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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 BB11126, Barbados, W.I.

March 31,2009

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, 2008 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2008.

The original of the Auditor's Report and Certificate was forwarded to you with my letter of March 25, 2009.

Sincerely,

Marion V. Williams
Governor

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

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Overview

The financial crisis that began in the United States (US) with the August 2007 collapse of its subprime mortgage market spread to other advanced economies during 2008, particularly toward the end of the third quarter. This financial shock, the most severe since the Great Depression, eroded investor and consumer confidence, dampening aggregate demand and leading to an economic recession in the developed world and slower growth in the emerging economies. Consequently, there was a sharp deceleration in global economic activity. A steady increase in commodity prices over the first half of the year also constrained global growth.

However, in the latter part of 2008, the decline in world demand helped to stabilise prices. As inflationary pressures abated, there was greater scope for policy intervention by national authorities across the globe aimed at stimulating economic activity.

The deteriorating economic conditions experienced by Barbados' main trading partners led to a downturn in the local tourism industry, which in turn contributed to an overall decline in traded-sector output. This, combined with a moderation in the growth of value-added in the non-traded sectors, resulted in a 0.5% increase in economic output for 2008, which was well below the average of the previous five years. The rise in commodity prices inflated the country's import bill, leading to a significant widening of the current account deficit. Largely as a result of reduced private capital inflows, the capital and financial account surplus was smaller and insufficient to finance the current account deficit, leading to a $205.5 million reduction in the stock of net international reserves (NIR) of the monetary authorities. The traded sectors recorded a 1.0% drop in output, in contrast to a 1.5% increase in 2007, attributable mainly to the much weaker performance of the tourism industry.

Although there was a strong outturn in the first quarter, tourism value-added declined by 1.7% for 2008 as a whole, as the deepening global economic crisis induced an overall fall-off in both long-stay and cruise ship arrivals. Non-sugar agriculture and fishing grew moderately but both manufacturing output and sugar production contracted.

Non-traded value-added increased at a considerably slower pace, as there was a decline in construction and mining and quarrying and significantly slower growth in the wholesale and retail sector. Moreover, there was a fall-off in the production of electricity, gas and water and a moderation in activity within the transportation, storage and communication as well as business and other services sectors.

Consistent with the reduction in the pace of economic activity, the level of unemployment rose marginally during 2008. The unemployment rate was 7.6%, compared to 6.7% at the end of 2007. The lagged effect of growth in international commodity prices, along with a reduction in fuel subsidies in April, pushed the twelve-month moving average rate of inflation up to 8.1%, compared to 4.0% in 2007.

Growth in credit to the non-financial private sector was moderate over the first six months of the year. However, it picked up significantly during the latter half, leading to an overall increase of 11.0% for 2008, on the strength of personal sector borrowing. Domestic deposit growth slowed markedly, to 3.6%, as there were large net withdrawals during the last two quarters, following substantial accumulation over the January-June period. Consequently, liquidity within the banking system tightened during the second half of 2008, and fell below 2007 levels. In an effort to limit the effects of the global economic slowdown, the Central Bank of Barbados relaxed its monetary policy stance, lowering the minimum deposit rate on two occasions. In addition, the rate at the discount window was reduced in December.

Preliminary estimates indicate that although Government collected additional revenue, mainly from indirect taxes, the fiscal deficit widened considerably to $433.3 million (5.9%) of GDP), from $125.7 million in 2007, due to strong growth in expenditure. After declining in 2007, capital spending rose sharply during the year and, with a large increase in transfers and subsidies, current expenditure was also significantly higher.

Production, Prices and Employment

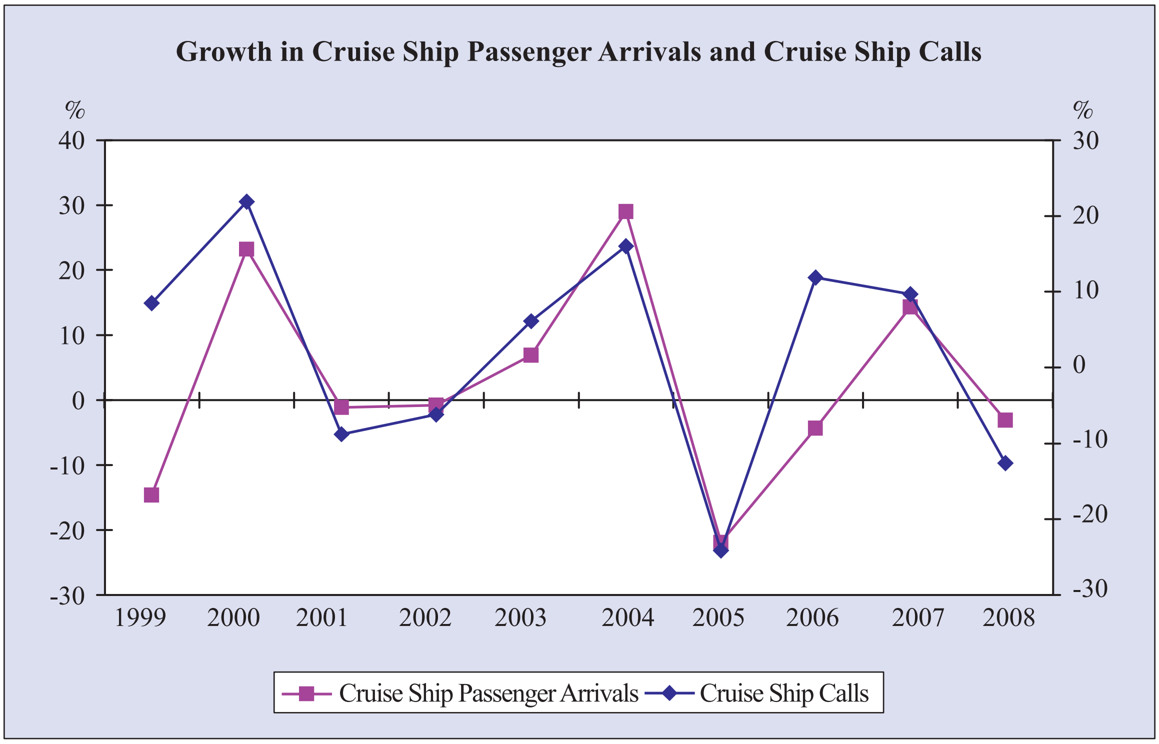
Tourism

The downturn in world financial markets, especially among Barbados' main trading partners, and the hike in oil prices observed during the first half of 2008, which resulted in job losses, exchange rate fluctuations and reduced airlift capacity, negatively affected the performance of the local tourism market in 2008. Real tourism value-added recorded an estimated decline of 1.7% after expanding by 3.2% in 2007 and 1.6% in 2006. However, the effect on the tourism industry, when compared to the 5.9% decline in tourism output registered in 2002 following the U.S terrorist attacks in 2001, was relatively moderate. This was mainly

Long-stay Tourist Arrivals by Month and Season
(Persons)

Month	2003	2004	2005	2006	2007	2008P	% Change from 2007
January	40,473	44,719	47,242	48,888	47,006	**45,536**	-3.1
February	43,643	49,870	49,338	51,850	49,316	**54,224**	10.0
March	49,016	54,190	54,963	53,169	47,375	**56,027**	18.3
April	47,504	47,255	46,960	53,484	63,841	**46,234**	-27.6
Winter	180,906	196,034	198,522	207,391	207,538	**202,021**	**-2.7**
May	40,750	44,865	40,368	41,849	46,267	**45,117**	-2.5
June	39,994	38,536	36,289	38,708	41,980	**43,540**	3.7
July	52,982	57,285	55,385	52,315	54,443	**54,865**	0.8
August	46,745	45,625	42,741	48,366	46,991	**45,171**	-3.9
September	28,737	31,837	31,099	32,333	32,500	**34,035**	4.7
October	38,210	39,717	39,292	41,153	41,865	**39,771**	-5.0
November	45,924	43,870	45,773	45,260	47,806	**45,232**	-5.4
December	56,963	53,733	58,065	55,183	54,484	**53,366**	-2.1
Summer	350,305	355,468	349,012	355,167	366,336	**361,097**	-1.4
Total	531,211	551,502	547,534	562,558	573,874	**563,118**	-1.9

Source: Barbados Statistical Service and Barbados Tourism Authority
P: Provisional.



the result of the double-digit growth in both long-stay and cruise arrivals registered in the first quarter, which helped to cushion declines in tourism value-added in the last three quarters of the year.

During 2008 long-stay visitor arrivals fell for the first time since 2005. The contraction in tourist arrivals was estimated at 1.9%, compared to the average growth rate of 2.5% reported for the previous two years. The outturn in 2008 was mainly attributed to a 27.6% reduction in arrivals in April that significantly reduced the overall outcome for the winter season. In total, winter arrivals were down by 2.7% in 2008, after rising by just 0.1% in 2007. Similarly, summer arrivals decreased by 1.4% following growth of 3.1% in the previous year. These declines were accompanied by a fall in average length of stay, a trend that had been unfolding since late 2007. Reduced airlift capacity was also a notable factor, as two carriers from the United Kingdom (UK) - which account for over 40 percent of long-stay arrivals-buckled under the pressure of increased fuel prices and sluggish travel demand. The figures revealed that even with the pick-up of some excess passengers by other UK carriers and the addition of two carriers to the Canadian market, total seating capacity to the island fell by 10% in 2008.

Arrivals from the UK fell by 2.2%, primarily reflecting the reduction in airlift capacity from that market as well as the effects of the reduction in disposable incomes and the depreciation of the pound sterling vis-à-vis the US dollar. Arrivals from the US contracted by 2.1% as recessionary pressures in that economy strengthened. Likewise, visitors from Trinidad and Tobago declined by 7.6%, limiting growth in total CARICOM arrivals to a marginal 0.2%.

The hike in oil prices during the first half of 2008 and the corresponding surge in fuel charges and airfares were primarily responsible for the fall in arrivals from Trinidad and Tobago.

Canada, which is the third largest source market, was the top performer in 2008, principally because the Canadian economy was one of the few to stave off, to some extent, the downturn in world economic activity. Tourist arrivals from Canada grew by 6.9%, which was just 1.1 percentage points lower than the growth in 2007. An increase of 13.6% was recorded for arrivals from Continental Europe but long-stay visitors from other non-traditional markets declined by 28.8%, as tourist activity from those countries returned to pre-Cricket World Cup (CWC) levels.

The cruise industry registered cumulative increases in value-added for most of 2008. Nevertheless, this category also succumbed to the effects of the global slowdown, increased competition and a legal battle between a major cruise line and the Government of Puerto Rico - the main hub for cruise travel to Barbados. Between January and June of 2008, cruise ship arrivals grew by 2.2%, (thanks to the guarantee of 400,000 cruise passengers by a major cruise line). By the end of 2008, however, total cruise ship arrivals had fallen by 3.1%, after an increase of 14.3% in 2007, as a poor third quarter outturn and a slow start to the winter season eclipsed the gains accumulated in the first half. The industry was also adversely affected by the decision of some cruise lines vessels to capture higher yields in the Mediterranean market by lengthening their itineraries in that region. This change in itineraries was partially reflected in a 12.6% reduction in Barbados' cruise ship calls in contrast to an increase of 9.7% in 2007.

Manufacturing

During the review period, food processing fell by 0.3%, after the increase of 1.9% registered one year previously. Production in the chemicals industry fell in 2008, albeit at a slower rate than in 2007, partly due to the unavailability of a major chemical manufacturer and scaled-down private sector demand. Chemicals value-added contracted by 1.8% after a reduction of 10% in 2007 and an expansion of 3% in 2006, marking the second successive annual decline. A cut-back in the number of tourism-related construction projects and increased uncertainty among investors led to a curtailment in the demand for non-metallic mineral products, which was down by approximately 6.7% in 2008 on top of a 14.5% fall in 2007. In addition, output of furniture and miscellaneous manufactures declined by 4.2% and 3.6%, respectively.

Agriculture and Fishing

Despite trying new approaches aimed at increasing the yield per tonne of sugar cane, sugar production fell by 6.9% in 2008, following slight growth of 0.9% in 2007 and a decline of 12% in 2006. Operations for the first quarter began two weeks later than expected and, as a result, the industry incurred opportunity costs estimated at about 4,000 tonnes of sugar cane. In total, the harvest yielded approximately 30,300 tonnes of sugar in 2008, or 3,600 tonnes less than in 2007.

The non-sugar agriculture and fishing sector was also negatively affected by the deteriorating economic conditions, which were evident in 2008. However, because of an exceptionally good fishing season growth in the sector rose by 3.2%, after increasing by 2.8% in 2007. On account of a significant expansion in flying fish and mahi mahi catches, mainly between January and July of 2008 (the fishing season), total

Selected Indicators of Annual Sugar Production

	2002	2003	2004	2005	2006	2007	2008P
Canes Milled (‘000 Tonnes)	418	365	361	442	348	354	**311**
Sugar Produced (‘000 Tonnes))	44.8	36.3	34.4	38.2	33.7	33.9	**30.3**
Average Yields (Tonnes)							
Canes per Hectare	52.6	49.5	51.7	63.7	52.2	56.1	**52.7**
Sugar per Hectare	5.6	4.9	4.9	5.5	5	5.5	**6.4**
Sugar Exports (‘000 Tonnes)	39.5	33.6	32.9	33.8	32.4	32.8	**27.8**

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

output in the fishing sub-sector rose by 34.1%, approximately double the growth recorded in 2007.

In contrast, milk and chicken production fell by 5.3% and 0.1%, respectively, (in 2008). Higher electricity costs, along with sluggish demand for these commodities, was the main factor underlying the reduction in output. In early 2008, milk production rose substantially, primarily because of an increase in the demand for liquid milk. However, output in the industry subsided, between the second and fourth quarter of 2008 as demand for milk waned in line with the reduction in tourism output. Chicken farmers, on the other hand, were affected by sharp increases in the price of feed and diesel, which is used to power some production plants. Activity in the sector also dampened as many consumers substituted fish for chicken in response to the increase in food costs during 2008.

International Business and Financial Services

During 2008, four hundred and eighty one new licences were issued to international business companies, an increase of 37 compared to the previous year. In addition, 83 societies with restricted liability were established, compared to 126 in 2007. Nine qualifying insurance companies, 10 exempt insurance companies three management companies and one offshore bank were also licensed during the period.

In April 2008 two double taxation agreements (DTAs) and one bilateral investment treaty (BIT) were signed. DTAs were signed with Mexico and Ghana, while the BIT was also with Ghana. The signing of the agreement with Mexico marks the conclusion of negotiations between the two countries, which commenced in October 2006. The agreement seeks, inter alia, to increase cross-border investment between Barbados and Mexico and to restore investor confidence in Barbados as a legitimate tax jurisdiction. Provisions have also been made within the agreement to resolve any tax issues that may arise and will be enforced from January 16, 2009.

The DTA with Ghana provides for taxes on income and capital and is intended to avoid double taxation, prevent fiscal evasion, and allow for the exchange of tax information. The

International Business Licences Issued

Entity	2004	2005	2006	2007	2008[P]
International Business Companies	361	372	391	506	**481**
Exempt Insurance Companies	15	11	8	9	**10**
Exempt Insurance Management Companies	1	3	1	1	**3**
Societies with Restricted Liability	64	42	33	151	**83**
Offshore Banks	4	0	4	5	**1**
Total Entities	445	428	437	672	**578**

Sources: Ministry of Foreign Affairs and Department of International Business Affairs
P: Provisional

BIT, on the other hand, speaks to the reciprocal encouragement, promotion and protection of investments made in either country by nationals or companies. Both agreements between Barbados and Ghana were signed on April 22, 2008 and are currently awaiting ratification. In addition, the DTA signed between Barbados and the Republic of Seychelles on October 19, 2007, came into effect on April 21, 2008. This agreement will apply to income tax on taxable income derived on or after January 1, 2009.

Prices

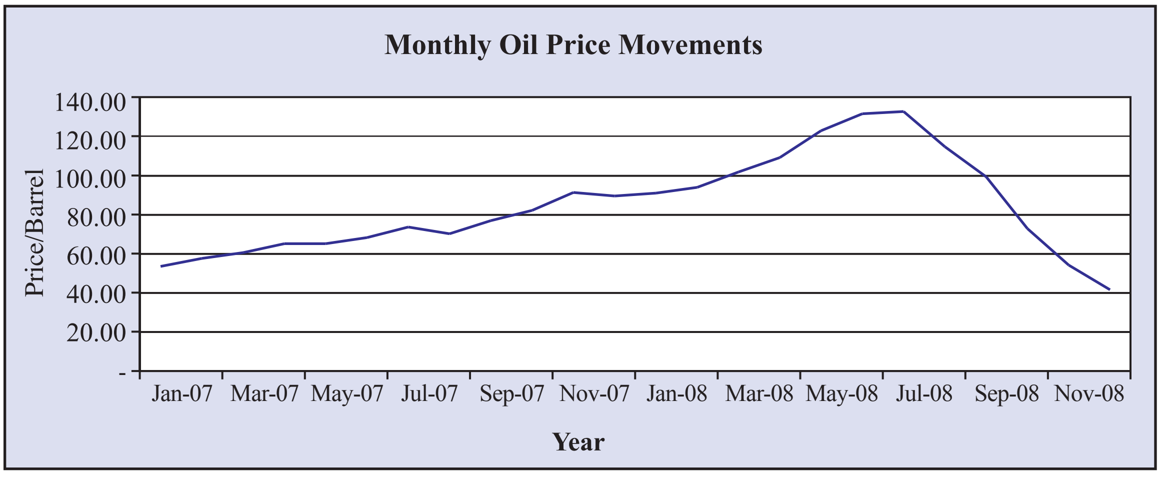
The prolonged increase in international oil prices, which only began to subside during the second half of 2008, coupled with the adjustment of the oil subsidy by Government in April, placed greater upward pressure on domestic prices. As a result, the twelve-month moving average rate of inflation rose to 8.0%, compared to 4.1% in 2007, while the point-to-point price index stood at 7.3%, compared to 4.7% one year earlier.

Initially, the impact of rising oil prices was mainly being reflected in the point-to-point inflation rate, which rose by 1.7 percentage points in one month (between September and October 2007) to 4.7%, following an increase in oil prices to a level in excess of US$80.00 per barrel. By April 2008, international oil prices[1] had exceeded US$100.00 per barrel and continued to rise to over US$130.00 per barrel in July before declining to US$54.04 at December 2008. This outturn, coupled with the subsidy adjustment, significantly pushed up the point-to-point inflation rate. As a result, it peaked at 11.2% in September, rising from 4.7% in January 2008, before slowing thereafter towards year-end.

The twelve-month moving average rate of inflation began to mirror the inflationary pressures witnessed between October 2007 and June 2008, rising by one percentage point to 5.2% during that period. Although oil prices subsided in the second half of 2008, the twelve-month moving average rate of inflation continued its upward trend, reaching 8.0% in December.

The rise in international oil prices during 2008 was also exhibited in all sub-categories of the retail price index. However, food, household operations and supplies as well as clothing and

[1] IMF crude oil spot price – average of Dubai, Brent and WTI.



footwear were the main drivers of inflation during the review period. Increases of 16.6%, 7.0% and 10.6% were recorded for food, household operations and supplies as well as clothing and footwear, respectively. The largest percentage increase of 33.8% was registered for alcoholic beverages and tobacco, largely attributable to increased taxes introduced in July. Expansions in the food sub-index resulted from escalating prices for cereals, food and bakery products, meat, fish, animal feed and sugar confectionery and preserves. Price surges in glassware, cutlery and crockery, household linen and furniture and soft furnishings were responsible for the movements in household operations and supplies, while most of the sub-categories for clothing and footwear trended upwards. The major drivers in the alcoholic beverages and tobacco category were stout and cigarettes, rising by 5.7% and 3.3%, respectively.

Unemployment

The slowdown in economic activity pushed up the unemployment rate to 8.1% at the end of 2008, from 7.4% in 2007. Male unemployment increased marginally by 0.4 of a percentage point to 6.9%, while the female unemployment rate moved from 8.5% to 9.5%. Consequently, the arverage number of individuals seeking employment during 2008 amounted to 8,200, compared with 7,700 in 2007.

Utilities

Output in the electricity, gas and water sub-sector contracted by 0.6% compared to growth of 9.8% and 1.1% recorded in 2006 and 2007, respectively, reflecting slower economic growth. Electricity consumption by commercial as well as industrial and residential users declined by 0.7% and 0.3%, respectively. However, electricity usage for general service and street lighting grew by 1.0%, compared to 4.2% in 2007.

Construction

Value-added in the construction sector decreased by approximately 3.4% in 2008, after growing by a mere 0.1% in 2007, as overall activity in the three main categories of construction – residential building, commercial building and public works – was affected by sluggish demand, which restricted output in the sector to pre-CWC 2007 levels.

During 2008, there was a slowdown in the number of residential and infrastructural projects that were initiated by the central government, as well as reductions in both non-commercial projects and private commercial building, which in large part was negatively influenced by the deteriorating global economic situation. A downturn in international investment in local development projects was reflected in a slowdown in real estate-related capital inflows on the balance of payments accounts and a slowdown in the number of large-scale tourism-related projects started in 2008, with some ventures even being halted.

A number of key indicators also recorded movements that reflected the lower level of output in the sector. During 2008, domestic cement consumption contracted by an estimated 8.6%, after declining by 5.0% in 2007, while employment in construction and quarrying fell by 11.1%, the first decline in four years. Meanwhile, the value of construction imports rose by approximately 3.7%, heavily influenced by the steep increases in international commodities prices recorded during the first half of 2008.

Mining and Quarrying

Value-added in mining and quarrying contracted by 4.7% in 2008, the sector's third consecutive decline since 2005, when it increased by 8.0%. However, based on the index of industrial production, the average increase for quarrying was 9.4% and 20.9% in the first and second quarters, respectively, while mining, jumped significantly in the second quarter, to record an average of 16.9% for the first six months. The vast improvement in mining during that period could be attributed to gains from the re-activation of oil wells. Output of crude oil for the year fell for the fourth consecutive year, declining by an estimated 1.2% to 289.692 barrels, following reductions of 1.5% and 14.6% in 2006 and 2007, respectively.

Production of Selected Commodities

	2003	2004	2005	2006	2007	2008[P]
Crude Oil Production (Barrels)	370,848	376,655	348,718	343,412	293,283	**289,692**
Natural Gas Prod. ('000 Cubic Metres)	22,977	20,861	23,997	23,466	20,932	**15,412+**
Electricity usage ('000Kwh)	805,876	831,305	792,868	903,398	941,013	**950,264**
Water Consumption (Litres)	54,016	52,128	34,462*	53,489	54,471	**n.a**.
Cement Production ('000 Tonnes)	325,106	322,270	340,696	337,801	316,467	**301,427**

Source: Arawak Cement Plant, Barbados Light and Power Co. Ltd and Barbados National Oil Company
P: Provisional
*: Data low on account of defective bulk meters
+: Data only up to the third quarter of the year

Other Non-Traded Sectors

In 2008, the performances of the distributive trade, transportation, storage and communications and business and other services, all slowed relative to 2007. Value-added for wholesale and retail trade is estimated to have grown by a mere 0.7%, the slowest outcome since 2001, when the sector declined by 3.1%. Between 2002 and 2007, this sector grew on average by 4.7% per annum.

Similarly, real growth in the transportation, storage and communications industry, at 2.7%, was below its average of 5.3% for the period 2004 to 2007, while real output for business and other services rose by only 2.5%, compared to the average of 4.8% for the previous five years.

Financial Sector

Monetary Policy

The rapid pace of deterioration in global financial markets prompted decisive action from the Central Bank of Barbados in an attempt to mitigate the negative consequences of the turmoil on the Barbadian financial system. From late 2007, the Central Bank began lowering the minimum deposit rate, from 5.25% to 4.75% in November 2007 and then to 4.50% and 4.00% in April 2008 and October 2008, respectively.

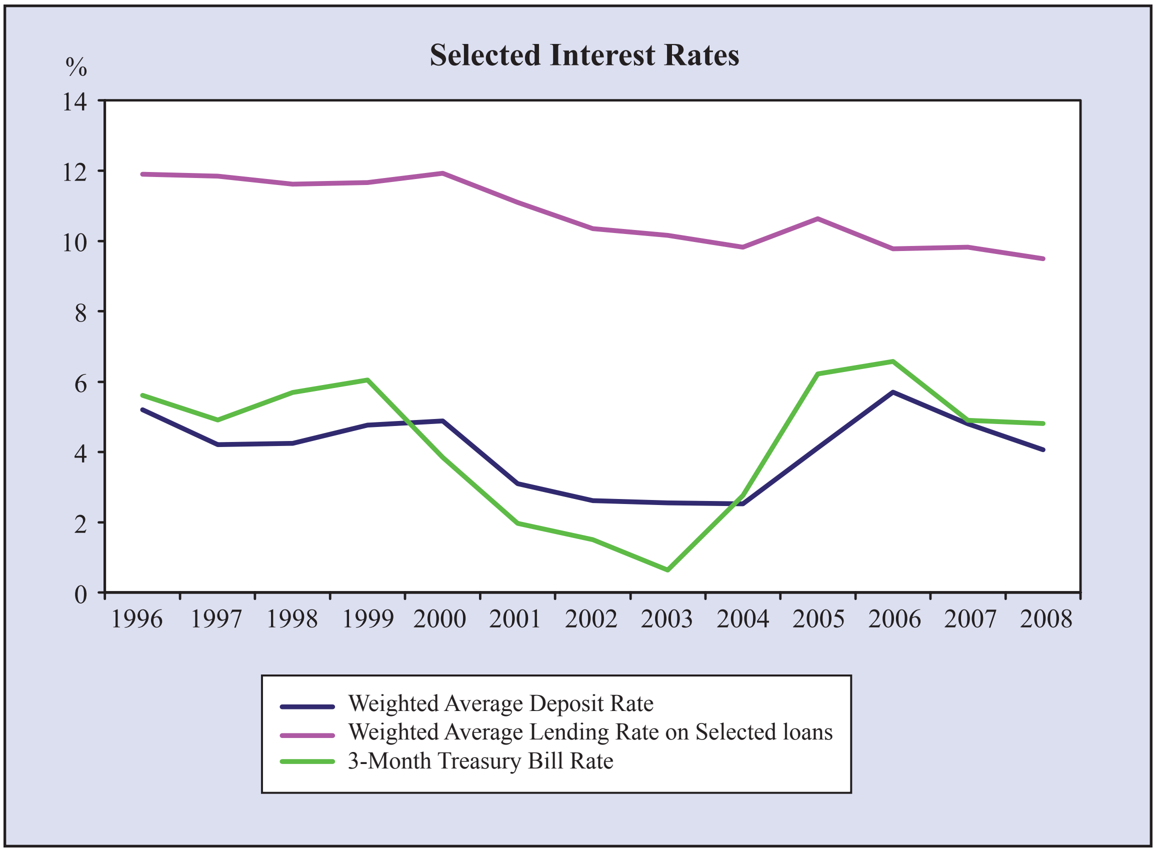
In late 2007, the accommodative monetary stance was in the context of widening spreads between domestic and US interest rates. While this situation still obtained, conditions in 2008 added new dimensions to the state of affairs. In April, the possibility of a US recession, and the likely negative impact on the Barbadian economy, was the basis for the relatively mild monetary stimulus. At the time, most forecasts called for a fairly shallow US recession and key indicators at that point had yet to positively signal recession in all advanced economies. By October, the situation had worsened dramatically and, in addition to stimulating economic growth, the Central Bank's monetary easing sought to reduce the burden of loan repayments and prevent significant rates of default. In December, the Bank lowered the discount rate from 12% to 10% in order that it might have a moderating effect on loan rates.

Interest Rates

The softer monetary stance adopted by the Central Bank set the stage for generally lower interest rates in 2008. The weighted average rate on total loans fell steadily from 10.68% in December 2007 to 10.25%, while the weighted average rate on selected loans declined by 0.33 of a percentage point to 9.50%. Furthermore, the weighted average rate on deposits moved from 4.80% in 2007 to 4.06% in 2008. The high level of excess liquidity throughout the year, and the resulting competitive bid for the available supply of Treasury bills, led to a decline in the 3-month Treasury bill rate from 4.1% at the end of 2007 to 2.94% at mid-November 2008. In December, however, the Treasury bill rate rose again to 4.81%, as banks sought to direct more of their liquid assets towards private sector credit during the Christmas season.

