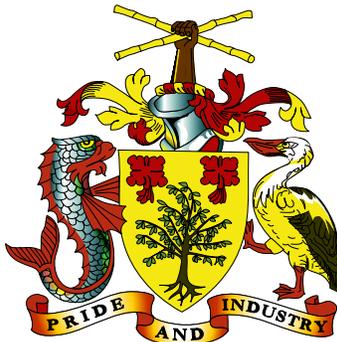


# OFFERING CIRCULAR

## Government of Barbados



**US\$65,000,000**

**6.625% Notes due 2035**

**Fully fungible and forming a single issue with the Government's US\$125,000,000**

**6.625% Notes due 2035**

The US\$65,000,000 aggregate principal amount of 6.625% Notes due 2035 (the "Notes") of the Government of Barbados (the "Government" or, unless the context otherwise requires, "Barbados") offered by this offering circular are a further issuance of the Government's US\$125,000,000 6.625% Notes due 2035 originally issued on December 5, 2005 (the "existing notes") and will be consolidated with, and form a single series with, such notes producing a series with an aggregate principal amount of US\$190,000,000. The notes offered hereby and represented by an Unrestricted Global Note will have separate temporary CUSIP and ISIN numbers from the existing notes represented by an Unrestricted Global Note for 40 days from the issue date of the notes offered hereby, and, therefore, will not trade fungibly with the existing notes for the first 40 days after this issue date. Thereafter, the notes offered hereby and represented by an Unrestricted Global Note Certificate will trade under the same CUSIP and ISIN numbers as the existing notes represented by an Unrestricted Global Note Certificate and will trade fungibly with the existing notes. The Notes will mature and will be repaid at par on December 5, 2035. Interest on the Notes will be payable semi-annually in arrears in U.S. Dollars on June 5 and December 5 of each year, commencing on December 5, 2006, at a rate of 6.625% per annum, accruing from June 5, 2006. Payments in respect of the Notes will be made without deduction or withholding for or on account of taxes imposed by Barbados to the extent set forth under "Terms and Conditions of the Notes — Taxation."

Application has been made for the Notes to be admitted on the official list of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF market. The Notes are represented by the Restricted Global Note Certificate and the Unrestricted Global Note Certificate (as defined under "Terms and Conditions of the Notes — Form, Denomination and Status").

**Price: 101.555%**

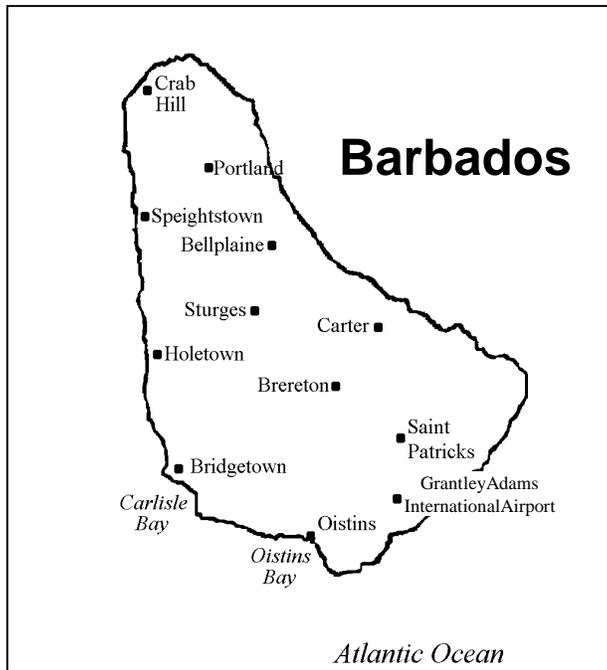
**plus accrued interest from June 5, 2006**

Delivery of the Notes in book-entry form only will be made on or about November 29, 2006.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered and sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") and in the United States to Qualified Institutional Buyers pursuant to Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that the sellers of Notes represented by the Restricted Global Note Certificate may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resale, see "Transfer Restrictions."

**Deutsche Bank Securities**

The date of this Offering Circular is November 21, 2006.



**LOCATION OF BARBADOS**



## **STABILISATION**

DEUTSCHE BANK SECURITIES INC. FOR ITS OWN ACCOUNT MAY OVER-ALLOT OR EFFECT TRANSACTIONS IN ANY OVER-THE-COUNTER MARKET OR OTHERWISE, WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET (BUT IN DOING SO, DEUTSCHE BANK SECURITIES INC. SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER). SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. SUCH STABILISING SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. ANY LOSS RESULTING FROM THE OVER-ALLOTMENT OR STABILISATION SHALL BE BORNE, AND ANY PROFIT ARISING THEREFROM SHALL BE BENEFICIALLY RETAINED, BY DEUTSCHE BANK SECURITIES INC.

The Government, having made all reasonable enquiries, hereby confirms that as of the date hereof this Offering Circular contains all information that is (in the context of the issue and offering of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein on the part of the Government are honestly held or made and are not misleading in any material respect; that all proper enquiries have been made to ascertain and to verify the foregoing; and that this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. The Government accepts responsibility accordingly.

The Government has not authorised the making or provision of any representation or information regarding the Government or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Government. Any such representation or information should not be relied upon as having been authorised by the Government, the Manager (as defined under "Subscription and Sale") or any of its affiliates. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall under any circumstances imply that there has been no change in the condition (financial or otherwise) of the Government since the date hereof.

The information contained in this Offering Circular has been provided by the sources identified herein. No representation or warranty, express or implied, is made and no responsibility is accepted by the Manager as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Manager as to the past or the future. Each offeree, by accepting delivery of this Offering Circular, agrees to the foregoing.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Manager to inform themselves about and to observe such restrictions. This Offering Circular does not constitute, and may not be used for or in connection with, any offer to, or solicitation by, anyone in any jurisdiction in which, or to or by any person to or by whom, such offer or solicitation would be unlawful.

**Specifically, the Notes will not be registered under the Securities Act and may not be directly or indirectly offered or sold in the United States or for the benefit of a U.S. person (as defined in Regulation S), except to Qualified Institutional Buyers in accordance with Rule 144A. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable securities laws of the states of the United States. Each person receiving this Offering Circular acknowledges that this Offering Circular does not contain all of the information that would be included in a prospectus for this offering were this offering registered under the Securities Act. See "Subscription and Sale" and "Transfer Restrictions."**

**The Notes will not be offered or sold in Barbados.**

Each purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither the Government nor the Manager shall have any responsibility therefor.

The Government and the Manager reserve the right to reject any offer to purchase any of the Notes, in whole or in part, for any reason and the right to sell less than the principal amount of the Notes offered hereby or for which any prospective purchaser has subscribed. The offer can be withdrawn at any time before the closing of the issue of the Notes and is specifically made subject to the terms described in this Offering Circular, the Subscription Agreement (as defined herein) and the Notes.

This Offering Circular should not be considered as a recommendation by the Government or the Manager that any recipient of this Offering Circular should subscribe or purchase any Notes. Each recipient of this Offering Circular shall be taken to have made its own investigation and appraisal (financial or otherwise) of Barbados.

## NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## NOTICE TO RESIDENTS OF THE UNITED KINGDOM

Deutsche Bank Securities Inc. represents and agrees that:

(a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Government;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Government; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), Deutsche Bank Securities Inc. represents, warrants and agrees that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), it has not made and will not make an offer of the Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Government of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State; and the expression “European Economic Area” means the European Union, Norway, Iceland and Liechtenstein.

### NOTICE TO RESIDENTS OF FRANCE

Each of Deutsche Bank Securities Inc. and the Government has represented and agreed that:

(a) it has only made and will only make an offer of Notes to the public (appel public à l'épargne) in France in the period beginning (1) when a prospectus in relation to those Notes has been approved by the Autorité des marchés financiers, or AMF, on the date of such publication, or (2) when a prospectus has been approved in another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, all in accordance with articles L.412-1 and L.621-8 of the French Code monétaire et financier and the Règlement général of the AMF, and ending at the latest on the date which is 12 months after the date of such publication; or

(b) it has only made and will only make an offer of Notes to the public in France (appel public à l'épargne) and/or it has only required and will only require the admission to trading on Euronext Paris S.A. in circumstances which do not require the publication by the offeror of a prospectus pursuant to articles L.411-2 and L.412-1 of the French Code monétaire et financier; and

(c) otherwise, it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (1) providers of investment services relating to portfolio management for the account of third parties, and/or (2) qualified investors (investisseurs qualifiés), all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French Code monétaire et financier.

The Notes will constitute general, direct and, subject as set forth in “Terms and Conditions of the Notes — Negative Pledge,” unsecured obligations of the Government and will rank *pari passu*, without any preference among themselves. The payment obligations of the Government under the Notes will at all times rank at least *pari passu* with all other general, direct and unsecured External Indebtedness (as defined under “Terms and Conditions of the Notes — Negative Pledge”) of the Government, present and future.

## **PRESENTATION OF CERTAIN INFORMATION**

Financial data and statistical information included in this Offering Circular is the latest official data and information available at the date hereof. Financial data and statistical information provided in this Offering Circular may be subsequently revised in accordance with the ongoing maintenance by Barbados of its economic data and statistical information, and such revised data and information will not be distributed by Barbados to any holder of the Notes. Financial data and statistical information for 2005 or the fiscal year 2005-2006 may, in particular, be subject to revision. In addition, the financial data and statistical information for 2006 presented herein are estimates based on the latest available data. Such estimates are provisional and are therefore subject to revision.

Unless indicated to the contrary, where estimates are given in this Offering Circular, they are estimates of the Central Bank of Barbados (the “Central Bank”) or the Ministry of Finance of Barbados (the “Ministry of Finance”). Unless otherwise stated, references to a year (e.g., “2005”) refer to the relevant calendar year ended December 31 and references to a fiscal year or FY (e.g., “FY 2005/2006”) refer to the fiscal year of Barbados which runs from April 1 to the following March 31. References to the “Government” exclude the state-owned enterprises of Barbados. See “Economy — State-Owned Enterprises.”

Unless otherwise indicated, all information in this Offering Circular is given as at the date of this Offering Circular. Totals in certain tables in this Offering Circular may differ from the sum of the individual items in such tables, due to rounding.

In this Offering Circular, “real GDP” means real Gross Domestic Product at constant 1974 prices, “nominal GDP” means, unless otherwise stated, nominal Gross Domestic Product at market prices and references to GDP per capita are to GDP per capita calculated at factor cost, which is nominal GDP at market prices less net indirect taxes, divided by the median population.

In this Offering Circular, all references to “BDS\$” and “Barbados Dollars” are to the lawful currency of Barbados; all references to “U.S. Dollars” and “US\$” are to the lawful currency of the United States of America; all references to “Euro” are to the single currency of participating member states of the European Union; and all references to “Pounds Sterling” and “£” are to the lawful currency of the United Kingdom. The Barbados Dollar currently is fixed to the U.S. Dollar at an exchange rate of BDS\$2.00 = US\$1.00 and, solely for the convenience of the reader, Barbados Dollar figures are translated into U.S. Dollars at such rate in this Offering Circular. This translation should not be construed as a representation that any such amounts have been, would have been or could be converted at this or any other exchange rate.

## **SUBMISSION TO JURISDICTION**

Barbados is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in the United States against the Government.

The Government in the Agency Agreement (as defined in “Terms and Conditions of the Notes”) and the Terms and Conditions of the Notes will irrevocably submit to the jurisdiction of any federal court in the Southern District of New York, any state court in the Borough of Manhattan, the City of New York, any courts of England and any competent court in Barbados over any suit, action or proceeding against the Government or its properties, assets or revenues with respect to the Notes or the Agency Agreement (a “Related Proceeding”). The Government will irrevocably waive and agree, to the fullest extent permitted by applicable law, not to plead any immunity (sovereign or otherwise) from the jurisdiction of such courts in connection with any action arising out of or in connection with any Related Proceeding and, without limiting the generality of the foregoing, the Government will agree that such waivers shall have the fullest scope permitted under the United States Foreign Sovereign Immunities Act of 1976. The Government in the Agency Agreement and in the Terms and Conditions of the Notes will also waive, to the fullest extent permitted under applicable law, any objection to Related Proceedings in such courts whether on the grounds of venue, residence or domicile or on the ground that the Related Proceedings have been brought in an inconvenient forum.

Final and conclusive judgments against the Government for the payment of a sum of money rendered by a federal or state court sitting in the City of New York in the United States, are not directly enforceable in Barbados by the Barbados High Court. However, an action can be brought in the Barbados High Court to obtain a judgment of the Barbados High Court on a final and conclusive judgment against the Government for the payment of a sum of money rendered by a federal or state court sitting in the City of New York in the United States. The Barbados High Court will recognise and enforce a final and conclusive judgment rendered by a federal or state court sitting in the City of New York in the United States under common law principles applied by the Barbados High Court provided: (A) in the case of a judgment *in personam*: (i) that the original court was a court of competent jurisdiction according to the rules of conflict of laws applied by the High Court of Barbados; (ii) the judgment is not impeachable on the ground that it was obtained by fraud, or that its recognition or enforcement would be contrary to Barbadian principles of public policy, or that it was obtained in proceedings which were contrary to natural justice; and (iii) the judgment is for a definite sum of money (other than a sum payable in respect of taxes or penalties) and that it finally and conclusively determines the rights and liabilities of the parties to it so as to be *res judicata* where pronounced and that such judgment has not been satisfied; (B) in the case of a judgment *in rem* relating to movables, that the movables were located in the country of the original court at the time of the proceedings; and (C) in the case of a judgment *in rem* relating to immovables, that the immovables were located in the country of the original court at the time of the proceedings.

Enforceability in Barbados of a final judgment against the Government for the payment of a definite sum of money rendered by a court in the United Kingdom will be registered by the Barbados High Court in accordance with the provisions of the Foreign and Commonwealth Judgments (Reciprocal Enforcement) Act Cap. 201 (the "FCJA"), subject to certain requirements described below. Under the FCJA, a judgment by a court in the United Kingdom is enforceable by the Barbados High Court if that judgment is registered in the Barbados High Court under the FCJA. No judgment shall be ordered to be registered by the Barbados High Court if it determines that: (a) the original court acted without jurisdiction; or (b) the defendant/judgment debtor, being a person who was neither carrying on business nor ordinarily resident within the jurisdiction of the English court, did not voluntarily appear or otherwise submit or agree to submit to the jurisdiction of that court; or (c) the judgment debtor, being the defendant in the proceedings, was not duly served with the process of the English court and did not appear, notwithstanding that he was ordinarily resident or was carrying on business within the jurisdiction of that court or agreed to submit to the jurisdiction of that court; or (d) the judgment was obtained by fraud; or (e) the judgment debtor satisfies the Barbadian court either that an appeal is pending, or that he is entitled and intends to appeal, against the judgment; or (f) the judgment was in respect of a cause of action which for reasons of public policy or for some other similar reason could not have been entertained by the Barbados High Court.

The registration of a judgment may be set aside if it is determined by the Barbados High Court that the matter in dispute in the proceedings in the original court had, prior to the date of the judgment in the original court, been the subject of a final and conclusive judgment by a court having jurisdiction of the matter.

## **FORWARD-LOOKING STATEMENTS**

This Offering Circular includes forward-looking statements that reflect the Government's current views with respect to future events. The words "expects," "intends," "anticipates," "believes," "projects," "estimates" and similar expressions identify forward-looking statements. These forward-looking statements are based upon estimates and assumptions made by the Government or its officials that, although believed to be reasonable, are subject to certain known and unknown risks and uncertainties. These risks and uncertainties include, among others, the following: the general political, economic and business conditions globally and in Barbados, the financial stability of Barbados, changes in interest rates, a significant reduction in the foreign currency reserves of Barbados, governmental, statutory, regulatory or administrative initiatives affecting financial institutions in Barbados and Barbados itself, the financial condition and liquidity of banks and other financial institutions in Barbados, an adverse change in economic conditions in Barbados, and other factors referenced in this Offering Circular. All forward-looking statements contained in this Offering Circular are expressly qualified in their entirety by such factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Government disclaims any obligation or undertaking to update publicly or revise any forward-looking statement contained in this Offering Circular, whether as a result of new information, future events or otherwise. Future circumstances could cause actual results to differ materially from historical results or those anticipated.

## SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information contained elsewhere in this Offering Circular.

### General

Barbados is the most easterly of the Caribbean islands, situated approximately 300 miles off the north coast of South America. The island comprises a total landmass of 166 square miles. Its topography is relatively flat, and the highest point on the island is Mount Hillaby, at 336 meters (1,104 feet) above sea level. As of December 31, 2005, Barbados had an estimated population of 273,500. The capital of Barbados is Bridgetown, which is situated on the southwest coast of the island and, including its surrounding areas, has a population of over 100,000. English is the official language of Barbados.

Barbados is a former British colony that became independent in 1966. A member of the Commonwealth of Nations, Barbados has a constitution founded on the British model of parliamentary democracy and comprises an elected House of Assembly and an appointed Senate. Since independence, the island has had a history of political stability. Governments are elected for up to five years. The present Government, being formed by the Barbados Labour Party (the “BLP”), came to power in 1994 and was re-elected in 1999 and 2003. The other main political party is the Democratic Labour Party (the “DLP”). The BLP has 24 seats in the House of Assembly while the DLP holds six seats. Within the past year a new party emerged, the Peoples Empowerment Party, but it holds no seats in the House of Assembly. The ideology of all three parties is considered to be centrist. Under the constitution, the next general election in Barbados is required to take place no later than September 2008.

A Constitution Review Commission was appointed in 1996 to examine proposals for constitutional reform. Its principal recommendations include the adoption of a republican form of government with an indigenous citizen President, chosen by an electoral college of both houses of Parliament, as head of state. There is a general political consensus that, although the Constitution does not require it, there should not be a change to a republican form of government without the support of a referendum. A bill providing for the holding of a national referendum on the question of whether the head of state of Barbados should be an indigenous Barbadian citizen was passed in Parliament during 2005. The Government has yet to decide on a date for the referendum.

Barbados has emphasised the development of its human resources, resulting in a literate and trainable labour force. The Barbados educational system, which is modelled on the British system, is funded almost entirely by the Government and produced a literacy rate of 99.7% in 2003. The Government also funds healthcare, and citizens of Barbados may receive free treatment at the Queen Elizabeth Hospital facility in Bridgetown and a number of smaller facilities. There are also private hospitals on the island. Life expectancy was 75.0 years in 2003 (about 71.4 years for men and 78.5 years for women.) See “Barbados — History, Geography, Population and Society.”

### Economy

#### *Overview*

The economy of Barbados has diversified over the last four decades. The emphasis has shifted from agriculture towards services, and tourism provides the main source of foreign exchange earnings. The international business and financial services sector has also contributed significantly to foreign exchange earnings and employment. For the year ended December 31, 2005, Barbados’ GDP per capita at factor cost was US\$9,350, one of the highest in the Caribbean. See “Economy.”

Barbados’ real GDP has grown during 12 of the last 13 years. Led by activity in the tourism sector and new private-sector investment (largely tourism-related), the Barbadian economy registered eight consecutive years of economic growth prior to 2001. The strength of private investment enabled the economy to achieve an average real growth rate of 2.8% per annum between 1993 and 2000, while the population size remained relatively unchanged during the same period.

During 2001, the economy contracted by 2.6%, the result of efforts to cope with trade liberalisation, a depressed world economy and the consequences of the events of September 11. Activity in tourism declined by 5.9%, compared with growth of 9.2% in the previous year, and output in other foreign exchange earning sectors like manufacturing and sugar was also lower. The fall in real output was accompanied by an increase in the rate of unemployment. To help better manage the challenges posed by the deteriorating economic climate, the Government successfully issued a US\$150 million international bond in the fourth quarter of 2001. The proceeds of this bond helped by increasing the Central Bank's net international reserves.

The economy recovered in 2002 and grew by an average of 2.9% per annum during the period 2002 to 2005. The tourism sector registered strong growth in 2003 and 2004 but declined in 2005. Other export activities were sluggish except for sugar production and manufactured output in 2005. Accordingly, for the first time in a decade, non-traded activities (construction and wholesale and retail trade in particular) accounted for most of the increase in GDP in 2004. Non-traded activities continued to drive the economy during 2005. During 2002 and 2003, job creation was difficult and the rate of unemployment reached 11.0% in 2003. However, unemployment dropped below 10% in 2004 and 2005 in line with the increased economic expansion in those years. The average rate of inflation did not rise above 1.6% between 2002 and 2004, but it accelerated to 6.1% in 2005 as the cost of living was impacted by higher petroleum prices.

The Barbados economy expanded at 3.7% during the first nine months of 2006. Real GDP from tourism is estimated to have risen by 1.9%. During the same period, longer-stay tourist arrivals were 4.1% higher, while the number of cruise ship passengers during the first eight months of 2006 fell by 11.6%. The sharp reduction in cruise passengers resulted from increased competition from homeland ports in the United States and shorter itineraries because of higher fuel costs.

#### *Monetary Policy*

The Government believes that its commitment to a fixed exchange rate regime has enabled it to maintain relatively low inflation rates. During the eight years ending in 2004, inflation remained below 2.6%, except in 1997, when Barbados substituted a value-added tax ("VAT") on goods and services for certain indirect taxes, and inflation reached 7.7%. However, during 2005, inflation increased to an estimated annualized level of 6.1%, primarily as a result of an increase in petroleum prices, which led to a rise in the prices for food, housing and transportation, fuel and light petroleum prices. At the end of June 2006, the average rate of inflation was approximately 7.2%. Inflation for the full year 2006 is projected to be 6.5%. The higher rate of inflation during 2006 reflected increased prices for housing, transportation and fuel and electricity. See "Economy — Inflation."

#### *Balance-of-payments*

Barbados achieved a surplus in its balance-of-payments in the five-year period through 2003, but in 2004 the balance shifted to a deficit. In the first nine months of 2006, the balance-of-payments remained on trend and recorded a surplus of an estimated US\$35.7 million. Economic growth between 2002 and 2005 led to a sharp increase in imports, which more than offset the higher inflows from domestic exports and tourism receipts. As a result, the external current account deficit as a percentage of nominal GDP grew from 6.8% in 2002 to 12.6% in 2005, the latter marginally higher than the 2004 figure of 12.4% of GDP. However, there were sizeable inflows of foreign capital, especially since the start of the decade, primarily from divestment proceeds and private investment in real estate and utilities. During 2003 there were substantial investments by two providers of cellular phone services as a result of the deregulation of that market. The Government also sold the majority of its shares in the Barbados National Bank to Republic Bank Limited of Trinidad & Tobago. These resources helped to boost net international reserves of the monetary authorities (Central Government and the Central Bank), which reached US\$769.7 million, the highest on record, in March 2004. By the end of 2004 and through to 2005, heavy payments for imports and outflows of foreign exchange under the second-tier reserves programme reduced net international reserves to US\$619.2 million, at the end of December 2005, which was equivalent to 22.4 weeks of merchandise imports. Under the second-tier reserves programme, certain entities are allowed to invest funds overseas with the approval of the Central Bank, with the guarantee that such funds be repatriated on request. In 2005, reserves were further boosted by the Government's US\$125 million borrowing in the international capital markets and numerous tourism-related private-sector project inflows. At December 31, 2005, funds under the second-tier reserves

programme amounted to US\$46.5 million, compared to US\$85.9 million at the end of 2004. The second-tier reserves stood at US\$49 million at the end of September 2006.

#### *Government Deficit*

As part of its overall macro-economic strategy, the Government sought, prior to 2001, to keep the fiscal deficit under 2.5% of nominal GDP. With the exception of FY 1996-1997, the Government maintained the deficit below this level for the five fiscal years prior to FY 2000-2001. For the five fiscal years from FY 2001-2002 to FY 2005-2006, the annual fiscal deficit averaged approximately 3.5% of nominal GDP. Between FY 2003-2004 and FY 2005-2006, a more robust growth in revenues, especially in indirect taxes, allowed the Government to contain its fiscal deficit to within 3.2% of nominal GDP. For the nine-month period ended September 30, 2006, the Government recorded a deficit of approximately US\$37.1 million, compared to a deficit of US\$70.4 million in the corresponding period of 2005. The fiscal deficit for FY 2006-2007 is estimated at 2.7% of nominal GDP. See “Public Finance — Revenues and Expenditures.”

#### *Debt Management*

Barbados has always met its obligations in respect of borrowed monies as and when due and has never defaulted on, or requested or been involved in a general rescheduling of, its indebtedness. On account of the capital investment programmes instituted by the Government to boost Barbados’ earning capacity (see “Economy”), the amount of public-sector outstanding external debt, including Government-guaranteed debt, climbed to US\$875.3 million in 2005, up from US\$787.8 million at December 31, 2004. Still, the provisional debt service ratio (total debt service as a percentage of exports of goods and non-factor services) for 2005 was 5.4%, compared to 5.7% and 5.8% in 2004 and 2003, respectively. The public-sector total external debt-to-nominal GDP ratio at the end of 2005 was 28.7%, compared to 28.0% and 27.4% in 2004 and 2003, respectively. See “Public Debt.”

The Government’s debt management strategy aims to maintain access to traditional sources of financing, such as international financial institutions (although its strong economic performance has meant that Barbados no longer qualifies as a potential borrower from the World Bank), while accessing new sources of financing by issuing debt securities in the international capital markets.

The proceeds of the notes offered hereby are intended to be used to strengthen foreign reserves.

## SELECTED ECONOMIC INDICATORS

The following selected economic indicators of Barbados do not purport to be complete and are qualified in their entirety by, and are subject to, the detailed information appearing elsewhere in this Offering Circular.

**Table 1**

	For the year ended December <sup>(1)</sup>				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars, except as otherwise indicated)				
<b>Real Sector</b>					
Nominal GDP at Market Prices .....	2,554.2	2,476.1	2,694.9	2,817.1	3,061.1
GDP per capita (in US\$).....	7,900.0	7,500.0	7,950.0	8,450.0	9,350.0
Real GDP increase/(decrease)(%).....	(2.6)	0.7	2.0	4.9	4.1
Unemployment rate (%) <sup>(2)</sup> .....	9.9	10.3	11.0	9.6	9.1
Consumer inflation (%) .....	2.6	0.2	1.6	1.4	6.1
<b>Balance-of-payments</b>					
Merchandise trade balance.....	(681.1)	(702.0)	(801.4)	(971.0)	(1,085.5)
Merchandise exports.....	271.2	253.0	264.2	293.1	378.6
Merchandise imports .....	952.2	955.0	1,065.6	1,264.0	1,014.1
Services balance.....	570.0	549.9	646.6	668.3	777.6
Exports of services .....	1,068.5	1,041.3	1,165.5	1,214.3	1,457.3
Imports of services .....	498.5	491.4	518.9	554.7	679.7
Current account.....	(110.6)	(167.7)	(169.0)	(350.1)	(385.0)
Current account (% of nominal GDP) .....	(4.3)	(6.8)	(6.3)	(12.4)	(12.0)
Capital account (% of nominal GDP) .....	11.4	9.3	12.0	6.2	9.6
Overall balance .....	226.6	88.6	187.9	(170.3)	(67.8)
<b>Government<sup>(3)</sup></b>					
Fiscal balance (% of nominal GDP) .....	(4.0)	(5.6)	(2.3)	(2.6)	(2.9)
Revenue.....	33.8	34.6	34.6	33.8	35.1
Expenditure .....	37.8	40.2	36.9	36.4	38.0
Foreign financing (% of nominal GDP).....	6.0	(0.8)	2.7	(0.9)	2.9
Domestic financing (% of nominal GDP).....	(1.7)	12.0	1.5	2.5	1.0
<b>Public-sector Debt</b>					
<i>External</i>					
External debt <sup>(4)</sup> .....	745.5	732.5	738.2	787.8	875.3
External debt (% of nominal GDP) <sup>(5)</sup> .....	29.2	29.6	27.4	28.0	28.7
External debt (% of exports of goods and services).....	55.7	56.6	51.6	52.3	47.7
Debt service payments.....	69.4	84.6	93.0	89.6	94.9
Amortisation.....	24.6	32.2	37.4	37.8	42.0
Interest.....	44.8	52.4	55.6	51.8	52.9
Debt service ratio (% of goods and services).....	3.9	6.2	5.8	5.7	5.4
<i>Domestic</i>					
Domestic debt of Central Government .....	1,166.7	1,302.7	1,355.1	1,401.6	1,693.1
Domestic debt of Government (% of nominal GDP).....	45.7	52.6	50.3	49.8	55.3

	<b>For the year ended December<sup>(1)</sup></b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	(in millions of U.S. Dollars, except as otherwise indicated)				
<b>External Liquidity (Monetary Authorities)</b>					
Foreign assets (net) .....	706.9	683.2	751.7	595.3	619.2
Liquid international reserves .....	696.0	682.8	752.5	596.7	626.7
Import reserve cover (weeks of retained imports) .....	36.7	35.7	35.2	23.7	22.4
Foreign exchange earnings .....	1,412.7	1,366.4	1,504.8	1,582.7	1,920.9
<b>Tourism</b>					
Long-stay arrivals (thousands).....	507.1	497.9	531.2	551.5	547.5
Cruise ship arrivals (thousands).....	527.6	523.3	559.1	721.3	563.6
Hotel occupancy room rate (%) .....	49.0	41.1	49.9	49.8	54.0
Tourist spending .....	686.8	647.8	747.0	763.2	885.3

<sup>(1)</sup> Information is presented on a calendar year basis, other than Government information which is presented on a fiscal year basis.

