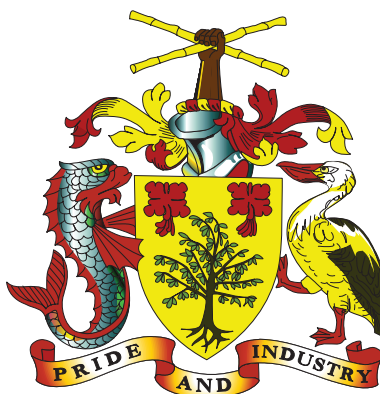


**OFFERING CIRCULAR**



**US\$200,000,000**

**Government of Barbados  
7.00% Notes Due 4 August 2022**

The US\$200,000,000 aggregate principal amount of 7.00% Notes due 4 August 2022 (the "Notes") of the Government of Barbados (the "Government" or, unless the context otherwise requires, "Barbados") will mature and will be repaid at par on 4 August 2022. Interest on the Notes will be payable semi-annually in arrears in US Dollars on 4 February and 4 August of each year, commencing on 4 February 2011, at a rate of 7.00% per annum. 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 to 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").

**Issue Price: 98.411%**

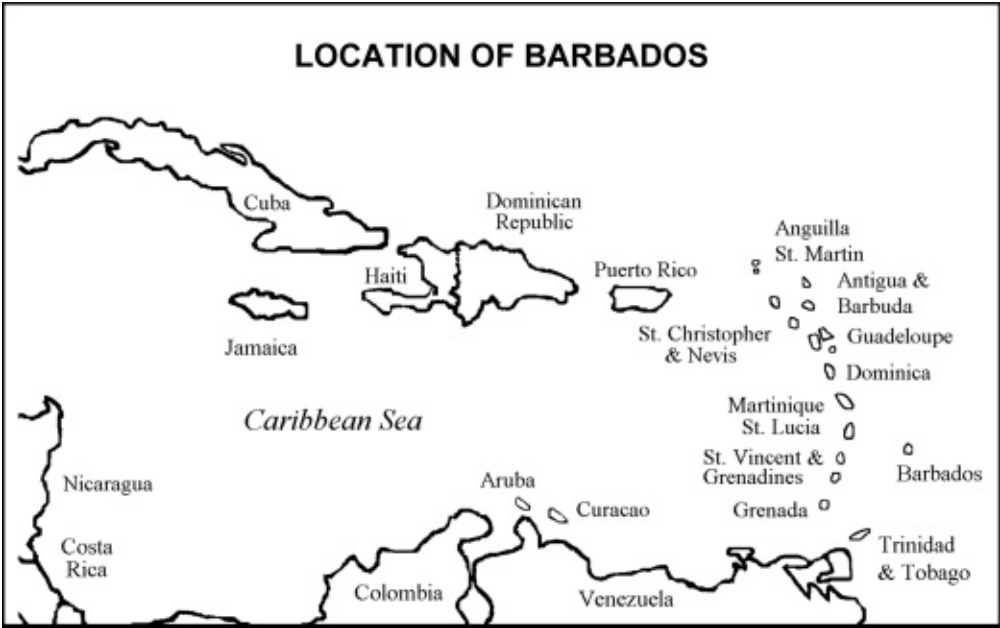
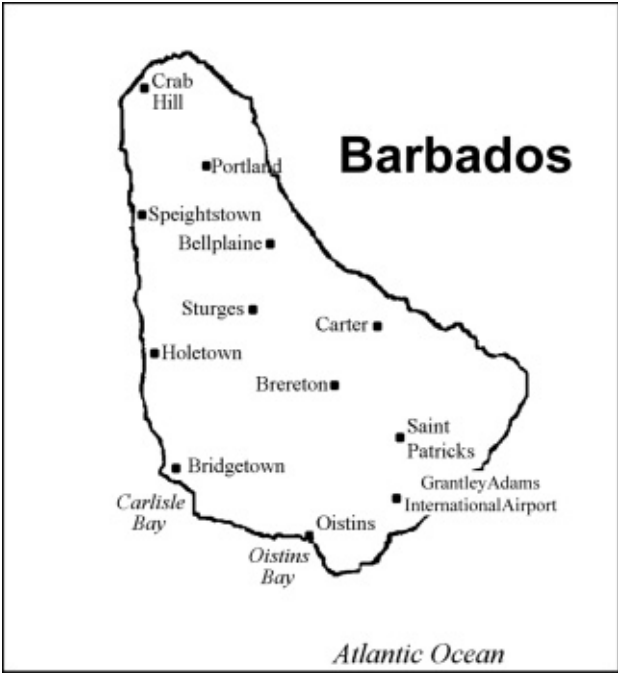
plus accrued interest, if any, from 4 August 2010

Delivery of the Notes in book entry form only will be made on or about 4 August 2010 through the facilities of The Depository Trust Company ("DTC"), Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg").

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 ("QIBs") 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 27 July 2010.



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## STABILISATION

DEUTSCHE BANK SECURITIES INC. ("DEUTSCHE BANK") 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 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.

This Offering Circular has been prepared by the Government solely for use in connection with the proposed offering of the Notes described herein. You are authorized to use this Offering Circular solely for the purpose of considering the purchase of the Notes.

This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated 10 July 2005 on prospectuses for securities (the "Prospectus Act 2005").

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, expressed 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.

**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 to or for the benefit of a U.S. person (as defined in Regulation S) except pursuant to an exemption from, or transaction not subject to, the registration requirements under the Securities Act. 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 any state 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 “Transfer Restrictions” and “Subscription and Sale”.**

**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.**

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. Provisional financial data and statistical information for 2009, the first quarter of 2010 or the fiscal year 2009/2010, in particular, may be subject to revision (as these are estimates based on the latest financial data) and are indicated by a superscript "P" in applicable tables.

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") and are indicated by a superscript "E" in applicable tables. Unless otherwise stated, references to a year (e.g., "2009") refer to the relevant calendar year ended 31 December and references to a fiscal year or FY (e.g., "FY 2009/2010") refer to the fiscal year of Barbados which runs from 1 April to the following 31 March. References to the "Government" exclude the state-owned enterprises of Barbados. See "Public Finance—State—Owned Enterprises".