Money Supply

The money supply fell by 3.4% during 2008, underpinned by a 13.9% reduction in the monetary base up to December 24. Currency in circulation decreased by 3.7% in the first quarter but stabilised throughout the remainder of the year. Central Bank Liabilities to commercial banks, on the other hand, had risen by 17.3% up to September 2008, thus providing most of the impetus for the 6.2% increase in the monetary base up to that point. In the fourth quarter, there was a steady decline in Central Bank liabilities to commercial banks (by as much as 38.9%),



which negated the gains made in the first three quarters. This outturn was the result of contracting commercial banks' reserves at the Central Bank, which in turn reflected falling deposit liabilities. Between December 24 and December 31, however, deposit liabilities rose noticeably and led to a turnaround in liabilities to commercial banks and the consequent annual increase in the monetary base (up by 2.1% by the end of the year).

Deposits

Total deposit liabilities at commercial banks decreased by 1.3% or $121.4 million, in stark contrast to the 23.4% build-up in 2007, when there was an influx of capital inflows. Since there had been modest deposit accumulation during the first half of the year, the overall decline came on account of net withdrawals of $146.5 million in the remaining six months. This situation reflected a $353.3 million fall-off in the deposits of non-residents, largely on account of sizeable foreign outflows during the period.

Domestic deposits at banks rose by 3.6% or $262.8 million, a considerable slowdown from the 16.2% ($970.9 million) increase registered in 2007. The deposit holdings of private individuals grew by $249.9 million, on top of the $481.9 million increase in 2007. Statutory bodies also reported greater levels of deposits, amassing an additional $28.4 million, while financial institutions augmented their deposits by $13.9 million, largely attributable to significant deposits made by the National Insurance Scheme. The only category in deposits to post a decline was that of business firms, which fell by $121.4 million, after

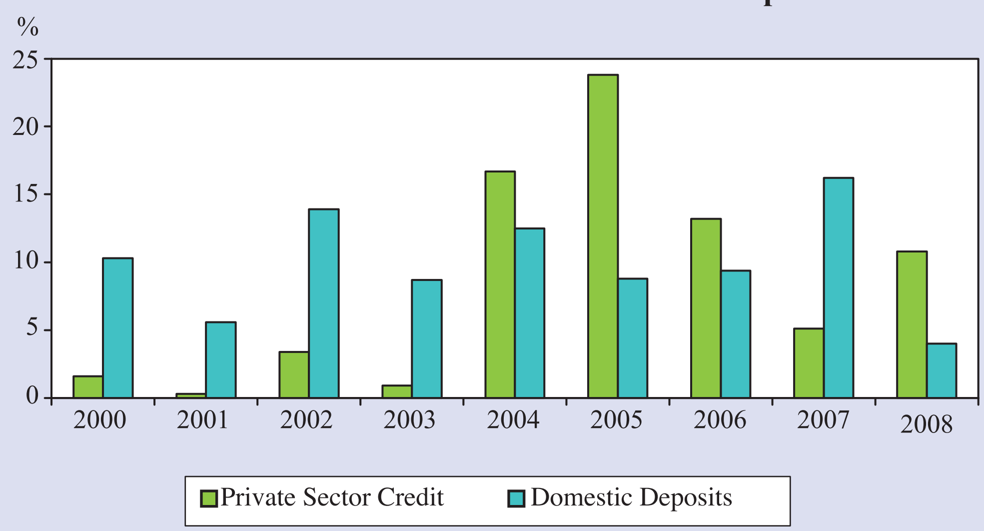
Domestic Deposits at Financial Institutions

($ Million)

	2004	2005	2006	2007	2008P
Commercial Banks	5,418.7	5,789.6	6,419.4	7,252.3	**7,594.4**
Trust Companies	422.5	495.3	501.0	534.4	**438.6**
Finance Companies	259.3	407.0	399.1	452.3	**429.1**
Credit unions	194.8	243.1	314.2	402.3	**762.6**

Source: Central Bank of Barbados
P: Provisional

Changes in Commercial Banks' Credit to the Non-Financial Private Sector and Domestic Deposits



registering an average improvement of $129.9 million over the preceding five years. The fall-off in business deposits was largely attributable to contractions in deposits of construction entities ($58.5 million), miscellaneous businesses ($34.8 million) and manufacturing firms ($21.9 million) during the review period.

Non-bank financial institutions (NBFIs) recorded growth of 17.4% (or $241 million) in their total deposits during the year, following growth of 6.0% ($69.0 million) and 14.4% ($174.7 million) in 2006 and 2007, respectively. Deposits at credit unions which were mainly responsible for this overall growth, increased by 89.6% (or $360.0 million). Government's tax incentives to this sector appear to have contributed to this strong build-up during the year. The deposits at finance companies declined by $23.2 million following a $53.2 million increase in 2007, while the deposits with trust companies declined by $95.8 million after increasing by $33.4 million in the previous year.

Credit

The loan portfolio of commercial banks rose significantly, with credit to the non financial private sector growing by 11.0% or $497.4 million during the review period, well above the 5.1% or $220.6 million increase recorded in 2007. However, along with this broad-based expansion in credit, there was an upswing in non-performing loans, pointing to some deterioration of commercial banks' loan portfolio. By the end of the year, gross classified debt represented 3.4% of total loans, compared to 2.9% in 2007. In light of these developments, commercial banks increased their provisions for bad debt during 2008.

As in previous years, private individuals were the main beneficiaries of the additional commercial bank funding, accounting for approximately 40.5% of total new disbursements. The $201.5 million increase in personal sector lending was the result of strong demand for residential mortgage loans during the year, which advanced by $177.5 million. Most of the remaining expansion in personal lending occurred on account of a pick-up in consumer instalment credit, mostly loans for debt consolidation. Of particular note, loans extended for private vehicle purchases, which had been moribund since 2004, advanced by $14.4 million.

With respect to business loans, professional and other services firms in particular borrowed an additional $120.8 million. Outstanding loans within the construction, tourism, transportation and distribution industries rose by $73.6 million, $27.8 million, $13.1 million and $12.5 million, respectively. Lending to agricultural companies, however, declined by $4.2 million, primarily on account of a fall in credit to livestock farmers.

Statutory bodies and financial institutions also supported their activities through funds from the banking system. Loans to statutory bodies increased by $69.7 million, with a large portion of this absorbed by the Transport Board, Barbados Port Inc and Barbados Agricultural Management Company. Meanwhile, credit to financial institutions went up by $67.3 million, on par with the expansion recorded in the comparable period of 2007.

Lending by NBFIs expanded by $96.9 million (or 4.5%), following increases of $156.2 million and $173.9 million in 2006 and 2007, respectively. Loans issued by finance companies rose by only $17.8 million, compared to increases of $31.8 million in 2007 and $45.0 million in 2006, while credit extended by trust companies were higher by $13.7 million, compared to growth of $49.8 million in 2006 and $16.2 million in 2007.

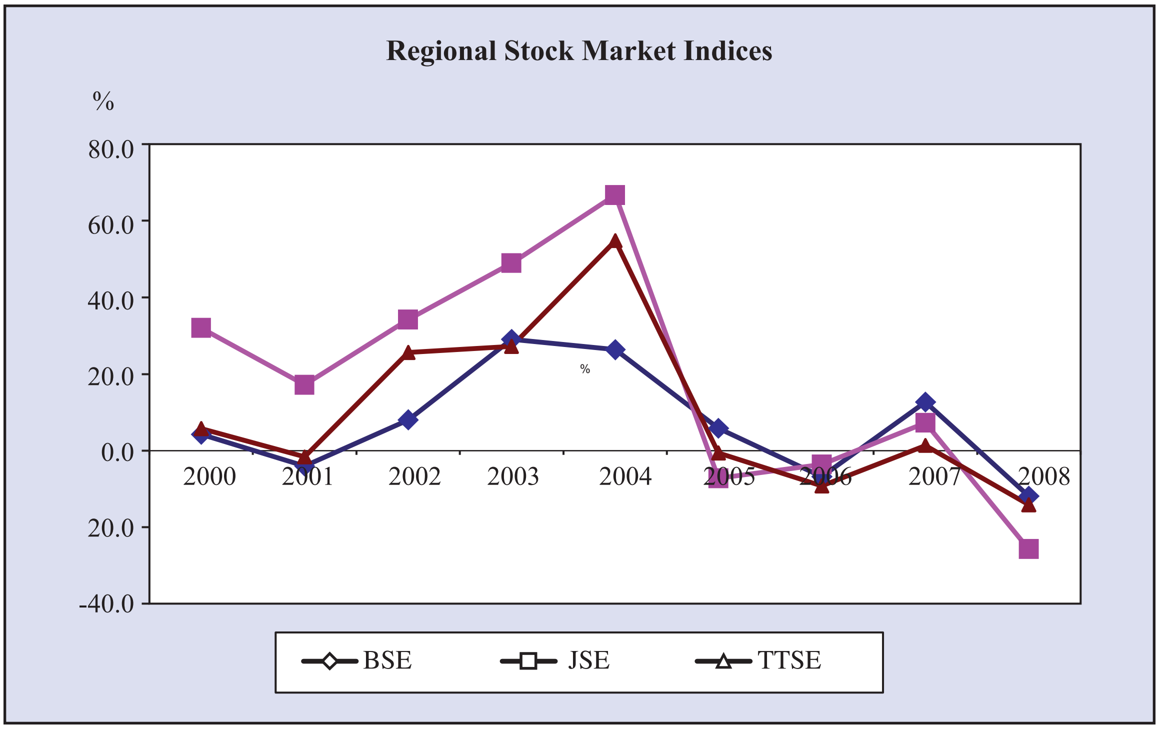
Credit to the Non-Financial Private Sector by Financial Institutions

($ Million)

	2004	2005	2006	2007	2008[P]
Commercial Banks	3,061.8	3,791.8	4,292.9	4,513.5	**5,010.9**
Finance Companies	211.9	264.9	309.8	341.6	**354.9**
Trust & Mortgage Companies	451.4	474.9	524.7	540.9	**554.6**
Insurance Companies	360.9	398.9	367.4	404.6	**409.0**
Credit unions	571.9	691.7	784.7	873.4	**934.4**
TOTAL	4,657.9	5,622.2	6,279.5	6,674.0	**7,268.36**

Source: Central Bank of Barbados

P: Provisional



Capital Market Developments

Stock Market Activities

After a slight resurgence in 2007, the Barbados local index, the Jamaica market index and Trinidad and Tobago composite index recorded negative returns in 2008. At the end of the year, activity on the Barbadian regular market recorded a 54% decline in the volume of shares traded when compared to the same period in 2007. The local index was down 490.55 points (or 11.9%) from the value registered at the end of 2007, which led to the 11.5% deterioration in local market capitalisation, following an increase of 13% in the previous year. Similarly, the cross-listed index and the composite index declined by 7.5% and 10.6%, respectively, and the corresponding market capitalisations declined by 51.3% and 27.4%, respectively.

During the year, a total volume of 71.8 million shares crossed the floor of the regular market, compared to 154.9 million in 2007. Barbados Shipping and Trading (BS&T) was the volume leader, trading 40.0 million shares, followed by Barbados Farms Limited (16.1 million) and Sagicor Financial Corporation (4.2 million). It should be noted, however, that trading of both BS&T and Barbados Farms Limited shares was influenced by takeover bids which commenced in the latter part of 2007 and continued through the first quarter of 2008.

The total number of companies trading on the regular exchange was reduced to 24 following the delisting of Courts (Barbados) Limited in March and RBTT Financial Holdings Ltd. in June 2008. By the end of the year only eight companies had advanced and two companies traded firm, while 14 declined. Cable and Wireless (Barbados) Limited recorded the highest gain in share price (40.0%) followed by Cave Shepherd and Co. Limited (15.7%), while the largest decline was recorded by Barbados

Farms Limited (37.5%) followed by Sagicor Financial Corporation (32.5%).

Bond Market Activities

The bond market in Barbados continued to be dominated by bonds issued by the government and statutory bodies, as the corporate bond sector still remained largely undeveloped. The nominal value of savings bonds outstanding was $96.4 million compared with $101.5 million in 2007. The Government of Barbados issued six debentures/treasury notes in 2008 – compared to five in 2007 – and raised $670 million from these issues, $220 million more than in the previous year. Consequently, the stock of government debentures/treasury notes outstanding stood at $3.1 billion in 2008 compared to $2.7 billion in 2007. This increase in outstanding debt was the result of greater government financing needs in light of a significantly higher fiscal deficit.

In 2007, new government debentures/treasury notes yielded an average interest rate of 7.68%. In the first nine months of 2008, the interest rates

Barbados Stock Exchange Volumes Traded

('000)

	2004	2005	2006	2007	2008[P]
Barbados Shipping and Trading	3,006.8	1,740.4	634.5	6,668.3	**39,912.0**
Barbados Farms	457.6	1,593.5	360.6	830.6	**16,098.2**
Sagicor Financial Corporation	22,374.6	4,896.7	2,188.9	3,238.4	**4,175.2**
First Caribbean International Bank	77,473.7	1,119.7	588.9	131,665.3	**1,951.0**
Banks Holdings	451.9	580.4	469.6	2,862.4	**1,551.6**
Almond Resorts	2,615.2	386.1	600.6	341.6	**1,474.0**
Goddards Enterprises Ltd.	758.1	6,643.9	97.4	2,022.6	**1,369.1**
Fortress Caribbean Property Fund	-	-	-	1,172.8	**1,021.1**
C&W Barbados	624.6	920.3	477.8	2,005.1	**775.1**
Light and Power Holdings	61.7	158.5	72.9	103.5	**755.4**
Cave Shepherd	1,197.6	302.6	912.6	164.6	**528.9**
ANSA McAl (Barbados) Ltd.	146.8	771.1	268.9	268.2	**503.7**
Neal and Massy	7.5	220.5	-	592.5	**445.4**
Jamaican Money Market Brokers Ltd.	n.a.	1,483.4	348.1	0.0	**221.2**
Insurance Corporation of Barbados	620.9	20,246.1	254.3	1,232.3	**216.2**
Trinidad Cement Ltd.	110.9	30.8	26.0	28.1	**180.4**
Barbados National Bank	686.0	1,183.0	100.1	100.3	**167.3**
Grace, Kennedy & Co. Ltd.	14.2	134.3	57.5	202.2	**163.0**
One Caribbean Media Limited	n.a.	n.a.	-	288.5	**116.0**
West Indian Rum Distillery	4.0	8.8	-	14.2	**111.3**
West Indian Biscuit Co.	65.6	256.7	-	167.2	**106.5**
Barbados Dairy Industry	2.6	-	-	2.0	**35.0**
BICO	12.4	46.9	46.9	819.1	**21.2**
Light And Power Holdings Ltd 5.5% Pref	-	-	-	-	**12.1**
RBTT Financial Holdings Ltd.	36.6	349.0	22.2	76.6	**3.0**
Courts	28.5	49.0	27.0	28.2	**0.0**
Total	110,757.8	41,638.1	7,206.7	154,894.7	**71,832.3**

Source: Barbados Stock Exchange
P: Provisional

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

	2004	2005	2006	2007	2008P	% Change
Tourism						
Almond Resorts	1.8	2.4	2.2	2.1	**1.9**	-10.8
Distribution						
Cave Shepherd	7.0	6.6	6.1	6.1	**7.0**	15.7
Manufacturing						
BICO	1.9	1.8	1.8	2.0	**1.9**	-7.0
Banks Holdings	3.9	4.1	3.8	4.3	**4.0**	-7.2
Grace, Kennedy & Co. Ltd.	3.2	3.7	1.8	2.0	**2.0**	-1.5
Trinidad Cement Ltd.	2.2	3.4	2.8	2.5	**2.5**	0.0
West Indian Biscuit Co.	7.3	8.4	8.2	9.2	**9.1**	-0.7
West Indian Rum Distillery	5.9	9.0	9.0	8.5	**8.5**	0.0
Media						
One Caribbean Media Limited	n.a.	n.a.	6.2	6.3	**4.4**	-29.6
Agriculture						
Barbados Dairy Industry	7.5	7.5	7.5	7.3	**5.5**	-25.1
Barbados Farms	1.4	1.7	2.0	4.0	**2.5**	-37.5
Finance						
Barbados National Bank	5.3	6.5	6.8	6.6	**6.3**	-5.0
First Caribbean International Bank	4.3	4.2	3.6	4.0	**3.3**	-15.9
Fortress Caribbean Property Fund	n.a.	1.6	1.4	1.5	**1.6**	2.0
Insurance Corporation of Barbados	3.9	2.6	3.5	3.9	**4.2**	8.6
Jamaican Money Market Brokers Ltd.	n.a.	0.5	0.6	0.6	**0.4**	-29.1
Sagicor Financial Corporation	4.4	4.3	4.1	5.2	**3.5**	-32.5
Conglomerate						
Barbados Shipping and Trading	7.3	7.2	5.3	8.8	**8.5**	-3.4
Goddards Enterprises Ltd.	7.1	9.4	6.3	6.5	**7.1**	9.9
ANSA McAl (Barbados) Ltd.	n.a.	18.4	24.9	20.1	**16.2**	-19.6
Neal and Massy	11.2	15.7	15.7	15.2	**15.9**	4.5
Utility						
C&W Barbados	1.7	2.4	3.1	4.0	**5.6**	40.0
Light And Power Holdings Ltd 5.5% Pref.	3.0	3.0	3.0	3.0	**3.1**	3.3
Light and Power Holdings	9.4	11.3	10.3	10.6	**11.4**	8.2

Source: Barbados Stock Exchange
P: Provisional

offered on these securities were in the region of 6.50% to 6.88%. However, the securities issued in the last quarter of the year featured even lower interest rates, in the range of 5.88% to 6.75%, as domestic interest rates trended downwards throughout the year.

Mutual Funds

The effects of declining stock markets, both regionally and internationally, as well as the overall fall in Treasury security interest rates translated into generally negative returns for the mutual fund industry. Only three funds

Mutual Fund Performance
($ Per Share)

	2004	2005	2006	2007	2008[P]
Fortress Caribbean Growth	3.5	3.9	4.4	4.9	**4.2**
Fortress Caribbean High Interest Funds Accumulation	1.2	1.3	1.3	1.4	**1.5**
Fortress Caribbean High Interest Funds Distribution	1.0	1.0	1.0	1.0	**1.0**
Sagicor Global Balanced	1.9	2.1	2.1	2.2	**2.1**
Sagicor Select Growth	n.a.	1.1	1.1	1.2	**1.0**
Sagicor Preferred Income	n.a.	1.0	1.0	1.0	**1.0**
Roybar Investment Corporation	14.3	16.0	3.7	4.2	**4.0**
BNB Income	1.3	1.3	1.2	1.2	**1.3**
BNB Capital Growth	1.4	1.4	1.2	1.3	**1.2**
CLICO Balanced	1.3	1.3	1.2	1.2	**1.2**
BNB Property & Unlisted Securities Investment	1.6	1.7	1.7	1.7	**1.7**

Source: Barbados Stock Exchange
n.a.: Not Applicable
P: Provisional

registered an appreciation in their net asset value in 2008.

Capital Adequacy and Risk in the Financial Sector

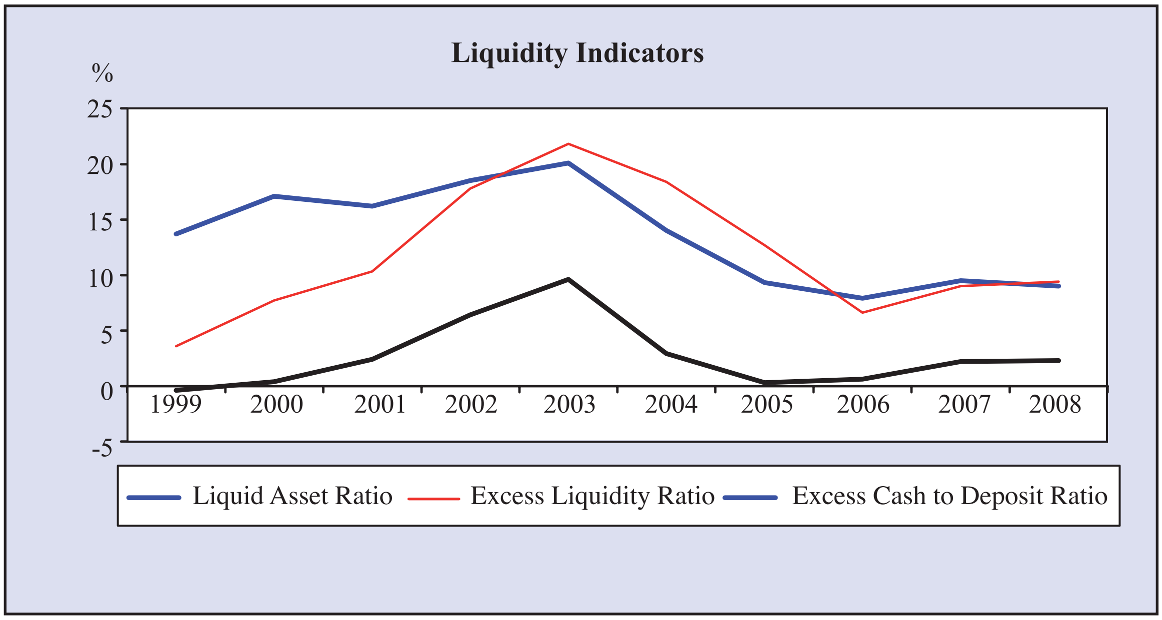
Despite some deterioration in the performance of commercial banks during 2008, the sector remained fairly well-cushioned in the event of negative external shocks, averaging a capital adequacy ratio of 16.1%, comfortably above the 8% statutory minimum as well as the 15.9% averaged in 2007. The Financial Sector Assessment completed by a joint team from the International Monetary Fund and the World Bank in April 2008 confirmed that the Barbadian banking sector should weather any adverse effects of shocks to credit conditions, the major source of risk in commercial banks in Barbados.

Like their commercial banking counterparts, the non-bank financial institutions remained well-capitalised in 2008, although there was a slight deterioration in their capital adequacy ratios.

Liquidity

Developments in commercial bank liquidity in 2008 conformed to the change in direction of deposit growth during the year. Significant deposit accumulation in the first half of the year created generally liquid conditions for commercial banks. However, sizeable net withdrawals during the latter half of 2008 substantially reduced the overall pace of deposit growth and, when combined with a spurt in commercial bank lending, reduced some of the excess liquidity.

With most commercial banks drawing down on their cash as well as deposit holdings at the Central Bank to finance loan demand in the second half of 2008, the excess cash to deposit ratio fell from a high of 5.5% in July to 2.3% at year-end. However, the reduction in commercial



banks' holdings of excess cash was partially offset by increased holdings of Treasury bills ($41.9 million), as central government made more frequent use of short-term debt to finance its operations. Nonetheless, the liquid asset ratio still fell to 9.0%, from a high of 12.0% at June 2008 and the 9.5% witnessed at the end of 2007. Moreover, an analysis of the statement of commercial banks' reserve positions revealed that liquidity within the banking sector was unevenly-distributed, with over 50% of available liquidity being concentrated at one commercial bank.

Government Operations

Revenue

Influenced by the slowdown in economic activity during 2008, total revenue collections expanded at a slower pace when compared with that of 2007. Total government revenue rose by an estimated 0.9%, to approximately $2,462.3 million, which was below the 7.1% increase in 2007 and the average annual rate of growth of 5.6% over the period 2002 to 2006. Tax revenue expanded by 0.5% during the year, attributed principally to an increase in indirect tax receipts. In addition, non-tax revenue and grants rose by $10.9 million, after an upturn of $30.9 million in the previous year. Consequently, by the end of 2008, the ratio of total revenue to GDP had fallen to 33.5% from the 35.8% recorded in 2007.

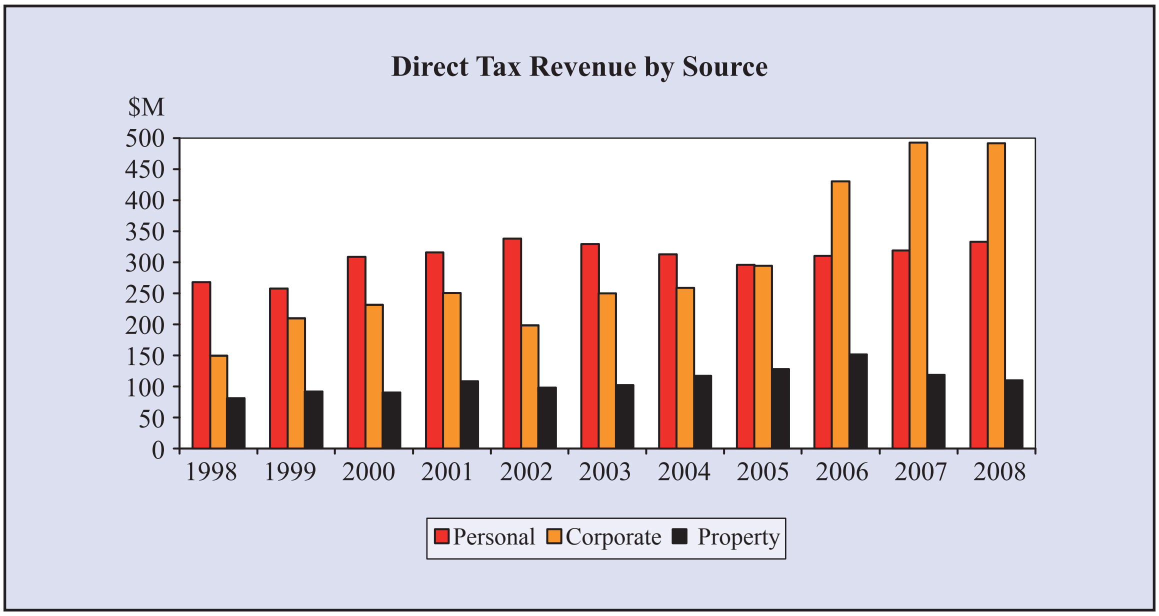
In 2008, direct tax revenues registered a reduction of approximately 4.2%, following a 7.0% expansion one year earlier. This resulted primarily from a 14.8% fall-off in corporate tax receipts, arising partly from a decline in the profitability of international business companies as well as the late processing of corporate taxes that were due in the last quarter of 2008. In their third successive year of expansion, personal taxes rose by 2.3%, partly reflecting the impact of salary increases during the year. Following the revaluations of properties by the Land Tax Department in 2008, collections of property taxes increased by 6.7% in 2008, reversing the 23.8% decline in 2007.

