ANNUAL REPORT

2001

Cover Image: The rays of light emanating from Barbados, depict the significance and the impact of the people, culture and economy of the country in a globalised environment. The Central Bank's logo is positioned at the apex of the globe's axis, demonstrating the Bank's vision and commitment to excellence.

CENTRAL BANK of BARBADOS

2001 ANNUAL REPORT

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CENTRAL BANK
of BARBADOS

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CENTRAL BANK OF BARBADOS

LETTER OF TRANSMITTAL

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

March 29, 2002

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, 2001 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2001.

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 18, 2002.

I am,
Yours faithfully,

Marion V. Williams
Governor

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

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CONTENTS

TABLES

CHARTS

ECONOMIC REVIEW

Overview

After experiencing eight consecutive years of growth, the Barbados economy contracted during 2001, as some sectors continued to grapple with adjustment efforts to cope with trade liberalisation, while others suffered from the negative spillover effects of a depressed world economy. This situation was exacerbated by the attacks on the US on September 11, 2001. As a consequence, the gains registered in the first quarter were outweighed by three consecutive quarterly declines, resulting in an overall estimated fall in real economic activity of 2.7%. This outturn, which reflected decreases in both the traded and non-traded sectors, contrasts with an increase of 3% in 2000 and an average annual rise of 2.9% since the 1990-1992 recessionary period. With the fall in real output, there was an increase in the rate of unemployment.

To help better manage the challenges posed by this deteriorating economic climate, Government successfully issued a US$150 million international bond in the fourth quarter of 2001. The proceeds from this bond issue, together with a strong first-quarter reserve increase, boosted the Central Bank's net international reserves (NIR) considerably. For the year as a whole the NIR of the Central Bank rose by a record $446.5 million. Even without this borrowing, the underlying growth in the NIR was still strong, as the $146.5 million increase was only $10 million below the underlying accumulation in 2000 when private sector inflows were much stronger.

Real output from traded-sector activities fell by an estimated 6.8%, in contrast to an increase of 4.4% in 2000, as all sub-sectors registered significant declines. Tourism value-added, hampered by decreases in long-stay arrivals from all major source markets, contracted by approximately 5.9%, a reversal of the 7.7% rise that occurred in the previous year. The manufacturing industry, faced with continued regional and international competition, is estimated to have fallen by 8.2%, the third consecutive year of diminishing output. In addition, activity in non-sugar agriculture declined, as one of its major sub-sectors, the chicken industry, reduced production. The poor performances of the traded sectors limited the rate of expansion of non-traded output. With the exception of communications, electricity and gas, business and other services, other sub-sectors such as construction, wholesale and retail trade registered declines.

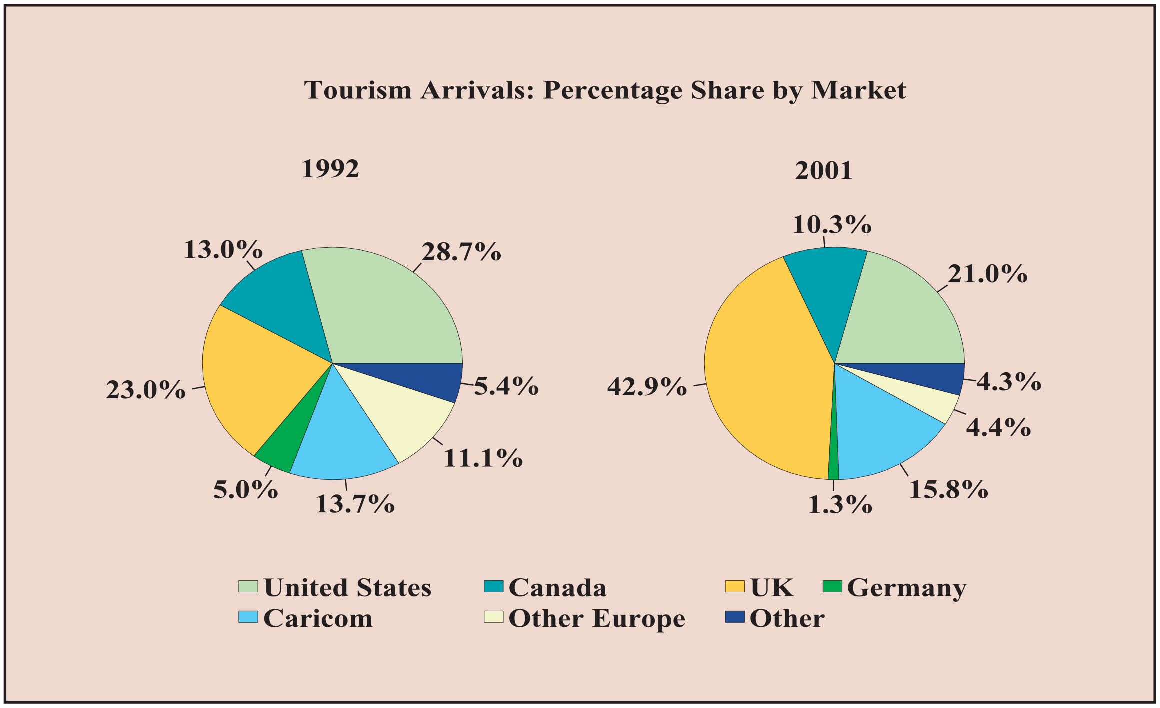
The external current account balance improved from a deficit of 5.6% of GDP in 2000 to an estimated deficit of 3.5% of GDP in 2001, mainly because of a sharp fall of 8.2% in retained imports, a reflection of depressed levels of consumer and business demand. The expansion in private sector credit was the weakest since 1993, and with the continued strong deposit growth, there was a build-up in excess liquidity in the banking system. This accumulation in liquidity eventually pushed the treasury bill rate down to 1.97% by the end of 2001, from 3.85% at the end of 2000. In an effort to stimulate economic activity and to reduce the level of liquidity, the Central Bank cut its official interest rates on four occasions during the year. Overall, the relaxation of monetary policy resulted in reductions of 1.5 and 2.5 percentage points, in the minimum deposit rate and the discount rate respectively. In addition, the cash reserve requirement was lowered by one percentage point and indicative weighted average lending rates were set for commercial banks.

Government operations resulted in a fiscal deficit of $183.6 million or 3.6% of GDP at market prices, more than double the deficit in 2000, and the largest since 1990. Weak economic activity constrained tax revenue growth, while Government's current spending was higher than in 2000 because of increased outlays on goods and services, transfers and subsidies and foreign interest payments. Capital expenditure also rose, owing to the on-going public sector capital works initiative. The build-up in liquidity facilitated domestic financing of the deficit. Non-Central Bank domestic sources financed more than two-thirds of the deficit, while the foreign borrowing in December allowed Government to be a net depositor with the Central Bank, to the tune of $285 million, by year-end.

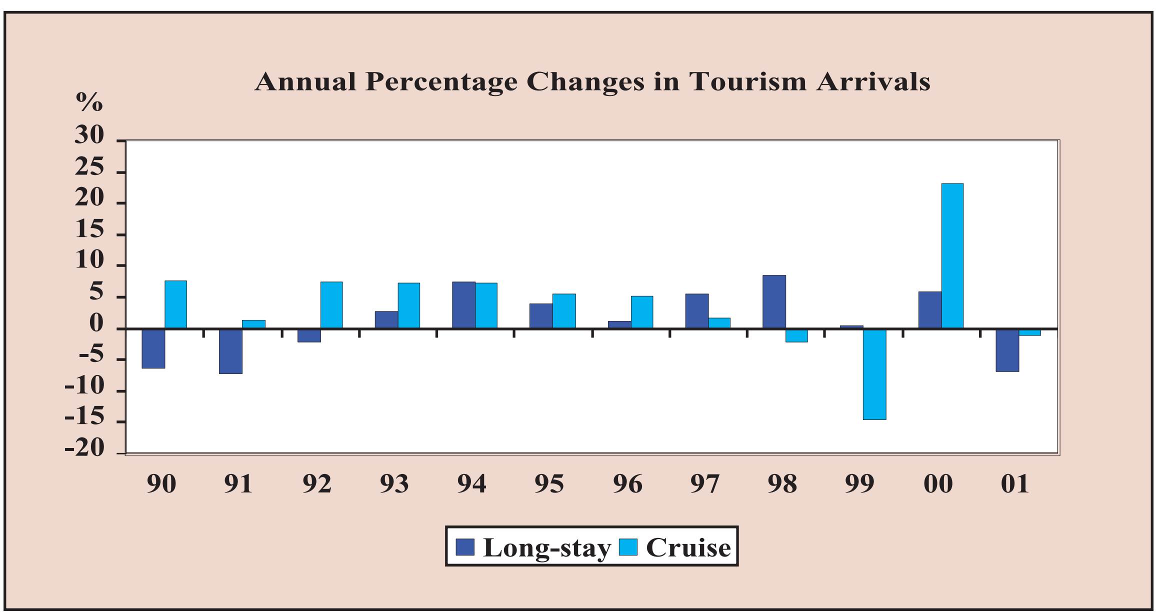
Production, Prices and Employment

Tourism

Two thousand and one was a challenging year for tourism. Real value added declined by 5.9%, in contrast to growth of 7.7% in 2000, and an average an-



nual increase of 4% over the previous eight years. Excluding 1999, when tourism value-added fell marginally because of lower cruise passenger arrivals, this was the first contraction since 1992. Real tourism activity expanded by 5% in the first quarter, but this was offset by an average quarterly contraction of 10.1% in the remaining three quarters of the year. The fall-off in tourism activity between April and mid-September mainly reflected a global economic slowdown, particularly in North America. Thereafter, the industry was temporarily crippled by the attacks on the US and their aftermath. Immediately following these



events, both cruise and long stay arrivals, especially out of North America, dropped significantly in spite of major incentives to travel offered by the airlines and hotels.

Some 507,086 long-stay tourists visited Barbados in 2001, representing a decline of 6.9% or 37,610 persons. This performance reflected decreases in visitor arrivals from all major source markets. Visitors from the US fell by 2.6% between January and September, and by a further 10% in the fourth quarter, translating into an overall decline of about 4.9%. This contrasts with an increase of 6.9% in 2000. The proportion of US visitors in total visitor arrivals now stands at 21%, well below the 40% figure recorded nine years earlier.

A similar pattern was observed in the Canadian market, which witnessed an overall decline of 12.6% in visitor arrivals. A fall-off in the number of Canadian tourists was registered during the first three quarters of 2001, due in large part to a slowdown in this economy and the depreciation of the Canadian dollar. These developments intensified in the fourth quarter when Canadian arrivals were down by as much as 29.4%. Canadian visitors now account for a mere 10% of total visitors to Barbados.

The number of visitors from the UK fell by 4.1% during 2001, but unlike the US and Canadian markets, the contraction was concentrated mostly in the second half of the year. Long-stay arrivals from this market segment fell by 7% and 8.7% in the third and fourth quarter, respectively. This moderate decline in UK arrivals in the face of a global downturn and the uncertainty surrounding the possible escalation of tensions between the US and Afghanistan seems to suggest some brand loyalty in this market. The UK remained Barbados' main source of visitor arrivals, accounting for approximately 43% of total visitor arrivals, compared to 20% a decade ago.

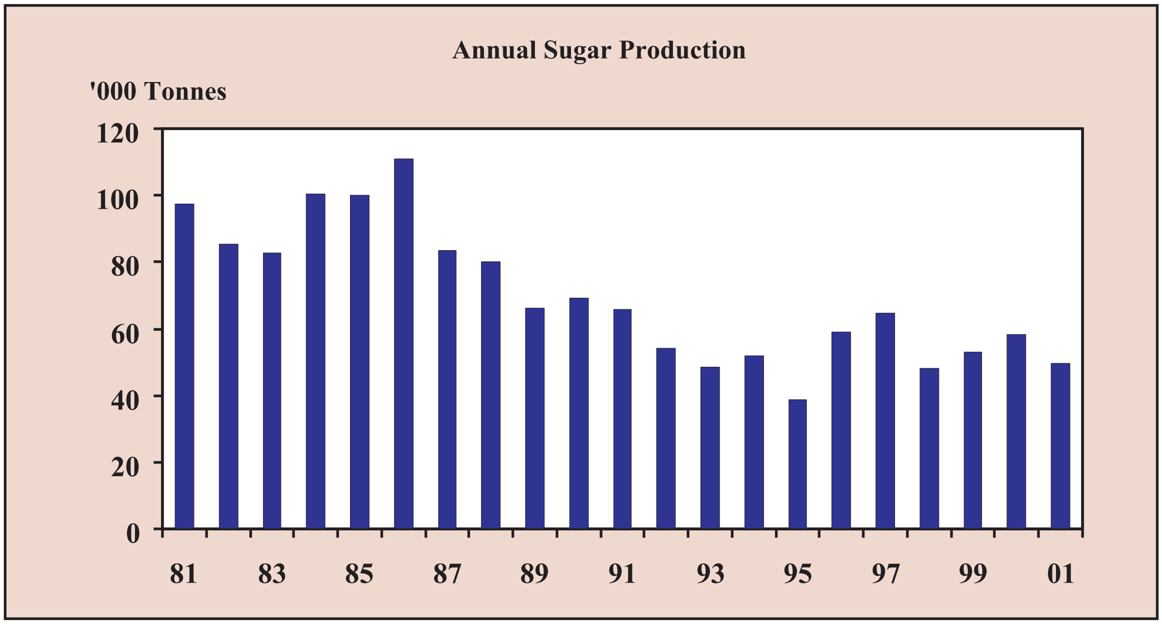
Arrivals from Continental Europe declined by 15.6%, after decreasing at an average annual rate of about 12% over the last five years. This market was also negatively affected by slowing global economic activity, adverse currency movements and by the uncertainty surrounding air travel. In the midst of a major blow to air travel due to the economic uncertainty worldwide, CARICOM visitors also dropped by 8.4% over the review period.

The number of cruise passengers contracted by 1.1% in 2001, following an exceptionally robust outturn in 2000. The industry, which recorded a strong winter performance was hampered during the summer months by a reduction of over 50% in the number of ship calls due to itinerary changes precipitated by the decision of some cruise liners to operate out of Miami in order to avoid the congestion at the Puerto Rico hub. Between April and September, the number of cruise passengers fell by 14%, and then by a further 17% in the fourth quarter, as a number of cruise lines repositioned themselves closer to US ports so that passengers could easily drive to ships. This was prompted by the uncertainty surrounding the safety of flying and concerns about possible terrorist activities.

Agriculture

Agricultural production fell after two successive years of growth, as declines were recorded in the sugar and non-sugar industries. Sugar output, which was adversely affected by a late start to planting, unfavourable weather conditions in the critical planting period as well as a reduction in the acreage planted and lower yields, decreased by 8,577 tonnes from the 58,400 tonnes recorded for the 2000 sugar crop. This meant that Barbados had to meet its quota obligation of 54,000 by including the 2,000 tonnes excess sugar shipped in year 2000 and applying the clause in the quota arrangement that allowed a country's quota to decline by 2,000 tonnes without penalty.

Non-sugar agricultural activity was marginally lower than in 2000, following two consecutive years of growth. Milk production rose steadily during the year, recording an increase of 4.1%. Chicken output fell by 7.2%, as decreases during the first two quarters of 2001 offset the expansion in production in the latter half of the year. Between January and June, chicken producers cut back output to sustainable levels in an effort to minimise potential losses that could have arisen from an expected influx of chicken imports precipitated by the replacement of quotas by tariffs, but seem to have regained their confidence in the latter half of the year.



Manufacturing

The manufacturing sector continued to struggle in 2001, as evidenced by an escalation in the rate of decline witnessed over the last three years. Real value-added fell by an estimated 8.2%, following decreases of 2.4% and 0.5% in 1999 and 2000, respectively. This outcome has been attributed mainly to increasing regional and extra-regional competition associated with the continued liberalisation of the previously protected domestic market. Production contracted in most of the major sub-sectors over the review period. In the food-processing sub-sector (which includes fruit juices, meat products, flour products, biscuits, ice cream and diary products), a 3.3% reduction in output was recorded. In addition, the production of electronic components plummeted by 30.3%, as technological advancements made a locally-produced component obsolete. With the slowing of construction activity, production of blocks, concrete and other construction materials was lower, especially in the second and third quarters, and led to a fall in the output of other non-metallic mineral products. Declines of 2.6% and 8.9% were also experienced in the beverages and the other manufacturing sub sectors, respectively. The beverages sub-sector suffered from the closure of one plant earlier in the year, while a decrease in printing activity caused a fall in output in the other manufacturing industries category.

Construction

Construction activity, which benefited somewhat from an intensified road rehabilitation programme and other ongoing government capital projects such as the South Coast Sewerage and the refurbishments of schools associated with the EDUCTECH programme, is estimated to have contracted by 3.9%. This is mainly because most of the large-scale private tourism-related and commercial projects either have been completed or are winding down. The fall off in construction value-added was evidenced by decreases in its main performance indicators: employment in construction (-7.5%), real retained imports of construction-related supplies (-19.1%), real local production of building materials (-3.1%), as well as private residential and commercial building starts (-6.2%).

Business and Other Services

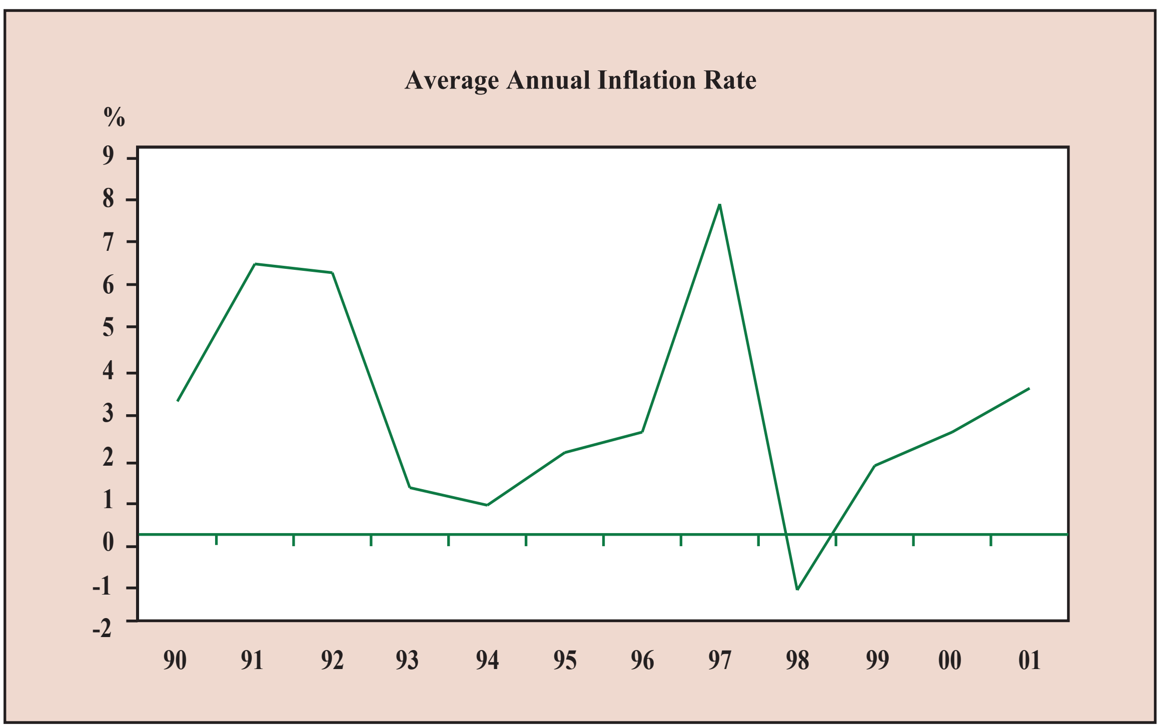
The challenges posed by the economic uncertainty that prevailed during most of 2001 constrained the demand for other non-traded services. As a consequence, real output from the business and other services, and the communications, transport and storage sub-sectors rose marginally, compared to average annual growth rates of 3.0% in the previous three years. In addition, a significant decline in retained imports, most noticeably motor vehicles, reflected an estimated reduction of 3.8% in purchases undertaken by wholesale and retail establishments. During 2001, the Barbados Agency for Micro Enterprise and Development, also known as Fund Access, provided financing totalling approximately $525,691 for the establishment of ten new small businesses and the expansion of thirty existing ones. In the process, twenty-six new jobs were created. This compares with a total disbursement in 2000 of $646,123 in investment funding for twenty-five new micro enterprises, thirty-five existing ones and sixty-three new job opportunities.

International Business Services

The uncertainty of the outcome of the "Harmful Taxation Competition" initiative by the Organisation for Economic Cooperation and Development was mainly responsible for the considerable decline in the number of new licences granted in the international business sector in 2001. Two hundred and ten international business companies were registered, compared to four hundred and fifty-six in 2000. Twenty-two new licences were awarded to societies with restricted liability, twenty-five less than in the previous year. In addition, five exempt insurance companies were given permission to commence operations, compared with nine in 2000, and one exempt insurance management company was formed. The Central Bank of Barbados licensed five new offshore banks in 2001, two less than one year earlier. No new foreign sales corporations were licensed, as the World Trade Organisation appellate court ruled against the operation of these entities in 2000.

Energy

Domestic crude oil production for 2001 totalled 463,699 barrels, compared with 559,675 barrels for 2000, representing a fall of 17.1%. This is the second consecutive year that crude oil output has decreased, and can be attributed to the postponement of new development drilling of oil wells coupled with the lack of success in the stimulation of existing wells to make-up for the natural depletion of reserves. Natural gas production also fell by 7.6% to 35.0 million cubic metres, the second successive year of decline. As a result of the contraction in supply, sales of natural gas decreased by 19.7% in 2001. During 2000, pro-



duction and consumption of natural gas fell by 19.2% and 9.9%, respectively. Electricity production, which partly benefited from lower international oil prices, expanded modestly. Commercial and industrial electricity usage rose by 4.4% while residential consumption increased by 4.3%, both slightly higher than their respective levels last year.