Unless otherwise indicated, all information in this Offering Circular is given as at the date of this Offering Circular, or as of the most recently available date. 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 basic prices, which is nominal GDP at market prices less net taxes on products plus financial intermediary services indirectly measured ("FISIM"), 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 "US 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; all references to "Japanese Yen" are to the lawful currency of Japan; all references to "Pounds Sterling" are to the lawful currency of the United Kingdom; and all references to "Chinese RMB" are to the lawful currency of the People's Republic of China. The Barbados Dollar currently is fixed to the US Dollar at an exchange rate of BDS\$2.00 to US\$1.00 and, solely for the convenience of the reader, Barbados Dollar figures are translated into US 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 pursuant to the Agency Agreement (as defined in “Terms and Conditions of the Notes”) and pursuant to 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 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; (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; (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; (d) the judgment was obtained by fraud; (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:

- actual rates of change in GDP, Barbados' financial condition and budgeted revenues and expenditures,
- Barbados' ability to increase Government revenues or reduce expenditures,
- economic conditions globally (but in particular in the United States, the United Kingdom and Canada) that may result in lower demand for tourism,
- declines in tourism due to competition from other countries,
- 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, and
- 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. As at 31 December 2009, Barbados had an estimated population of 275,000. 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 approximately 80,000. 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 Democratic Labour Party (the "DLP"), came to office in 2008. Under the Barbadian Constitution, the next general election in Barbados is required to take place no later than April 2013.

Barbados has emphasised the development of its human resources, resulting in a literate and trained labour force. Barbados ranks very high in the human development index as compiled by the United Nations 2009 Human Development Report (United Nations Development Programme ("UNDP")) with levels which are comparable to those observed from industrial countries and by leading small emerging economies such as Singapore and Malta. The Barbadian educational and healthcare systems are funded almost entirely by the Government. Life expectancy was 77.0 years in 2007. The literacy rate was 99.7% as of 2005, according to the UNDP. Barbados achieved a relatively high GDP per capita (compared to other Caribbean Community and Common Market ("CARICOM") countries) of US\$11,909.5 for the year 2009.

### Economy

Barbados is a small, diversified and service-based economy, with an educated workforce, a solid social and economic infrastructure and a historically stable growth performance due in part to high levels of human development and continued political stability. Tourism, international business and financial services and manufacturing are the principal sectors of the economy, with tourism and manufacturing accounting for approximately 14.4% and 4.9% of real GDP in 2009, respectively. Business and other services, of which international business and financial services are the principal components, accounted for approximately 19.1% of real GDP in 2009. Tourism, however, is the most important economic driver of the Barbadian economy due to its multiplier effect on other economic sectors (in particular construction and retail trade), significant contribution to foreign exchange earnings and inducement for tourism-related private sector economic investment.

Barbados' real GDP has grown by an average rate of 2% over the last 17 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. In 2001, the Barbadian economy contracted by 2.6% as a result of the depressed world economy in that period and the negative consequences of the September 11<sup>th</sup> terrorist attack, which weakened the performance of the tourism sector. Growth recovered and the Barbadian economy registered high levels of growth from 2002 through 2008 with an average real GDP growth of 2.6% during that period primarily as a result of improvement in the tourism sector and new private-investment. In 2009, the Barbadian economy contracted by 4.8% compared to 2008 primarily due to weaknesses in the tourism and international business and financial services sectors induced by the global economic downturn.

Tourism, international business and financial services and manufacturing constitute the main sources of foreign-exchange earnings and corporate tax revenue. Each of these sectors, and tourism in particular, also contributes to other areas of the Barbadian economy, particularly wholesale and retail trade and construction.

Foreign exchange earnings derived from the tourism sector totalled US\$1,069.3 million in 2009, US\$1,194.4 million in 2008 and US\$1,188.7 million in 2007. The tourism sector's contribution to real GDP decreased by 6.6% in 2009 compared to 2008 due primarily to a reduction in arrivals from the United Kingdom and the United States.

While the government does not calculate the international business and financial services sector's contribution to foreign exchange earnings or real GDP, the international business and financial services sector accounted for approximately 54.2% and 51.7% of total corporate tax revenue during 2007 and 2008 respectively. The Government estimates this sector's contribution to total corporate tax revenue to have remained stable in 2009, as compared to 2008. The international business and financial service sector's contribution to total Government revenue decreased slightly from 15.9% of total Government revenue in 2007 to approximately 12.0% of total Government revenue in 2008. The Government estimates this sector's contribution to total Government revenue to have remained stable in 2009, as compared to 2008. During 2008 and 2009, this sector was negatively affected by the global economic crisis with a 14% and 30% decline respectively in new licenses issued to international firms, which included offshore banks, insurance companies and international business companies seeking licences to operate in Barbados.

Manufacturing exports, moreover, were US\$209.1 million in 2009, US\$239.4 million in 2008 and US\$229.7 million in 2007.

The Government has endeavoured to maintain prudent fiscal policies and aggregate spending at levels that do not exceed its foreign exchange constraints over the medium-term. For the five fiscal year intervals from 2000/2001 to 2004/2005 and 2005/2006 to 2009/2010, the annual fiscal deficit averaged approximately 2.9% and 4.7% of nominal GDP, respectively. As a result of the global economic crisis, the Government's fiscal deficit increased from 5.1% in FY 2008/2009 to 9.4% in FY 2009/2010, due principally to reduced levels of revenue collection and increased Government expenditures. These expenditures were primarily to support the competitiveness of the tourism sector, promote job retention and strengthen Government-support mechanisms implemented during the global economic crisis. Further, various Government support initiatives such as the Tourism Industry Relief Fund, the Employment Stabilisation Programme and a "retraining fund" are expected to help position the Barbadian economy to take advantage of an upturn in global economic activity. See "Economy—Principal Sectors of the Economy—Government Supported Initiatives".

## **Recent Developments**

During the first quarter of 2010, the Barbadian economy observed signs of economic stabilization with the rate of economic contraction decreasing. The Barbadian economy had a real GDP decrease of 1% in the first quarter of 2010 compared to the first quarter of 2009. There have been improved levels of aggregate activity in the tourism and international business and financial services sectors in the first quarter of 2010 when compared to the first quarter of 2009, as the number of total tourist arrivals has begun to recover with an increase in arrivals from the United States and Canada during the first quarter of 2010 that began during the fourth quarter of 2009. The Government recorded a first quarter 2010 fiscal deficit of US\$118.1 million as compared to a fiscal deficit of US\$77.9 million in the first quarter of 2009. The fiscal deficit was financed by new domestic loans and bond and Treasury bill issues in the domestic market placed with the Barbadian public, the National Insurance Scheme and commercial banks. Based on current projections of revenues and expenditures for the fiscal year, the Government anticipates a fiscal deficit for FY 2010/2011 equivalent to 8.7% of nominal GDP. The Government has embarked on a medium-term strategy aimed at eliminating the overall fiscal deficit by the year 2016, mainly through containment of fiscal spending and greater efficiency in revenue collection.

