savings and Development*,

"The Impact of Trade Liberalisation on the Manufacturing Sector" by Jennifer Griffith, Denny Lewis-Bynoe and Winston Moore, in *Contemporary Economic Policy*, Vol. 20, No. 3, July.

Papers Presented at Conferences during 2002

"Debt and Fiscal Sustainability in Barbados" by Xiomara Archibald (with Kevin Greenidge), 34th Annual Monetary Studies Conference, Georgetown, Guyana, November.

"External Competitiveness and Trade in the Caribbean" by Chanelle Maxwell (with Winston Moore), 34th Annual Monetary Studies Conference, Georgetown, Guyana, November.

"Some Monetary Implications For Public Debt Management in The Caribbean" by Kevin Greenidge (with Daniel Boamah), Royal Economic Society Annual Conference, University of Warwick, UK, March.

"Predictors of Currency Crises in Fixed Exchange Rate Regimes: Lessons for the Caribbean from the Case of Argentina", by Marion Williams, 34th Annual Monetary Studies Conference, Georgetown, Guyana, November.

"Determinants of Crime in Barbados", by Kevin Greenidge (with Ann-Marie Warner), Western Economic Association Annual Conference, Seattle, USA, July.

"An Empirical Examination of the Relationship between Commercial Banks and Credit Unions in a Small Open Economy", by Roland Craigwell (with Anton Belgrave and Winston Moore), International Atlantic Economic Society Annual Conference, Paris, France, March.

"The Impact of Globalisation on Regional Integration in the Caribbean", Daniel Boamah and Harold Codrington, Congress of Political Economists 13th Annual International Conference, Lisbon, Portugal, July.

Central Bank Plans for 2003

Accounts Department

The Department will extend the process of automa-

tion to the Budgeting and Reconciliations Modules of its Prophecy Accounting System. These modules will significantly improve the timeliness of data for management decision-making and ensure closer adherence to the system of budgetary control.

A key area will be the establishment of an account 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 enhancement of the delivery versus payment system.

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.

The ACH will be merged with the Accounting modules to provide seamless integration of data with minimum user involvement.

Banking and Currency Department

The Department's primary focus will be the continued improvement of the payments systems infrastructure, with the introduction of the SWIFT FinNet Service. During the second quarter, the Department will be engaged in the transfer of the service from the X25 platform to the Internet Processing environment.

In investment management, there will be continued focus to earn an acceptable total rate of return on the portfolios, given the constraints and challenges currently facing the international markets. To assist with the performance measurement, evaluation and the portfolio management functions, the Department will fully implement the Portia Portfolio Management System within the first quarter of 2003.

In order to improve the efficiency of the operations in the Currency Section, there will be continued automation of the functions. During the year, there will be the introduction of the Note Processor machine, and the consequential reorganisation of the section

Bank Supervision Department

As a result of the findings of the FSAP conducted in 2002 and the requirements of the new deposit insurance legislation, the Department will recommend amendments to both the domestic and international financial services legislation. In addition, the Department aims to issue new guidance notes to the banking sector in the areas of market risk, corporate governance and internal controls so as to improve compliance with the Core Principles of Banking Supervision.

With the amalgamation of the domestic and regional operations of Barclays and CIBC, the Central Bank of Barbados assumed responsibility for consolidated supervision of the new entity FirstCaribbean International Bank. The Department will work closely with regional regulators to ensure effective cross border supervision.

It is the intention of the Department to continue to keep abreast of domestic and international financial developments. Initiatives related to combating money laundering and the financing of terrorism will consume a significant portion of the Department's time as will the need to monitor emerging regulatory issues.

The Department will provide formal training for staff while maintaining and strengthening on-the-job training. Much of the formal training will be carried out as part of the programme developed by the Caribbean Group of Banking Supervisors. In addition, the Department intends to draw on the technical assistance provided by agencies such as the Caribbean Regional Technical Assistance Centre.

The deposit insurance scheme is expected to be implemented during 2003 and, while the entity will be legally independent of the Central Bank, the Department will work closely with it to promote a harmonious regulatory framework.