Prices and Employment

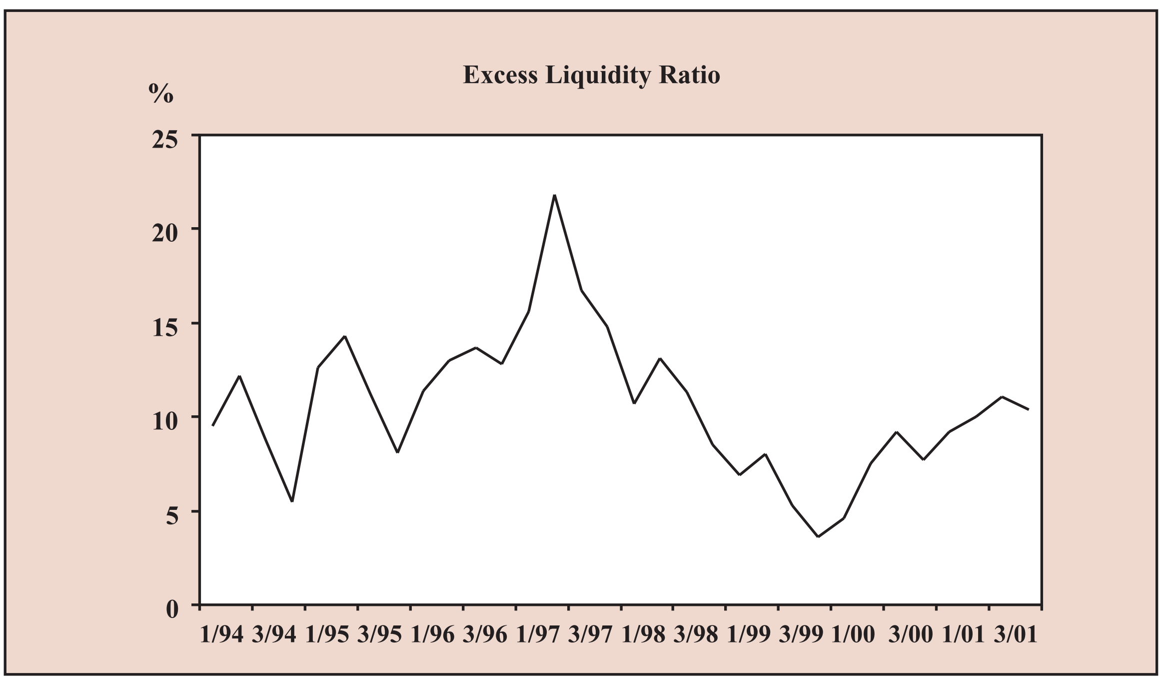
Retail prices expanded at an annual average rate of 2.6% over the twelve months ending December 2001. This compares with a rate of 2.4% for the corresponding period ending December 2000. The major portion of the increase in the retail price index was related to rising costs for food, alcoholic beverages and tobacco, and housing, which together account for almost two-thirds of the total basket of goods and services purchased by a typical household. Food prices rose each month from March until October, primarily because of higher vegetable and meat prices. The retail price for alcoholic beverages and tobacco gradually went up from the beginning of the year on account of rising prices for spirits, whilst a combination of increased costs for home insurance and rent for private residences was largely responsible for expanding house inflation. In contrast, the retail prices for fuel and light and transportation, which rose substantially during 2000 reflecting higher international oil prices, fell over the course of the year to -1.1% and 1.5%, respectively.

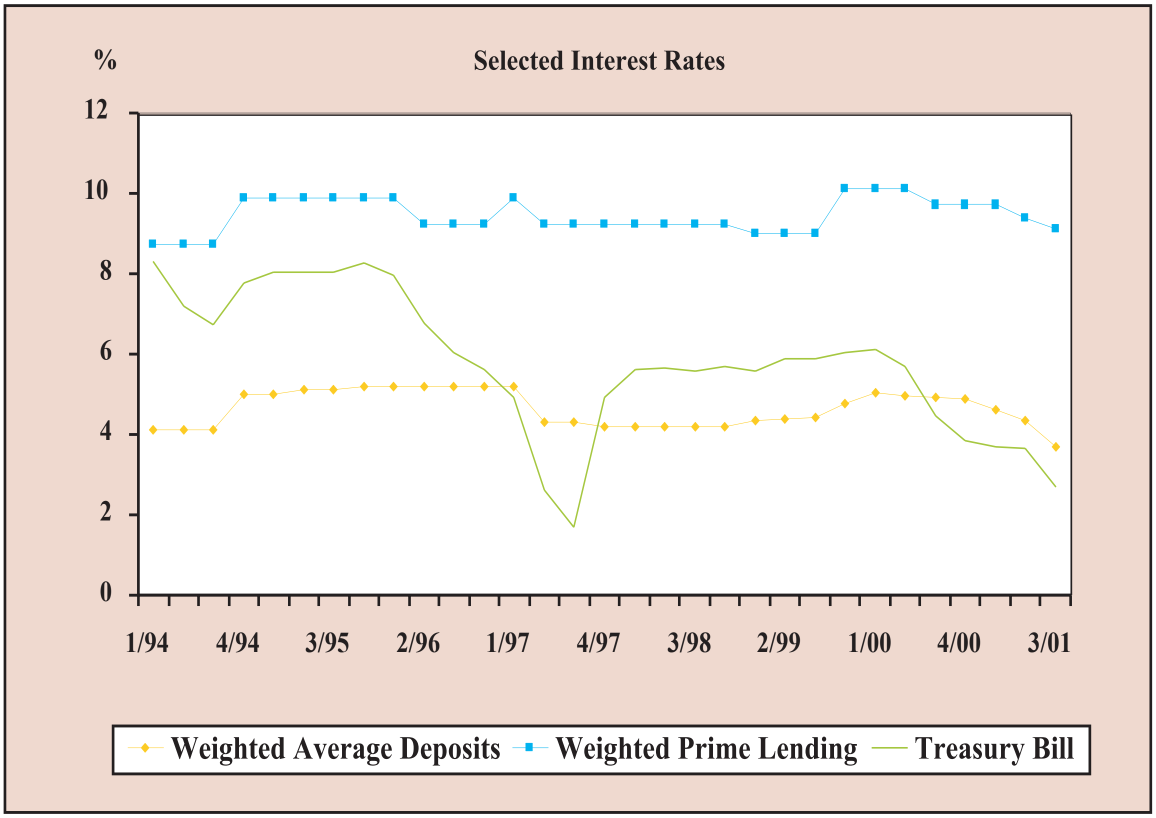
Reorganisation by business firms during the year in an attempt to become more competitive, coupled with the negative impact of a global economic slowdown, resulted in some layoffs. As a consequence, the average unemployment rate for 2001 increased by 0.7 of a percentage point to 9.9%, with the bulk of job losses occurring in the manufacturing, tourism and general services sectors. This represented a loss of 1300 jobs since the beginning of 2001. The unemployment rate for males rose by 0.7 of a percentage point to 8.0%, and for females, by 0.6 of a percentage point to 11.9%.

Financial Sector

Banks' Liquidity and Interest Rates

High excess liquidity was the dominant characteristic of the financial system in 2001, owing to the persistent weakness in the demand for commercial bank credit by the private sector and continued private sector capital inflows. The excess liquidity ratio rose





from 7.7% at the end of December 2000, to 11.5% by the end of September 2001, before falling to 10.4% at year-end. This ratio compares with an average of 8.7% between 1993 and 2000.

With the simultaneous build-up in excess liquidity and the slowdown in economic growth, the Central Bank relaxed its monetary policy stance on four occasions. By year-end, the minimum deposit rate stood at 3%, down from 4.5% at the start of the year, the cash reserve requirement was lowered by one percentage point to 5% of deposit liabilities, and the discount rate was cut from 10% in December 2000 to 7.5%. To complement these policies, the Central Bank instructed commercial banks to set a ceiling on the weighted average interest rate charged on loans to the productive sectors. This indicative weighted average lending rate was periodically decreased from a maximum of 10% in August 2001 to 8.5% by December 1, 2001.

The accumulation of idle cash in the banking system, coupled with a contraction in the amount of treasury bills issued, resulted in intense competition for the available stock of treasury bills. As a result, the treasury-bill rate fell to 1.97% by year-end, nearly half the rate at the end of 2000, and approximately a full percentage point below the minimum deposit rate at commercial banks. It was also the lowest rate experienced since consumer and business caution in the early stages of the implementation of the VAT in 1997 led to an accumulation of excess cash in the banking system. In the face of burgeoning liquidity, other interest rates were also generally lower. The weighted average loan rate fell from 11.93% at the end of 2000 to 11.45% by the end of the current review period, whilst the interest rate on long-term Government debentures slid from 7% to 4.25%.

Banks' Credit

After registering modest growth in the first quarter of 2001, aggregate private sector credit stagnated during the remainder of the year. By year-end, an increase of only 0.2% was registered, representing the weakest performance since the start of the expansion in 1993. Growth of private sector credit has been moribund since late 1999, rising on average by only 1.7%, in comparison to an average five-year rate of increase of slightly over 19% between 1994 and 1999. Personal loans which have propelled most of the credit growth in the post-1995 period, expanded by only 5.2% in 2001, significantly below their average rise of 19.6% between 1995 and 2000. Personal credit for housing purposes went up by 10.2% ($43.7 million), but the other categories increased by only 1.8% ($11.2 million), mainly because of weak consumer demand for new vehicles. Consequently, net consumer instalment credit outstanding fell by 12.7% ($52.0 million), its third successive year of decline. Commercial bank lending to business firms involved in manufacturing, tourism and public utilities increased. Credit to the distributive sector, however, plunged by 15.8% ($44.5 million), as the slowdown in the economy induced consumers and businesses to be more cautious in their spending. Fewer loans were also extended to agriculture, most noticeably to sugar growers. In contrast to the sluggish expansion in private sector credit, commercial bank loans to statutory bod-

Selected Indicators of the Banking System
as at December
($ Million)

	1997	1998	1999	2000R	2001P
Net International Reserves	642.5	568.2	679.4	1,080.9	**1,535.3**
Monetary Authorities	549.8	538.7	612.8	968.8	**1,415.3**
Commercial Banks	92.7	29.5	66.6	112.2	**120.0**
Net Domestic Assets	1,860.3	2,197.4	2,391.1	2,253.6	**2,001.5**
Credit to Public Sector	351.1	333.3	325.8	193.6	**-45.7**
Central Government (Net)	673.5	585.7	573.9	471.6	**258.8**
Other Public Sector	-322.4	-252.4	-248.2	-278.0	**-304.4**
Credit to Rest of Financial System	97.1	114.8	92.6	108.0	**87.4**
Liabilities to Other Financial Inst.	263.8	225.2	250.1	301.7	**265.8**
Credit to the Private Sector	1,851.0	2,152.6	2,464.5	2,528.1	**2,532.3**
Liabilities to the Private Sector	2,502.9	2,765.6	3,070.6	3,334.5	**3,536.8**
Monetary Base	415.9	482.7	501.3	562.9	**647.4**
Currency with the Public	239.6	268.2	302.7	310.7	**312.4**
Commercial Banks Reserve Position	176.3	214.5	198.7	252.2	**335.0**
Cash at Banks	66.6	65.2	88.8	92.0	**105.7**
Commercial Banks' Deposits at Central Bank	109.7	149.3	109.9	160.2	**229.3**
Memo:					
Domestic Deposits	2,979.4	3,103.6	3,411.2	3,762.8	**3,971.8**

Source: Central Bank of Barbados
R: Revised
P: Provisional

ies grew by 30.2% ($29.6 million), driven by increased lending to the National Housing Corporation and the Barbados Water Authority.

Banks' Deposits

During 2001, domestic deposits rose by 5.5% from $3,762.8 million to $3,971.8 million, significantly below last year's rate of expansion of 9.7%, and the average increase of 14.8% over the period 1993 to 2000. The slower growth in domestic deposits mainly reflected the decline in domestic economic activity and lower private capital and tourism inflows. Overall, the rise in domestic deposits was primarily due to expansions in the deposits of private individuals, statutory bodies, and business firms.

Deposit holdings of private individuals were up by 5.0% to $2,377.6 million, considerably less than the average increase of 9.5% since the start of the economic expansion in 1993. Deposits of statutory bodies, fuelled by increased deposits by the Barbados National Oil Company, the Barbados Tourism Investment Corporation, the Barbados Agricultural Management Company Ltd. and the Barbados Tourism Authority, grew by 42.8% ($30 million).

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

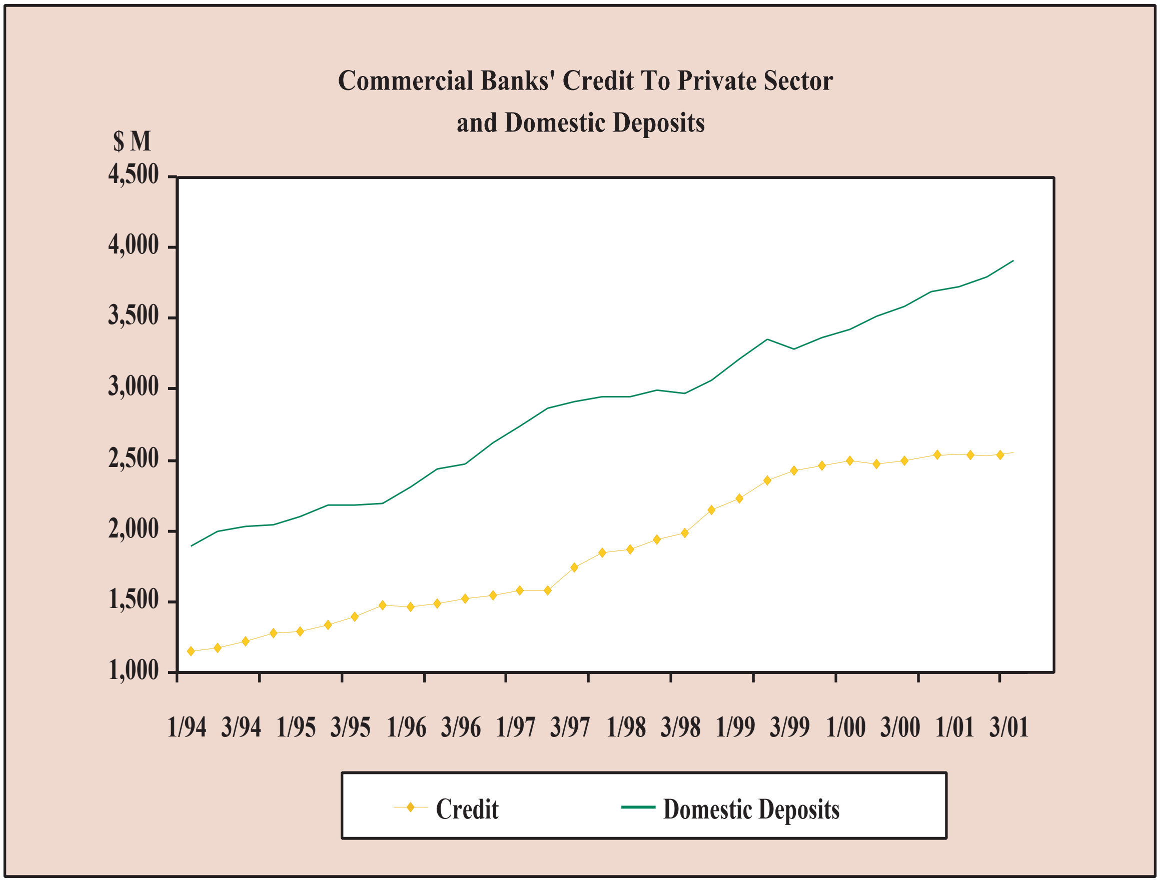
Source	1997	1998	1999	2000	2001P
BDB	47.4	47.4	0.0	0.0	**0.0**
BMFC	106.9	107.7	110.9	127.2	**147.1**
Finance Companies	52.1	76.8	126.6	143.2	**168.9**
Commercial Banks	1,851.0	2,152.6	2,464.5	2,528.1	**2,532.3**
Trust Companies	381.8	433.3	378.6	423.0	**446.8**
Insurance Companies	311.1	308.8	326.0	355.7	**344.8**
Total	**2,750.3**	**3,126.6**	**3,406.5**	**3,577.2**	**3,642.7**

Source: Central Bank of Barbados
P: Provisional

Domestic Deposits at Financial Institutions ($ Million)

Institutions	1997	1998	1999	2000	2001P
Trust Companies	291.1	305.9	285.8	330.5	**359.8**
Commercial Banks	2,952.3	3,076.8	3,390.0	3,693.4	**3,923.3**
Finance Companies	65.8	97.5	132.5	177.8	**235.6**
Total	**3,309.2**	**3,480.1**	**3,808.3**	**4,201.7**	**4,518.7**

Source: Central Bank of Barbados
P: Provisional



Non-Bank Financial Institutions

Deposits of trust and mortgage finance companies rose by 8.9% during 2001, on the strength of higher deposit holdings of private financial institutions. This compares with growth of 15.6% in the previous year. Finance houses also expanded their deposit base, as deposits of private individuals surged and those of financial institutions increased moderately. Members' deposits at credit unions grew from $84.7 million at the end of 2000, to $113.0 million by year-end, while the credit unions' share capital went up by $39.4 million over the corresponding period of 2000.

Loans disbursed by credit unions increased by $51 million in 2001, compared with $42.6 million a year ago. New real estate lending expanded by $30.2 million, while personal consumer credit and private transportation loans rose by $26.9 million and $22.8 million, respectively. Credit from trust and mortgage finance companies grew by only $17.6 million in 2001, compared to a rise of $44.2 million in 2000, due to a weak outturn in the private mortgage portfolio. Mortgage lending by trust companies to industrial and commercial customers expanded by $9.7 million, slightly stronger than an increase of $7.4 million one year earlier. Loans and advances at finance houses were up by $22 million in 2001, significantly above the $16.6 million increase recorded in 2000.

The Evolution Of The Credit Union Movement In Barbados

At this stage in the economic development of Barbados, it is important to recognise the invaluable contribution that the credit union movement has made. Therefore, this box reflects on how the movement has evolved over time: rising from its initial status as a primarily lower-income fringe phenomenon to its current mainstream position as a key player in the financial sector.

A credit union is a financial cooperative, owned and controlled by its members. The members purchase shares in the union, thus contributing to a pool of funds (termed share capital), which is used to provide various services to its members.

In Barbados, credit unions have proven to be an important instrument for capturing and mobilising the savings of the population. In addition, they are often considered to be the cheapest and most accessible source of credit within the financial sector.

Credit unions are unique within the financial sector for their distinctive *raison d'être* – their commitment to maximising the well being of their members. They cater to persons whose credit needs may not be fulfilled by the commercial banks, which are often more concerned with maximising profits. At the same time, they allow individuals to take responsibility for their own welfare by encouraging thrift among their members.

The Rise of the Credit Union Movement

The history of the credit union movement in Barbados has its roots in the informal "sou-sou" and "meeting-turn" group-saving traditions. The first formal credit union in Barbados was established in 1947 (with total savings of $8) although the "Cooperative Societies Act", which was to regulate the movement, did not come into force until 1949. Over the next three decades, growth was slow and uneven, so that although by 1978 there were 25 credit unions in existence, with a total membership of 4,270 and share capital of $973,000, the market share of the credit unions during this period was negligible, as illustrated by a ratio of credit union assets to commercial bank assets that was close to zero.

A number of factors contributed to the slow development of the credit unions prior to the 1980s. These included its inability to attract young people and its image as a "poor man's" institution, which resulted from ineffective marketing and reliance on outdated technology and volunteer services. Another important factor was the ready availability of credit from commercial banks and other non-bank sources.

However, credit unions eventually came into their own in the 1980s, as the limiting conditions mentioned previously were gradually reversed. Firstly, the negative public perception of the movement was dispelled, as credit unions engaged the services of professionals and introduced improved accounting procedures and cutting-edge technology. These changes led to greater managerial and operational efficiency, which in turn helped to attract younger and higher-income individuals. Fiscal incentives by Government also contributed to the promotion of the credit unions as an alternative to commercial banks. In addition, in the early 1980s, balance of payments considerations forced the Central Bank to restrict access to credit in the banking sector, causing borrowing costs to rise as high as 16%. Consequently, more and more people began to look to credit unions to meet their unfulfilled demand for credit.

Largely because of these changes, credit union membership surged during the 1980s, increasing more than six-fold from 5,705 in 1980 to 37,586 in 1990. The share capital of the unions increased concomitantly, soaring from $2.5 million in 1980 to $106.5 million in 1990. Other indicators of credit union activity such as loans outstanding also rose sharply.

Consequently, the relative weight of credit unions in the financial sector increased, with the ratio of their assets to those of the commercial banks rising throughout the 1980s to peak in the early 1990s.

In addition, credit union growth (as measured by percentage growth in assets) completely outstripped growth in commercial bank assets during this period.

However, unlike the 1981-82 recession, which provided the impetus for significant growth in credit unionism, the 1990-92 recession led to a sharp decline in credit union growth. High unemployment and salary cuts moderated membership growth and led to increasing delinquency on loans. In fact, between 1992 and 1996 credit union asset growth lagged significantly behind asset growth in commercial banks.

After the economy began to recover in 1993, credit union growth picked up somewhat, though it never regained the rapid pace of the 1980s. This relatively slower growth was perhaps due to the fact that in 1994 three of the major unions broke away from the original umbrella body for credit unions, the Barbados Cooperative Credit Union League (BCCUL), to form a new body – the National Association of Credit Unions League (NACUL).

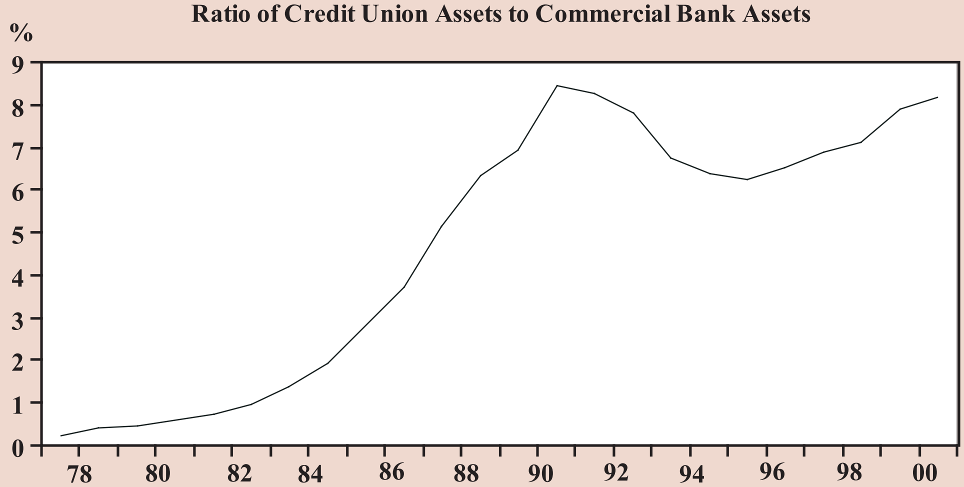
It was argued that this division could potentially destabilise the sector, as it would impair the ability of the two umbrella bodies to act in their capacity of "lender of last resort", leaving the credit unions vulnerable to a liquidity crisis. Furthermore, this lack of cohesiveness within the movement did little to enhance its public image.

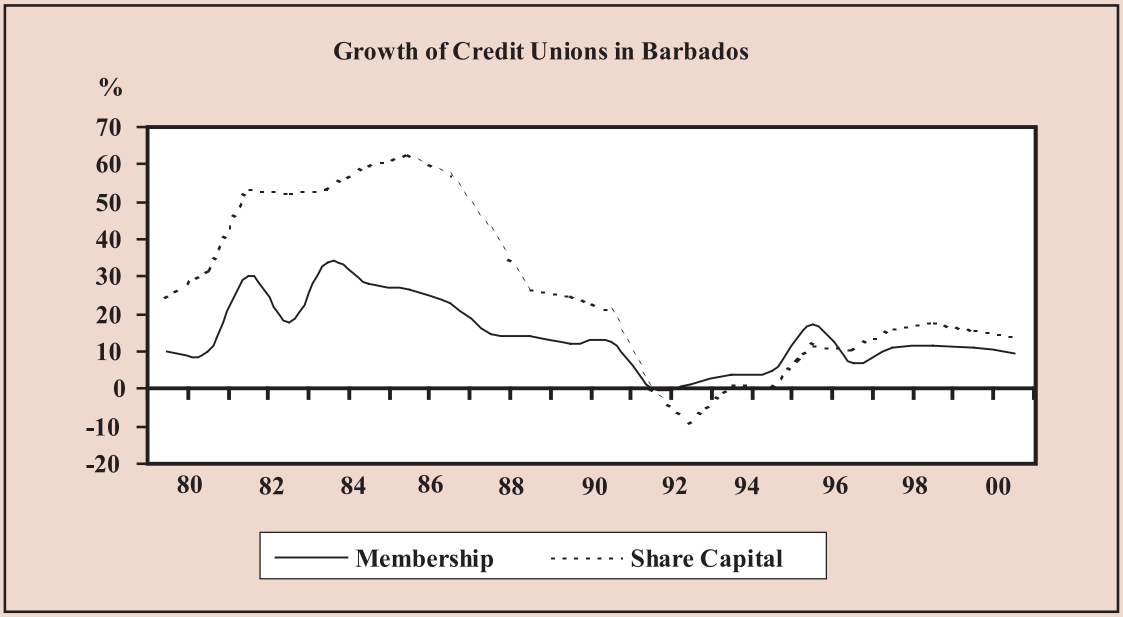
In an address captured in the 32nd issue of the Barbados Economic Society's Newsletter, Mr. Oriel Doyle of the BCCUL also placed part of the blame for the mediocre performance of credit unions in this period on their failure to modernise and innovate. He cited the lack of modern facilities such as automatic teller machines, which ceded the advantage to the commercial banks, which were introducing increasingly sophisticated and innovative financial products and services.