The Government debt to GDP ratio as at 31 March 2010 was 93.5%. After deducting Government debt held by the Government's National Insurance Scheme and deposits of government and statutory bodies, the net Government debt to GDP ratio was 47.6%. The Government debt to GDP ratio as at 31 December 2009 was 94.6%, compared to 80.9% as at 31 December 2008. After deducting Government debt held by the National Insurance Scheme and deposits of government and statutory bodies, the net Government debt to GDP ratio as at 31 December 2009 was 48.6%.

The Government believes the Barbadian economy is well positioned to benefit from an increase in global economic activity especially as the United States and the United Kingdom emerge from recession. There have been major renovations to hotels and ancillary facilities (including the Four Seasons Hotel and Villas at Paradise Beach and other developments at Apes Hill, Lime Grove, St. Peter's Bay, Port Ferdinand and Beachlands), public sector projects and infrastructure repairs, which will position the tourism sector to take advantage of an upturn in global economic activity. Increased tourism receipts are expected for FY 2010/2011 as Barbados was a host country for the International Cricket Council ("ICC") World Twenty20 Cricket Championship in May 2010. Further, Barbados believes it has maintained its competitiveness by means of changing the composition of its exports of goods and services and product differentiation. Barbados also has extended its economic focus from sugar to tourism and international business and financial services through the development of high-end tourism and niche markets such as heritage and sports tourism and through a network of double taxation treaties and bilateral-investment agreements. As a result, the Government expects the economy to remain stable, inflation to remain low and the rate of unemployment to remain around 10% for the remainder of 2010 and for 2011.

## 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**

### Selected Economic Indicators

	For the year ended 31 December <sup>(1)</sup>				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars, except as otherwise indicated)				
<b>Real Sector</b>					
Nominal GDP at Market Prices .....	3,685.0	3,884.7	4,037.5	3,988.1	3,894.8
GDP per capita at basic prices (in US\$) .....	11,137.8	11,625.5	12,260.6	12,106.3	11,909.5
Real GDP increase/(decrease)(%) .....	3.9	3.6	3.8	(0.2)	(4.8)
Unemployment rate (%) .....	9.1	8.7	7.4	8.1	10.0
Consumer inflation (%) .....	6.1	7.3	4.0	8.1	3.6
<b>Balance of Payments</b>					
Merchandise trade balance .....	(1,070.0)	(1,003.3)	(1,083.5)	(1,242.3)	(916.7)
Merchandise exports .....	361.5	510.2	526.7	489.6	381.2
Merchandise imports .....	1,431.5	1,513.5	1,610.2	1,731.9	1,297.9
Services balance .....	765.0	810.2	911.3	895.5	796.8
Exports of services .....	1,350.2	1,428.6	1,517.3	1,600.8	1,431.7
Imports of services .....	585.3	618.4	606.0	705.4	634.9
Current account .....	(367.3)	(252.0)	(182.7)	(421.4)	(217.6)
Current account (% of nominal GDP) .....	(10.0)	(6.5)	(4.5)	(10.6)	(5.6)
Capital account (% of nominal GDP) .....	7.3	9.0	11.2	4.1	7.9
Overall balance .....	(69.1)	41.4	277.9	(249.2)	42.1
<b>Government<sup>(2)</sup></b>					
Fiscal balance (% of nominal GDP) .....	(2.4)	(3.0)	(3.6)	(5.1)	(9.4)
Revenue .....	1,080.7	1,118.2	1,238.5	1,323.2	1,158.0
Expenditure .....	1,170.9	1,235.0	1,384.3	1,528.5	1,523.6
Foreign financing (% of nominal GDP) .....	2.1	0.4	(1.1)	(1.0)	2.9
Domestic financing (% of nominal GDP) ....	1.4	1.3	2.7	6.7	5.4
<b>Public Sector Debt</b>					
<i>External</i>					
External debt <sup>(3)</sup> .....	1,347.7	1,495.5	1,565.1	1,522.9	1,645.4
External debt (% of nominal GDP)(3) .....	36.6	38.5	38.8	38.2	42.2
Debt service payments(3) .....	280.7	306.9	407.2	375.8	402.5
Amortisation .....	105.9	115.3	197.0	138.5	154.5
Interest .....	141.1	154.1	168.2	191.0	208.1
<i>Domestic</i>					
Domestic debt of Central Government .....	1,686.7	1,688.9	1,992.0	2,235.2	2,619.9
Domestic debt of Central Government (% of nominal GDP) .....	45.8	43.5	49.3	56.1	67.3

	For the year ended 31 December <sup>(1)</sup>				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars, except as otherwise indicated)				
<b>External Liquidity (Monetary Authorities)</b>					
Foreign assets (net) .....	186.0	248.5	349.8	196.2	171.4
Net international reserves .....	618.2	597.0	774.0	678.4	745.4
Liquid international reserves import reserve cover (in weeks of merchandise imports) .....	15.9	16.6	21.5	16.6	20.6
Foreign exchange earnings .....	1,831.6	2,049.7	2,245.7	2,268.9	1,952.9
<b>Tourism</b>					
Long stay arrivals (thousands) .....	547.5	562.6	573.9	567.6	518.6
Cruise ship arrivals (thousands) .....	563.6	539.1	616.4	597.5	635.7
Hotel occupancy room rate (%) .....	54.0	52.8	56.1	n.a	n.a
Tourist spending .....	896.1	1,056.6	1,188.7	1,194.4	1,069.3

(1) Information is presented on a calendar year basis, other than Government information.

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

(3) Includes Government-guaranteed debt.

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:** ..... 7.00% Notes due 4 August 2022.

**Principal Amount:** ..... US\$200,000,000.

**Issue Price:** ..... 98.411% of the principal amount of the Notes.

**Interest:** ..... The Notes will bear interest from 4 August 2010 at a rate of 7.00% per annum payable semi-annually in arrears in US Dollars on 4 February and 4 August of each year, commencing on 4 February 2011.

**Maturity:** ..... 4 August 2022.

**Manager:** ..... Deutsche Bank Securities Inc.

### **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 or any multiple thereof and will be transferable in principal amounts of US\$1,000 or any multiple thereof.