<sup>(2)</sup> These figures present average unemployment during the period.

<sup>(3)</sup> Government information is presented on a fiscal year basis (starting April 1 in the year of the relevant column and ending March 31 in the subsequent year).

<sup>(4)</sup> Includes Government-guaranteed debt.

<sup>(5)</sup> Ratios presented are calculated as a percentage of calendar year GDP.

*Source: Central Bank of Barbados*

## THE OFFERING

The following is qualified in its entirety by, and is subject to, the detailed information contained elsewhere in this Offering Circular and should be read in conjunction with “Terms and Conditions of the Notes” contained elsewhere in this Offering Circular.

**Issuer:** Government of Barbados.

**Notes:** 6.625% Notes due 2035.

**Principal Amount:** US\$65,000,000.

The Notes are a further issuance of the Government's US\$125,000,000 6.625% Notes due 2035 originally issued on December 5, 2005, and will be consolidated with, and will form a single series with such notes. The total principal amount of the previously issued notes and the Notes now being issued will be US\$190,000,000. The notes offered hereby and represented by an Unrestricted Global Note will have separate temporary CUSIP and ISIN numbers from the existing notes represented by an Unrestricted Global Note for 40 days from the issue date of the notes offered hereby and, therefore, will not trade fungibly with the existing notes for the first 40 days after this issue date. Thereafter, the notes offered hereby and represented by an Unrestricted Global Note Certificate will trade under the same CUSIP and ISIN numbers as the existing notes represented by an Unrestricted Global Note Certificate and will trade fungibly with the existing notes.

**Issue Price:** 101.555% of the principal amount of the Notes, plus accrued interest from June 5, 2006.

**Interest:** The Notes will bear interest from June 5, 2006, at a rate of 6.625% per annum payable semi-annually in arrears in U.S. Dollars on June 5 and December 5 of each year, commencing on December 5, 2006.

**Maturity:** December 5, 2035.

**Manager:** Deutsche Bank Securities Inc. See “Subscription and Sale.”

**Withholding Tax and Additional Amounts:** Payments of interest and principal in respect of the Notes will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Barbados or any political subdivision thereof, or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Government will (subject to customary exceptions) pay such additional amounts as may be necessary in order that the net amounts receivable by the holders of Notes after such withholding or deduction shall equal the respective amounts of interest and principal which would have been receivable by such holder in the absence of such withholding or deduction. See “Terms and Conditions of the Notes — Taxation.”

**Form and Denominations:** The Notes will be issued in fully registered form only, without interest coupons, in minimum denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof.

<b>Book Entry, Delivery and Form:</b>	Notes sold in offshore transactions in reliance on Regulation S will be represented by the Unrestricted Global Note Certificate, a single, permanent Global Note in fully registered form, without coupons, deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of its direct and indirect participants, including Euroclear and Clearstream, Luxembourg. Notes sold to qualified institutional buyers in reliance on Rule 144A will be represented by the Restricted Global Note Certificate, a single, permanent Global Note in fully registered form, without coupons, deposited with a custodian for, and registered in the name of a nominee of, DTC. The Notes will trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in the Notes will therefore settle in immediately available funds. Beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances, individual Note Certificates will not be issued in exchange for beneficial interests in the Unrestricted Global Note Certificate or the Restricted Global Note Certificate. See "Terms and Conditions of the Notes — Form, Denomination and Status."
<b>Status of the Notes:</b>	The Notes and the previously issued notes will constitute a single class of securities for all purposes, including, without limitation, for voting purposes under the Agency Agreement, as amended, pursuant to which they will be or were issued. The Notes will be general, direct and, subject as set forth in "Terms and Conditions of the Notes — Negative Pledge," unsecured obligations of the Government ranking <i>pari passu</i> without any preference among themselves and will at all times rank at least <i>pari passu</i> with all other general, direct and unsecured External Indebtedness (as defined under "Terms and Conditions of the Notes — Negative Pledge") of the Government, present and future. See "Terms and Conditions of the Notes — Form, Denomination and Status."
<b>Events of Default:</b>	The Notes will contain certain events of default, the occurrence of which may result in the acceleration of the Government's obligations under the Notes prior to maturity. See "Terms and Conditions of the Notes — Events of Default."
<b>Negative Pledge:</b>	The Notes will contain a negative pledge covenant, which will restrict the Government from creating or permitting to be outstanding (subject to certain exceptions) any Security (as defined under "Terms and Conditions of the Notes — Negative Pledge") upon the whole or any part of its properties, assets or revenues, present or future, to secure any present or future Public External Indebtedness of the Government. See "Terms and Conditions of the Notes — Negative Pledge."
<b>Use of Proceeds:</b>	The net proceeds to the Government from the sale of the Notes will be used to strengthen foreign reserves.
<b>Transfer Restrictions:</b>	The Notes have not been and will not be registered under the Securities Act and are subject to certain restrictions on transfer. See "Transfer Restrictions."
<b>Taxation:</b>	For a discussion of the United States and Barbados tax consequences associated with an investment in the Notes, see "Taxation." Investors should consult their own tax advisers in determining the tax consequences of the purchase, ownership and disposition of the Notes.

**Listing:** Application has been made for the Notes to be admitted on the official list of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF market.

**Further Issues:** The Issuer may create and issue further notes having the same terms and conditions of the Notes and forming a single series with the Notes. See “Terms and Conditions — Further Issues.”

**Governing Law:** The Notes and the Agency Agreement, as amended, will be governed by, and construed in accordance with, English law.

## TERMS AND CONDITIONS OF THE NOTES

*The US\$65,000,000 6.625% Notes due 2035 of the Government of Barbados offered by this offering circular are a further issuance of the Government's US\$125,000,000 6.625% Notes due 2035 originally issued on December 5, 2005 and will be consolidated with, and will form a single series with, such notes. The total principal amount of the previously issued notes and the Notes now being issued will be US\$190,000,000.*

The following is the text of the terms and conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note Certificate:

The US\$190,000,000 6.625% Notes due 2035 (the "Notes" for purposes of these Terms and Conditions, which expression includes any further notes issued pursuant to Condition 13 and forming a single series therewith) of the Government of Barbados (the "Issuer") are issued in accordance with an agency agreement dated December 5, 2005, as amended on November 29, 2006 (the "Agency Agreement," which expression shall include any subsequent amendments or supplements thereto) between the Issuer, Deutsche Bank Trust Company Americas in its capacity as registrar (the "Registrar," which expression shall include any successor to Deutsche Bank Trust Company Americas in its capacity as such) and in its capacity as transfer agent, Deutsche Bank Trust Company Americas in its capacity as fiscal agent (the "Fiscal Agent," which expression shall include any successor to Deutsche Bank Trust Company Americas in its capacity as such) and in its capacity as paying agent and Deutsche Bank Luxembourg S.A. in its capacity as paying agent (together with the Fiscal Agent, the "Paying Agents," which expression shall include any substitute or additional paying agents in relation to the Notes appointed in accordance with the Agency Agreement) and in its capacity as transfer agent (together with the Registrar, the "Transfer Agents," which expression shall include any substitute or additional transfer agents in relation to the Notes appointed in accordance with the Agency Agreement). The Notes have the benefit of a deed of covenant dated December 5, 2005, as amended on November 29, 2006 (the "Deed of Covenant," which expression shall include any subsequent amendments or supplements thereto), executed by the Issuer in relation to the Notes. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Deed of Covenant and the Agency Agreement insofar as they relate to the Notes. Copies of the Deed of Covenant and the Agency Agreement are available for inspection at the specified office of the Registrar and at the specified office of the Paying Agent in Luxembourg. The Notes are a further issuance of the Government's US\$125,000,000 6.625% Notes due 2035 originally issued on December 5, 2005, and will be consolidated with, and will form a single series with, such notes. The total principal amount of the previously issued notes and the Notes now being issued will be US\$190,000,000.

### **1. Form, Denomination and Status**

1.01. The Notes are in fully registered form only, without interest coupons, in minimum denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof.

1.02. The Notes will be represented by separate permanent global certificates (the "Restricted Global Note Certificate" and the "Unrestricted Global Note Certificate" and, together, the "Global Note Certificates"), which will both be deposited with the Registrar as custodian for The Depository Trust Company ("DTC") and registered in the name of Cede & Co. as nominee of DTC. The Restricted Global Note Certificate will represent Notes which are restricted securities within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended (the "Securities Act"). Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be represented by the Unrestricted Global Note Certificate. Interests in the Restricted Global Note Certificate will be exchangeable for interests in the Unrestricted Global Note Certificate and vice versa in the circumstances specified therein.

1.03. Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") will initially hold Notes represented by the Unrestricted Global Note Certificate on behalf of their participants through their respective depositories, which are participants in DTC. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Notes through DTC and investors who hold or will hold Notes through Euroclear and Clearstream, Luxembourg will be effected in DTC through the respective depositories of Euroclear and Clearstream, Luxembourg, subject to certain restrictions.

1.04. The Restricted Global Note Certificate will be exchanged in whole (but not in part) for duly authenticated and completed individual note certificates (“Restricted Individual Note Certificates”) and, if applicable, the Unrestricted Global Note Certificate will be exchanged in whole (but not in part) for duly authenticated and completed individual note certificates (“Unrestricted Individual Note Certificates” and, together with Restricted Individual Note Certificates and the Global Note Certificates, “Note Certificates”) if any of the following events occurs:

(a). DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Restricted Global Note Certificate or the Unrestricted Global Note Certificate, as the case may be, or ceases to be a clearing agency (as defined in the United States Securities Exchange Act of 1934, as amended), or is at any time no longer eligible to act as such, and the Issuer is (in the case of DTC ceasing to be a depository) unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(b). any Note becomes immediately due and payable following the occurrence of an Event of Default (as defined in Condition 6) and is not duly redeemed (and the funds required for redemption are not available to the Registrar for the purpose of effecting such redemption or do not remain available for such purpose) by 5:00 p.m. (New York City time) on the thirtieth day after the time the Notes become immediately due and payable; or

(c). in the case of the Unrestricted Global Note Certificate only, Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to permanently cease business.

1.05. The Notes constitute general, direct and (subject to the provisions of Condition 3) unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves and rank and will at all times rank at least *pari passu* with all other general, direct and unsecured External Indebtedness of the Issuer, present and future.

The Notes offered on November 21, 2006 and represented by an Unrestricted Global Note will have separate temporary CUSIP and ISIN numbers from the notes issued on December 5, 2005 represented by an Unrestricted Global Note Certificate for 40 days from the issue date of the Notes offered on November 21, 2006 and, therefore, will not trade fungibly with the notes issued on December 5, 2005 for the first 40 days after this issue date. Thereafter, the Notes offered on November 21, 2006 and represented by an Unrestricted Global Note Certificate will trade under the same CUSIP and ISIN numbers as the notes issued on December 5, 2005 represented by an Unrestricted Global Note Certificate and will trade fungibly with such notes issued on December 5, 2005.

## **2. Register, Title and Transfers**

2.01. The Registrar will maintain a register (the “Register”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “holder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A Note Certificate will be issued to each Noteholder in respect of its registered holding.

2.02. The holder of each Note shall (except as otherwise required by applicable law or regulatory requirement) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest thereof or therein, any writing on the Note Certificate relating thereto (other than the completion of the form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such holder.

2.03. A Note may, upon the terms and subject to the conditions set forth in the Agency Agreement, be transferred in whole or in part (subject to US\$100,000 being the minimum aggregate amount of any partial transfer) upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed and executed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the

case may be) the relevant Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the form of transfer. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

2.04. Each new Note Certificate to be issued upon the transfer of a Note Certificate will, within three Relevant Banking Days of the transfer date, be available for collection at the specified office of the Registrar or the Transfer Agent having its specified office in Luxembourg. For these purposes, a form of transfer received by a Transfer Agent after the Record Date (as defined in Condition 8.02) in respect of any payment due in respect of a Note but before the due date for such payment shall be deemed not to be effectively received by the Transfer Agent until the Relevant Banking Day following the due date for such payment.

In these Terms and Conditions:

(a). “Relevant Banking Day” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and (if applicable) in the place where the specified office of the relevant Transfer Agent is located; and

(b). the “transfer date” shall be the Relevant Banking Day following the day on which the relevant Note Certificate shall have been surrendered for transfer in accordance with Condition 2.03 and all reasonable requirements of the Issuer and the relevant Transfer Agent shall have been satisfied in respect of such transfer.

2.05. The issue of new Note Certificates on transfer will be effected without charge by or on behalf of the Issuer or the Transfer Agents, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer or the Transfer Agents may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

### **3. Negative Pledge**

So long as any Note remains outstanding, the Issuer will not create or permit to be outstanding any Security (other than a Permitted Security) upon the whole or any part of its properties, assets or revenues, present or future, to secure any present or future Public External Indebtedness of the Issuer without, in any such case, at the same time or prior thereto according to the Notes (i) equally and rateably therewith, the same or equivalent security as is granted to or is outstanding in respect of such Public External Indebtedness or (ii) such other security or such guarantee, indemnity or other like obligation as is approved by the Noteholders by an Extraordinary Resolution (as defined in the Agency Agreement).

In these Terms and Conditions:

“External Indebtedness” means Indebtedness which is payable or may be paid (a) in a currency other than the currency of Barbados and (b) to a Person resident or having its principal place of business outside Barbados;

“Indebtedness” means any obligation (whether present, future, actual or contingent) of any Person for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing);

“Permitted Security” means:

(a). any Security upon any property or asset (and any revenues therefrom) to secure Public External Indebtedness of the Issuer incurred for the purpose of financing the acquisition, development or construction of such property or asset (and any revenues therefrom) and any renewal or extension of any such Security which is limited to the original property or asset (and revenues) covered thereby and which secures any renewal or extension of the original secured financing;

(b). any Security existing upon any property or asset (and any revenues therefrom) to secure Public External Indebtedness of the Issuer at the time of its acquisition and any renewal or extension of any such Security which is limited to the original property or asset (and revenues) covered thereby;

(c). any Security securing Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that (i) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (ii) the property over which such Security is granted consists solely of such assets and revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such assets;

(d). any Security in existence as of the date of the Agency Agreement and any renewal or extension thereof which secures only the original secured financing or the renewal or extension thereof; and

(e). any other Security where the amount secured from time to time does not exceed US\$20,000,000 or its equivalent in any other currency or currencies;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, government, state or agency of a state or government or other entity, whether or not having a separate legal personality;

“Public External Indebtedness” means External Indebtedness which (a) is publicly offered or privately placed in securities markets, (b) is in the form of, or represented by, bonds, notes, debentures or similar securities and (c) is, or is, at the time of issue, intended by the Issuer to be, quoted, listed or ordinarily dealt on any stock exchange, automated trading system or over-the-counter or other securities market (including, without limiting the generality of the foregoing, securities eligible for resale pursuant to Rule 144A under the Securities Act (or any successor law or regulation of similar effect)); and

“Security” means any mortgage, charge, pledge, lien (other than a lien arising by operation of law), hypothecation or other security interest or encumbrance, including, without limitation, any equivalent created or arising under the laws of Barbados.

#### **4. Interest**

4.01. The Notes bear interest from December 5, 2005 (the “Issue Date”), or the most recent Interest Payment Date on which interest was paid in full, at the rate of 6.625% per annum (the “Rate of Interest”), payable semi-annually in arrears on June 5 and December 5 in each year (each an “Interest Payment Date”), commencing on June 5, 2006 for the Notes issued on December 5, 2005 and commencing December 5, 2006 for the Notes issued on November 29, 2006, subject as provided in Condition 8. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an “Interest Period.”

4.02. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the relevant Note Certificate, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the Rate of Interest (as well after as before judgment) until the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Registrar has notified the Noteholders in accordance with Condition 14 that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

4.03. The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for

any other period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

## **5. Redemption and Purchase**

5.01. Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on December 5, 2035, subject as provided in Condition 8.

5.02. The Issuer may at any time purchase or otherwise acquire Notes in the open market or otherwise and at any price. The Issuer may at its option retain such Notes for its own account and/or resell or cancel or otherwise deal with such Notes at its discretion, provided that any resales of Notes by the Issuer may only be made in accordance with Rule 903 of Regulation S under the Securities Act and any applicable state securities laws and United States tax law requirements.

5.03. All Notes redeemed or which are purchased and surrendered to the Registrar for cancellation will be cancelled forthwith and may not be reissued or resold.

## **6. Events of Default**

If one or more of the following events or circumstances (each, an “Event of Default”) shall have occurred and be continuing, namely:

(a). *Nonpayment*: the Issuer fails to pay any amount of principal or interest in respect of the Notes on the due date for payment thereof and such default continues for 15 days or more; or

(b). *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Agency Agreement and such default remains unremedied for 60 days after written notice requiring such default to be remedied has been delivered to the Issuer by any Noteholder; or

(c). *Cross-default*:

(i). any other present or future External Indebtedness (aggregating US\$20,000,000, or its equivalent in any other currency or currencies, or more) of the Issuer becomes due and payable prior to its stated maturity as a result of acceleration of payment thereof following a default by the Issuer; or

(ii). any such External Indebtedness (aggregating US\$20,000,000, or its equivalent in any other currency or currencies, or more) of the Issuer is not paid on the due date as extended by any applicable grace period; or

(iii). the Issuer fails to pay when due and called or within any applicable grace period any amount payable by it under any present or future guarantee of or indemnity relating to External Indebtedness (aggregating US\$20,000,000, or its equivalent in any other currency or currencies, or more) of any Person; or

(d). *Arrangements with creditors*: the Issuer convenes a meeting for the purposes of making, or shall propose or enter into an arrangement or composition with or for the benefit of its creditors generally in respect of its External Indebtedness with a view to a readjustment or rescheduling of its External Indebtedness; or

(e). *Moratorium or suspension*: a moratorium or suspension of payments is agreed or declared by the Issuer in respect of any Indebtedness (in an amount aggregating US\$20,000,000 or its equivalent in any other currency or currencies) of the Issuer; or

(f). *Validity*: the validity of the Notes or the Agency Agreement shall be contested by the Issuer or any legislative, executive or judicial body or official of the Issuer authorised and empowered (either singly or with another such body or official) in each case by law to do so, or the Issuer shall deny any of its obligations under the Notes or the Agency Agreement to any of the Noteholders (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(g). *Authority*: any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, licence or other governmental or regulatory authority necessary to enable the Issuer to make or perform its obligations under the Notes, or for the validity or enforceability thereof, shall expire, be withheld, revoked, modified, terminated or otherwise cease to remain in full force and effect; or

(h). *Additional amounts*: any law, rule or regulation is adopted in Barbados or any change in applicable law in Barbados is made which makes it unlawful for the Issuer to comply with its obligations to pay amounts in accordance with Condition 7 in the event that the Issuer shall be required to withhold or deduct any taxes, duties, assessments or governmental charges on payments of principal of, or interest on, the Notes; or

(i). *International membership*: the Issuer ceases to be a member of the International Monetary Fund (the "IMF") or ceases to be eligible to utilise the resources of the IMF under the IMF Articles of Agreement and such cessation continues for 30 days;

then the holders of 25% of the principal amount then outstanding of the Notes may, by written notice to the Fiscal Agent or the Issuer, declare that the Notes and all interest then accrued on the Notes shall be forthwith due and payable, whereupon the same shall become immediately due and payable without presentment, demand, protest or other notice of any kind (all of which the Issuer will expressly waive) unless, prior to such written notice having been given, all Events of Default in respect of the Notes have been cured.

## **7. Taxation**

7.01. All payments of principal and interest in respect of the Notes will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Barbados or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by the holders of Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable by such holder in the absence of such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment in respect of any Note:

(a). to, or to a third party on behalf of, a holder of a Note who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Barbados other than the mere holding of such Note or the receipt of the relevant payment in respect thereof; or

(b). to, or to a third party on behalf of, a holder of a Note who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of such holder's failure to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Barbados, or any political subdivision thereof or taxing authority thereof or therein, of the holder or a person having any interest in such Note or rights in respect thereof, if compliance is required by Barbados, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from such deduction or withholding;

(c). where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d). presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note Certificate to another Paying Agent in a Member State of the European Union; or

(e). the Note Certificate for which is presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of 30 days.

7.02. For the purposes of these Terms and Conditions, the “Relevant Date” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the monies payable has not been received by the Fiscal Agent on or prior to such due date, it means the first date on which, the full amount of such monies having been so received and being available for payment to holders of Notes, notice to that effect shall have been duly given to the holders of the Notes in accordance with Condition 14.

7.03. Any reference in these Terms and Conditions to principal and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 7.

## **8. Payments**

8.01. Payment of amounts due in respect of the Notes on the final redemption of the Notes will be made against presentation and, save in the case of partial payment of the amount due upon final redemption by reason of insufficiency of funds, surrender of the Note Certificates at the specified office of any of the Paying Agents. If the due date for payment of the final redemption amount of the Notes is not a Relevant Banking Day (as defined in Condition 2.04), then the holder thereof will not be entitled to payment thereof until the next day which is such a day and, thereafter, will be entitled to receive payment by cheque on any Relevant Banking Day, and will be entitled to payment by transfer to a designated account on any day which is a Relevant Banking Day and a day on which commercial banks and foreign exchange markets settle payments in U.S. Dollars in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions, in which event interest shall continue to accrue as provided in Condition 4.

8.02. Payment of amounts due (other than in respect of the final redemption) in respect of the Notes will be paid to the holder thereof as appearing in the register kept by the Registrar as of close of business (local time in New York City) on the fifteenth calendar day before the due date for such payment (the “Record Date”).

8.03. Payment of amounts due (other than in respect of final redemption) in respect of the Notes will be made by cheque and posted to the address (as recorded in the register held by the Registrar) of the holders of the Note Certificates on the Relevant Banking Day not later than the relevant date for payment unless, prior to the relevant Record Date, the holder thereof has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account in U.S. Dollars.

8.04. Payments will, without prejudice to the provisions of Condition 7, be subject in all cases to any applicable fiscal or other laws and regulations.

## **9. Prescription**

Claims against the Issuer in respect of the Notes will become void unless made within ten years (or, in the case of claims in respect of interest, five years) after the Relevant Date (as defined in Condition 7.02) for payment thereof.

## **10. Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or the specified office of the Transfer Agent having its specified office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses

incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the Transfer Agent may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

## **11. The Agents**

11.01. The initial Paying Agents, Transfer Agents and Registrar and their respective initial specified offices are specified below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent, Transfer Agent or the Registrar and to appoint additional or other Paying Agents, Transfer Agents or another Registrar, provided that it will at all times maintain (a) a Registrar with a specified office in the Borough of Manhattan, New York City and (b) a paying agent (which may be the Fiscal Agent) with a specified office in continental Europe (but outside the United Kingdom) and, for so long as any Notes are listed on the Luxembourg Stock Exchange, such paying agent shall be a Paying Agent and a Transfer Agent with a specified office in Luxembourg. The Paying Agents, the Transfer Agents and the Registrar reserve the right at any time to change their respective offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Paying Agents, the Transfer Agents or the Registrar will be given promptly by the Issuer to the Noteholders in accordance with Condition 14.

11.02. The Paying Agents, Transfer Agents and Registrar act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for any Noteholder and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon them in the Agency Agreement or incidental thereto.

## **12. Meetings of Noteholders, Modification and Waiver**

12.01. The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Deed of Covenant. Any such modification may be made if sanctioned by an Extraordinary Resolution. Any Extraordinary Resolution duly passed will be binding on all Noteholders.

12.02. The parties to the Agency Agreement may agree, without the consent of the Noteholders, to (i) any modification of any provision of the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to cure any ambiguity or to cure, correct or supplement any defective or inconsistent provisions contained in the Notes or the Agency Agreement and (ii) any other modification, and any waiver or authorisation of any breach or proposed breach, of any provision of the Notes or the Agency Agreement which is in the opinion of such parties not materially prejudicial to the interests of the Noteholders.

## **13. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## **14. Notices**

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register and, as long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, if published in a leading newspaper in Luxembourg (which is expected to be the Luxemburger Wort) or, if publication is not practicable in any such newspaper, notice will be validly given if made in an English-language newspaper having general circulation in Europe. Any such notice shall be deemed to have been given, when required to be published in accordance with the rules of the Luxembourg Stock Exchange, on the date of such publication (or, if published more than once, on the first date on which publication is made) or, as the case may be, on the fourth day after the date of mailing.

## **15. Currency Indemnity**

U.S. Dollars is the sole currency of account and payment for all sums payable by the Issuer in respect of the Notes, including damages. Any amount received or recovered in a currency other than U.S. Dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in U.S. Dollars which such holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in U.S. Dollars expressed to be due to any Noteholder in respect of the Notes, the Issuer shall indemnify such holder against any loss sustained by such holder as a result. In any event, the Issuer shall indemnify each such holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Notes or any judgment or order.

## **16. Rights of Third Parties**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of a third party that exists or is available apart from that Act.

## **17. Governing Law and Jurisdiction**

17.01. The Notes, the Agency Agreement and the Deed of Covenant are governed by, and shall be construed in accordance with, English law.

17.02. The Issuer irrevocably agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes which may arise out of or in connection with the Notes (respectively, "Proceedings" and "Disputes") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

17.03. The Issuer irrevocably agrees that the courts of the State of New York and the federal courts of the United States of America sitting in New York City and any appellate court from any of such courts shall have jurisdiction to hear and determine any Proceedings and to settle any Disputes and, for such purposes, irrevocably submits to the jurisdiction of such courts.

17.04. The Issuer irrevocably waives any objection which it might now or hereafter have to the courts referred to above being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.

17.05. The Issuer agrees that the process by which any proceedings are begun may be served on it by being delivered (a) in connection with any Proceedings in England, by post or fax to the High Commissioner of Barbados in London (or, in his absence, the person for the time being in charge of the High Commission in London) acting solely as the agent of the Issuer and (b) in connection with any proceedings in New York, to the Consul General of Barbados in New York (or, in his absence, the person for the time being in charge of the Consulate of Barbados in New York) acting solely as agent of the Issuer. If the appointment of either of the persons mentioned in this Condition 17.05 ceases to be effective, the Issuer shall as soon as practicable appoint a further person in England or (as the case may be) New York to accept service of process on its behalf in England or (as the case may be) New York and notify the name and address of such person to the Registrar and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer. Nothing contained herein shall affect the right of any Noteholder to serve process in any other manner permitted by law.