CENTRAL BANK of BARBADOS

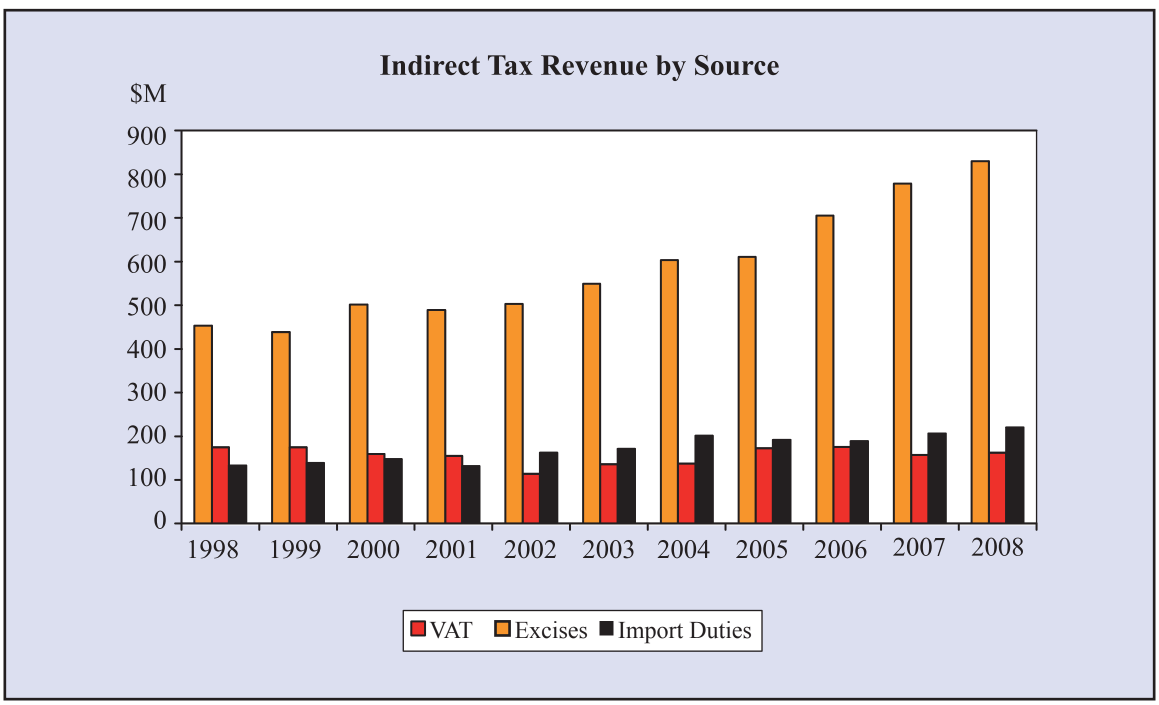
Summary of Government Operations
($ Million)

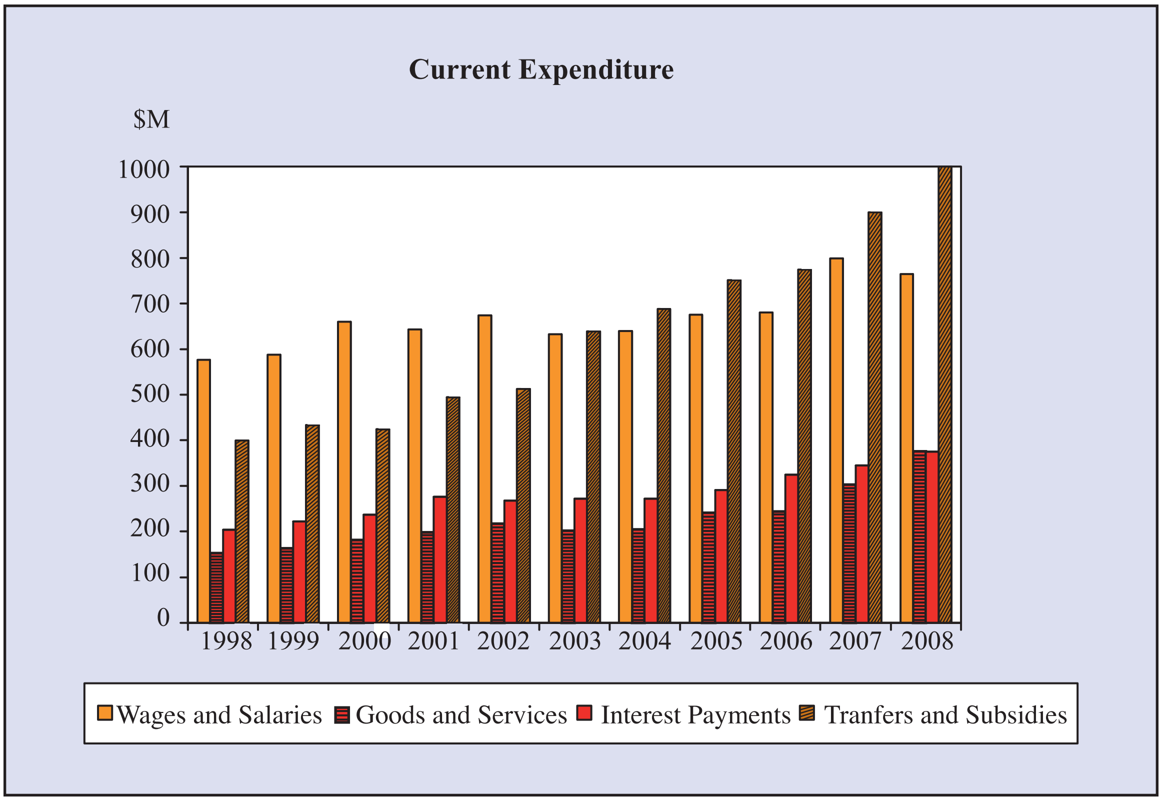
	2002	2003	2004	2005	2006	2007	2008P
Total Revenue	1,712.2	1,843.8	1,895.6	2,021.1	2,278.5	2,440.6	**2,462.3**
Tax Revenue	1,585.0	1,724.4	1,812.7	1,888.9	2,176.0	2,307.2	**2,318.0**
Direct Taxes	691.4	731.1	739.5	766.8	959.2	1026.2	**982.9**
Personal	338.1	329.0	312.6	295.7	310.3	325.3	**332.7**
Corporate	198.5	250.1	258.9	294.3	430.9	499.8	**425.6**
Levies	17.5	4.7	0.0	0.0	0.0	0.0	**0.0**
Property	97.8	101.7	116.9	127.4	151.7	115.6	**123.4**
Other	39.5	45.6	51.1	49.4	66.3	85.5	**101.2**
Indirect Taxes	893.6	993.4	1,073.2	1,122.1	1,216.9	1,280.9	**1335.1**
Consumption	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Stamp	10.9	14.8	18.2	20.8	25.1	24.7	**19.4**
VAT	502.5	548.8	603.2	609.9	704.6	792.5	**802.0**
Excises	113.4	135.4	137.1	172.4	175.7	157.2	**162.7**
Import Duties	162.5	170.6	201.0	191.7	188.6	194.3	**212.7**
Hotel and Restaurant	1.3	0.2	0.0	0.0	0.0	0.0	**0.0**
Other	103.0	123.6	113.7	127.4	122.9	112.2	**138.2**
Non-Tax Revenue & Grants	127.2	119.4	82.9	132.2	102.5	133.4	**144.3**
Non-Tax Revenue	110.6	102.7	64.5	109.8	82.2	107.6	**111.7**
Grants	0.0	0.0	0.0	0.0	0.0	4.0	**7.5**
Post Office Revenue	16.6	16.7	18.3	22.4	20.3	21.8	**25.1**
Current Expenditure	1,671.0	1,736.2	1,804.4	1,959.0	2,038.3	2,324.9	**2,600.0**
Wages and Salaries	673.7	623.6	639.1	676.0	694.1	797.6	**759.8**
Goods and Services	217.4	201.8	204.8	241.3	243.8	311.3	**372.0**
Interest Payments	267.6	271.8	272.1	291.0	324.3	314.2	**394.4**
External	113.3	105.2	114.2	106.1	121.4	111.9	**134.8**
Domestic	154.3	166.6	157.9	184.8	202.9	202.4	**259.6**
Transfers & Subsidies	512.3	638.9	688.4	750.8	776.1	901.7	**1073.9**
Current Account Balance	41.2	107.7	91.1	62.1	240.2	115.7	**(137.7)**
Capital Expenditure and Net Lending	356.3	272.1	215.2	319.2	368.2	241.1	**294.7**
Capital Expenditure	355.2	270.5	213.5	233.4	267.6	203.2	**256.5**
Net Lending	1.2	1.6	1.7	85.8	100.7	38.2	**38.2**
Total Expenditure and Net Lending	2,027.3	2,008.3	2,019.6	2,278.2	2,408.0	2,566.0	**2,894.7**
Fiscal Balance	(315.2)	(164.5)	(124.4)	(257.1)	(129.5)	(125.7)	**(433.3)**
Fiscal Balance to GDP (%)	(6.4)	(3.1)	(2.2)	(4.3)	(2.0)	(1.8)	**(5.9)**

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



Indirect tax receipts increased by about 4.2% in 2008, on account of broad-based growth across the various sub-categories. With the slow-down in real economic activity, value-added tax (VAT) collections were 1.2% higher, compared to an expansion of 12.5% in 2007. In concert with the sharp pick-up in imports, revenue from import duties grew by 9.5%, which compared favourably with the 3% increase one-year prior. Excise taxes improved by approximately 3.5%,



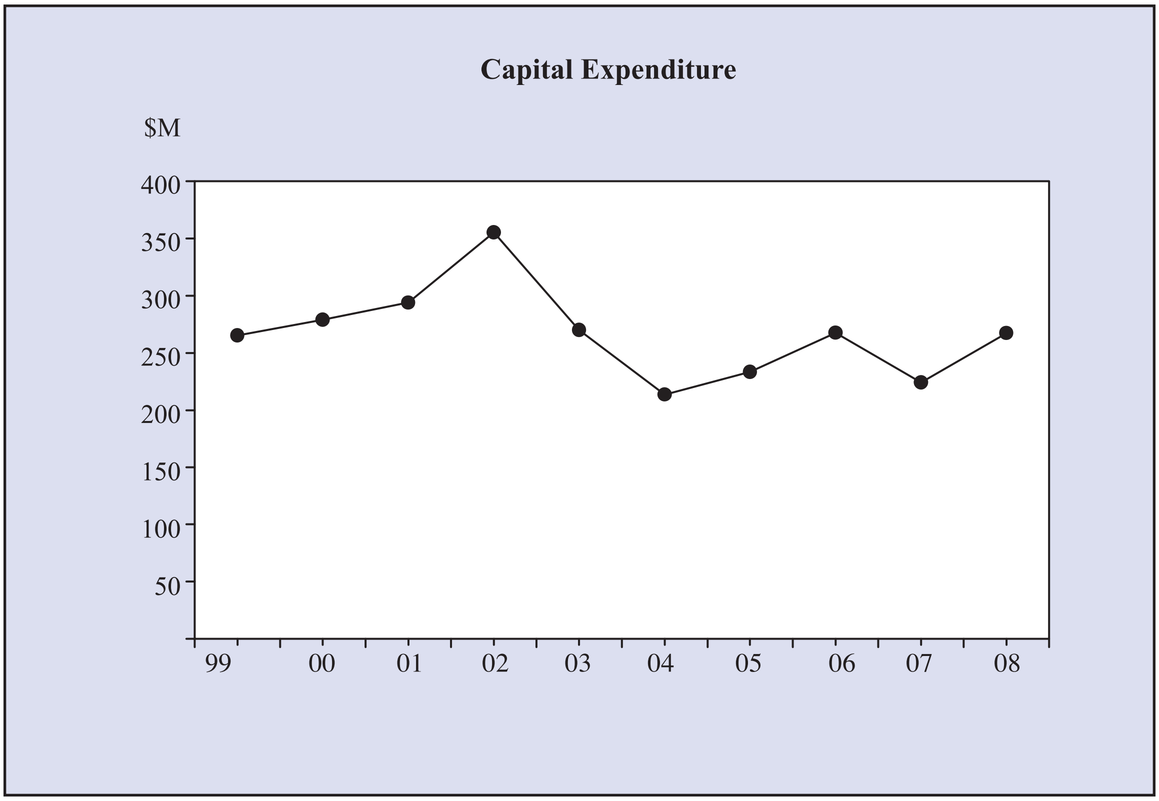


after a decline of 10.5% in 2007, on account of the increase in taxes levied on alcoholic beverages and manufactured tobacco. As result of the rise in the ad valorem rates of the environmental levy, (from 1.5%-2% to 2%-3%), on all local products and imports, miscellaneous indirect tax receipts rose by $26.0 million, in contrast to a decline in 2007.

Expenditure

Following an expansion of 6.6% in 2007, total Government expenditure expanded by an estimated 12.8% during 2008 to approximately $2,894.7 million or 39.3% of GDP. The growth in total expenditure reflected increases in both current and capital outlays.

Current expenditure, boosted principally by higher spending on transfers and subsidies, goods and services and interest payments, rose by 11.8% in 2008, after growing by 14.1% and 4.0% in 2007 and 2006, respectively. Transfers and subsidies were up by 19.1%, owing primarily to supplementary disbursements to the University of the West Indies, the Barbados Agricultural Development and Marketing Corporation, the Barbados Tourism Authority and the Barbados Transport Board. The relatively stronger expansion in subsidies approved for the Barbados Transport Board was as a result of the decision to provide free transportation for children in uniform or with student identification cards, effective September 2008. The supplementary grants to the Barbados Tourism Authority were geared towards restructuring the tourism-marketing programme to concentrate on Barbados' major source markets and those markets critical in maintaining airlift.



Spending on goods and services grew by 19.5% compared to a rise of 27.7% in 2007, on account of the reclassification of some items previously considered as capital expenditure to the goods and services category, as well as the rise in the general price level.

Interest payments, which declined marginally in 2007, were up by approximately 25.5%. Foreign interest payments grew by an estimated 20.5%, mainly on account of contract payments for the new prison. Similarly, domestic interest payments rose by an estimated 28.3%, as government increased the number of securities issued relative to the previous year in an effort to finance its expanding deficit. Wages and salaries contracted by 4.7%, in contrast to a rise of 14.9% a year earlier, when government met its retroactive pay obligations. Of particular note, negotiations for increases in public servants' wages and salaries for the years 2008 and 2009 were concluded near the end of the year. As a result, the agreed increments for wages and salaries stood at 6% in 2008 and 4.5% for 2009.

In 2008, Government's on-budget capital expenditure increased by an estimated 26.2%, owing to greater capital transfers to government institutions. Among those organisations benefitting from these outlays were Caves of Barbados and the Urban and Rural Development Commissions. In addition, work continued on the expansion of the ABC Highway, as well as the rehabilitation of a number of feeder roads.

Financing

With the relatively high level of liquidity in the financial system, Government was able to finance its deficit of $433.3 million (5.9% of GDP), from domestic sources. The expansion in the deficit was the largest since 2005, when capital expenditure and net lending grew substantially owing to infrastructure spending in preparation for CWC 2007.

Funding of the deficit was provided by the National Insurance Scheme, commercial banks and private non-banks, which increased their holdings of Government instruments by $261.3 million, $28.6 million and $142.9 million, respectively. Meanwhile, Government's net borrowing from the Central Bank was $180.1 million, in contrast to net deposits of $56.6 million in 2007.

With no new foreign borrowings during the year, foreign financing mainly took the form of project funds, which totalled $79.1 million, while foreign amortisation payments amounted to $107.8 million.

Government Financing
($ Million)

	2001	2002	2003	2004	2005	2006	2007	2008[P]
Domestic Financing	(136.5)	(345.7)	(5.7)	165.7	03.0	96.6	195.3	**462.0**
Central Bank	(297.3)	283.1	69.6	(22.7)	(103.4)	61.9	(56.6)	**180.1**
Commercial Banks	85.2	139.2	(20.4)	61.1	(73.4)	(168.9)	137.4	**28.6**
National Ins. Scheme	20.6	109.2	25.4	(19.5)	141.4	58.0	154.8	**261.3**
Private non-banks	28.4	19.9	16.1	97.8	190.9	138.9	189.7	**142.9**
Divestment	52.2	0.0	0.0	0.0	0.0	31.4	0.0	**0.0**
Other	(54.2)	(225.8)	(112.5)	48.7	(57.6)	34.9	(230.1)	**(150.9)**
Foreign Financing	316.8	(30.5)	152.0	(41.3)	154.0	31.4	(69.6)	**(28.7)**
Capital Markets	300.0	0.0	0.0	0.0	245.2	135.8	0.0	**0.0**
Project Funds	71.1	51.0	57.5	59.4	30.8	38.8	36.8	**79.1**
Policy Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Amortization	(54.3)	(81.6)	(94.5)	(100.8)	(122.0)	(143.2)	(106.4)	**(107.8)**
Divestment	0.0	0.0	189.0	0.0	0.0	0.0	0.0	**0.0**
Total Financing	180.3	315.1	163.9	124.1	257.1	128.0	125.7	**433.3**

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

Debt

Preliminary estimates indicate that the stock of central government debt expanded by $501.1 million during 2008 to reach $6,003.5 million or 81.5% of GDP, compared to 80.7% one year prior. Since amortisation payments outweighed disbursements during the review period, Government's external debt declined by $25.8 million and amounted to $1,704.3 million (23.1% of GDP) at year-end. In keeping with Government's continued heavy reliance on domestic sources of financing, domestic debt increased and, by the end of the year, represented an even larger proportion (71.6% versus 68.6% at the end of 2007) of total central government debt. Domestic debt expanded by $526.9 million to $4,299.2 million (58.4% of GDP), mainly because the value of outstanding debentures increased by $428.4 million to $3,129.9 million. In sharp contrast to a relatively large expansion in the previous year, the value of outstanding Treasury bills fell by $32.5 million. The $111.2 million growth in short-term domestic debt was therefore a result of additional loans and advances.

Central Administration National Debt
($ Million)

Period Ending	Domestic	External	Total
2000	2,204.1	1,060.9	3,265.0
2001	2,333.3	1,377.8	3,711.1
2002	2,605.4	1,365.9	3,971.3
2003	2,736.1	1,365.6	4,101.7
2004	2,901.5	1,358.3	4,259.8
2005	3,373.4	1,562.7	4,936.1
2006	3,382.7	1,650.7	5,033.4
2007	3,772.4	1,730.1	5,502.5
2008^{p}	**4,299.2**	**1,704.3**	**6,003.5**
% of GDP			
2000	43.1	20.7	63.8
2001	45.7	27.0	72.6
2002	52.6	27.6	80.2
2003	50.8	25.3	76.1
2004	51.2	24.0	75.2
2005	56.5	26.2	82.7
2006	53.0	25.9	78.9
2007	55.3	25.4	80.7
2008^{p}	**58.4**	**23.1**	**81.5**

Source: The Accountant General and Central Bank of Barbados

Composition of Central Government's Domestic Debt
($ Million)

	2002	2003	2004	2005	2006	2007	2008^P
Total Domestic Debt	2,605.4	2,736.1	2,901.5	3,373.4	3,382.7	3,772.4	**4,299.2**
Short-term	505.7	588.2	726.2	789.7	661.9	816.8	**928.0**
Treasury Bills	496.9	580.1	645.9	622.7	488.7	690.3	**657.9**
Loans & Advances	8.8	8.1	80.3	167.1	173.2	126.5	**270.1**
Long-term	2,099.7	2,147.9	2,175.3	2,583.7	2,720.8	2,955.6	**3,371.2**
Debentures	1,981.8	2,006.8	1,955.5	2,295.8	2,389.9	2,701.5	**3,129.9**
Savings Bonds	111.2	108.9	114.9	116.9	107.9	101.5	**93.0**
Loans & Advances	6.8	32.2	104.9	171.0	223.0	152.5	**148.3**

Source: The Accountant General and Central Bank of Barbados

Foreign Trade and Payments

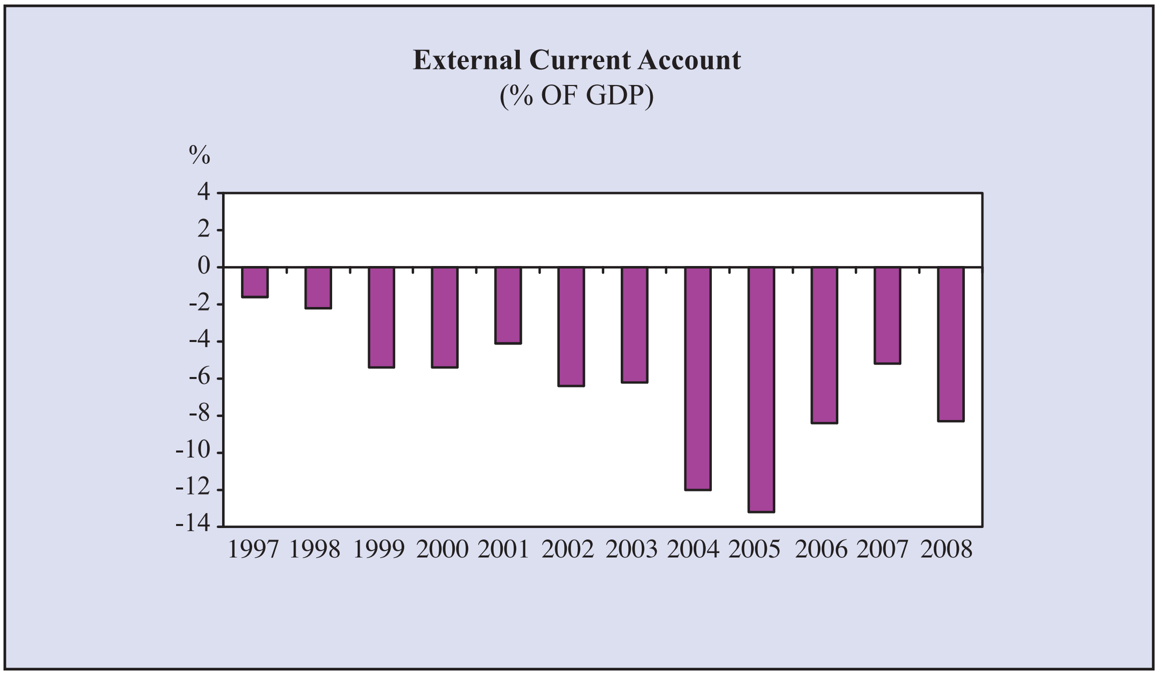
Current Account Developments

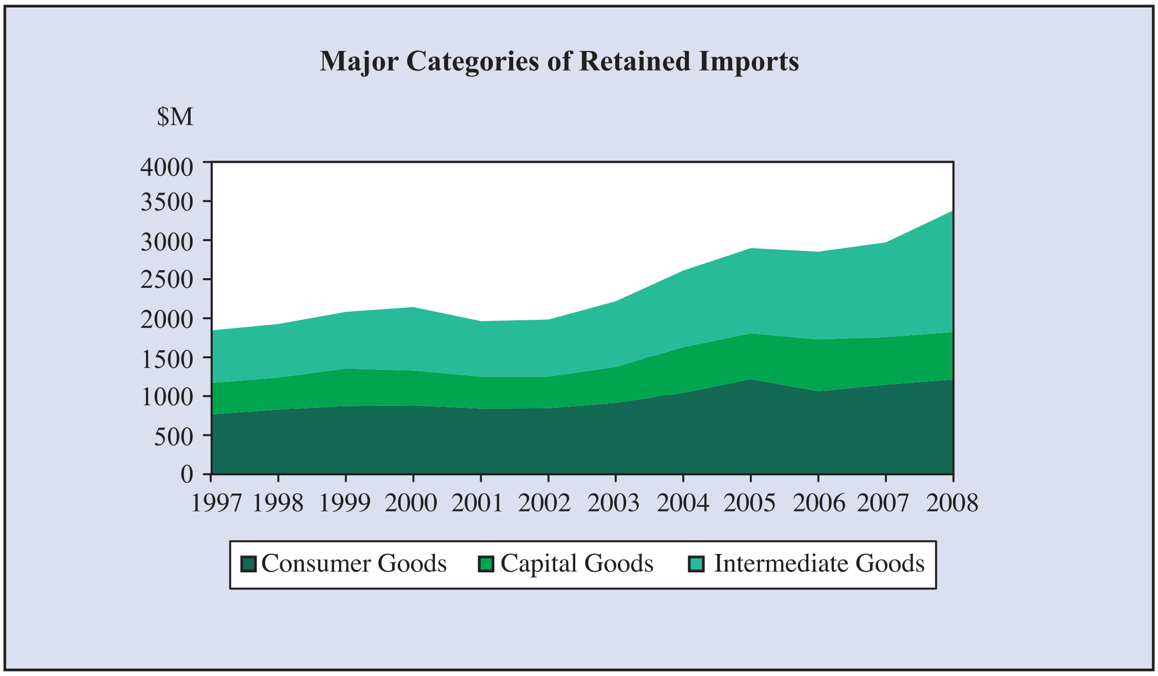
The current account deficit was estimated at 10.4% of GDP in 2008, after falling for two consecutive years from 13.2% of GDP in 2005 to 8.4% and 5.2% of GDP, in 2006 and 2007, respectively. The worsening of the deficit was a direct result of the higher value of retained imports coupled with sluggish growth in travel credits when compared to the previous year.

During 2008, the value of retained imports grew by approximately 13.9%, which was substantially above the 4.1% expansion recorded one year earlier, and marginally higher than the annual average expansion during 2003 to 2005. Consumer goods imports rose by 5.8%, following the 7.9% increase in 2008, owing to the continued rise in the price of food and other commodities. Imports of food and beverages expanded by an estimated 17.4%, more than twice the growth recorded in the previous year. In addition, furniture and pharmaceutical imports rose by 43.1% and 10.6%, respectively, but other manufactured imports fell by 15.5%.

After advancing by 8.1% in 2007, expenditure on intermediate goods imports in 2008 soared by 28.7% or $348 million, the highest on record, owing to sharp increases in oil prices. The value of retained imported fuel almost doubled, rising by an estimated $288.5 million, compared to the $80.2 million increase one year earlier. Higher outlays were also registered for crude materials ($15.7 million), fats ($13.5 million), chemicals ($18.3 million) and iron and steel ($9.6 million). Spending on capital goods fell marginally by 0.9% during 2008, following the 8.0% decrease in 2007, primarily due to a 0.6% decline in imported machinery.

Exports of domestic goods rose for the fifth consecutive year, growing by 1.7%, but well below the 5.1% growth recorded in 2007. After a sharp reduction of 42.5% in 2007, the export of electronic components increased by an estimated 8.0%. This was the result of aggressive marketing programmes put in place by major exporters to source new markets and to improve their client base by providing newer product lines at lower costs, following a decline due to a drop in exports of resistors


External Current Account
(% OF GDP)
%
4
2
0
-2
-4
-6
-8
-10
-12
-14
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008


Major Categories of Retained Imports
$M
4000
3500
3000
2500
2000
1500
1000
500
0
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Consumer Goods
Capital Goods
Intermediate Goods

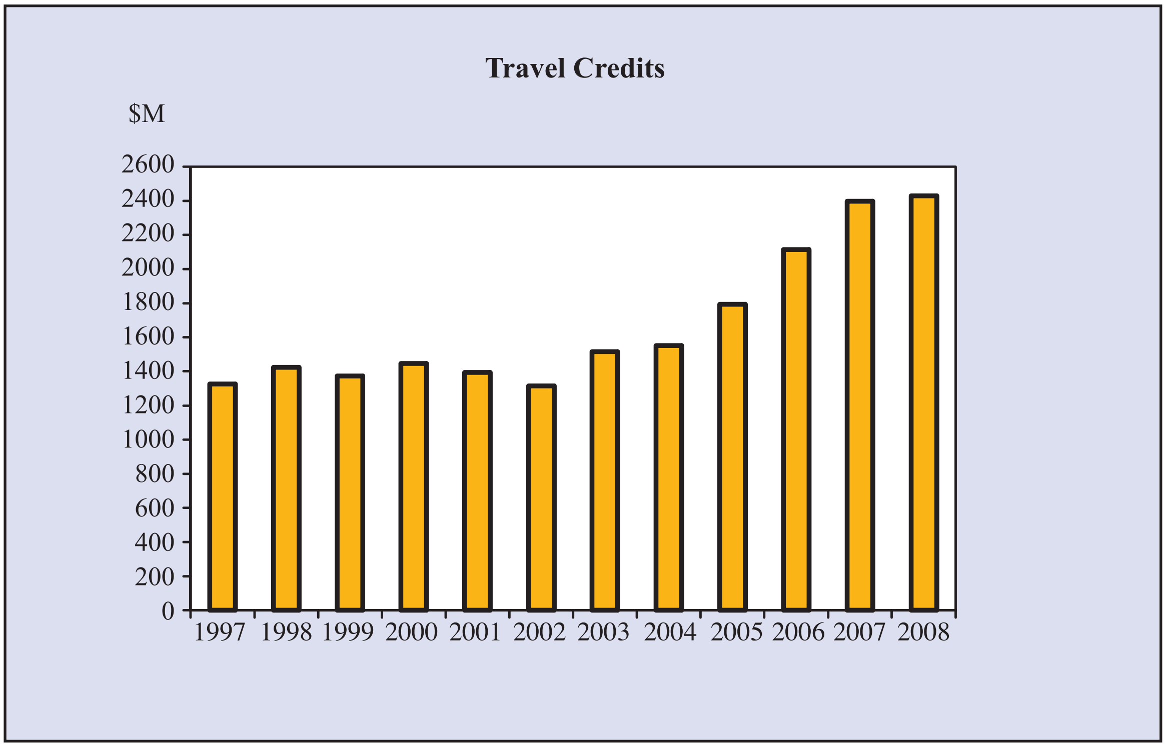
to automakers one year earlier. In addition, chemical exports declined by 10.5%, in contrast to the 23.9% increase in the previous year.

During 2008 rum exports fell by 2.3%, whereas proceeds from the export of food and beverages expanded by 6.8%, much slower than the 34.5% growth recorded in 2007, when the sale of rum grew by 52.5%. Sales of lard and margarine, other beverages and miscellaneous food items grew by 28.4%, 29.3% and 7.2%, respectively. Sugar receipts fell by 2.5%, a reversal from the 3.5% growth in 2007, primarily owing to the late start of the sugar harvest, which resulted in 4000 tonnes less of sugar cane harvested.