During the year, the Department will also continue to maintain strong relationships with domestic and international agencies. Contact will be strengthened with other domestic regulators and the Department will continue to work closely with regional and international regulatory bodies.

Facilities Management Department

In 2003 the Facilities Management Department will redouble its efforts to deliver prompt services including solutions to ergonomic issues, maintaining a safe and comfortable environment and improved management of purchasing and contracts. It will seek to attract additional high quality performances to the Frank Collymore Hall and develop a marketing plan to increase occupancy.

Services

The Central Purchasing System should be fully computerised by the end of the first quarter. Response time to service requests will be improved and events planning and management streamlined. Other manual systems will also be computerised.

Maintenance

The project management cycle will be improved and selected aspects of the Facilities Management plan implemented. As a consequence, preventative maintenance will be increased. Priority will continue to be accorded to the enhancement of the work environment including adjustments to work stations, and further efforts will be made to improve safety features on the premises. The elevators, which were installed at the time of construction of the present premises, as well as the revolving doors will be replaced.

Security

Security at access points will be improved with the introduction of scanning equipment and monitoring of the internal and external environments enhanced. Officers will be trained in customer relations, occupational safety and health and management of hazardous material.

Frank Collymore Hall

In the coming year, the Frank Collymore Hall will finalise its marketing plan to position itself to improve occupancy levels. Additional services will be offered, including recording facilities, and its new lighting and sound equipment will be showcased to local technicians to enhance their skills.

Public Affairs

The Public Affairs section will continue its regular series of educational and informational programmes in 2003. The 2003 series will include the Sir Winston

Scott Memorial Lecture, the University in the Community lecture series, the Secondary Schools' lecture series, the Crop-over Visual Arts Exhibition and the activities of the Frank Collymore Literary Endowment. Also planned for 2003 is a major international conference on Corporate Governance and Standards in the Financial Sector.

Foreign Exchange and Export Credits

In 2003, the Department will continue a phased and structured approach to exchange control liberalisation, consistent with Barbados' obligations under the Caribbean Single Market and Economy. It 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 identify additional areas for further computerization and continue to utilize current technology in the delivery of foreign exchange services.

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 ICF. There will also be a review of the current structure of the ICF.

Human Resources Department

The Department will work on the consolidation of separate agreements with the Barbados Workers' Union into a collective memorandum of understanding. It will continue to seek learning opportunities to assist staff in acquiring personal and professional skills, and promote greater employee participation and internal communication.

It is also proposed to complete 360^o Evaluation of senior supervisory staff and implement a new performance management programme geared to compensate staff for above standard productivity.

The Department will continue to upgrade the Human Resources Information System (HRIS) as part of its goal to provide information that would facilitate human resources decision-making in areas such as career planning, competency profiling, training and development, leave management and demographics reporting.

Internal Audit

In the year ahead, the Internal Audit Department will focus on heightening the risk and control consciousness of the organization. This will be done by promoting proactive risk management measures, including assisting in the setting up of a risk management committee and also in the delivery of training sessions. The Department will also seek to promote greater efficiency and effectiveness.

To stay abreast of a dynamic audit environment occasioned by constant technological changes, the Department will avail itself of the relevant training, and seek independent specialist skills as required.

The Department will seek to improve its effectiveness by assessing its critical success factors and by collaborating closely with its stakeholders, to ensure that the quality of audits and other work produced meets their needs.

Management Information Systems Department

Overview

The MIS Department is committed to the continuous improvement in the efficiency of information processing in the Bank through the use of Information Technology (IT). Indeed, IT has changed the way the Bank does business; for example, the RTGS System puts the Bank firmly in the area of e-business. The Department is leveraging its work capabilities and technologies to interact with customers, suppliers and business partners. Critical bank services are tightly integrated with IT and the MIS is developing distinctive competencies in this area.



The Department's e-business strategy therefore consists of: offering products (information) and services which are directly integrated with IT, developing the relevant IT competencies to support these services and creating alliances with external organisations using IT. The key components in the e-business organisation structure are: IT architecture; Processes to manage e-business; E-business support capabilities.