17.06. The submission to the jurisdiction of the courts referred to above shall not (and shall not be construed so as to) limit the right of the Noteholders or any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

17.07. The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

17.08. To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues any sovereign or other immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal or judicial process and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer hereby irrevocably agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and, in particular, to the intent that in any Proceedings taken in New York the foregoing waiver of immunity shall have the fullest scope permitted under the United States Foreign Sovereign Immunities Act of 1976 and is intended to be irrevocable for the purposes of such Act.

There will appear at the foot of the Conditions endorsed on each Note Certificate the name and specified office of the Registrar, the Fiscal Agent, the Paying Agents and the Transfer Agents as set out at the end of this Offering Circular.

## **USE OF PROCEEDS**

The net proceeds of approximately US\$65,690,750 arising from the sale of the Notes after deduction of estimated expenses, underwriting fees and accrued interest will be used by the Government to strengthen foreign reserves.

## BARBADOS

### History, Geography, Population and Society

The first known inhabitants of Barbados were the Arawak Indians of South America, all of whom had departed by the time British colonists first settled at Holetown on the west coast of the island in 1627. Ten years later, sugar cane was introduced to the island and Barbados became the first territory to establish large sugar cane plantations. Barbados remained a British colony until 1966, when it became an independent state within the Commonwealth of Nations. English is the official language.

Barbados is the most easterly of the Caribbean islands, situated approximately 300 miles off the north coast of South America. The island comprises a total landmass of 166 square miles. The topography is relatively flat and composed mostly of coral; the highest point on the island is Mount Hillaby, at 336 meters (1,104 feet) above sea level. The climate is tropical, tempered by trade winds, with daytime temperatures typically in the region of 80 to 85 degrees Fahrenheit (27 to 29 degrees Celsius). A cool, dry period between December and March is followed by a warmer, rainy period from April to November.

The capital of Barbados is Bridgetown, which is situated on the southwest coast of the island and, with its surrounding areas, has a population of over 100,000. The island's infrastructure includes a road network of over 980 miles, including a multilane highway extending from the airport at the southeast of the island to the seaport on the west coast. Electricity and water are available in most households, and a modern telecommunications network is currently operated by Cable & Wireless (Barbados) Limited and Digicel Barbados Limited. See "Principal Sectors of the Economy — Energy and Utilities."

As of December 31, 2005, Barbados had an estimated population of 273,500. The population of Barbados has grown by less than 2% since 2000.

The following table sets out certain social indicators for Barbados for 2003 and 2005:

**Table 2**

#### Selected Social Indicators

GDP per capita at factor cost (in US\$) for 2005 <sup>(1)</sup> .....	9,350
Population (in millions) for 2005 <sup>(2)</sup> .....	0.3
Life expectancy (in years) for 2003.....	75.0
Infant mortality (per 1,000 births) for 2003.....	11.0
Adult literacy rate (as a %) for 2003 .....	99.7

<sup>(1)</sup> This is nominal GDP at market prices less net indirect taxes divided by median population.

<sup>(2)</sup> Estimate.

*Source: Central Bank of Barbados and 2005 Human Development Report (United Nations Development Programme).*

Successive governments have emphasised the development of human resources, resulting in a literate and trainable labour force. The 2005 Human Development Report (United Nations Development Programme ("UNDP")) study ranked Barbados 30th in overall quality of life for 2003 and estimated its literacy rate for that year at 99.7%. The Barbados educational system is modelled on the British system, and children are legally required to attend school up to the age of 16. Three levels of public education are available on the island, including a campus of the University of the West Indies (the "UWI") located at Cave Hill. Education is funded almost entirely by the Government, from primary school to undergraduate level, and the Government contributes to the costs of the UWI. The fees for Barbadian citizens attending any of the three UWI campuses are nominal.

Healthcare in Barbados is also funded almost entirely by the Government. Free treatment is provided at Barbados' largest hospital, Queen Elizabeth Hospital in Bridgetown, which provides a variety of medical services,

as does the island's second largest hospital, Bayview, which is private and charges patients for services. Barbados has a number of smaller district clinics, some of which also provide dental services. The standard of healthcare is high compared to other developing and Caribbean countries, and limited government funding is also available for overseas treatment. In addition to Bayview, there are a number of other private clinics on the island. The Government has acted promptly to establish healthcare and prevention programmes, and has received a five-year loan from the World Bank in the amount of US\$15 million to deal with the rising incidence of HIV/AIDS, a problem affecting most Caribbean countries. This loan programme expired in 2006, but has been extended into 2007. In 2003, average life expectancy was 75.0 years, about 71.4 years for men and 78.5 years for women, in each case according to the UNDP.

The Barbadian Constitution provides for religious freedom, and over one hundred religious groups, predominantly Christian, are represented on the island.

## **Constitution and Government**

### *General*

Barbados has had a parliament since 1639. Independence from the United Kingdom was granted by the Barbados Independence Act 1966. The Barbados Independence Order 1966 issued under that Act established the constitution of Barbados (the "Constitution"). The Constitution prescribes the form of government for Barbados and guarantees certain fundamental rights and freedoms of the individual. Alterations to the Constitution require a two-thirds majority of each house of Parliament. There is no requirement that changes be approved by a referendum.

Barbados is a parliamentary democracy based on the British Westminster model. The head of state is Queen Elizabeth II of the United Kingdom who, as sovereign of Barbados, has adopted the style and title Queen of Barbados. She is represented in Barbados by a Governor General, whom she appoints on the recommendation of the Prime Minister of Barbados. The constitutional functions of the Governor General are, in most cases, of a formal or ceremonial nature.

The Parliament is a bicameral legislature comprising an elected House of Assembly and an appointed Senate. The House of Assembly consists of 30 members elected in accordance with the provisions of the Constitution and the Representation of the People Act Cap. 12. The Parliament, unless dissolved earlier, continues for five years from the date of the most recent general election. The Constitution provides for an Electoral and Boundaries Commission, which directs and supervises the determination of the number, sizes and boundaries of constituencies, the registration of voters and the conduct of elections in every constituency. The island is now divided into 30 constituencies. All changes to boundaries of constituencies require the approval of Parliament. The electoral system is based on the British model of "one person, one vote" and "first-past-the-post." The Senate consists of 21 persons appointed by the Governor General, 12 on the advice of the Prime Minister, seven at the Governor General's discretion, and two on the advice of the Leader of the Opposition. There is no local or municipal government on the island.

The Constitution provides for a Cabinet consisting of the Prime Minister and not fewer than five other Ministers. The Prime Minister is appointed by the Governor General and is the member of the House of Assembly who, in the judgment of the Governor General, is best able to command the confidence of a majority of the members of the House. At the present time, there are 16 Ministers and the Prime Minister. The Cabinet is the principal organ for the formulation and implementation of Government policy. It is charged by the Constitution with the general direction and control of the Government and is collectively responsible to the Parliament. Members of the Cabinet are appointed by the Governor General on the advice of the Prime Minister. The Constitution further provides that there shall be a Leader of the Opposition, also appointed by the Governor General.

### *Political Parties*

Barbados has a history of political stability. The main political parties are the Barbados Labour Party ("BLP"), the Democratic Labour Party ("DLP") and the National Democratic Party ("NDP"). The Government is

currently led by the Prime Minister, the Rt. Hon. Owen Arthur, whose BLP came to office in September 1994, following eight years during which the DLP was in office. The BLP was reelected in May 2003 for a third term of five years. It has 24 seats in the House of Assembly while the DLP holds six seats. The ideology of the parties is generally considered to be centrist. The next election in Barbados must take place by September 2008, although the Prime Minister has the power to call an election at an earlier date.

### *Legal System*

The legal system of Barbados is based on the English legal system, including the principles and practice of English common law. There is a Supreme Court of Judicature consisting of a High Court and a Court of Appeal. During 2005, the Caribbean Court of Justice was established by certain Caribbean Commonwealth nations to replace the Judicial Committee as a final court of appeal for the region and to act as a court of original jurisdiction in respect of the Caricom Single Market and Economy (“CSME”). The treaty that established this court will come into effect upon ratification by all CARICOM states. See “—International Organisations.”

### *Constitutional Review*

A Constitution Review Commission was appointed in 1996 to examine proposals for constitutional reform. It reported in December 1998 having formulated its recommendations with a view to winning cross-party political support. This report was laid before Parliament in December 1998 and was debated in both Houses during 2000. The principal recommendations include: the adoption of a republican form of government by the replacement of the Queen as head of state with an indigenous citizen President chosen by an electoral college of both houses of Parliament; the vesting of the President with powers broadly similar to (but more clearly defined than) those of the Governor General and with additional discretionary powers in areas where the Commission has thought it desirable to reduce political influence, such as judicial and other public-service appointments; the reform of the composition of the Senate with a view to making it more independent of the government of the day; the constitutional recognition of the Public Accounts Committee of Parliament; the strengthening of the Auditor General’s independence; and the inclusion in the Constitution of a statement of the duties and responsibilities of Barbados and its citizens. There is a general political consensus that, although the Constitution does not require it, there should be no change to a republican form of government without the support of a referendum. Accordingly, a Referendum Bill was passed in Parliament during 2005 and the Government will determine the date on which the referendum will be held.

### **Consolidated Fund**

The Constitution provides for the establishment of a consolidated fund (the “Consolidated Fund”) into which, subject to applicable provisions of law, all revenues for Barbados are to be paid to meet its expenditures and obligations. The Minister of Finance must, before the end of each fiscal year (which runs from April 1 to the following March 31), prepare and lay before the House of Assembly annual estimates of revenue and expenditure for public services during the succeeding fiscal year. The Constitution further provides that debt obligations of Barbados, including the interest and redemption monies on that debt, and the costs, charges and expenses incidental to the management of that debt (including the sinking fund required to be established for the repayment of all public external debt), are by law charged on the Consolidated Fund. See “Public Debt — Overview.”

### **International Organisations**

Barbados is a member of the Commonwealth, the United Nations and the Organisation of American States. It is also a member of the Inter-American Development Bank, which was established in 1959 to help accelerate economic and social development in Latin America and the Caribbean and today provides loans and technical assistance for the preparation and implementation of development plans. Barbados is a member of the International Monetary Fund (“IMF”), the World Trade Organisation (the “WTO”) and the various associated institutions of the World Bank Group, including the International Bank for Reconstruction and Development (the “World Bank”), which provides loans and development assistance to its members, the International Finance Corporation, which promotes growth in the developing world by financing private-sector investment, and the Multilateral Investment Guarantee Agency, which encourages foreign investment in developing countries by providing guarantees to foreign investors. Barbados is also a member of the Association of Caribbean States, an organisation whose purpose is to

identify and promote the implementation of policies to promote the collective capabilities and resources of the Caribbean region.

Barbados is a signatory to the Contonou Agreement, the successor to the Fourth ACP-EC Convention of Lomé (“Lomé IV”), a comprehensive trading and economic cooperation relationship between the European Community, its member states and the member states of the African, Caribbean and Pacific Group of States (“ACP”). The successor Agreement provides for an eight-year extension of the trade component of the Lomé IV arrangements, although negotiations continue as to the status of the trade component of the agreement after 2008. Special arrangements are still in place for ACP exports of rum, and special assistance will be made available to the tourism industry. The European Community/ACP Sugar Protocol has also been extended under the successor Agreement. See “Economy — Principal Sectors of the Economy — Agriculture — Sugar.” Barbados is also a beneficiary of trading preferences under the Caribbean Basin Initiative and the Caribbean/Canada Trade Agreement.

In addition, Barbados belongs to the CARICOM, formed in 1973 to promote the integration of the economies of its member states with a view to the establishment of a regional common market, coordinate their foreign policies and provide common services and cooperation in areas such as health, education and transportation. A more comprehensive integration grouping, the Caricom Single Market and Economy, is being introduced. Barbados is a signatory to the Single Market component, which came into effect in January 2006. Barbados is also a member of the regional Caribbean Development Bank, which is headquartered in Barbados and aims primarily at contributing to the economic growth of and cooperation among Caribbean member states by assisting in the coordination and financing of development programmes and by providing technical assistance. The Caribbean Tourism Organisation, of which Barbados is a member, is also located in Barbados and promotes tourism activity in the region.

As a member of CARICOM, BARBADOS is party to the agreements that CARICOM has signed with Venezuela, Colombia, Dominican Republic, Cuba and Costa Rica. There are trade, economic and technical cooperation agreements with Venezuela and Colombia. CARICOM/Costa Rica relations are governed by a free trade agreement that includes reciprocal duty-free or preferential access for a wide range of products. A CARICOM/Dominican Republic Framework Agreement was signed in 1998 and entered into force in 2001. Its coverage includes trade in goods and services, government procurement and intellectual property while providing for cooperation in areas such as trade financing, the development of economic sectors and private sector alliances. Finally, the CARICOM/Cuba Trade and Economic Cooperation Agreement was signed in June 2003 with the objectives of strengthening the commercial and economic relations between the parties. This is to be facilitated partly through the promotion and expansion of trade in goods and services and the requisite financial arrangements among other things.

## **Environmental Policy**

Within the last decade, there have been ongoing efforts by the Government to develop plans that would provide the policy and regulatory framework for integrated environmental and natural resource management on the island. Several policy documents are the product of this effort. The 1998 Barbados Physical Development Plan constitutes the overall guidance document of the use of land resources, and the 1998 Environmental Management Plan articulates a framework for the environmentally sound management of terrestrial and marine resources. Complementing this framework is the 1998 Barbados National Park Development Plan and the Coastal Zone Management Plan. New environmental and natural resource management legislation has been prepared as part of the Environmental Management and Land Use Planning for Sustainable Development Project. This legislation covers target areas requiring environmental management and regulation. It includes the Coastal Zone Management Act 1998 and the Marine Pollution Control Act 1998, both of which came into force on May 1, 2000.

In January 2004, the National Sustainable Development Policy was published. It explains *inter alia* the Government’s approach to the sustainable management of fishery resources, coastal areas, the marine environment and parks. This was complemented by the National Biodiversity Strategy and Action Plan of 2002, which sets out the policy relating to plant and animal life. The goal of the plan is to sustain and enhance the quality of the environmental and natural resources of the island for the benefit of the people of Barbados by promulgating appropriate practices in physical, economic and social development and minimising threats from pollution and natural events. In pursuit of this goal, the Government continues to increase public awareness of environmental

issues, protect the natural environment efforts, ensure sustainable use of the coastal zone and develop clean energy sources, while at the same time develop mineral and natural resources and seek to moderate energy costs.

## ECONOMY

### General

The economy of Barbados has diversified over the last four decades, with the emphasis shifting from agriculture towards services. Tourism constitutes the main source of foreign exchange earnings. The international business and financial services sector also contributes significantly to foreign exchange earnings and employment. The economy is driven by private enterprise, but the Government plays a crucial role in the provision of social services and physical infrastructure. Success in diversification has allowed Barbados to achieve a relatively high GDP per capita (compared to other CARICOM countries) of US\$9,350 for the year 2005, as well as a solid social and economic infrastructure.

The following table sets out Barbados' total nominal GDP and per capita GDP at factor cost for the years indicated.

**Table 3**

	<b>Total Nominal GDP<sup>(1)</sup></b>	<b>Per Capita GDP<sup>(2)</sup></b>
	(in millions of U.S. Dollars)	(in U.S. Dollars)
2001 .....	\$2,554.2	\$7,900
2002 .....	\$2,476.1	\$7,500
2003 .....	\$2,694.9	\$7,950
2004 .....	\$2,817.1	\$8,450
2005 .....	\$3,061.1	\$9,350

<sup>(1)</sup> Total nominal GDP is calculated at market prices.

<sup>(2)</sup> Per capita GDP is calculated at factor cost, which is nominal GDP at market prices less net indirect taxes, divided by median population.

*Source: Barbados Statistical Office*

Barbados' real GDP has grown during 12 of the last 13 years. Led by activity in the tourism sector and new private-sector investment (largely tourism-related), the Barbadian economy registered eight consecutive years of economic growth, prior to the downturn experienced in 2001. The strength of private investment enabled the economy to achieve an average growth rate of 2.8% per annum between 1993 and 2000, while the population size remained relatively unchanged during the same period. The investment ratio (gross capital formation divided by nominal GDP) recovered from a low of 9.5% in 1992 to 18.2% in 2000, with gross capital formation totalling US\$473.5 million for 2000. Unemployment, which peaked at an average of 24.3% in 1993, averaged 9.1% for 2005 as the economy continued to generate new jobs. Unemployment among males averaged 7.4% compared to 10.8% among females for 2005. See "— Employment and Labour."

During 2001, the economy contracted by 2.6%, the result of efforts to cope with trade liberalisation, a depressed world economy and the consequences of the events of September 11. Activity in tourism declined by 5.9%, compared with growth of 9.2% in the previous year and output in other foreign exchange earning sectors like manufacturing and sugar was also lower. The fall in real output was accompanied by an increase in the rate of unemployment. To help better manage the challenges posed by the deteriorating economic climate, the Government successfully issued a US\$150 million international bond in the fourth quarter of the year. The proceeds of this bond helped to strengthen the Central Bank's net international reserves.

In the aftermath of the events of September 11, 2001, the Government adopted a counter-cyclical, expansionary fiscal policy. This mitigated the impact of the economic fallout, but pushed up the fiscal deficit from 2.0% of GDP in FY 2000/2001 to 5.5% in FY 2002/2003. During the following two years, buoyant receipts from indirect taxes helped to reduce the fiscal deficit to around 2.6% of GDP. During the period from FY 2003/2004 to FY 2005/2006, economic growth boosted collections of value-added taxes, and consequently total revenue.

However, in FY 2005/2006, despite the expanded infrastructural development programme, the estimated fiscal deficit to nominal GDP ratio fell to 2.9% of GDP

Average economic growth of 2.9% between 2002 and 2005 also led to a sharp increase in imports, which more than offset the higher inflows from domestic exports and services. As a result, the external current account as a percentage of nominal GDP grew from 6.8% in 2002 to 12.6% in 2005. However, there were sizeable inflows of foreign capital, especially between 2003 and 2005, from divestment proceeds, capital markets borrowings, and private investment in real estate and utilities. During 2003, there were substantial investments by three providers of cellular phone services as a result of the deregulation of that market. Furthermore, the Government also sold the majority of its shares in the Barbados National Bank to Republic Bank Limited from Trinidad & Tobago. These resources helped to sustain net international reserves, which reached US\$796.6 million, the highest on record, in March 2004. By the end of 2004, heavy payments for imports, especially fuel and capital imports, and outflows of foreign exchange under the second-tier reserve programme reduced net international reserves to US\$595.3 million, but proceeds from a bond placement in 2005 boosted net international reserves to US\$619.2 million (or 22.4 weeks of merchandise imports) at the end of that year. Under the second-tier reserves programme, certain entities were allowed to invest funds overseas with the approval of the Central Bank, with the guarantee that such funds be repatriated on request.

External debt (including Government-guaranteed debt) as a percentage of nominal GDP was 28.7% in 2005, roughly the same as in 2004.

## **Recent Economic Performance**

### *2006 Economic Performance*

The Barbados economy expanded at 3.7% during the first nine months of 2006. Real GDP from tourism is estimated to have risen by 0.9%. During the period, longer-stay tourist arrivals were 4.1% higher, but up to the end of August cruise ship passengers were 11.6% lower. The sharp reduction in cruise passengers resulted from increased competition from homeland ports in the United States, and shorter itineraries because of higher fuel costs.

During the first nine months of 2006, sugar production declined by 12.6%, reflecting a cutback in acreage planted and lower yields, while little or no growth was registered by non-sugar agriculture. The manufacturing sector, which is still trying to adjust to a more liberalised trade environment expanded by 2.8%, buoyed by higher output of furniture, non-metallic products and chemicals. With an upturn in residential housing projects and activity associated with preparation for the Cricket World Cup 2007, construction grew by an estimated 9.5% during the period. This boosted activity in the transportation, storage and communication industry, as well as electricity, gas and water production, both of which expanded by 8%. For the 12-month period ended June 30, 2006, the average rate of annualized inflation was approximately 7.2%, compared to 6.1% for the 12 months ended December 31, 2005. Higher prices were recorded for fuel and electricity and housing. The average rate of unemployment at the end of June 2006 was an estimated 8.8%, compared to 8.9% at the end of June 2005.

Slower import demand combined with increased tourism receipts caused a slight narrowing in the external current account deficit during the first nine months of 2006. However, with payments for imports still high, net international reserves fell by US\$51.9 million, compared to a decline of US\$20.5 million during the comparable period of 2005. At September 30, 2006, the foreign reserves of the monetary authorities amounted to US\$566.7 million, covering approximately 20 weeks of imports.

Between January and September 2006, there was some tightening of liquidity in the banking system because commercial bank credit continued to grow faster than the rate of domestic deposits. The liquid assets ratio (defined as the ratio of total cash, deposits held in the banking system and treasury bills out of total assets) decreased since December 2005, by 3.3 percentage points to 9.4%. During the period, the discount rate was raised from 10% to 12% and the three-month Treasury bill rate fell to 5.91% from 6.25% at the end of 2005.

The Central Government recorded a fiscal deficit of US\$37.1 million during the first nine months of 2006. This compares to a deficit of US\$70.4 million during the corresponding nine months of 2005, which resulted from

higher collections of personal, corporate and property taxes. For the fiscal year 2005/2006, the Central Government's deficit was estimated at 2.9% of GDP, compared to 2.6% of GDP during fiscal year 2004/2005.

## **Medium-Term Economic Strategy**

### *Economic*

During the medium term, Barbados' economic fortunes will depend critically on the success of the CARICOM Single Market and Economy ("CSME") and on the competitiveness of domestic goods and services. The Government is committed to the formation of CSME, which would permit free movement of goods, capital and people, harmonise taxation and provide for regional transportation and economic policies. The Prime Minister of Barbados has been appointed by CARICOM to oversee the creation of the CSME. A number of Caribbean Governments have signed all of the nine protocols required to create the necessary legal framework. These protocols include policies on industrial and agricultural development, external trade and transportation, as well as provisions to amend the institutional bodies of CARICOM and provisions to protect industries, regions and countries disadvantaged by trade. A number of countries, including Barbados, established the single market during 2006 and it is expected that the single economy will come into existence in 2008.

The Government believes that, while tourism will remain the cornerstone of the economy, Barbados must maintain its efforts to diversify the foreign currency earning sources of the economy. The promotion of the international business and financial services subsector and the information technology services subsector is intended to further this goal. To increase employment in these subsectors, the Government hopes to accelerate the pace at which the population adapts to advances in information technology. The Government established a comprehensive Education Sector Enhancement Programme ("EduTech 2000"), which is funded mostly by the Inter-American Development Bank and the Caribbean Development Bank, and provides for the widespread introduction of computers into schools to prepare students for life in a technologically advanced society. In addition, the Government is expanding the training opportunities for citizens interested in pursuing careers in information technology.

The Barbados Investment and Development Corporation (the "BIDC") is a statutory corporation that pursues sustainable development through programmes to promote foreign direct investment, increase the exports of Barbadian goods and services and foster the development of viable indigenous businesses. Its goals include: increasing foreign exchange earnings through the promotion of exports and direct capital investment; moving the industrial sector toward higher value-added activities; expanding the information and financial services sectors; and improving the efficiency and competitiveness of the manufacturing sector. These functions are particularly important in an era of liberalised trade.

In addition, the BIDC's Small Business Centre provides a comprehensive package of start-up and ongoing support services to indigenous small businesses. During 2004, the Government decided to create a new entity called Export Barbados Inc. to take over the export promotion function of the BIDC. It will formulate policy, carry out market research, provide export incentives and exploit niche markets for Barbadian products.

### *Financial*

The Government has stated that it is committed to maintaining the fixed exchange rate of the Barbados Dollar to the U.S. Dollar, as it believes that this peg provides a source of confidence for producers and investors. To this end, the Government's medium-term economic strategy is based on creating an investment climate favourable for enhancing the performance of the export sectors. Moreover, a key element of the Government's strategy for stability is the strengthening of the macroeconomic framework through both fiscal discipline (seeking to contain the fiscal deficit to below 4.0% of nominal GDP at factor cost) and the maintenance of an efficient and sound financial system. These efforts to ensure a sound investment environment, together with declining debt service, should, in the Government's view, enhance the economy's ability to keep the import reserve cover at a minimum three months.

The Government believes that this framework should enable the economy to sustain noninflationary growth of approximately 3.0% to 3.5% per annum over the medium-term; however, there can be no assurance that such

target can be achieved. The Government believes that new investment in the tourism industry (mainly from the private-sector), including investment in new hotels, refurbishment of existing facilities and an expansion in ancillary services, will help lay the basis for continued growth. See “— Principal Sectors of the Economy — Tourism.” Furthermore, with its educated labour force, stable society and telecommunications infrastructure, the Government believes that Barbados should be in a good position to take advantage of the globalisation of economic activity, particularly in the service sector.

The Government recognises the challenges it faces in expanding the international business and financial services subsector, particularly in light of the international concerns about money laundering and tax havens. Barbados does not market itself as a no-tax centre and has implemented all current supervisory protocols. The Government intends to continue to expand its ability to provide international financial and business services, in particular, by diversifying the range of services that Barbados exports. See “— Principal Sectors of the Economy — Business and Other Services — International Business and Financial Services.”

### *Development and Reform*

The Government recognises the importance of infrastructure development to the long-term growth prospects of the economy. It is currently implementing improvements to the Grantley Adams International Airport, the Bridgetown Harbour and the national road system. See “— Principal Sectors of the Economy — Tourism.”

The Government is also conscious of the need to protect the environment. Responding to the demands of the tourism sector, the South Coast Sewage System was completed in 2003 and a system for the west coast is expected to be constructed after the Cricket World Cup 2007. In addition, the Government is implementing coastal conservation and solid waste management programmes, and as a result, after a long delay, the landfill site at Greenland will soon be operational. The Government has also offered incentives to companies involved in recycling activities as part of its efforts to preserve the environment.

Recognising the importance of a stable labour market in attracting investment, the Government, the private-sector and the trade unions have agreed on protocols that provide parameters for sustainable wage policies in the economy, developing a national employment policy and widening industrial harmony. A fifth protocol was signed in May 2005.

In 2002, the Government and public-sector workers agreed to a three-year pay contract for the period April 2003 to March 2006. It provided for an increase of 2% in the first year, followed by increases of 3% in each of the remaining years. Public sector workers are currently being remunerated under the old contract, but it is expected that negotiations on a new contract will start soon. During 2005, a number of positions in the public service were regraded in an effort to make employment in the public service relatively more competitive.

Barbados has not suffered systemic problems in the financial sector. The Government has been working to strengthen the regulatory regime for financial institutions, improve the efficiency of public financial institutions and broaden the range of investment instruments available to investors. In addition, the Government has begun a gradual process of trade reform and divested some publicly owned assets. During 2001, the Government privatised both the Barbados National Bank (“BNB”) and the Insurance Corporation of Barbados, now the Insurance Corporation of Barbados Limited (“ICBL”). See “Economy — State-Owned Enterprises.” Pursuant to the privatisation, the Government divested approximately 34% of its shareholding in the BNB and approximately 63% of its shareholding in the ICBL. In November 2005, the majority of the Government’s shareholding in the ICBL was sold to BM&F Limited, a Bermudan insurance company. The Government intends to maintain and strengthen these initiatives, and its policy envisages the eventual privatisation of the seaport.