**Book Entry, Delivery and Form:** . . . 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. On or prior to the 40th day after the later of the commencement of the Offering and the closing of the issue of the Notes, beneficial interests in the Unrestricted Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg. Notes sold to QIBs 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".

**Status of the Notes:** . . . . . 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 ranking *pari passu* without any preference among themselves and 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. See "Terms and Conditions of the Notes—Form, Denomination and Status".

**Events of Default:** . . . . . 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".

**Negative Pledge:** . . . . . 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”.

**Use of Proceeds:** ..... The net proceeds of approximately US\$196,064,500 arising from the sale of the Notes, after deduction of expenses and underwriting fees, will be used to repay outstanding debt in the amount of US\$100 million, provided by an affiliate of the Manager, and the balance to increase liquidity, with the effect of increasing foreign exchange reserves.

**Transfer Restrictions:** ..... 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”.

**Taxation:** ..... 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 to 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. See “Terms and Conditions—Further Issues”.

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

## **TERMS AND CONDITIONS OF THE NOTES**

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\$200,000,000 7.00% Notes due 4 August 2022 (the “Notes”, 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 4 August 2010 (the “Agency Agreement”, which expression shall include any amendments or supplements thereto) between the Issuer, The Bank of New York Mellon in its capacity as registrar (the “Registrar”, which expression shall include any successor to The Bank of New York Mellon in its capacity as such) and in its capacity as transfer agent, The Bank of New York Mellon in its capacity as fiscal agent (the “Fiscal Agent”, which expression shall include any successor to The Bank of New York Mellon in its capacity as such) and in its capacity as paying agent and The Bank of New York Mellon (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 4 August 2010 (the “Deed of Covenant”, which expression shall include any 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.

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

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.

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.

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 depositaries, which are participants in DTC. On or prior to the 40th day after the later of the commencement of the offering and the closing of the issue of the Notes, beneficial interests in Notes represented by the Unrestricted Global Note Certificate may be held only through Euroclear and Clearstream, Luxembourg. 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 depositaries of Euroclear and Clearstream, Luxembourg, subject to certain restrictions.

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 depositary 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 depositary) unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC;

(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 permanently to cease business.

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.

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

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.

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.

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\$1,000 being the minimum

aggregate amount of the 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.

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:

“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

“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.

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 in 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**

The Notes bear interest from 4 August 2010 (the “Issue Date”) at the rate of 7.00% per annum (the “Rate of Interest”), payable semi-annually in arrears on 4 February and 4 August in each year (each an “Interest Payment Date”), 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”.

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).

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by the Issuer 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**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 4 August 2022, subject as provided in Condition 8.

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 or Rule 904 of Regulation S under the Securities Act.

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) *Non-payment*: 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;

(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;

(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;

(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;

(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 re-adjustment or rescheduling of its External Indebtedness;

(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;

(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);

(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;

(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**

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;

(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 sub-division 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 sub-division or taxing authority thereof or therein, as a pre-condition 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 any European Council Directive 2003/48/EC on taxation or any law implementing or complying with, or introduced in order to conform to, such directive;

(d) by or on behalf of a holder of a Note 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.

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 moneys 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 moneys 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.

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**

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 US 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.

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 at close of business (local time in New York City) on the fifteenth calendar day before the due date for such payment (the "Record Date").

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 US Dollars.

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 require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

## **11. The Agents**

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, (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 and (c) a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive. 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.

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**

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.

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. Notices will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). 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**

US 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 US 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 US 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 US 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.

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

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

The Issuer agrees 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 this Agreement (including disputes or proceedings relating to any non-contractual obligations arising out of or in connection with this Agreement) (respectively, "Proceedings" and "Disputes") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

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.

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.

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 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.

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.

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.

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.

## RISK FACTORS

*Investing in the Notes involves risks. The Government believes the following material factors are the principal risks inherent in investing in the Notes and may adversely affect the Government's ability to fulfill its obligations under the Notes. You should carefully consider the risks described below and the other information contained in this Offering Circular before making an investment decision. The risks and uncertainties described below are not the only ones facing Barbados. Additional risks and uncertainties not presently known to the Government or that the Government currently considers immaterial may also adversely affect Barbados and the Barbadian economy.*

**The Barbadian economy is heavily reliant on revenue from its tourism and international business and financial services sectors, both of which have been negatively affected by the global economic crisis.**

The Barbadian economy is heavily reliant on revenue derived from its tourism and international business and financial services sectors.

The Barbadian tourism sector accounted for approximately 14.4%, 14.7% and 14.8% of total real GDP for each of the years 2009, 2008 and 2007, respectively, and is heavily dependent on visitors from the United States, the United Kingdom and Canada. Due to the impact of the global economic crisis on these three source markets, which collectively accounted for 72.6% of long stay tourism arrivals in 2009, foreign exchange earnings derived from the tourism sector decreased 10.5% to US\$1,069.3 million in 2009 compared with 2008 and are expected to decrease approximately 11% in 2010. The Government expects that continued high unemployment and adverse economic conditions in these markets, particularly the United States and the United Kingdom, will continue to negatively impact tourism revenue.

International business and financial services accounted for approximately 54.2% and 51.7% of total corporate tax revenue during 2007 and 2008 respectively. This sector has been negatively affected by the global economic crisis principally through a reduction in corporate taxes paid by offshore banks, insurance companies and international business companies operating in Barbados and a decline in new licenses issued to international firms.

Various other sectors of the Barbadian economy including construction, wholesale and retail trade, manufacturing and non-sugar agriculture production are also heavily dependent upon the tourism sector. As tourism declines, these other sectors are materially and adversely affected.

Future declines in the tourism and international business and financial services sectors would continue to adversely affect real GDP growth, the Government's revenue collection and fiscal balance and may affect the Government's ability to make payments on the Notes.