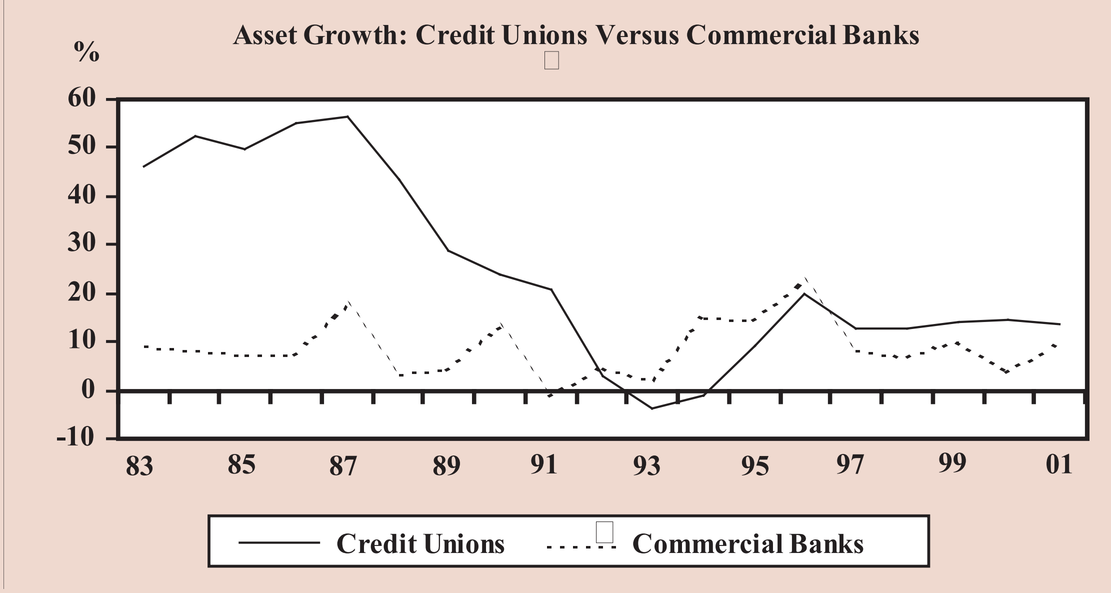
Recent Developments

On April 1, 2001 the three credit unions under NACUL rejoined the BCCUL and NACUL

Ratio of Credit Union Assets to Commercial Bank Assets




Growth of Credit Unions in Barbados
%
70
60
50
40
30
20
10
0
-10
-20
80
82
84
86
88
90
92
94
96
98
00
Membership
Share Capital


Asset Growth: Credit Unions Versus Commercial Banks
%
60
50
40
30
20
10
0
-10
83
85
87
89
91
93
95
97
99
01
Credit Unions
Commercial Banks

ceased to exist. This move was motivated in part by a desire to foster the spirit of cooperation underpinning the founding philosophy of the movement. However, it was also driven by economic considerations, such as the need to achieve critical mass in order to compete in an increasingly liberalised financial environment.

In recent times the credit unions have also sought to modernise their services. Credit unions now offer a wide range of financial services, with automatic teller machines, telephone banking facilities, credit cards, mortgage loans, chequing facilities and bill-paying services allowing them to compete successfully with the commercial banking sector.

As a result of these efforts to consolidate their power and asset base and improve service provision, credit unions have been growing at an average rate of 14% over the last three years, compared with 8% for commercial banks. As at March 2001, the ratio of credit union assets to commercial banks' assets was approximately 8% (the ratio of union credit to commercial bank lending exceeded 10%). Furthermore, credit union membership currently represents over 60% of the total labour force. These figures are testimony to the fact that credit unions continue to be a dynamic and powerful force in the Barbadian financial landscape.

Stock Market Developments

During the year changes were made to the legal framework to strengthen the market infrastructure and regulation. On August 2nd, 2001, the Securities Act #13 of 2001 was enacted and this allowed for the establishment of the Barbados Securities Commission (BSC) and the re-incorporation of the Securities Exchange of Barbados as the Barbados Stock Exchange. The regulatory responsibility for the capital market, including mutual funds, has been vested in the BSC.

During 2001, depressed share prices were largely responsible for declines of 6.0% and 1.9% in the local and cross-listed securities indices, respectively. However, total market capitalisation on the Barbados Stock Exchange (BSE) was $6276.7 million, an increase of 8.3% over the corresponding figure one year earlier as three new companies, the Barbados National Bank, the Insurance Corporation of Barbados Ltd. and BWIA West Indian Airlines were listed on the BSE.

In 2001, about 3.8 million shares were traded with a combined value of $12.4 million. This compares with a total trading volume of 4.4 million shares valued at $13.9 million in 2000. The top five companies whose shares were traded were CIBC W.I. Holdings Inc., Barbados Shipping and Trading Ltd, Life of Barbados, Goddards Enterprises and RBTT Financial Holdings Ltd.

There was a significant expansion in the value of Government paper traded on the BSE with $10.2 million being traded compared to $1.3 million in 2000. Twenty-one offers for debentures and eighteen issues of treasury notes were traded in 2001, in comparison to two offers of debentures and eight offers of treasury notes in the previous year.

Government Paper Market Developments

The amount of treasury bills outstanding at year-end was $494.9 million, some $37.9 million below the stock at the end of December 2000. Commercial banks and trust companies continued to be the largest holders of treasury bills, increasing their investment by 1.7% to $474.6 million. However, low interest rates reduced the attractiveness of treasury bills for the non-financial private sector and consequently, their stock declined by $5.0 million. The Central Bank and the National Insurance Scheme both sold all their holdings of treasury bills during 2001, down from $15 million and $25.9 million at December 2000, respectively.

In contrast to the shrinking supply of treasury bills, the value of debentures outstanding expanded by $140.4 million, as Government's domestic financing was effectively shifted towards larger, but less frequent, longer-term issues. Debenture holdings of banks and trust companies rose by $82.4 million, while the National Insurance Board increased its stock of long-term government paper by $20.8 million.

During 2001, twenty-four issues of treasury bills were offered to the public. These issues were heavily oversubscribed due to the high levels of excess liquidity in the banking system. Six issues of debentures and treasury notes totalling $210 million in value were issued during 2001. At the end of the review period, Government's long-term domestic debt stood at $1,813.2 million, a net increase of $157.3 million over the December 2000 figure. Five issues of savings bonds with a combined nominal value of $40 million were issued during the year 2001.

Mutual Funds

For the second consecutive year, the weak outturns of the regional and international capital markets depressed the performances of the domestic mutual funds. As a result, five of the nine funds registered declines in their net asset values (NAV). Property funds were the best performers of 2001, with the BNB Property and Unlisted Securities Investment Fund and the Fortress Caribbean Property Fund recording increases in NAV of 3.7% and 3.3%, respectively. Other funds which experienced growth in NAV were the Fortress Caribbean Growth Fund (2.6%) and the BNB Gift and Trust Fund (3.7%). Among the larger funds, Roybar was the worst performer, falling by 6%, while the Mutual Global Balanced Fund declined by 4.7%. The total net assets of mutual funds totalled $148.4 million by year-end, an increase of $2.6 million over the corresponding figure of 2000.

Government Operations

Revenue

During 2001, total revenue collections rose by 2.2% to approximately $1,745.0 million, representing 33.8% of GDP at market prices. This increase compares with the intake of $1,708.0 million in 2000, which was equivalent to 32.9% of GDP and 9.5% above the figure in 1999. Direct taxes, which went up by 11.7% in 2000, grew by 8.9%, the smallest expansion since the 4.2% in 1996. The slower growth in direct tax receipts was principally because of lower increases in the collections of personal and corporate taxes. Personal tax revenues grew by 2.4%, compared to 19.6% in 2000 when two partial repayments of the eight per cent pay cut to civil servants boosted their personal incomes. The 9.6% rise in corporation taxes was 0.7 of a percentage point below that of a year earlier, reflecting the slowdown in economic activity in 2001. In contrast, revenue from property taxes surged by 19.7%, after a decline of 1.3% in 2000, partly due to an increase in the land tax base and partly due to early notification of assessment that allowed many property owners to settle their obligations in 2001.

Indirect tax collections decreased by 3.1% in 2001, in contrast to an expansion of 6.8% one year earlier. Value-added tax (VAT) receipts, which registered exceptional growth of 14.4% in 2000, (when Government intensified its efforts to collect arrears) decreased by about 2.5% during the review period. Import duties fell by 10.8% as a result of reduced import demand, whilst excise taxes were down by 2.6%, after declining by 9.1% in 2000. Non-tax revenue increased by 5.5% in 2001, compared to a rise of 19.9% in the previous year.

Expenditure

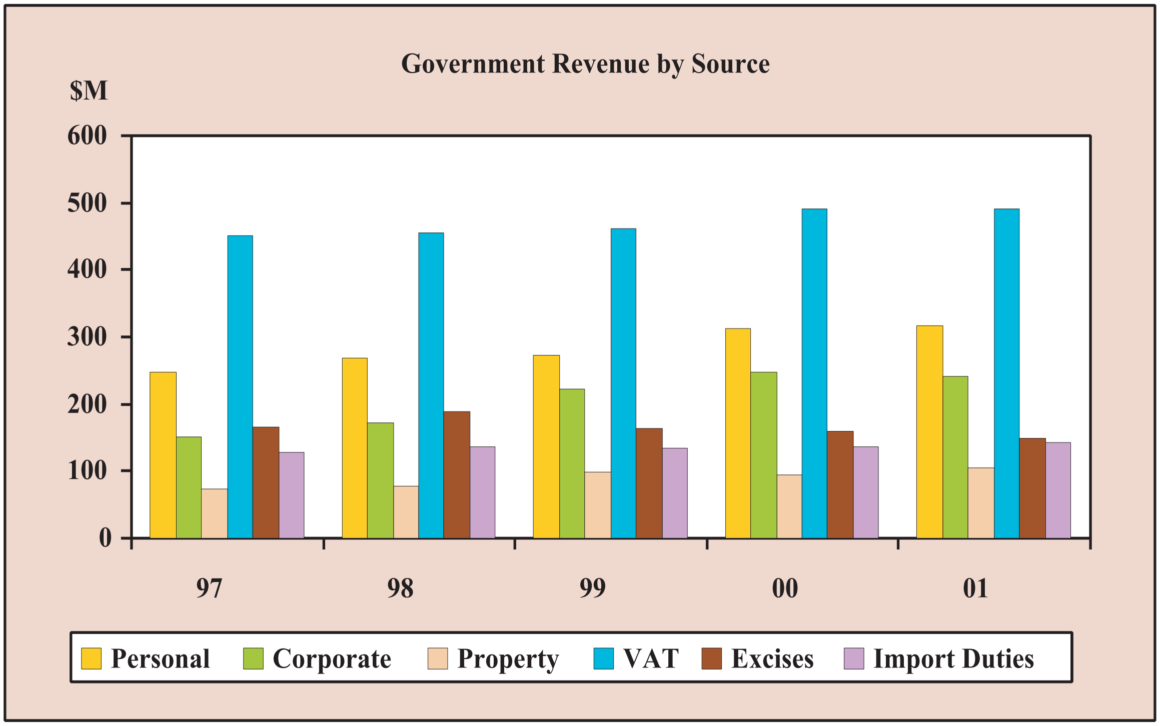
In 2001, total Government expenditure expanded by 8.1% compared with growth of 6.4% in 2000, owing to increased spending on both current and capital items. Total expenditure amounted to $1,928.6 million and represented approximately 37.4% of GDP, about 3 percentage points higher than the ratio in 2000. Current expenditure grew by 7.3% to $1,613.2 million, one percentage point higher than a year ago. Wages and salaries, which increased by 12.2% in 2000 largely because of the repayment of two of the three instalments of the eight per cent pay cut, contracted by 2.5% in the review year. Expenditure on goods and services went up by 9.4%, after growth of 11.5% in the previous year while interest payments rose by an estimated 16% due to higher external interest outlays, on account of the rising stock of external debt. Transfers and subsidies jumped by 16.6%, in contrast to a decline of 2.1% in 2000, as Government settled its outstanding obligations for student fees to the University of the West Indies and the arrears of the Transport Board.

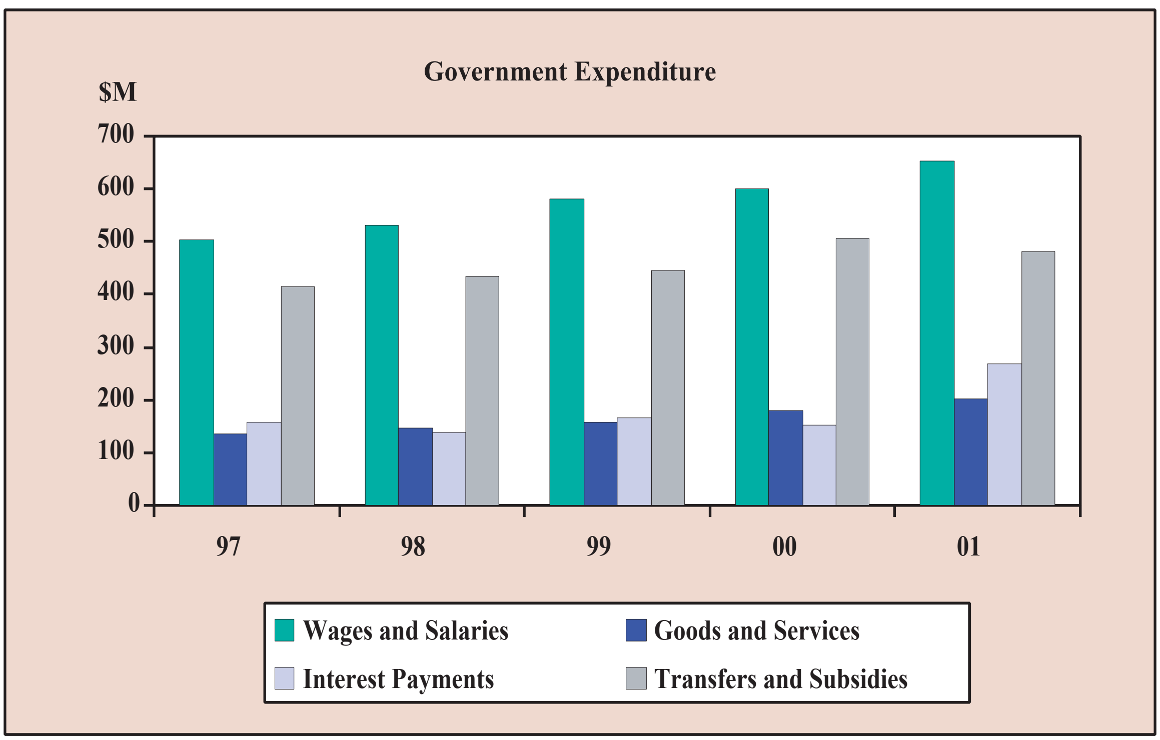
Capital expenditure grew by 15.9% in 2001, compared to 5.3% one year earlier. The projects mainly responsible for this outcome were road repairs, the South Coast Sewerage Project, the Edutech 2000 and the Grantley Adams airport expansion.

Summary of Government Operations
($ Million)

	1997	1998	1999	2000	2001P
Total Revenue	1,437.6	1,540.8	1,561.2	1,708.5	**1,745.0**
Tax Revenue	1,347.8	1,426.9	1,473.2	1,602.8	**1,634.0**
Direct Taxes	512.0	548.6	608.8	679.7	**739.9**
Personal	238.2	268.2	258.0	308.6	**316.1**
Corporate	150.6	149.6	209.8	231.5	**253.6**
Levies	15.9	17.2	17.1	15.5	**18.1**
Property	77.1	80.8	91.6	90.3	**108.1**
Other	30.2	32.8	32.3	33.8	**44.0**
Indirect Taxes	835.8	878.6	864.3	923.1	**894.1**
Consumption	33.1	0.4	0.0	0.4	**0.1**
Stamp	14.4	15.1	13.2	13.1	**16.6**
VAT	411.2	452.8	438.0	500.9	**488.3**
Excises	146.6	174.7	174.7	158.5	**154.6**
Import Duties	122.4	132.5	138.9	147.5	**131.5**
Hotel & Restaurant	4.4	0.8	0.7	0.7	**0.3**
Other	103.9	102.3	98.9	101.7	**102.5**
Non Tax Revenue & Grants	89.8	113.5	88.0	105.7	**111.0**
Non Tax Revenue	75.0	98.3	72.1	90.4	**95.2**
Grants	0.0	0.0	0.0	0.0	**0.0**
Post Office - Revenue	14.8	15.2	15.9	15.3	**15.7**
Current Expenditure	1,213.4	1,332.5	1,410.9	1,502.6	**1,613.2**
Wages & Salaries	506.4	576.5	588.1	659.6	**643.2**
Goods & Services	155.7	152.6	163.0	181.6	**198.8**
Interest Payments	189.7	203.8	226.2	237.4	**276.8**
External	42.0	63.1	37.5	69.8	**91.0**
Domestic	147.7	140.7	189.1	167.6	**185.7**
Transfers & Subsidies	361.6	399.6	433.2	424.0	**494.4**
Current Account Balance	224.2	208.3	149.7	205.9	**131.8**
Capital Expenditure & Net Lending	263.2	247.5	269.1	282.9	**315.4**
Capital Expenditure	257.7	255.2	265.3	279.1	**295.7**
Net Lending	5.5	-7.7	1.9	3.8	**19.7**
Total Expenditure and Net Lending	1,476.6	1,580.0	1,678.0	1,785.5	**1,928.6**
Fiscal Balance	-39.0	39.2	-117.4	77.0	**-183.6**
Fiscal Balance to GDP (%)	-0.9	-0.8	-2.3	-1.5	**-3.6**

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


Government Revenue by Source
$M
600
500
400
300
200
100
0
97
98
99
00
01
Personal
Corporate
Property
VAT
Excises
Import Duties


Government Expenditure
$M
700
600
500
400
300
200
100
0
97
98
99
00
01
Wages and Salaries
Goods and Services
Interest Payments
Transfers and Subsidies

Government Financing
($ Million)

	1997	1998	1999	2000	2001P
Domestic Financing	73.5	70.9	33.8	-129.8	**-154.2**
Central Bank	-5.6	4.6	17.5	-267.5	**-285.0**
Commercial Banks	44.7	-63.1	-88.5	155.6	**89.7**
National Insurance Scheme	36.6	134.4	12.6	15.8	**20.6**
Other	-2.2	-4.9	92.3	-33.7	**20.4**
Foreign Financing	-34.6	-31.7	83.6	206.8	**337.8**
Capital Markets	-0.3	0.0	150.0	200.0	**300.0**
Project Funds	44.7	30.4	33.4	45.5	**77.0**
Policy Loans	0.0	20.0	0.0	0.0	**0.0**
Amortisation	-79.0	-82.2	-99.8	-38.7	**-39.2**
Divestment	0.0	0.0	0.0	0.0	**0.0**
Total Financing	**39.0**	**39.2**	**117.4**	**77.2**	**183.6**

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

Central Administration
National Debt
($ Million)

Period Ending	Domestic	External	Total
1996	1,967.0	722.0	2,689.0
1997	2,036.9	697.5	2,734.4
1998	2,141.4	684.3	2,825.7
1999	2,108.6	788.9	2,897.5
2000	2,204.0	1,021.9	3,225.9
2001P	**2,383.6**	**1,334.6**	**3,717.6**

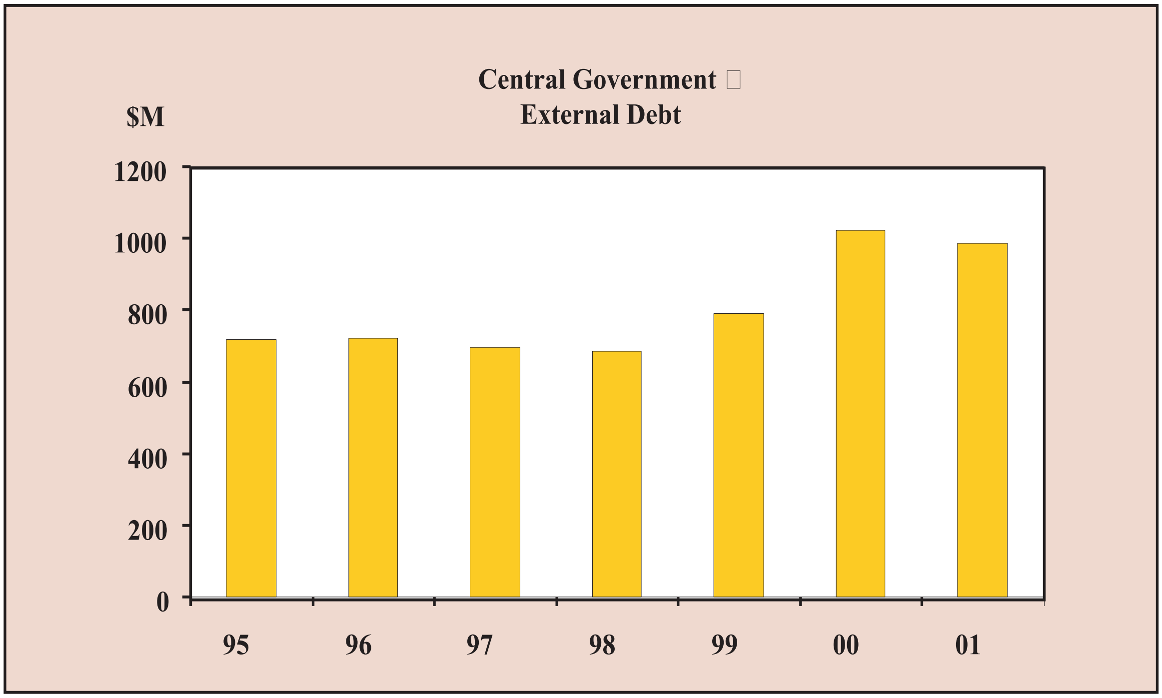
Source: Accountant General, Ministry of Finance and Central Bank of Barbados
P: Provisional

Financing

During 2001, Government financed the majority of its deficit from domestic sources. Commercial banks provided funds worth $89.7 million, $20.6 million was advanced by the National Insurance Scheme, and $19.7 million by private non-banks. There was no Central Bank financing of the deficit. In December, Government issued debt instruments abroad totalling $300 million, resulting in an increase of $285.0 million in the net deposits of Government at the Central Bank. In addition, project fund inflows amounted to $77.0 million, whilst foreign amortisation payments by Central Government stood at $39.2 million.