New Applications

The primary thrust for the MIS Department for 2003 will be in the area of business intelligence. The MIS will develop solutions that allow the Bank to extract, process and analyse reports to make more informed business decisions. With the continued liberalisation of exchange controls, the Bank will need to be able to monitor the various outflows more quickly, since data would be decentralised to external entities. Accordingly the Foreign Exchange and Export Credit Department will be given priority in the area of business intelligence. Bank Supervision has also been determined to be a critical area as efforts are made to improve data flows between the Bank and the financial institutions that it supervises.

The solutions are expected to develop a non-technical web-based environment for delivering reports to management. They will also create new and faster means of gathering data from other institutions and storing it for easier access and management reporting.

New applications to be developed in-house for improving efficiencies will also include a new Staff Advances system, and new phases for the Non-Trade Outflows and Human Resources Information System will commence. Work on the afore-mentioned business intelligence solutions will start in 2003. The Payroll and Currency Inventory systems will be completed early in 2003. The Investment Portfolio and Central Purchasing systems will be standalone early in 2003.

Support for Major Applications

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

Debt Management System, planned for 2002 did not take place. It is anticipated that the upgrade will become available in 2003.

Training

MISD Training

Emphasis will be placed on training in the following areas: SQL Server Training, Lotus Notes Systems Administration, VPN Security Training for administrators, AIX System Administration and Contingency Planning/Fault Tolerant Training.

User Training

User training will be conducted in the following areas: Internet, HelpDesk, Microsoft Office, Microsoft Word, Microsoft Excel, Lotus Notes, Prophecy Open Modules, Windows 2000, network orientation, in-house developed applications.

Research

In 2003, the Research Department will continue to enhance its capabilities in both its traditional area of expertise and in several new fields. This will involve improving the quality of its economic and financial analysis, widening the scope of its analysis to incorporate emerging concerns, closing data gaps and updating and improving the recently developed Financial Stability Model. Measures will also be instituted to make Library materials available online to users at their desks. Greater efforts will be made to improve the accuracy and timeliness of publications and staff manuals for the Economic, Statistical, Library and Records Management sections of the Department will be completed.

The Economics Section will shift its focus more towards sector-specific, policy-oriented research in response to international developments and the needs of the Bank's publics. In order to achieve its goals and better monitor ongoing sectoral developments, the Section has been restructured into four units, international (trade and regional), modelling, financial and real.

The Annual Review Seminar will continue to be the main training tool for the professional staff. This local training effort will be supplemented by the continued exposure of our research staff by way of presentations to regional and international economic fora.



Senior economists will also be encouraged to undergo supervisory management training at BIMAP. In addition, the Department will take advantage of specialized courses on National Accounts Statistics, Government Finance and Financial Programming and Policies offered by the IMF. Other staff will also be encouraged to participate in specialised BIMAP courses and in-house training courses offered by the Human Resources Department.

The Department will continue its efforts to improve the accuracy, scope and timeliness of data through timely follow-ups and more careful examination of data submitted. In addition increased attention will be given to Financial Stability, the Offshore Sector, Debt Management and the Balance of Payments. Efforts will also be made to increase the amount of data published on the Bank's Website and the drive will be intensified to have all information from suppliers of data submitted electronically.

Staff in the Statistical Unit will be sent on CEMLA-sponsored technical seminars such as Monetary and Financial Statistics. Periodic training seminars will be organised on AREMOS and other relevant software to ensure that all officers in the Statistical Section are familiar with, and proficient in, the processing of the

data passing through the Department and the software used.

In order to provide an efficient administration of information, the Library and the Records Management Centre will be incorporated into a new unit to be called the Library and Information Services Unit. The unit will have responsibility for processing the demand for information for the entire Bank, the maintenance and upkeep of the Bank's websites and records management. This merger should significantly improve the management of the Bank's information and records.

The Department will continue to take advantage of the courses for Library Assistant held at the Barbados Community College to upgrade the skills of its library staff and provide specialized training for staff of the Records Management Centre to facilitate the achievement of best practices in the area of records management. In records management the Unit will continue the processing of offsite records for transfer to the Records Management Centre for retention, complete assessment of the records inventory survey to provide retention schedules, create a common classification system, and commence a records management public relations programme.