Net foreign receipts from services increased by an estimated 0.8%, after rising by 13.8% in 2007. Spurred by ongoing marketing and promotional programmes in core tourist markets, tourism receipts grew for the sixth successive year, climbing by 1.3%. This growth compares with the 13.5% expansion recorded in 2007 when some of the CWC matches were hosted in the second quarter of the year. Higher travel fares and freight costs, arising from escalating oil prices, raised net outflows for transportation services by 1.5%. Net income outflows decreased by 15.6% as the remittance of dividends and profits by foreign firms domiciled in Barbados declined in line with the slowdown in economic activity.

Capital and Financial Account Developments

The capital and financial account narrowed for the first time since 2004, with an estimated surplus of $358.4 million less than half the balance reported in 2007 as smaller net private capital inflows were recorded relative to the large inflows one year earlier. Net long-term public sector outflows were estimated at $43.1 million, compared to $144.3 million in 2007. Net long-term private sector inflows declined in 2008 to approximately $377.5 million, relative to $1,460.9 million reported during the previous



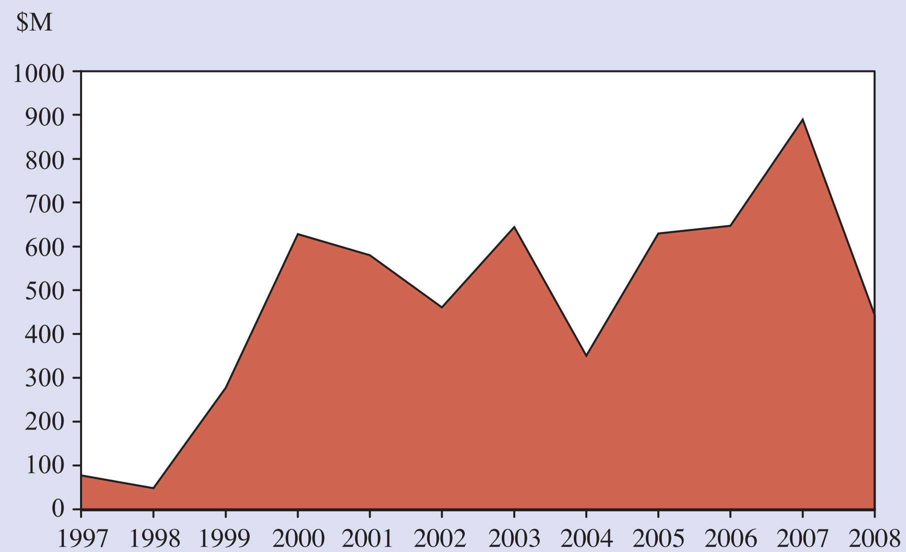
year. During 2008, private sector outflows were dominated by the remittance of the proceeds from the sale of real estate and principal repayments on loans by the private sector. Furthermore, net short-term outflows were estimated at $41.6 million, significantly lower than the $476.9 million in 2007. Other capital inflows amounted to $65.6 million and comprised mainly deposits of non-residents.

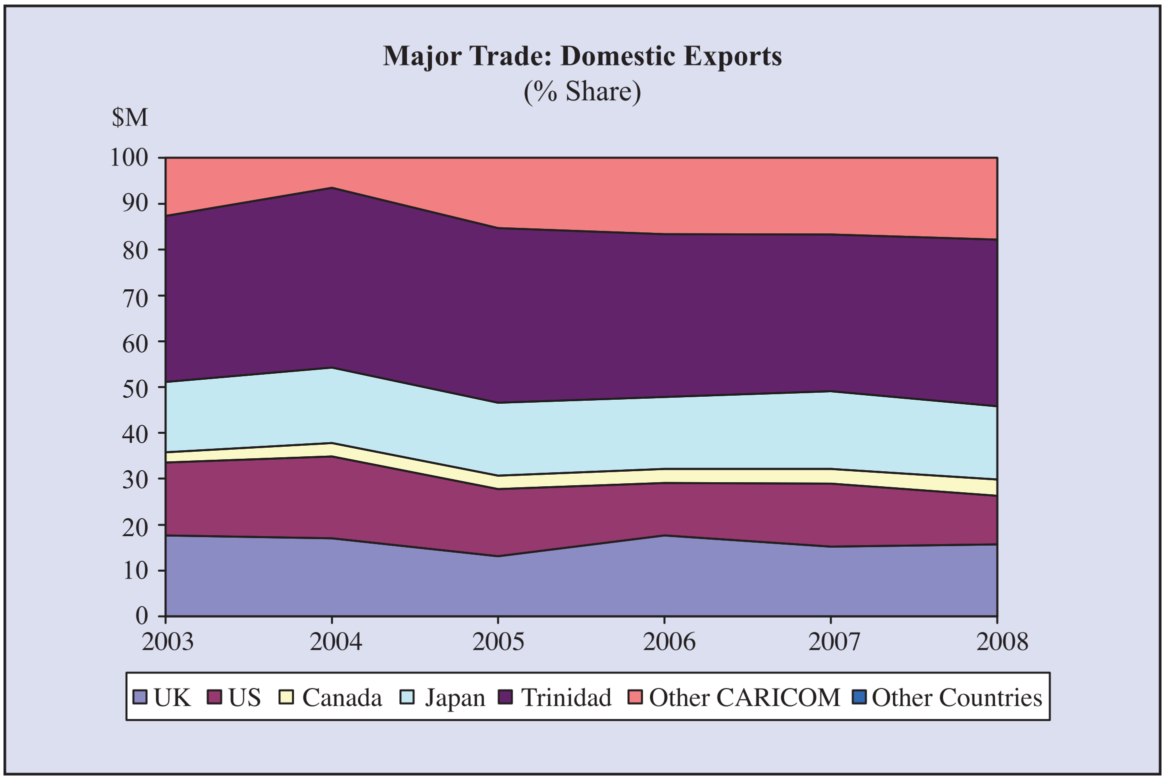
Direction of Trade

The value of total imports of merchandise goods during 2008 increased by 10.0%, twice the rate of growth recorded one year earlier and three percentage points below the growth rate in 2005. Imports from the US expanded by 8% during the year in review, following a decrease of 2.3% in 2007, primarily owing to the hike in food and other commodity prices, evidenced by outlays for soya beans, wheat and corn. Goods imported from the UK fell by 13.5%, a complete reversal from the 12.4% growth recorded in the previous year. This sharp decline was a result of a $29.7 million decrease in the imports of telecommunications and sound recording apparatus. In contrast, purchases of Japanese products rose by 6.4%, a turnaround from the 1.0% drop one year earlier, as the import of motorcars grew by $10.4 million. Goods from Canada also increased by 2.3%, after declining by 1.5% in 2007.

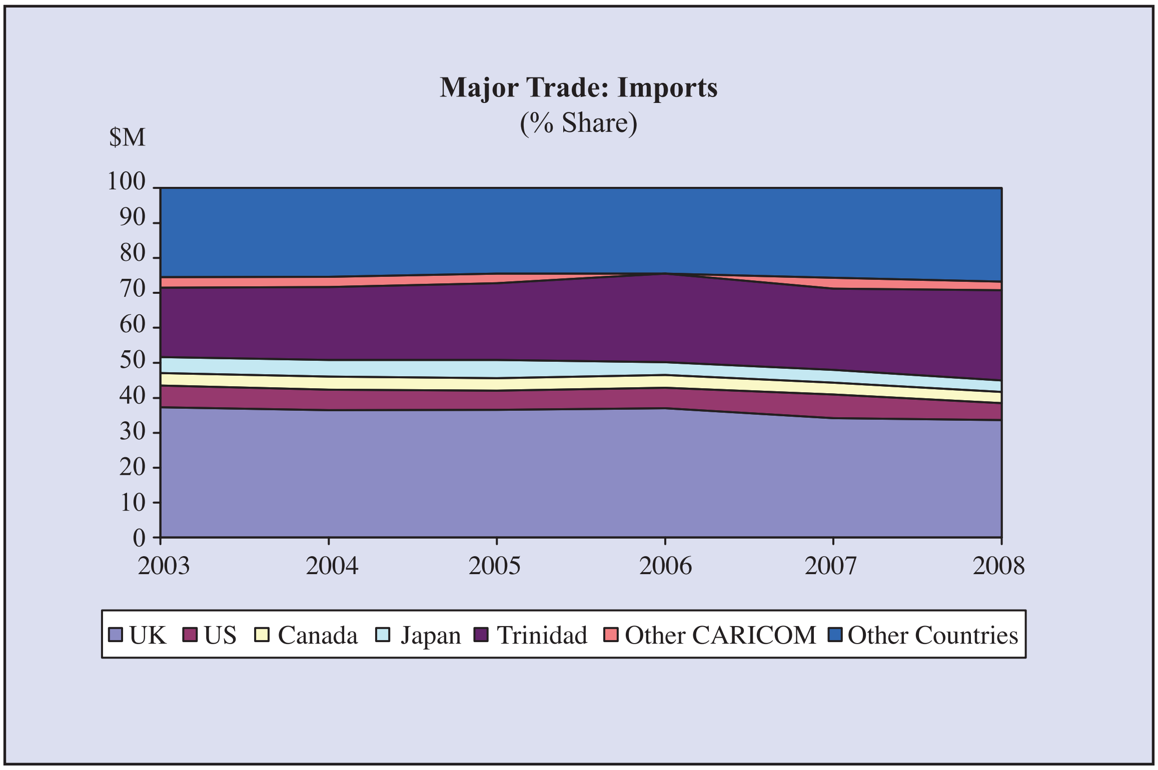
Imports from CARICOM grew by 23.7% during 2008, significantly higher than the 3.7% growth recorded in 2007. Goods originating from Trinidad and Tobago surged by 28.5%, as a result of an increase ($259.3 million) in imported fuel, a direct result of the high oil prices during the period. Additionally, imports from Guyana and the Organisation of Eastern Caribbean States (OECS) grew marginally, following expansions

Capital and Financial Account Flows





Major Trade: Domestic Exports
(% Share)
$M
100
90
80
70
60
50
40
30
20
10
0
2003
2004
2005
2006
2007
2008
UK
US
Canada
Japan
Trinidad
Other CARICOM
Other Countries



Major Trade: Imports
(% Share)
$M
100
90
80
70
60
50
40
30
20
10
0
2003
2004
2005
2006
2007
2008
UK
US
Canada
Japan
Trinidad
Other CARICOM
Other Countries

of 7.3% and 7.1%, respectively, in the previous year. Conversely, goods from Jamaica fell by 33.4% as a result of a reduction in the purchases of transmission apparatus.

Balance of Payments
($ Million)

	2003R	2004R	2005R	2006R	2007R	2008P
Current Account	-335.2	-678.5	-785.7	-534.4	-362.0	**-763.6**
Merchandise Trade Balance	-1,627.5	-1,963.4	-2,140.0	-2,022.0	-2,092.6	**-2,447.5**
Total Credits	503.7	556.9	718.9	882.4	962.9	**921.8**
Exports BOP	397.5	422.4	533.5	655.1	729.5	**655**
Total Debits	2,131.2	2,520.3	2,863.0	2,905.2	3,055.4	**3,369.3**
Imports (BOP)	2,131.0	2,520.0	2,862.8	2,905.2	3,051.2	**3,367.9**
Domestic Exports	329.2	346.9	422.1	497.1	522.4	**531.2**
Retained Imports	2,220.5	2,616.3	2,911.0	2,867.3	2,968.7	**3,399.1**
Services (Net)	1,144.3	1,173.3	1,280.2	1,449.9	1,649.5	**1,652.4**
Of which Travel Credits	1,515.7	1,551.0	1,793.5	2,113.5	2,398.2	**2,383.4**
Income (net)	-184.4	-207.9	-297.2	-399.9	-201.4	**-169.9**
Current Transfers (net)	332.7	319.9	370.3	432.2	290.7	**201.4**
Capital and Financial Account	644.3	350.6	629.6	647.4	889.6	**358.4**
Errors and Omissions	66.3	-12.5	17.9	-25.1	31.5	**-93.3**
Overall Surplus (+)/ Deficit (-)	375.8	-340.5	-138.2	82.7	556.6	**-498.5**
Net Official Financing	-	-	-	-	-	-
IMF	-	-	-	-	-	-
Other Monetary Authority	-	-	-	-	-	-
Other Financial Institutions	-	-	-	-	-	-
Change in Foreign Reserves (-increase/+decrease) (CBB basis)	-375.8	340.5	138.2	-82.7	-556.1	**498.5**
Adjusted by commercial banks' position (Net)	238.9	-27.6	-184.3	125.2	202.6	**-307.2**
Change in Net International Reserves (NIR)	-136.9	312.9	-46.1	42.5	-353.9	**191.3**

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

Merchandise exports increased by 1.7% in 2008, some 3.4 percentage points below the growth rate registered in the previous year. Exports to the US grew by 1.3% ($1.0 million) during the review period, after falling by 7.3% in 2007. Sales to the UK continued to decline, decreasing by 0.5% in 2008. Conversely, goods exported to Canada continued to grow moderately.

Merchandise going to CARICOM continued to expand, growing by 2.4%, after a 4.5% rise in 2007. Guyana absorbed an additional $8 million during the review period, as receipts for building (grey) cement grew by $7.4 million. Exports to the OECS countries also rose by 5.4%, primarily attributable to higher sales of prefabricated steel structures to St. Kitts and Nevis and St. Lucia of $22 million and $0.5 million, respectively. In contrast, sales to Jamaica declined by 7.6% in 2008, due to the fall in exports of metal containers.

Regional Economic Developments

Economies across the region were not spared the negative effects of the deteriorating global economic environment in 2008. Among the sectors severely affected was the tourism sector where most regional economies recorded declines in long-stay and cruise arrivals. The major challenge for several regional economies was record high international commodity prices, particularly for oil, which increased by over 58% during the first half of the year when compared to the price at the end of 2007. Consequently, many countries registered widened external current account deficits and elevated inflation rates. Agricultural output also fell significantly, due to higher input costs and unfavourable weather conditions. In response to the strong inflationary pressures, many central banks aggressively tightened their monetary stance over the year.

Available data indicated that economic conditions within regional economies continued to deteriorate, as the negative effects of the turmoil in the global financial sector became more entrenched in real sector activities. As in the case of Barbados, there was evidence of substantial declines in regional tourism, which resulted in noticeable growth in unemployment. At the end of 2008, stop-over tourist arrivals in the Bahamas and Belize fell by approximately 2.8% and 2.6%, respectively, while cruise arrivals in these countries at the end of October declined by an estimated 5.8% and 4.3%, respectively, in spite of the downward trend in the cost of international crude oil towards the end of the year. Recorded tourism activity for the OECS also slowed, as most territories experienced contractions in their long-stay visitors, ranging from 4.1% in Grenada to 10.8% in Anguilla. Antigua & Barbuda and St. Lucia were the only countries in the group to post growth, where stopover arrivals increased by 1.5% and 2.9%, respectively. The overall outturn for Antigua & Barbuda largely reflected favourable economic conditions in some major source markets and the hosting of the Stanford 20/20 cricket tournament, while for St. Lucia the outturn was influenced by additional chartered flights from Canada and additional airlift by a regional carrier out of Barbados. In addition, stopover arrivals to Jamaica grew by 3.9% over the review period on account of increased airlift and the opening of a major hotel during the first quarter of the year. In contrast, cruise passengers fell by 7.7% during the period.

Inflation accelerated for most countries in the region. In Jamaica, inflation climbed to 16.8% by the end of September 2008 – some 7.9 percentage points above the comparable period in 2007 – with the most significant contributors being food and non-alcoholic beverages, housing, water, electricity, gas and other fuels and transport. Likewise, Trinidad and Tobago recorded an increase in inflation from 7.6% in December 2007 to 14.5% at the end of December 2008, with food and non-alcoholic beverages being the dominant drivers. The 12-month moving average rate of inflation for the Bahamas stood at 4.5% at the end of December, just two percentage points above the figure in 2007. The main contributors to the higher prices were furniture and household operations (6.8%), food and beverages (6.7%), medical care and health (5.0%), and transport and communication (3.0%). For the review period, inflation in Belize rose from 2.4% (at the end of 2007) to 6.9%, reflective of significant increases in the prices of transportation and communication, rent, water, fuel and power, and basic food items such as flour, bread, rice and chicken.

In an effort to subdue rising inflationary pressures, some regional central banks tightened their monetary policy stance during the review period. The Bank of Jamaica increased its open market rates by over 200 basis points across the entire spectrum of open market operations (OMO) instruments in December 2008, after raising that rate by 100 basis points in January 2008 and by an additional 85 basis points one month later. During 2008, the Central Bank of Trinidad and Tobago raised its reporate by 25 basis points to 8.25% in February and by 50 basis points to 8.75% in September. The reserve requirement on commercial banks was also increased from 11.0% in the earlier part of the year, to 17% by the end of November. As a result, prime lending rates rose to 13% in October, compared with 11.75% in February. Increases in open market operations and foreign exchange sales were also undertaken to tighten liquidity conditions and ease inflationary pressures.

Across the region, external current account developments were mixed. By the end of June 2008, the current account deficits of Jamaica and Guyana had widened by US$1,391.0 million and US$163.6 million respectively, on account of higher payments for fuel, food imports and other merchandise trade. After recording surpluses over the previous two years, the current account deficit of Belize rose to US$284.4 million for the year under review, owing mostly to a substantial rise in the trade deficit, commercial bank repatriations, and a reduction in inflows from tourism and grants. On the other hand, the current account deficit in the Bahamas narrowed by approximately 42.0% to an estimated US$148.6 million during the second quarter when compared to the previous year. This outcome was largely due to a 32.8% falloff in net non-oil imports, which was offset by a 38.1% increase in oil payments and relatively flat growth in tourism earnings. With respect to Jamaica, Guyana and the Bahamas, improvements were registered on their capital and financial accounts, ranging from US$184.6 million in Guyana to US$793.1 million in Jamaica.

Agricultural output fell significantly throughout the region because of inclement weather conditions and high costs of production. Export agriculture in Jamaica in particular continued to reflect the adverse impact of Hurricane Dean in 2007, with some added effects from Tropical Storm Gustav in 2008. There was damage to root crops, vegetables, and livestock, as well as to farming infrastructure such as, farm buildings, irrigation facilities and farm equipment. The storm also affected export agriculture, mainly bananas and coffee; approximately 70-85% of the banana crop was destroyed with relatively minor damage to coffee and sugar-cane fields, which hindered production. With regard to coffee, preliminary estimates indicated that approximately 6.0% of the crop was destroyed. Agricultural output in the OECS contracted on account of reduced banana production, while in Trinidad and Tobago output was tempered by rising costs and labour and raw material shortages, as well as the decision to end sugar production in 2007. As a result of increased rice, sugar, and livestock production, Guyana's agricultural sector registered marginal growth of 0.3% over the first six months of the year, compared to growth of 5.6% in the corresponding period of 2007.

In 2008, mixed performances were reported for construction in the region, in contrast to 2007 when this sector provided the main impetus for growth. Construction activity in Jamaica continued to be sluggish relative to 2007, primarily due to a fall-off in activity in the residential sector. Furthermore, activity in the sector was adversely affected by disruptions in the transportation of building materials as a result of Tropical Storm Gustav. Output within the construction sector in the Bahamas continued to moderate as the pace of lending for local mortgages slowed relative to 2007. In the OECS, value-added in the construction sector grew but at a slower rate than in 2007. Conversely, construction activity in Trinidad and Tobago continued to be robust, as work proceeded on a host of private and government projects.

International Economic Developments

The volatility in international financial markets, which was first evident in 2007 following the collapse of the US sub-prime mortgage market, continued into 2008. Its dampening effects on demand in the more advanced economies curbed global growth in the first half of the year, whereas record-high international commodity prices and a depreciating US dollar drove up inflation. In the second half, however, what was by then a full-scale financial crisis depressed demand in the advanced economies even further, which helped to stabilise prices but also catapulted the world economy into a severe downturn. With the easing of inflationary pressures giving them more room to manoeuvre, policymakers responded aggressively with various counter-cyclical measures.

Advanced Economies

Since the onset of the sub-prime crisis and the first signs of rising inflationary pressures in the latter half of 2007, consumer and investor confidence had been progressively weakening in the US. As confidence waned, so did domestic demand and therefore economic activity, which was reflected in slowing output growth and rising unemployment through the first quarter of 2008. The authorities therefore responded with expansionary measures designed to stimulate demand.

A series of interest rate cuts by the US Federal Reserve (Fed) reduced the target Fed Funds rate to 2.0% as of April 2008, while the government initiated a US$168 billion package of tax rebates in May. The tax rebates helped bolster personal consumption expenditure, even as lower interest rates contributed to the ongoing depreciation of the US dollar, which boosted exports. Growth was therefore higher than expected in the first half of 2008 at 2.3%, compared to 1.5% a year earlier. However, the impetus from the economic stimulus was relatively short-lived: personal spending was flat in August following two consecutive months of negative readings, implying a slowdown in consumer demand.

Several factors contributed to this continued softening of demand. In the US the general credit squeeze that had developed out of the sub-prime crisis was persisting despite the Fed's interest rate cuts, while labour market conditions were increasingly tight, with the

Key Economic Indicators: Advanced Economies

Countries	Real Output (% Growth)		Unemployment (%Rate)		Inflation (% Rate)	
	2007	2008	Dec. 2007	Dec. 2008	Dec. 2007	Dec. 2008
United States	2.0	**1.1**	4.9	**7.2**	4.1	**0.1**
Canada	3.1	**3.8**	5.9	**6.6**	2.4	**1.2**
Euro Zone	2.6	**0.7**	7.3	**8.1**	3.1	**1.6**
United Kingdom	3.1	**0.7**	2.5	**3.6**	2.1	**3.1**
Japan	2.4	**-0.6**	3.7	**4.3**	0.7	**0.4**

Source: Various Central Banks and National Statistical Offices

monthly unemployment rate reaching a near five-year high of 6.1% in August. At the same time, disposable incomes were being eroded, as the depreciating dollar and higher energy costs continued to drive inflation, which peaked at 5.6% in July (the highest level since January 1991) before subsiding slightly to 5.4% in August. Thus, despite the persistent weakness of demand, the US authorities decided against further monetary and fiscal measures in the third quarter, on concern that any additional stimulus would exacerbate inflationary pressures.

Meanwhile, policy-makers in other major economies were also encountering difficulties in attempting to mitigate the knock-on effects of the US slowdown and sustain output growth, while simultaneously combating inflation. Growth in the Canadian economy, for example, slowed to 0.6% between January and June from 2.5% a year earlier, tempered by the weak performances of the US and its other major trading partners. After lowering its target overnight rate by 1.5 percentage points between December 2007 and April 2008 in an effort to boost growth, the Bank of Canada (BOC) held the rate at 3.0% from then on, in view of the fact that inflation was consistently running above its 2.0% target. Similarly, although first-half growth in the UK and the Euro zone slowed to 2.0% and 1.7%, respectively, from 3.1% and 2.9% a year earlier, the Bank of England (BoE) and the European Central Bank (ECB) were reluctant to cut rates in the face of significant inflationary pressures. As a result, the BoE kept its rate on hold following a quarter-point cut in February, while the ECB abandoned the neutral stance adopted since June 2007, raising its key policy rates in July.

However, international commodity prices fell by 20% between August and September after rising steadily between January and July, as oil prices declined sharply and food costs fell in line with slowing global demand. Consequently, inflationary pressures in most economies began to show signs of easing. October data releases revealed that inflation in the US and the Euro zone had subsided from July peaks of 5.6% and 4.0%, respectively, falling to 4.9% and 3.6% respectively in September, while Canada's rate had peaked at 3.5% in August before abating to 3.4% in September. Although data for the UK showed higher inflation in September (5.2%), price pressures had already begun to recede, as tightening labour market and credit conditions and falling equity and housing prices all weighed on domestic demand, thereby moderating inflationary pressures.

Whereas concerns about inflation were beginning to fade, growth was progressively weakening in the major economies. In the US, shattered confidence and scarce credit weighed heavily on aggregate demand, stoking fears that the economy was tipping into a recession. In effect, estimates for the third quarter showed real GDP growth slumping to 0.7%, bringing the cumulative rate for the first three quarters down to 1.8% from 2.0% for the comparable period of 2007, as personal spending remained flat through September. With US demand flagging and international commodity prices falling, Canadian output was flat in September after growing 3.0% a year earlier, according to monthly estimates of production. Similarly, UK growth dwindled to 0.3% during the third quarter and an average of 1.5% for the January-September period, down from 3.3% and 3.0% a year earlier, as stagnating domestic demand curbed consumer spending, business investment and real estate activity. Euro zone estimates indicated that output growth slowed to 0.6% in the third quarter and 1.4% for the first three quarters from 2.6% and 2.8%, respectively, in 2007.

The diminished prospect of stagflation provided sufficient scope for coordinated monetary policy intervention by the advanced economies in a bid to stimulate global demand and shoreup growth. Accordingly, the Fed, the BOC, the BOE and the ECB, along with other major central banks, announced reductions in their key policy rates on October 8. By the end of the year all of these rates had been reduced even further, with the US Fed Funds rate and the BOE bank rate reaching new historical lows, while the Bank of Japan (BOJ) had lowered its rate for the first time since February 2007.

Despite this aggressive monetary easing by the major central banks, economic releases continued to paint a particularly bleak picture. It was announced that the US had been officially in recession since the end of 2007, as reflected especially in the soaring jobless rate, which had climbed to 7.2% by December, a level last recorded in January 1993. Preliminary GDP estimates also revealed that real output had declined by 0.7% in the fourth quarter, bringing total growth for 2008 to just 1.3%, the lowest since the 1.1% posted in 2001 in the aftermath of September 11th. The UK and Japan were also deemed to be in recession — defined as two consecutive quarters of declining GDP — after registering declines in the third and fourth quarters. France and Germany, two of the largest economies in the Euro zone, were both on the verge of recession after recording declines in output during the fourth quarter.

With the other major advanced economies either already in, or slipping into, recession, the Canadian economy continued to display considerable resilience going into the fourth quarter, on the strength of sound domestic fundamentals. However, the impact of the global slowdown became more noticeable toward the end of the year, as economic conditions started to deteriorate significantly, particularly in terms of housing, employment and consumption.

Emerging Markets and Developing Economies

Central banks in many emerging markets and developing economies had been pushing up policy rates to stave off inflationary pressures in the first half, but these pressures began to ease toward the end of the third quarter, tracking global trends. In China, for instance, the point-to-point rate of inflation was 1.2% in December, down from 6.59% a year earlier, and marked the lowest rate since January 2006. South Korea's inflation rate gradually tapered off to 4.1% in December, having peaked at 5.9% in July. Although headline inflation in key Latin American economies remained at somewhat

Key Economic Indicators: Emerging and Developing Economies

Countries	Real Output (% Growth)		Foreign Reserve (US $Billion)		Inflation (% Rate)	
	2007	2008	Dec. 2007	Dec. 2008	Dec. 2007	Dec. 2008
Argentina	8.6	**7.0**	28.3	**29.2**	8.5	**7.2**
Brazil	5.9	**5.1**	113.6	**125.2**	4.5	**5.9**
Chile	4.8	**2.9**	10.7	**15.0**	7.8	**7.1**
Mexico	3.3	**1.4**	55.1	**61.8**	3.8	**6.5**
Venezuela	8.4	**4.9**	15.7	**21.9**	22.5	**31.9**
China	11.8	**9.1**	96.6	**118.5**	6.5	**1.2**
Hong Kong	6.3	**2.7**	n.a.	**n.a.**	3.8	**2.1**
India	9.2	**7.4**	169.4	**161.0**	5.5	**9.7**
Indonesia	6.3	**6.1**	34.9	**32.3**	6.6	**11.1**
Malaysia	6.3	**4.7**	64.0	**59.2**	2.4	**4.4**
Singapore	7.8	**1.3**	103.1	**113.1**	4.4	**4.3**
South Korea	4.9	**2.8**	165.9	**130.6**	3.6	**4.1**
Thailand	4.9	**2.7**	54.0	**70.6**	3.2	**0.4**
Taiwan	5.7	**0.2**	171.5	**189.9**	3.3	**1.3**
Russia	8.1	**5.6**	295.3	**268.4**	11.9	**13.3**

Source: Various Central Banks and National Statistical Offices
n.a: Not available

elevated levels throughout most of the year, by year-end they too had started to ease.

On the output side, most of the major emerging economies managed to sustain moderate rates of growth during the first half of the year. Their resilience was largely attributable to robust domestic, and increasing regional, demand for exports, which mitigated the effects of lower exports to the advanced economies. However, entering into the second half, emerging markets relying on capital inflows to finance large current account deficits were hurt, as global financing conditions tightened and international capital started to flow. outward. Those countries with strong trade links with the US and Europe were adversely affected by the fall-off in demand in Europe. Consequently, emerging economies began to register much greater spillovers to the real economy via both trade and financial channels.