Debt

At the end of 2001, Central Government's external debt stock totalled some $1,334.6 million, compared



to $1,021.9 million at the end of 2000, and an average of $874.9 million between 1996 and 2000. The stock of external debt in 2001 was equivalent to 24.8% of GDP, five percentage points above the ratio for the previous year. The increase was due to the foreign bond issue during the fourth quarter, which followed successive borrowings amounting to $350 million in the previous two years.

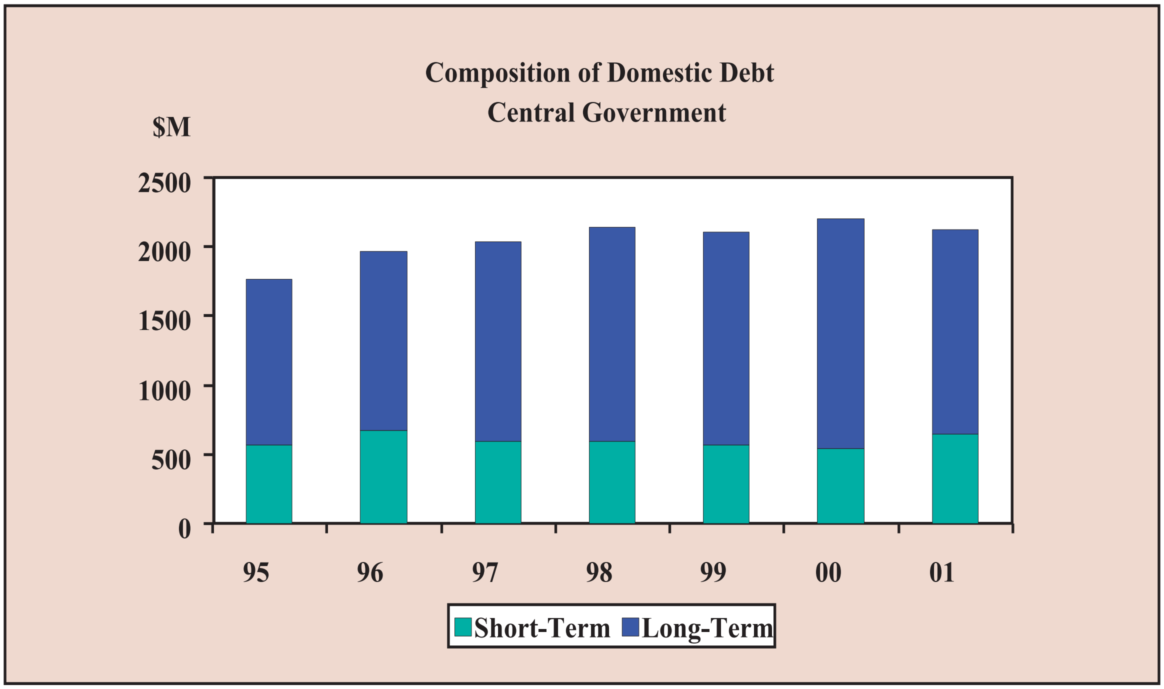
Total domestic debt outstanding grew by approximately 8.1% in 2001, compared to 4.4% one year earlier, on account of a rise of 11.4% in long-term debt, which was boosted by additional holdings of 9.0% and 17.8% in debentures and savings bonds, respectively. In contrast, short-term debt contracted by 2.1%, due to decreases in the amount of treasury bills outstanding and loans and advances to Government. This compares to the outturn in 2000 when short-term debt also declined due to an increase in treasury bills outstanding which was offset by a fall in loans and advances to Government.

Between 1996 and 2001, the dollar value of external loans guaranteed by Government rose from $5.9 million to $94.1 million. The main beneficiaries were the Transport Board, the Barbados Light and Power Co. Ltd. and the Barbados Agricultural Management Company Ltd.

Foreign Trade and Payments

Current Account Developments

During 2001, current account developments were largely reflective of the downturn in real sector activity. The current account deficit fell to 3.5% of GDP from 5.6% in 2000, as retained imports declined by 8.2%. The decrease in imports of retained goods was manifested in all categories. Imports of consumer goods contracted by 3.6%, in contrast to an average growth of 10.3% over the last eight years, principally due to a reduction of 23.9% in motor vehicle imports. The 8% reduction in imports of capital goods resulted from a 7.8% decline in machinery imports. Intermediate goods were lower by 12.6%, in contrast to an increase of 11.8% in 2000, mainly on account of a decrease in imports of construction materials and a contraction in fuel imports. Construction materials



fell by 27.5% while fuel imports declined by 9.4% as a result of falling oil prices over the year.

Domestic exports slumped by an estimated 7% during 2001, the second consecutive yearly fall. With the exception of food and beverages, all other categories decreased. Sugar export receipts contracted for the second successive year, by 15.7% to $44 million, as a result of lower sugar production and a depreciation in the value of the euro against the dollar in the first half of the year. Sales of electronic components were down by 14.1%, for the second year in succession, whilst exports of chemicals fell by 8.8%, the second consecutive year of decline. However, exports of food and beverages grew by 19.0%, the first increase since 1995. This improved outturn was mainly attributed to a 47% surge in rum exports.

Net foreign receipts from services marginally rose by 0.3%, owing to a 2.4% decline in travel credits. This contrasts with growth of 5.6% in revenue from services and an expansion in travel credits of 5.3% a year earlier. Net transportation outflows were lower because of reduced freight payments to non-residents due to the falloff in import demand, and net income outflows were higher as a result of rising foreign interest payments.

Capital and Financial Account Developments

The capital and financial account recorded an estimated surplus of $488.1 million in 2001, compared with a surplus of $647.1 million in 2000, on account of lower net long-term private sector inflows and negligible short-term inflows. Net long-term private sector inflows, which were principally for hotel-related projects amounted to $186.7 million, compared with $311.4 million in 2000. On the strength of the proceeds from an international bond issue of $300 million and project funds of $77.0 million, net long-term public sector capital and financial inflows were estimated at $331.3 million, up from the $246.1 million registered a year earlier.

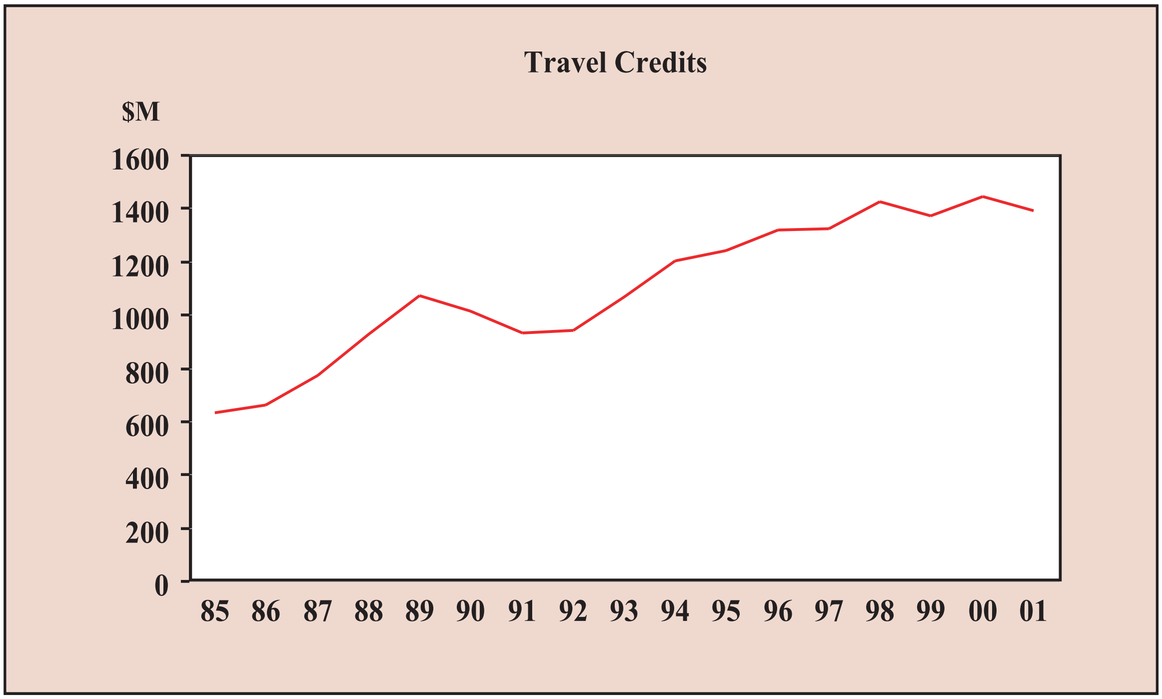
Foreign Debt Service

In 2001, Barbados made $152.6 million in foreign debt service payments, representing 6% of exports of goods and non-factor services. These outlays were approximately $3 million higher than in 2000, when the debt service ratio amounted to 5.8% of exports of

Balance of Payments
($ Millions)

	1998	1999	2000	2001P
Current Account	-124.9	-294.9	-290.0	**-180.6**
Merchandise Trade Balance	-1,301.1	-1,428.4	-1,487.9	**-1,387.2**
Total Credits	540.2	550.4	572.6	**382.2**
Exports BOP	433.2	438.9	454.3	**263.5**
Total Debits	1,841.3	1,978.8	2,060.5	**1,769.4**
Imports (BOP)	1,837.8	1,976.2	2,059.3	**1,758.7**
Domestic Exports	390.7	394.9	379.2	**352.7**
Retained Imports	1,931.8	2,083.6	2,146.7	**1,971.2**
Services (Net)	1,182.8	1,142.2	1,205.7	**1,209.5**
Of which Travel Credits	1,423.8	1,373.6	1445.9	**1,411.8**
Income (Net)	-112.1	-142.8	,-164.6	**-170.5**
Current Transfers (Net)	105.5	134.1	156.8	**167.6**
Capital and Financial Account	48.2	275.4	648.9	**488.1**
Errors and Omissions	2.2	130.5	42.7	**147**
Overall Surplus (+)/ Deficit (-)	-74.5	111.0	401.6	**454.4**
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)	74.5	-111.0	-401.6	**-454.4**
Adjusted by commercial banks' position (Net)	-63.3	37.2	45.6	**7.8**
Change in Net International Reserves (NIR) (IMF basis) (-increase/+decrease)	11.2	-73.8	-356.0	**-446.5**

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

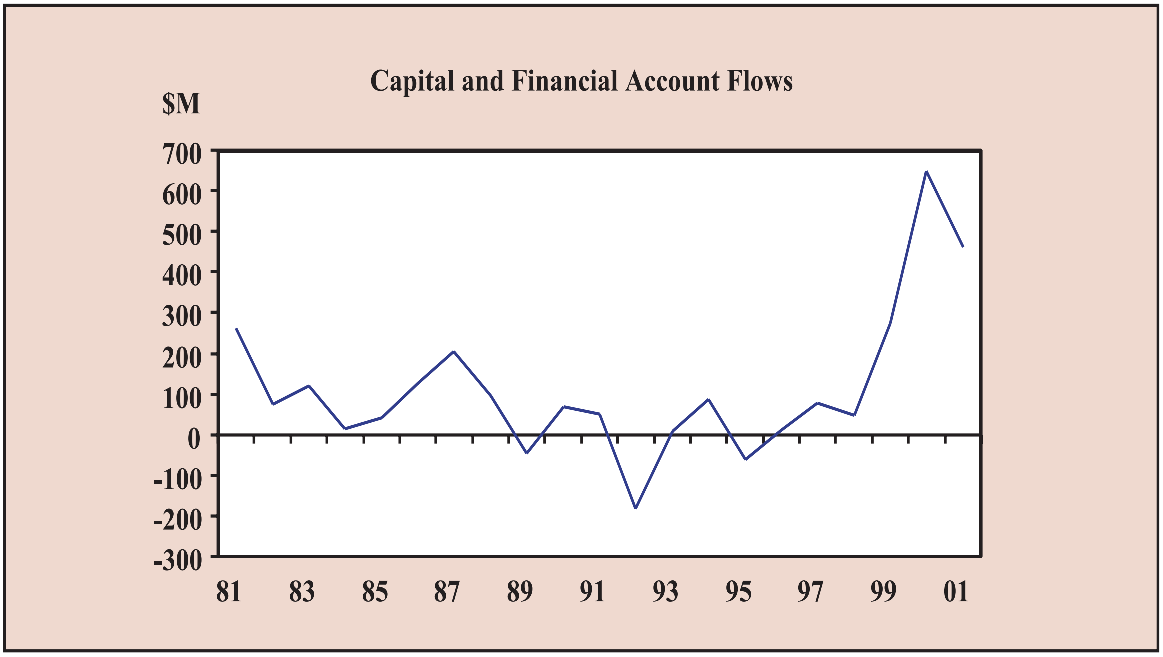


goods and non-factor services. The rise in debt service payments resulted from increased foreign interest outlays, which grew by $13.7 million to $97.6 million, due to an expansion in central Government's debt. The growth in foreign interest payments was, however, tempered by a fall in amortisation expenditure, which contracted by $10.8 million to $55.0 million, largely because of a $16.6 million reduction in government guaranteed debt payments.

Direction of Trade

In 2001, while exports to the regional and extra-regional economies declined, the fall in the value of goods purchased from abroad was much steeper. Imports from the US were down by an estimated 7.1% or $67 million, compared to growth of 6.5% in 2000 and an average annual increase of 11% over the last four years. Those sub-categories recording the most significant decreases were imports of electronic components, construction materials and machinery, which contracted by 17.7%, 28.2% and 7.8%, respectively. During 2001, Canadian imports declined by 16.8% or $16 million, in contrast to an expansion of 4.4% in 2000 and an average increase of 7.2% over the last three years. This fall occurred principally because food and beverage imports fell by 7.7% and machinery imports contracted steeply by 53.8%. Imports from the UK decreased by an estimated 8% or $15.0 million over the year, mainly due to a reduction of 52% ($6.2 million) in motor vehicle imports and a decline in furniture imports by 26% ($2.3 million). Imports from Japan, contracted by a further 25.8% in 2001, after decreasing by 28.3% one year earlier, largely because imports of motor vehicles slid by 22.4% or $13.8 million and machinery imports fell by 24.8% or $10.2 million.

Imports from Caricom plummeted by 6.7% or $29.9 million in 2001, in contrast to a rise of 17% in 2000 and 16.7% over the last four years. Imports from Trinidad and Tobago fell by $31.7 million or 8.3% in 2001, the first decrease since the 1.4% contraction registered in 1992. Refined fuel imports were the major contributors to this slump, declining by 10.8% or $26.9 million because of a significant reduction in oil prices over the year. Imports from the OECS decreased by 3.7% or $1.1 million over the review period, compared to growth of 16.4% in 2000. In contrast, Guyana's exports to Barbados grew for the fourth straight year, by $2.5 million or 14.2%, an improvement over the 3.4% expansion of 2000, principally on account of an increase of 50.4% or $3.1 million in food and beverage imports and 14.8% or $1 million in wood and lumber imports. Goods imported



from Jamaica remained steady in 2001, after a decline of 14% a year earlier.

Exports to the US fell for the second successive year, by 13.9% or $10.1 million, with the major decreases occurring in electronic components and medical appliances. Food and beverage exports, which surged by 58.7%, were mainly responsible for the 32.4% or approximately $2.9 million rise in exports to Canada. Exports to the United Kingdom decreased by 8.2%, following a decline of 10.3% in 2000, which reflected contractions in exports of food and beverages by 10.4% and electronics exports by 41.4%.

Domestic exports to Caricom declined by 10.8% or $20.5 million over the review period, compared to a marginal fall of 1.4% in 2000. The contraction resulted from a 10% or $1.3 million reduction in exports to Guyana, principally because of a 17% or $1 million decrease in food and beverage exports. Exports to Jamaica declined marginally over the review period, but sales of Barbadian manufactured goods to Trinidad contracted by 20.1% or $12.1 million, in contrast to the average annual expansion of 26% over the last three years, largely due to falling crude oil output in Barbados, which is sent to Trinidad for refinement. Exports to the OECS also decreased by 9.5% or $7.2 million in 2001, after a reduction of 7.3% experienced in 2000.

Regional Economic Developments

Overview

Developments within the region during the first nine months of the year were undoubtedly affected by the global economic slowdown and to a lesser extent, the events of September 11. Consequently, real output is estimated to have slowed across the Caribbean. Several countries recorded decreases in long-stay arrivals and in some countries where there was growth, the outcome was dampened by extraordinary declines in September. Like Barbados, cruise tourism still managed to increase in some countries. Other indicators were mixed, as agricultural output varied, inflation remained on a largely downward trend and fiscal balances fluctuated. The region also reported some losses in reserves and depreciations were recorded in two of the three floating exchange rate economies. Rising liquidity characterised regional banking systems, and interest rates were generally on a declining trend.

Tourism

Available statistics for the first nine months of 2001 indicated that in the OECS arrivals were down by approximately 2.1%, after an increase of 1.2% in 2000. Despite the uncertain economic climate in the world economies, visitor arrivals to Jamaica fell by only 0.3%, in contrast to an expansion of 6% in the corresponding January to September period a year earlier. The Bahamas and Belize, however, managed to record some growth, rising by 2.7% and 0.9%, respectively. Data for non-Caricom states also suggest declining tourist arrivals. In Bermuda, the number of visitors for the nine month period contracted by approximately 11.9%, and in the Dominican Republic, one of the region's largest destinations, arrivals were down by 2.2% in contrast to an increase of 14.1% in the corresponding period a year ago. Arrivals to St. Maarten and Aruba also decreased, falling by approximately 1.7% and 2.3%, respectively. Some of those destinations that managed to record an expansion were Turks and Caicos which increased by 12.5% and the US Virgin Islands by 0.6%.

Available data on visitors originating from the US indicate that while some countries did experience growth, it was at a much reduced rate when compared to a similar period last year. Arrivals out of Canada, however, were largely on the decline, with Aruba, St. Maarten and Bermuda posting declines of 7%, 4.8% and 5.4%, respectively. Broad-based decreases were also registered out of the European market. Some of the more significant contractions were in Jamaica (8.3%), St. Maarten (17.9%), Bermuda (17.5%), and Aruba (7.5%).

Cruise tourism fared somewhat better in the nine-month period, in spite of significant fall-offs in September. Cruise passenger arrivals to St. Kitts and Nevis and Antigua and Barbuda improved by approximately 36.2% and 26.2%, respectively, followed by the US Virgin Islands with an increase of 17.7% and Jamaica, 7.8%. Conversely, cruise arrivals to Bermuda and Grenada contracted by an estimated 12.7% and 36.6%, respectively.

Agriculture

Agricultural output in Jamaica benefited from favourable weather conditions and an expansion in the area under cultivation. This was particularly noticeable in the non-export agricultural sector. The livestock and fishing industry also showed signs of improvement, particularly in the third quarter, as this sector gained from continued investment in the poultry and aquaculture industries. In the export agricultural sector, banana production increased by an estimated 18.1%, while sugar production fell by approximately 7%. In Trinidad and Tobago, sugar production contracted by approximately 37.3% to 69,600 tonnes, due to industrial action and the closure of one sugar factory. Sugar output in Guyana declined by approximately 11.5% to 174,400 tonnes in the nine-month period, reflecting a reduced harvesting period owing to heavy rain and lower yields. These excessively wet conditions also adversely affected rice production, which contracted by approximately 14.4% after an expansion of 6.6% in the corresponding period a year earlier. The banana industry in the OECS continued to struggle, and at the end of September, a decrease of 39.5% was recorded. Sugar production however, was 24.6% higher at around 22,490 tonnes. Output of nutmeg and mace also increased by 55.8% to 3,514 tonnes and 1.2% to 165 tonnes, respectively during the review period.

Minerals

In Jamaica, the re-opening of the Gramercy plant in late 2000, which utilises approximately 60% of the country's crude bauxite, spurred growth in the bauxite and alumina industries. Activity in these sectors was also facilitated by improvements in efficiency and investments in production capacity. Consequently, bauxite production almost doubled in the first nine months to reach approximately 2.8 million tonnes, while output of alumina increased by 4.3%. In Guyana, bauxite production contracted by an estimated 32.9% partly reflecting an uncertain power supply and the flooding of some mines. Gold output was approximately 8.2% higher, due in part to higher yielding ore, and improved efficiency at the Omai gold mine. In Trinidad and Tobago, production of crude oil fell by a further 7.3% to just over 30.5 million tonnes, as a result of a slowdown in oil exploration. This follows a 3.4% reduction in the corresponding period a year earlier. Production of petrochemicals however, increased. Output of natural gas liquids went up by an estimated 8.5% mainly because of greater demand by the country's ammonia industry, while production of fertilizers expanded by 35.1% reversing the 23.4% decline a year earlier. Methanol output grew by 8.1% following a 7.2% rise in the corresponding period of 2000.

Tourist Arrivals
(January to September)
% Change on a Year Earlier

	Stay - Over Visitors	
	2000	2001P
OECS	1.2	-2.1
Bermuda	- 5.9	11.9
Bahamas	5.0	2.7
Belize	11.2	0.9
US Virgin Islands	11.5	0.6
Jamaica	6.0	0.3
St. Maarten	- 8.5	-1.7
Barbados	6.1	-4.9
Turks and Caicos	33.3	12.5
Aruba	8.4	-2.3
Dominican Republic	14.1	-7.7

Source: Caribbean Tourism Organisation
P: Provisional

Cruise Arrivals
(January to September)
% Change on a Year Earlier

	Cruise Visitors	
	2000	2001 P
OECS	11.3	2.6
Bermuda	3.4	-14.23
Bahamas	30.4	-14.42
US Virgin Islands	17.3	17.66
Jamaica	21.3	-2.5
Barbados	18.7	7.6

Source: Caribbean Tourism Organisation
P: Provisional

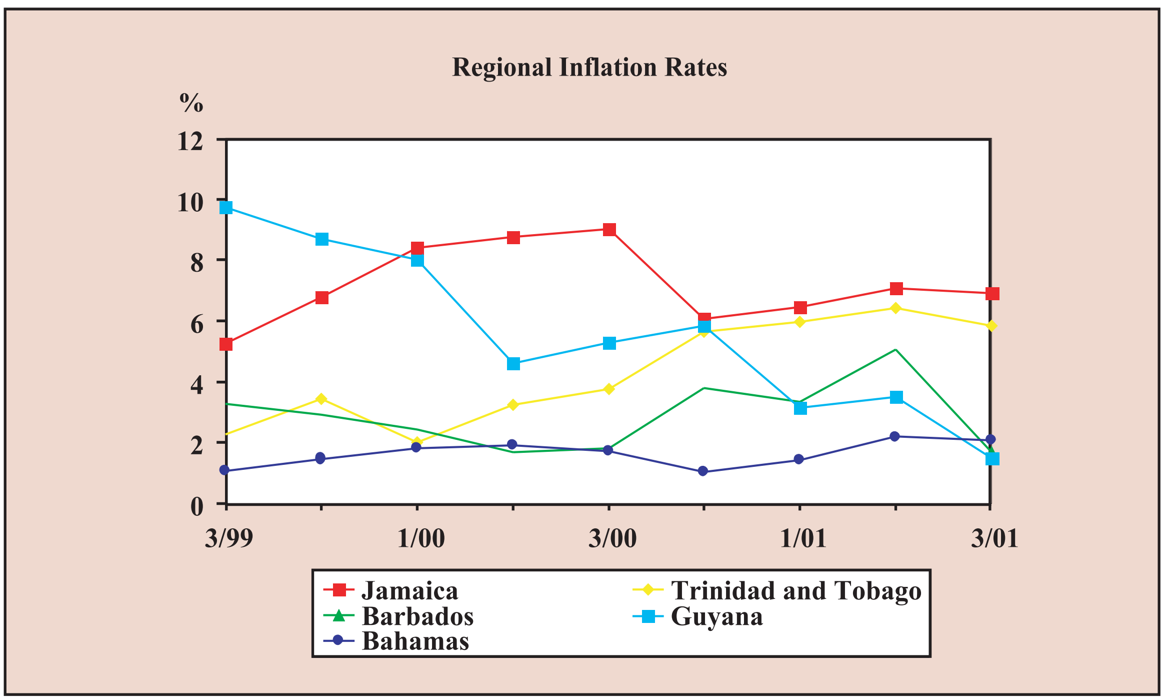
Inflation

Regional inflation rates, measured on a point-to-point basis were generally lower at the end of September 2001 compared to the similar period of last year. In Guyana, prices rose by 1.5% in comparison to 5.3% at the end of September 2000, as increases in the housing and clothing sectors were partially offset by a decline in the food sector. Inflation in Jamaica was estimated at 6.9%, down from 9% a year earlier. The food and drink category registered the largest expansion in the index, reflecting greater costs for ground provisions and greater duties on agricultural imports. The social unrest in July would have also contributed to the inflation outturn, as market vendors tried to recover losses in the following months. In Trinidad and Tobago, the general price level went up by 5.8%, reflecting heightened prices for food, drink and tobacco, as well as household supplies and services. Inflation rates in the Bahamas increased by 2.1% compared to 1.5% a year earlier. Higher prices for food and beverages, and transportation and communication were primarily responsible for this outcome. Most of the OECS territories also recorded price increases. These ranged from a low of 1.3% in St. Vincent and the Grenadines to a high of 4.3% in St. Lucia. Anguilla was the only territory to register a decline in prices.