**The Government's liquidity has been negatively affected by the global economic crisis and the global economic crisis may exert further pressure on net international reserves in the future.**

The Barbadian economy is dependent on tourism (which accounted for approximately 53.5% of foreign exchange earnings in 2008), the international business and financial services sectors, the export of goods and services to supply foreign exchange and the maintenance of adequate international reserve balances with which to buy a range of imported goods needed for domestic consumption and investment. The global economic crisis has caused a decline in economic growth of the Barbadian economy as well as that of its principal trading partners,

resulting in a reduction in revenue intake, increases in Government expenditure and reduced foreign exchange earnings, which has exerted pressure on international reserve balances. Net international reserves, as a result of the foregoing, would have decreased by US\$134.3 million in 2009 (as compared to an increase of US\$95.5 million in 2008) excluding the proceeds of a US\$116.1 million bond issuance raised by the Government in the Trinidad and Tobago market in August 2009 and US\$85.1 million in borrowings from the International Monetary Fund ("IMF") in the form of special drawing rights to the Government. The decrease in international reserves in 2009 was due principally to reduced earnings from the tourism sector during 2009 as well as a decrease in exports of manufactured goods. The net proceeds of approximately US\$196,064,500 arising from the sale of the Notes, after deduction of expenses and underwriting fees, will be used to repay outstanding debt in the amount of US\$100 million maturing December 2010, provided by an affiliate of the Manager, and the balance to increase liquidity, with the effect of increasing foreign exchange reserves.

The continued impact of the global economic crisis on the Barbadian economy, that of its trading partners and, in particular, the Barbadian tourism sector would negatively impact the Government's fiscal balance, foreign exchange earnings and international reserve balances in the future. Continued fiscal deficits and a sustained decrease in foreign exchange earnings will reduce the Government's international reserve balance and, in turn, its import coverage ratio and may affect its ability to make payments on the Notes.

**The Government may have to increase its borrowings if its fiscal deficit, as a percentage of GDP, continues to increase.**

Due to the global economic crisis, the Government's fiscal deficit widened from 5.1% of GDP in FY 2008/2009 to 9.4% of GDP in FY 2009/2010. The Government anticipates a fiscal deficit for FY 2010/2011 equivalent to 8.7% of nominal GDP. Historically, this fiscal deficit has been financed principally through domestic bond and Treasury bill issuances taken up by the National Insurance Scheme and the Barbadian public, as well as domestic loans and borrowings from the Central Bank. As at 31 March 2010, the domestic debt issued by the Central Government represented approximately 70% of its overall indebtedness and the Government's gross debt to GDP ratio was 93.5%. After deducting holdings of Government debt held by the National Insurance Scheme and deposits of government and statutory bodies, the Government net debt to GDP ratio was 47.6%.

If the Government were to experience a sustained worsening of its fiscal balance, the Government might be required to increase its borrowings in the domestic market. Such increased borrowings may require the National Insurance Scheme to finance a greater percentage of outstanding Government debt. Any inability of the National Insurance Scheme to finance such increased borrowings might require the Government to resort to external funding at possibly higher costs, which could negatively impact the Government's fiscal balance and affect its ability to make payments on the Notes.

### **USE OF PROCEEDS**

The net proceeds of approximately US\$196,064,500 arising from the sale of the Notes, after deduction of expenses and underwriting fees, will be used to repay outstanding debt in the amount of US\$100 million, provided by an affiliate of the Manager, and the balance to increase liquidity, with the effect of increasing foreign exchange 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 approximately 80,000. The island's infrastructure includes a road network of over 980 miles, including a multi-lane 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 infrastructure is currently operated by several telecommunications network providers including Cable & Wireless (Barbados) Ltd. (trading as "LIME"), TeleBarbados Inc. and Digicell (Barbados) Ltd.

As at 31 December 2009, Barbados had an estimated population of 275,000. The population of Barbados has remained relatively stable since 2005.

The Immigration Act of Barbados grants non-Barbadians resident in Barbados who can evidence ability to support themselves and their dependents the status of immigrant in the first instance and, upon application five years thereafter, the status of permanent resident. The Government's immigration policy is focused on maintaining and strengthening the Government's economic base, ensuring the safety and security of the Barbadian people, and embracing internationally accepted levels of governance.

The following table sets out certain social indicators for Barbados between 2005 and 2009.

**Table 2**

#### Selected Social Indicators

GDP per capita at basic prices (in US\$) for 2009 <sup>(1)</sup>	11,909.5
Population for 2009 <sup>(2)</sup>	275,000
Life expectancy (in years) for 2007	77.0
Adult literacy rate (as a %) for 2005	99.7

(1) This is nominal GDP at market prices less net taxes on products plus financial intermediary services indirectly measured, divided by median population.

(2) Barbados Statistical Services Estimate.

Source: Central Bank of Barbados, Barbados Statistical Services and 2009 Human Development Report (United Nations Development Programme)

Successive governments have emphasised the development of human resources, resulting in a literate and trained labour force. The 2009 Human Development Report UNDP study ranked Barbados 37<sup>th</sup> in overall quality of life for 2009 (based on 2007 UNDP human development index values) and estimated its literacy rate at 99.7% as of 2005. 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 medical 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 medical clinics on the island. The Government has acted promptly to establish healthcare and prevention programmes and has received US\$15 million and US\$35 million in 2003 and 2009 respectively, from the World Bank under the HIV/AIDS phase 1 and phase 2 loan programmes. In 2007, average life expectancy was 77.0 years according to the UNDP.

The Barbadian Constitution provides for religious freedom. Over one hundred religious denominations, 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. While alterations to the Constitution can be effected by legislation passed by a simple majority of each house of Parliament, changes to certain fundamental provisions of the Constitution (including those relating to citizenship, fundamental rights and freedoms of the individual, the judicature, the public service, national finance, and certain provisions relating to the Governor General and Parliament) 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. The electoral system is based on the British model of “one person, one vote”. The Senate consists of 21 persons appointed by the Governor General, twelve 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 17 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*

The following table presents information regarding the Prime Minister and the members of the Cabinet.

**Table 3**

#### **The Prime Minister and the Cabinet**

<u>Name</u>	<u>Office</u>
The Hon. David J.H. Thompson . . .	Prime Minister
	Minister of Finance, Investment, Telecommunications and Energy, Immigration and Civil Service
The Hon. Freundel J. Stuart . . . . .	Attorney General
	Minister of Home Affairs
The Hon. David C. Estwick . . . . .	Minister of Economic Affairs and Empowerment, Innovation, Trade, Industry and Commerce
The Hon. Ronald D. Jones . . . . .	Minister of Education and Human Resource Development
The Hon. Michael A. Lashley . . . . .	Minister of Housing and Lands
The Hon. Richard L. Sealey . . . . .	Minister of Tourism
The Hon. Steven D. Blackett . . . . .	Minister of Community Development and Culture
The Hon. John D.E. Boyce . . . . .	Minister of Transport and Works
The Hon. Esther R. Byer Suckoo . . .	Minister of Labour
The Hon. E. George Hutson . . . . .	Minister of International Business and International Transport
The Hon. Denis S. Lowe . . . . .	Minister of Environment, Water Resources and Drainage
The Hon. Christopher P. Sinckler . .	Minister of Social Care, Constituency Empowerment, Urban and Rural Development
The Hon. Donville O. Inniss . . . . .	Minister of Health
The Hon. Stephen A. Lashley . . . . .	Minister of Youth, Family and Sports
The Hon. Maxine P.O. McClean . . . .	Minister of Foreign Affairs and Foreign Trade
The Hon. Haynesley L. Benn . . . . .	Minister of Agriculture
The Hon. Patrick M.T. Todd . . . . .	Minister of State (Ministry of Economic Affairs and Empowerment, Innovation, Trade, Industry and Commerce)
The Hon. Darcy W. Boyce . . . . .	Minister of State (Ministry of Finance, Investment Telecommunications and Energy)