Adoption of Financial Statements 2002

The net operating surplus for the financial year ended December 31, 2002 was \$14,839,470. Current income totalled \$61.8 million and represented an increase of \$5.76 million compared with the previous year. The Bank continued its aggressive investment policy and outsourced part of the management of foreign reserves to external fund managers. Market conditions enabled the Bank to realize gains of \$8.3 million from sale of short and medium term securities. There was continued excess liquidity in the local banking system, contributing 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. Operating expenses totalled \$44.7 million and included non-recurring expenditure of \$2.5 million. Non-operating expenses for 2002 included contributions of \$1.0 million each to the Barbados Investment Fund and Deposit Insurance Fund and \$250,000 to the Secondary Mortgage Market Project.

During the year, the Bank received \$3.19 million in respect of interest on balances under the CMCF Agreement and \$8.8 million in principal repayments. At December 31, 2002 the cumulative principal repayments received under the facility amounted to \$97.6 million, leaving an outstanding balance of \$57.1 million.

The Board of Directors, with the approval of the Minister of Finance, appropriated \$14,839,470 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2002, 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, 2002.



Chartered Accountants

Mail Address
P.O. Box 690C
Bridgetown
Barbados

Office Address
Hastings
Christ Church
Barbados

Telephone (246) 427-5230
Fax (246) 427-7123
E-mail kpmgbds@caribsurf.com

AUDITORS' CERTIFICATE TO THE BOARD OF DIRECTORS

We have audited the accompanying balance sheet of the Central Bank of Barbados as of December 31, 2002 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 included examining, on a test basis, evidence supporting the accounts 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, 2002 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
February 28, 2003


Chartered Accountants





Balance Sheet
December 31, 2002
with comparative figures for 2001

ASSETS			
	NOTES	2002	2001
		BDS\$	BDS\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	209,537,052	185,465,941
Foreign Notes and Coins		1,879,043	5,794,443
Foreign Securities	3	806,542,644	933,427,579
		<u>1,017,958,739</u>	<u>1,124,687,963</u>
International Monetary Fund:			
Holdings of Special Drawing Rights	4	12,603,787	12,131,252
		<u>1,030,562,526</u>	<u>1,136,819,215</u>
LOCAL ASSETS:			
Securities:			
Barbados Government Debentures	5	635,000	635,000
		<u>635,000</u>	<u>635,000</u>
Fixed Assets (Net)	6	94,047,018	93,414,743
Other Assets	7	57,027,359	60,236,938
		<u>151,709,377</u>	<u>154,286,681</u>
		<u>1,182,271,903</u>	<u>1,291,105,896</u>

See accompanying notes to accounts.



Balance Sheet
December 31, 2002
with comparative figures for 2001
LIABILITIES, CAPITAL AND RESERVES

	NOTE	2002	2001
		BDS\$	BDS\$
LIABILITIES:			
Notes and Coins in Circulation	8	441,827,871	418,283,430
Deposits:			
Government		161,616,243	496,510,164
Banks		466,938,739	229,336,186
Financial Institutions		2,528,154	6,851,305
Other		1,968,048	1,077,778
		<u>633,051,184</u>	<u>733,775,433</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	20,547,805	20,516,760
Other	10	73,345,043	105,030,273
		<u>93,892,848</u>	<u>125,547,033</u>
Special Funds	11	1,500,000	1,500,000
		<u>1,170,271,903</u>	<u>1,279,105,896</u>
Total Liabilities			
Capital and Reserves:			
Authorised capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		10,000,000	10,000,000
		<u>12,000,000</u>	<u>12,000,000</u>
Net Capital and Reserves			
		<u>12,000,000</u>	<u>12,000,000</u>
Commitments	12		
		<u>1,182,271,903</u>	<u>1,291,105,896</u>

Approved on behalf of the Board of Directors:

Hani Dhillon Governor

Michael Cunningham Financial Controller

Profit and Loss Account
 For the year ended December 31, 2002
 with comparative figures for 2001