Commercial Banking Sector

One of the main features of the banking system in Guyana was a build up in liquidity. Although deposit growth was relatively slow at 2.2% during the first nine months of the year, total loans and advances contracted for the second consecutive nine-month period. Total credit fell by an estimated 4.2%, primarily reflecting reduced lending to business enterprises, private individuals and other financial institutions. Growth in deposits was spurred almost entirely by individuals, which grew by approximately 8.8%.

In Jamaica, liquidity remained relatively high in the first six months of the year, but tightened marginally during the third quarter with increased lending being recorded for agriculture, manufacturing, tourism, transportation and the personal sector. The rise in credit may partially reflect declining lending rates, which have been evident over the past two years. This development has been attributed in part to improved efficiency of the commercial banks, reductions in the cash reserve ratio, and a decline in



cash reserve ratio, and a decline in government's borrowing on the domestic market. In the third quarter, the main policy change was a one percentage point reduction in the cash reserve requirement as the Bank continued to maintain a stable financial system primarily through the management of base money, which declined by approximately 2.2% during the third quarter of the year, in line with a targeted fall of 2.3%.

In Trinidad and Tobago lending rates decreased, due to the lowering of the reserve requirement ratio by 3 percentage points to 18% and deposit rates varied over the nine month period in response to fluctuating liquidity conditions. At the end of the third quarter, the ordinary savings rate was 4.75%, up from 2.75% at the end of December, while the prime-lending rate fell by one percentage point to 15.5%.

Like the rest of the English-speaking Caribbean, rising liquidity was also a feature of the commercial banking sector in the OECS. Credit to the private sector was relatively sluggish, rising by a mere 1.9% compared to 7.9% a year earlier. Deposit growth however, accelerated, rising by 5.6% following the 5.3% increase at September 2000.

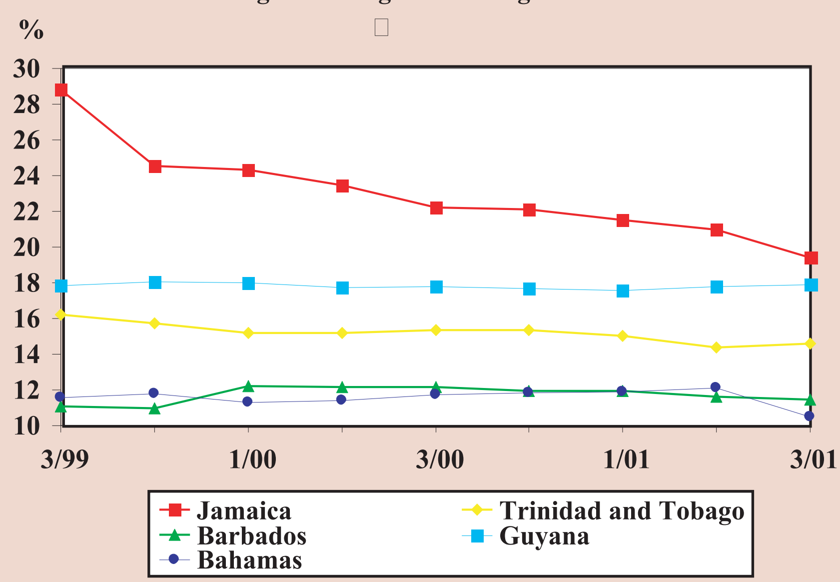
Exchange Rates

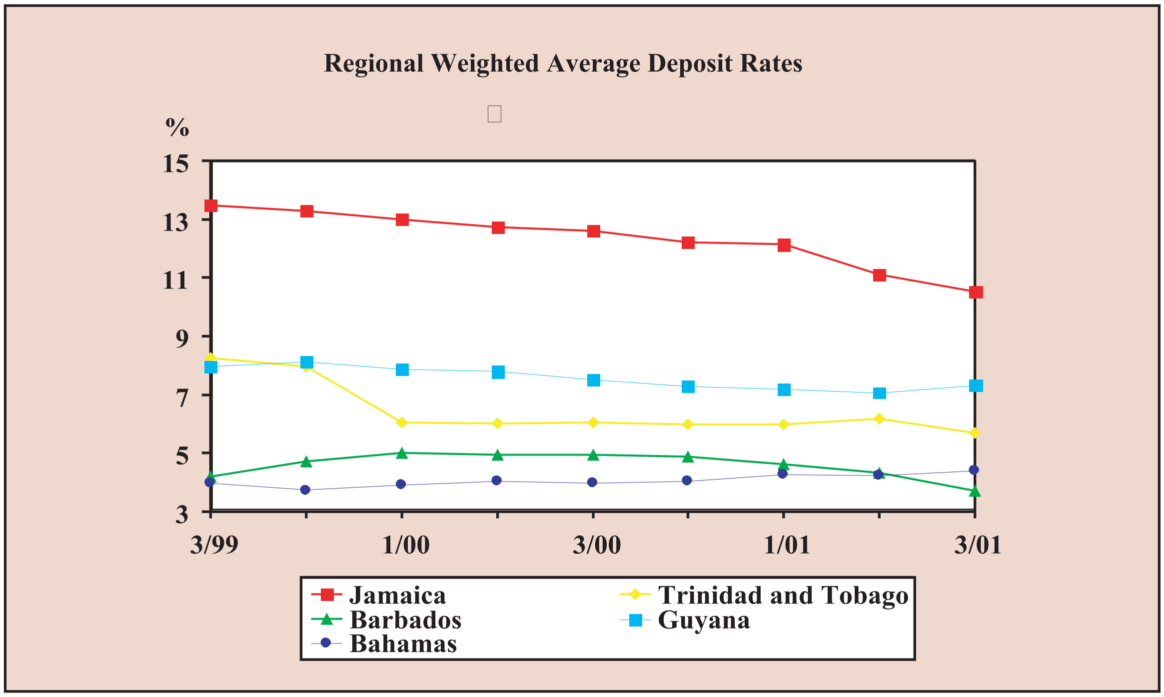
Intervention in the foreign exchange market by the Bank of Jamaica prevented a bigger depreciation in the Jamaican dollar. At the end of the third quarter, the exchange rate depreciated by 2.5% to J$45.94 per US$1 when compared to the corresponding quarter a year ago. This move was taken in part as a response to the issuance of two US dollar denominated bonds on the market, as well as the increased demand in light of the attacks on the US. The Guyanese dollar also depreciated by 3.8% during the period to trade at G$189.3 per US$1. In contrast, the Trinidad and Tobago dollar appreciated by 2.6% to trade at TT$6.11 per US$1.

Public Sector

Available data for the countries of the OECS indicate a pattern of falling revenues, especially on goods and services, rising current spending, particularly on wages and salaries, and a reduction in capital expenditure. Government operations in St. Lucia resulted in an overall deficit of approximately US$9.1 million, a minor improvement over the US$9.8 million deficit of the corresponding period a year earlier. This outturn was the result of lower capital expenditure, as current revenue contracted and recurrent spending

Regional Weighted Average Loan Rates





increased. Those categories of revenue which recorded the largest declines were consumption duties on domestic goods, import duties, service charges on international transactions and non-tax revenue. Growth in recurrent expenditure reflected expansions in wages and salaries, as well as greater transfers and subsidies which can be attributed in part to higher pensions, and more domestic and external interest payments. Financing for these operations came mainly from the Eastern Caribbean Central Bank as well as other domestic sources. In Grenada, the size of the deficit more than tripled to reach nearly US$25.9 million. Declines in revenue, in particular taxes on international trade and non-tax revenue, coupled with higher outlays in all categories of current expenditure and a significant rise in capital expenditure were responsible for the outcome. This deficit was funded primarily from external sources.

For the second consecutive January to September period, Dominica recorded a deficit on its current account. While this balance was greater than in the same period of 2000, smaller capital spending reduced the overall balance to US$13.7 million compared to US$6.5 million last year. Like the other two OECS territories, Dominica experienced a decline in revenue collections. In particular lower intakes of personal, corporate consumption and import duties were recorded. There was also a modest increase in current expenditure on account of greater personal emoluments. Financing was split almost evenly between domestic and foreign sources.

Government operations in Jamaica resulted in a surplus of US$113.3 million, an improvement over the US$5.4 million recorded at end-September in the previous year. The most significant expansions in revenue came from personal income taxes, corporation taxes and most of the levies under production and consumption taxes. These include local stamp duties, education taxes and the special consumption taxes. General consumption taxes on international trade also contributed to the rise in revenues. Growth in current spending especially on wages and salaries, was partially negated by a fall in capital spending. Fiscal operations in the Bahamas led to a modest overall deficit of US$1.5 million compared to US$15.9 million, while in Guyana, a current account deficit of US$5.2 million was recorded, in contrast to a surplus in the previous nine-month period.

Foreign Sector Developments

At the end of September 2001, the NIR of the Bank of Jamaica was approximately US$1,536.7 million, representing 27.1 weeks of imports. This compares favourably with the US$935.3 registered a year earlier, and may be partly attributed to the raising of US$400 million on the international capital market. Reserve increases were also recorded for Trinidad and Tobago and at the end of the third quarter, the stock of reserves totalled US$1840 million, compared to $1364.4 million in 2000. This is reflective of an improvement in the current account as substantial capital outflows occurred earlier in the year. Reserve losses were however, experienced in the Bahamas. At the end of September, the stock of net foreign reserves amounted to US$306.2 million, down from US$401.5 million a year ago, and is primarily the result of a deteriorating current account balance. Decreases in the net reserves of Belize and Guyana were more modest, down by US$4.5 million and US$2.2million, respectively. Their stocks at the end of the third quarter were US$71.1 million and US$162.9 million.

International Economic Developments

Overview

There were a number of international developments in 2001 that profoundly affected the world economy, with the September 11 terrorist attacks and the resulting US war on terrorism in Afghanistan probably having the greatest impact. The year was also a crucial one for the globalisation movement, as a World Trade Organisation (WTO) ministerial conference was successfully held in Doha, Qatar after the Summit of the Americas in Quebec City and the G8 Summit in Genoa were both marred by violence.

Growth in the world economy slowed from previously robust levels to an estimated 2.4% in 2001 (IMF estimates), as spillover effects from a US slowdown were felt in Canada, Latin America, Europe and Asia. Furthermore, it is estimated that growth in world merchandise trade slowed to 2% in volume terms (WTO estimates) compared with 12% in 2000. This lower level of economic activity was also reflected in the financial markets, with the world stock market index falling by 18.4% in dollar terms from its 2000 figure. Most central banks responded to these developments with aggressive interest rate cuts, as declining prices for oil and other commodities kept inflation rates in check.

North America

US economic growth tapered off in the first half of 2001, following the implosion of the technology stock bubble in 2000, which caused cutbacks in business investment and, by extension, a reduction in industrial production. Although the economy looked poised to recover mid-way through the third quarter, it contracted in the second half, as previously buoyant consumer demand faltered in the aftermath of the September terrorist attacks. This fall-off in demand drove industrial output even lower, reducing total growth for the year from 4.1% in 2000 to a meagre 1.1% in 2001, and pushing the unemployment rate up to 5.8% at year-end from 4.0% at the end of 2000. With economic activity slowing, the consumer price index increased by 1.6% compared to a 3.4% rise a year ago, thus providing the authorities with considerable scope for monetary intervention. The Federal Reserve Board cut interest rates a total of eleven times during the year, causing the federal funds rate to drop to a low of 1.75% at year-end. This easing of monetary policy was accompanied by expansionary fiscal policy, whereby various tax cuts and rebates were legislated, and US$40 billion was channelled from the budget surplus to the post-September 11th emergency spending package.

Canada experienced an outturn similar to that of the US economy: GDP grew marginally over the first two quarters, then contracted in the last two to record total growth of 1.5% for the year, compared with 4.4% in 2000. This was mainly due to declining US and world demand for Canadian exports, which fell by an estimated 2.7% in contrast to an expansion of 7.6% last year. The slowdown in the economy translated into an increase in the unemployment rate from 6.8% in 2000 to 8.0% in 2001. In response, the Bank of Canada cut interest rates ten times, bringing its benchmark overnight bank rate down to 2.5% at the end of the year. No new fiscal measures were introduced during the year, but on January 1, 2001, federal tax cuts came into effect as part of the Government's $100-billion Five-Year Tax Reduction Plan established in 2000.

Europe

Real economic activity in the Euro-zone continued to slow in 2001, with output growing by only 1.5% following an increase of 3.4% in 2000. Germany, usually the driving force behind the European economy, recorded GDP growth of just 0.7% over the year, compared to 3.0% in 2000, as output contracted in the second half of the year. France, Italy and Spain, the other large economies in the group, grew by 2.0%, 1.8% and 2.7%, respectively, down from 3.4%, 2.9% and 4.1% in 2000. Nevertheless, the Euro-zone unemployment rate remained unchanged from December 2000 at 8.5%.

The *Euro* declined by nearly 6.0% against the US dollar during 2001. In fact, on December 31, 2001, the eve of its physical entry into circulation, it was valued at less than 90 US cents. Its persistent weakness reflected in part the markets' low expectations for growth in the euro area, as well as their disapproval of the European Central Bank's (ECB) apparent reluctance to follow other central banks' lead and ease monetary policy given low world demand. Indeed, interest rates last fell on November 8th to 3.25%, only the fourth rate cut for the year, as the Bank focussed more on preparing for the Euro's introduction by containing inflation, which fell from 2.6% in 2000 to 2.1% in 2001, well under the target of 2.5%. European governments' capacity to stimulate demand via expansionary fiscal policy was limited, due to the constraints of the Stability and Growth Pact framework.

The Bank of England moved more aggressively than the ECB with respect to monetary policy, reducing interest rates seven times during the year to bring the rate down to a low of 4.0% from 6.0% at the end of 2000. These rate cuts helped stimulate demand, especially in the housing market, which countered the effects of an outbreak of foot-and-mouth disease in the first half of the year, as well as the general slowing in the world economy. This led to the UK recording 2.4% growth in GDP for the year, the highest rate among the G7 countries.

Asia

The slump in global demand, and the sharp drop in business investment in particular, adversely affected all of the Asian economies, whose exports of electronics and other industrial goods have traditionally been the main drivers of economic activity. Asian governments generally responded to this with moderate fiscal stimuli, with many of them running fiscal deficits. Monetary policy was also expansionary with interest rate reductions becoming more pronounced after the September 11 events.

In Japan, GDP contracted by 0.7% in 2001 after growing by 1.5% in 2000, as industrial production fell by 14.9% and the unemployment rate rose to 5.6% in December from 4.7% in December 2000. However, it was Singapore's economy that was most affected by developments in the rest of the world. Industrial production plunged by 21.4% during the year, leading to a GDP contraction of an estimated 3.0%, following growth of 9.9% in 2000.

In Indonesia and China, domestic demand picked up some of the slack, mitigating the effects of low external demand and thus enabling these countries to avoid a recession. Notwithstanding, macroeconomic indicators showed economic activity in these countries slowing in comparison to last year. In Indonesia, for example, a 12.6% rise in prices, along with falling exports, reduced economic growth to an estimated 3.2% from 4.8% in 2000. In fact, Indonesia had the highest inflation in Asia, with the *rupiah*'s 8% decline vis-à-vis the US dollar keeping inflation in double digits for most of the year and dampening consumer spending. Even China, which recorded the fastest growth in Asia, saw real GDP growth slow from 8% in 2000 to 7.3% in 2001 as exports declined on account of low external demand. Nevertheless, the year ended on an optimistic note for trade, with China's accession to the WTO on December 11.

Latin America

Natural disasters, such as the earthquake in El Salvador and Hurricane Michelle's devastation in Honduras and Nicaragua, combined with low world demand and falling prices for oil and other commodities to curtail growth in Latin America. With respect to regional integration efforts, Mercosur struggled to retain its focus in light of the political and economic turmoil in Argentina.

The Argentine economy remained in the grips of recession for the third consecutive year. Real GDP de-

A Summary of Labour Issues Discussed at The Central Bank-Hosted Seminar on Globalisation, Trade and Financial Sector Development

In November 2001, the Central Bank hosted a seminar entitled "Globalisation, Trade and Financial Sector Development: Challenges for Barbados and the Wider Caribbean", aimed at providing the public with a better understanding of these complex issues. It was divided into four sections: trade issues, financial and service sector issues, labour issues, and a panel discussion on the private sector perspective.

The segment on labour market issues was particularly interesting. Extracts of the discussions are reproduced here. To begin, the developments which have defined the process of globalisation were identified. These were the impact of technology, the widespread push towards the liberalisation of trade in goods and services and capital flows, the increasing internationalisation of corporate production and distribution via transnational corporations, and the growing importance of knowledge and information in the production process were at the heart of globalisation. These factors were found to impact on the labour market in several ways.

Firstly, they promote business reorganisation and the introduction of new technology, which have resulted in job destruction or de-skilling in some sectors. In some cases, entire sectors have been wiped out. At the same time there is job creation or re-skilling in other sectors so that it is difficult to predict the overall impact on employment. However, current evidence suggests that there is now an increased demand for skilled labour. The increased demand for workers with a greater degree of cognitive and non-cognitive skills for particular jobs is suggesting that the needs of the workplace are changing, requiring different and more sophisticated skills. Hence, more and more companies are emphasising training for skills development, stimulating the interest of workers in re-training and multi-skilling in recognition of the need to enhance their knowledge of new technology in order to handle the growing demands of the workplace. There is also an increased interest in human resource management, reflecting new importance of the human capital factor.

There is now greater competition in both the domestic and international commodity markets with emphasis on meeting international standards of quality and on reducing the unit cost of production. For example, a number of companies are focusing on improving labour productivity and instituting performance-related pay schemes. There is also a rise in flexible working arrangements, such as just-in-time (contingent) employment, where companies hire workers when they are needed (short-term contracts), rather than employing them permanently. This has implications for the labour movement as well as the operational arrangements with companies. This intensifies the trend towards self-employment and the growth in new technology-based companies, as well as decreasing traditional companies both in the agricultural and manufacturing sectors.

There are also related problems. One is the difficulty of persons moving from one job to another, whether inside or outside the organisation as a result of the rapid technological change, which, in many cases reduces the value of job experience. Therefore persons are now being encouraged to commit to what is sometimes called life-long learning. Simultaneously, there is accelerated human capital migration from developing countries to more developed countries in response to job-switching trends in the developed countries, and the prospect of greater returns for workers in developed countries. Another is increasing concern about labour market regulations, labour standards and collective bargaining due primarily to fears related to job security. As a result there are expanding work-related illness and absenteeism associated with stress and alienation in the work place, as workers have to adapt to a changing, more competitive working environment.

A number of possible strategic responses to these trends were articulated. Firstly, there is a need for more investment in human resource development since human capital is probably the most important factor that has led to increased economic growth. Investing in computer technology like the local EDUTECH programme should be emphasised as well as technical and vocational education. Secondly, management techniques should be improved in order to focus more on productivity, stress management, information technology and participative management styles. In this regard, it is necessary to establish a greater link between pay and productivity. Thirdly, efforts must be made to introduce labour market reforms, such as the establishment of a labour market information system and the development of the social safety net.

The trade union movement has also been pushing certain issues pertaining to labour standards. One is the development of global trade unions where workers in all countries are given similar levels of education, health and other services, to create a level playing field for all countries and thus reduce Barbados' disadvantages from its high cost labour market. Furthermore, until now Barbadian trade unions have concentrated more on market relations, e.g. bargaining for wage and salary increases. However, there is a need for a change of focus, looking at broader, more human-related issues. Finally, there is a need for more training and more directed research on labour market issues in order to equip all concerned to deal with the impact of globalisation.

clined by an estimated 3.8% during the year, making it increasingly difficult for the government to meet debt service obligations, and maintain its zero-deficit policy, as well as its ten-year old currency conversion system, whereby the *peso* was pegged to the dollar at parity. Developments came to a head at the end of the year, as the country exhausted its supply of US dollars. Attempts to stem capital flight by limiting withdrawals from bank accounts fuelled widespread but peaceful protests, which led to the removal of President de la Rua and the formation of an interim government. The new administration subsequently announced its default on Argentina's public debt as well as plans for an "orderly exit" from the convertibility system – a *de facto* devaluation.

The Brazilian *real* was also in crisis, tumbling nearly 25% from 1.95 *reals*/US$ at the end of 2000 to 2.41 *reals*/US$ at December 31, 2001. The depreciation caused prices of dollar-denominated items to rise, sending inflation as measured by the consumer price index up to 7.7% in 2001, more than the 6% target the central bank uses to set its monetary policy, and up from 6.0% a year earlier. These factors combined with monetary tightening and energy rationing to curb consumer spending and led to an estimated growth in real GDP of only 1.7%, down from 4.5% in 2000. The decline in output was reflected in a higher unemployment rate, which went up to 5.6% in December, compared to 4.8% in December 2000.

Mexican GDP contracted slightly by 0.1% in 2001 in contrast to the original 4.5% target and the remarkable 6.9% increase recorded in 2000, due to a decrease in industrial output and falling oil prices. Nevertheless, the government was able to meet its other macroeconomic targets, with the public sector deficit and the current account deficit representing only 0.7% and 3.1% of GDP, respectively. Significant inflows of foreign direct investment contributed to the appreciation of the peso moving from 9.65 *pesos*/US$ to 9.19 *pesos*/US$ over the year, which in turn facilitated a slowing of the inflation rate to 4.4% from 9% in 2000. Interest rates were down, falling to 6.8% at year- end, compared to 17.6% at the end of last year.