Barbados has a history of political stability. Currently, the main political parties are the Democratic Labour Party ("DLP") and the Barbados Labour Party ("BLP"). The Prime Minister, the Hon. David Thompson, whose DLP came to office in January 2008, currently leads the Government. At present the DLP has 21 seats in the House of Assembly while the BLP holds 8 seats. The ideology of the parties is considered to be centrist. Under the constitution, the next general election in Barbados is required to take place no later than April 2013, 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. In 2001, Barbados and other CARICOM member states established the Caribbean Court of Justice (the "CCJ"). The CCJ is intended to replace the Judicial Committee of the Privy Council 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 (the "CSME"). The agreement establishing the CCJ entered into force on July 23, 2002 and the CCJ was inaugurated on April 16, 2005. The CCJ is now the final appellate court for Barbados.

### **International Organisations**

Barbados is a member of the Commonwealth of Nations, the United Nations and the Organisation of American States. Barbados is also a member of the Inter-American Development Bank ("IADB"), 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 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 (collectively, 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 co-operation relationship between the European Community, its member states and the member states of the African, Caribbean and Pacific Group of States ("ACP"). The Contonou Agreement provides for an extension of the trade component of the Lomé IV arrangements. The Contonou Agreement also provides arrangements for ACP exports of rum and assistance to the tourism industry. The European Community/ACP Sugar Protocol has also been extended under the Contonou Agreement. Further, in October 2008, Barbados and 12 other Caribbean nations signed a European Union-Cariforum Economic Partnership Agreement (the "EPA") which will govern the trade of goods and services between Barbados, the European Union and the remaining signatories. The EPA eliminates all quotas and tariffs from Caribbean exports to the European Union, with the exception of sugar and rice. 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, coordination of foreign policies and provision of common services and co-operation in areas such as health, education and transportation. It is also a party to trade, economic and technical co-operation agreements that CARICOM has signed with Venezuela and Colombia. Barbados is also a member of the regional Caribbean Development Bank, which is headquartered in Barbados and aims primarily to contribute to the economic growth of and co-operation among Caribbean member states by assisting in the co-ordination and financing of development programmes and by providing technical assistance to member nations. The Caribbean Tourism Organisation, of which Barbados is a member, is also located in Barbados and promotes tourism activity in the region.

### **Environmental Policy**

There has been an ongoing effort 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 Barbados Physical Development Plan constitutes the principal policy guidance for the use of land resources and the Environmental Management Plan articulates a framework for the environmentally-sound management of terrestrial and marine resources. Complementing this framework is the Barbados National Park Development Plan and the Coastal Zone Management Plan. Further 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 and the Marine Pollution Control Act, both of which came into force on 1 May 2000.

In January 2004, the National Sustainable Development Policy was published. It explains the Government's approach for 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 public policy relating to plant and animal life.

The goal of Barbados' strategic plan is to sustain and enhance the quality of the environment 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 natural environment efforts, ensure sustainable use of the coastal zone and develop clean energy sources (including wind and solar energy sources), while at the same time developing mineral and natural resources and seeking to moderate energy costs through clean energy and waste-to-energy initiatives.

## **ECONOMY**

### **General**

The economy of Barbados has diversified over the last four decades, with the emphasis shifting from agriculture towards services, particularly tourism and international business and financial services. The economy is driven by private enterprise with the Government playing 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\$11,909.5 for the year 2009, as well as a solid social and economic infrastructure.

Tourism, international business and financial services and manufacturing are the principal sectors of the economy, with tourism and manufacturing accounting for approximately 14.4% and 4.9% of real GDP in 2009, respectively. Business and other services, of which international business and financial services are the principal components, accounted for approximately 19.1% of real GDP in 2009.

Tourism, international business and financial services and manufacturing also constitute the main sources of foreign-exchange earnings and corporate tax revenue. Each of these sectors, and tourism in particular, also contributes to other areas of the Barbadian economy, particularly wholesale and retail trade and construction.

Foreign exchange earnings derived from the tourism sector totalled US\$1,069.3 million in 2009, US\$1,194.4 million in 2008 and US\$1,188.7 million in 2007.

While the Government does not calculate the international business and financial services sector's contribution to foreign exchange earnings or real GDP, the international business and financial services sector accounted for approximately 54.2% and 51.7% of total corporate tax revenue during 2007 and 2008 respectively. The Government estimates this sector's contribution to total corporate tax revenue to have remained stable in 2009, as compared to 2008. The international business and financial service sector's contribution to total Government revenue decreased slightly from 15.9% of total Government revenue in 2007 to approximately 12.0% of total Government revenue in 2008. The Government estimates this sector's contribution to total Government revenue to have remained stable in 2009, as compared to 2008.

Manufacturing exports, moreover, were US\$209.1 million in 2009, US\$239.4 million in 2008 and US\$229.7 million in 2007.

Tourism, however, is the most important economic driver of the Barbadian economy due to its multiplier effect on other economic sectors (in particular construction and retail trade), its significant contribution to foreign exchange earnings and inducement for tourism-related private sector economic investment.

Led by activity in the tourism and international business and financial services sectors and new private sector investment, the Barbadian economy registered strong economic growth prior to the downturn experienced in 2008 and 2009. Strong private investment enabled the economy to achieve an average growth rate of 3.8% per annum between 2005 and 2007 as compared to an average decrease in growth of 2.5% per annum between 2008 and 2009.