The Government is also involved in a process of reform aimed at increasing public-sector efficiency. These include changes to budgeting and revenue collection systems and increasing use of information technology. In addition, as part of its commitment to competing effectively, the Government has established a pilot project, the Enabling Environment for Private-Sector Investment (“Eepsi”) project. The object of the Eepsi project, which comes under the aegis of the Ministry of International Business, is to establish an information systems network within the Government to improve the disclosure of information and coordination between various ministries and agencies. The Government hopes that these measures will aid the relevant ministries and agencies in promoting and

facilitating private-sector investment. A commission on competitiveness has been established, chaired by the Prime Minister, for the purpose of improving the capacity of various sectors to compete internationally. The Fair Competition Act was passed in 2002 and provides the means whereby the Fair Trading Commission can encourage and improve the competitive process. Consumers and Traders are protected from unfair conduct by the Consumer Protection Act, which also came into effect in 2002.

### Gross Domestic Product

Real GDP grew at an average of 1.8% per annum between 2001 and 2005, although growth in 2004 and 2005 was 4.9% and 4.1%, respectively. This relatively low growth reflected the downturn in 2001, which resulted in part from the adverse effects of the slowdown in the global economy, a more liberalized trade environment and the consequences of September 11.

The following table sets out the rate of growth of real GDP for the years indicated.

**Table 4**

#### Growth Rate of Real GDP

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(expressed as a percentage)				
Traded sector .....	(7.6)%	(2.1)%	2.6%	4.8%	(0.8)%
Sugar .....	(14.7)	(9.8)	(19.2)	(5.1)	10.8
Non-sugar agriculture and fishing .....	(5.8)	(0.6)	4.7	(5.9)	9.0
Manufacturing.....	(9.9)	(1.1)	(1.7)	2.3	2.2
Tourism.....	(5.9)	(2.8)	7.0	9.4	(2.3)
Non-traded sector .....	(0.5)	1.8	1.7	4.9	5.3
Mining and quarrying .....	(10.5)	6.4	(16.0)	9.5	7.6
Electricity, gas and water.....	4.4	3.7	3.0	1.8	(0.5)
Construction.....	6.8	7.7	0.6	2.8	13.4
Wholesale and retail trade.....	(3.1)	1.2	4.0	6.1	5.0
Government services .....	(1.6)	6.4	(3.7)	5.6	3.5
Transportation, storage and communications .....	0.7	(2.9)	2.9	5.5	5.0
Business and other services .....	(0.7)	(2.3)	4.5	4.2	4.4
Total.....	<u>(2.6)%</u>	<u>0.7%</u>	<u>2.0%</u>	<u>4.9%</u>	<u>4.1%</u>

*Source: Central Bank of Barbados*

For the eight consecutive years leading up to and including 2000, the Barbadian economy registered positive real growth. During 2001, real GDP contracted by 2.6%, but it was the shortest recession for Barbados in modern times. In the following year, the economy grew by an estimated 0.5%. Thereafter, the recovery took root and between 2003 and 2005, real GDP grew on average by 3.4% per annum.

During the first nine months of 2006, the economy expanded by an estimated 3.7%, virtually on par with the growth which was recorded during the corresponding nine months of the previous year.

The following table sets out estimates of real GDP by economic sectors at constant 1974 prices and the relative size of each sector in percentage terms for the years indicated.

Table 5

## Sectoral Origin of Real Gross Domestic Product at Constant 1974 Prices

	Year ended December 31,									
	2001	%	2002	%	2003	%	2004	%	2005	%
	(in millions of U.S. dollars, except percentages)									
Traded sector .....	\$132.9	27.9%	\$130.1	27.1%	\$133.5	27.3%	\$139.9	27.3%	\$141.0	26.4%
Sugar .....	10.7	2.2	9.7	2.0	7.8	1.6	7.4	1.4	8.2	1.5
Non-sugar agriculture and fishing .....	17.0	3.6	16.9	3.5	17.7	3.6	16.7	3.2	18.2	3.4
Manufacturing.....	31.3	6.6	31.6	6.6	31.1	6.4	31.8	6.2	32.5	6.1
Tourism.....	74.0	15.5	71.9	15.0	76.9	15.7	84.1	16.4	82.2	15.4
Non-traded sector .....	\$343.1	72.1%	\$349.3	72.9%	\$355.2	72.7%	\$372.6	72.7%	\$392.4	73.6%
Mining and quarrying .	4.7	1.0	5.0	1.0	4.2	0.9	4.6	0.9	5.0	0.9
Electricity, gas and water .....	17.8	3.7	18.5	3.8	19.0	3.9	19.4	3.8	19.3	3.6
Construction.....	39.1	8.2	42.1	8.8	42.4	8.7	43.6	8.5	49.4	9.3
Wholesale and retail trade .....	91.8	19.3	92.9	19.4	96.6	19.8	102.5	20.5	107.6	20.2
Government services ..	66.1	13.9	70.4	14.7	67.8	13.9	71.6	14.0	74.1	13.9
Transportation, storage and communications .....	41.2	8.7	40.0	8.3	41.2	8.4	43.4	8.5	45.6	8.5
Business and other services .....	82.4	17.3	80.5	16.8	84.1	17.2	87.7	17.1	91.6	17.2
Total.....	<u>\$476.0</u>	<u>100.0%</u>	<u>\$479.3</u>	<u>100.0%</u>	<u>\$488.6</u>	<u>100.0%</u>	<u>\$512.5</u>	<u>100.0%</u>	<u>\$533.4</u>	<u>100%</u>

Source: Central Bank of Barbados

Tourism remained a major contributor to real GDP between 2001 and 2005, growing on average by 1.1% per annum and accounting on average for 15.6% of the total. Strong growth (6.9% or more) was recorded in 2003 and 2004, the outcome for 2004 being a reflection of the visit of the English cricket team. The contractions which were recorded in 2001 and 2002 were in large measure due to the impact of the events of September 11, 2001 on the demand for air travel. A slump in the cruise segment of the industry was responsible for the downturn in 2005. As a result, activity in tourism expanded only slightly by 1.9% during the first nine months of 2006. Longer-stay tourist arrivals were 4.1% higher in the first nine months of 2006, compared to the corresponding period in 2005, during which there was a 2.4% decline. An 11.6% reduction in the number of cruise passengers resulted from increased competition from homeland ports in the United States, as well as higher fuel costs.

Agriculture and manufacturing have been severely constrained by the new international trading arrangements. Sugar production expanded by 9.6% in 2000 but contracted on average by 12.2% per annum between 2001 and 2004 as the production of raw sugar became increasingly unprofitable. However, the 2005 sugar crop was somewhat bigger because of favourable weather and a supportive industrial climate. Non-sugar agriculture has risen by an average of about 0.3% per annum between 2001 and 2005. During the first nine months of 2006, this sector grew by an estimated 0.2%, compared to growth of 0.7% in the corresponding period of 2005.

The manufacturing sector contracted by an estimated 2.3% per annum on average from 2000 to 2003 as most subsectors had difficulty adjusting to trade liberalization. Manufacturing registered growth of 1.4% in 2004 and 2.2% in 2005, as some subsectors appeared to be holding their market shares. During the first three quarters of 2006, the manufacturing sector moderated, slowing from 3.4% over the first three quarters of 2005 to 2.8% during the same period in 2006. Growth was led mainly by higher production of chemicals, wooden furniture and other

non-metallic products, while beverage production, which has been an important driver of recent manufacturing expansion, contracted.

Between 2001 and 2005, construction, which expanded on average at 6.4% per annum, was the only sector to achieve uninterrupted growth. This was facilitated by renovations to hotels and ancillary facilities, public-sector projects and road repairs. During the first nine months of 2006, growth of 9.5% was recorded for the sector. This was due to substantial residential construction and activity related to preparations for the Cricket World Cup 2007.

Wholesale and retail trade grew by a yearly average of 2.4% between 2001 and 2005. Activity in this sector depends heavily on the trend in tourism, because of duty-free sales and construction to which it supplies materials. During the period under review, wholesale and retail trade also benefited from the increase in disposable income resulting from falling rates of personal income taxation. See “Revenues — Taxation Revenue.”

### **Principal Sectors of the Economy**

The foreign exchange earning sectors play an important role in the development of sustainable growth in the Barbados economy. These sectors are supported by other service subsectors. For example, the wholesale and retail trade sector, which accounted for the largest component of real GDP between 2001 and 2005, benefits from tourism through business from duty-free and other retailers’ sales to cruise ship and holiday visitors. The Government has limited its involvement in commercial ventures and concentrated its resources more towards the development of human capital and physical infrastructure. In 2005, the Government employed 21.3% of the workforce and the public-sector’s share of real GDP was 14.0%.

#### *Tourism*

Between 2001 and 2005, tourism continued to drive economic growth in Barbados and grew, on average, by 1.1% per annum. During 2001, for the third time, the combined number of long-stay visitors and cruise ship passengers exceeded one million. The United Kingdom remained the leading market for long-stay tourists, accounting on average for 40% of the total during the period.

Long-stay tourism arrivals (visitors who stay overnight on the island, as distinct from day excursionists) are not so seasonally concentrated as had previously been the case. Between 2000 and 2005, on average 52.1% of long-stay tourists came during the first and fourth quarters of the year, compared to an average of 53.1% between 1995 and 1999. This is reflective of successful efforts to increase arrivals during the off-season by intensified promotion. In this regard, the Crop-Over Festival, which is held in July and August of each year, is a major attraction.

Among the most recent initiatives by the Government to promote tourism is the Tourism Development Act of 2002, which provides, *inter alia*, tax incentives for the construction of hotels, villas, sports and recreation facilities and restaurants. In 2004, the Government announced the creation of a Bed and Breakfast Home Accommodation Loan to encourage the home accommodation sector as well as renovations and new construction by home owners who wish to help satisfy the expected increased demand for lodging during Cricket World Cup 2007. Small hotels also benefit from a Small Hotels Group Refurbishing Scheme.

Tourism activity is vital to economic growth in Barbados. In 2005, tourism contributed US\$82.2 million to real GDP, equivalent to 58.3% of traded sector product and 15.4% of total product for that year. Between 2001 and 2005, this sector accounted for an average of 15.6% of real GDP and 57.4% of traded sector product. Tourism is also the most important foreign exchange earnings generator of the Barbadian economy. The Government estimates that tourist spending increased from US\$763.2 million in 2004 to US\$885.3 million in 2005 (or 46.1% of gross foreign exchange earnings). Expenditure by tourists declined from US\$711.4 million in 2000 to US\$647.8 million in 2002 as the events of September 11, 2001 impacted long-stay arrivals. As a result of the appreciation of the Euro and the British pound against the U.S. dollar, intensified marketing and additional airlift, long-stay arrivals rose by 6.7% during 2003 and tourism expenditure increased to \$747.0 million. During 2004, long-stay arrivals grew by 3.8%, to 551,502, the highest level on record, from 531,211 in 2003. However, the average length of stay was 6.8 nights, the same as in 2003. Long-stay arrivals fell by just under 1% to 547,501 in 2005 but average length of stay rose to 7.4 days. Cruise ship arrivals fell from 533,278 in 2000 to 523,253 in 2002, as a result of a reduction in the

number of cruise ship calls to Barbados and lower demand for cruise vacations. During 2003 and 2004, cruise ship arrivals rose by 6.9% and 29%, respectively, from previous years, reflecting the availability of discounted packages and the use of the Bridgetown Port as a home port by some cruise lines. The number in 2004 was 721,270, the highest ever recorded. Rising fuel costs in 2005 prompted some cruise ships to remove Barbados from their itineraries, resulting in a 21.9% fall in cruiseship passengers to 563,588.

Real GDP from tourism is estimated to have risen by 1.9% during the first nine months of 2006, compared to decrease of 3.1% in the first nine months of 2005. This resulted from a recovery in long-stay arrivals. Data to September 2006 shows that long-stay arrivals were 4.1% higher, while cruiseship passengers fell by 11.6% between January and August of 2006.

The following table sets out selected statistics relating to the tourism sector for the years indicated:

**Table 6**

**Key Tourism Indicators**

	Year ended December 31,				
	2001	2002	2003	2004	2005
Tourism real GDP (% change) .....	(5.9)	(2.8)	7.0	9.4	(2.3)
Tourist arrivals (in thousands) .....	507.1	497.9	531.2	551.5	547.5
United Kingdom .....	217.5	192.6	202.6	213.9	202.8
United States .....	106.6	123.4	129.3	129.7	131.0
Canada .....	52.4	46.8	49.6	50.0	47.7
CARICOM.....	80.1	89.5	96.8	106.4	114.8
Other .....	50.5	45.6	52.9	53.4	51.3
Average length of stay (nights) <sup>(1)</sup> .....	7.3	6.8	6.8	6.8	7.4
Hotel room occupancy rate (%).....	49.0	41.1	49.9	49.8	54.0
Cruise ship passengers (in thousands) .....	527.6	523.3	559.1	721.3	563.6
Estimated tourist spending (in millions of US\$)...	686.6	647.8	747.0	763.2	885.3

<sup>(1)</sup> Excludes people staying at the homes of friends or relatives or people who stay in apartments or villas, which is not, for these purposes, recognised accommodations.

*Source: Barbados Statistical Service and Central Bank of Barbados*

The origin of tourist visitors to Barbados has changed over the last 30 years. The main source of visitors was Canada in the 1970s, the United States in the 1980s and the United Kingdom in the 1990s.

In 2005, visitors from the United Kingdom accounted for 37.0% of long-stay arrivals, compared to 42.9% in 2001. During the same period, long-stay tourists from the United Kingdom were on the decline, with 6.8% fewer arrivals in 2005 than in 2001. This market was adversely impacted by the events of September 11, 2001 and the military action in the Middle East. In contrast, arrivals from the United States grew by nearly 23% between 2001 and 2005, increasing their share of the market from 21% in 2001 to 23.9% in 2005. This was due to economic growth, intensified marketing and additional airlift. Following some resurgence during the late 1990s, long-stay arrivals from Canada trended downward between 2001 and 2005, with 8.9% fewer tourists in 2005 than in 2001. The number of long-stay visitors from Caribbean countries increased by 43.3% during the same period, due to a marketing programme to attract visitors from the region and the staging of major events. The share of CARICOM visitors rose from 15.8% in 2001 to 20.9% in 2005.

The following table shows the quarterly trend in long-stay arrivals for the years indicated:

**Table 7**

**Long-Stay Arrivals**

	<b>United Kingdom</b>	<b>United States</b>	<b>Canada</b>	<b>CARICOM Countries</b>	<b>Other</b>	<b>Total</b>
2001:						
Q1 .....	58,051	28,878	20,860	17,415	16,561	141,765
Q2 .....	52,633	26,948	11,578	21,706	10,889	123,754
Q3 .....	51,930	26,037	8,760	24,003	11,086	121,816
Q4 .....	54,852	24,766	11,183	16,999	11,943	119,743
2002:						
Q1 .....	51,594	30,843	17,537	17,297	12,432	129,703
Q2 .....	41,591	27,422	8,710	20,030	9,850	107,603
Q3 .....	48,005	33,169	8,095	27,747	10,703	127,719
Q4 .....	51,416	31,995	12,412	24,431	12,620	132,874
2003:						
Q1 .....	52,077	31,384	18,748	18,479	12,714	133,402
Q2 .....	50,942	31,153	8,918	23,910	13,325	128,248
Q3 .....	43,523	33,316	7,655	31,371	12,599	128,464
Q4 .....	56,022	33,473	14,320	23,049	14,233	141,097
2004:						
Q1 .....	58,779	33,778	22,131	20,575	13,516	148,779
Q2 .....	52,682	30,710	8,962	26,480	11,822	132,556
Q3 .....	48,836	32,712	7,137	32,467	13,595	134,747
Q4 .....	53,650	32,464	11,802	24,892	14,512	137,320
2005:						
Q1 .....	57,151	36,716	18,671	24,026	14,979	151,543
Q2 .....	46,878	29,122	8,694	27,220	11,703	123,617
Q3 .....	42,966	30,610	6,954	37,160	11,521	129,211
Q4 .....	55,767	34,556	13,371	26,363	13,073	143,130

*Source: Barbados Statistical Service and Ministry of Tourism*

Some weakness in long-stay arrivals began during the fourth quarter of 2004, when they declined by 2.7% compared to arrivals in the fourth quarter of 2003. During those three months, decreases were registered for all source markets except CARICOM countries (whose arrivals rose by 8.3% compared to the fourth quarter of 2003). Long-stay tourists were higher during the first quarter of 2005, but fell in the second and third quarters. Fourth quarter arrivals increased 4.2% between 2004 and 2005, reflecting strong growth in visitors from the U.S., Canada and CARICOM.

Tourism can be sensitive to external factors. The island, unlike other regional tourist destinations, has escaped serious storm damage in recent times, storms from the east having tended to pass north of the island. However, the events of September 11, 2001 and global recession reduced tourist revenue in 2001 and 2002. An economic downturn in any of the major markets for the Barbados tourist industry, in particular (given its dominant and increasing market share) the United Kingdom, would likely have a material adverse effect on the tourism sector. Accordingly, while further development of the United Kingdom market is an important part of its strategy, the Barbados Tourism Authority (the "BTA") also aims to maintain market diversity by continuing to target its other traditional markets, such as the United States, Canada and other Caribbean countries. The BTA also seeks to enter new markets in Brazil, Argentina, Venezuela and other South American countries and bolster its profile in Germany and other European nations. Although the BTA intends to continue to focus primarily on the luxury sector of the

market, thereby differentiating Barbados from less expensive holiday destinations in the Caribbean, it also aims to develop the top end of the budget market in a complementary way. This aim will be pursued through improvements to all classes of hotels, an increase in available rooms for visitors, improvements to infrastructure and a variety of events and recreational facilities for different tourist segments.

The tourism sector in Barbados has traditionally been dominated by luxury hotels on the west coast (such as the Sandy Lane Hotel, Glitter Bay and the Royal Pavilion). Construction is underway to extend the luxury end of the hotel market across the island. In recent years, many hotels have undergone substantial refurbishment and expansion. The Accra Hotel, located on the south of the island, was completely rebuilt in 1997. Other properties on the south and west coasts have undergone refurbishment and construction of additional new rooms. In addition, the Barbados Hilton in Bridgetown, which closed in April 1999 in order to be completely rebuilt, has reopened in time for the 2006 winter tourist season. The new Hilton Hotel has 300 rooms and 50 suites. There are also plans to develop major hotel projects on the east and west coasts and in Bridgetown.

The number of rooms available in hotels, apartments and guest houses in Barbados amounted to approximately 6,250 in 2005, compared to a historical high of 6,709 in 1990. The rate of hotel room occupancy was 54.0% for 2005, which compares with 49.8% for 2004. The reduction in total hotel rooms resulted from hotel closures but has been partly offset by the significant addition of rental villa accommodation. Moreover, the Government has offered incentives for existing properties to expand or upgrade and for homeowners to add facilities in order to increase the number of available rooms to meet the demand for the Cricket World Cup.

The Government believes that Barbados has developed a unique multi-faceted and mutually reinforcing array of attractions that distinguish the island as an up-market tourist destination. In addition to its year-round warm Caribbean climate and beaches, Barbados offers additional attractions such as opera, cricket, golf, upscale restaurants and nightclubs that make the island a welcoming destination for more than one million visitors per year, which is almost four times the population of the island. Barbados also has an economic and social environment that is rated as among the best in the world for quality of life and a low crime rate. Barbados' GDP per capita calculated at factor cost for 2005 was US\$9,350, and the country ranked 30th in the world in 2003 in human development, according to the UNDP. To a large extent, Barbados has achieved this status through consistently high investment in education, health and physical infrastructure. Together with Barbados' other attractions, these factors explain the high rate of customer satisfaction and the high repeat visitor rate.

Sport and culture are also used to promote tourism. In addition to traditional water-sports facilities, Barbados is well-known for its cricket and cricketers, and attracts visitors during test match series between the West Indies team and the teams of other cricket-playing nations. Regular cricket and field hockey festivals attract hundreds of visitors to Barbados. A test match series between the West Indies and England is held every four years in Bridgetown. The 2004 series brought approximately 10,000 extra visitors to the island (mostly from the United Kingdom), which it is estimated contributed significantly to the local economy in that year.

In early 2007, Barbados will be the venue for the Cricket World Cup, the third most popular sporting event in the world. Only the Olympics and the Soccer World Cup attract more spectators. It is estimated that several thousand sports fans will visit the island and Barbados will be exposed to millions of potential visitors via television. To this end, the Government is partnering with the Local Organising Committee for the event in upgrading the major cricket stadium and enhancing roads, signage and the general tourism infrastructure. The staging of the Cricket World Cup Final is expected to bring significant benefits to Barbados. The cricket ground where the game will be played is being upgraded to international standards, including increasing its seating capacity to around 25,000. A portion of these costs will be supported by the Government. In addition, it is assumed that Barbados will benefit from the so-called "legacy" effects as was the case with other venues which hosted major sporting events. This legacy component includes the increase in tourism receipts associated with additional visitors to the island for the years following the event. The construction of the stadium is on schedule, and its playing facilities are now being tested.

The construction of the Royal Westmoreland Golf Course, together with the planned expansion of the Sandy Lane and Rockley courses and the construction of a new housing and yachting marina complex, Port St. Charles, have also enhanced the island's sporting facilities. There are plans for two additional golf courses, bringing

the total to five. During December 2006, the World Golf Championships will be held in Barbados and is expected to attract thousands of golf enthusiasts.

Among cultural offerings, the Crop Over Festival in July is a major attraction. There are other festivals, including jazz, opera and gospel, with well-known international artists. The restoration and showcasing of heritage attractions remain an integral aspect of current tourism promotion. In addition to cultural activities, Barbados is becoming a centre for international conferences. The Government believes that these activities will help to reduce the seasonal fluctuation of tourist arrivals and maintain growth in the long term. The new conference facilities at the Hilton Hotel will complement the capacity already provided at the Sherbourne Conference Centre.

Air access to Barbados is very important to the tourism industry. There are scheduled flights from New York and Miami by both American Airlines and BWIA International Airways Ltd. ("BWIA") and three flights a week from New York by Air Jamaica. American Airlines also provides an American Eagle service twice daily from San Juan, which serves as a hub for American Airlines. BWIA has thrice-weekly service from Washington, D.C., and US Airways provides service from Philadelphia twice per week. Delta Airways also has a thrice-weekly service from Atlanta.

Other scheduled services to Barbados include flights from London (approximately 16 flights per week: three times per week by BWIA, six times per week by Virgin Atlantic and daily by British Airways), Air Canada flights from Toronto (five to seven times per week, depending upon the season) and flights from Frankfurt, Montreal and Amsterdam.

In addition to scheduled flights, there are numerous seasonal charter flights to Barbados. Charter airlines that fly to Barbados include Excel, Thomas Cook, Monarch, Britannica Airways and First Choice Airways from the United Kingdom, American Trans Air from the United States, Skyservice from Canada and Condor from Germany. Some of these airlines have added premium-class seating to their aircraft.

The Grantley Adams International Airport in Barbados continues to undergo refurbishment and expansion. Work on a new terminal began in 2000 and is due for completion in 2006. See "Public Finance — Expenditures."

### *Business and Other Services*

#### *International Business and Financial Services*

International business and financial services is a fast-growing subsector of the business and other services sector. The international business and financial services subsector contributed US\$79.7 million, or 5.0% of gross foreign exchange earnings, in 2004. In 2002 and 2003, this subsector accounted for 5.1% and 4.9%, respectively, of gross foreign exchange earnings. During 2005, 428 licences were issued to a range of international financial entities, compared to 445 in 2004. Of the new licences, 372 were granted to IBCs, compared to 361 in 2004. In addition, 42 new licences were issued to societies with restricted liabilities, 11 to exempt insurance companies and three to exempt insurance management companies. One hundred and eighty licences were issued to IBCs, 40 to societies with restricted liabilities and four to exempt insurance companies during the first six months of 2006.

This subsector relies on the modern telecommunications facilities and well-educated, skilled labour available on the island. There is also a concessionary tax structure that grants incentives to persons earning foreign currency and to licensed companies conducting international business. The corporate tax rate in Barbados for qualifying companies is generally between 1.0% to 2.5%. See "Public Finance — Revenues."

In March 2001, Barbados and other small and developing economies (SDEs) set up the International Tax and Investment Organisation (ITIO) to help SDEs respond to global tax and investment challenges that included issues raised by the Organisation for Economic Cooperation and Development ("OECD"). In November 2001, the OECD issued a progress report indicating that a different rate of tax for international business and domestic taxation would no longer be an objective of their initiative. The two other issues left outstanding were transparency of the taxation systems and exchange of information. Barbados' taxation system is transparent; all tax incentives are provided through legislation and are published in the Official Gazette of Barbados, which is readily accessible to the

public. Barbados has facilitated the exchange of tax information by entering into double-taxation agreements with certain countries. As such, Barbados' policy is fully in keeping with that of the OECD countries where the tax system has always been transparent, with exchange of information being a central feature.

A major concern of the Financial Action Task Force and other initiatives has been the use of offshore centres as vehicles in the laundering of the proceeds of illicit activities. Caribbean governments have taken a strong position on this issue, making it abundantly clear to the OECD that they intend to establish or maintain rigorous mechanisms to protect their jurisdictions against this type of abuse. This process is driven, in large measure, by the Caribbean Financial Action Task Force (the "CFATF"), a body whose principal objective is to ensure that Caribbean countries have appropriate anti-money-laundering mechanisms in place. The CFATF, founded in 1992, is an organisation of 30 states in the Caribbean region which have agreed to implement common countermeasures to address the problems of money laundering and the financing of terrorism. The Caribbean is one of the few regions in the world that has established its own task force, and efforts are now underway to replicate this model in other regions. See "Financial System — Banking and Financial Institutions."

Barbados intends to continue to expand its ability to provide international financial services and intends to diversify the range of services it exports. The Government has established a programme to determine the feasibility of expanding the international services that Barbados provides to include educational services, health services and cultural services, particularly in the areas of music and film.

The international business environment of Barbados has been improved by the enactment of legislation for the licensing of entities carrying on international business, which legislation also includes provisions for the supervision and regulation of these various entities. As part of the Government's policy of bringing supervisory and regulatory practices in Barbados more in line with international standards, the International Financial Services Act was proclaimed in 2002, replacing the offshore Banking Act. The new Act will enhance Barbados' compliance with the Basle Committee's Core Principles for Effective Bank Supervision. The licensing requirements of the International Business Companies Act Cap. 77 have been amended by the International Business (Miscellaneous Provisions) Act Cap. 2001-29. During 2006, the Government established a new agency to regulate the non-bank financial sector.

The Government has also recognised the importance of information technology and electronic commerce and has established a policy committee that will determine the appropriate legal and regulatory framework to facilitate the development of this rapidly evolving area. During the 2004 Economic and Financial Policy Statement, it was announced that electronic commerce would benefit from incentives provided under the Income Tax Act.

The following table sets out the number of registrations in international business and financial services for the years indicated:

**Table 8****Licenses in International Business and Financial Services<sup>(1)</sup>**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>For the nine months ended Sept. 30 2006</b>
International Business Companies.....	210	296	274	361	372	180
Exempt Insurance Companies .....	7	11	15	15	11	4
Exempt Insurance Management Companies .....	1	3	1	1	3	0
Societies with Restricted Liabilities ...	22	40	31	64	42	40
Offshore Banks .....	5	4	2	4	0	0
Total.....	<u>245</u>	<u>354</u>	<u>323</u>	<u>445</u>	<u>428</u>	<u>224</u>

<sup>(1)</sup> The information included herein relates to new licences only and not to the continued existence or operating status of the relevant entities.

Source: Central Bank of Barbados

The total number of new international business entities licensed in Barbados fell significantly between 2001 and 2005. This reflected mainly the decline in the number of Foreign Sales Corporations (FSCs) in operation since the World Trade Organisation ruled in 1999 that the favourable U.S. tax treatment of FSCs constituted a prohibited export subsidy. At the end of 2005, there were no FSCs, compared to 2,975 in 2000. In addition, there were 5,304 Business Companies, 343 Societies with Restricted Liabilities, 183 Exempt Insurance Companies, 53 Offshore Banks and 26 Exempt Insurance Management Companies. A discussion of certain areas within the international business services subsector follows.