In Venezuela, falling oil prices led to a 4.2% decline in output in the oil industry. Consequently, the economy grew by 2.7% in 2001 compared to 3.2% in 2000. The country's international reserves also fell as a result of the low oil prices, contracting by 23.7% over the year. Another factor that contributed to the decrease in reserves was the central bank's attempt to bolster the Bolívar and limit the increase in the cost of dollar-denominated imports through large-scale sales of US dollars during the second half of the year. This move helped reduce inflation, which slowed to 12.3% at year-end from 13.4% a year earlier, but the Bolívar nevertheless depreciated over the year, dropping to 763 Bs./US$ from 700 Bs./US$ at the end of 2000.

Commodity Prices

Commodity prices were generally lower in 2001, with the prices of non-fuel commodities falling by an average of 5.4% from 2000 levels, and fuel prices plunging by nearly 30%. Copper and other metal prices were also hit hard by the resulting slump in demand. Gold prices, which rallied in reaction to the September 11th tragedy and its feared consequences, relinquished most of those gains by mid-November. Nonetheless, gold still continued to fetch a slight risk premium, as prices remained higher than the US$272 per ounce that prevailed the day before the attack. By year-end, silver prices erased all of the gains recorded in the aftermath of September 11. Food prices in general were only slightly lower than in 2000.

Commodity Prices

Commodities	December		% Change
	2000	2001	
All Commodities Index	97.6	**81.9**	-15.7
Non -Fuel Commodities Index	88.4	**83.0**	-5.4
Food	88.4	**87.1**	-1.3
Sugar (EU Import Price, US cents/lb)	24.2	**23.9**	-1.2
Bananas (US cents/lb)	8.0	**9.4**	17.5
Rice (US$/metric ton)	184	**179**	-2.7
Wheat (US$/bushel)	128	**122**	-4.7
Soybeans (US$/metric ton)	218	**188**	-13.8
Metals	83.9	**71.8**	-12.1
Iron Ore (US$/metric ton)	28.8	**30.0**	4.2
Copper (US cents/lb)	84.0	**66.8**	-20.5
Gold (US$/fine ounce)	272.65	**276.50**	1.4
Silver (US cents/ troy ounce)	4.575	**4.520**	-1.2
Petroleum (US$/barrel)	25.31	**18.48**	-27.0

Source: The International Financial Statistics, Kitco International

ECONOMIC OUTLOOK

International Economic Outlook for 2002

The upturn in the world economy that forecasters are predicting for 2002 is largely contingent on a turnaround in the US economy. A number of factors should contribute to such a US recovery, which should gain momentum in the latter half of the year. These include generally lower energy prices, the rebuilding of inventory, the pickup in equity prices, increased levels of consumer and business confidence and the expansionary monetary and fiscal measures put in place in 2001.

The outlook for most of the other developed countries will be similar to that for the US. Economic activity in Canada is expected to turn around starting in the first half of 2002 and gradually gather pace during the year, supported by the expected recovery in the US and the application of monetary and fiscal stimuli in 2001. European economies will grow more slowly than previously expected, due to lower business and consumer confidence and reduced export demand. However, these effects should be tempered by lower inflation (due to lower energy and food prices), which would accommodate further monetary easing. The low value of the Euro should also work in member countries' favour with regards to trade. The Japanese economy, however, is expected to continue to contract in 2002, amid persistent deflation. This outlook reflects low consumer and business confidence, instability in the financial system and a continuing slide in exports, which have been declining since 2000. Nevertheless, a gradual pickup in exports is anticipated in the second half of 2002.

Economic prospects for developing and transition economies are also better than for 2001, although the slowing of developed economies will continue to impact on trade and confidence. Growth in the Asian economies will be particularly affected by the extended downturn in demand for information technology exports, while downward pressure on fuel and non-fuel commodity prices will hamper growth in Latin America, Africa and the Middle East especially. Furthermore, the uncertainty prevailing in world markets will influence international flows of capital, thus impinging on developing countries' ability to access financing.

Summary Projections for Growth

	1999	2000	2001	2002
World	**4.9**	**3.6**	**2.6**	**2.6**
Developed Economies	**3.3**	**3.9**	**1.1**	**0.8**
US	4.1	4.1	1.1	**0.7**
Canada	5.4	4.4	1.4	**0.8**
Euro Area	2.6	3.4	1.5	**1.2**
Japan	0.7	2.2	-0.4	**-1**
Developing Economies	**3.9**	**5.8**	**4**	**4.4**
Africa	2.5	2.8	3.5	**3.5**
Developing Asia	6.2	6.8	5.6	**5.6**
Middle East	3	5.5	4.5	**3.8**
Latin America	0.1	4.1	1	**1.7**

Source: IMF World Economic Outlook

Prospects for the Barbados Economy for 2002

The outcome for 2002 largely depends on the speed of recovery of the world economies, in particular the United States (US), whose outturn hinges greatly on the repercussions of the military action currently being undertaken in Afghanistan. Most analysts are predicting a US recovery by the second half of 2002. If this materialises, it is expected that other developed economies will also gain momentum, and as a result, the Barbadian economy is not likely to register any further decline in 2002. Real value-added in tourism is projected to fall by two percent, about a third of the decline of 2001, as the industry anticipates that it will be some time before air travel returns to normalcy and the global economy recovers. Sugar production is forecasted to contract slightly, due to less acreage under cultivation. However, non-sugar agriculture and fishing, along with manufacturing, are unlikely to decline any further due in part to the introduction of a 60% tariff on selected imported goods and to the buy-local campaign.

The non-traded sectors are expected to register marginal growth, as the construction sector should be boosted by a robust public sector investment programme and proposed private sector ventures. Furthermore, the energy sub-sector is likely to benefit from the improved performance of the construction industry, but the anticipation of a reduction in tourism output should constrain activity in the wholesale and retail sub-sector. With real GDP estimated to hold around last year's level, no major improvement in the unemployment rate is expected during 2002. Inflation is projected to be between 3.0% and 3.5%.

The current account of the balance of payments is forecasted to record a wider deficit than in 2001, primarily because of sluggish growth in commodity export earnings and tourism receipts. This together with significantly lower capital and financial inflows, should limit the accumulation in foreign reserves. Nevertheless, the import reserve cover is expected to remain in excess of 30 weeks.

Government's fiscal deficit is projected to be higher than its 2001 level, on account of an anticipated slowdown in the growth rate of corporation and property taxes. The deficit should be financed primarily from domestic sources as Government is expected to reduce its deposits at the Central Bank. Liquidity in the banking system is projected to contract marginally, as private sector credit improves in light of the anticipated pickup in domestic demand.

ADMINISTRATION

The Board of Directors

There were a few changes in the composition of the Board of Directors in 2001. Dr. Michael McG. Howard and Mr. Patrick Mayers, B.C.H., J.P. were appointed to the Board of Directors with effect from October 1, 2001 replacing Mr. Kenneth Hewitt and Mr. John Simpson, B.C.H., J.P. who resigned from the Board with effect from September 30, 2001.

The Board recorded its gratitude for the contribution of Messrs. Simpson and Hewitt.

The Board also extends a warm welcome to Messrs Howard and Mayers.

The Board met eleven times during 2001.

Management and Staff

With the retirement of Mr. Adrian Clarke, formerly Bank Secretary, at the end of 2000, some of the Secretary's former reponsibilities were grouped under a new Facilities Management Department. Moreover the Exchange Control Department, formerly headed by Mr. Kenneth Brathwaite was merged with the Export Credit Insurance and Guarantees Department into a new Foreign Exchange and Export Credits Department.

Mr. Jefferson Reeves, formerly Director of Export Credit Insurance and Guarantees Department, became Director of the new Foreign Exchange and Export Credits Department. Mr. Rahman Mehter, formerly Deputy Director, Secretariat, was promoted to Director of Facilities Management, and Dr. Sonia Richards, formerly Legal Officer, was promoted to Bank Secretary.

During 2001, several members of staff attained new qualifications or completed additional training.

Miss. Julia Weekes successfully completed the Chartered Financial Analyst programme.

Mr. Alwyn Jordan achieved his Masters degree in Finance and Economics, while Mrs. Yvonne Parris and Mr. Peter Rochester achieved their Masters of Business Administration.

Miss. Jennine Knight achieved the Bachelor's Degree in Linguistics.

Miss. Barbara Daniel achieved the Fellowship of the Canadian Institute of Bankers, while Mrs. Maureen Hoyte achieved the Associate of the Canadian Institute of Bankers. Miss. Angela Skeete and Miss. Margaret Nurse successfully completed the Certificate in Information Technology. Miss. Arlene Mose achieved Certificates in Fundamentals of Management and Fundamentals of Database Management while Miss. Maureen Wiltshire achieved Certificates in Bookkeeping and Accounts and Financial Management. Mrs. Cyrlyn Payne successfully completed the Certificate in Records Management.

The following Security Officers successfully completed the SITO/City and Guilds Certificate: Messrs. Peter Bishop; Mark Blenman; Vasco Boyce; Trevor Callender; Anthony Carter; Hensley Clarke; Ryan Drakes; Roger Jordan; Andrew Layne; Othneil Mason; Edwin McClean; Rodney Smith; Marlon White; Anthony Moore and Victor Mason as well as Mrs. Deborah Griffith.

Staff Movements

Mr. Carlos Holder joined the Bank on June 1, 2001 as Deputy Governor, Research and Supervision, filling the post vacated by Dr. DeLisle Worrell who retired on February 29, 2000.

Miss. Novaline Brewster joined the Bank on March 1, 2001, as Public Affairs Officer, filling the vacancy created by the retirement of Mr. Carl Moore on December 31, 1999. Also joining the permanent establishment of the Bank during the year were: one Economist; one Banking Analyst; five Examiners; one Assistant Examiner; one Analyst/Programmer; one Assistant Analyst/Programmer; six Clerical Officers; six Security Officers; one Messenger/Driver and two Gardeners.

Other officers promoted during the year were; Mr. David Boyce to the post of Deputy Director, Foreign Exchange and Export Credits Department; Mrs. Nicole Alleyne to the post of Exchange Control Officer in the Foreign Exchange and Export Credits

Department; Mr. Winston Moore to the post of Economist in the Research Department; Mrs. Inge Lucas to the post of Exchange Control Officer in the Foreign Exchange and Export Credits Department; Mrs. Juliet Hunte to the post of Credit Officer in the Foreign Exchange and Export Credits Department; Mrs. Arlette King to the post of Senior Administrative Assistant to the Deputy Governor, Research and Supervision; Mr. Pedro Armstrong to the post of Examiner in the Bank Supervision Department; Miss Arlene Mose to the post of Administrative Assistant in the Foreign Exchange and Export Credits Department, and Miss Sherry-Ann Mayers to the post of Statistical Officer in the Research Department.

There were two resignations from the Bank during the year.

At December 31, 2001, the number of established posts was 275 of which 243 were filled by permanent employees and 32 by temporary appointments.

Public Affairs

Sir Winston Scott Memorial Lecture

Futurist and President of Weiner, Edrich, Brown, Inc. Edie Weiner delivered the 26th Sir Winston Scott Memorial Lecture in the Frank Collymore Hall on Monday, November 26, 2001. Her topic was "A View from the Future: An overview of some social, economic, political and technological trends that will shape our future over the next ten years." Her dynamic and provocative presentation was very well received by a large and enthusiastic audience.

University in the Community

Throughout the year, the Bank in conjunction with the University of the West Indies, Cave Hill Campus, hosted monthly public lectures on a number of topics. These included "Barbados and the Monarchy/ Republic Question", "Electronic Commerce for Barbados: Some Reality Checks", "Examining the Issues of Men, Male Marginalisation and Masculinity in the Caribbean" and "The State of Export Manufacturing in Barbados: A Preliminary Assessment".

Secondary Schools' Lecture Series

The Secondary Schools Lecture series "The Economy of Barbados" was very well attended and received. The series, which is designed for Caribbean Examinations Council (CXC) and A' Level students, explored such subjects as: Money, The Role of the Central Bank compared to commercial banks, 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.

In response to a request from schools for more information on the Barbadian currency, the Bank and the Audio Visual Aids Department produced a magazine and a video on local notes and coins. The magazine, which is entitled, "Our Money: A Means of Exchange" and the video "Our Money: A Closer Look" describe the various denominations of our currency as well as its historical and security features.

Seminars

In its ongoing efforts to inform and educate its publics about topical and critical economic and financial issues, the Bank sponsored a series of seminars and lectures. "The Outlook for the World Economy: The Caribbean and Forces Shaping the International Capital Markets", which was done in collaboration with Geoffrey Bell and Company, brought together several local and international economic and financial experts to examine pertinent issues related to international capital markets and the world economy. Topics included: the Challenges for Caribbean Economies; the State of the World Economy and Risks to Growth; how the International Markets view Opportunities and Risks in the Caribbean and South America; Issues effecting the International Capital Markets for the Dollar, Euro and Yen in 2001; the Role of Rating Agencies in the International Capital Markets; and the New Approach to International Banking and Supervision and its Implications

Officials in the Financial Services Sector and some Bank employees were treated to a very provocative and enlightening lecture entitled, "Sending the Herd off the Cliff Edge: How current proposals to improve financial stability are doing the opposite." The lecture by Mr. Avinash Persaud, Managing Director of State Street's Global Trading and Research Division and Visiting Scholar with the International Monetary Fund, was based on an essay which won him the first prize in the Institute of International Finance and Global Finance Essay Competition in 2000.

The issue of globalisation, its potential challenges and opportunities, was also examined in a seminar entitled, "Globalisation, Trade and Financial Sector Development: Challenges for Barbados and the wider Caribbean" at the Sherbourne Conference Centre. Presenters included resource personnel from within the Bank, local and regional private and public sector leaders and university academics.

The Bank also sponsored a special seminar for the media in April. The one-day event entitled "Enhancing and Improving Financial and Economic Reporting" attracted about twenty participants from the print and broadcast media houses, the Government Information Service and students enrolled in the Barbados Community College Mass Communications Programme.

Crop-over Visual Arts Exhibition
For the eighth 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. Nineteen-year-old Rommell Yearwood captured the Purchase Award.

The Frank Collymore Literary Endowment
The Endowment continued to fulfill 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 James Carmichael for his Novella "The Third One" and to Ellen Stanton for her collection of poems, "Opium Advent and Communion."

The Endowment also funded one full scholarship and two partial scholarships to the Creative Writing Workshop held at the University of the West Indies Cave Hill Campus.

OPERATIONS

Accounts Department

The Department continued work on additional computerised modules aimed at enhancing workflow and improving productivity. The new fixed assets module was successfully implemented and enabled the Bank to exercise greater control over the management of its fixed assets and to improve monthly reporting.

Officers from the Department took part in local and overseas training courses to enhance their skills in various areas, including risk management and corporate planning. The Department continued work on the transformation of the cheque clearings from a manual system to an Automated Clearing House (ACH) and officers were trained in this area.

The Department worked closely with its publics to ensure consistency in workflow and provided training where necessary.

Banking and Currency Department

Relationships with Financial Institutions

Excess Liquidity

The average excess cash reserve level of the commercial banks rose consistently during the year, from an average balance of $115.5 million in the first quarter to $157.3 million in the fourth quarter. The high level of liquidity was due to sluggish demand for credit and lower payments for imports, and an increase in deposits arising from private capital inflows.

Loans and Advances

Due to the high levels of excess liquidity in the banking system, there were no advances to commercial banks during the year. In contrast, advances for 2000 were $74.6 million.

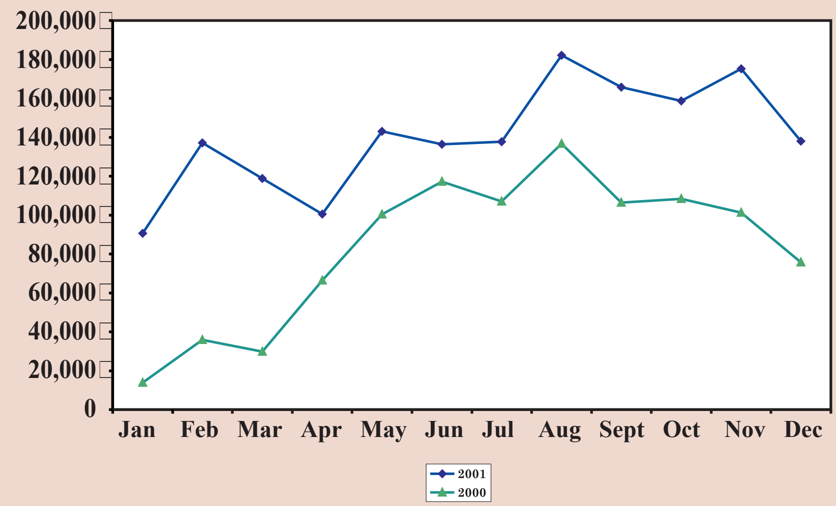
At year-end, $9 million of the $9.5 million facility, which was originally extended to the Barbados Development Bank, remained outstanding as an obligation of Credit Recovery Ltd. (CRL), the successor institution.

Relationships with Government

Treasury Bills

There were twenty-three issues of Treasury Bills during the year with most issues being oversubscribed. The Bank tendered for, and was allotted $20 million during the year, but because of the demand for financial instruments, held these for very short periods, and at year-end held no Treasury Bills.

Summary of Commercial Banks Statement of Excess Cash Reserve Position ($Million)



Average tender rates declined steadily throughout the year, due primarily to the increasing excess liquidity in the banking system. At the beginning of the year the average tender rate was 3.85% p.a. for ninety-one day Treasury Bills, and this rate declined to a low of 1.97% p.a. at the December auction date.

During the year under review, there was very little demand for six-month Treasury Bills. The average tender rate for this security ranged from a high of 3.86% p.a. in January to a low of 2.03% p.a. in December.

Purchases and Sale of Treasury Bills

Purchases from and sales to commercial banks of treasury bills totalled $20.0 million and $19.1million, respectively. At the beginning of the year, the Central Bank held $15.0 million in Treasury Bills; however, at year end the Bank held no bills.

Long Term Securities

Amid a heavy demand for government securities, the Central Bank as Agent for Government, opened for subscription, five issues of Treasury Notes and two issues of Debentures, with a total nominal value of $270 million. All issues were fully subscribed while a total of $90 million in long term government securities matured.

At year-end, the outstanding balance of long-term government securities, including international bond issues, was approximately $2.66 billion compared with $2.1 billion at the end of 2000. The market value of Sinking Fund investments was approximately $261.3 million at November 30, 2001, compared to $220.5 million at the previous year-end. One hundred and seventy transfers of domestic securities took place, representing a turnover of approximately $45.4 million.

Savings Bonds

The Central Bank raised five new issues with a total nominal value of $40 million. One of these issues was to ensure that public servants benefiting from the repayment of the 1992 salary reduction would have an attractive investment instrument available as an option for the use of their funds. These series of bonds had the standard features of other Savings Bonds issues, with the exception that investors could not redeem them within the first year. In 2001 three issues of Savings Bonds with a nominal value of $17.5 million matured and at year-end, the nominal value of Savings Bonds outstanding stood at $120 million in comparison to $97.5 million at December 31, 2000.

Ways and Means

The Ways and Means account fluctuated during the year, peaking at $59.8 million during November 2001 and declining to a zero balance at December 31 2001. Indeed, for most of the year, the Ways and Means account carried a zero balance.

Trading in Foreign Currencies

Non-Regional

There was an overall decline of approximately 11% in the value of sales of non-regional currencies in 2001 compared with 2000. The values of sales of drafts and telegraphic transfers denominated in US dollars and Pounds Sterling dropped by approximately 11 % and 32% respectively. There was a 65% increase in the value of trading in Canadian currency denominated transactions and the value of transactions denominated in Euros doubled when compared to 2000.

Overall, the value of purchases of non-regional currency transactions grew by 20% over 2000. There was a significant expansion in Sterling denominated transactions (30%) while the value of the US dollar denominated transactions rose by 18%. There were also increases in the values of the Euro and Canadian dollar denominated purchases. These rose by approximately 616% and 45%, respectively.

Regional

Sale transactions in regional currencies expanded in value during the year by approximately 46%, primarily due to a significant increase in the value of transactions in the Eastern Caribbean (EC$) dollar. The sale of EC$ denominated transactions increased by $37.32 million, representing a 60% rise over 2000. There was an increase of 29% in transactions denominated in Guyana Dollars (GUY$). The nominal value of the sale of Belizean Dollars (BZE$) increased by approximately 29%.

During 2001, purchases of regional currencies in-

Foreign Currency Transactions
($'000)

	Sales		Purchases	
	2000	2001	2000	2001
Non-Regional				
EURO	716	**1,553**	80	**573**
CAN$	9,810	**16,195**	1,909	**2,776**
STG.	44,972	**30,520**	8,030	**18,524**
US$	310,256	**276,572**	555,909	**655,947**
Sub-Total	365,754	**324,840**	565,928	**677,820**
Regional				
BZE$	427	**549**	2,794	**3,550**
EC$	62,402	**99,706**	67,408	**72,441**
GUY$	21,754	**28,148**	2,054	**2,353**
J$	153	**21**	1,158	**910**
TT$	4,128	**1,227**	8,479	**10,095**
Sub-Total	88,864	**129,651**	81,893	**89,349**
TOTAL	454,618	**454,491**	647,821	**767,169**

Source: Central Bank of Barbados

creased by 9% in value. The values of transactions denominated in BZE$ and Trinidad and Tobago (TT$) dollar increased by approximately 27% and 19%, respectively, and the values of purchases of GUY$ and EC Dollars increased by 14.5% and 7.5% respectively. Trading in foreign currencies reflected a net purchase position of BDS$312.7 million.

Foreign Currency Notes

During the year, a total value of $73.1 million in foreign currency notes was purchased, representing an approximate 1.5% decrease on the 2000 level. Purchases of the Pound Sterling increased by 10% when compared to 2000, and those of Canadian notes were 2% higher than the previous year.

Purchases of US dollars declined by about 8% and redemptions of Deutsche Mark notes dropped by approximately 60%. Redemption of Eastern Caribbean notes also fell, declining by 40%.

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

Currency	Amount Purchased	
	2000	2001
USD	33.0	**30.4**
GBP	33.0	**36.4**
CAN$	4.2	**4.3**
DEM	2.0	**1.2**
Subtotal	72.2	**72.3**
EC$	2.0	**0.8**
Total	74.2	**73.1**

Source: Central Bank of Barbados

Foreign Assets

The Bank's international reserves for 2001 grew by Bds$433.6 million, principally through an injection of funds in mid-December from the net proceeds of Government's BDS$300 million international bond issue.

At the beginning of 2001, the Bank held BDS$181.0 million in foreign deposits. However, in pursuit of income enhancement and yield pickup, the proceeds from the maturing term deposits were invested in bonds. The fixed income securities increased by BDS$207.7 million to BDS$572.3 million, by the end of 2001.

During the year, the programme for benchmarking of investments was finalised and the Bank completed a revised set of investment policy guidelines.

Bank Supervision Department

The Bank Supervision Department increased its conduct of "safety and soundness" inspections during the year, as eight inspections were completed compared to four in the previous year. At the same time, the Department maintained continuous off-site monitoring of the financial sector while initiating a number of new research projects.