Among emerging Asian economies, Singapore and South Korea were particularly hard-hit by reduced US and European demand, as well as the global financial crisis. GDP estimates indicated a 2.6% fourth-quarter contraction in the Singaporean economy, following a 0.5% decline in the third, taking overall growth for the year to 1.2%, down from 7.8% in 2007. Meanwhile, Korean growth slowed to approximately 2.8% from 4.9% a year earlier. Even the dynamic Chinese economy cooled somewhat amid reports of factory closures, growing by an estimated 9.1%, which was 2.7 percentage points below the expansion recorded in 2007 and the first single-digit annual increase registered since 2005.

In Latin America, economic activity was also showing signs of deceleration, amid declining global demand and falling commodity prices. Given its high degree of exposure to the US economy and dependence on oil export revenues, Mexico saw a severe contraction in export growth, which pulled down overall economic growth from 3.3% in 2007 to 1.4% in 2008. Similarly, output in Brazil was negatively affected by lower commodity prices, as well as reduced capital and financial inflows, falling to 5.1% in 2008 from 5.9% a year earlier.

With inflation concerns taking backstage to worries about deteriorating trade balances and diminished growth prospects, central banks in emerging Asian markets started to reverse course and loosen monetary policy. Countries across Asia also implemented fiscal stimuli via infrastructure spending, subsidised public services, housing, tax cuts and benefits for lower income groups and the unemployed.

In contrast, with inflationary pressures proving more persistent in Latin American economies, regional central banks' monetary policy stances generally maintained an anti-inflationary bias. However, in response to the increasing tightness of global financial markets, several central banks in the region implemented measures aimed at easing domestic liquidity conditions.

Commodity Prices

The slowdown in global demand had a stabilising effect on international commodity prices, which fell by 55% between August and December after rising by 40% between January and July. The fall-off in commodity prices in the latter part of the year was due largely to a decline in oil prices. The price of oil was $41.53 per barrel in December, the lowest level since December 2004, having peaked at $132.55 per barrel in July. Food and metal prices, which had previously contributed significantly to rising commodity prices, also declined in the latter part of the year.

Selected Commodity Prices

Commodity/Index	Dec-2007	Dec-2008	% Change
Total (Index of Market Prices)	156.1	**98.0**	-37.2
Non-Fuel (Index of Market Prices)	142.8	**108.9**	-23.7
Food (Index of Market Prices)	145.1	**119.6**	-17.6
Bananas (US ¢ / metric ton)	648.5	**842.5**	29.9
Rice (US $ / metric ton)	378.0	**550.8**	45.7
Soybeans (US $ / metric ton)	423.1	**318.8**	-24.6
Sugar (US ¢ / lb)	33.6	**24.7**	-26.6
Wheat (US $ / metric ton)	368.6	**220.1**	-40.3
Metals (Index of Market Prices)	162.6	**103.4**	-36.4
Aluminium (US $ / metric ton)	2,382.8	**1,504.4**	-36.9
Copper (US $ / metric ton)	6,630.7	**3,105.1**	-53.2
Iron Ore (US ¢ / metric ton unit)	84.7	**140.6**	66.0
Gold (US $ / troy ounce)	833.7	**882.1**	5.8
Silver (US $ / troy ounce)	14.8	**11.4**	-23.0
Petroleum (US $ /barrel)*	89.4	**41.5**	-53.6

Source: IMF Commodity Prices and Bloomberg LP
* Simple average of Dated Brent, West Texas Intermediate and Dubai spot prices

The Global Financial Crisis:
Key Developments And Policy Responses

What had begun as a problem in the US sub-prime mortgage market in the latter half of 2007 worsened during 2008, evolving first into a credit crunch and then into what analysts have described as the worst financial crisis in the US since the Great Depression of the 1930s. At each stage, there were significant global repercussions, as international markets froze and institutions collapsed or teetered on the brink. Interventions by policymakers around the world were aimed at injecting liquidity into these frozen markets, bolstering the balance sheets of weak institutions and limiting the real-economy impact of the ongoing financial turmoil. Toward the end of the year, as the crisis increasingly took on more global proportions, the International Financial Institutions (IFIs) began to play a greater role in guiding and implementing the global policy response.

US Origins of the Crisis and Initial Response

In the wake of the terrorist attacks of September 11, 2001. Low lending rates, as well as new financing techniques based on securitisation and relaxed lending standards, made mortgages more accessible even for sub-prime borrowers, fuelling a mortgage and housing boom from the middle of 2003[1].

However, with interest rates on the rise from mid-2004 and lending standards becoming stricter, the housing market started to decline in 2006. The growth of the US housing market and its subsequent correction is illustrated in Figure 1.

The US sub-prime mortgage crisis, per se, started to unfold around August 2007, as higher lending rates caused the delinquency[2] rates for sub-prime loans to escalate (see Figure 2), rendering these loans and associated securitised assets virtually worthless. Investors incurred critical losses as a result, especially financial institutions, which had large exposures to these types of assets on their books.

Banks and other financial institutions therefore became increasingly apprehensive about each other's balance sheets and grew less and less willing to lend to one another. The tightening of inter-bank credit markets made it difficult for institutions to roll over debt, forcing them to begin unwinding highly leveraged positions[3]. Within this context of asset devaluation and deleveraging, balance sheets started to shrink, reducing the amount of liquidity available for on-lending to businesses and consumers. Consequently credit growth was further constrained, converting what had been a problem in the sub-prime market into a more generalised credit squeeze, which had an adverse impact on confidence, as shown in Figure 3.

Partly in an attempt to reassure jittery consumers and investors, the Fed embarked on a rate-cutting cycle, leading off with a half-point reduction in September 2007. In addition, given the enormous pressure on financial institutions to deleverage, the Fed began providing these institutions with substantial liquidity[4] to help them do so in an orderly manner and avoid failure, that is, to prevent the credit crisis from becoming a full-blown financial crisis. When

[1] See International Monetary Fund (2008)

[2] Loans classified as delinquent are 30-plus days past due and/or foreclosed.

[3] In general, deleveraging can take either of three forms (or any combination thereof) raising new capital, reducing dividend payout ratios, or selling off assets.

[4] These liquidity injections took place through a variety of facilities including the Term Auction Facility (TAF), the Term Securities Lending Facility (TSLF) and the Primary Discount Credit Facility (PDCF).

Figure 1: (US) National Association of Homebuilders Housing Market Index

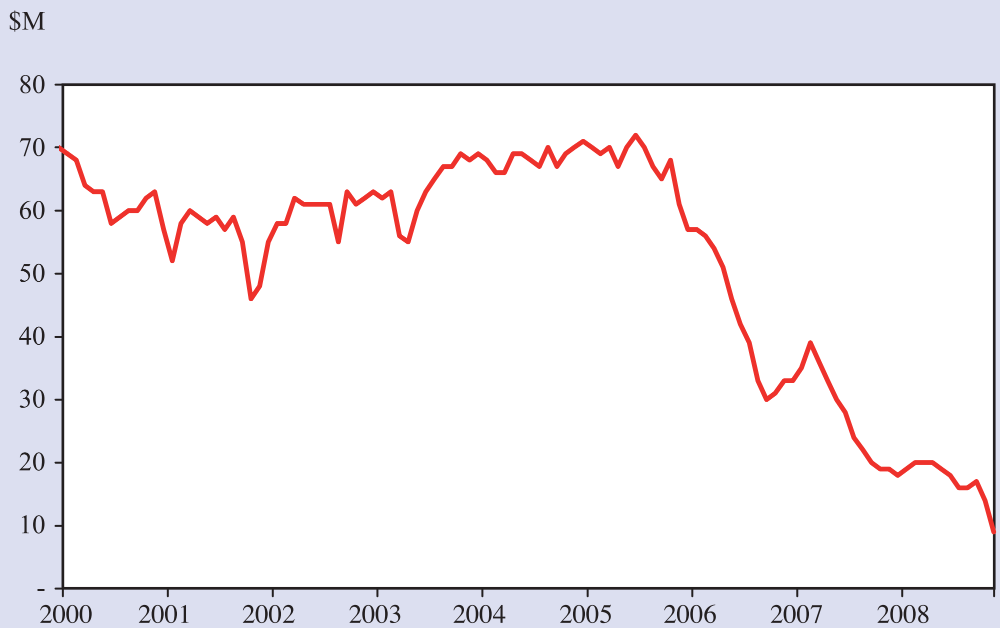
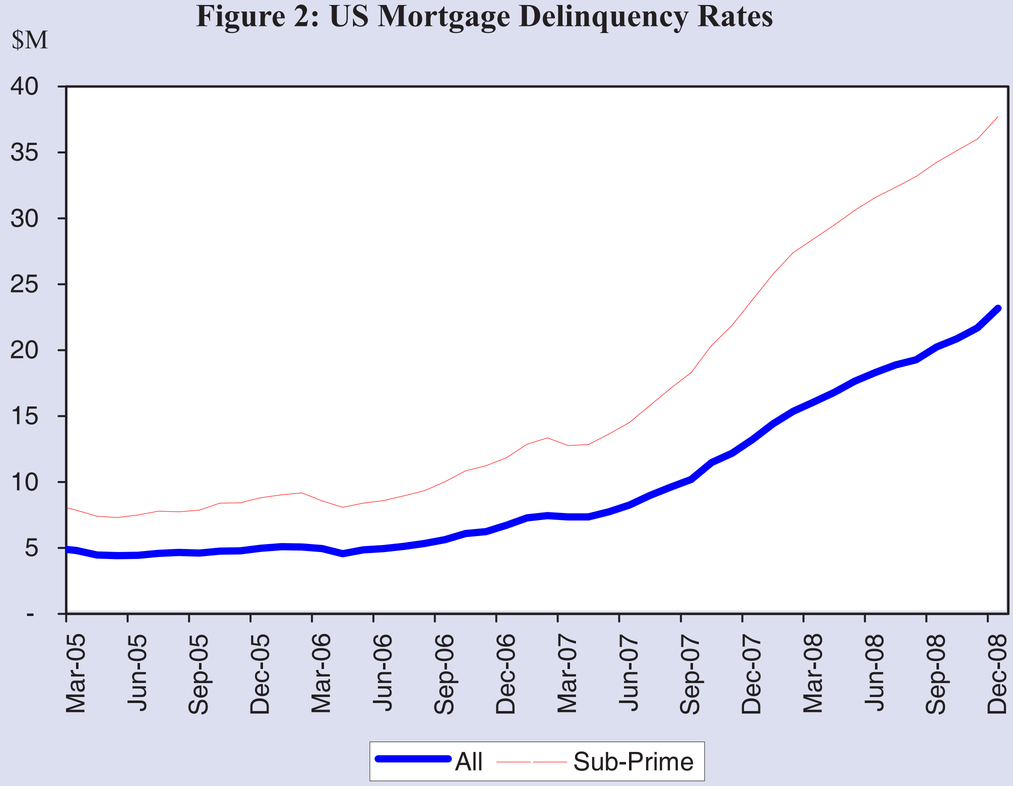


Figure 2: US Mortgage Delinquency Rates



[7] Fannie Mae and Freddie Mac are two government-sponsored entities that hold more than 50 per cent of US

investment bank Bear Sterns nevertheless started failing in March 2008, the Fed issued $30 billion in loans to help fund a debt buyout by JP Morgan Chase.

Despite these stabilising measures, the ongoing housing market correction and credit crisis, as well as soaring inflation driven by a depreciating dollar and rising energy costs, were still eating away at confidence. The authorities therefore ramped up their policy response, implementing additional measures designed to restore confidence. The Fed reduced its target rate to 2.00% as of April, representing a cumulative reduction of 275 basis points from the beginning of the rate-cutting cycle. In addition, the Fed continued to make upward adjustments to the limits on its various facilities for liquidity provision.

Nevertheless, confidence remained low going into the second half due to several factors. Yet another financial institution (IndyMac[5]) had to be rescued in July, this time by the Federal Deposit Insurance Corporation (FDIC), while two others — Fannie Mae and Freddie Mac[6] — began to show signs of weakness. Meanwhile, labour market conditions were worsening and disposable incomes were still being eroded by rising inflation, even as falling house prices were having a negative wealth effect, leaving many households owing more on their mortgages than the value of their properties.

Notwithstanding the persistent weakness of confidence and financial institutions' continued vulnerability, the risks to growth and financial stability from the credit crisis appeared to be largely contained up to August, with the deleveraging process remaining relatively orderly. But then, in September, the extent of the sub-prime fallout was more fully revealed, with several major US financial institutions either failing or facing the prospect of failure — including Fannie Mae and Freddie Mac, Lehman Brothers, Merrill Lynch & Co., American International Group (AIG) and Wachovia, as well as Washington Mutual, which represented the largest bank failure in US history. Financial markets were thrown into severe distress, as exemplified by the stock market plunge shown in Figure 4.

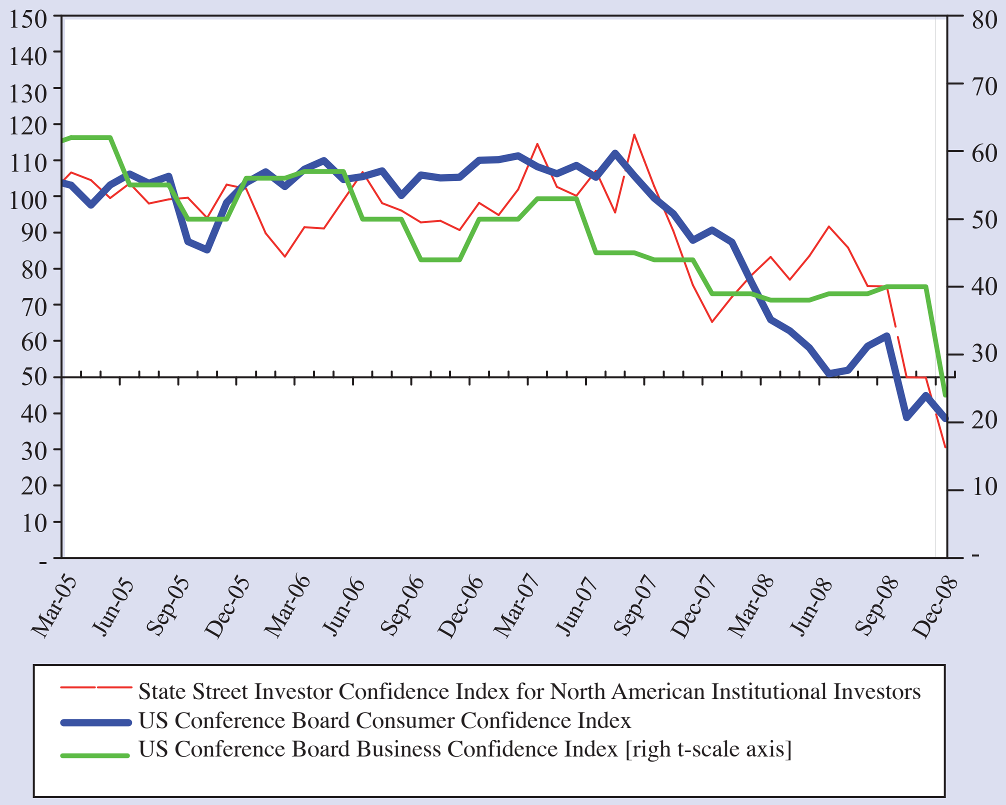
In response, the Treasury provided US$225 billion to nationalise Fannie Mae and Freddie Mac and, shortly after, the Fed provided a US$85 billion loan to AIG, whereas the other failing banks were bought over by private-sector firms[7]. The Treasury also provided US$50 billion to guarantee money market mutual funds, coinciding with the Fed's announcement of a new asset-backed commercial paper money market mutual fund liquidity facility. Additionally, the FDIC extended its deposit

[5] Before its failure, IndyMac Bank (Independent National Mortgage Corporation) was the largest savings and loan association in the Los Angeles area and the seventh largest mortgage originator in the United States. On July 11, 2008 it was closed by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Before its failure, IndyMac Bank (Independent National Mortgage Corporation) was the largest savings and loan association in the Los Angeles area and the seventh largest mortgage originator in the United States. On July 11, 2008 it was closed by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC) was named Conservator. All non-brokered insured deposit accounts and substantially all of the assets of IndyMac Bank were transferred to IndyMac Federal Bank, a newly-chartered full-service institution insured by the FDIC.

[6] Fannie Mae and Freddie Mac are two government-sponsored entities that hold more than 50 per cent of US mortgages.

[7] Merrill Lynch, Lehman Brothers, Washington Mutual and Wachovia were bought over by Bank of America, Barclays, JP Morgan Chase and Citigroup Inc., respectively.

Figure 3: US Consumer, Business and Investor Confidence



guarantee initiatives with the aim of bolstering households' confidence in the safety of their money while helping financial institutions to raise new capital.[8]

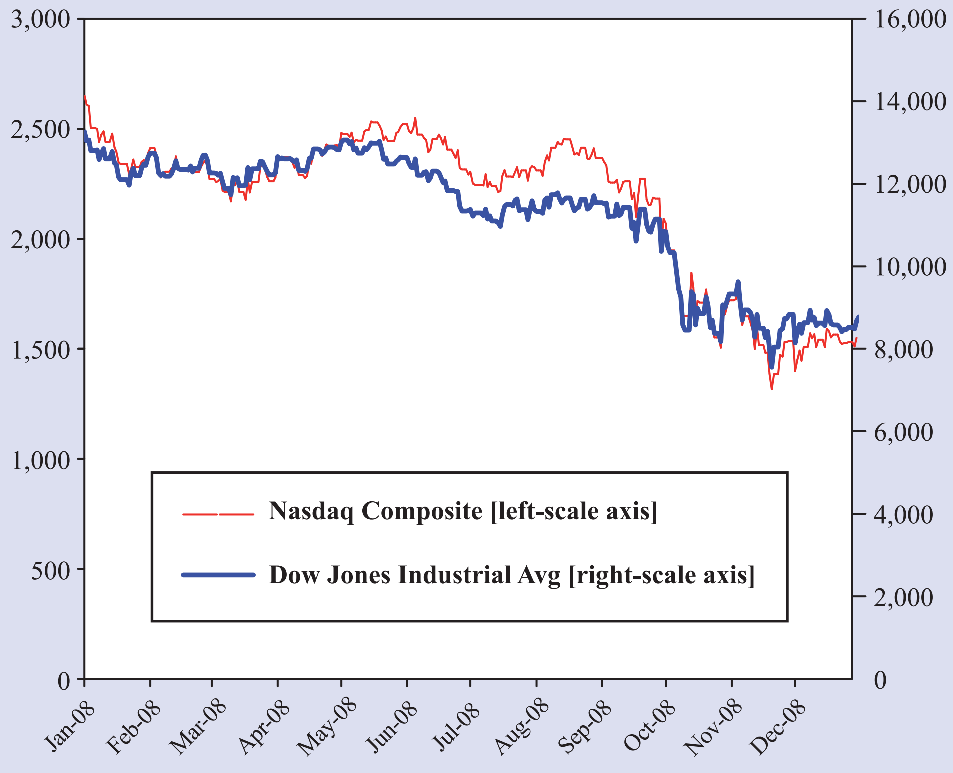
The main element of the US authorities' policy response, however, was a US$700 billion bailout plan, which was approved on October 3. The remit of the so-called Troubled Asset Relief Program (TARP) was to buy over failing institutions' "troubled assets" such as sub-prime mortgages and mortgage-backed securities, with the aim of restoring counterparty confidence and, in so doing, easing credit and demand conditions.

Spillovers to the Rest of the World and Coordinated Response

The approval of the TARP in the US was soon followed by the proposal of a £37 billion government plan to recapitalise major UK banks, as well as a €2 trillion Eurozone rescue package for financial institutions. These proposed bailouts came as many European banks and investment firms faced tremendous losses through their direct exposure to assets

[8]The FDIC increased the deposit insurance limit on interest-bearing accounts and fully insured all non-interestbearing bank deposits until Dec 31, 2009. It also guaranteed new senior unsecured debt issued by U.S. banks by June 30, 2009 with maturity up to three years.

Figure 4: US Stock Market Indices

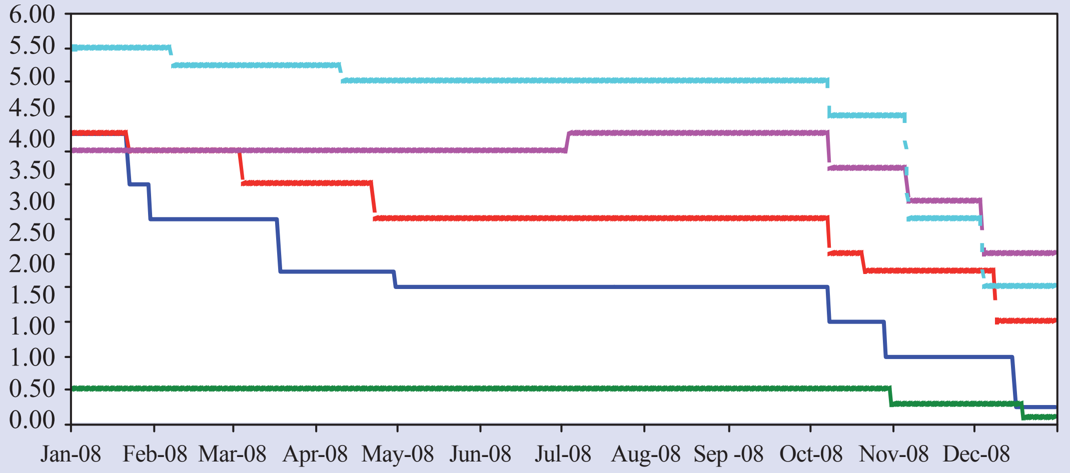


backed by US sub-prime mortgages, or simply succumbed to the pressure of perceived liquidity and capital shortages associated with the credit freeze, which by this time had spread to Europe from the US. Even in Canada, where financial institutions remained relatively healthy, credit conditions had tightened perceptibly.

Facing what was clearly by then a global crisis, albeit with the US at its epicentre, central banks in these countries stepped up the level of cooperation and coordination among themselves and the Fed that had prevailed since the emergence of the crisis in 2007. This cooperation, which had seen the ongoing injection of much-needed liquidity into global financial markets through the expansion of various existing international currency swap line agreements[9], was now extended to the ambit of monetary policy. Thus, the Bank of Canada (BOC), the Bank of England (BOE), the European Central Bank (ECB), the Fed, Sveriges Riksbank (the Swedish central bank) and the Swiss National Bank all announced reductions in their key policy rates on October

[9]The Fed has liquidity swap facilities with the Reserve Bank of Australia, the BOC, Danmarks Nationalbank (central bank of Denmark), the BoE, the ECB, the Bank of Japan (BOJ), the Reserve Bank of New Zealand, the Norges Bank (central bank of Norway), the Sveriges Riksbank and the Swiss National Bank.

Figure 5: Evolution of Major Central Banks' Policy Rates (%)



8, 2008. Notably, the Fed dropped its Fed Funds rate to 1.50%, the BOC lowered its target for the overnight rate to 2.5%, the ECB cut its refinancing rate to 3.75% and the BoE cut its policy rate to 4.50%, all of which represented cuts of 50 basis points.

Despite the ECB's rate reductions and stepped-up liquidity provision operations, as well as the reiteration of deposit insurance guarantees and provision of capital injections by regional governments, the proposed European bailouts were adopted in mid-October, with financial institutions still under intense pressure due to market perceptions of liquidity and capital shortages. Similarly, market conditions remained tight in the US and, to a lesser extent, Canada, as macroeconomic conditions continued to deteriorate. In the US, a bailout was approved for the three largest automakers when the auto industry threatened to buckle under the pressure from weak demand and difficult financing conditions. The mounting evidence that the global crisis of confidence was lingering despite the authorities' interventions helped build a case for additional policy stimulus.

Consequently, the BOC dropped its overnight rate on October 21 to 2.25%. The Fed followed eight days later, bringing its rate on par with the previous historical low-point of 1.00%. On October 31, the Bank of Japan (BOJ) moved its key policy rate for the first time since February 2007, lowering it from 0.50% to 0.30%. Then, on November 6, the ECB cut its rate to 3.25%, even as the BOE slashed its rate to 3.00%; both banks again intervened on December 4, reducing their rates to 2.25% and 2.00%, respectively.

The BOC then brought its rate down to 1.50% on December 6, while ten days later the Fed dropped its rate even further to an unprecedented target range of 0 - 0.25% and Japan followed on December 19, reducing its rate to 0.10%. As illustrated in Figure 5, the cumulative rate reductions in the fourth quarter alone were in the order of 3 percentage points for the BOE, 1.75 percentage points for both the ECB and the Fed, 1.5 percentage points for the BOC and 0.4 percentage points for the BOJ.

Meanwhile, financial markets in many emerging markets and developing economies were increasingly mirroring the ongoing turmoil in the advanced economies. From mid-September these markets experienced a systemic sudden stop[10], where global deleveraging pressures and heightened risk aversion led to a sell-off of emerging market assets. International capital started to flow outward, causing stock prices and currency values to tumble virtually across the board (see Table 1 and Table 2), reflected in a generalized spike in risk spreads and an issuance drought. Unlike the more advanced financial markets, however, emerging and developing markets generally were not hit by a significant number of institutional failures.

Amid concerns about further contagion from developed markets, central banks in emerging Asian markets started to loosen monetary policy. The People's Bank of China, reduced its securities reserve requirement and cut its benchmark deposit and loan rates several times in September and October, after having raised rates continually since 2004. Likewise, the Bank of Korea (BOK), the Reserve Bank of India (RBI) and the Monetary Authority of Singapore (MAS) all relaxed their policy stances in October .

The BOK cut interest rates twice during the month (by 25 basis points on October 9 and 75 basis points on October 27) and again on November 7 (25 basis points) for a total rate-cut of 1.25 percentage points, putting the rate at 4.00%. Similarly, the RBI lowered its repurchase rate by a full percentage point on October 20 and by another half-point on November 3, bringing it down to 7.5%. The MAS shifted from its policy stance of a modest and gradual appreciation of its exchange rate policy band, aimed primarily at controlling inflation, to one of zero appreciation.

In contrast, central banks in key East European and Latin American emerging markets and developing economies were constrained by persistent inflationary pressures and therefore raised interest rates rather than lowering them. However, the Central Bank of Brazil and the Bank of Mexico, along with the BOK and the MAS, established temporary reciprocal currency arrangements with the Fed to ensure access to US dollar liquidity similar to those already in place between the Fed and the central banks of the major advanced economies.

This concept was subsequently replicated at the regional and international level, with the adoption of liquidity facilities by various multilateral financial institutions such as the Short-term Liquidity Facility (SLF) created to more quickly mobilize large-scale financing from the International Monetary Fund (IMF).