#### *Banking*

One of the key components of the international business services subsector is the banking institutions that are licensed under the International Financial Services Act. Offshore banks in Barbados accept deposits, sell and place foreign securities and provide loans to businesses abroad. They also accept foreign currencies, securities and other overseas property in trust. During 2005, no additional offshore banks were licensed, compared with four in 2004.

#### *Insurance*

The insurance area includes life insurance, reinsurance and captive insurance companies. During 2005, licences were issued to 11 exempt insurance companies (which are exempted from taxation for 15 years under the Exempt Insurance Act). Services are also provided from Barbados in the area of insurance management.

As a result of the amendments to insurance and insurance-related legislation in 1998, a facility was provided for the licensing of qualifying insurance companies. There are currently 55 such companies, six of which were licensed during 2006.

#### *Other Businesses*

Another important area within the international business services subsector is licensing under the International Business Companies Act 1991-24, pursuant to which international business companies (“IBCs”) enter into non-insurance and non-banking activities. These activities include manufacturing, marketing and global management services.

The treaty network established between Barbados and various other countries also facilitates investment in the area of international and financial business services. Barbados has entered into double-taxation agreements with the United Kingdom, Canada, the United States, Finland, Norway, Sweden, Switzerland, Venezuela, China, Cuba and Malta. There is also a regional double-taxation agreement among the member states of CARICOM.

Bilateral Investment Treaties (“BITs”) have been concluded with the United Kingdom, Venezuela, Germany, Switzerland, Italy, Cuba, Canada and China. Discussions with the United States regarding the conclusion of a BIT have been replaced by discussions regarding a proposed Free Trade Area for the Americas agreement. See “Barbados — International Organisations.”

#### *Data and Information Technology Services*

Data and information services are conducted through IBCs that are active in data processing, software development and management of database and financial records. After recording some decline during the first few years of the 1990s, this subsector has started to grow again, reflecting in the main establishment of call centres. At December 31, 2005, there were 27 companies active in this area, providing services to offshore users and employing 1,618 persons, compared to 45 companies and 1,865 persons in 2004. The primary market for these services is North America.

Barbados wishes to increase its presence in the more complex aspects of data processing and information services in light of increasing competition from other jurisdictions for less complex data processing business. During the last few years, a number of small software development companies have begun operations, some of which are indigenous.

#### *Manufacturing*

Between 2001 and 2005, the manufacturing sector was adversely impacted by the new international trading environment. Faced with competition from foreign producers with much lower production costs, output in this sector declined on average by 1.0% during the period under review. However, most of this decline was concentrated in 2001. The manufacturing sector accounted for 6.1% of real GDP in 2005, compared to 6.4% in 2003 and 6.2% in 2004. This sector grew by 2.2% during 2005 and provided employment for approximately 7,000 persons, or 5.7% of the labour force. During the first nine months of 2006, the manufacturing sector continued to show signs of a recovery that started in late 2004. Output for the sector grew by an estimated 2.8% with higher production recorded for wooden furniture, chemicals, non-metal processing and non-metallic products.

The manufacturing sector in Barbados is mainly composed of light industry, including electronic components, chemicals, garments and textiles, paint, paper products, furniture, edible oils, soap and food products. The main agro-industries are sugar products and rum distilling. The Arawak cement plant, which opened in 1985 as a joint venture with Trinidad & Tobago, but which was subsequently privatised, provides the only heavy industry in Barbados.

Non-sugar related manufacturing exports were US\$188.4 million in 2005, compared to US\$151.0 million in 2004. During 2004 and 2005, food and beverages and chemicals were the principal exporting subsectors within manufacturing. Food and beverages accounted for 30.4% of non-sugar related manufacturing exports in 2004 and 29.4% in 2005. This subsector’s contribution to exports has risen in recent years, mainly reflective of a surge in exports of rum, which benefited from the installation of a new plant by a local producer. Chemicals, including paints and detergents, accounted for 14.0% and 14.9% of exports in 2004 and 2005, respectively. The small size of the domestic market has prompted the Government to emphasise light industry with export potential. Tax concessions and other incentives are in place to encourage export manufacturing.

While some difficulties were expected following trade liberalization, the Government does recognise that certain areas of the manufacturing sector (*e.g.*, garments and furniture) are particularly vulnerable to changes in regional and international trading arrangements. The Government will continue to provide assistance to help the manufacturing sector modernise plants, reduce costs and increase productivity. Despite this general downward

trend, sectors such as cement and beverages are quite resilient. In particular, the cement plant has benefited from growth in domestic construction, as well as export sales.

The Government continues to encourage manufacturers to restructure their production systems and discard outdated plants and equipment, in order to compete internationally. The Government, through the BIDC, has provided a technical assistance programme for activities relating to plant upgrading, product design and training.

Rum, which has been distilled on the island for over 300 years, is a growing business. Mount Gay Rum (majority-owned by Remy Martin), as well as West Indies Rum and Foursquare Rum (both local enterprises), have distilleries on the island producing rum for domestic and export markets. The principal markets for rum include Canada, the United States and the European Union countries. Barbados exported US\$25.3 million of rum in 2005, compared to US\$22.3 million in 2004.

### *Agriculture*

Agriculture, comprising sugar and non-sugar agriculture, once the single largest subsector of the economy, accounted for 4.6% of real GDP in 2005, the same as in 2004. The following table shows the production of selected agricultural products for the years indicated:

**Table 9**

#### **Production of Selected Agricultural Products**

	<b>Year ended December 31,</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Sugarcane (Tonnes).....	49.8	44.8	36.3	34.4	38.2
Poultry ('000 Kgs.).....	11,142.3	10,993.3	12,316.4	13,304.1	14,651.0
Milk ('000 Kgs.).....	5,894.6	5,459.2	5,263.2	4,899.9	4,692.3

*Source: Central Bank of Barbados*

### *Sugar*

While agriculture in general, and sugar in particular, have historically played a large role in the economy, agriculture now accounts for a relatively small proportion of real GDP. Sugar alone accounted for 1.5% of real GDP in 2005, compared to 1.4% in 2004 and 1.6% in 2003. Sugar production during the 2006 crop season was approximately 34,000 tonnes, about 11% lower than the figure for 2005, owing to reduced acreage and a late start in production.

Virtually all of the sugar produced in Barbados is sold at a guaranteed price to the European Union countries under a protocol (the "Sugar Protocol") to Lomé IV, which has been extended by the Cotonou Agreement. This guaranteed price for sugar is currently set at 523.7 Euros (equivalent to US\$654.5) per metric tonne, calculated at the exchange rate on July 18, 2006, compared to an international market price of approximately US\$331.0 million. The Sugar Protocol quota for the year 2005 is 33,600 tonnes. The sugar industry earns foreign exchange for Barbados and is also important from an environmental and social point of view, in that sugar plantations reduce soil erosion, preserve a rural society and provide some employment. The Sugar Protocol may be terminated by the European Community with respect to each ACP state (and vice versa) by giving two years' notice. The Cotonou Agreement, the successor to Lomé IV, was signed in June 2000. Since then, the European Council has decided to eliminate quotas and duties on all products except arms ("Everything But Arms") from the world's least-developed countries. Duties on sugar will be eliminated by July 2007.

During 2004, the European Commission decided to revise its sugar regime. While the ACP countries would retain their preferential access quotas, the price paid for a tonne of sugar would be reduced by 37% over a three-year period. The sugar industry in Barbados, as presently constituted, cannot survive such a drastic cut in

export prices. High labour costs and diseconomies of scale have made the industry unprofitable, in spite of preferential prices. In response to projected declines in sugar prices, the Government is developing alternative uses for sugar cane. A decision has therefore been taken to shift the industry's focus away from the production of raw sugar to the provision of fuel for energy, ethanol and branded sugars.

Sugarcane yields were negatively affected by drought conditions between 2001 and 2003 and by excessive rainfall in 2004. A return to more favourable weather conditions boosted sugar production in 2005 to 38,210 tonnes. Foreign exchange earnings for sugar in 2005 were US\$22.2 million, virtually the same as the US\$22.4 million in 2004.

Between 2000 and 2004, sugar production fell by 41.1%. Profitability of the sugar industry has been in chronic decline, resulting in a decrease of land under sugar cultivation, but the Government has continued its efforts to restructure and preserve the industry. This included the closure of one of the three remaining sugar factories during the last three years. Eventually, there will be a single factory which will have the capacity for the cogeneration of electricity. In 1993, as part of a five-year plan, heavily indebted sugar plantations were leased to a central public agency, the Barbados Agricultural Management Company (the "BAMC"). The intention was to reduce costs at the field and factory level to the point where the industry might have a viable economic future. Ever-rising production costs have, however, prevented this and the BAMC, which is now responsible for approximately 40.0% of the crop and the island's two sugar factories, has operated at a loss since it was established. As of December 31, 2005, the BAMC had an accumulated deficit of US\$56.0 million and outstanding debt of US\$51.9 million, which continues to be serviced by the Government. The Caribbean Development Bank provided a US\$11.5 million loan in 1994 to the industry and, in 1993, the Government issued US\$104.5 million in bonds, including sugar price bonds, which the Government continues to service. See "Public Finance — Expenditures."

The profitability of the industry has also been hit by labour disputes and rising costs. Sugar industry workers, who are well-paid by Caribbean standards, accepted wage increases of 2% in 2004, 3% in 2005 and 3% in 2006.

The Government has established an Agricultural Development Trust to provide subsidies and technical assistance to the agricultural sector, including the sugar industry. The Trust is partially funded by agricultural import tariffs. The balance is funded by the sale of non-arable land, and funds available at the international level for protection of the environment.

#### *Non-Sugar Agriculture*

This subsector includes vegetable and root crops, fruit, livestock, cotton and fishing. In 2005, it accounted for 3.4% of real GDP, although the historic performance of this subsector has been volatile, owing to its sensitivity to weather conditions. With the decline of the sugar industry, efforts are underway to diversify the agricultural sector. The development of a cotton industry has been identified as having export potential through the sale of products targeting the high-end of the market. During 2004, a private company, Exclusive Cottons of the Caribbean Inc., was formed to produce 100% Sea Island Cotton Products. In order to make the cotton industry viable, 4,000 acres must be cultivated and US\$37.4 million spent on production, marketing and distribution. It is estimated that the pilot phase will require US\$4 million. The Government has decided to create a venture capital fund within the existing Agricultural Development Fund and has earmarked the cotton industry to be the first to benefit from this initiative.

Barbados has been attempting to develop its fishing stock for a number of years, but had been in dispute with Trinidad and Tobago with respect to maritime boundaries, and judgement as a result, was referred to an arbitration tribunal established under Part XV of the United Nations convention on the Law of the Sea. The Tribunal established a single maritime boundary between Barbados and Trinidad and Tobago that differed from the boundaries claimed by the countries in their pleadings before the Tribunal. The Tribunal held that it lacked jurisdiction to render a substantive decision about a fisheries regime to apply inside Trinidad and Tobago's Exclusive Economic Zone. It further ruled that the countries are under a duty to agree upon measures to coordinate and ensure the conservation and development of flying fish stocks, and to negotiate in good faith and conclude on agreement that will accord fishermen of Barbados access to fisheries within the Exclusive Economic Zone of Trinidad and Tobago.

### *Energy and Utilities*

In 2005, Barbados produced approximately 348,718 barrels of oil domestically, compared to 377,655 barrels in 2004 and 370,909 in 2003. Domestic production provides for approximately one-third of domestic consumption. The increase in 2004 was the first since 1999 and was attributed to the commencement of a new drilling programme during the latter part of the second quarter and additional stimulation programmes. The commercial production of crude oil in Barbados began in 1974. Between then and 1982, crude oil was produced by Mobil Exploration, which was acquired by the Government in 1982, and gradually expanded operations as the state-owned Barbados National Oil Company. Production rose to 679,193 barrels in 1985, before the collapse in oil prices in 1986 made it more cost-effective to import. In early 1998, the island's only refinery was closed, in part because its products became uncompetitive. The restimulation of old wells in 1999 helped to boost production in that year by 22.8% to 708,489 barrels, the highest on record. Barbados now exports its crude oil to Trinidad & Tobago for processing. Conoco, the United States oil company, was granted a license to conduct offshore exploration and did so between 1996 and 2003. The company drilled one well in 2001 but no crude oil was found.

The main state-owned public utility enterprises in Barbados are the Barbados Water Authority and the National Petroleum Corporation, which supplies natural gas. Barbados Light and Power Company Limited and Cable & Wireless (Barbados) Limited are privately owned utility enterprises and are regulated by the Fair Trading Commission.

Barbados has a fully digital telecommunications network. During the last few years, the Government began the phased liberalisation of the telecommunications sector. In 2001, licences to operate cellular telephone services were awarded to Cable and Wireless, Digicel, Cingular and Sunbeach Communications Inc. To date, the first three have offered services and there has been a significant decline in charges. In 2005, licences have also been issued to a number of other companies to provide domestic telephone services.

The Government has established a Fair Trading Commission with a mandate covering utility regulation, consumer protection and fair competition matters. The Fair Trading Commission, established by the Fair Trading Commission Act 2001-31, commenced operations on January 2, 2001 and replaced the Public Utilities Board. In 2003, the Fair Trading Commission ruled against an application by Cable and Wireless to change its billing system from a flat monthly rate to one based on usage, but in 2005 agreed to that company's application for an increase in domestic rates which came into effect on August 2005.

### *Inflation*

The Government believes that its commitment to a fixed exchange rate strategy has enabled it to maintain relatively low inflation rates. Since 1997, when the introduction of a value-added tax (VAT) pushed up consumer prices by 7.7%, the average rate of inflation has not been higher than 2.8%, until 2005 when it reached 6.1%. In 2005, the increases were driven primarily by higher prices for food, transportation, housing, fuel and electricity. Inflation for the full year 2006 is projected to be 6.5%.

The average annual rate of annualized inflation at June 30, 2006 was estimated at 7.2%, compared to 3.9% during the comparable period of 2005. This sharp rise in prices reflected by increased costs of petroleum which in particular impacted housing, transportation and fuel and electricity. Rising energy prices are expected to boost inflation through year-end.

### *State-Owned Enterprises*

As of March 31, 2006, the Government owned a 100% interest in 16 statutory enterprises and 16 companies in various sectors of the economy, and held equity in ten other companies. The principal wholly owned state enterprises included the Barbados Water Authority, Barbados Port Authority, Barbados National Oil Company Limited, Grantley Adams International Airport Inc. and Barbados Flour Mills.

From 1991 through 2003, the Government sold its interests in a number of state-owned enterprises, including the sale by the Government of its share in Barbados External Telecommunications, its holding in

BARTEL, the divestiture of its stake in Pine Hill Dairy, the sale of its share in Arawak Cement Company and the privatisation of Heywoods Hotel, a four-star hotel resort.

During 2000, the Government privatised the Barbados National Bank (the “BNB”) and the Insurance Corporation of Barbados (the “ICB”), which were wholly owned enterprises. Pursuant to the privatisations, the Government divested 29% of its 51% shareholding in the BNB and 34% of its 100% shareholding in the ICB. The Government also intends to divest some of its shareholding in Barbados Port Inc. During 2003, the Government sold the majority of its shares in BNB to Republic Bank Limited from Trinidad & Tobago. Most of the remaining shares in the new company, Insurance Corporation of Barbados Ltd., were sold to a Bermudan insurance company, BM&F Ltd. in November 2005. The Government now owns 15% of the shares in the enterprise.

The proceeds of these privatisations are paid into the Public Enterprise Investment Fund (the “PEIF”), which receives all proceeds from the sale of an enterprise, or an interest in an enterprise, by the Government. The PEIF is a separate statutory enterprise fund that, among other things, will be available to pay public debts but will not be available for general budgetary purposes. The activities of this fund are to be reported to Parliament on a quarterly or annual basis. At June 2005, the Fund’s resources amounted to US\$0.6 million.

#### *Employment and Labour*

On average, during 2005, out of the labour force of approximately 146,775 persons, 134,475 were employed. During the fourth quarter of 2005, the unemployment rate was 9.0%, while the average rate of unemployment during 2005 was 9.1%, compared to 9.6% during 2004. Unemployment among males averaged 7.4%, compared to 10.8% among females in 2005.

The actual unemployment rate at June 30, 2006 was estimated to be 8.8%, compared to 8.9% at June 30, 2005. Between June 30, 2005 and June 30, 2006, the actual female unemployment rate fell from 11.5% to 10.0%, while the actual male unemployment rate rose from 6.4% to 7.6%.

Between 2001, when the average unemployment rate was 9.9%, and the end of 2005, approximately 2,700 new jobs were created, principally in the commerce, public, finance and business sectors.

The following table sets out the employed labour force by sectoral origin for the years indicated:

**Table 10**

**Employed Labour Force by Economic Sector**

	Year ended December 31,									
	2001	%	2002	%	2003	%	2004	%	2005	%
	(number of persons in thousands, except percentages)									
Traded sector .....	28.7	21.9%	28.4	22.1%	27.8	21.5%	24.2	18.3 %	24.4	18.4
Sugar .....	1.0	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.7	0.5
Non-sugar agriculture and fishing .....	4.5	3.4	4.5	3.5	5.3	4.1	4.1	3.1	3.8	2.9
Manufacturing.....	9.3	7.1	9.0	7.0	7.9	6.1	7.6	5.8	7.0	5.3
Tourism.....	13.9	10.6	14.2	11.0	14.0	10.8	12.2	9.2	12.9	9.7
Non-traded sector .....	102.1	78.1	100.2	77.9	101.7	78.5	107.7	81.7	108.2	81.6
Construction and quarrying.....	14.4	11.1	13.2	10.3	12.3	9.5	13.4	10.2	13.2	10.0
Electricity, gas and water .....	2.0	1.5	1.9	1.5	2.6	2.0	1.8	1.4	2.1	1.6
Wholesale and retail trade .....	19.3	14.8	19.6	15.2	19.6	15.1	19.6	14.9	18.5	14.0
Government services .....	26.7	20.4	27.7	21.5	27.9	21.5	27.5	20.8	28.2	21.3
Transportation, storage and communications ....	5.8	4.4	4.7	3.7	4.8	3.7	5.2	3.9	5.7	4.3
Business and other services .....	33.9	25.9	33.1	25.7	34.5	26.7	40.2	30.5	40.5	30.5
Total.....	130.8	100.0%	128.6	100.0%	129.5	100.0%	131.9	100.0%	132.6	100.0%

Source: Barbados Statistical Service

The following table sets out the labour force size and unemployment data for the years indicated:

**Table 11**

**Labour Force and Employment**

	Year ended December 31, <sup>(1)</sup>				
	2001	2002	2003	2004	2005
Labour force .....	145,100	143,500	145,400	146,100	146,800
% of adult population.....	69.5	68.5	69.2	69.4	69.6
Employed persons.....	130,800	128,700	129,400	132,100	133,500
% of labour force .....	90.2	89.7	89.0	90.4	90.9
Unemployed persons <sup>(2)</sup> .....	14,300	14,800	16,000	14,000	13,300
% of labour force .....	9.9	10.3	11.0	9.6	9.1

<sup>(1)</sup> The statistics for 2000-2004 reflect annual averages.

<sup>(2)</sup> To be considered unemployed, a person must be 15 years or over but less than 65 years, who is not currently working but who is willing, able and available to work and who has sought work within the preceding three months.

Source: Barbados Statistical Service

The following table sets out the average wages in selected sectors for the years indicated:

**Table 12**

Sector	Average Wages in Selected Sectors <sup>(1)</sup>				
	Year ended December 31,				
	2001	2002	2003	2004	2005 <sup>(1)</sup>
	(in Barbados Dollars)				
Construction (per hour) <sup>(2)</sup> .....	8.50 – 13.50	8.55 – 13.90	8.81 – 14.30	8.98 – 14.75	9.60 – 16.34
Hotels (per week) <sup>(2)</sup> .....	179 – 331	184 – 341	190 – 352	240 – 364	240 – 364
Informatics (per hour).....	5.00 – 18.00	5.00 – 18.00	5.00 – 18.00	5.00 – 18.00	6.80 – 16.00
Food manufacturing (per week).....	160 – 840	160 – 840	160 – 840	200-970	200-970

<sup>(1)</sup> Estimates.

<sup>(2)</sup> Estimates from the Barbados Workers' Union.

n.a. = not available

Source: *Barbados Industrial and Development Corporation*

Unemployment benefits are paid by the National Insurance Department (the "NID"), an agency of the Government. The NID operates a contributory scheme that is compulsory for persons employed in the private-sector aged 16 to 65 years. Employees are required to make contributions to the NID for 52 weeks before they are eligible to receive unemployment benefits. Thereafter, a private-sector employee is entitled to 60% of his or her salary during the first ten weeks of unemployment and to 40% of his or her salary for the next 16 weeks. Unemployment benefits cease after 26 weeks of unemployment.

The Government has prepared an employment rights bill which is intended to regulate labour market practices. This bill was sent to a Select Committee of Parliament and the public was invited to make written or oral submissions. At present, the bill is being discussed by the social partners who will decide on the next steps by the year-end.

### *Pensions*

In recognition of the fact that the population of Barbados is aging, various measures are being taken to increase the efficiency of state and public-sector pensions. Private pensions are also being encouraged through tax relief for contributions made to company-sponsored pension plans and individual retirement savings plans sold by registered financial institutions. It is estimated that the ratio of the contributors in the working population to pensioners will be 2.5:1 within 20 years' time. State pensions are paid by the National Insurance Scheme (the "NIS"). Actuarial reviews have been performed in respect of the state pensions scheme. An earlier review had concluded that the weighted average contribution of 12.6% of insurable earnings is inadequate to continue funding state pensions in the future. The review suggested various options to address this situation, including raising the retirement age, basing contributory pensions on average lifetime earnings rather than on the average of the best three years, and extending the qualifying period for a pension from 10 to 20 years. It was in this context that after wide consultation, a programme of Pension Reform was established and the new NIS Pensions Act was passed early in 2005, putting it into effect. The NIS Pensions Act provides for increases in the contribution to the NIS of 1% of insurable earnings each year for four consecutive years, indexing of pensions and the NIS insurable earnings' limit, raising the pensionable age from 65 to 67 in steps of half a year every four years, coupled with the introduction of flexible retirement ages, and a rationalization of the formula for calculating pension entitlement. Under the flexible retirement programme, pensions can be taken from as early as age 60 with a reduced benefit or may be deferred up to age 70. The pension is reduced/increased by 6% for every year a person commences on the NIS retirement pension before/after that person's NIS pensionable age.

### *Trade Unions*

Four major trade unions exist on the island: the Barbados Workers Union (which represents public and private workers), the National Union of Public Workers, the Barbados Union of Teachers and the Barbados Secondary Teachers Union. Although isolated work stoppages have occurred in Barbados, there have been no general work stoppages since 1992.

In 2002, public-sector workers agreed to a three-year pay contract that took effect in April 2003. The contract provided for a 2.0% salary increase in the first year and a 3.0% increase in each of the following two years. Public sector workers presently are being remunerated under the old contract. Negotiations are expected to start soon on a new pay contract.

Since 1993, the Government, the private-sector and trade unions (collectively referred to as the “social partners”) have agreed on successive protocols that provide parameters for sustainable wage policies in the economy. In 2005, the partners signed the fifth protocol, which covers the period from 2005 to 2007. In the new protocol, the social partners reaffirm their commitment to industrial harmony, continued collaboration and consultation. They also pledge to create a modern, efficient economy, establish some equilibrium between prices and wages, achieve a greater degree of inclusiveness and distribute the benefits of economic growth fairly and equitably.

## FINANCIAL SYSTEM

### Central Bank of Barbados

The Central Bank of Barbados (the “Central Bank”) was established by an Act of Parliament in 1972 and is governed by a Board of Directors, the members of which are appointed by the Minister of Finance. It undertakes all the traditional central bank functions, including the issuance of currency, management of net foreign assets and supervision of commercial banks and financial institutions. As the monetary authority of Barbados, the Central Bank is empowered to fix reserves requirements, establish interest rate policy and use credit controls to curb spending in support of the balance-of-payments.

The Central Bank also has responsibility for arranging the Government’s capital market borrowings and assists development in the economy through its export credit guarantee scheme and through the Industrial Credit Fund (“ICF”). The export credit guarantee scheme covers pre-shipment financing requirements and post-shipment credit risks. Under the scheme, the Central Bank typically agrees to guarantee a commercial bank up to 75% of amounts advanced to an exporter to finance firm orders. Commercial and political credit risks after shipment may be insured for up to 90% of gross invoice value. The ICF, established with financing from the World Bank, provides low-cost medium- and long-term credit to enterprises engaged in foreign exchange earning activities.

The Central Bank supervises commercial banks, non-bank financial intermediaries and offshore banks in Barbados. Onshore institutions fall under the Financial Institutions Act 1996-16, while the International Financial Services Act (2002) governs offshore banks. The Central Bank considers its regulation of onshore and offshore banks to be generally comparable to the standards of the international supervisory community. The Financial Institutions Act embraces the Core Principles of Bank Supervision published in 1997 by the Basle Committee on Bank Supervision, and these are also reflected in the International Financial Services Act. In particular, under the International Financial Services Act, offshore banks are subject to routine inspection by the Central Bank, unlike in the previously limited inspection regime.

The Central Bank cooperates with domestic and international law enforcement agencies to prevent money laundering in Barbados and has issued anti-money-laundering guidelines to all banks and financial institutions under its supervision. Under the Money Laundering (Prevention and Control) Act 1998-38 which was passed by Parliament in 1998, an Anti-Money-Laundering Authority (the “Authority”) and its operating arm, the Financial Intelligence Unit (the “FIU”), were established during 2000. The Authority supervises financial institutions and monitors suspicious transactions. The FIU was established to carry out the Authority’s anti-money-laundering supervisory function over financial institutions, including the functions of collecting, analysing and disseminating suspicious transaction reports. In addition, a Financial Investigations Unit has been established within the Royal Barbados Police Force to investigate reports referred to it by the Authority.

The Money Laundering (Prevention and Control) (Amendment) Act 2001 introduced new provisions relating to the burden of proving the charge of money laundering and strengthened the information gathering procedure in such cases. This created an anti-money-laundering framework for Barbados, which has also been enhanced by the strengthening of the legislation for the licensing of International Business Companies, Foreign Sales Corporations and Societies with Restricted Liability.

In addition, the Central Bank has been integrally involved in the establishment of the Caribbean Financial Action Task Force (the “CFATF”), which aims to promote awareness in the region of the need to put in place mechanisms to monitor and share information regarding large movements of funds. The CFATF carries out its mandate through the promotion of self assessment by member countries and the conduct of mutual evaluations. Like the approach used by the Financial Action Task Force, these examinations rely on experts in the field of law, finance and law enforcement. The CFATF also hosts semi-annual meetings for senior regional officials and an annual ministerial meeting. Each of the CFATF’s 25-member countries, other than Nicaragua, has been subject to a mutual evaluation and second round examinations have commenced. Barbados should have been subject to a recent medium-term evaluation, but it has been postponed until 2006 due to concerns about the methodology to be used.

Non-bank credit unions and insurance companies are regulated under different regimes, with the regulator of non-bank credit unions being the Registrar of Cooperatives and the regulator of insurance companies being the

Supervisor of Insurance. However, the Central Bank has carried out joint inspections of credit unions. A proposal for a single regulator for the financial sector has not been accepted by the Government.

### **Banking and Financial Institutions**

Barbados believes that it has a relatively well-developed financial system made up of banks and non-bank financial intermediaries. At the end of 2005, there were six commercial banks and several non-bank financial intermediaries, including finance companies, trust companies, insurance companies, a mortgage company (the Barbados Mortgage Finance Company), mutual funds and a number of credit unions. In addition, the Barbados Agency for Micro Enterprise Development Ltd. and Enterprise Growth Fund Ltd. provide, respectively, inexpensive financing for micro-enterprises and venture capital.