	<u>2002</u>	<u>2001</u>
	<u>BDS\$</u>	<u>BDS\$</u>
INCOME:		
Commissions and Fees	8,051,070	5,483,031
Discounts:		
Treasury Bills	3,041,156	7,585,150
Interest:		
Advances	2,093,876	1,289,252
Deposits	5,916,911	13,004,272
Securities	32,768,949	24,534,144
Other Income	9,672,821	4,178,515
Difference in Exchange	287,606	-
Total Income	<u>61,832,389</u>	<u>56,074,364</u>
EXPENSES:		
<i>Operating:</i>		
Administrative Expenses	13,470,511	11,228,431
Depreciation	4,226,362	4,197,209
Difference in Exchange	-	599,678
Interest	19,342	28,271
Minting of Coins	455,312	669,048
Printing of Notes	2,896,342	1,977,425
Retirement Benefits (note 13)	5,977,717	3,083,497
Salaries and Allowances	17,697,333	15,578,652
Operating Expenses	<u>44,742,919</u>	<u>37,362,211</u>
<i>Net profit before under noted items</i>	<u>17,089,470</u>	<u>18,712,153</u>
<i>Contributions:</i>		
Barbados Investment Fund (note 14)	1,000,000	1,000,000
Deposit Insurance Fund	1,000,000	-
Secondary Mortgage Market Project	250,000	-
Industrial Credit Fund (note 14)	-	3,000,000
Redevelopment of Church Village Site	-	2,000,000
	<u>2,250,000</u>	<u>6,000,000</u>
Net Profit Before Appropriation	<u>14,839,470</u>	<u>12,712,153</u>

See accompanying notes to accounts.

Profit and Loss Appropriation Account
 For the year ended December 31, 2002
 with comparative figures for 2001

	<u>2002</u>	<u>2001</u>
	<u>BDS\$</u>	<u>BDS\$</u>
Net profit before Appropriation	<u>14,839,470</u>	<u>12,712,153</u>
Deduct:		
Transfer to Consolidated Fund	<u>14,839,470</u>	<u>12,712,153</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 accounts 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.

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

As at December 31, 2002, the C.M.C.F. balance included in Balances Held Abroad was \$57,143,956 (2001 - \$65,935,474). In 1987, the Bank adopted the policy of recognizing interest only to the extent that it is received. Interest on the C.M.C.F. balance is charged at a rate of 5% per annum.

Notes to Accounts, Continued
December 31, 2002

3. FOREIGN SECURITIES

Foreign securities comprise:

	2002		2001	
	Amortised Cost \$	Market Value \$	Amortised Cost \$	Market Value \$
At Market Value:				
(a) Bonds/Debentures	684,894,448	718,132,677	573,942,859	583,244,299
(b) Equities	440,000	614,346	440,000	3,787,339
	685,334,448	718,747,023	574,382,859	587,031,638
At Cost:				
(c) Treasury Bills	87,795,621	87,795,621	346,395,941	346,395,941
	<u>773,130,069</u>	<u>806,542,644</u>	<u>920,778,800</u>	<u>933,427,579</u>

The amount of \$33,412,575 (2001: \$12,648,779) representing unrealised profit on the revaluation of Securities is included in Other Liabilities under the caption Revaluation Reserve Account (see note 10).

4. HOLDINGS OF SPECIAL DRAWING RIGHTS

Holdings of Special Drawing Rights pertain to the value of Special Drawing Rights held at December 31, 2002. The rate of translation of SDRs into Barbados dollars at December 31, 2002 was SDR .391234 (2001 – SDR .391826).

5. SECURITIES

Local securities comprise:

	2002		2001	
	Nominal Value \$	Cost \$	Nominal Value \$	Cost \$
Barbados Government Debentures	635,000	635,000	635,000	635,000

Notes to Accounts, Continued
 December 31, 2002
6. FIXED ASSETS

Fixed assets comprise:

	2002		2001	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Freehold land and building				
Office	85,130,083	10,050,302	75,079,781	76,345,232
Frank Collymore Hall Residence	6,982,910	773,232	6,209,678	6,288,363
	2,440,810	82,588	2,358,222	2,370,021
Furniture and equipment	26,738,188	16,637,969	10,100,219	8,152,200
Vehicles	858,391	559,273	299,118	258,927
	<u>122,150,382</u>	<u>28,103,364</u>	<u>94,047,018</u>	<u>93,414,743</u>