[10] Defined by Calvo, Izquierdo and Mejía (2008) as "… large and largely unexpected capital account contractions that occur in periods of systemic turmoil…"

Table 1: Emerging Market Currencies

CURRENCY	Dec-06	Dec-07	% Ch	Dec-07	Dec-08	% Ch
Argentine Peso	3.1	3.2	-3.0	3.2	**3.5**	-9.6
Brazilian Real	2.1	1.8	16.7	1.8	**2.3**	-30.0
Chilean Peso	532.4	497.9	6.5	497.9	**638.5**	-28.2
Mexican Peso	10.8	10.9	-0.9	10.9	**13.6**	-25.5
Indian Rupee	44.3	39.4	11.0	39.4	**48.8**	-23.8
Indonesian Rupiah	8,995.0	9,393.0	-4.4	9,393.0	**11,120.0**	-18.4
Singapore Dollar	1.5	1.4	6.4	1.4	**1.43**	0.7
South Korean Won	929.7	935.4	-0.6	935.4	**1,259.55**	-34.7
Russian Ruble	26.3	24.6	6.6	24.6	**29.40**	-19.5

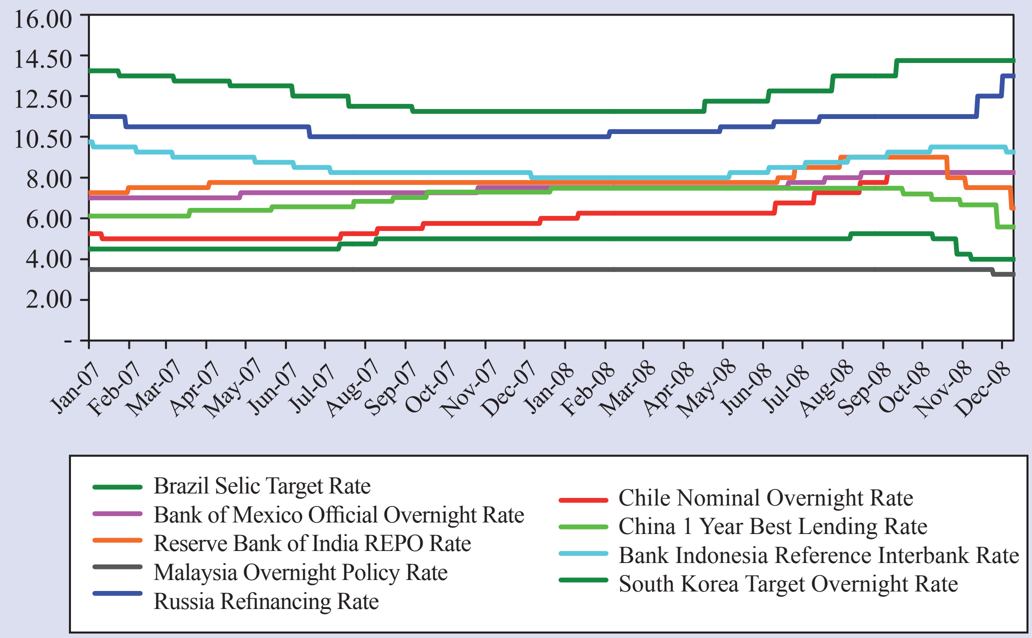
Source: Bloomberg L.P.
P: Provisional

Table 2: Emerging Stock Market Indices

	INDEX	Dec-06	Dec-07	% Ch	Dec-07	Dec-08	% Ch
Argentina	Merval	1,542.4	1,578.3	2.3	1,578.3	**773.6**	-51.0
Brazil	Bovespa	44,473.7	63,886.1	43.6	63,886.1	**37,550.3**	-41.2
Chile	Chile Stock Market Select	2,693.4	3,051.8	13.3	3,051.8	**2,376.4**	-22.1
Mexico	Bolsa	26,448.3	29,536.8	11.7	29,536.8	**22,380.3**	-24.2
Venezuela	Venezuela Stock Market	52,233.7	37,903.6	-27.4	37,903.6	**35,090.1**	-7.4
	Msci* Emerging Latin America	**2,995.7**	**4,400.4**	**46.9**	**4,400.4**	**2,077.7**	**-52.8**
China	Shanghai Se Composite	2,675.5	5,261.6	96.7	5,261.6	**1,820.8**	-65.4
Hong Kong	Hang Seng	19,964.7	27,812.7	39.3	27,812.7	**14,387.5**	-48.3
India	Bse Sensex 30	13,786.9	20,287.0	47.1	20,287.0	**9,647.3**	-52.4
Indonesia	Jakarta Composite	1,805.5	2,745.8	52.1	2,745.8	**1,355.4**	-50.6
Malaysia	Kuala Lumpur Composite	1,096.2	1,445.0	31.8	1,445.0	**876.8**	-39.3
Singapore	Straits Times	2,982.5	3,621.6	21.4	3,621.6	**1,872.9**	-48.3
South Korea	Kospi	2,918.6	3,465.63	18.7	3,465.63	**1,761.6**	-49.2
	Msci* Emerging Asia	1,434.5	1,897.1	32.3	1,897.1	**1,124.5**	-40.7
Russia	Russian Traded	679.8	858.1	26.2	858.1	**450.0**	-47.6
	Msci* Emerging Markets	7,823.7	8,506.3	8.7	8,506.3	**4,591.2**	-46.0

Source: Bloomberg L.P.
*Morgan Stanley Composite Index

Figure 6: Evolution of Emerging Markets' Monetary Policy Rates



Evolving Situation and Response

The election of US President Barack Obama in November 2008 and some of his early cabinet nominations initially sparked some resurgence in US stock markets. However, by December this had petered out, with the recognition that President Obama would not be in a position to tackle the financial crisis until his swearing-in on January 20, 2009, and that the scope for further monetary stimulus was limited, with the Fed Funds rate virtually at zero. Thus, in spite of all the various policy initiatives that had already been implemented and expectations that President Obama would introduce a sizeable economic stimulus package on taking office, the pace of US financial recovery remained sluggish at the end of the year, as confidence continued to weaken.

Elsewhere the situation was largely the same, as tight global financial conditions continued to worsen and, together with near-zero interest rates in some countries, undermined the effectiveness of monetary policy. All of this contributed to dim prospects for a quick end to the crisis, prompting the International Financial Institutions (IFIs) to call for a more coordinated and larger-scale global policy response that would be fast and flexible and would also be inclusive, taking into consideration the special challenges faced by less developed countries.

Specifically, the IMF identified the need for a global fiscal stimulus that would be "…timely, large, lasting, diversified, contingent, collective, and sustainable" [11]. The total cost of the fiscal package proposed by the IMF was 2 percent of world GDP, with the main focus being on spending increases, as well as targeted tax cuts and transfers. Similarly, the World Bank Group suggested that the policy response

[11] See Spilimbergo, Antonio, Steve Symansky, Olivier Blanchard, and Carlo Cottarelli (2008).

needed to be "global, coordinated, flexible and fast"[12]. Emphasis was also placed on the special challenges facing developing countries in responding to the crisis, highlighting the potential role of IFIs in protecting the poor and vulnerable, stabilising the financial and private sectors and managing the fiscal challenges. The Bank also identified the need to reform the IFIs themselves, in order for them to effectively fulfil this role.

Evident in these proposals was a special sense of urgency and a willingness to take extraordinary measures, some of which (like the reform of the IFIs) were longstanding recommendations whose implementation had previously suffered from a lack of political will. This change from a "business as usual" approach was reflective of the exceptional nature of the crisis, deemed the most severe since the Great Depression. The increased interconnectedness of international economies since the time of the Great Depression, as well as the resulting acceleration in the speed of transmission of financial shocks, were also reflected in the emphasis on the coordination, inclusiveness and speediness of the response. Even if the proposals were implemented in accordance with these ideals, however, the road to recovery was expected to be a long and difficult one.

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[12] See World Bank Group (2008)

ECONOMIC OUTLOOK

International and Regional Economic Outlook for 2009

International Economic Outlook

According to forecasts by the International Monetary Fund (IMF) in the January 2009 update to the world Economic Outlook (WEO), global growth is projected to decelerate significantly to approximately 0.5% in 2009, from 5.2% and 3.4%, respectively. in 2007 and 2008. In line with slowing world demand, both oil prices and non-fuel commodity prices are expected to decline in 2009, as a result of which inflation forecasts have been sharply revised downward.

Informing these predictions is the mounting evidence that confidence is likely to remain fragile, at least in the short-term, making any significant improvement in financial markets unlikely and further restricting global demand and therefore output growth.

While helping to curb inflationary pressures, the fall-off in demand and the associated decrease in international commodity prices will continue to reduce the support to growth from trade. The volume of world trade is forecast to shrink by 2.8% in 2009, stymieing growth in some of the major advanced economies, including Canada and Japan, as well as China, India and many other emerging and developing economies. Meanwhile, with financial conditions expected to remain extremely tight, emerging and developing economies relying heavily on external financing will also be significantly affected.

Projections of a gradual recovery in 2010 are qualified by an extraordinary degree of uncertainty and subject to an important caveat: the timing and pace of recovery hinge on the efficacy of policy actions aimed at restoring financial market functionality and stimulating demand.

Regional Economic Outlook

The global financial crisis that began in 2008 threatens to make 2009 an even more challenging year for the entire Caribbean region. The IMF Outlook for the Western Hemisphere projects GDP growth for Caribbean countries to contract to about 2.9% in 2009, following an estimated 0.8% decline in 2008. This decline reflects projections of a weaker global outlook and difficult external financing conditions. In particular, with income in the Caribbean's major source markets projected to fall, further contractions in tourist arrivals as well as increases in unemployment are anticipated in 2009.

Together with falling international commodity prices, slowing demand should, however, result in lower rates of inflation; on average regional inflation is forecast to decline to approximately 10.1% (2 percentage points less than in 2008). In addition, lower commodity prices should help reduce import costs and regional current account balances are therefore expected to narrow somewhat (-4.4% in 2009). Conversely, fiscal deficits are expected to widen, as governments seek to counteract the effects of the economic slowdown. In effect, the countries of the region will be concentrating on limiting as much as possible the effects of the crisis in the coming year, through strategic fiscal and monetary policies.

IMF Forecasts for 2009 and 2010
(% Change)

	2007	2008	2009E	2010
World output	**5.2**	**3.4**	**0.5**	**3.0**
Advanced economies	2.7	1.0	-2.0	1.1
United States	2.0	1.1	-1.6	1.6
Euro area	2.6	1.0	-2.0	0.2
United Kingdom	3.0	0.7	-2.8	0.2
Canada	2.7	0.6	-1.2	1.6
Emerging and developing economies	8.3	6.3	3.3	5.0
Africa	6.2	5.2	3.4	4.9
Central and eastern Europe	5.4	3.2	-0.4	2.5
Russia	8.1	6.2	-0.7	1.3
China	13.0	9.0	6.7	8.0
India	9.3	7.3	5.1	6.5
Middle East	6.4	6.1	3.9	4.7
Western Hemisphere	5.7	4.6	1.1	3.0
World trade volume (goods and services)	7.2	4.1	-2.8	3.2
Imports				
Advanced economies	4.5	1.5	-3.1	1.9
Emerging and developing economies	14.5	10.4	-2.2	5.8
Exports				
Advanced economies	5.9	3.1	-3.7	2.1
Emerging and developing economies	9.6	5.6	-0.8	5.4
Commodity prices (U.S. dollars)				
Oil*	10.7	36.4	-48.5	20.0
Nonfuel (average based on world commodity export weights)	14.1	7.4	-29.1	7.3
Consumer prices				
Advanced economies	2.1	3.5	0.3	0.8
Emerging and developing economies	6.4	9.2	5.8	5.0

Source: January 2009 Update to the World Economic Outlook, International Monetary Fund
*Note: Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil.
The average price of oil in U.S. dollars a barrel was $97.03 in 2008; the assumed price based on futures markets is $50.00 in 2009 and $60.00 in 2010.
E: Estimated

Prospects for the Barbados Economy in 2009

As the global economic crisis continues into 2009, there should be further weakening of the economies of Barbados' main trading partners and, as a result, a downturn in the domestic economy is anticipated. In particular, a decline in traded-sector activity is forecast since it is expected that both long-stay and cruise ship arrivals will fall.

There should also be a slight fall-off in non-traded output, as declines are projected for the wholesale and retail activity, transportation, storage and communication as well as business and other services. Moreover, even with Government's efforts to stimulate the economy, the construction sector faces a difficult year, as there is likely to be a reduction in commercial and residential activity. Based on these forecasts of poor outturns in the major sectors of the economy, the unemployment level should rise. On the other hand, domestic inflation is expected to moderate, since the anticipated fall-off in world aggregate demand should place downward pressure on international commodity prices.

Declining world prices should help to reduce the import bill and thereby lead to some improvement in the current account position. Inflows related to ongoing tourism related projects, along with proceeds from the Government's expected $200 million bond issue on the Trinidad and Tobago market, should result in a larger surplus on the capital and financial account. However, this surplus is likely to be insufficient to finance the current account deficit. As a result, a loss in the NIR is anticipated.

The tightening of liquidity conditions observed in the latter half of 2008 is expected to continue into 2009. In addition, given the projected decline in GDP and lower deposit rates, deposit accumulation should continue to slow, while credit growth is anticipated to moderate. Monetary policy will therefore be focused on stimulating the economy, while remaining mindful of the need to protect the foreign reserves.

The fiscal authorities will have to meet the demands of their countercyclical policy but, at the same time, prevent a significant deterioration in the fiscal accounts. This task is made even more challenging, given that the economic downturn is likely to result in a noticeable slowdown in the growth of tax revenue, and payment of the wage increase to civil servants is expected to lead to higher expenditures.

CENTRAL BANK of BARBADOS

ADM

ADMINISTRATION

The Board of Directors

A new Board of Directors was appointed effective March 1, 2008. Other than the Governor, Mr. Grantley Smith an ex-officio member of the Board was the only member of the previous Board to be retained. The members are as follows:

Dr. Marion Williams, Chairman, Mr. Cecil McCarthy, Dr. Justin Robinson, Sir Kyffin Simpson, Mr. Grantley Smith, Miss Onika Stewart and Mr. Ashley Toppin.

The Board met 11 times during 2008.

Management and Staff

Academic Achievements

During 2008 several members of staff pursued higher academic qualifications to enhance their skills and knowledge. The following masters programmes were completed: Mr. Wendell Cumberbatch, Masters of Science in Management from the University of Surrey, Mr. Wolsey Griffith, Masters of Science in Project Management from the University of the West Indies (UWI), Mrs. Juliet Hunte, Masters of Business Administration from the UWI, Miss Sasha Mapp, Masters of Science in Project Management with distinction from the UWI and Miss Deborah McCollin, Masters of Business Administration with the University of Surrey.

Miss Denisa Applewaithe completed the Bachelor of Science degree in Banking and Finance with Second Class Honours (Lower) with the UWI and Miss Marcia Goddard completed the ACCA professional qualification. Miss Lydia Gill achieved the BIMAP Diploma in Management Studies while Miss Arlene Mose completed the Executive Diploma in Event Management with the Cave Hill School of Business.

Major Gordon Quintyne received certification in “Effective Communications and Human Relations”, from Dale Carnegie Training while various BIMAP certificate programmes were pursued by other members of staff.

Various staff members attended local seminars covering areas such as Establishing Employment Status, How Central Bank Governance is Changing: The Role of the Board, Ensuring Decent Work for all in Barbados: Developing a National Plan of Action, Empowering Me…Empowering You, Leadership, Critical & Creative Thinking and Problem Solving, Amending the Trade Union Act, Legal Risk and Good Governance and An Update on the Financial Services Industry in Barbados.

Safety Officers were trained in the Use of Fire Extinguishers and in-house workshops were held in Industrial Relations and Effective Communication.

Staff Movements

Joining the Bank’s permanent establishment during the year were four (4) Clerical Officers, three (3) Examiners, two (2) Economists, one (1) Librarian, one (1) Systems Administrator and one (1) Secretary,

Promotions

Nine persons were promoted during the year as follows:

Mr. Alvon Moore from the post of Research Officer to Economist, Miss Xiomara Archibald from Economist to Senior Economist, Mr. Roger Gumbs from Bank Examiner to Senior Examiner, Mrs. Sandee Dixon from Clerical Officer to Currency Officer, Ms. Francine Wickham-Jacobs, Manager Frank Collymore Hall upgraded from Grade 5 to Grade 6, Mrs. Charmaine Haywood from Senior Analyst/Programmer to Assistant

Director, Mrs. Michelle Doyle-Lowe from Assistant Director to Deputy Director, Mr. Kirk Beckford from Systems Administrator to Senior Systems Administrator, Dr. Kevin Greenidge from Chief Research Economist to Deputy Director.

Transfer

Mrs. Sheraline Millington, Clerical Officer, in the Bank Supervision Department was transferred to the post of Clerical Officer, in Research Department.

Resignations and Retirement

Five persons resigned and four persons retired from the Bank during the year. In addition, two persons died in the employment of the Bank - Mr. Anderson Best, Director, Internal Audit and Mr. Kenneth Best, Analyst/Programmer.

As at December 31, 2008, the number of established posts was 275 and 246 of these were filled by permanent employees and 29 by temporary appointments.

OPERATIONS

Accounts Department

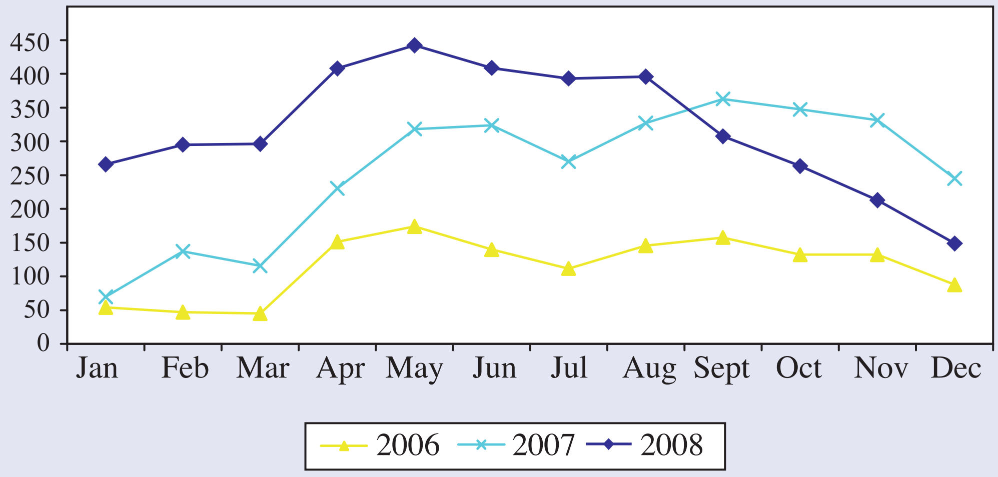
During the year, the Accounts Department continued to closely monitor the administrative budget with a view to containing costs within approved limits. However, there were challenges in some areas. The Bank made provisions relating to unauthorized issue of $100 notes, as well as an additional amount for the debt to CARICOM Multilateral Clearing Facility (C.M.C.F.), which matures on April 1, 2009. Employment Expenses also increased as the Bank made accelerated payments to reduce the pension scheme's unfunded liability, as well as payments to staff resulting from a wages settlement between the Bank and the workers' representative.

Income earned for the year was significantly higher than budgeted. This was occasioned mainly by expansions from foreign loan capital and increases in statutory foreign deposits of commercial banks, which contributed to a higher income earning asset base. However, further growth in income was constrained as interest rates declined steadily during the year.

The Bank, the Barbados Automated Clearing House Services Inc. and commercial banks continued to work together to enhance the Payments System. During 2008, work was started on conversion of files to National Automated Clearing House Association international standards. This format is used for sending files from participants to the ACH and will standardize the process as the Bank continues to update and improve the total payments system and maintain its integrity.

The accounting information system is being upgraded to a new graphical interface and user-friendly system, which will integrate seamlessly with other application modules. The new system will enhance accountability and controls.

Summary of Commercial Banks' Statement of Local Excess Reserve Position
($ Millions)



Banking, Currency and Investments Department

Relationships with Financial Institutions
Excess Liquidity

After rising by approximately $308.7 million for the first five months of 2008, commercial banks' holdings of excess cash contracted by $210.7 million during the second half of the year, to reach $173.4 million as at December 31, 2008. Approaching year-end, commercial banks' excess liquidity reached its lowest level for 2008, of $86.4 million for the week ending December 24, 2008.

As at December 31, 2008, commercial banks held approximately $144.3 million in foreign currency deposits with the Central Bank, representing an increase of $2.4 million compared to the previous year. As liquidity conditions tightened, banks drew down on their excess foreign holdings at the Central Bank, which reduced the banks' excess foreign exchange holdings with Central Bank to $68.2 million, as at December 31, 2008.

Loans and Advances

Due to the relatively high liquidity conditions during the majority of 2008, commercial banks did not utilise the Central Bank's discount window during the year. This was unlike 2007, when banks accessed $26 million in short-term financing. As domestic liquidity conditions began to tighten during the fourth quarter, the discount rate payable by commercial banks on temporary advances from the Central Bank was reduced from 12% to 10%, effective December 29, 2008.

Relationships with Government
Treasury Bills

Excess liquidity placed upward pressure on the demand for securities during the year. This led to a decline in the 3-month rates by 196 basis points, to 2.94% at end-November 2008. For the same period, a decline of 112 basis points was recorded for the 6-month Treasury bill rate. During December, as liquidity contracted, the yields on both 3-month and 6-month Treasury bills improved to end the year at 4.81% and 5.18%, respectively.

Of the 24 Treasury Bill auctions that occurred in 2008, a nominal value of approximately $1.7 billion in 3-month Treasury Bills was allocated, representing a 15.0% decline over the previous year. In contrast, the nominal value of 6-month Treasury Bills allotted in 2008 increased by 6.0%, to approximately $108.0 million.

Purchases & Sales of Treasury Bills

At the beginning of 2008, the Bank held $20.0 million in Treasury Bills, $10.0 million of which was sold early in the year. Subsequently, the Bank purchased an additional $2.0 million in local Treasury Bills from the banking system, which were held to maturity. This represents a reduction in the Bank's trading activity for Treasury Bills compared to 2007, when $47.0 million in Bills were purchased and $29.0 million were sold to commercial banks. During the year, the Bank did not engage in any primary market purchases of Treasury Bills.

Long Term Securities

The Central Bank of Barbados, as fiscal agent for the Government of Barbados, issued three Debentures and three Treasury Notes during 2008, for a total nominal value of $670.0 million; this was $240.0 million more than the amount issued in the previous year. Of the debt issued in 2008, some $228.1 million related to the rollover of the seven issues of Debentures and Treasury Notes that matured during the year.

The first two Treasury Notes were issued in the first half of the year at a rate of 6.375% and 6.5%, respectively, and are due to mature in 2013 and 2016. As domestic interest rates trended downwards later in the year, the other Treasury Note, which matures in 2014, was issued at a rate of 5.875%. This pattern was also reflected in the issuance of Debentures for 2008, which will mature in 2018, 2020 and 2025 and were opened at rates of 6.625%, 6.875% and 6.75%, respectively. Government's total domestic debt outstanding rose by $531.9 million to reach $3.38 billion as at December 31, 2008. Effective December 11, 2008, the limit for Government's local debt issuance was increased by $0.5 billion, to $4.0 billion.

For 2008, 178 transfers of securities were completed, at an aggregated nominal value of $12.2 million. Even though these represented fewer transfers than the 225 that were performed in 2007, the nominal value of the transfers for 2008 was above the $9.8 million nominal value in 2007. The market value of the sinking funds investments held against Government's domestic debt increased by $16.3 million (4.6%) during the year, to $371.6 million as at end-December 2008. With respect to the market value of the sinking funds investments held against foreign debt, this also increased, by approximately 19%, and was recorded at $235 million as at December 31, 2008.

Government Agencies

No new bond issues were floated on behalf of Government agencies during 2008. One transfer each was recorded for the National Housing Corporation bond register and the Barbados Tourism Investment bond register, at a total nominal value of $215,000. This was significantly lower than for the previous year, when ten transfers of securities were recorded at a total nominal value of $113.3 million.

Savings Bonds

Two Savings Bond issues were opened for subscription during 2008 - each with a nominal value of $10 million and a yield to maturity of 5.50%. By year-end, even though all of these issues were allotted, only 12% ($1.2 million) of the payments for one of the issues, which was opened on December 8, 2008, were received. During the year, three Savings Bonds issues totalling $30.0 million matured. By the end of December 2008, the value of Savings Bonds outstanding was recorded at $93.0 million, approximately 9% lower than the $101.58 million recorded at the end of 2007.

Ways and Means

The Ways and Means account balance was recorded at $268.3 million as at December 31, 2008, representing an increase of $165.8 million compared to the year-end figure for 2007.

Trading in Foreign Currencies

Non-Regional

The sale of non-regional currencies to the public and private sectors in 2008 increased by $554.9 million (118%). This growth was led by the sale of US dollar-denominated drafts and telegraphic transfers, which increased by approximately $520 million, primarily due to a contraction in foreign exchange availability in the banking system, coupled with the increasing import costs for petroleum. The rise in foreign currency sales was reflected across all non-regional currencies, as transactions denominated in Canadian dollars, Sterling and the Euro increased by approximately 96%, 50% and 29%, respectively, for the review period.

During 2008, total purchases of non-regional currencies decreased by $10.2 million as a result of a fall in the purchases of US dollars

Foreign Currency Transactions
($'000)

	Sales		Purchases	
	2007	2008	2007	2008
Non-Regional				
EURO	22,802	**29,482**	5,158	**8,579**
CAN$	17,560	**34,465**	10,776	**12,652**
STG	22,466	**33,678**	4,278	**1,342**
US$	407,436	**927,503**	731,066	**718,532**
Sub-Total	470,264	**1,025,128**	751,278	**741,105**
Regional				
BZE$	21	**85**	619	**1,618**
EC$	35,481	**56,334**	35,369	**46,311**
GUY$	49,019	**47,582**	782	**490**
J$	10	**1**	4	**4**
TT$	554	**581**	10,638	**16,593**
Sub-Total	85,085	**104,583**	47,412	**65,016**
TOTAL	555,349	**1,129,711**	798,690	**806,121**

Source: Central Bank of Barbados

amounting to $12.5 million. Approximately $15.7 million of the $718.5 million in US funds purchased from financial institutions related to the requirement that 25% of all foreign exchange borrowings must be sold to the Central Bank. Sterling-denominated currency purchases also recorded a contraction of $3.0 million for 2008. In contrast, the value of purchases denominated in the Euro and Canadian dollars increased by 66% and 17%, respectively, for the year. Unlike 2007, the level of non-regional currency sales for the year significantly exceeded the total purchases of these currencies, and as a result, the Central Bank was a net seller of $284 million in foreign funds.

Regional

The sale of regional currencies increased by $19.5 million in 2008, primarily on account of increased sales ($20.9 million) recorded for Eastern Caribbean (EC) dollar-denominated transactions. Marginal increases were also recorded for the sale of Trinidad & Tobago dollars ($27,000) and Belize dollars ($64, 000). These increases were offset, in part, by the decline in sale of Guyanese and Jamaica dollar-denominated drafts and telegraphic transfers, which amounted to $1.4 million and $9,000, respectively, during the review period.

The sale of regional currencies followed a similar pattern to that observed in 2007. During 2008 sales of all currencies recorded increases, with the exception of the Guyanese dollar, which declined by $292,000, while Jamaica dollar-denominated sales remained unchanged. EC dollar-denominated drafts and telegraphic transfers registered the most significant increase for the year, of $46.3 million. This performance was followed by purchases of the Trinidad &

Tobago dollars ($16.6 million) and Belize dollar ($1.6 million). Based on the performance of these individual currencies, the net sale position of regional currencies was $39.6 million for 2008.

Foreign Currency Cash Transactions

During the year, foreign currency notes with a total value of Bds$115.3 million were purchased from the banking system. This represented a 3.11 % increase over the Bds$111.8 recorded in 2007. Increases were recorded for all currencies with the exception of the British pound, which registered a decrease of 10%. Total sales of foreign currency notes sold for the year were valued at $3.9 million. This represented an increase from 2007, when the total sales were $2.9 million.

The total value of foreign notes repatriated in 2008 amounted to $108 million, which generated a net loss for the year of $0.54 million. In 2007, the amount repatriated was $108.4 million, with earnings of $1.1 million. Fluctuations in rates accounted for the difference in earnings.

Purchases of Foreign Currency Notes
($Million)

Currency	Amount Purchased	
	2007	2008
USD	53.35	**8.4**
GBP	48.9	**43.9**
CAD	3.2	**5.1**
EUR	5.4	**6.8**
Subtotal	110.8	**114.2**
XCD	1.0	**1.1**
Total	111.8	**115.3**

Source: Central Bank of Barbados

Currency Operations

During 2008, the Bank commissioned a new notes-processing machine called the BPS1000, which is used to count and separate fit from unfit notes. Towards yearend, the Bank discovered the theft of new Barbados $100 notes, totalling $1.5 million dollars. This matter is currently before the law court.

Foreign Assets

Subsequent to the $114 million increase at mid-year, the net international reserves declined by $201.7 million (approximately 13%) for 2008, to reach $1,345.9 million at the end of December. This decline in the second half of the year was predominantly the result of a reduction in travel credits and project funds inflows, coupled with an upsurge in capital outflows.

The year 2008 was characterised by high volatility due to the US financial meltdown and resultant low interest rates. With the prevailing low interest rates, a total of $166.3 million in US Agency bonds were called. These called securities, coupled with maturing bonds, generated an overall realised capital gain of $383,200 for 2008.

As bond yields improved during the second quarter of the year, it presented the opportunity to improve upon the return on the portfolio; some $235.5 million in funds were invested in high-yielding foreign bonds, offering an average yield to maturity of 4.2%. Under the special tranche of the Bank's portfolio, $35 million was invested in bonds issued by regional entities, namely the Caribbean Development Bank ($30

Key Indicators of HCF Operations
($Million)

INDICATORS	2007	2008$^{(P)}$
Loan Approvals	9.8	**16.0**
Loan Disbursements	9.6	**11.5**
Principal Repayments	7.7	**8.2**
Loans Outstanding	128.7	**131.6**
Net Income	3.9	**3.9**
Capital Inflows	0.0	**0.0**
Net Worth	141.4	**145.2**

Source: Central Bank of Barbados
P: Provisional

million) and the Government of Jamaica ($5 million). As at December 31, 2008, the market value of the fixed income securities portfolio was $755.1 million (inclusive of externally-managed funds and regional government securities), representing a decline of 2% over the previous year.