Commercial banking in Barbados is now conducted exclusively by branches of international and regional commercial banks. At December 31, 2005, three foreign banks operated in Barbados: Bank of Nova Scotia, The Royal Bank of Canada and the Bank of Butterfield. The Bank of Butterfield, with its head office in Bermuda, bought the assets of the locally owned Mutual Bank in 2003. In addition, banking services are provided by FirstCaribbean International Bank (the result of a merger between Barclays Bank plc and the Canadian Imperial Bank of Commerce in 2002), Barbados National Bank (which was bought by Republic Bank Ltd. of Trinidad & Tobago in 2003) and RBTT Bank (also from Trinidad & Tobago), which entered the market in 2004. These commercial banks manage a network of branches on the island and provide loans to all sectors of the economy. At December 31, 2005, total assets of the commercial banks were US\$4.1 billion. In 2005, commercial banks accounted for approximately 84.6% of deposits and 65.4% of loans to the non-financial private-sector.

Unlike commercial banks, the activities of non-bank financial intermediaries tend to be highly specialised. The Barbados Mortgage Finance Company is a Government-owned mortgage company that specialises in financing resident-owned low- to middle-income homes. Trust and finance companies attract medium-term deposits for financing commercial and residential mortgages. They also perform a variety of trust activities. Credit unions provide loans to their members, while insurance companies invest a portion of their funds in commercial loans and residential mortgages.

The following table sets out the distribution of credit to the private sector by financial institutions for the years indicated:

**Table 13**

#### **Credit to the Private-Sector by Financial Institutions**

	<b>Year ended December 31,</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	(in millions of U.S. Dollars)				
Commercial Banks .....	\$1,256.2	\$1,299.6	\$1,311.3	\$1,530.9	\$1,895.9
Insurance Companies.....	172.3	174.1	174.9	180.5	173.7
Trust and Finance Companies .....	308.8	302.7	308.0	331.5	369.9
Credit Unions.....	174.5	186.3	228.9	285.9	345.8
Other .....	74.0	82.2	88.2	99.4	114.0
<b>Total.....</b>	<b>\$1,985.8</b>	<b>\$2,044.9</b>	<b>\$2,111.3</b>	<b>\$2,428.2</b>	<b>\$2,899.3</b>

*Source: Central Bank of Barbados*

The following table sets out the distribution of domestic deposits at financial institutions for the years indicated:

**Table 14**

**Domestic Deposits at Financial Institutions**

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars)				
Commercial Banks .....	\$1,935.5	\$2,185.6	\$2,388.0	\$2,709.3	\$2,894.8
Credit Unions.....	56.6	69.1	79.3	97.4	74.2
Trust and Finance Companies .....	317.0	338.9	317.3	340.9	451.2
Total.....	<u>\$2,309.0</u>	<u>\$2,593.5</u>	<u>\$2,784.6</u>	<u>\$3,147.6</u>	<u>\$3,420.2</u>
Memorandum:					
Currency in Circulation (with the public).....	\$156.2	\$168.7	\$164.5	\$199.4	\$224.3

*Source: Central Bank of Barbados*

**Liquidity and Interest Rates**

In the early 1990s, the Central Bank engaged in a process of gradual liberalisation of monetary policy, including a progressive loosening of exchange controls and a dismantling of its regime of sectoral credit controls. The cash and securities reserve requirements were lowered and the only interest rates which the Central Bank now sets are the discount rate and the minimum deposit rate, both of which have been rising during the last year.

Liquidity in the banking system has been falling during the last three years. This resulted from very strong demand for credit, mostly for consumer items, and weak foreign exchange inflows, which depressed domestic deposits. In an effort to reduce the demand for credit, the Central Bank embarked on a policy of monetary tightening early in 2005. The minimum deposit rate, which is the benchmark interest rate, was increased by 0.5% to 2.75% in April 2005 and by 1.0% to 3.75% in June 2005. When loan demand showed no sign of abating, the minimum deposit rate was raised by 0.5% to 4.25% in September 2005 and again in November 2005 by 0.5% to 4.75%, the highest level since November 1999. The discount rate was also increased from 7.5% to 10.0% in July 2005 and to 12.0% in March 2006. In light of the tightening of liquidity, the market-determined treasury bill rate on September 30, 2006 fell from 6.26% at December 31, 2005, but rose from 2.76% at December 31, 2004. Despite the increase in loan rates, the demand for credit remained strong as many borrowers had already made commitments.

Central Bank monetary policy during 2005 was also influenced by the trend in interest rates abroad, particularly in the United States. Research has shown that when interest rates in Barbados are lower than U.S. interest rates, there is a tendency for capital to flow out in response to the higher returns abroad.

The following table sets out selected interest rates for commercial banks for the years indicated:

**Table 15****Interest Rates**

	<b>As of December 31,</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	(percentage per annum)				
Deposits					
Minimum deposit rate.....	3.0	2.5	2.5	2.25	4.75
Weighted deposit rate .....	3.1	2.6	2.6	2.5	4.1
Loans					
Prime.....	7.3-8.8	6.8-8.5	6.8-8.5	6.5-8.0	9.2-10.3
Average lending.....	11.1	10.4	10.2	9.8	10.6
Treasury bill.....	2.0	1.5	0.6	2.8	6.3
Central Bank discount.....	7.5	7.5	7.5	7.5	10.0

*Source: Central Bank of Barbados*

**Capital Markets**

Barbados has a small but growing capital market. Government short- and medium-term debt instruments represent the principal instruments available to investors. See “Public Debt — Domestic Debt.” Most of the activity in these instruments takes place on the primary market, but commercial banks are able to manage their liquidity through trades with the Central Bank.

The Securities Exchange of Barbados (“SEB”) was reincorporated and renamed the Barbados Stock Exchange (“BSE”) Inc. in 1987. This was a necessary step to facilitate the establishment of the Securities Commission which was established by the Securities Act 2001-13. The Securities Act 2001-13 repealed the Securities Exchange Act, making the Securities Commission the regulator for capital markets in Barbados. Prior to the Securities Act, the SEB as a Self Regulatory Organization was the regulator of the capital markets including mutual funds, which are now regulated by the Securities Commission.

To date, there are 26 companies listed on the BSE with capitalization at the end of June 2006 reaching approximately US\$11 billion. At the end of 2005, there were 26 listed companies and capitalization amounting to US\$11.4 billion. The BSE has six regional companies which have cross-listed, four Trinidadian companies and two Jamaican companies. At July 19, 2006, local companies accounted for approximately 50% of overall market capitalization.

The Government has provided a number of incentives through the Income Tax Act and the Property Transfer Tax Act to provide for tax benefits to individual investors. These incentives are provided to individual investors who purchase shares during an initial public offering or those who invest in mutual funds up to a maximum of US\$5,000 in any one year. In addition, shares traded on the Barbados Stock Exchange Inc. are not subject to Property Transfer Tax. At April 2006, there were 14 mutual funds with total net assets of US\$325,588,469.

On July 4, 2001, the BSE switched from the manual, open outcry auction method of trading to electronic trading using the order routing method. The Barbados Central Securities Depository Inc. (“BCSDI”), a subsidiary of the BSE, facilitates computerized clearance and settlement. The other exchanges in the region – Jamaica, Trinidad & Tobago and the Eastern Caribbean Securities Exchange – also conduct electronic trading with the associated depository system to facilitate clearance and settlement to G-30 standards.

During the past two years, a number of developments have taken place in the regional capital markets. In 2004, the Jamaica Stock Exchange, the Trinidad & Tobago Stock Exchange and the Barbados Stock Exchange signed a Memorandum of Understanding, the objective of which is the development of an integrated system for the

operation of these three exchanges, and that such integrated system would be the common platform for trading and the settlement of transactions on the exchanges to the benefit of them and the securities market. This is the first step towards the development of a Regional Stock Exchange, and such a regional body can lend support to the Caricom Single Market and Economy.

In October 2004, CariCRIS, the Caribbean's regional credit rating agency, was established in Port of Spain and Trinidad & Tobago. The CariCRIS initiative was widely supported by developmental and financial institutions from across the Caribbean, driven by the realization that a local credit rating agency in the region will facilitate the development of the Caribbean capital markets. CariCRIS released its first credit rating in April 2005. The rating agency was launched in Barbados in June 2005.

## THE EXTERNAL ECONOMY

### Overview

In 2005, Barbados narrowed its deficit position in its balance-of-payments with an estimated deficit of US\$67.8 million, or 2.2% of nominal GDP, compared with a deficit of US \$170.3 million in 2004 and surpluses of US\$187.9 million in 2003 and US\$88.6 million in 2002. In 2004, the unusually large current account deficit was 6.1% of nominal GDP, although net international reserves for the monetary authorities expanded during 2005 by US\$24.0 million. At December 31, 2005, the liquid international reserves stood at US\$626.7 million, corresponding to an import reserve cover equivalent to 22.4 weeks of merchandise imports. This compares with US\$596.7 million and 23.7 weeks, respectively, at the end of 2004, and \$752.5 million and 35.2 weeks, respectively, at the end of 2003. Despite continued strong import growth, with the benefit of strong private and moderate public capital flows, and good export sector returns, especially in the services sectors, there were balance-of-payments surpluses for four out of the preceding five years. For the nine-month period ended September 30, 2006, the balance-of-payment surplus was estimated at US\$35.7 million, US\$187.6 million higher than that recorded for the same period in 2005. The liquid international reserves at September 30, 2006 were US\$620.2 million. In 2005, there was a weaker export performance and lower capital inflows over the period, which helped drive the balance-of-payments position to a deficit of US\$152.1 million at the end of the third quarter.

The table below summarises Barbados' balance-of-payments position for the years indicated:

**Table 16**

	Balance-of-payments				
	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars)				
Current account .....	\$(110.6)	\$(167.7)	\$(169.0)	\$(350.1)	\$(385.0)
Merchandise trade balance.....	(681.1)	(702.0)	(801.4)	(971.0)	(1,085.5)
Exports <sup>(1)</sup> .....	271.2	253.0	264.2	293.1	378.6
Imports <sup>(1)</sup> .....	952.2	955.0	1,065.6	1,264.0	1,464.1
Services (net) .....	570.0	549.9	646.6	659.6	777.6
Tourism .....	596.4	558.9	653.4	667.7	801.1
Other.....	98.9	113.1	124.9	155.6	166.7
Investment income (net) .....	(93.4)	(101.8)	(107.0)	(126.9)	(172.0)
Transfers (net).....	93.9	86.3	92.9	88.2	94.9
Capital account .....	290.0	231.0	322.2	175.3	292.6
Long-term capital.....	284.8	79.1	242.1	(69.3)	303.5
Public-sector .....	151.9	(14.7)	87.6	(62.6)	63.7
Private-sector.....	132.9	93.8	154.5	(6.7)	239.8
Short-term capital .....	(5.3)	71.2	84.2	176.8	41.4
Other short-term capital.....	(19.1)	32.1	35.8	10.1	(34.7)
Errors and omissions .....	47.2	25.4	34.8	4.6	24.7
Balance for official financing .....	226.6	88.6	187.9	(170.3)	(67.8)
Change in reserves (increases).....	(226.6)	(88.6)	(187.9)	170.3	67.8

<sup>(1)</sup> Exports and imports are FOB and CIF, respectively, but have been adjusted for balance-of-payments presentation.

<sup>(2)</sup> Central Bank estimates.

Source: Central Bank of Barbados and Barbados Statistical Service

The current account position of Barbados is heavily dependent on earnings from services, particularly tourism. In 2005 and the first nine months of 2006, the current account deficit widened as the rise in global oil prices, along with the construction activity required to improve the hotel plant, together with new and improved ancillary services, which necessitated increased imports. Extensive infrastructural enhancements on the part of the Government and the private-sector in the lead up to the hosting of the Cricket World Cup 2007 have led to increased imports of capital and intermediate goods. There have also been large-scale redevelopments of the airport and roads, as well as a number of hotels and other tourism-related establishments. The Government expects continued strong levels of private-sector activity in the refurbishment of hotels, and the development of new tourism-related investments.

The current account deficit is expected to narrow as the refurbished hotels return to operation and new ones are completed, thus permitting a reduction in imports and an inflow of tourism related income. See "Economy — Principal Sectors of the Economy — Tourism." The Government is also seeking to deepen the penetration of the international business and financial services sector into the economy with a view to providing additional foreign exchange earnings and helping to diversify the earnings base through a mix of institutional enhancements and incentives. See "Economy — Principal Sectors of the Economy — Business and Other Services."

Barbados is not a significant merchandise exporter and has historically maintained large merchandise trade deficits. At December 31, 2005, the merchandise trade deficit was US\$1,085.6 million, representing an increase of 11.8% and 21.2% from 2004 and 2003, respectively, caused mainly by rising imports. Retained imports, which have been rising as a result of the increase in economic activity, continuing high oil prices and infrastructural capacity enhancements, grew by 11.3% in 2005, compared to increases of 17.8% and 11.5% in 2004 and 2003, respectively. The retained import ratio in 2005 was 47.5% of nominal GDP, compared to 46.5% in 2004 and 41.2% in 2003. The growth of imports in recent years has been associated with rising investment levels, which have been largely financed by both long-term public and private-sector capital flows. Since 1995, capital imports have more than doubled. In 2006, for the period ending in September 30, retained imports declined by approximately 6.5% when compared to the same period in 2005, as monetary measures implemented to curb consumer spending began to have an effect. The decline is the first over the nine-month period since 2002, largely on account of the decline in consumer imports, which is the largest category, by 9.2%. Imports of intermediate goods, of which a large portion is comprised of oil imports, remained unchanged following last year's 18.2% increase and the declining price of oil on the international market began to filter through. Capital goods imports remained steady, while in light of the monetary measures implemented to curb consumer spending, consumer goods imports declined marginally.

In 2005, the factors that led to the strong import growth were most notably the surge in oil prices and higher disposable incomes continued to be key factors. Consumer imports increased by 16.4% and intermediate imports rose by 12.0%. In 2003, when the push towards increased large-scale infrastructural development and rising energy costs started, intermediate imports registered growth at 14.0%, compared to a 3.1% growth rate in 2002 and at an average of 4.8% five years prior. Consumer imports were affected by strong increases in motor vehicle and food imports and rose by 14.1% in 2004, compared to 8.1% in 2003.

One of Barbados' main merchandise exports is sugar, whose contribution to exports as a key foreign exchange earner has been declining over the years, accounting for 10.6% of merchandise exports in 2005, compared to 12.9% and 12.4% in 2004 and 2003, respectively. Most sugar earnings are obtained through the Sugar Protocol, which sets a guaranteed price that is currently fixed at 523.7 Euros (equivalent to US\$654.5 on July 18, 2006) per metric tonne, compared to a spot price on the New York Board of Trade of approximately US\$334.0 on July 17, 2006. The Sugar Protocol is independent of Lomé IV, which expired on February 29, 2000, and it does not have a scheduled expiration date under the agreement. The Sugar Protocol may be terminated by the European Community with respect to each ACP state (and vice versa) by the giving of two years' notice. The Cotonou Agreement, the successor to Lomé IV, was signed in June 2000. Since then, the European Council has decided to eliminate quotas and duties on all products except arms ("Everything But Arms") from the world's 48 least-developed countries. Duties on sugar will be eliminated by July 2007.

Following the decision by the WTO that deemed the preferential agreements between the Africa, Caribbean and Pacific group (ACP) and the European Union (EU) illegal according to WTO rules, the EU recommended legislative reform to correct this construction. It has proposed that the EU will, over a four-year period, reduce the guaranteed price under the agreement by 39%, such that by 2008 the guaranteed price would fall to 421 Euros per

tonne. Barbados in this regard has taken steps to diversify its industry, exploring other ways of utilising sugarcane output through exploration of the potential for energy output and other refined products.

Non-sugar-related merchandise exports fell by 7.7% between 2000 and 2004, despite a strong performance in the rum subsector, largely as a result of the installation of a new plant by a provider. Exports of chemicals remained stable, while exports of food and beverages in the intervening period have fluctuated. The electrical component category declined sharply by approximately one-third following the closure of an electrical components factory. However, in 2005, on the back of strong broad-based increases, especially in chemicals, other food and beverages and all other imports, the past trend witnessed a turnaround. Rum exports also exhibited moderate growth, while the electrical components subsector stabilised following sharp decreases during 2000 and 2003.

The following table sets out Barbados' merchandise exports and imports for the five years ended December 31, 2005:

**Table 17**

**Trade: Exports and Imports**

	<b>Year ended December 31,</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	(in millions of U.S. Dollars)				
Total domestic exports (FOB basis) .....	\$176.3	\$166.5	\$164.7	\$173.4	\$210.5
Sugar .....	22.0	18.8	20.5	22.4	22.2
Rum .....	18.0	17.8	16.8	22.3	25.4
Electrical components .....	18.3	14.1	13.5	14.3	14.3
Chemicals .....	21.7	21.1	21.0	21.2	28.1
Other food and beverages .....	31.7	30.2	22.4	23.7	29.9
All other .....	64.5	64.6	70.5	69.5	90.7
Total retained imports (CIF basis) .....	\$985.6	\$995.8	\$1,110.2	\$1,308.1	\$1,455.5
Consumer goods .....	421.3	423.5	457.7	522.4	608.2
Capital goods .....	205.8	202.3	231.1	292.6	294.3
Intermediate goods .....	355.1	366.3	417.6	488.5	547.1
Miscellaneous .....	3.4	3.7	3.8	4.6	6.0

*Source: Barbados Statistical Service*

The following tables show the direction of trade for the five years ended December 31, 2005:

**Table 18**

**Exports (FOB) by Destination<sup>(1,2)</sup>**

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars)				
USA .....	\$36.8	\$31.6	\$33.6	\$40.6	\$45.9
Canada .....	7.1	4.5	3.9	5.2	6.5
European Union.....	40.2	37.1	36.3	38.9	42.7
of which UK .....	30.3	25.7	27.5	30.2	31.4
CARICOM .....	102.9	99.4	97.1	101.5	135.8
Other countries .....	72.3	68.9	78.9	92.0	128.6
Total.....	<u>\$259.3</u>	<u>\$241.5</u>	<u>\$249.8</u>	<u>\$278.2</u>	<u>\$359.4</u>

<sup>(1)</sup> Includes goods imported for re-export.

<sup>(2)</sup> The numbers presented here differ from Table 16 because Table 16 figures are adjusted for balance-of-payments presentation.

Source: Barbados Statistical Service.

**Table 19**

**Imports (CIF) by Origin<sup>(1,2)</sup>**

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars)				
USA .....	\$438.5	\$425.3	\$445.6	\$513.9	\$586.3
Canada .....	40.2	37.4	42.4	53.9	57.3
European Union.....	177.9	173.1	198.9	195.9	210.4
of which UK .....	86.0	78.7	74.5	83.2	88.5
CARICOM .....	209.9	217.5	272.9	336.4	395.7
Other countries .....	202.2	217.5	235.5	313.0	354.8
Total.....	<u>\$1,068.7</u>	<u>\$1,070.8</u>	<u>\$1,195.3</u>	<u>\$1,413.0</u>	<u>\$1,604.4</u>

<sup>(1)</sup> Includes goods imported for re-export.

<sup>(2)</sup> The numbers presented here differ from Table 16 because Table 16 figures are adjusted for balance-of-payments presentation.

Source: Barbados Statistical Service.

In 2005, the United States accounted for 36.5% of goods entering Barbadian ports, compared to 36.4% in the previous year and 37.3% in 2003. In 2005, the largest single share of exports (37.8%) was sold within the CARICOM region, with the United Kingdom and the United States also representing significant export markets. Similarly, in 2004, CARICOM provided the market with the largest share of Barbados' exports, with 36.5% of total exports. Despite maintaining a major portion of Barbados' export market, exports to the region as a percentage of overall exports had declined in 2005, by almost two percentage points since 2001. In addition, in those intervening years, the United States and the United Kingdom remained key trading partners.

Barbados has recorded a surplus on its capital account in each of the past five years. Private-sector capital flows have grown significantly since 1999, largely as a result of capital inflows in connection with the financing for new investments in tourism and related services. In addition, the Government, in an effort to enhance Barbados' capacity, bolstered its reserves through capital market financing. In the last five years, debt amortisation payments

for the most part increased, but the public-sector recorded a surplus in each year, except 2002 and 2004, when the NIS further diversified its portfolio by investing in foreign assets. In 2005, the surplus on the capital account was approximately equivalent of 9.8% of nominal GDP, largely due to public-sector foreign borrowings, and to a strong increase in private flows. In the nine-month period ending September 30, 2006, the current account deficit was estimated at US\$241.5 million, compared to a deficit of US\$249.6 million for the same period in 2005. This was mainly due to a decline in retained imports. Meanwhile, the capital account for 2006 is projected to register a surplus about 33% higher than that registered for the same period in 2005.

## **Trade Policy and Reform**

Barbados provides a number of incentives to exporters, principally through the Fiscal Incentives Act Cap. 71A. These incentives include a tax holiday or period of relief from the payment of income tax on corporate profits, which relief carries through to the distribution of profits to shareholders. Importation of plant, equipment, machinery, spare parts and raw materials for use by exporters is free from customs duty upon completion of certain formalities. In addition, a deduction of an initial allowance is available for capital expenditures incurred after the expiration of the tax holiday period.

Barbados has gradually liberalised its trade policy both independently and in accordance with the agreements of the WTO. The primary aim is to increase the competitiveness of Barbados' exports by opening up domestic production to foreign competition. Importantly, Barbados is the only Caribbean country benefiting from the use of the Special Safeguard Provision, which was instituted in September 2000. This provision under Article 3 of the WTO Agreement on Agriculture protects domestic production and allows the maintenance of a level of food security following the removal of the import licensing system in 2000. The principal trade policy reforms that have been implemented consist of:

- replacement of licences and quotas with temporary tariffs to initially provide an equivalent level of protection. Effective 2000, Barbados began the process of liberalizing the import-licensing regime on a selected number of extra-regional imports. The tariffs were replaced by fixed rates, agreed with the WTO, which rates must be reduced to predetermined levels by 2004. Certain goods will, however, remain subject to licensing for health and safety reasons;
- elimination of import duties on imports for use in the tradeable sector; and
- a phased reduction of the Common External Tariff (the "CET"), the common tariff imposed by CARICOM countries on goods imported from non-CARICOM countries. In April 1998, the CET rate for manufactured goods fell from a maximum of 25% to a maximum of 20%, the rate at which it currently stands.

Barbados, as part of the Caribbean region, is simultaneously engaged in three major trade negotiations, the WTO Doha Round, the Economic Partnership Agreement ("EPA") between CARIFORUM and the European Union and the Free Trade Areas of the Americas, which have been stalled for about 19 months. In addition, CARICOM is prepared to launch negotiations in pursuit of an enhanced trading arrangement with Canada, as well as exploring the possibility of bilateral trade arrangements with MERCOSUR.

As a member of the Africa, Caribbean and Pacific ("ACP") group, Barbados is entering the third phase of negotiations for the implementation of the EPAs. These will define the structure, strategy and scope of an EPA for each region. Preliminary indications are that EPAs should increase market access for current and potential exports of ACP countries even with the phasing-out of tariffs.

The reform of the sugar industry is ongoing following the likely loss of preferential access as a result of the European Commission's plans, unveiled on June 22, 2005, which calls for an overhaul of the Common Market Organization for Sugar. The Commission proposes to cut guaranteed prices for sugar over a period of four years.

The CET imposed by CARICOM countries on goods imported from non-CARICOM countries remains at a maximum of 20%, the same level it was reduced to in April 1998. Under the terms of the CSME, member states of

the Caribbean Community have committed to facilitate the rights of establishment, the provision of services and the movement of capital across the region. This commitment is embodied in Chapter 3 of the amendment to the CARICOM treaty. This protocol has implications for the exchange control regime, as member states are prevented from introducing new restrictions and are also obligated to remove all restrictions within the parameters of a defined programme.

### **Foreign Investment**

The economy of Barbados has been the beneficiary of private foreign investment, particularly in its hotel subsector and ancillary services. See “Principal Sectors of the Economy — Tourism.” All investment by nonresidents must be registered with the Central Bank in order to be entitled to repatriation of capital, capital gains, dividends, profits and interest brought into Barbados. The Central Bank permits the repatriation of the original investment amount, dividends, profits and interest. It also allows the repatriation of capital gains, but retains the right to stagger transfers over a reasonable period of time.

Foreign companies are being targeted for direct investment in Barbados by the Barbados Investment Development Corporation (the “BIDC”), a statutory corporation that promotes exports and foreign investment and business development in Barbados, with particular emphasis on manufacturing and small businesses. The BIDC helps manufacturers find new markets for their products through advertising, seminars, journals and direct mail media; it has representative offices in New York, Miami, Toronto and London and works closely with the Barbadian High Commissions in foreign markets. The BIDC helps promote new products, such as specialty foods (*e.g.*, fresh fruits and vegetables, hot chilli sauces), high-quality garments, reproduction period furniture and local arts and crafts.

In an attempt to further boost Barbados’ foreign-exchange earning capacity, a new agency responsible for the marketing of the international financial services sector was conceptualised and will be in operation by the start of the new financial year. In addition, an Export Promotion and Marketing Fund aimed at supporting export businesses has been established. The fund is to be financed by the imposition of a 6% tax on extra-regional imports over an 18-month period beginning September 1, 2005.

## Net International Reserves and Liquid International Reserves

At the end of 2005, net international reserves were US\$619.2 million, compared to US\$595.2 million in 2004 and US\$751.7 million in 2003. During the first three months of 2006, net international reserves of the Central Bank increased by an estimated US\$24.0 million to US\$643.3 million.

Liquid international reserves were US\$626.7 million at the end of December 31, 2005, compared to US\$596.7 million in 2004 and US\$752.5 million in 2003. This year-end figure, corresponded to an import reserve cover of 22.4 weeks of merchandise imports, compared to 23.7 weeks in 2004 and 35.2 weeks in 2003, respectively. The minimum target of 12 weeks is the best-practice benchmark. During the first nine months of 2006, it is estimated that net international reserves of the monetary authorities decreased by US\$51.9 million to US\$566.7 million, and the import reserve cover decreased to approximately 20 weeks.

The following table sets out the liquid international reserves for the years indicated:

**Table 20**

<b>Liquid International Reserves</b>					
<b>As of December 31</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
(in millions of U.S. Dollars)					
Central Bank.....	\$568.4	\$515.3	\$552.4	\$387.0	\$416.3
Government <sup>(1)</sup> .....	138.5	168.0	199.3	208.2	202.9
CMCF <sup>(2)</sup> .....	(33.0)	(28.6)	(24.2)	(19.8)	(19.8)
Bilateral.....	22.1	28.1	25.0	21.2	27.3
Liquid international reserves.....	<u>\$696.0</u>	<u>\$682.8</u>	<u>\$752.5</u>	<u>\$596.7</u>	<u>\$626.7</u>
Liquid international reserves (in weeks of merchandise imports).....	36.7	35.7	35.2	23.7	22.4

<sup>(1)</sup> Includes foreign securities and foreign assets held by monetary authorities other than the Central Bank.

<sup>(2)</sup> CMCF: CARICOM Multilateral Clearing Facility.

Source: Central Bank of Barbados

The foreign assets of the Central Bank and the Government are invested largely in U.S. Dollars in a range of approved investments and institutions. The U.S. Dollar is the principal currency in which foreign receipts are earned and in which foreign debt is denominated. See "Public Debt — External Debt."