The Department continued its quarterly offsite reviews of the financial institutions for which it has regulatory responsibility in order to enable early detection of potential difficulties. In addition, Bank Supervision maintained its level of analysis of the audited financial statements of licensed financial institutions, and continued to meet with the directors of offshore banks as part of its offsite surveillance procedures.

Eight applications for offshore banking licenses were processed during the course of the year and five new licenses were granted. One offshore bank was wound up, and another was in the process of voluntary winding up. By year-end, offshore banks licensed to operate in Barbados totalled 56. There were three applications for domestic licences, one of which was approved, bringing the number of licensed financial institutions under the Financial Institutions Act to 21.

At year-end, the Department had begun to process an application by two major commercial banks to consolidate their Caribbean operations into one bank.

As regulator of Barbados' offshore banks, the Department continued its preparatory work on the International Banking Act that is scheduled for parliamentary passage and for implementation in 2002. This new Act will replace the Offshore Banking Act and will enhance Barbados' compliance in that sector with the Basel Committee's Core Principles for Effective Banking Supervision.

The Department initiated discussions with the Registrar of Co-operatives and the credit union movement on the inspection by the Central Bank of major credit unions.

During the year, the Department also initiated a number of research projects including a review of the proposed New Capital Accord and a study on macro-prudential indicators. The latter study was an integral component of a seminar conducted in Barbados in association with the International Monetary Fund. The Department also provided in-house and external training opportunities for its staff to enable them to undertake their tasks more efficiently and to cope with the increasing number of challenges facing the Department.

A significant focus of the Department's work during 2001 was strengthening of the financial sector's ability to counteract the threat of money laundering. In March, the Department, in association with the Anti-Money Laundering Authority, issued revised Anti-money Laundering Guidelines to the banking sector. The Department, also in association with the Anti-Money Laundering Authority, organised a training seminar on anti-money laundering practices for the banking sector. Late in the year, as part of its preparation for a Mutual Evaluation of Barbados' implementation of anti-money laundering policies by the Caribbean Financial Action Task Force (CFATF), the Department reviewed policies and undertook specialised anti-money laundering inspections of domestic and offshore banks.

The Department continued to interact 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 participated in various conferences hosted by these groups.

Facilities Management Department

Services
During the year, the Central Purchasing System was enhanced by improving sourcing methods and negotiating better prices and delivery times for goods, services and service contracts. The computerisation of the system was started and is due for completion during the first quarter of 2002.

Maintenance
Efforts were re-doubled to ensure that both the internal and external environments remained safe and healthy for staff, tenants and the general public. The Risk and Disaster Management Manual was completed and full implementation is expected in 2002. The Records Centre and Gym were completed with the latter being fully utilised by staff and tenants. Construction of new staff facilities and training rooms commenced and should be completed in early 2002. The Maintenance Section ensured that the staff continued to operate in a conducive work environment as it coordinated the relocation of the Research and Human Resources Departments and the Export Credits Section. It also reconfigured the Accounts, Bank Supervision, Foreign Exchange and Banking Departments.

The Bank's roof was refurbished for the first time since construction and the phased replacement of the fire alarm system was started. Efforts to improve the Bank's preventative maintenance programme was given some impetus as work commenced on the production of a medium to long term Facilities Management Plan.

Security
In 2001 the internal and external monitoring systems were enhanced. Training of Security Officers was also increased as they were exposed to in-house and external training programmes including attachments at the Central Bank of Trinidad and Tobago.

Frank Collymore Hall
The year 2001 was one of transition for the Hall, with the appointment of a new manager. The venue reviewed its operations with a view to redeveloping the services it offered.

To this end, the lighting and sound facilities of the FCH were upgraded with the installation of digitally-oriented sound systems for playback and recording, and the installation of an Ethernet linked network for its stage design and lighting capabilities.

Along with the various operational changes, the FCH played host to several exciting events in 2001. In the performing arts, the FCH's main auditorium was the venue for the *Sandy Lane Gold Cup Festival's* premier event: *Broadway to Barbados*, *Sean Jackson in Concert*, *The NCF's NIFCA Performing Arts Finals* and the extremely popular *The Final Truth.* In the visual arts, the Grande Salle hosted both of the *NCF's National Fine Art Exhibitions*, celebrating Crop Over and Independence, as well as the *Broodhagen Exhibition*.

Foreign Exchange and Export Credits Department

Foreign Exchange
The Central Bank further liberalised exchange controls during the year 2001. On April 1, 2001 additional authority was delegated to commercial banks for the transfer of funds in respect of payments for education outside Barbados and medical treatment overseas.

Further authority was delegated to commercial banks on September 1, 2001 to approve all transactions in respect of payments for the registration of patents, designs and trademarks, entrance and subscription fees for credit and travel cards payable to companies outside Barbados and dividends and profits due to non-resident beneficiaries of Caricom.

In keeping with the commitment of the Government of Barbados to the Caricom Single Market and Economy, further authority was delegated to the Securities Exchange of Barbados to approve the purchase and sale of shares listed with stock exchanges in member states of Caricom up to a value of Bds$3.0 million per transaction.

Export receivables for the year 2001 were Bds$313.9 million as compared with Bds$332.1 million in 2000. Export receivables statutorily due increased from Bds$51.7 million in 2000 to Bds$54.6 million in 2001.

Actual registered inflows of private foreign investment rose significantly during 2001, totalling Bds$126.7 million compared to Bds$69.4 million in 2000. This was mainly due to real estate and equity capital inflows, which increased by Bds$50.3 million and Bds$37.0 million, respectively. Loan capital inflows were Bds$12.9 million.

Export Credits

During the year the facility provided insurance coverage for exports totalling $0.27 million as compared to $0.79 million in 2000. This decline was principally due to a decrease in business in the OECS market and to the fact that no exports to Trinidad or Jamaica were covered under this scheme. Insurance cover for exports to the OECS countries recorded a decline of 55% from the 2000 levels.

The total maximum liability for insurance business underwritten during the year decreased from $2.10 million in 2000 to $0.43 million in 2001. After adjustments for reinstatements, reductions and cancellations, the total maximum liability at year-end stood at $0.34 million compared to $1.69 million at the end of 2000.

During 2001 a line of credit totalling $90,000 was made available under the Export Finance Guarantee Scheme for pre-shipment financing purposes. A guarantee amounting to $181,300 was endorsed for post-shipment financing.

No claims were made on export credit insurance policies or export finance guarantees during 2001, and no recoveries in respect of previous years' claims were received.

In 2001, there was no significant change in the number of businesses using the Credit Guarantee Scheme for Small Businesses even though there was a 21% increase in the level of utilization when compared to 2000. Total lines of credit grew from $728,782 to $881,332 during the year. At year-end there were 12 guarantees outstanding with a total maximum liability of $705,066.

There were no Small Business Guarantee claim settlements in 2001.

Barbados Investment Fund

During the financial year ended August 31, 2001 the Barbados Investment Fund approved five new investments totalling $2.2 million. This brought total investments to $12.8 million in 33 projects since the Fund commenced operations in 1992. At year-end the Central Bank's investment in the Fund stood at $12.0 million.

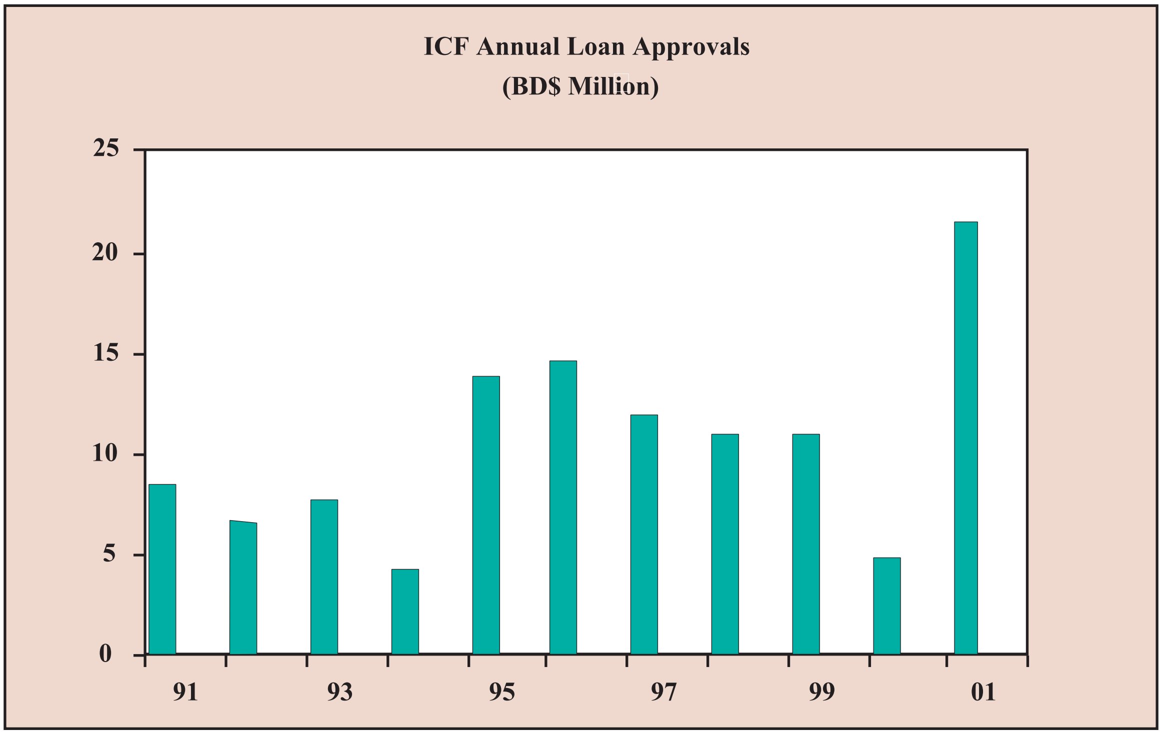
In 2001, the Fund Manager identified a greater number of opportunities for investment. Of the five investments made in 2001 two were in the tourism sector, two in the manufacturing sector, and one in the services sector.

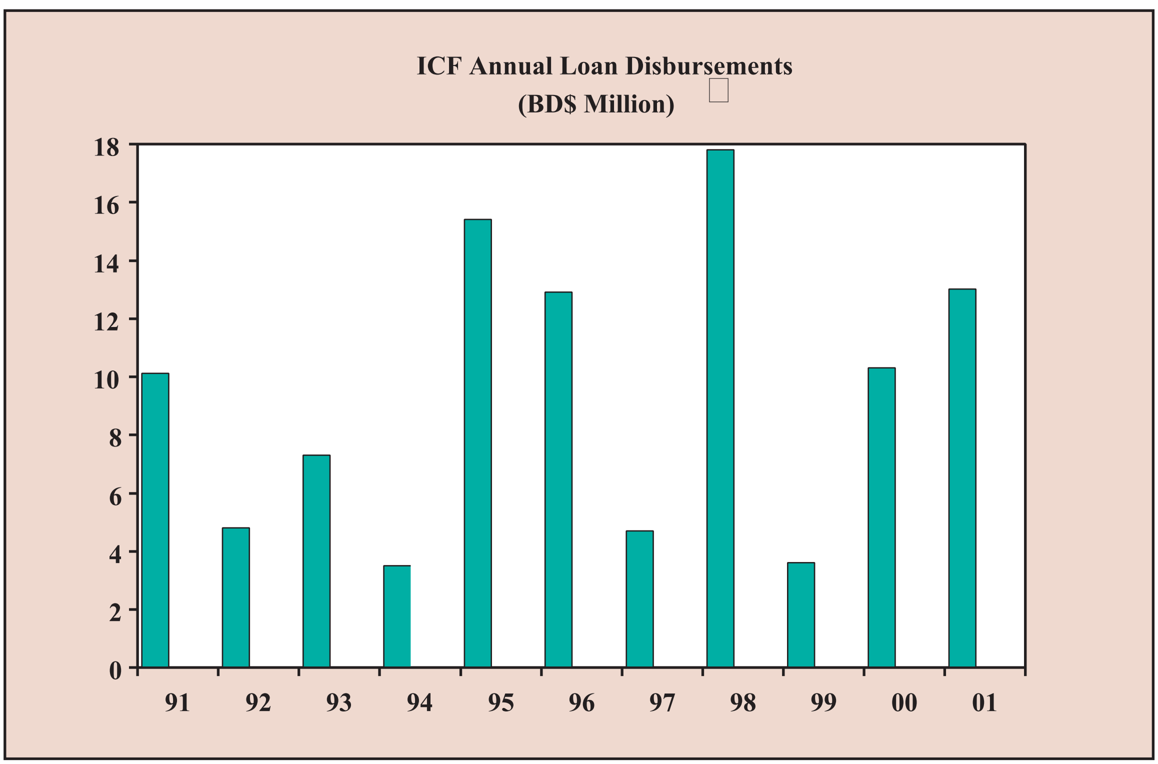
During the year the Fund realised a gain of $95,000 on the sale of one of its investments. The performance of the various investments in the portfolio was closely monitored and wherever practicable project financing was restructured for those investments which have reached maturity.

The Fund reported a surplus of $199,234 for the year ended August 31, 2001, as compared with $240,097 for the previous year. This consisted of a net operating surplus of $104,234 and a gain of $95,000 on the disposal of investments. The Fund continues to meet its operating expenses from operating revenues. The Fund recorded its highest revenues to date ($373,849) from the combination of interest income and corporate bond interest from projects. Operating expenses rose by 48% to $269,614. The increase in operating expenses was due principally to fees incurred for engagement of legal services.

At year-end the Fund conducted an extensive review of its portfolio and decided to write down seven of its investments by $884,489. This provisioning resulted in a net deficit of $685,254 for the year and brought total current provisioning to $1,109,489.

During the year, a review was conducted of the operations of the Fund for the past nine years. Findings


ICF Annual Loan Approvals
(BD$ Million)
25
20
15
10
5
0
91
93
95
97
99
01


ICF Annual Loan Disbursements
(BD$ Million)
18
16
14
12
10
8
6
4
2
0
91
92
93
94
95
96
97
98
99
00
01

showed that the Fund continues to perform a very valuable role in making equity capital available to many small and medium-sized projects. Discussions on the future of the Fund indicated that the Fund should consider broadening its capital structure and diversifying its portfolio to include more service oriented projects and joint ventures with foreign partners.

Industrial Credit Fund

The Industrial Credit Fund (ICF) recorded its highest level of annual loan approvals in 2001 when the value of loan approvals reached Bds$21.5 million. Disbursements also increased significantly over the previous year and were well above the ten-year average for the fund. The ICF was able to achieve these results in spite of high liquidity in the banking sector throughout the year.

The ICF approved fifteen applications totalling $21.5 million compared to seven loan applications totalling $4.8 million in 2000. Cumulative approvals increased to $147.1 million, while new disbursements totalling $13.3 million increased net cumulative disbursements to $135.6 million. Tourism accounted for most ($12.8 million) of the new approvals, while the remainder went to manufacturing ($7.4 million) and agro-industry ($1.3 million). The balance of loans approved but undisbursed stood at $11.6 million at year-end.

Principal repayments received during the year amounted to $13.1 million bringing total cumulative repayments to $102.0 million at December 31, 2001. The overall loan and investment portfolio rose by $13.7 million to $57.6 million at year-end, including $10.0 million invested in the Tourism Loan Fund.

After making provision of $1.2 million for principal and interest on the European Investment Bank loan, the ICF's net worth including a capital contribution of Bds$4 million by the Central Bank, increased to $69.5 million compared to $64.8 million at the end of 2000. Net income has been provisionally estimated at $1.7 million for 2001.

Human Resources Department

During the year, the Human Resources Department focussed on employee development, the improvement of systems and processes to achieve greater efficiency and satisfaction in the delivery of its services. Its programmes of major emphasis during the year centred around conducting performance appraisal interviews more effectively, rewarding strictly on the basis of work performance and/or other significant contribution towards institutional strengthening.

Key Indicators of ICF Operations

($Million)

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

Source: Central Bank of Barbados

P: Provisional

In addition, work was advanced in the design and development of an integrated human resources information management system, and a feasibility study completed to determine the practicability of variable pay increases in the Bank. The Department also successfully hosted the 4th Annual Conference of Human Resource Managers of Central Banks in the Caribbean Region under the theme "Human Resource Management: Creating Win-Win Relationships".

Internal Audit Department

The Internal Audit Department continued to focus on crucial areas of the Bank's operations during the year 2001. New areas reviewed included "Abandoned Property" for the Bank Supervision Department and the Lenel Computerised Security System in the Facilities Management Department. In addition to performing detailed audits and special assignments, the Department continued its consultative role by assigning audit staff on various committees across the Bank.

As part of Internal Audit Week in October, the Internal Audit Department held an Open Day; it sponsored a week-long exhibition in collaboration with the Central Bank of Barbados Library and held a panel discussion on Money Laundering.

Management Information Systems Department

During 2001 the MIS Department continued to concentrate on deploying Lotus Notes and the Internet-based technologies as the main conduit to enable the Central Bank to receive, process and disseminate most of its information electronically. In particular, the Department established a Virtual Private Network, the infrastructure for a system that provides a secure connection between the Central Bank and a computer outside of the Bank. This infrastructure, in addition to accommodating staff working off-site, will allow secure access for our trusted customers, primarily commercial banks, in the use of the Real Time Gross Settlement System (RTGS) and to a lesser extent the Automated Clearing House (ACH). Both systems are scheduled to come on stream in early 2002.

XII^th^ Conference of Regional Central Banks' Information Systems Specialists

During the year, the Bank successful hosted the XII Conference of Regional Central Bank's Information Systems Specialists. The inaugural conference had been held in Barbados in 1990 and all eleven participating countries have hosted one conference. The theme for the one-week conference was "Information Technology – Broadening Horizons for Central Banks". Representatives attended from the English and Dutch speaking Caribbean Central Banks as well as Haiti.

Application, Development and Maintenance (ADM)

During 2001, the MIS Department completed and implemented the following applications: Human Resources Information System, Exchange Rates in Graphical User Interface format, Front Desk Registrations, Registration and Repatriation of Foreign Investment for Foreign Exchange Department, Fixed Assets, and Automation of Pension Cheques. In addition the analysis and research on the Portfolio Investment System was completed and a package selected for implementation in early 2002. The Purchasing System is also close to completion. The Debenture/Treasury Notes System was amended so that it is now a multi-fund system and can support and maintain debentures issued by entities other than the Central Bank, e.g. BIDC, NHC. The Bank's intranet was also launched.

Systems Administration and Technical Support (SATS) Section

The major project for the Systems Administration and Technical Support section in 2001 was the migration to Windows 2000. All PCs and laptops in the Central Bank were migrated from Windows NT to Windows 2000.

Training

The Department embarked on extensive training of the Bank's staff in Windows 2000, Lotus Notes administration, SWIFT and UNIX administration. The Department also produced four issues of its quarterly newsletter PC Headlines for 2001.

Research Department

In 2001, the Bank continued to utilise its key reports and statistical periodicals to inform various publics on economic and financial matters. To this end, the Research Department published the 2000 *Annual Report*, the quarterly *Economic Reviews* of June, Sep tember and December, the *Annual Statistical Digest*, the monthly *Economic and Financial Statistics*, the annual *Balance of Payments of Barbados* and the quarterly *Press Releases* on current and future economic activities.

Work also continued on the Bank's forecasting model with particular emphasis on internal consistency, and substantial progress was made on transferring the model from the Lotus to Excel software programme. In the last quarter of the year, a Financial Programme Committee was established, and work began on a financial programme for Barbados over the period 2002 to 2003. Additionally, the Department provided increased macroeconomic support to various Government ministries, as they sought to tackle the many challenges precipitated by an uncertain world economy.

The Annual Review Seminar, the Department's main tool for training, was again conducted over four days. Participants came from the regional Central Banks, the University of West Indies, the University of the French Antilles, the Ministry of Finance, the Barbados Community College, the Caribbean Development Bank and the Corporate Sector. On the first two days seventeen papers were presented on the seminar theme: "The Development of Small Island Economies in the context of Globalisation", whilst days three and four focussed on a workshop geared towards understanding the modelling of trade issues and a panel discussion jointly hosted with the Barbados Economics Society on the impact of globalisation on various economic agents.

Several other workshops/seminars were organised during the year. First, the Department collaborated with the Bank Supervision Department and the IMF to assess financial stability in the region. This was attended by both local and regional economists, and featured presentations by the Central Bank of Barbados, the Eastern Caribbean Central Bank and the IMF. Secondly, the Department conducted a workshop for the media, which focussed on understanding the linkages and workings of the economy along with the various economic terms used in the Bank's publications. Finally, a Seminar entitled, "Globalisation, Trade and Financial Sector Development: Challenges for Barbados and the Wider Caribbean" was held in the latter half of the year to sensitise the general public to these very important issues.

The Schools' Outreach Programme continued with lectures being delivered to eight schools, the same as in 2000. Towards the end of the year, the programme was revamped to better reflect the CXC syllabus. The focus, however, remained on the economy of Barbados and the role of the Bank in its development.

Interaction among regional and international economists continued via the Internship Programme, which saw three students from the University of the West Indies, one from the University of the French Antilles, Guadeloupe and another from the University of York, UK, being hosted.

The Statistical Section continued to produce all its publications on schedule during the year. Close monitoring of the financial sector ensured that data was supplied and processed on time. In-house training in the compilation of trade data was conducted during the first quarter, and staff learnt techniques for the detailed extraction of this data for analysis. A set of data on social statistics (including health, education and crime) was collected during the third quarter.

By year end all serials title information (title, frequency and bibliographic information) were entered in the librarian's database. This also included the entries of working papers. The photographs project was completed, except for those from the Frank Collymore Hall, and the WebPublisher was installed in INMAGIC. In 2001, the Library established a page on the Bank's Intranet, and was able to display the quarterly press releases on this medium, as well as on the Internet.

The Records Management Unit prepared and drafted policies and procedures manuals, as well as held orientation sessions for Liaison Officers to assist in the completion of plans for transferring records to the Unit. Initial transfer of some records from the offsite facility to the in-house Records management Unit was also accomplished.

Publications by Central Bank Economists during 2001

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

"Can Money Endogeneity be Generalized: Empirical Evidence from Caribbean Economies" by Kevin Greenidge, Roland Craigwell and Darrin Downes, in *International Advances in Economic Research,* Vol. 7, No.2, 2001.

"The Finance-Growth Nexus: A Multivariate Var Analysis of a Small Open Economy" by Roland Craigwell, Darrin Downes and Michael Howard, in *Savings and Development*, No.2, XXV, 2001.

"International Trade and Comparative Advantage in the Caribbean", by Denny Lewis-Bynoe and Allan Webster, in *Journal Eastern Caribbean Studies*, Vol. 26, No. 4, 2001.

"Non Tourism Services in Barbados from 1970-1997" Darrin Downes and Trevor Campbell, *International Advances in Economic Research,* Vol. 8, No.4, 2001.

"Export Specialisation in the Caribbean and its Implications for Trade Negotiations" by Denny Lewis-Bynoe and Allan Webster, in *World Economy*, Vol. 24, No. 6, 2001.

Managing Public Finances in a Small Developing Economy: The Case of Barbados, by Marion Williams, London: Praeger, 2001.

"Unemployment in Barbados: 1980-1996" by Roland Craigwell and Ann-Marie Warner, in *Empirical Studies in Caribbean Economy,* Technical Papers Series, Vol. 5 & 6, 2001.