In early 2008, the Bank placed surplus funds in money market instruments rather than in the bond market, to avoid locking in the low interest rates that were then being offered. This led to the Bank's fixed deposits increasing to $342 million by mid-year; however, due to liquidity demands these deposits declined by $308 million, to $34 million as at December 31, 2008. Canadian-denominated deposits held in the amount of CAD$12 million remained unchanged during the year - these deposits were established to hedge against the exchange rate exposure of liabilities associated with funds deposited with the Central Bank. As at December 31, 2008, the Central Bank held no Treasury Bills.

Housing Credit Fund (HCF)
The Housing Credit Fund recorded its fourth full year of operation since its transfer from the Ministry of Housing to the Central Bank in February 2004. Loans approved in 2008 amounted to $15.98 million, resulting in total cumulative approvals from the inception of the Fund totalling $224.68 million, at December 31, 2008.

Bank Supervision Department
The Department's supervisory responsibilities remained relatively stable during 2008. One new domestic licence and three new international licences brought the number of licensed institutions to six banks, 15 near-banks and 50 international banks. At year-end, one additional domestic licence and five international banking licences were under consideration.

In the first half of the year, the Bank was the subject of a Financial Sector Assessment Programme (FSAP) conducted by the IMF and the World Bank. The review noted that the Barbadian banking system was generally stable and resilient to possible economic shocks. In addition, the assessors concluded that banking regulation in the jurisdiction was largely compliant with the majority of the international standards set out in the Basel Core Principles of Supervision. However, it was recommended that additional actions be taken to further strengthen the regulatory framework and practices.

The Department continued to implement the risk-based approach to supervision initiated in 2007, with support from the Office of the Superintendent of Financial Institutions in Canada. As part of the transition process, the Department conducted several focused on-site inspections to complement its on-going monitoring of licensees.

Preparations for implementation of Basel II continued during 2008. Several Basel-related guidance notes were drafted during the year, while the draft risk management guidelines issued in 2007 were finalised and published on the Bank's website. Guidelines on credit risk management, and management of interest rate risk in the banking book were issued in draft during the year.

The Bank Supervision Department continued to work on improvements to the statistical database and improvements to prudential reporting forms and on the implementation of the Business Intelligence Solution for supervision. The Department provided in-house training opportunities for staff together with exposure to select advanced external courses during the year. The Department was also represented at several regional and international meetings of banking regulators.

Facilities Management Department
During the year the Facilities Management Department was challenged to ensure that the working environment remained conducive to the wellbeing of staff, tenants and the public. The planned refurbishment of the Masonic Lodge did not materialize and its future is in doubt, while no progress was made on the development of Church Village, as some residents still need to be re-sited. The replacement of selected plant and equipment slowed due to the slow response of contractors and service providers.

Services
In 2008 the Section again focused on reviewing its procedures to secure cost savings, and implementing new measures for the management of the Bank's assets.

There was close collaboration between the Section and service providers to ensure that environmentally-friendly products were used, and systems were introduced to improve the air quality related to the cleaning process.

The Bank was faced with environmental challenges during the year as the pigeon population occupying the ledges of the Bank grew. To ensure a healthy and safe working environment, environmental consultants, local and overseas, were engaged to assess the environment and recommend remedial action.

Maintenance
The Bank's efforts to maintain a safe and high quality environment were achieved partly through a programme of regular Preventative and Corrective Maintenance designed to keep existing structures functioning at an optimal level and through the execution of a number of projects geared to address safety and health-related issues, and to allow for the systematic renewal of the entire plant.

Security
Security screening at the entrances was conducted to good effect and staff continued to be educated in the enhanced security and screening programme. Mixed results flowed from the security officers' on-the-job training, mentoring and leadership by example, programme. Internal drills and briefings were conducted to improve the Section's disaster readiness. The electronic security system was upgraded during the review period.

Frank Collymore Hall (FCH)
The FCH met most of its 2008 objectives. It substantially reduced its receivables and provided staff with vital training opportunities, including seminar attendance in the areas of Event Planning, Administrative Professional Services, Fire Safety and the National Initiative for Service Excellence.

Some projects were rescheduled to the first quarter of 2009, namely the FCH Wings Replacement Project and the Re-Launch of the FCH Website and Promotional Brochure.

During the year the Hall was severely challenged to meet demand for continued use and request for its facilities throughout the Annual Maintenance Programme in September. Nevertheless it managed to accommodate rehearsals for the Sports and Culture Club's production "When the Cats Away" and the Bank Managers' meetings.

Despite the downturn in the economy, which affected bookings, causing cancellations or postponements in some cases, the Hall maintained its standards with performances, conferences and lectures of the highest quality and continues to distinguish itself as the island's premiere events venue. However, the planned staging of Tartuffe, and the Friends of Richild Springer dance concert did not materialize.
The FCH Season, the reborn "City Nights" was poorly attended, but the three concerts staged were of the highest quality one of which honoured the late pianist and former Bank employee, Mr. Adrian Clarke. The Brazilian Ambassador exhibited some of his private collection and his Embassy offered one of Brazil's leading classical pianists, Joao Carlos Assis Brazil, free of cost. Some 44 pieces of the Central Bank's art collection were also exhibited in the Grand Salle.

Some of the other events hosted included:

- Dance Theatre Company of Jamaica
- The biennial North Sydney Boys' High School Big Band (Australia) "Blowing in the Windies" Concert
- International Classic Pianist, David Greilsammer and Violinist, Nicole Bendetti
- Exhibition of African Contemporary Art and Craft
- The inaugural Stephen Alleyne Memorial Lecture
- Carl Moore's Book Launch – "The Moore, the Merrier"
- "Pan in the Plaza" sponsored by the Bank
- Crop Over Visual Arts Exhibition, co-sponsored by the Bank and National Cultural Foundation
- The Sports and Cultural Club's production – "When the Cats Away"

Foreign Exchange and Export Credits Department

During the year, the Central Bank effected a modest further liberalisation of exchange control to facilitate transactions related to the Caricom Single Market and Economy (CSME). The Industrial Credit Fund recorded a substantial increase in business but the demand for other facilities was limited.

Foreign Exchange

During 2008 the Bank continued its gradual and phased approach to the liberalisation of exchange controls. This involved continuing to identify areas where authority may be delegated to Authorised Dealers and Authorised Depositaries in respect of the execution of foreign exchange transactions without undue risk to the foreign exchange reserves.

The Bank was mindful of the need to maintain capital controls to defend the fixed exchange rate, the need to facilitate CSME transactions and the challenges in the international environment. Thus the Bank implemented measures that are unlikely to have a significant risk of an adverse impact on the foreign exchange regime. Effective October 2008, further authority was delegated to authorised dealers and authorised depositaries to approve the following, without the prior approval of the Central Bank:

(a) Foreign Currency Accounts of residents subject to certain terms and conditions.

(b) Loans, Overdrafts, Guarantees and Bank Credits subject to certain specific terms and conditions:

(i) to CSME resident individuals to facilitate reasonable settling-in expenses, including furniture, equipment, household appliances and motor vehicles, without limit, except for real estate.

(ii) to companies controlled by CSME residents up to certain limits but not including real estate.

Export receivables for the year were $308.5 million as compared to $361.7 million in 2007 and export receivables statutorily due were $207.4 million in 2007 as compared to $109.1 million in 2008.

Registrations of private foreign investment totalled $1,238.6 million in 2008 as compared to $1,148.4 million in 2007. Real estate and equity capital inflows increased during the year while loan capital inflows decreased. The decline in loan capital amounted to $200.9 million or 35.2%.

Export Credits

The Export Credits Unit recorded a substantial increase in business in its Industrial Credit Fund, but the usage of other facilities remained low. There was a modest reduction in the number of small and medium-sized enterprises using the collateral support provided by the credit guarantee scheme during the year. At year-end, there were 34 guarantees outstanding with a maximum liability of $1.8 million as compared to 39 guarantees with a maximum liability of $2.0 million at the end of 2007. These guarantees relate to lines of credit at approved financial intermediaries totalling $2.2 million, which were lower than the total lines of credit of $2.5 million during the previous year.

Industrial Credit Fund (ICF)

The Industrial Credit Fund (ICF) recorded an increase in the value of loan approvals and the level of disbursements recorded in 2008 as compared to 2007.

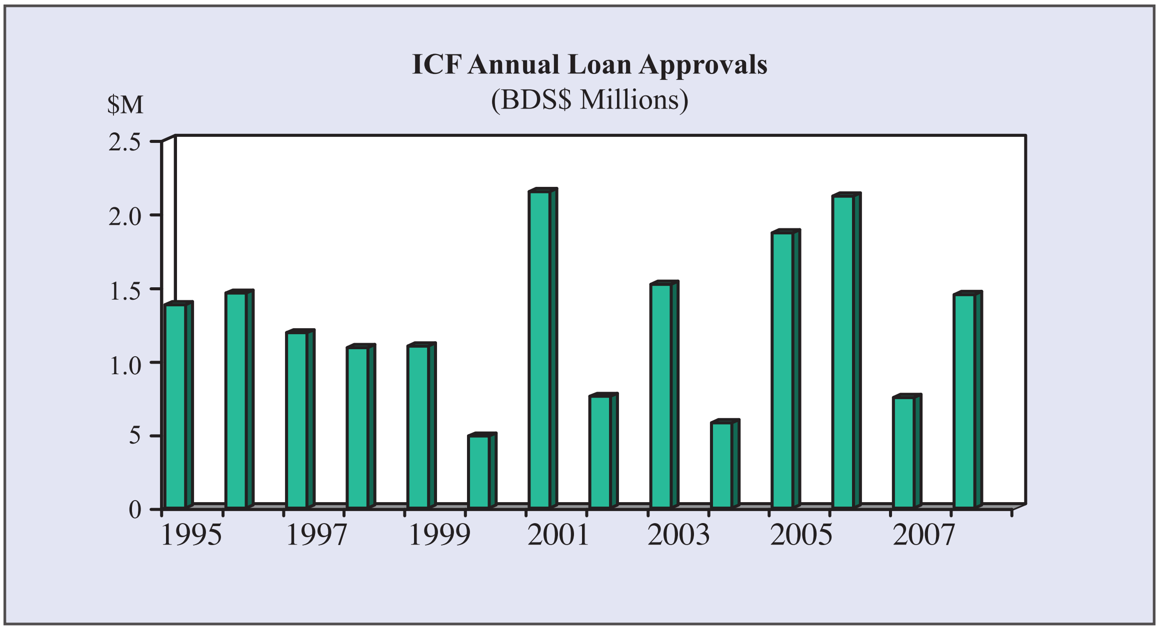
The ICF approved nine loan applications totalling $14.5 million, compared to five applications valued at $7.5 million in 2007. Cumulative approvals rose to $234.4[14] million while new disbursements amounting to $16.0 million increased net cumulative disbursements to $208.6 million. Tourism accounted for most ($6.7 million) of the new approvals with the remainder going to construction ($5.1 million) and manufacturing ($2.7 million). The balance of loans approved but undisbursed was $14.4 million at year-end.

Capital contributions of $5.9 million were received during the year in respect of reimbursements received under the CDB loan facility. Net income for 2008 is estimated at $2.5 million compared to $1.8 million in 2007. The ICF's net worth is expected to have increased from $103.9 million in 2007 to $112.2 million at December 31, 2008.

Barbados Investment Fund

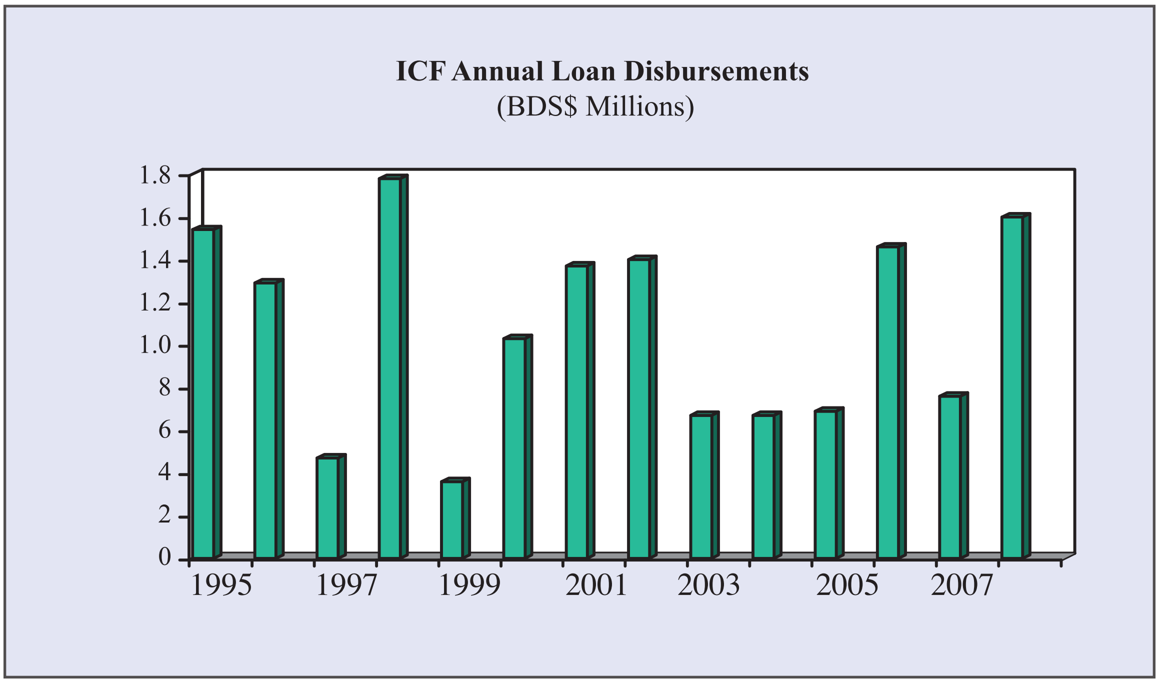
During the financial year ended August 31, 2008 the Barbados Investment Fund focused on pruning its existing portfolio to ensure that it presents fair value. This involved increased monitoring of the investee clients and initiating action to contain non-performing accounts. In this regard there has been no significant growth

[14] This amount includes cancelled loan approvals totalling $11.4 million.



in the portfolio, no new commitments and only one disbursement of $33,509. At year-end, total investments by the Fund were $21.9 million in 54 projects since the commencement of operations sixteen years ago. There was no change in the Central Bank's capital contribution, which still stands at $14.5 million.

At August 31, 2008 the Fund realised a net operating surplus of $287,081, which was 39.9%



Key Indicators of ICF Operations
($ Million)

INDICATORS	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 P
Loan Approvals	10.9	11.0	4.9	21.5	7.6	15.2	5.8	18.7	21.2	7.5	**16.0**
Loan Disbursements	17.8	3.6	10.3	13.7	14.0	6.7	6.7	6.9	14.6	7.6	**14.5**
Principal Repayments	8.3	4.7	6.4	12.6	11.1	6.3	7.0	8.3	9.1	7.0	**13.8**
Loans Outstanding	30.1	29.0	32.9	34.0	36.9	37.3	37.1	35.6	41.2	41.8	**44.0**
Net Income	2.2	2.1	2.1	1.7	1.7	0.9	0.9	1.0	1.4	1.8	**2.5**
Capital Inflows	0.0	0.0	0.0	4.0	10.5	3.0	6.2	0.0	0.0	0.0	**5.9**
Net Worth	62.5	63.6	64.8	69.5	79.5	82.6	88.3	83.1	84.5	103.9	**112.2**

Source: Central Bank of Barbados
P: Provisional

lower than for the previous year. This situation is a reflection of the decrease in the revenues by 20.3% to $627,851, primarily in the investment income category. It is noted that the 2007 figures included a one-time interest revenue recognition of $100,000 from a completed sale recovery transaction. Operating expenses rose 9.7%, partly reflecting additional legal costs associated with collections. After adjustments for the impairment provisions, which remained on par with the prior year, a net loss of $1.1 million was anticipated.

Human Resources Department

During the year the Department continued its efforts to lend support to management to provide accurate and timely information for determining the Bank's human resource needs. In addition, the Department sought to upgrade and enhance recruitment practices that would attract and secure people whose career goals and capabilities match the jobs and career paths which exist in the Bank. To this end, the Department interfaced with software vendors to identify and garner assessment tools to better identify best fit. The Department also held meetings with all new members of staff to determine needs requirements and settlement issues.

The Department continued its work of making recommendations towards the continuous improvement of human resource management and development in the Bank.

With regard to the Performance-Based Payment system, which was introduced last year, the Department continued to work with management and staff to provide technical support in the proper application of the system. The Department also generated and analyzed reports on performance to inform the decision-making processes.

The Job Evaluation Exercise commenced during the year and is expected to be completed in early 2009. All positions up to Senior Supervisory level were assessed to determine the value and worth of the various jobs as well as to ensure internal relativities.

Internal Audit Department

The Internal Audit Department continued to provide objective and independent reviews of critical areas of the Central Bank's operations during 2008. Follow-up reviews of the Housing

Credit Fund, Investments and the Sinking Funds were performed as well as an audit of Abandoned Property and a verification of Tax Certificates. Audits of the Currency Section commenced during the last quarter.

Throughout the year the Department continued to provide consultancy services as requested, especially in relation to systems under development.

Much effort was placed on rewriting sections of the Internal Audit Manual and setting departmental standards. This process is ongoing.

In keeping with the commitment to constantly upgrade staff skills, one member of staff participated in the Institute of Internal Auditors' Vision University, while two others attended conferences sponsored by the Caribbean Association of Audit Committee Members and the Institute of Chartered Accountants of the Caribbean. Additionally, a Senior Auditor completed the CISA programme and an Auditor completed the ACCA certification.

Management Information Systems Department (MISD)

In 2008 the MIS Department initiated a number of major projects. On the applications side, work started on a new Public Debt system, which is currently in parallel mode with full implementation scheduled for the first quarter of 2009. Most of the groundwork for the implementation of the changeover to the new Accounting system has been started and the new system is expected to parallel towards the end of the first quarter of 2009. This system includes General Ledger, Accounts Payable, Fixed Assets and Budgeting.

The project for the development of a Business Intelligence solution for Research and Bank Supervision Departments continued during 2008 and the Electronic Data Interchange (EDI) project with the commercial banks, involving the electronic transfer of returns is ongoing.

The MIS Department also successfully implemented a new fibre link to the hotsite, which has greatly improved the replication of data to that site. A mandatory SWIFTNet upgrade was also successfully completed. The Storage Area Network is now in full production.

The Department underwent a major security audit in 2008. The major outcome of this audit has been the establishment of an Information Security Governance Committee which is responsible for the oversight of Information Security within the Bank.

Public Affairs

CEMLA Conference

The Bank, in collaboration with the CEMLA, hosted a conference on Open Market Operations. The conference was held as Barbados and the region intensified efforts to deepen the capital markets.

More than 30 participants from central banks in Barbados, the Caribbean and Latin America were in attendance. The conference addressed issues relative to monetary policy, market turmoils of the day, instruments of open market operations, developing domestic money and bond markets. Attendees also analysed case studies on the impementation of open market operations in Canada, Mexico, Peru and the Trinidad and Tobago.

Media Conference

The Bank, in an effort to enhance the economic intelligence among local journalists, hosted a one-day conference for local journalists. Titled "Covering Economic and Financial Issues:

Making it Easier for Journalists", the conference had as its main objective making the Bank's messages and work more comprehensible to business and financial journalists, as well as students in the mass communications programme at the Barbados Community College.

The conference topics covered key aspects of the Bank's work, including:

- Understanding monetary policy and the decision-making process behind its implementation
- What Journalists Should Know About the Balance of Payments?
- Why it is important to safeguard the Net International Reserves?
- Compiling the statistics on GDP, Prices and Employment
- Compiling and interpreting the information in the Economic and Financial Statistics
- Understanding and interpreting Balance Sheets; and
- The what-ifs of full capital account liberalisation in the context of a fixed exchange rate regime.

The ARTS

Crop Over Visual Arts Exhibition

The Bank and the National Cultural Foundation (NCF) again hosted a very successful Crop Over Visual Arts Exhibition. Several young and veteran local artists displayed their fine art, fine craft and photography in the Grande Salle, Tom Adams Financial Centre. The exhibition, which marked its 14th anniversary this year, was well received by viewers.

Pan in the Plaza

The Bank and the Barbados Association of Steelpan Teachers once again hosted a pan camp and extravaganza for young Barbadians. The three-week camp culminated with an extravaganza featuring the camp band, Reddy Panners, Stefan Brathwaite and Springer Memorial School.

Lifetime Achievement Award

The Bank was associated with the Lifetime Achievement Award presented to Mr. Arthur Atkinson for his contribution to the visual arts. Through his many exhibitions locally, regionally and internationally, Mr. Atkinson succeeded in promoting Barbados' artwork and the nation as a destination to do business.

Sir Winston Scott Memorial Lecture

The Sir Winston Scott Memorial Lecture was very well received by the Barbadian public again this year. The Honourable John Ralston Saul, Canadian awarding-winning essayist and novelist, delivered a thought provoking presentation on "Small Societies in a Big World".

Schools Outreach Programme

The Central Bank of Barbados' Secondary Schools' Outreach Programme added two new topics to its syllabus: *Information Technology and Business Development.*

Other topics covered included: *The Role of the Central Bank; Gross Domestic Product (GDP); The Caribbean Single Market and Economy (CSME); Finance and Accounting, Investing and the Stock Exchange.* A considerable increase in the number of attendees was recorded.

Research Department

The year 2008 proved to be quite demanding for the Research Department, as it struggled to maintain the quality and quantity of its operational and research output. This was compounded by increased requests for economic intelligence and policy advice in the aftermath of the international financial crisis and the challenges it presented for Barbados economy. Despite this, the Department was able to execute its core operational functions without compromising on quality and timeliness. The 2007 Annual Report and the three quarterly

Economic Reviews were published on schedule, while the various policy documents (Economic Outlooks and Monetary Policy Papers and Press Releases) were generally produced on time.

The Department also continued to disseminate statistical information to its publics through the Annual Statistical Digest, the monthly Economic and Financial Statistics and the annual Balance of Payments publications. In addition, the Department produced a number of position papers on various economic issues, including a major document on the likely impact of the global financial crisis on the Barbados economy and possible short to medium term policy actions to mitigate its impact.

Given the relatively large proportion of inexperienced economists in the Department, great emphasis was placed on training. A comprehensive and more hands-on training programme was developed to introduce staff to the interrelationships of sectors in the Barbados' economy and to develop their writing skills. In addition, economists also benefited from courses offered by international financial institutions like the IMF and also participated in various local, regional and international seminars and conferences.

The Department's Annual Review Seminar continued to be the main training tool and as usual attracted participants from the regional Central Banks, the University of the West Indies, the Ministry of Finance, the Caribbean Development Bank and the Corporate Sector. The seminar was conducted over four days and a record 24 papers were presented in the first two and a half days, while the remainder of day three featured a technical workshop on econometrics. The final day was devoted to a panel discussion on the Developing Financial Markets in the Region and a tribute to Roland Craigwell, who recently resigned from the Bank to join the University of the West Indies as a Professor of Economics.

The Department continued to work on improving the accuracy and efficiency of the Bank's forecasting model. Links between the various sectors were either developed or upgraded and in some sectors, new techniques for estimating and forecasting real value-added were incorporated. Developmental work also continued on the Bank's financial programming model, which was used to produce a number of scenario analyses that outlined the impact of the global financial crisis on Barbados.

During 2008 the Statistical Unit continued its move towards the enhancement of information technology within the section aimed at increasing the speed, accuracy and timeliness of data. The Unit, along with MIS and Bank Supervision Departments, worked on the preparations for its Business Intelligence datawarehousing project. At the same time it fine-tuned the new data forms and disseminated them to a few of the financial institutions.

In 2008 the Library and Information Services Unit embarked on a programme to upgrade its information resources by refreshing its bookstock and expanding its electronic services to include additional research databases. This resulted in an increase in the number of EBSCO research databases available to staff. The new Central Bank website went into full operation and, in addition, work commenced on the upgrade to the Frank Collymore Hall website. In the Records management division there was a re-organization to facilitate an increase in capacity to house Bank records.

The Research Department also accommodated a number of interns from the University of the

West Indies during the summer. The programme has been an invaluable training ground for student economists, affording them the opportunity to work with professional economists.

The Department was involved in several public seminars, the Week of Excellence, the Schools' Programme and presentations to the social partners, which continue to be the main vehicles used to inform the public of emerging economic issues. In addition, economists also contributed to public knowledge by publishing articles in the Barbados Economic Society Newsletter.

Papers Presented at Conferences during 2008

The following were presented at Conferences in 2008:

"External Debt, Policies and Growth in the Caribbean" by Daniel Boamah and Winston Moore, at the 65th International Atlantic Economic Conference in Warsaw, Poland, April 9-12.

"Macroeconomic Convergence in Caricom" by Harold Codrington at the Conference on Small Open Economies in a Globalizing World, Wilfrid Laurier University, Waterloo, Canada. June 12 - 15.

"Exchange Rate Regimes and Monetary Autonomy: Empirical Evidence from Selected Caribbean Countries" by Kevin Greenidge, Tracy Maynard and Roland Craigwell, at the Western Economic Association International 83rd Annual Conference, Waikiki, Hawaii, June 29-July 3. The paper was also presented at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"Determinants and Volatility of Remittances in the Caribbean" by Kevin Greenidge and Alvon Moore, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"Determinants of Inflation in Selected Caribbean Countries" by Kevin Greenidge and Dianna DaCosta, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31. The paper was also presented at the Caribbean Centre for Money and Finance Annual Conference, St. Kitts, November 11-14.

"Determining External Public Debt in CARICOM" by Kevin Greenidge, Lisa Drakes and Roland Craigwell, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"Estimating a Sustainable Public Debt Level for Barbados" by Lisa Drakes, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"Financial Integration between Caribbean Countries and the US: Are We There Yet?" by Kevin Greenidge and Sasha Mapp, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31. Also presented at the Caribbean Centre for Money and Finance Annual Conference, St. Kitts, November 11-14.

"Import and Export Unit Value Indices" by Julian Jones and Alvon Moore, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"Interest Rate Pass Through: Evidence from Barbados", by Mahalia Jackman, Daniel Boamah and Nlandu Mamingi, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"The Impact of Capital Account Liberalisation on Economic Competitiveness in Selected Caribbean Countries" by Kevin Greenidge and

Natalia Morgan, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31.

"Stress Testing with Incomplete Data: A Practical Guide" by Stacia Howard, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 28-31. Also presented at the Irving Fisher Committee Conference, Basel Switzerland, August 26-27.

"The Macroeconomic Impact of IMF-Supported Adjustment Programmes in Small Open Economies: The Case of Barbados" by Daniel Boamah, at the 66th International Atlantic Economic Conference in Montreal, Canada, October 9 –12.

"Economic Volatility and Remittances" by Mahalia Jackman, Roland Craigwell and Winston Moore, at the Caribbean Centre for Money and Finance Annual Conference, St. Kitts, November 11-14.

"The Determinants of Credit Booms and Busts" by Stacia Howard, Denny Lewis-Bynoe and Winston Moore, at the Caribbean Centre for Money and Finance Annual Conference, St. Kitts, November 11-14.

Publications by Central Bank Staff during 2008

The following articles were published by the Bank's Economists during the year: "Sectoral Output, Growth and Economic Linkages in the Barbados Economy Over the Past Five Decades" by Kevin Greenidge, Roland Craigwell, Darrin Downes and Keva Steadman, Applied Econometrics and International Development, Vol. 8, No. 2. pp. 123-136.

"Economic Policy Co-movement in Latin America and the Caribbean" by Mahalia Jackman and Winston Moore, Journal of Policy Modelling, Vol. 30, No.6, pp 1107–1114

Central Bank Plans for 2009

Accounts Department

The Accounts Department will continue to integrate the Strategic Plan objectives into the Annual Administrative Budget in order to assist the Bank with the attainment of its objectives. The department will work closely with other departments to ensure compliance with, and management of departmental budgets in order to reduce costs, while not threatening the operational efficiency and effectiveness of the Bank. Training will be strengthened in key areas to enhance employee skills and internal mobility and competence in new systems.

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

The payments system will be further enhanced with the introduction of Straight Through Processing (STP) to allow for immediate settlement of transactions.