The following table sets out the composition of the net foreign assets of the Barbados banking system for the years indicated:

**Table 21**

**Net Foreign Assets of Banking System**

	As of December 31				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars)				
Monetary authorities.....	\$706.9	\$683.2	\$751.7	\$595.3	\$619.2
Central Bank.....	591.0	536.6	573.6	410.5	440.1
Government <sup>(1)</sup> .....	115.8	146.6	178.1	184.8	179.2
Commercial banks.....	60.0	172.5	291.9	278.1	186.0
Foreign assets.....	333.8	530.2	612.5	633.5	733.7
Foreign liabilities <sup>(2)</sup> .....	(273.8)	(357.8)	(320.5)	(355.5)	(547.7)
Total banking system (net).....	<u>\$766.8</u>	<u>\$855.6</u>	<u>\$1,043.6</u>	<u>\$873.4</u>	<u>\$805.2</u>

<sup>(1)</sup> Excludes foreign securities.

<sup>(2)</sup> Includes only short-term liabilities held by the commercial banks.

Source: Central Bank of Barbados

**Exchange Rates**

Since 1975, the Barbados Dollar has been fixed at an exchange rate to the U.S. Dollar of BDS\$2.00 to US\$1.00. This fixed exchange rate was originally adopted on the grounds that Barbados conducted the majority of its trade with the United States and the Pound Sterling was continuing to weaken. Government policy has been, and remains, to defend the exchange rate and to resist pressure to devalue. The principal concern of the Government is that a devaluation would not be maintained over time, but would be eroded by strong inflationary pressures. While competition exists from other Caribbean countries that have devalued and accordingly, are able to sell some of their products more cheaply, the Government believes that the fixed exchange rate regime imposes important disciplines upon fiscal policy and that devaluation would have the combined disadvantages of relaxing pressure on Barbadian businesses to improve productivity and discouraging inward investment. No parallel exchange rate exists.

**Exchange Controls**

Movements of capital out of Barbados beyond approved limits must be approved by the Exchange Control Authority of the Central Bank. Commercial banks are authorised to sell foreign currency for current account transactions without reference to the Central Bank up to certain limits, depending on the type of transaction. During 1997, the Central Bank started a gradual process of liberalisation by increasing the limits on transactions delegated to commercial banks and removing limits for other transactions. Barbados has acceded to Article VIII of the IMF's Articles of Agreement, stipulating that it does not impose restrictions on current account transactions.

To date, the Central Bank has delegated full authority to commercial banks in respect of all current transactions with CARICOM except for a few transactions which it was considered prudent to continue to monitor closely. In respect of the capital account, only real estate purchases by Barbadian residents, sale of real estate to CARICOM residents, as well as lending and borrowing in CARICOM, need Central Bank approval. With respect to the rest of the world, approval is still required for several current and capital transactions over certain limits.

## **PUBLIC FINANCE**

### **Overview**

The Government's budget process is established in the Constitution, and the Financial Administration and Audit Act Cap. 5 provides the financial rules and guidelines for the administration of public-sector entities. The process involves the participation and coordination of all Government ministries and agencies. The Ministry of Finance prepares the Draft Estimates of Revenue and Expenditures (the "Estimates"), which constitute the budget of the Government, and is responsible for presenting it to the House of Assembly in March each year. Both Houses of Parliament must approve the Estimates before the end of that month as the fiscal year runs from April 1 to the following March 31. The Estimates of revenue are based on existing tax rates and projections of nontax revenue by the Ministries. If the Minister of Finance wishes to alter the rate of taxes, or to make strategic adjustments to the level of expenditure, it has been the practice to announce these changes in a Financial Statement and Budgetary Proposal (now known as the Financial Statement: Economic and Financial Policies of Government) (the "Financial Statement"). This has traditionally taken place between April and June of each year, but there is no statutory obligation to present a Financial Statement. Following the introduction of VAT in 1997, the publication of a Financial Statement has taken place between August and December of each of the years beginning in 1998. The Financial Statement must be approved by the Cabinet and Parliament.

The budget estimates for state-owned enterprises are approved initially by their respective Boards of Directors. These are then forwarded for input from the relevant Ministry for each enterprise. Should the state-owned enterprise require supporting funds from the Government, a request is included in the Ministry's own request to the Ministry of Finance for an additional budgetary allocation, and thus the budgetary process of state-owned enterprises merges with that of the Government through Parliamentary approval. Changes to the annual approved state-owned enterprise allocation generally require the approval of the Cabinet and Parliament. For a description of the principal state-owned enterprises, see "Economy — State-Owned Enterprises."

Revenues and expenditures of the Government do not incorporate the full revenues and expenditures of state-owned enterprises. The Government's accounts capture only its current and capital transfers to specified state-owned enterprises. Dividends from state-owned enterprises, if any, are recorded as nontax revenue.

The Estimates constitute the published public-sector fiscal accounts. These accounts exclude both revenues and expenditures of state-owned financial institutions, namely CRL Ltd., Enterprise Growth Fund Ltd. and the Barbados Agency for Micro Enterprise Development Ltd. These institutions have separate budgetary processes.

The Accountant General's functions include maintaining certain accounts held by the Treasury, as well as reporting to Parliament on those accounts and on Government funds, such as the Consolidated Fund. See "Public Debt — Overview."

### **Fiscal Policy**

Prior to 2001, and as part of its overall macroeconomic strategy, the Government sought to keep its fiscal deficit under 2.5% of nominal GDP. From FY 1991-1992 until FY 2000-2001, the Government maintained the deficit below this level, other than in FY 1996-1997. For the five fiscal years from FY 2001-2002 to FY 2005-2006, the annual fiscal deficit averaged approximately 3.5% of nominal GDP. For the preceding five fiscal years from FY 1996-1997 to FY 2000-2001, the annual fiscal deficit had averaged 1.7% of nominal GDP.

This surge in the deficit in FY 2001-2002 and FY 2002-2003 resulted from increased Government spending – both current and capital – in the wake of economic recession and the implementation of policies to mitigate against the effects of the events of September 11. Following the Government's emergency package, in an attempt to revert the fiscal deficit to trend, the Government continuously reduced and revised discretionary expenditure (non-wage recurrent expenditure), including capital expenditure in respect of certain projects which had not yet commenced over the short-term.

Following an economic recovery and increased revenue growth, the fiscal deficit for FY 2003-2004, FY 2004-2005, and FY 2005-2006 fell back to 2.3%, 2.6% and 2.9% of nominal GDP, respectively. The fiscal performance during recent years has been based on stable current account surpluses (current revenues less current expenditures) and a manageable capital works programme. The average current account surplus for the last five years was 2.8% of nominal GDP. The Government has gradually rebuilt its capital works programme from the low level at the beginning of the last decade. However, during FY 2003-2004 and part of FY 2004-2005, the Government reduced its capital expenditure to prevent overheating of the economy and reduce the burden on the foreign reserves.

For the fiscal year ended March 31, 2006, the Government recorded a fiscal deficit of approximately US\$45.3 million, slightly lower than the size of the deficit for the same period of FY 2004-2005. This was due largely to stronger revenue collections. Revenue growth was higher as a result of a more robust increase in both direct and indirect taxes. Based on the outturn, the fiscal programme for FY 2005-2006, which had projected a fiscal deficit of 3.5% of nominal GDP, was revised to produce a fiscal deficit of 2.9% of nominal GDP at factor cost.

### **Revenues and Expenditures**

The revenues of the Government are derived from a mix of direct and indirect taxes, including payroll levies and taxes on incomes and profits, property, goods and services and imports. On January 1, 1997, as part of its reform of the indirect tax system, VAT was introduced. VAT replaced consumption taxes, certain stamp duties and nine other taxes on goods and services. In addition, in 1996, an environmental levy was introduced on certain imported goods. Finally, a number of miscellaneous fees form the category of nontax revenue.

Recurring expenditures include wages and salaries, goods and services, debt service costs (domestic and foreign) and current transfers. Capital expenditures include acquisitions of property, capital formation and capital transfers.

The Government is considering a proposal to move from cash-basis accounting to performance budgeting. Performance budgeting is a budgeting system that focuses primarily on results to be achieved with allocated financial resources. If accepted, the Government would implement performance budgeting in 2007.

The following table sets out Government revenues and expenditures by economic classification for the fiscal years indicated:

**Table 22**

**Government Revenues and Expenditures**

	<b>Fiscal Year ended March 31,</b>					<b>2006-07</b>
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Estimates</b>
	(in millions of U.S. Dollars, except percentages)					
<b>Current Revenue</b>						
Tax revenue .....	\$806.0	\$810.2	\$887.7	\$910.1	\$1,021.1	\$1,035.6
Income and profit .....	292.7	309.1	305.9	318.3	360.9	297.2
Levies .....	8.4	8.9	0.0	0.0	0.0	0.0
Property .....	51.2	47.9	53.0	56.4	63.7	66.6
Goods and services .....	373.3	358.3	424.0	429.4	490.3	510.8
Import duties .....	73.2	80.1	97.0	96.5	90.2	113.2
Stamp duties .....	7.2	6.0	7.8	9.4	10.5	10.8
Nontax revenue .....	55.8	47.6	45.6	40.8	51.3	40.9
Loans and advances .....	0.2	0.0	0.0	0.0	0.0	0.9
Total current revenue .....	<u>\$862.0</u>	<u>\$857.8</u>	<u>\$933.3</u>	<u>\$950.9</u>	<u>\$1,072.4</u>	<u>\$1,077.4</u>
<b>Expenditures</b>						
Current expenditure .....	\$791.0	\$835.7	\$872.7	\$911.2	\$990.5	\$1,021.5
Wages and salaries .....	323.2	341.8	305.6	322.8	343.8	357.9
Goods and services .....	96.4	99.3	93.6	100.4	107.9	129.6
Interest .....	126.5	134.4	137.9	131.7	148.4	171.1
External .....	44.8	52.4	55.6	51.7	52.9	66.1
Domestic .....	81.7	82.0	82.4	79.9	95.5	105.0
Current transfers .....	245.1	260.3	335.6	356.4	390.6	363.0
Capital expenditure and lending .....	173.2	162.6	123.2	112.8	127.2	151.9
Acquisitions .....	5.8	3.0	3.3	11.0	3.4	5.1
Capital formation .....	125.3	122.1	89.2	73.0	86.2	105.4
Capital transfers .....	34.8	32.2	27.2	27.6	32.5	40.2
Equity Contribution .....	1.2	3.0	2.6	0.2	4.2	0.0
Lending .....	6.2	2.3	1.0	1.1	1.1	1.3
Total expenditure .....	<u>\$964.2</u>	<u>\$998.3</u>	<u>\$995.9</u>	<u>\$1,024.1</u>	<u>\$1,117.7</u>	<u>\$1,173.4</u>
Fiscal balance .....	(102.3)	(140.5)	(62.6)	(73.2)	(45.3)	(96.0)
Fiscal balance (as % of GDP) .....	(4.0)	(5.6)	(2.3)	(2.6)	(2.9)	(2.7)
Memorandum item: Amortisation .....	82.4	85.3	121.2	129.8	101.1	170.1
External .....	24.6	32.2	37.4	37.8	42.0	56.2
Domestic .....	57.8	53.1	83.8	92.0	59.1	113.9
Loan receipts .....	184.7	225.8	183.8	201.9	225.3	129.3

<sup>(1)</sup> Central Bank of Barbados.

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

The following table sets out the percent change of Government revenues and expenditures by economic classification from year-to-year for the fiscal years indicated:

**Table 23**

**Government Revenues and Expenditures**

	<b>Fiscal Year ended March 31,</b>					<b>2006-07</b>
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>Estimates</b>
<b>Current Revenue</b>	(expressed as a percent change from the previous fiscal year)					
Tax revenue .....	1.0%	0.5%	9.6%	2.5%	12.2%	1.4%
Income and profit.....	(2.3)	5.6	(1.0)	4.1	13.4	(17.7)
Levies.....	14.6	6.5	(100.0)	0.0	0.0	0.0
Property.....	7.6	(6.6)	10.7	6.5	21.8	(3.1)
Goods and services.....	(0.9)	(4.0)	18.3	1.3	14.2	4.2
Import duties .....	21.3	9.5	21.2	(0.5)	(6.5)	25.5
Stamp duties.....	10.1	(17.1)	30.5	20.6	16.5	(1.7)
Nontax revenue.....	(6.8)	(14.7)	(4.2)	(10.6)	25.7	(20.2)
Loans and advances.....	(79.6)	(100.0)	0.0	0.0	0.0	100.0
Total current revenue.....	<u>0.4%</u>	<u>(0.5%)</u>	<u>8.8%</u>	<u>1.9%</u>	<u>12.8%</u>	<u>0.6%</u>
<b>Expenditures</b>						
Current expenditure .....	4.5	5.6	4.4	4.6	8.5	3.1
Wages and salaries.....	0.9	5.8	(10.6)	5.6	6.5	4.1
Goods and services.....	9.3	3.0	(5.7)	7.3	7.4	20.2
Interest .....	12.0	6.3	2.6	(4.5)	12.6	15.3
Current transfers.....	4.0	6.2	28.9	6.8	9.0	(7.1)
Capital expenditure and lending .....	14.3	(6.2)	(24.2)	(9.3)	13.8	19.4
Acquisitions .....	12.6	(48.3)	10.0	233.3	(69.5)	52.2
Capital formation .....	12.1	(2.6)	(27.0)	(18.1)	18.1	22.3
Capital transfers .....	30.8	(7.5)	(15.7)	1.5	17.8	23.7
Equity contribution	(33.3)	150.0	(11.7)	(94.3)	n.m.	(100.0)
Lending .....	(1.6)	(63.4)	(57.8)	(89.5)	n.m.	19.0
Total expenditures .....	<u>6.1%</u>	<u>3.5%</u>	<u>(0.2)%</u>	<u>2.9%</u>	<u>9.0%</u>	<u>5.0%</u>

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

n.m. = not meaningful

**Revenues**

Revenues grew at an average of 4.7% per annum for the five-year period ending FY 2005-2006. Driven primarily by indirect tax receipts, FY 2003-2004 and 2005-2006 proved the exceptional years of the five-year span, as total revenue surged by 8.8% and 12.9%, respectively, over the previous years. Despite a deliberate policy by the Government to lower the direct-tax burden, direct taxes grew in FY 2005-2006 by 12.2%. (See "Taxation Revenue"). A growing economy, rising profits, especially in the international business and financial services sector and a steadily declining unemployment rate have been the main proponents of this improvement in government tax revenue.

*Taxation Revenue*

Barbados' tax legislation is enacted by Parliament. The legislative process begins with the budgetary procedures described under "Public Finance." Direct taxes are levied on incomes, corporations and property. Most goods and services are subject to VAT (described below), while selected goods and services are subject to

subsidiary duties and fees associated with the utilisation of goods and services and, in some cases, to excise duties. Imported goods are subject to import taxes, with imports originating from a non-CARICOM country being subject to the Common External Tariff. Other principal taxes and revenues include land tax, property transfer tax and certain taxes on insurance premiums on life assurance companies' invested income and on bank assets. There are no capital gains or inheritance taxes in Barbados.

Residents of Barbados are generally subject to tax on worldwide income, and nonresidents are liable for Barbadian tax only on income derived from Barbados. Companies and other corporate bodies that reside in Barbados are subject to corporation tax, with nonresident companies only being taxable to the extent that they carry on a business in Barbados through a branch or agency and in respect of income directly or indirectly attributable to that branch or agency.

The Government in FY 2002-2003 implemented a continuous programme to reduce direct taxes. The basic allowance was increased to US\$8,750 and is scheduled to end at US\$12,500 in 2006. In 2004, the tax rate was reduced from 22.5% to 20% on the first US\$12,000 of taxable income. Further, the tax rate on taxable income in excess of US\$12,100 will be reduced to 35% in 2006, down from 40% in 2004.

Beginning in the income year 2005, the basic rate of tax for Barbadian corporations is 30%, having been systematically reduced from 40% in 2001, but there are special low rates of between 3% and 5% applicable to insurance companies. The rate of corporate tax on profits was reduced by 2.5% in income year 2002 and the Government plans to ultimately reduce the rates to 25% by this income year. The tax rate on profits of a branch of a nonresident corporation is 30% and a further deduction of 10% is payable from profits remitted or deemed to be remitted by an office, branch or agency of a nonresident company engaged in trade or business in Barbados. Income from Barbados Government securities except savings bonds is taxed at 12.5%. There are withholding taxes on income paid to nonresidents predominantly at the rate of 15%, although interest payable on the Notes to nonresident beneficial owners of the Notes will not be subject to any withholding tax. See "Taxation — Barbados Tax Considerations." Special tax incentives exist to encourage the international business and financial services sector. For example, foreign sales corporations, exempt insurance companies and exempt insurance management companies pay no tax, and companies qualifying as international business companies pay tax at a rate of 2.5%, which is reduced in certain circumstances to 1%. See "Economy — Principal Sectors of the Economy — Business and Other Services." An additional incentive is available to companies in the international business services subsector that require the services of a specially qualified person not available in Barbados. In such circumstances, the Minister of Finance is empowered to grant a special tax concession that allows up to 35% of that individual's salary or fees to be exempt from income tax in Barbados.

In January 1997, Barbados reformed its indirect tax system by replacing consumption taxes, certain stamp duties and nine other taxes with a VAT on goods and services. In addition, the Government introduced new excise duties on alcoholic beverages, tobacco products, motor vehicles and petroleum products. VAT was intended to be revenue-neutral as it replaced, rather than supplemented, existing taxes. However, VAT revenue receipts were stronger than anticipated, due in part, the Government believes, to an underestimation of the level of domestic economic activity, particularly in the services sector, and to increased efficiency in the tax collection process as a result of the reduced number of taxes. The VAT system allows zero-rating on all inputs for the export sector, including taxes paid on domestically supplied inputs. In October 1997, the Government also introduced zero-rating for a basket of food items. The standard rate of VAT applied is 15% with the exception of hotel accommodations, which are taxed at 7.5%.

## **Expenditures**

Following a peak in capital expenditure and net lending during FY 2000-2001 to FY 2003-2004, averaging US\$152.7 million, capital and net lending costs fell to US\$113.1 million in FY 2004-2005. Fiscal Years 2000-2004 coincided with the South Coast Sewage Project, with the construction of a solid waste plant and related infrastructure, as well as the redevelopment of the Grantley Adams Airport and EduTech 2000. In FY 2005-2006, with the pickup in the preparations for the Cricket World Cup in 2007, capital expenditure rose to US\$126.6 million. The Government's capital expenditure programme, however, remains vigorous in light of the hosting of the Cricket World Cup in 2007. Capital expenditure for the 2006-2007 year is expected to be higher than the previous year, but with the Government increasingly utilising partnership agreements between the public and private sectors to fund

large complex projects capital expenditures are expected to decrease in the medium- to long-term. However, Government's capital expenditure programme remains vigorous in light of the hosting of the Cricket World Cup in 2007.

Current expenditure grew at an average of 5.4% per annum during the five fiscal years ending March 31, 2006. During FY 2004-2005, current expenditure growth was 4.4%, principally as a result of a broad-based increase in transfers, wages and salaries, and goods and services. Similarly, for FY 2005-2006, there were increases in almost every category. Wages and salaries rose sharply due mainly to negotiated increases in wages and salaries and salary revisions resulting from a public-sector job evaluation exercise. Transfers had been rising largely as a result of expenditures incurred at the Queen Elizabeth Hospital, but the institution was reclassified as a statutory body. Despite this reclassification, transfers, which include supplemental disbursements to the University of the West Indies, the Barbados Transport Board and the Barbados Tourism Authority, rose by 9.1%.

In FY 2005-2006, transfers grew rapidly and most of the increase was driven by advances to the Bridgetown Enhancement projects of Barbados Tourism Investment Inc. and work related to the rebuilding of Kensington Oval in preparation for Cricket World Cup 2007.

It is estimated that the cost of work related to the successful staging of the Cricket World Cup 2007, inclusive of road works and other ancillary projects, will be in the region of US\$104 million.

The following table sets out Government total expenditure by functional classification for the fiscal years indicated:

**Table 24**

**Government Total Expenditure by Functional Classification**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u> <u>Estimates</u>
	(in millions of U.S. Dollars)					
<b>Total Expenditure</b>						
General public service .....	\$154.9	\$154.3	\$161.1	\$179.8	\$203.4	\$214.1
Defense .....	23.5	23.6	23.4	23.5	26.7	21.3
Education .....	189.1	204.8	206.6	209.8	224.5	199.5
Health .....	115.1	123.4	122.8	127.3	134.5	175.3
Social security and welfare .....	95.4	108.1	113.3	115.4	122.0	136.2
Housing .....	69.4	73.5	57.2	52.4	58.3	37.2
Other social services <sup>(1)</sup> .....	12.1	13.6	14.5	15.3	16.1	34.1
Economic services .....	172.5	160.6	158.3	168.0	183.3	181.6
Agriculture .....	25.7	25.3	24.0	25.8	25.2	20.5
Roads and transport .....	78.2	80.0	79.1	71.7	84.3	36.6
Other <sup>(2)</sup> .....	68.6	55.3	55.3	70.4	73.9	124.5
Charges of debt (interest) .....	126.4	134.3	137.9	131.7	148.4	171.0
External .....	44.8	52.4	55.6	51.7	95.5	66.0
Domestic .....	81.7	82.0	82.4	79.9	52.9	105.3
Other Purposes (Lending) .....	6.1	2.3	0.9	0.1	0.0	1.3
<b>Total expenditures .....</b>	<b><u>\$964.5</u></b>	<b><u>\$998.5</u></b>	<b><u>\$995.9</u></b>	<b><u>\$1,023.1</u></b>	<b><u>\$1,117.2</u></b>	<b><u>\$1,171.5</u></b>

<sup>(1)</sup> Includes culture, sports, parks and beaches.

<sup>(2)</sup> Includes civil aviation, tourism and trade.

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

In terms of functional expenditure, the most significant categories are education, health, general public services and economic services.

Despite the growth in the debt stock, interest charges absorbed only 13.4% of overall expenditure in FY 2005-2006, compared to 12.9% in FY 2004-2005. Education and health absorbed 20.1% and 12.0% of the budget, respectively, in FY 2005-2006 compared to 20.5% and 12.4%, respectively, in FY 2004-2005, reflecting the Government's continued emphasis on providing free access to high-quality education up to the tertiary level and healthcare for all citizens. During FY 2005-2006, it is estimated that the Government spent 16.4% of its budget on economic services, such as civil aviation, tourism, trade, industries, labour and land and surveys. In the previous four years, expenditure on this component of the Government's budget ranged from 15.9% to 17.9%, demonstrating the Government's intention to prepare Barbados for the challenges of a global economy. The redevelopment of the Grantley Adams International Airport and improved ancillary tourism services are partly responsible for the increase in spending on economic services.

Spending on social security and welfare was estimated at 10.9% of overall spending in FY 2005-2006, compared to 11.3% in FY 2004-2005. In 1997, the poverty alleviation programme was introduced and comprises a number of measures, including the creation of a social investment fund ("SIF") and the establishment and funding of urban and rural development commissions. The SIF funds a rural enterprise fund and an urban enterprise fund, as well as other community-based economic facilities.

At present, Barbados has an extensive, though somewhat inefficient, public transportation system. The Government is looking at ways to improve the current system, including the restructuring of the Transport Board, the upgrading of the bus fleet and the provision of incentives for companies willing to provide insurance to this sector. The Government has allocated modest funding for FY 2005-2006 in connection with significant improvements in its traffic management infrastructure.

Barbados is in the process of developing performance budgeting in order to focus on results to be achieved rather than inputs. However, under the existing budget framework, a distinction is made between "statutory" (committed) and "nonstatutory" (discretionary) expenditures. The public debt of Barbados, all costs related to that debt, the emoluments of established posts in the public service, pensions, leave passages and certain other minor expenditures are considered fixed claims or "statutory" charges on the Government. All other Government expenditures are considered discretionary.

### **2006-2007 Estimates**

The Estimates for FY 2006-2007 (the "2006-2007 Estimates") anticipate a deficit of approximately US\$96.0 million. This represents approximately 3.7% of the assumed nominal GDP at a factor cost of US\$2,817.2 million. The 2006-2007 Estimates are based on the following assumptions: (a) 3.0% growth in real GDP and (b) a rate of inflation of 2.5%. However, there can be no assurance that such targets will be achieved. See "Economy — Recent Economic Performance."

Policies of the Government that reflect its commitment to the continuation of prudent fiscal policies include the following:

- ongoing efforts at the reform of the taxation system to simplify the tax structure, increase the efficiency of the tax collection system, lower the tax burden and broaden the tax base.
- reliance on project financing for capital investment projects, such as the west coast sewage project. Major capital investment programmes include EduTech 2000, which has been budgeted at US\$10.0 million for FY 2006-2007, up from US\$9.0 million for FY 2005-2006;
- further reform of public-sector administration. See "Economy — Medium-Term Economic Strategy."

The 2006-2007 Estimates anticipate that the growth in overall tax revenues will be around the same levels as compared to FY 2005-2006. The 2006-2007 Estimates project that total tax revenue in FY 2006-2007 will amount to US\$1,035.6 million. With added efficiencies in the collection programme for Government revenue, the Government anticipates a 4.2% increase in tax revenue from goods and services, the major source of revenue, to US\$510.8 million.

The 2006-2007 Estimates project that overall expenditure will grow by 5.0%, to US\$1,173.4 million. Growth in current expenditure is anticipated to increase 3.1%, to an aggregate of US\$1,021.5 million, having grown by 8.5% in the previous fiscal year. Capital expenditure is budgeted to increase by 19.4%, to US\$151.9 million, up from US\$127.2 as a result of spending on some of the projects referred to above.

The 2006-2007 Estimates anticipate that expenditure on healthcare will increase by 30.3%, while outlays on education, public utilities and roadworks, as well as its institutional and infrastructural capacity, will remain virtually steady, as the Government continues its efforts to improve the quality of healthcare. Further growth in spending on social security and welfare, other social services and housing is anticipated, reflecting ongoing efforts to improve the quality of life in Barbados.

## PUBLIC DEBT

### Overview

Barbados has always met its obligations in respect of borrowed monies as and when due and has never defaulted on or requested nor been involved in a general rescheduling of its indebtedness. Authorisation to borrow is given by statute; the Government is empowered to create and issue external debt instruments pursuant to the External Loan Act Cap. 94D. The Constitution provides for the establishment of the Consolidated Fund into which, subject to applicable provisions of law, all revenues for Barbados are to be paid. The Constitution further provides that debt obligations of the Government, including interest on the debt, sinking fund payments and redemption monies on the debt and costs, charges and expenses incidental to the management of that debt, are charged against the Consolidated Fund. Under the External Loan Act, statutory sinking funds are set aside for the redemption of each issue of securities under the Act and are invested in domestic and foreign securities. The Act provides for semi-annual payments to be made into the statutory sinking funds in such amounts as are approved by resolution of Parliament. The Act does not, however, accord to the holders of the Notes a statutory charge on the Consolidated Fund.

The Government's debt management strategy aims to maintain access to traditional sources of financing, such as international bodies (although its strong economic performance has meant that Barbados no longer qualifies as a potential borrower from the World Bank), while accessing new sources of financing by issuing debt securities in the international capital markets.

The following table sets out the total debt, public and private, outstanding for the years indicated.