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

**Table 4**

**Nominal GDP and Per Capita GDP**

	<b>Total Nominal GDP<sup>(1)</sup></b> <b>(in millions of US Dollars)</b>	<b>Per Capita GDP<sup>(2)</sup></b> <b>(in US Dollars)</b>
2005 .....	3,685.0	11,137.8
2006 .....	3,884.7	11,625.5
2007 .....	4,037.5	12,260.6
2008 .....	3,988.1	12,106.3
2009 .....	3,894.8	11,909.5

(1) Total nominal GDP is calculated at market prices.

(2) Per Capita GDP is calculated at basic prices, which is nominal GDP at market prices less net taxes on products plus financial intermediary services indirectly measured, divided by median population.

*Source: Barbados Statistical Services*

**Recent Economic Performance**

*First Quarter 2010*

During the first quarter of 2010, the Barbadian economy contracted by an estimated 1% as compared to the first quarter of 2009 due principally to continued weakness in the tourism, international business and financial services and manufacturing sectors. The unemployment rate is estimated to have remained around 10% and inflation over the period is estimated to have been approximately 3% (annualized).

Long-stay tourist arrivals grew approximately 2% during the first quarter of 2010, as compared to the first quarter of 2009. However, estimated average expenditure per tourist and average length of stay continued to decrease during the first quarter of 2010. As such, hotels have been obliged to discount prices to remain competitive, with adverse effects on tourist spending.

Foreign reserve adequacy was maintained and foreign reserves as at 31 March 2010 were enough to cover approximately 20 weeks of imports. Net private capital inflows for the quarter were approximately US\$8.8 million as compared to a negative net outflow of US\$10.5 million during the same period in 2009.

Government revenue fell by 22.1% in the first quarter 2010 as compared to the same period in 2009, principally as a result of decreased import duties despite the increase in value added tax ("VAT") receipts of 11.4% and a 5.1% increase in excise taxes during this period. Current account spending is estimated to have been reduced by 7.2% as compared to the first quarter of 2009, with capital expenditures reduced by 38.2% as compared to the first quarter of 2009. As a result, the Government recorded a first quarter 2010 fiscal deficit of US\$118.1 million as compared to a fiscal deficit of US\$77.9 million in the first quarter of 2009. The fiscal deficit was financed entirely by new domestic loans and bond and Treasury bill issues in the domestic market placed with the Barbadian public, the National Insurance Scheme and commercial banks. Based on current projections of revenues and expenditures for the fiscal year, the Government anticipates a fiscal deficit for FY 2010/2011 equivalent to 8.7% of nominal GDP.

The Government's medium-term fiscal strategy for improving revenue collection includes improving the efficiency of existing revenue collecting agencies and a comprehensive review of the existing tax framework. As such, the Government aims to establish by the end of FY 2010/2011 a centralized revenue authority to consolidate all major revenue collecting agencies under a single agency, the "Central Revenue Authority". The Government also plans to adopt a more aggressive approach to the collection of taxes, non-tax revenue and arrears through increased use of technology, compliance audits and cost-efficient approaches to revenue collection. Other initiatives under consideration include strengthening and modernising legislation to give revenue collecting agencies greater authority to enforce compliance, broadening the VAT base by restructuring fiscal incentives and increasing license fees and other government fees to match inflation.

The Government's medium-term strategy also aims to reduce expenditures principally by reducing current transfer payments and subsidies to statutory boards, statutory corporations and Government-owned companies and by reducing capital expenditures through facilitating greater use of private-public sector partnership arrangements in financing capital projects (in which the Government anticipates savings in expenditures and additional revenues to finance associated lease payments on such arrangements). Other initiatives to reduce expenditure include containing the growth in public sector employment, reducing Government spending on goods and services through improved use of technology, and improving sourcing and procurement methods. See "Public Finance—Revenues" and "Public Finance—Expenditures".

The gross Government debt to GDP ratio as at 31 March 2010 was 93.5%. After deducting Government debt held by the National Insurance Scheme and deposits of government and statutory bodies, the net Government debt to GDP ratio was 47.6%. Total domestic debt of the Central Government, exclusive of Government-guaranteed debt, was US\$1,969.5 million as at 31 March 2010 compared to US\$2,616.9 million as at 31 December 2009. Total Government-guaranteed domestic debt was US\$696.0 million as at 31 March 2010 compared to US\$649.5 million as at 31 December 2009.

Total external debt of the Central Government, exclusive of Government-guaranteed debt, was US\$941.2 million as at 31 March 2010 compared to US\$1,123.5 million as at 31 December 2009. Total Government-guaranteed external debt was US\$179.9 million as at 31 March 2010 compared to US\$116.4 million as at 31 December 2009.

## *2009*

In 2009, the Barbadian economy contracted by 4.8% compared to 2008, primarily due to the global economic downturn which caused a decrease in tourism. The tourism sector's contribution to real GDP decreased by 6.6% in 2009 compared to 2008 primarily due to a reduction in arrivals from the United Kingdom and the United States. Longer-stay tourist arrivals decreased 8.6% compared to 2008, while cruise ship passenger volumes increased 6.4% over the same period. Further, the contraction in tourism had additional effects on other sectors and the Barbadian economy registered declines in construction and manufacturing, as more fully set forth below.

The Government does not calculate the international business and financial services sector's contribution to real GDP or foreign exchange earnings, only the sector's contribution to total corporate tax revenue and total Government revenue. Due to a reduction in license issuances and the global economic crisis, the international business and financial services sector's contribution to total corporate tax revenue decreased marginally, from 54.2% in 2007 to 51.7% of total corporate tax revenue in 2008. The Government estimates this sector's

contribution to total corporate tax revenue to have remained stable in 2009, as compared to 2008. The international business and financial service sector's contribution to total Government revenue decreased slightly from 15.9% of total Government revenue in 2007 to approximately 12.0% of total Government revenue in 2008. The Government estimates this sector's contribution to total Government revenue to have remained stable in 2009, as compared to 2008.

Output in the manufacturing sector contracted by 12.8% in 2009 compared to 2008, primarily due to contractions in the output of chemicals, electronics, beverages and tobacco, food processing and furniture.

With a slowdown in both private and public building projects, construction fell by an estimated 22.6% during 2009 compared to 2008. This slowdown constrained activity in mining and quarrying, which fell by 37.6% in 2009, following a 7.9% decline in 2008. Sugar production increased by 1.2% in 2009, in contrast to a 6.9% decline in 2008, while the non-sugar agriculture and fishing sector grew 3.6% in 2009 compared to 2008. Similarly, activity in the transportation, storage and communication, wholesale and retail, as well as business and other services sectors fell by 2.9%, 5.3% and 1.3%, respectively in 2009 compared to 2008.