The Accounting Information System will be upgraded with the introduction of a new general ledger system with enhanced features, user-friendly environment and the capacity to meet the needs of changing accounting requirements. In addition, we will be implementing a new Staff Advances System during 2009. These systems will allow for real-time processing and seamless integration with mission-critical systems.

The Department will adopt International Financial Reporting Standards (IFRS) as the framework for preparation of financial statements. The adoption of these standards should conform to international best practice for banks and financial institutions. The preparation of these statements under IFRS requires changes to the Central Bank Act.

Banking, Currency and Investment Department

In fulfilling the Department's mandate to deliver a proficient service to its internal and external publics, there will be major system upgrades during 2009, aimed at improving the operational efficiency of the public debt, portfolio management, SWIFT system and payment system infrastructure.

Provided that the required legal reform is undertaken to lead to the dematerialisation of Government's securities, it is envisaged that the efficiency of local debt issuance will be greatly improved during 2009, as embodied in initiatives to promote the straight-through processing of debt payments and delivery versus payment (DVP).

Given the low interest rate environment, active management of the Bank's portfolios to optimize earnings will be a primary challenge this year. Now more than ever, it is intended that the Bank's asset management programme will be focused on the direction of interest rates to assess the impact on income earnings, as well as examining the risk profile and credit ratings of securities.

The Department's resources will also be geared towards assisting with the implementation of open market operations, which will require improving the Bank's capital base. During the first quarter, a repurchase agreement facility will be introduced to allow commercial banks to utilise their excess securities holdings to obtain cheaper credit.

Having acquired a new bank notes processing machine, for 2009 there will be an evaluation of the systems and processes currently being used in the Currency Section. It is also envisaged that a two-dollar coin will be introduced during the year. Many of the recommendations of the forensic audit and of the security expert will be implemented.

Bank Supervision Department

During 2009, the Bank Supervision Department will seek to accelerate its implementation of the risk-based approach to supervision. In addition, work will continue on Basel II, the strengthening of statistical databases and the design of new regulatory reporting forms. Effective implementation of these projects should enhance the department's understanding of risk management at licensees, facilitate speedier responses and strengthen supervisory practices. These initiatives will be complemented by a new focus on stress testing of the banking system to determine its resilience to economic shocks.

Resulting from the 2008 FSAP and the requirements for Basel II implementation, the Department will finalise its proposed amendments to legislation designed to ensure a stronger legal framework for supervision. This will be complemented by additional guidance notes to the industry on Basel II and risk management.

Given the significant changes taking place in the global arena and the regulatory framework, the Department will increase its dialogue with the industry through bilateral meetings and seminars to enable the industry to better understand the Department's initiatives in these areas.

The Department will continue to invest in the training of its young staff and will arrange for a seminar on change management to better enable staff to deal with innovations in its operation procedures, in response to the rapid changes occurring in the global financial system.

Facilities Management Department
Services

The Services Section of the Facilities Management Department will seek ways to improve its service delivery and reduce cost in the areas of Central Purchasing, Events Planning, Asset Management, and Travel. Continued emphasis will be placed on health and safety with respect to monitoring service providers' work on the premises, and executing training programmes.

It is hoped that all assets will be bar-coded, physical assets reconciled with assets listed on Prophecy Accounting System and the programming of the Intellitract Assets Management Software interfaced with Prophecy.

The Section will be involved in the replacement of the obsolete telephone system, refining of the Business Continuity Plan and rolling out of its awareness and training programmes.

Maintenance
In keeping with its long-term development plans, the Maintenance Section will continue to refurbish and replace systems that provide inadequate service due to malfunction, obsolescence and to take advantage of improvements in technology. Among these projects, some of which started in 2008, are the renewal of the entire air-conditioning system, including the installation of a new chiller, replacement of several air-handlers taking advantage of newer technology, redesign and replacement of the air delivery systems for various floors and refurbishment and upgrade of others. The challenges posed by the pigeons will receive continued attention as the Section strives to ensure that the environment remains safe and healthy for all users.

Security
In 2009 focus will continue on training in the direct action skills of security staff to achieve higher operational standards. The Section will be reorganized and a technical team established to better manage the various electronic systems. Greater emphasis will be placed on active monitoring of CCTV systems and a regular review of critical area imagery implemented.

Emphasis will continue on designing and amending standard operating procedures to better support the Unit's activities. Access Control will be further improved through the maintenance and streamlining of the Security training programme, and visitor management and elevator Control systems re-evaluated.

Frank Collymore Hall
The FCH plans to stage several educational and entertaining programmes, for example, Dramaworks Inc., a new local theatrical production company will bring Derek Walcott's "Pantomime" and "Dance Place" returns with their biennial concerts. Lunchtime and Sunset concerts in association with the US Embassy, upcoming and established local artistes are also planned, including the highly-anticipated Free Sunset Jazz Concert featuring local jazz artistes. In January, Martin Luther King Jr. Day will be celebrated, and as a preview to the inauguration of the first black American President and the commencement of Black History Month, a concert of Negro spirituals performed by American artistes will be held. A concert featuring a Russian born, Steinway artist will also be presented.

Foreign Exchange and Export Credits Department
The Bank will continue to liberally apply existing controls and maintain a cautious approach to the

further liberalisation of exchange control. The emphasis during 2009 will be on strengthening monitoring mechanisms and developing the systems for the collection and reporting of data by commercial banks. This will require the Foreign Exchange and Export Credits Department to work closely with the Management Information Systems Department.

The Bank will also strengthen the marketing of its support schemes to facilitate the growth and development of small and medium-sized enterprises. The Credit Guarantee Scheme will be enhanced and a technical assistance facility funded by the Industrial Credit Fund will be introduced early in 2009.

Human Resources Department

For the year 2009 the Human Resources Department will focus its attention on inter alia:

- the revision of the Employee Training and Development Policy Manual to ensure that priority is given to staff members who pursue courses of study geared to developing skills which are directly related to their department's operations and/or strategically relevant to the Bank. Particular emphasis will be on developing "Learning Communities" inter departmentally and extra departmentally and reconfiguring an Employee Training and Development Centre with the capacity to assist in assessing, providing and evaluating training and development opportunities.
- a fully-functioning Succession Management Programme to provide for continuity in light of the retirement of a number of Senior Management.
- Greater participation in the "Ideas in Action" Programme.

In 2008 a number of environmental issues emerged which affected various departments within the Bank. In 2009 it is expected that these problems will be resolved, to reinforce the obligation of management to ensuring that a safe and secure workplace exists.

The Department will also acquire a Human Resource Management System that allows for flexible manipulation of data for decision-making. It is envisaged that the system will facilitate processes designed towards: developing a culture of continuous improvement of standards and performance and strengthening the compensation for performance philosophy over the entitlement philosophy; and creating a greater linkage of the Human Resource Planning efforts to the Bank's strategic direction.

Internal Audit Department

In 2009, the Bank will determine to fill the vacant post of Director, Internal Audit. Much effort will be placed on completing a bank-wide risk assessment and on formulating a strategic plan to prioritize audits and ensure that emphasis is properly focused on areas of significant risk.

The Audit Manual will be completed and staff will receive training to ensure understanding and application of standards, enable standardization of the audit process and improve timeliness and quality. The Department will seize opportunities available locally as well as via the Internet to enhance the skill-sets of staff.

Management Information Systems Department

The strategic objectives of the MIS Department for 2009 are as follows:

1. Manage data as a corporate resource

2. Maintain a flexible information systems infrastructure that responds rapidly to changes in the industry

3. Use technology to promote greater innovation and creativity

4. Enhance computer security and disaster recovery procedures.

In 2009 the main thrust of the Department will continue to be in the area of data management. To this end, the department continues its drive to implement a data governance framework, which would ensure that maximum benefit could be derived from the use of the organisation's data. The definition of all data elements across the organisation will be an important element of this project in 2009.

For 2009, the Bank will continue to expand its EDI programmes, in an effort to capture data electronically and from source wherever possible. Accordingly, the Real Time Gross Settlement system will undergo a major upgrade this year.

Work on the Business Intelligence project for the Research and Bank Supervision departments will be continued in 2009. In addition, a number of new applications are scheduled to be installed during the year.

On the Systems Administration side, the Bank plans to upgrade the Local Area Network to accommodate the introduction of a Voice Over Internet Protocol (VOIP) telecommunications system. As recommended in the 2008 security audit, the MIS Department will continue to upgrade and enhance its security infrastructure under the guidance of the Information Security Governance Committee.

Public Affairs

The Section will be continuing most of the aforementioned programmes in 2009. Additionally, Public Affairs will assist with the organization of an economic and financial conference and the implementation of the National Financial Literacy Campaign.

Research Department

During 2009, the main challenges facing the Research Department are two-fold. The Department is faced with increased demand for macroeconomic support and statistical information but is in the process of training several new economists. As such, the focus in 2009 will continue to be on training, orienting, equipping and deploying its young staff to ensure efficient and effective functioning of the Department. With this in mind, the Department will continue to realign key tasks and units in a manner that will give its senior staff greater supervisory responsibility. The more experienced staff will be expected to lead teams to prepare briefs on various policy issues raised by the Bank's management and various government ministries. It is envisaged that they will also continue to be involved in in-house training and paired mentoring. At the same time, the Department will continue its drive to eliminate delays caused by data suppliers, to update the existing methodologies and to expand critical databases.

The Department is often called upon to use its economic outlook and financial programming models to estimate and forecast key economic indicators and simulate the impact of economic policies. As a result, a main activity during 2009 will be to refine the tracking properties of these models as well as continue to explore and implement new techniques for measuring the contribution of identified sectors such as non-sugar agriculture and international financial services.

In 2009, the work of the recently-established Financial Stability Unit will include compiling a database of financial soundness indicators as well as developing a financial stability model for stress-testing of the financial sector.

Statistical Section
During 2009 the data warehousing project will be completed and fully implemented. This will entail the testing of sample data and training of relevant officers and the full upload of all the relevant data. On completion the Bank will offer enhanced access to its database through the website (external) and other links in-house. It will also facilitate greater analysis of the economic and prudential indicators of the financial system and the wider economy.

Library and Information Services Unit
In keeping with the Bank's Strategic Objective to promote innovation and creativity in the delivery and access of information, the Library and Information Services Unit plans in 2009 to increase staff access to the data research facilities on the Internet. This will be undertaken by the further improvement in access to in-house library databases and services. There are also plans to increase the delivery of Bank publications to the public via the website. The Records Management Unit plans further expansion of the process to automate records and documents in the Bank. In addition the new Frank Collymore Website will be launched early in the New Year.

Training
The intensive training programme, which was developed in 2008 to train research officers and other young economists, will be refined and continued in 2009. In addition, the Department will continue to expose its economists and statistical staff to various local, regional and international conferences. Efforts will be intensified to facilitate their participation at the courses offered by the International Monetary Fund, CEMLA and other institutions.

Public Outreach
The Research Department will continue to participate in public outreach initiatives like the Week of Excellence and meetings of the technical sub-committee of the Social Partners. In addition the secondary schools and internship programmes, which are used to enhance students' understanding of economic issues facing Barbados and the Caribbean in general, will be maintained.

Adoption of Financial Statements

The net operating surplus for the financial year ended December 31, 2008 was $4,560,882.

The fedfunds rate stood at 4.25% at the beginning of the year and declined to 0.25% at year-end. However, income for the year totalled $68.1 million and represents an increase of $1,697,616 compared to the previous year and is attributable to gains from dealings in securities. Advances to Government under the Ways and Means Facility were within the statutory limit and interest earned amounted to $4.9 million.

The Bank performs treasury management operations for the Housing Credit Fund, certain statutory boards and internal entities. At December 31, 2008 fees earned amounted to $0.68 million and assets under management were $274.2 million.

Under the eHIPC initiative, CMCF creditors are required to provide debt relief to Bank of Guyana. During the year, the Bank increased the provision by $4.4 million to reach a cumulative amount of $10.0 million. The debt matures on April 01, 2009 and is recoverable from the CMCF Accumulated Fund.

Operating expenses totalled $63.5 million and include accelerated payments to fund the deficit of the Staff Pension Fund. Expenses also include interest payments on statutory foreign reserves deposited with the Bank for local regulated entities. These reserves decreased by $11.2 million during the year to reach $141.6 million at year-end.

The Board of Directors, with the approval of the Minister of Finance, appropriated $4,560,882 to the Consolidated Fund.

The Board of Directors adopted the Financial Statements duly certified by the Auditors of the Central Bank for the year ended December 31, 2008.

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AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the accompanying financial statements of Central Bank of Barbados (the "Bank"), which comprise the balance sheet as at December 31, 2008, the profit and loss account, profit and loss appropriation account and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2008, its financial performance and its cash flows for the year then ended in accordance with the Central Bank of Barbados Act, Cap. 323C and the significant accounting policies stipulated in Note 1.

KPMG

Chartered Accountants
Bridgetown, Barbados
February 25, 2009

Balance Sheet
December 31, 2008
with comparative figures for 2007

ASSETS

	NOTES	2008	2007
		BDS$	**BDS$**
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	264,217,997	400,341,199
Foreign Notes and Coins		4,795,796	1,460,769
Foreign Securities	3	757,546,815	825,749,993
		1,026,560,608	1,227,551,961
International Monetary Fund:			
Reserve Tranche	4	18,613,609	17,365,896
Total Reserve of External Assets		1,045,174,217	1,244,917,857
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	5	-	19,895,858
Barbados Government Debentures	5	44,000,000	635,000
		44,000,000	20,530,858
Advances:			
Government		268,300,000	102,500,000
Fixed Assets (Net)	6	88,651,296	85,910,432
Other Assets	7	40,292,461	30,900,210
Total Local Assets		441,243,757	239,841,500
		1,486,417,974	1,484,759,357

See accompanying notes to accounts.

Balance Sheet
December 31, 2008
with comparative figures for 2007

LIABILITIES, CAPITAL AND RESERVES

	NOTES	2008	2007
		BDS$	**BDS$**
LIABILITIES:			
Notes and Coins in Circulation	8	622,400,396	635,172,597
Deposits:			
Government		65,710,894	99,135,208
Banks		655,962,312	629,790,212
Financial Institutions		9,077,791	5,871,997
Other		9,046,121	7,514,255
		739,797,118	742,311,672
Other Liabilities:			
Allocation of Special Drawing Rights	9	26,319,236	24,704,903
Other	10	62,538,380	57,102,913
		88,857,616	81,807,816
Total Liabilities		1,451,055,130	1,459,292,085
Other Funds	11	17,362,844	7,467,272
CAPITAL AND RESERVES:			
Authorized capital: BDS$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		16,000,000	16,000,000
Net Capital and Reserves		18,000,000	18,000,000
Commitments and Contingencies	12	1,486,417,974	1,484,759,357

Approved on behalf of the Board of Directors on February 25, 2009

....**Governor**

....**Financial Controller**

Profit and Loss Account
For the year ended December 31, 2008
with comparative figures for 2007

	NOTES	2008	2007
		BDS$	BDS$
INCOME:			
Commissions and Fees		11,217,542	7,767,013
Discounts:			
Treasury Bills		1,245,072	4,387,790
Interest:			
Advances		5,502,239	5,312,912
Deposits		9,962,174	8,168,902
Securities		34,317,283	39,265,620
Other Income	13	2,134,259	1,550,216
Foreign exchange (loss) gains		(361,069)	22,889
Gain (loss) on sale of Foreign Securities		4,021,922	(133,536)
Total Income		68,039,422	66,341,806
EXPENSES:			
Operating:			
Administrative Expenses		13,979,168	13,636,749
Depreciation and amortization		3,747,192	3,855,733
Interest		1,981,817	4,403,569
Minting of Coins		1,752,949	1,274,339
Printing of Notes		440,406	4,471,942
Unissued notes		1,500,000	-
Debt Impairment	14	4,519,459	180,000
Retirement Benefits	15	11,238,085	8,167,103
Salaries and Allowances		24,319,464	22,244,567
Operating Expenses		63,478,540	58,234,002
Net Profit before Appropriation		4,560,882	8,107,804

See accompanying notes to accounts.

Profit and Loss Appropriation Account
For the year ended December 31, 2008
with comparative figures for 2007

	2008	2007
	BDS$	BDS$
Net profit before Appropriation	4,560,882	8,107,804
Deduct:		
Transfer to General Reserve	-	6,000,000
Transfer to Consolidated Fund	4,560,882	2,107,804
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.

CENTRAL BANK of BARBADOS

Statement of Cash Flows
For the year ended December 31, 2008
with comparative figures for 2007

	NOTES	2008	2007
		BDS$	BDS$
Cash flows from operating activities			
Net profit before appropriation		4,560,882	8,107,804
Adjustments for:			
Depreciation		3,680,737	3,855,733
Amortization		66,455	-
Loss (gain) on sale of capital assets		50,279	(49,377)
Debt impairment	14	4,519,459	180,000
Operating profit before working capital changes		12,877,812	12,094,160
(Increase) decrease in other assets		(9,578,165)	672,015
Net movement in foreign securities		23,635,070	(120,733,474)
Increase in Holdings of Special Drawing Rights		(1,247,713)	(1,140,288)
Increase in local securities		(23,469,142)	(19,895,858)
(Increase) decrease in discounts and advances		(165,800,000)	30,900,000
(Decrease) increase in deposits		(7,075,436)	279,161,258
Increase in other liabilities		5,435,467	14,470
Net cash (used in) from operating activities		(165,222,107)	181,072,283
Cash flows from investing activities			
Purchase of fixed assets		(6,477,346)	(2,227,999)
Proceeds from sale of fixed assets		5,466	59,060
Net cash used in investing activities		(6,471,880)	(2,168,939)
Cash flows from financing activities			
Increase in allocation of Special Drawing Rights		1,614,333	860,987
Decrease in CMCF		-	9,691,700
Increase in general reserve		-	6,000,000
(Decrease) increase in notes and coins in circulation		(12,772,201)	39,115,604
Decrease in Special Credit Trust		(1,000,000)	-
Net cash (used in) from financing activities		(12,157,868)	55,668,291
Net (decrease) increase in cash and cash equivalents		(183,851,855)	234,571,635
Cash and cash equivalents at beginning of year		432,998,768	198,427,133
Cash and cash equivalents at end of year		249,146,913	432,998,768
Cash and cash equivalents comprise:			
Current Account Balances	2	244,351,117	376,074,319
Foreign Notes and Coins		4,795,796	1,460,769
Foreign Treasury Bills	3	-	55,463,680
		249,146,913	432,998,768

See accompanying notes to accounts.

Notes to Financial Statements
December 31, 2008

1. SIGNIFICANT ACCOUNTING POLICIES

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

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

(b) *Income and Expenses:*
Income and expenses are accounted for on the accrual basis except that interest on the Caricom Multilateral Clearing Facility and the CRL Ltd loan facility is recognized when received.

(c) *Translation of Foreign Currencies:*
Assets and liabilities designated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Gains and losses resulting from foreign currency translations and transactions are included in the Profit and Loss Account.

(d) *Foreign Securities:*
Treasury bills and unquoted securities are valued at cost.

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

(e) *Numismatic Coins:*
The nominal value of numismatic coins sold is not included in ‘notes and coins in circulation’ while the net proceeds from sales are included in the Profit and Loss Account under Other Income.

(f) *Local Securities:*
Local securities are valued at cost.

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

(h) *Retirement Benefits:*
The Bank contributes to a defined benefit plan. The plan is funded by payments from the Bank, by taking account of the recommendations of an independent qualified actuary. The cost of providing retirement benefits is determined using the Projected Unit Method. However,

for financial reporting purposes, the contributions are charged against income as they are accrued.

(i) *Impairment of financial assets:*

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

(j) *Amortized Cost:*

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

Notes to Financial Statements, Continued
December 31, 2008

2. BALANCES HELD ABROAD

Balances held abroad comprise:

	2008	2007
	$	$
Current Accounts and deposits with foreign banks	244,351,117	376,074,319
Caricom Multilateral Clearing Facility (C.M.C.F) (Net of provision: 2008: $10,002,620 (2007: $5,602,620)	19,866,880	24,266,880
	264,217,997	400,341,199

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

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

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

An additional provision of $4,400,000 was made during 2008, bringing the total provision for impairment to $10,002,620 (2007: $5,602,620) (see note 14).

In 2007, the Bank of Guyana authorized the debit of BDS$9,691,700 against the Bank of Guyana's bilateral account to be applied to the principal payment of the Central Bank of Barbados' share of the CMCF debt. The CMCF account is inactive and matures on April 1, 2009. The outstanding amount is recoverable from the CMCF Accumulated Fund.

Notes to Financial Statements, Continued
December 31, 2008

3. FOREIGN SECURITIES

Foreign securities comprise:

	2008		2007	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	$	$	$	$
At Market Value:				
(a) Bonds/Debentures	740,419,282	757,212,798	764,042,600	769,952,296
(b) Equities	306,521	334,017	306,521	334,017
	740,725,803	757,546,815	764,349,121	770,286,313
At Cost:				
(c) Treasury Bills	-	-	55,463,680	55,463,680
	740,725,803	757,546,815	819,812,801	825,749,993

The unrealized gain of $16,862,844 (2007: $5,967,272) arose on the revaluation of Securities and is included in Other Funds. See note 11.

4. RESERVE TRANCHE

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

The Reserve Tranche pertains to the value of Special Drawing Rights at December 31, 2008. The balance held at December 31, 2008 amounted to SDR 5,643,134 (2007: SDR 5,582,046) and the rate of translation of SDRs into Barbados dollars at December 31, 2008 is BDS$1 = SDR 0.305442 (2007: BDS$1 = SDR 0.325401).

Notes to Financial Statements, Continued
December 31, 2008

5. SECURITIES

Local securities comprise:

	2008		2007	
	Nominal Value	Cost	Nominal Value	Cost
	$	$	$	$
Barbados Government Treasury Bills	-	-	20,000,000	19,895,858
Barbados Government Debentures	44,000,000	44,000,000	635,000	635,000

6. Fixed Assets

Fixed assets comprise:

	Freehold Land and Buildings	Furniture, Plant and Equipment	Motor Vehicles	Total
	$	$	$	$
Cost:				
December 31, 2006	95,909,528	37,005,263	948,992	133,863,783
Additions	30,791	2,048,545	148,663	2,227,999
Disposal/write-offs	-	(771,006)	(303,021)	(1,074,027)
December 31, 2007	95,940,319	38,282,802	794,634	135,017,755
Additions	25,178	6,281,865	170,303	6,477,346
Disposal/write-offs	(50,045)	(349,101)	-	(399,146)
December 31, 2008	95,915,452	44,215,566	964,937	141,095,955
Depreciation:				
December 31, 2006	16,386,569	29,005,268	924,097	46,315,934
Charge for the year	1,366,528	2,389,865	99,340	3,855,733
Eliminated on disposals	-	(761,358)	(302,986)	(1,064,344)
December 31, 2007	17,753,097	30,633,775	720,451	49,107,323
Charge for the year	1,367,838	2,229,267	83,632	3,680,737
Eliminated on disposals	-	(343,401)	-	(343,401)
December 31, 2008	19,120,935	32,519,641	804,083	52,444,659
Net Book Values:				
December 31, 2008	76,794,517	11,695,925	160,854	88,651,296
December 31, 2007	78,187,222	7,649,027	74,183	85,910,432

Notes to Financial Statements, Continued
December 31, 2008

7. OTHER ASSETS

Other assets include:

	2008	2007
	$	$
Accrued income on local investments	1,244,055	1,307,454
Cheques in process of collection	7,239,529	3,666,772
CRL Limited (1)	9,000,000	9,000,000
Fiscal Agency Payment Account	3,869	3,869
Prepayments	6,209,863	909,739
Staff Advances	14,762,034	15,447,829
Deferred Asset (2)	-	66,455
Sundry Balances	1,833,111	498,092
	40,292,461	30,900,210

(1) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank and was guaranteed by the Government of Barbados. During 1998, the facility was transferred to CRL Limited. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2008, the cumulative interest not recognized was $3,781,973 (2007: $3,240,493).

(2) Deferred asset represents the value of the net amortization of the set-up costs of the Barbados Automated Clearing House Services Incorporated (BACHSI). The amount is being amortized over a period of five years, and was fully amortized during the year ended December 31, 2008.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2008, the nominal value of numismatic coins sold, totaled approximately $10.4 million (2007:$10.4 million) and are excluded from 'Notes and Coins in Circulation' (See note 1 (e)).

9. ALLOCATION OF SPECIAL DRAWING RIGHTS

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

Notes to Financial Statements, Continued
December 31, 2008

10. OTHER

This amount comprises:

	2008	2007
	$	$
Accounts Payable	4,849,311	2,868,514
Barbados Tourism Authority Sinking Fund	-	305
BTII Special Development Bond Sinking Fund	1,414	3,889
Contribution Payable - Deposit Insurance Fund	-	2,963,968
Contribution Payable - Secondary Mortgage Market Project	242,319	242,319
Contribution Payable – Barbados Investment Fund	300,000	-
Contribution Payable – UWI Fund re Chair in Banking	1,161,169	861,169
Debenture Interest Payment Account	823,074	854,157
Deposit Insurance Company Accounts	932,119	5,515,824
Domestic Clearing	5,417,125	3,162,421
Dormant Accounts - Commercial Banks*	16,379,685	15,168,373
Export Development Fund	201,169	201,169
Housing Credit Fund General Account	9,467,121	7,092,248
Industrial Credit Fund	8,858,700	3,261,685
Redemption of Debentures Account	9,859,520	10,541,620
Sinking Fund Contribution Account	38,547	194,600
Small Business Fund	330,000	330,000
Staff Pension Fund	6,578	13,740
Staff Welfare Fund	1,614,441	1,722,541
Sundry Balances	2,056,088	2,104,371
	62,538,380	57,102,913

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

11. OTHER FUNDS

This amount comprises the following balances:

	2008	2007
	$	$
Special Credit Trust	500,000	1,500,000
Unrealised gains on revaluation of investments (note 3)	16,862,844	5,967,272
	17,362,844	7,467,272

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

Notes to Financial Statements, Continued
December 31, 2008

12. COMMITMENTS AND CONTINGENCIES

i. At December 31, 2008 the Bank had guaranteed settlement of approximately $1,061,585 (2007: $1,250,539) under the following scheme:

	Value of Contracts	Guarantee
	$	$
Credit Insurance Scheme for Small Businesses	1,471,769	1,061,585
	1,471,769	1,061,585

Additionally, at December 31, 2008, the Bank had contracts for capital expenditure in the amount of $4.074 million (2007: $1.874 million).

ii. Subsequent to the year-end, Suit No. 177 of 2009 was filed against the Bank inter alia for constructive dismissal and aggravated damages. The Suit was adjourned and Counsel is unable to determine the level of damages, if any, which may be awarded to the plaintiff.

13. RELATED PARTIES

At December 31, 2008, assets under management totaled $274,196,787 (2007: $260,131,824). These are detailed as follows:

	2008	2007
	$	$
Export Credit Insurance	9,468,644	9,065,636
Small Business Guarantee	4,284,793	4,108,170
Industrial Credit Fund	113,346,350	104,982,018
Housing Credit Fund	147,097,000	141,976,000
	274,196,787	260,131,824

Other income includes management fees received as follows:

	2008	2007
	$	$
Industrial Credit Fund	173,951	184,318
Housing Credit Fund	506,299	483,109
	680,250	667,427

Notes to Financial Statements, Continued
December 31, 2008

14. DEBT IMPAIRMENT

Debt Impairment comprises:

	2008	2007
	$	$
Provision for impairment of the CMCF debt (see note 2)	4,400,000	-
Provision for impairment of Other Assets	119,459	180,000
	4,519,459	180,000

15. RETIREMENT BENEFITS

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The most recent valuation carried out at December 31, 2008 revealed the following:

	2008	2007
	$	$
Fair value of plan assets	95,781,117	91,585,935
Actuarial present value of liabilities	102,896,695	99,773,681
Unfunded liability	7,115,578	8,187,746

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

	2008	2007
Rate of return of assets	6% per annum	6% per annum
Rate of salary inflation and promotional increases	4% per annum	4% per annum
Rate of escalation of NIS Ceiling	3% per annum	3% per annum
Rate of pension increases	2% per annum	2% per annum

The actuary has recommended that a funding rate of 11.86% (2007: 14.89%) of covered payroll be used for new benefits, plus an additional rate of 2.88% (2007: 3.53%) to allow the amortization of the unfunded liability over a period of fifteen/sixteen years. The total recommended funding rate of 14.74% (2007: 18.42%) of covered payroll should obtain until the next valuation.

16. TAXATION

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

CENTRAL BANK
of BARBADOS