**Table 25**

### Debt Outstanding

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in millions of U.S. Dollars)				
Total External Debt .....	\$773.8	\$755.9	\$760.9	\$815.4	\$897.2
Government.....	680.7	674.3	669.1	666.3	763.5
Government guaranteed .....	64.8	58.2	69.2	121.5	111.9
Central Bank .....	0.0	0.0	0.0	0.0	0.0
Private-sector .....	28.3	23.4	22.7	27.6	21.9
Total Domestic Debt.....	1,304.4	1,466.9	1,563.0	1,641.9	1,937.3
Government.....	1,166.7	1,302.7	1,352.0	1,398.3	1,599.3
Short-term.....	257.5	252.9	294.1	363.1	394.9
Treasury bills .....	247.5	248.5	290.1	323.0	311.3
Other .....	10.0	4.4	4.1	40.1	83.5
Long-term.....	909.3	1,049.9	1,057.9	1,035.2	1,204.4
Debentures .....	850.4	990.9	1,003.4	977.8	1,147.9
Savings and bonds.....	55.1	55.6	54.5	57.5	56.5
Loans and advances.....	3.8	3.4	0.0	0.0	0.0
Guaranteed .....	137.7	164.2	211.1	243.7	338.1
Public.....	137.7	164.2	211.1	243.7	338.1
Private.....	0.0	0.0	0.0	0.0	0.0

*Source: Central Bank of Barbados*

### Domestic Debt

The Government is empowered to create and issue domestic debt instruments up to a maximum aggregate amount of US\$900 million (excluding Treasury bills) pursuant to the Local Loans Act Cap. 98. At December 31,

2005, domestic debt issued directly by the central Government represented 68.9% of its overall indebtedness, inclusive of government-guaranteed debt. This figure is roughly the same as in 2004, where domestic debt represented 67.6% of total indebtedness. Over the last five years, up until 2005, this ratio has generally increased as favourable conditions in the local capital markets allowed the Government to substitute domestic debt for foreign debt. In 2004, the Government, as part of its overall macroeconomic policy, had begun to reduce its overall level of indebtedness. Funds are raised in local currency through the issue of treasury bills and notes, savings bonds, commercial bank loans and other securities. Commercial banks and the National Insurance Scheme are the principal holders of government instruments. Savings bonds are instruments designed for individuals. The Government is permitted to borrow funds from the Central Bank up to a maximum amount of 10% of estimated current revenues (US\$103.6 million in FY 2006-2007). No specific procedure is required for the Government to make such borrowings, as it can access such funds from time to time on a revolving credit basis. In recent years, no definite pattern was established with respect to the Government's borrowing from the Central Bank. In addition, the Central Bank may hold government securities, which it trades with commercial banks. At September 30, 2006, outstanding borrowings from the Central Bank stood at \$100.4 million, up from \$38.9 million the previous year.

The interest expense on domestic debt is estimated to have reached US\$95.5 million for the fiscal year ended March 31, 2006. For the fiscal year ending March 2007, the interest expense for domestic debt is expected to amount to US\$105.3. Total domestic debt of the central government, exclusive of government-guaranteed debt, was estimated at US\$1,599.3 million on December 31, 2005.

The following table sets out Barbados' domestic debt amortisation amounts for the years indicated:

**Table 26**

<b>Instrument</b>	<b>Domestic Debt Amortisation</b>						
	<b>Year ended December 31,</b>						
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	(in millions of U.S. Dollars)						
Debentures	54.1	98.6	114.1	85.6	145.0	125.0	78.1

*Source: Central Bank of Barbados*

### **External Debt**

At December 31, 2005, long-term public external debt consisted primarily of loans to the Government, denominated mainly in U.S. Dollars. With the central Government undertaking no new external commercial borrowings during the period 1996 to 1998, the external public debt ratio fell to 15.5% of nominal GDP in 1998, from 27.1% of nominal GDP in 1993. As a result of bonds issued on the regional and international capital markets during the years 1999-2001, this ratio rose to 29.2% by the end of 2001. No new bonds were issued between 2002 and 2004, which led to an external debt to nominal GDP ratio at the end of 2004 of 28.0%, inclusive of government-guaranteed debt. At the end of 2005, the Government accessed the international capital markets for the first time in four years through a US\$125 million bond due 2035. This was, however, coupled with the repayment of old debt resulting in a net increase in central government external debt stock of an estimated US\$87.5 million to US\$875.3 million, or approximately 28.7% of nominal GDP. At December 31, 2005, international financial institutions, such as the World Bank, the Inter-American Development Bank and the Caribbean Development Bank, accounted for 32.6% of the Government's indebtedness. Following the final repayment in 2005 of a US\$40.0 million bond issue, the Government has five bond issues outstanding. The maturities on these bonds are spread between 2006-2009, 2010, 2015, 2021 and 2035.

The projected interest charges for the fiscal year ending March 2007 is estimated at US\$66.0 million. Interest expense for external debt was US\$46.1 million for the fiscal year ended March 31, 2006. Total external debt outstanding of the central government, exclusive of government-guaranteed debt, was US\$763.5 million on December 31, 2005.

The following table sets out details of the five bond issues outstanding:

**Table 27**

**Government External Bonds Outstanding**

<u>Principal Amount</u>	<u>Issue Date</u>	<u>Maturity</u>
US\$75.0 million	1999	2005-09
US\$100.0 million	2000	2010
GB£27.1 million	1990	2015
US\$150.0 million	2001	2021
US\$125.0 million	2005	2035

The following table sets out the currency composition of public-sector external debt outstanding for the years indicated:

**Table 28**

**Public-sector External Debt Outstanding by Currency**

	<u>Year ended December 31,</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(in millions of U.S. Dollars)				
Government					
Pound Sterling.....	\$61.9	\$61.1	\$59.4	\$57.8	\$56.9
U.S. Dollar .....	610.6	605.5	603.4	602.5	702.1
Other .....	8.2	7.7	6.3	6.0	4.7
Total .....	<u>680.7</u>	<u>674.3</u>	<u>669.1</u>	<u>666.3</u>	<u>763.7</u>
Government-Guaranteed					
Pound Sterling.....	0.0	0.0	0.0	0.0	0.0
U.S. Dollar .....	64.8	58.2	69.2	121.5	111.9
Total Guaranteed.....	<u>64.8</u>	<u>58.2</u>	<u>69.2</u>	<u>121.5</u>	<u>111.9</u>
Total External Debt .....	<u>\$745.5</u>	<u>\$732.5</u>	<u>\$738.2</u>	<u>\$787.8</u>	<u>\$875.6</u>

Source: Central Bank of Barbados

The following table sets out the composition by creditor of the Government's outstanding external debt for the years indicated.

**Table 29**

**Government External Debt by Creditor**

	<b>As of December 31</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	(in millions of U.S. Dollars)				
Total External <sup>(1)</sup> .....	\$680.6	\$674.3	\$669.0	\$666.3	\$763.4
Multilateral .....	228.1	234.6	242.0	253.3	249.1
Bilateral .....	27.4	25.7	22.1	19.8	16.7
Commercial <sup>(2)</sup> .....	9.2	8.1	9.0	7.2	6.1
Bond placements.....	415.9	405.9	395.9	385.9	491.6

<sup>(1)</sup> Excludes Government-guaranteed debt.

<sup>(2)</sup> Includes suppliers' credit.

Source: Central Bank of Barbados

There was a reduction in external exposure and in the debt ratio during the early 1990s which had been accompanied by a decline in debt servicing in absolute and relative terms. However, during the period 1999-2001, and subsequently 2004-2005, a major expansion in Barbados' infrastructure, and consequently its earning capacity, led to an intensification of the Government's capital works programme, which required external funding. As a result, there was an upturn in external exposure and debt servicing. Annual debt service payments from 2001-2005 and projections on existing debt for 2006-2010 are shown in the table below:

**Table 30**

**External Debt and Service Payments**

<b>Year</b>	<b>Government</b>	<b>Central Bank</b>	<b>Government-guaranteed</b>	<b>Non-guaranteed<sup>(1)</sup></b>	<b>Total amortisation</b>	<b>Total interest</b>	<b>Total debt service</b>
2001	19.3	0.0	7.6	5.1	32.0	38.9	70.9
2002	31.5	0.0	10.7	4.9	47.1	53.4	100.5
2003	34.4	0.0	26.5	6.1	67.1	51.9	119.0
2004	37.6	0.0	9.5	5.1	52.3	51.3	103.7
2005	47.3	0.0	9.1	5.6	62.0	56.0	118.0
2006	45.8	0.0	9.7	5.7	61.2	59.5	120.6
2007	54.1	0.0	8.5	1.5	64.2	56.3	120.5
2008	53.5	0.0	7.2	1.0	61.7	48.7	110.4
2009	43.8	0.0	7.3	1.0	52.0	45.3	97.4
2010	133.3	0.0	7.3	1.0	141.6	42.9	184.5
2011	35.6	0.0	7.3	1.0	44.0	40.3	84.3

<sup>(1)</sup> Includes non-guaranteed debt of public utilities.

Source: Accountant General and Central Bank of Barbados

The Government's strategy to limit its foreign exchange exposure includes hedging in the forward market and entering into currency swap transactions when appropriate.

## **CLEARING AND SETTLEMENT**

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the following procedures in order to facilitate transfers of interests in the Unrestricted Global Note Certificate and in the Restricted Global Note Certificate among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Government nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### **DTC**

DTC is a limited-purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act of 1934, as amended (the “Exchange Act”). DTC was created to hold securities for its participating organisations (“DTC Participants”) and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of its DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, brokers, banks, trust companies and clearing corporations and may include certain other organisations. Indirect access to the DTC system also is available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“Indirect DTC Participants”).

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. The Rules applicable to DTC and its Participants are on file with the United States Securities and Exchange Commission.

### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg hold securities for participating organisations, and facilitate the clearance and settlement of securities transactions between their respective participants, through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg participants are recognised financial institutions, such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations and include the Manager. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

### **Initial Settlement**

Upon the issuance of the Unrestricted Global Note Certificate and the Restricted Global Note Certificate, DTC or its custodian will credit, on its book-entry system, the respective principal amount of the individual beneficial interests in the Note to the accounts of DTC Participants. Such accounts initially will be designated by or on behalf of the Manager. Ownership of beneficial interests in a Note will be limited to persons who have accounts with DTC, including Euroclear and Clearstream, Luxembourg or Indirect DTC Participants. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of Indirect DTC Participants).

Euroclear and Clearstream, Luxembourg will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream, Luxembourg on the books of their respective depositaries, which in turn will hold such positions in customers' securities accounts in such depositaries' names on the books of DTC. JP Morgan Chase Bank will act as depositary for Euroclear, and Citibank will act as depositary for Clearstream, Luxembourg.

Investors that hold their interests in the Notes through DTC will follow the settlement practices applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors that hold their interests in the Notes through Clearstream, Luxembourg or Euroclear accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. The interests will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

## **Secondary Market Trading**

Since the purchaser determines the place of delivery, it is important to establish at the time of trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

### *Trading between DTC Participants*

Secondary market trading between DTC Participants will be settled using the procedures applicable to global bond issues in same-day funds.

### *Trading between Euroclear and/or Clearstream, Luxembourg Participants*

Secondary market trading between Euroclear Participants and/or Clearstream, Luxembourg participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

### *Trading between DTC Seller and Euroclear or Clearstream, Luxembourg Purchaser*

When Notes are to be transferred from the account of a DTC Participant to the account of a Clearstream, Luxembourg or Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg or Euroclear participant, as the case may be, at least one business day prior to settlement. Clearstream, Luxembourg or the Euroclear operator will instruct its respective depositary to receive the Notes against payment. Payment will include interest accrued on such beneficial interest on the Note from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the depositary to the DTC Participant's account against delivery of Notes. After settlement has been completed, the Notes will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Clearstream, Luxembourg or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on the Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Clearstream, Luxembourg or Euroclear cash debit will be valued instead as of the actual settlement date.

Euroclear and Clearstream, Luxembourg participants will need to make available to the respective clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on-hand or existing lines of credit. Under this approach, participants may take on credit exposure to the Euroclear operator or Clearstream, Luxembourg until the interests in the Note are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to a Clearstream, Luxembourg or Euroclear participant, as the case may be, such participant may elect not to pre-position funds and may allow that credit line to be drawn upon to finance settlement. Under this procedure, Clearstream, Luxembourg

participants or Euroclear participants purchasing interests in a Note would incur overdraft charges for one day, assuming they cleared the overdraft when the interest in the Note was credited to their accounts. However, interest on the Note would accrue from the value date. Therefore, in many cases, the investment income on the interest in the Note would accrue from the value date. Therefore, in many cases, the investment income on the interest in the Note earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since the settlement is taking place during New York business hours, DTC Participants can employ their usual procedures for transferring the global bonds to the respective depositaries of Clearstream, Luxembourg or Euroclear for the benefit of Clearstream, Luxembourg participants or Euroclear participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC Participants, a cross-market sale transaction will settle no differently than a trade between two DTC Participants.

*Trading between Clearstream, Luxembourg or Euroclear Seller and DTC Purchaser*

Due to time zone differences in their favour, Clearstream, Luxembourg and Euroclear participants may employ their customary procedures for transactions in which interests in a Note are to be transferred by their respective clearing system, through its respective depository, to a DTC Participant, as the case may be, at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct its respective depository to deliver the interest in the Note to the DTC Participant's account against payment. Payment will include interest accrued on such beneficial interest in the Note from and including the interest payment date to and excluding the settlement date. The payment will then be reflected in the account of the Clearstream, Luxembourg participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream, Luxembourg or Euroclear participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges occurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream, Luxembourg or Euroclear to purchase interests in a Note from DTC Participants for delivery to Clearstream, Luxembourg participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;
- borrowing the interests in the United States from a DTC Participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear account in order to settle the sale side of the trade; or
- staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Participant is at least one day prior to the value date for the sale to the Clearstream, Luxembourg participant or Euroclear participant.

## TAXATION

Investors should consult their own tax advisers in determining the tax consequences to them of the purchase, ownership and disposition of the Notes.

### Barbados Tax Considerations

An order will be made under the Duties, Taxes and Other Payments (Exemption) Act Cap. 67B that there shall be exempt from the payment of all duties, taxes and imposts, *inter alia*: (i) the securities and the instruments effecting the issue of the Notes; and (ii) the interest that becomes payable on any amount outstanding under the Notes or any part thereof borrowed by way of the issue of the Notes. In addition, the Minister of Finance has given his approval that: (a) the Notes are exempt from all taxes and stamp duties; (b) all payments of interest on the Notes will be exempt from all taxes; and (c) the excess of the principal amount of any Note over its issue price will be treated as interest by the Commissioner of Inland Revenue.

### United States Federal Income Tax Considerations

The following general summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of Notes by United States Holders (as defined below) applies only to Notes acquired by original purchasers at the issue price and held by them as capital assets and does not address aspects of United States federal income taxation that may be applicable to particular United States Holders, such as life insurance companies, tax-exempt organisations, banks, regulated investment companies, real estate investment trusts, dealers in securities or currencies, securities traders that elect mark-to-market treatment, United States Holders that will hold a Note as part of a position in a “straddle” or as part of a hedging transaction or “conversion transaction” or as part of a “synthetic security” or other integrated transaction for United States federal income tax purposes, persons entering into “constructive sale” transactions with respect to Notes and United States Holders whose functional currency is not the U.S. Dollar. The discussion below is based on United States federal income tax law and interpretations thereof in effect as of the date hereof, and such authorities may be repealed, revoked or modified, potentially retroactively, so as to result in United States federal income tax consequences different from those discussed below.

**PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DISCUSSION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSES OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION AND MARKETING OF THE OFFER TO SELL THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

As used herein, the term “United States Holder” means a beneficial owner of a Note who or that is for United States federal income tax purposes: (i) a citizen or resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have authority to control all substantial decisions of the trust or (b) it has made a valid election to be treated as a United States person. If a partnership is a beneficial owner of a Note, the tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. Partnerships and their partners should consult their tax advisors as to the consequences of investing in the Notes.

#### *Interest*

Payments of interest on a Note (including additional amounts referred to in “Terms and Conditions of the Notes — Taxation”, if any, and any tax withheld) reduced by the amount of any payment of pre-issuance accrued interest, which will not be includible in income, will be includible in a United States Holder's gross income as

ordinary interest income at the time such payments are received or accrued, in accordance with the United States Holder's usual method of tax accounting for United States federal income tax purposes. In addition, interest on the Notes will be treated as foreign source income for United States foreign tax credit purposes. For purposes of determining the United States Holder's foreign tax credit limitation, the limitation on foreign taxes eligible for the United States foreign tax credit is calculated separately with respect to specific classes of income. The rules relating to foreign tax credits and the timing thereof are complex. United States Holders should consult their own tax advisers regarding the availability of the foreign tax credit under their particular circumstances.

#### *Sale, Exchange, Retirement or Other Disposition of the Note*

Upon the sale, exchange, retirement or other disposition of a Note, a United States Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, retirement or other disposition (other than amounts attributable to accrued interest, which will be taxable as such) and the United States Holder's adjusted tax basis in such Note (generally, the cost of such Note to the United States Holder reduced by the amount of any pre-issuance accrued interest received by the United States Holder). Such gain or loss generally will be capital gain or loss. In the case of a non-corporate United States Holder, long-term capital gains are subject to favourable rates. The deductibility of capital losses by corporate and non-corporate United States Holders is subject to limitations. Any gain realised by a United States Holder on a sale, exchange, retirement or other disposition of a Note generally will be treated as United States source income for United States foreign tax credit purposes, although a loss so realised generally will be required to be allocated against foreign-source income by reference to the source of interest on the Notes.

#### *United States Backup Withholding and Information Reporting*

United States backup withholding tax and information reporting requirements apply to certain payments of principal, interest and original issue discount on, and to proceeds of certain sales or redemptions of, obligations held by certain non-corporate United States persons. The Issuer or its paying agents will be required to withhold a 28% tax from any such payment on a Note (other than a payment to an "exempt recipient") if such Holder fails to furnish his correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements. Non-United States persons are generally exempt from the information reporting and backup withholding rules, but may be required to comply with certification and identification requirements in order to prove their exemption. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a Holder will be refunded (or credited against such Holder's United States federal income tax liability, if any), provided the required information is furnished to the United States Internal Revenue Service.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL BARBADIAN AND UNITED STATES FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE ACQUISITION AND OWNERSHIP OF THE NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES IN LIGHT OF THEIR PARTICULAR SITUATIONS.

#### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from July 1, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

## SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in a subscription agreement dated November 21, 2006 (the "Subscription Agreement") between the Government and Deutsche Bank Securities Inc., the Government has agreed to sell to Deutsche Bank Securities Inc., and Deutsche Bank Securities Inc. has agreed to purchase from the Government, the principal amount of the Notes.

The Government has agreed to pay to Deutsche Bank Securities Inc. a selling concession and a combined management and underwriting commission of 0.15% of the aggregate principal amount of the Notes. The obligations of Deutsche Bank Securities Inc. under the Subscription Agreement will be subject to certain conditions precedent, and Deutsche Bank Securities Inc. is entitled to terminate the Subscription Agreement in certain circumstances.

The Government has been advised by Deutsche Bank Securities Inc. that it intends to make a market in the Notes as permitted by applicable laws and regulations and subject to the restrictions set forth herein, but it is not obligated to do so, and such market making may be discontinued at any time at the sole discretion of Deutsche Bank Securities Inc. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Subscription Agreement provides that the Government will indemnify Deutsche Bank Securities Inc. against certain liabilities under the Securities Act, and will reimburse payments Deutsche Bank Securities Inc. may be required to make in respect thereof, including reasonable legal expenses and other costs incurred in connection with such liabilities.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities law. See "Transfer Restrictions."

In connection with sales outside the United States, Deutsche Bank Securities Inc. has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to which it sells such Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the later of the commencement of the offering and the closing date, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another valid exemption therefrom.

As used in the two immediately preceding paragraphs, the terms "United States" and "U.S. person" have the respective meanings given to them in Regulation S under the Securities Act.

The Manager has represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Manager has agreed that Notes may not be offered or sold in Barbados.

It is expected that delivery of the Notes will be made on November 29, 2006, which will be the fifth business day in the United States following the date of pricing of the Notes ("T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market in the United States generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers wishing to trade Notes prior to the third U.S. business day before November 29, 2006 will be required, by virtue of the fact that the Notes will initially settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes wishing to make such trades should consult their own advisors.

Deutsche Bank Securities Inc. may engage in transactions that stabilise, maintain or otherwise affect the market price of the Notes. Such transactions may include stabilisation transactions effected in accordance with Rule 104 of Regulation M under the Exchange Act, pursuant to which such persons may bid for or purchase Notes for the purpose of stabilising the market price for such Notes. Deutsche Bank Securities Inc. may also create a short position by selling more Notes in connection with the offering than it is committed to purchase from the Government, and in such case may purchase Notes in the open market following completion of the offering to cover all or a portion of such short position. Penalty bids also may be imposed which will cause selling concessions paid to Deutsche Bank Securities Inc. to be reclaimed when Notes originally sold by Deutsche Bank Securities Inc. are purchased to cover short positions. Any of the transactions described in this paragraph may result in the maintenance of the price of the Notes at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required, and, if they are undertaken, they may be discontinued at any time.

Deutsche Bank Securities Inc. and its affiliates have engaged in transactions with, and performed various banking and investment banking and other services for, the Government in the past, and may do so from time to time in the future.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction and may not be offered or sold within the United States or to, or for the account of benefit of, U.S. persons (as defined in Regulation S) except that Notes may be offered or sold to qualified institutional buyers (as defined in Rule 144A) in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each prospective purchaser of Notes offered in reliance on Rule 144A (a “144A Offeree”), by accepting delivery of this Offering Circular, will be deemed to have represented and agreed as follows:

- (a) It acknowledges that this Offering Circular is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this Offering Circular, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Government, is prohibited.
- (b) It will not make any photocopies of this Offering Circular or any documents referred to herein and, if such 144A Offeree does not purchase the Notes or the offering is terminated, it will return this Offering Circular and all documents referred to herein to Deutsche Bank Securities Inc.

Each purchaser of Notes in reliance on Rule 144A will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) It is: (A) a qualified institutional buyer; (B) aware that the sale of the Notes to it is being made in reliance on Rule 144A; and (C) acquiring such Notes for its own account or for the account of a qualified institutional buyer.
- (b) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, the Notes have not been and will not be registered under the Securities Act or any other applicable securities law and, if in the future any purchaser decides to offer, resell, pledge or otherwise transfer the Notes, the Notes may be offered, sold, pledged or otherwise resold only: (A) to a person who the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.
- (c) The Notes offered and sold in reliance upon Rule 144A will bear a legend to the following effect unless the Government determines otherwise in compliance with applicable law:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT: (A) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER

THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION.

- (d) The purchaser understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note Certificate. Before any interest in the Restricted Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note Certificate, it will be required to provide the Fiscal Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the transfer restrictions referred to in paragraphs (a) and (b) above; and the purchaser acknowledges that the Unrestricted Global Note Certificate will bear a legend to the following effect unless otherwise agreed to by the Government:

**THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT: (A) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION.**

For further discussion of the requirements (including the presentation of transfer certificates) under the Agency Agreement to effect exchanges to transfer interest in the Global Note Certificates, see “Terms and Conditions of the Notes — Register, Title and Transfers.”

## **OFFICIAL STATEMENTS**

Information included in this Offering Circular that is identified as being derived from a publication of the Government or one of its agencies or instrumentalities is included in this Offering Circular on the authority of such publication as an official public document of the Government. All other information contained in this Offering Circular, other than that included under "Subscription and Sale," is included as an official public statement made on the authority of the Minister of Finance in his official capacity as such.

## **VALIDITY OF NOTES**

The validity of the Notes will be passed upon for the Government by Gibson, Dunn & Crutcher LLP, English and United States counsel to the Government, and by the Solicitor General to the Government, and for the Manager by Allen & Overy LLP, English and United States counsel to the Manager and Clarke, Gittens & Farmer, Barbadian counsel to the Manager. As to all matters of Barbadian law, Gibson, Dunn & Crutcher LLP may rely on the opinion of the Solicitor General, and Allen & Overy LLP may rely upon the opinion of Clarke, Gittens & Farmer. As to all matters of English law, the Solicitor General may rely upon the opinion of Gibson, Dunn & Crutcher LLP, and Clarke, Gittens & Farmer may rely upon the opinion of Allen & Overy LLP.

## GENERAL INFORMATION

### 1. Due Authorisation and Sinking Fund

The creation and issue of Notes was authorised by a resolution of the Parliament of Barbados pursuant to Section 3 of the External Loan Act Cap. 94D of 1972 (the "Act") on November 15, 2006. Pursuant to the Act, a sinking fund will be established for the redemption of the Notes. The monies necessary to maintain and service the sinking fund shall be paid semi-annually in such amounts as are approved by resolution of Parliament. The Act does not, however, accord to the holders of the Notes a statutory charge on the sinking fund.

### 2. Listing

Application has been made for the Notes to be admitted on the official list of the Luxembourg Stock Exchange and to be admitted for trading on the Euro MTF market.

### 3. Litigation

Neither the Government nor any governmental agency of Barbados is involved in any litigation or arbitration or administrative proceedings relating to claims or amounts that are material in the context of the issue of the Notes and that would materially and adversely affect the Government's ability to meet its obligations under the Notes and the Agency Agreement and, so far as the Government is aware, no such litigation or arbitration or administrative proceedings are pending or threatened.

### 4. Inspection of Documents

Copies of the following documents may be inspected free of charge during the normal business hours at the specified office of the paying agent in Luxembourg, namely:

- (a) the resolution of the Parliament of Barbados and the Act referred to in paragraph 1 above;
- (b) the Offering Circular;
- (c) the form of the Unrestricted Global Note Certificate, the Restricted Global Note Certificate, the Unrestricted Individual Note Certificates and the Restricted Individual Note Certificates;
- (d) the Agency Agreement, as amended, and Deed of Covenant, as amended; and
- (e) The Government of Barbados' Estimates for FY 2006-2007 and annual report for FY 2005-2006 (copies of which will be made available upon request).

### 5. Clearing

The Notes offered hereby and represented by an Unrestricted Global Note will have separate temporary CUSIP and ISIN numbers from the existing Notes represented by an Unrestricted Global Note Certificate for 40 days from the issue date of the Notes offered hereby and, therefore, will not trade fungibly with the existing Notes for the first 40 days after this issue date. After the 40-day period, the Notes offered hereby and represented by an Unrestricted Global Note Certificate will trade under the same CUSIP and ISIN numbers as the existing Notes represented by an Unrestricted Global Note Certificate and will trade fungibly with the existing Notes.

The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by the Unrestricted Global Note Certificate have been accepted for clearing and settlement through Euroclear and Clearstream, Luxembourg under the temporary CUSIP number P48864AH8 and the temporary ISIN USP48864AH81. After the 40-day period, Notes represented by the Unrestricted Global Note Certificate will trade under the Common Code 023742748, the ISIN USP48864AF26 and the CUSIP number P48864AF2.

The Notes represented by the Restricted Global Note Certificate have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the Common Code 023742683, the ISIN US067070AD41, and the CUSIP number 067070AD4.

## **6. Miscellaneous**

All necessary consents and authorisations under Barbadian law for the creation and issue of the Notes and the performance of the obligations of the Government under the Agency Agreement and the Notes have been obtained. This Offering Circular has been approved by the Government through the Ministry of Finance.

**THE ISSUER**

**The Ministry of Finance**  
Government Headquarters  
Bay Street  
St. Michael  
Barbados

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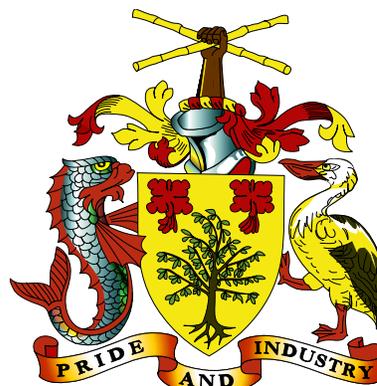
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1221 Avenue of the Americas  
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You should rely only on the information contained in this offering circular. We have not authorised anyone to provide information different from that contained in this offering circular. We are offering to sell, and seeking offers to buy, Notes only in jurisdictions where offers and sales are permitted. The information contained in this offering circular is accurate only as of the date of this offering circular, regardless of the time of delivery of this offering circular or of any sale of the Notes.

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# Government of Barbados

**US\$65,000,000**

**6.625% Notes due 2035**

**Deutsche Bank Securities**

Offering Circular

November 21, 2006