"Tourism Maturity and Demand" by Kevin Greenidge and Peter Whitehall, in *Empirical Studies in Caribbean Economy,* Technical Papers Series, Vol. 5 & 6, 2001.

"Foreign Reserves Measurement and Balance of Payments Consistency: Three Caribbean Examples" by Daniel Boamah, in *IFC Bulletin*, No. 10, October 2001.

Papers Presented at Conferences during 2001

"Some Monetary Implications For Public Debt Management in The Caribbean", by Kevin Greenidge (with Daniel Boamah), 51st International Atlantic Economic Society Conference, Athens, Greece, March 2001.

"Forecasting Meat Demand in Barbados in Light of Barbados' WTO Commitments", by Roland Craigwell (with Winston Moore), International Symposium in Forecasting, Atlanta, Georgia, USA, June 2001.

"Foreign Direct Investment Inflows and their Impact on Barbados' Current Account", by Trevor Campbell, 48th Conference of the Canadian Economic Association, McGill University, Montreal, Quebec, Canada, June 2001.

"A Var Analysis of Cross-Country Monetary Spillover Effects: The Case of the US and the Caribbean", by Ann-Marie Warner (with Kevin Greenidge), Business & Economic Society International Conference, Paris, France, July 2001.

"A Brief Look at Net Receipts from Current Transfers in Barbados", by Trevor Campbell, 52nd Conference of International Atlantic Economic Society, Philadelphia, Pennsylvania, USA, October, 2001.

" The Measurement of the Tourism sector's contribution to GDP in Barbados", by Denny Lewis in collaboration with the Barbados Statistical Services, Barbados Statistical Services Seminar on October, 2001.

"An Empirical Examination of the Relationship between Commercial Banks and Credit Unions in a Small Open Economy", by Anton Belgrave (with Roland Craigwell and Winston Moore), Caribbean Centre for Monetary Studies Conference, Belize City, Belize, November 2001.

"Human Capital and Economic Growth in Barbados", by Daniel Boamah, Caribbean Centre for Monetary Studies, Belize City, Belize, November 2001.

"The Impact of International Financial Liberalisation on Growth: The Case of CARICOM", by Kevin

Greenidge (with Carlene Belford), Caribbean Centre for Monetary Studies Conference, Belize City, Belize, November 2001.

Central Bank Plans for 2002

Accounts Department

The Accounts Department will continue the process of automation by implementing the Budgeting and Reconciliation modules of its Prophecy Accounting system. These modules will significantly improve the timeliness of data for management decision-making.

A significant change will be the upgrading of the accounting system from batch delayed to on-line real-time. This upgrade will provide for the settlement of transactions on a delivery versus payment basis and establish finality of payment. A major project, the establishment of an Automated Clearing House (ACH) which commenced in 2001 will be completed and will commence '*Live*' transactions in the second quarter of 2002. The ACH will significantly improve the country's financial infrastructure and provide for the timely settlement and clearing of monetary transactions. It is anticipated that the ACH will in time be expanded to include data and statement imaging, and direct debits and credits. The ACH will also be integrated into the Real-Time Gross Settlement System (RTGS), which will be implemented in the second quarter.

With the '*Live*' commencement of the ACH, RTGS and on-line real-time processing, the Bank's accounting, financial and banking environments will be competitive with that of major industrial countries.

Banking and Currency Department

This year the Department will seek to improve its overall level of efficiency by further automation, and also by developing certain key performance indicators to ensure that there is continuous measurement of the level of performance. Specific areas of automation will be the management and operation of the currency inventory system, the computerised accounting for investment portfolios and the RTGS System. This Department will also assist in the development and improvement of the local payment system, seek to earn acceptable returns on the portfolios under its management and review administration of the Savings Bond system in order to make recommendations for changes in legislation to facilitate further computerization of the system.

Bank Supervision Department

The Bank Supervision Department will face several challenges during 2002. With the increase in human resources, the Department intends to expand further the number of on-site inspections it undertakes annually, while coping with the increased off-site demands arising from the growth in the number of licensed institutions. In addition, to keeping abreast of domestic and international financial developments, the Department's staff will seek to expand the Department's programme of research. To facilitate achievement of the Department's goals, formal training of staff will be accelerated and on-the-job training strengthened.

The Department will be actively engaged in the preparation for the Financial Sector Assessment of Barbados on which the International Monetary Fund is expected to conduct initial work. This will involve, *inter alia*, an analysis of Barbados' compliance with international standards in the banking, insurance and securities markets.

The new International Banking Act is expected to come on-stream in 2002. The implementation of this legislation will strengthen the regulatory framework, establish prudential norms in the legislative framework and give the Department the power to conduct onsite inspections of offshore banks without the need to seek the approval of the Court.

The Department will continue to work with the Registrar of Co-operatives and the credit union movement to begin its inspection of major credit unions and will also continue its work on introducing a deposit insurance scheme for Barbados. Implementation of this scheme will require modifications to the Financial Institutions Act. The Department will continue to strengthen regulatory procedures to enable it even more effectively to carry out its mandate and to promote convergence and compliance with the Core Principles of Effective Banking Supervision. It will extend the scope of its work to include the application of consolidated supervision techniques and expects to issue guidelines on Corporate Governance and Abandoned Property outsourcing to licensed entities 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 with regional and international regulatory bodies such as the Basel Committee, the Offshore Group of Bank Supervisors, Association of Banking Supervisory Authorities of Latin America and the Caribbean (ASBA), the Caribbean Financial Action Task Force (CFATF), and the Caribbean Association of Regulators of International Business (CARIB) and the Caribbean Group of Bank Supervisors. In addition, the Bank will continue to work closely with the Financial Intelligence Unit of the Anti-Money Laundering Authority in the fight against money laundering.

Facilities Management Department

During 2002, the Facilities Management Department will concentrate on the gains in 2001, introduce new and more efficient techniques to deliver services and projects on time and within budget.

Services
The Central Purchasing System will be strengthened with the completion of the computerisation process. Sourcing methods will also be further enhanced to take additional advantage of better prices and to improve response times for procurement for goods and services.

Maintenance
The Section will ensure that its preventative maintenance schedules and work orders are handled on a timely basis and the project management process enhanced through the use of the project management and building software. With the aid of the Facilities Management Plan, a medium term schedule for identifying areas for refurbishment, renovation and equipment replacement, will be developed. Close attention will continue to be paid to maintaining a safe and healthy work environment.

Security
During the year increased efforts will be made to improve security at access points as well as in the internal and external environments. Training and development of staff will be enhanced.

Frank Collymore Hall
During the upcoming year the Hall's staff will seek to fully utilise the new technical improvements. In the 2002-2003 season, patrons can look forward to the in-house production of at least two series a year, in the various performing arts disciplines, as FCH continues to play host to the best in local, regional and international art-forms. Additionally, the celebration of the Bank's 30th Anniversary should also see the return of the highly rated *City Nights*.

Public Affairs

On May 2, 2002, the Bank celebrates its 30th Anniversary. To commemorate this diamond birthday, a week of activities has been planned from May 5 - 11. The events include a Church Service, an Anniversary Dinner and Awards Ceremony, a Panel Discussion featuring previous Governors of the Bank, publications of the Bank's history and research papers, City Nights, and a showcase of school steel bands.

In addition, the Bank will continue its regular sponsorship of the University in the Community lectures, the Secondary Schools' lecture series, the Crop-over Visual Arts Exhibition and the work of the Frank Collymore Literary Endowment.

The Sir Winston Scott Memorial Lecture will again be held in November and occasional seminars conducted on matters of topical interest.

Foreign Exchange and Export Credits Department

It is expected that the gradual approach to liberalisation of exchange controls in respect of both regional and extra-regional transactions will continue during the year 2002. The Department will embark on a programme to strengthen its monitoring and intelligence network and improve its analysis and scenario planning. It will increase its use of available technology in the delivery of Exchange Control services.

In an effort to make the public and financial institutions more aware of the procedures for executing foreign exchange transactions, the Foreign Exchange Section will finalise and issue a revised version of its guide on foreign exchange procedures. It will also continue to meet with the staff in the foreign exchange departments of commercial banks to ensure that these procedures are correctly followed.

Export Credits
As Barbados' major industrial sectors strive to remain competitive in an environment of trade liberalisation and globalisation, the Export Credits Section will continue the implementation of its promotional programme to encourage the business and financial communities to make greater use of the Bank's special schemes. There will be continued consultation and collaboration with the representative bodies of the various groups.

Procurement of additional funding for the Industrial Credit Fund will be a major priority. Initiatives will continue in the hope of concluding satisfactory loan agreements by mid-year, and a review of the ICF will be conducted.

The Export Credits unit will continue to work with bank and non-bank financial institutions to make special facilities available to small and medium-sized enterprises. In this regard, much emphasis will be placed on encouraging those enterprises adversely affected by the September 11, 2001 events in the U.S.A. to make full use of the recently introduced Enhanced Credit Guarantee Scheme.

Human Resources Department

For 2002, the Human Resources Department will continue to focus on attracting, cultivating and retaining the right mix of competencies required to sustain the Bank as a corporate leader; on maximising the contribution of the Bank's highly educated and professionally-skilled workforce and on developing reward systems that provide equitable recognition for effective performance.

In addition, the Human Resources Department will also focus on mechanisms to enhance organizational development and renewal.

Internal Audit Department

The Internal Audit Department will continue to focus on crucial areas of the Bank's operations using risk-based and control self assessment techniques. In addition, the services of a consultant in IT Auditing will be acquired to assist in training audit staff. Staff will also attend the Institute of Internal Auditors' courses as well as seminars and workshops sponsored by the Local Chapter.

Greater emphasis will be placed on improving the timeliness and quality of reports through closer control and supervision of audits.

The Department will also enhance cooperation, communication and relationship building with other Departments through placing more emphasis on marketing audit services within the Bank.

Management Information Systems Department

Overview
In 2002, the MISD will have a secure infrastructure with remote access for trusted customers, for staff working outside the Bank and those travelling on business. The Virtual Private Network, the infrastructure for which was established in 2001, will provide secure remote access for all the key players as we seek to improve our national payment systems.

Specifically, the advent of the Automated Clearing House (ACH) System and the Real Time Gross Settlement System (RTGS) will modernise the financial system and bring the Barbados payments systems up to international standards.

The Department will intensify its disaster recovery and contingency planning efforts to create an environment in which all systems are available even in the event of a disaster.

New Applications
New applications to be developed in-house for improving efficiencies will include a new payroll system and a system for Bank Supervision to monitor

the loan portfolios of the institutions they supervise. A system to monitor non-trade outflows for the Foreign Exchange and Export Credits Department will also be developed. The Portfolio Investment System and the Currency Inventory will be implemented in 2002.

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

A major upgrade of the CS-DRMS Debt Management System is planned for 2002. The system will run under Windows 2000 environment and will require the purchase of database software.

Training

MISD Training
Emphasis will be placed on training in the following areas: Lotus Notes Application Security and Workflow Training, CA-OpenRoad Application Development Training, ProphecyOpen Training, AIX System Administration Training, Web Development Training, Customer Service Training.

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

Research Department

During 2002, the Research Department will, through greater strategic management of its staff and improved staff productivity, rise to the challenge of further increasing its volume of policy-oriented research in conventional and non-conventional areas.

The Department proposes to undertake in 2002 a programme of improvement of its internal and external public image. To this end, research findings will be disseminated through public seminars, electronic media such as the Internet and Intranet, and through the Schools' Programme. The Schools' Outreach Programme will be extended to students of the Barbados Community College, and the manuscript "Economics: A Beginner's Guide", further developed, to encourage students to pursue economics at the University level.

The Department will continue to enhance the quality of its economic and financial analysis by strengthening its monitoring and reporting systems and by creating systems to foster dialogue locally and amongst other regional economists on current business and trade issues. This interaction between local, regional and international economists will be facilitated via the Internship Programme, various conferences and seminars including the Annual Review Seminar, periodic workshops and exchanges involving regional Central Banks and the University of the West Indies. The Department will also extend its collaboration with the Bank Supervision Department to develop macroeconomic and aggregate prudential indicators of financial sector stability, which will be used, *inter alia*, to further develop the Bank's economic and forecasting model.

Work will continue on the development of the statistical databases currently managed by the Statistical Section to include more detailed information on the Balance of Payments, Trade, Government and the Offshore Sector. The schedules for financial institutions will be revised, and quarterly bulletins on trade and debt produced.

In 2002, the Library will continue to deliver to selected users, via their computers, relevant electronic newsletters according to pre-determined user profiles. The full-text database of the Central Bank's staff papers will continue to be available via INMAGIC, the Serials database will be maintained and revised, and work will continue on specialised projects in conjunction with other Departments of the Bank. In particular, the Library in collaboration with the MIS Department will coordinate and manage the information that is available on the Central Bank's Website.

Further development and implementation of the records management policies and procedures manuals will be done in 2002, and the Unit made fully functional during the year.

Adoption of Financial Statements 2001

The net operating surplus for the financial year ended December 31, 2001 was $12,712,153. Current income totalled $56.1 million and represented an increase of $5.16 million compared with the previous year. This increase is attributed to higher holdings of foreign reserves arising from Government's foreign borrowings, and adoption of a more aggressive investment policy aimed at earning higher yields on a more diversified portfolio. The increase in income was affected by the decline in foreign interest rates, especially during the last quarter of the financial year. There was excess liquidity in the local banking system and the Bank earned only $144,000 from Treasury Bills operations. Government maintained a net credit balance for the year and no income was earned under the Ways and Means Facility. Operating expenses totalled $37.36 million and represented an increase of $0.93 million over 2000. Non-operating expenses for 2001 included contributions of $1.0 million, $3.0 million and $2.0 million to the Barbados Investment Fund, Industrial Credit Fund and Redevelopment of Church Village Site respectively.

During the year, the Bank received $3.6 million in respect of interest on balances under the CMCF Agreement and $8.8 million in principal repayments. At December 31, 2001 the cumulative principal repayments received under the facility amounted to $88.8 million, leaving an outstanding balance of $65.9 million.

The Board of Directors, with the approval of the Minister of Finance, appropriated $12,712,153 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2001, 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, 2001.

Chartered Accountants
Mail Address
P.O. Box 690C
Bridgetown
Barbados

Office Address
Hastings
Christ Church
Barbados

Telephone (246) 427-5230
Fax (246) 427-7123
Email 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, 2001 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, 2001 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, 2002

KPMG
Chartered Accountants

Balance Sheet
December 31, 2001
with comparative figures for 2000

ASSETS

	NOTES	2001	2000
		BDS$	**BDS$**
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	185,465,941	314,017,791
Foreign Notes and Coins		5,794,443	1,496,154
Foreign Securities	3	933,427,579	422,851,614
		1,124,687,963	738,365,559
International Monetary Fund:			
Holdings of Special Drawing Rights	4	12,131,252	12,473,077
Total Reserve of External Assets		1,136,819,215	750,838,636
LOCAL ASSETS:			
Securities:	5		
Barbados Government Treasury Bills		-	14,981,926
Barbados Government Debentures		635,000	635,000
		635,000	15,616,926
Fixed Assets (Net)	6	93,414,743	97,315,884
Other Assets	7	60,236,938	63,605,410
Total Local Assets		154,286,681	176,538,220
		1,291,105,896	927,376,856

See accompanying notes to accounts.

Balance Sheet
December 31, 2001
with comparative figures for 2000

LIABILITIES, CAPITAL AND RESERVES

	NOTES	2001	2000
		BDS$	**BDS$**
LIABILITIES:			
Notes and Coins in Circulation	8	418,283,430	403,122,640
Deposits:			
Government		496,510,164	253,738,395
Banks		229,336,186	160,192,251
Financial Institutions		6,851,305	4,904,930
Other		1,077,778	911,244
		733,775,433	419,746,820
Other Liabilities:			
Allocation of Special Drawing Rights	9	20,516,760	21,382,594
Other	10	105,030,273	69,624,802
		125,547,033	91,007,396
Special Funds	11	1,500,000	1,500,000
Total Liabilities		1,279,105,896	915,376,856
CAPITAL AND RESERVES:			
Authorised capital: BDS$5,000,000			
Paid up capital:Government of Barbados		2,000,000	2,000,000
General Reserve		10,000,000	10,000,000
Net Capital and Reserves		12,000,000	12,000,000
Commitments	12		
		1,291,105,896	927,376,856

Approved on behalf of the Board of Directors:

.... **Governor**

.... **Financial Controller**

Profit and Loss Account
For the year ended December 31, 2001
with comparative figures for 2000

	2001	2000
	BDS$	**BDS$**
INCOME:		
Commissions and Fees	5,483,031	6,931,611
Discounts:		
Treasury Bills	7,585,150	18,089,622
Interest:		
Advances	1,289,252	1,460,062
Deposits	13,004,272	12,757,584
Securities	24,534,144	10,678,355
Other Income	4,178,515	1,001,910
Total Income	56,074,364	50,919,144
EXPENSES:		
Operating:		
Administrative Expenses	11,228,431	10,116,169
Depreciation	4,197,209	4,056,043
Difference in Exchange	599,678	491,655
Interest	28,271	1,188,781
Minting of Coins	669,048	1,263,000
Printing of Notes	1,977,425	351,647
Retirement Benefits (note 13)	3,083,497	3,205,734
Salaries and Allowances	15,578,652	15,760,885
Operating Expenses	37,362,211	36,433,914
Net profit before under noted items	18,712,153	14,485,230
Contribution to Barbados Investment Fund (note 14)	1,000,000	1,000,000
Contribution to Industrial Credit Fund (note 14)	3,000,000	4,000,000
Contribution to Redevelopment of Church Village Site (note 14)	2,000,000	-
	6,000,000	5,000,000
Net Profit Before Appropriation	12,712,153	9,485,230

See accompanying notes to accounts.

Profit and Loss Appropriation Account
For the year ended December 31, 2001
with comparative figures for 2000

	2001	2000
	BDS$	**BDS$**
Balance brought forward	-	-
Net profit before Appropriation	12,712,153	9,485,230
Deduct:		
Transfer to Consolidated Fund	12,712,153	9,485,230
Balance carried forward	-	-

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

See accompanying notes to accounts.

Notes to Accounts
December 31, 2001

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 account 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 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 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, 2001, the C.M.C.F. balance included in Balances Held Abroad was $65,935,474 (2000 - $74,728,865). 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, 2001

3. FOREIGN SECURITIES

Foreign securities comprise:

	2001		2000	
	Cost	Market Value	Cost	Market Value
	$	$	$	$
At Market Value:				
(a) Bonds/Debentures	573,942,859	583,244,299	205,866,668	211,319,888
(b) Equities	440,000	3,787,339	440,000	4,666,326
	574,382,859	587,031,638	206,306,668	215,986,214
At Cost:				
(c) Treasury Bills	346,395,941	346,395,941	206,865,400	206,865,400
	920,778,800	933,427,579	413,172,068	422,851,614

The amount of $12,648,779 (2000: $9,679,546) representing unrealised profit on the revaluation of ` reserve account is included in Other Liabilities under the caption Revaluation of Securities (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, 2001. The rate of translation of SDRs into Barbados dollars at December 31, 2001 was SDR .391826 (2000 – SDR .37596).

5. SECURITIES

Local securities comprise:

	2001		2000	
	Nominal Value	Cost	Nominal Value	Cost
	$	$	$	$
(a) Barbados Government Treasury Bills	-	-	15,000,000	14,981,926
(b) Barbados Government Debentures	635,000	635,000	635,000	635,000

Notes to Accounts, Continued
December 31, 2001

6. FIXED ASSETS

Fixed assets comprise:

	2001			2000
	Cost	Accumulated Depreciation	Net BookValue	Net BookValue
	$	$	$	$
Freehold land and building				
Office	85,130,083	8,784,851	76,345,232	77,621,335
Frank Collymore Hall	6,982,910	694,547	6,288,363	6,366,995
Residence	2,440,810	70,789	2,370,021	2,381,813
Furniture and equipment	22,055,204	13,903,004	8,152,200	10,705,101
Vehicles	879,095	620,168	258,927	240,640
	117,488,102	24,073,359	93,414,743	97,315,884

7. OTHER ASSETS

Other assets include:

	2001	2000
	$	$
Accrued income on local investments	1,364,146	832,581
Cheques in process of collection	13,574,894	16,388,679
CRL Limited [1]	9,000,000	9,000,000
Fiscal Agency Payment Account	7,123,554	9,208,072
Investment Deposits	11,598,364	11,598,364
Prepayments	1,438,838	433,365
Staff Advances	12,580,641	12,850,220
Sundry Balances	3,556,501	3,294,129
	60,236,938	63,605,410

[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, 2001, the nominal value of numismatic coins sold totalled approximately $10.4 million (2000 - $10.4 million). See note 1 (d).

9. ALLOCATION OF SPECIAL DRAWING RIGHTS

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

Notes to Accounts, Continued
December 31, 2001

10. OTHER

This amount comprises:

	2001	2000
	$	$
Accounts Payable	2,013,763	5,264,104
Barbados Investment Fund	1,000,000	1,000,000
Contingencies	456,052	279,418
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	-
Debenture Interest Payment Account	7,119,687	9,014,795
Domestic Clearing	2,326,631	2,059,533
Dormant Accounts - Commercial Banks*	7,197,682	6,292,204
Export Development Fund	224,613	224,613
Industrial Credit Fund	12,923,433	17,864,565
Redemption of Debentures Account	33,483,120	169,120
Refurbishment of Frank Collymore Hall	9,793	9,793
Revaluation Reserve Account (note3)	12,648,779	9,679,546
Sinking Fund Contribution Account	10,764,913	8,858,256
Small Business Fund	330,000	330,000
Staff Pension Fund	403,127	3,802,303
Staff Welfare Fund	2,637,556	2,803,083
Sundry Balances	5,291,124	773,469
	105,030,273	69,624,802

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

11. SPECIAL FUNDS

This amount comprises the following balances:

	2001	2000
	$	$
Special Credit Trust	1,500,000	1,500,000
	1,500,000	1,500,000

Notes to Accounts, Continued
December 31, 2001

12. COMMITMENTS

At December 31, 2001 the Bank had guaranteed settlement of approximately $917,318 under the following scheme:

	Value of Contracts	Guarantee
	$	$
(i) Credit Guarantee Scheme for Small Businesses	871,978	686,648
(ii) Export Credit Insurance and Guarantee Scheme	271,300	230,670
	1,143,278	917,318

Also at December 31, 2001, the Bank had contracts for capital expenditure in the amount of $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	64,721,462
Unfunded liability	22,396,519

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.

Pension costs of $3,083,497 were funded at the recommended rate of 23.8% during the year.

Notes to Accounts, Continued
December 31, 2001

14. CONTRIBUTIONS TO BARBADOS INVESTMENT FUND, INDUSTRIAL CREDIT FUND AND REDEVELOPMENT OF CHURCH VILLAGE SITE

These contributions are made in accordance with Section 8(b) of the Central Bank of Barbados Act, Cap.323C.

15. CONTINGENCIES

Proceedings involving contractual liability have been instituted against the Bank for amounts of US$914,530 and CND $3,377. The plaintiff has filed a specially endorsed motion, and a defence was filed on behalf of the Bank. The Bank believes it has an excellent defence to the plaintiff's claim. The Bank believes that the final disposition of this matter will not have a material adverse effect on the Bank's financial position or results of operations.

16. TAXATION

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

17. COMPARATIVE FIGURES

Certain comparative amounts for 2000 have been reclassified to conform to the current year's presentation