7. OTHER ASSETS

Other assets include:

	2002	2001
	\$	\$
Accrued income on local investments	1,256,859	1,364,146
Cheques in process of collection	14,900,113	13,574,894
CRL Limited ⁽¹⁾	9,000,000	9,000,000
Fiscal Agency Payment Account	2,621,102	7,123,554
Investment Deposits	11,598,364	11,598,364
Prepayments	1,680,924	1,438,838
Staff Advances	12,419,408	12,580,641
Sundry Balances	3,550,589	3,556,501
	<u>57,027,359</u>	<u>60,236,938</u>

⁽¹⁾ The CRL Limited amount represents a six-month revolving loan facility, which bears interest at a rate of 6% per annum. Prior to 1997, the loan was due from the Barbados Development Bank and was guaranteed by the Government of Barbados. During 1998, the facility was transferred to CRL Limited. The Government has undertaken to repay the debt on behalf of CRL Limited.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2002, the nominal value of numismatic coins sold totalled approximately \$10.4 million (2001 - \$10.4 million). See note 1 (d).

Notes to Accounts, Continued
 December 31, 2002
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:

	2002	2001
	\$	\$
Accounts Payable	2,054,762	2,013,763
Barbados Investment Fund	1,000,000	1,000,000
Contingencies	-	456,052
Contribution payable-Deposit Insurance Fund	1,000,000	-
Contribution Payable-Establishment of a Chair at UWI	1,200,000	1,200,000
Contribution Payable-Industrial Credit Fund	-	3,000,000
Contribution Payable-Redevelopment of Church Village Site	-	2,000,000
Contribution payable - Secondary Mortgage Market Project	250,000	-
Debenture Interest Payment Account	2,617,234	7,119,687
Domestic Clearing	2,620,158	2,326,631
Dormant Accounts - Commercial Banks*	7,498,888	7,197,682
Export Development Fund	224,613	224,613
Industrial Credit Fund	7,697,952	12,923,433
Redemption of Debentures Account	963,120	33,483,120
Revaluation Reserve Account (note 3)	33,412,575	2,648,779
Sinking Fund Contribution Account	4,453,570	10,764,913
Small Business Fund	330,000	330,000
Staff Pension Fund	3,029,951	403,127
Staff Welfare Fund	2,470,807	2,637,556
Sundry Balances	2,521,413	5,300,917
	<u>73,345,043</u>	<u>105,030,273</u>

*This account represents balances deposited with the Central Bank of Barbados in accordance with Section 88(3) of the Financial Institutions Act, 1996-16.

11. SPECIAL FUNDS

This amount comprises the following balances:

	2002	2001
	\$	\$
Special Credit Trust	<u>1,500,000</u>	<u>1,500,000</u>

Notes to Accounts, Continued
December 31, 2002

12. COMMITMENTS

At December 31, 2002 the Bank had guaranteed settlement of approximately \$656,698 (2001: \$917,318) under the following schemes:

	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$
(i) Credit Insurance Scheme for Small Businesses	676,978	506,248
(ii) Export Credit Insurance and Guarantee	<u>177,000</u>	<u>150,450</u>
	<u>853,978</u>	<u>656,698</u>

Also at December 31, 2002, the Bank had contracts for capital expenditure in the amount of \$2.3 million (2001: \$3.9 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, 2001 revealed the following:

	December 31, 2001
	\$
Fair value of plan assets	42,324,943
Actuarial present value of liabilities	<u>64,721,462</u>
Unfunded liability	<u>22,396,519</u>

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

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

The actuary has recommended that a funding rate of 14.54% of covered payroll be used for new benefits, plus an additional rate of 9.26% to allow the amortization of the unfunded liability over a period of twenty years. The total recommended funding rate of 23.8% of covered payroll should obtain until the next valuation. During the year ended December 31, 2002 retirement benefits were funded in excess of the recommended rate of 23.8%.

Notes to Accounts, Continued
December 31, 2002

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 2001 have been reclassified to conform to the current year's presentation.