The average rate of annualized inflation in 2009 was approximately 3.6%, compared to 8.1% in 2008 primarily due to decreases in the price of imported oil. The average rate of unemployment for 2009 was an estimated 10.0%, compared to 8.1% at the end of 2008.

A marked slowdown in revenue as a result of reduced taxes because of the weakened domestic economy and increased Government expenditure caused a widening in the fiscal deficit during FY 2009/2010 to \$365.6 million or 9.4% of GDP. Net international reserves increased by approximately US\$67 million in 2009, following a US\$95.5 million decrease in 2008, raising the import cover of goods and services to approximately 21 weeks as at 31 December 2009. This increase in net international reserves was in large part due to a US\$116.1 million bond issuance by the Government in the Trinidad and Tobago market in August 2009 and US\$85.1 million in borrowings from the IMF in the form of special drawing rights to the Government. In the absence of these factors, net international reserves would have fallen by US\$134.3 million as of 31 December 2009. The factors responsible for the erosion in earned foreign reserves included lower tourism earnings and a decrease in the export of manufactured goods. A fall in import payments, primarily due to the decline in global oil prices, narrowed the current account deficit to 5.6% of GDP, from 10.6% in 2008.

Domestic deposits of commercial banks declined marginally during 2009, while credit accumulation was constrained by the general downturn in productive activity. Liquidity in the banking system continued to increase. The liquid assets ratio (defined as the ratio of total cash, deposits held in the banking system and Treasury bills divided by total assets) rose to 10.7% as of 31 December 2009 from 9.0% as of 31 December 2008. The liquid assets ratio was approximately 10.0% as of 31 March 2010.

## **Medium-Term Economic Strategy**

### *Economic and Financial*

The Government believes the Barbadian economy is well positioned to benefit from a recovery in global economic activity especially as the United States and the United Kingdom emerge from recession. The private sector, together with Government assistance, has undertaken major renovations to hotels and ancillary facilities (including the Four Seasons Hotel

and Villas at Paradise Beach and other developments at Apes Hill, Lime Grove, St. Peter's Bay, Port Ferdinand and Beachlands). The Government has also directly undertaken public sector projects and infrastructure repairs, which will position the tourism sector to take advantage of an upturn in global economic activity. Increased tourism receipts are expected for 2010 as Barbados was a host country for the ICC World Twenty20 Cricket Championship in May 2010. Further, Barbados believes it has maintained its competitiveness by means of changing the composition of its exports of goods and services and product differentiation. Barbados also has extended its economic focus from sugar to tourism and international business and financial services through the development of high-end tourism and niche markets such as heritage and sports tourism, through a network of double taxation treaties and bilateral-investment agreements. Further, the Government support initiatives to the tourism sector to reduce the financial impact caused by the global economic downturn and to the commercial sector to assist businesses with their operating costs and employment levels are expected to help position the Barbadian economy to take advantage of an upturn in global economic activity.

With respect to tourism, the Government believes that further 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 establish a foundation for continued growth. However, while tourism will remain the cornerstone of the economy, Barbados intends to continue its efforts to diversify its economy. The promotion of the international business and financial services sector and the information technology services sub-sector is intended to further this goal. With respect to international business and financial services, the Government aims to continue expansion of its double taxation treaties and bilateral-investment arrangements, enhancement of infrastructure and continued promotion of economic and business transparency all with the goal of positioning Barbados as a hub for local, regional and international businesses and cross-border trade. The treaty network established between Barbados and various other countries positions Barbados to capitalize on a rebound in economic growth amongst Barbados' principal trading partners as these economies emerge from the global economic crisis and enhances Barbados' appeal as a destination for future foreign direct investment by facilitating investment in the area of international and financial business services and more generally promoting the establishment and development of IBCs in Barbados.

To increase employment in the international business and financial services sector and the information technology services sub-sector, 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 IADB and the Caribbean Development Bank, to provide for the widespread introduction of computers into schools to prepare students for life in a technologically advanced society. In addition, the Government is expanding training opportunities for citizens interested in pursuing careers in information technology.

In 2006, Invest Barbados, an economic development agency of the Government of Barbados, became operational. Invest Barbados is responsible for attracting, winning and sustaining international investment for Barbados through securing and promoting sustainable foreign direct investment, securing export businesses and promoting technology and skills transfers. In addition, the Barbados Investment and Development Corporation (the "BIDC") is a statutory corporation that promotes business development in Barbados, with particular emphasis on manufacturing and small businesses. It aims to promote exports and direct capital investment; to transition the industrial sector toward higher value-added activities; to expand the information and financial services sectors; and to improve the efficiency and competitiveness of the manufacturing sector. These functions are particularly important in an

era of liberalised trade. Further, the BIDC's Small Business Centre provides a comprehensive package of start-up and ongoing support services to indigenous small businesses.

Barbados' economic fortunes will also depend on the success of the CARICOM Single Market and Economy (the "CSME"). The Government is committed to the development of the CSME, which would, permit free movement of goods, capital and people, harmonise taxation and provide for regional transportation and economic policies. Many of the Caribbean Governments have signed all of the nine protocols required to create the necessary legal framework under the CSME. 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.

The Government has stated that it is committed to maintaining the fixed exchange rate of US\$1 to BDS\$2, as it believes that this peg provides a source of confidence for producers and investors. To this end, the Government's 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 maintain a fiscal deficit below 2.5% of nominal GDP), 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 of twelve weeks of goods and services.

The Government is also currently considering a proposal for a single regulator for the financial services sector, the proposed "Financial Services Commission". The purpose for the Financial Services Commission is to consolidate the supervision and regulation of non-banking financial service entities currently undertaken by the Securities Commission, the Cooperatives Department, the International Business Unit of the Ministry of International Business and International Transport, and the Office of Supervisor of Insurance and Pensions, and to improve regulation, efficiency and oversight of the sector through improved resource allocation and streamlined oversight of regulatory functions. The Financial Services Commission will be responsible for, among other things, licensing and registration, supervision and regulation of the operation of licensees, and the establishment of standards for improving risk monitoring in the sector. The Government expects the Financial Services Commission to be established during the second half of 2010.

The Government believes that this framework should enable the economy to sustain non-inflationary economic growth of approximately 3.0 to 3.5% per annum over the medium-term; however, there can be no assurance that this target can be achieved. Furthermore, with its educated labour force, stable society and telecommunications infrastructure, the Government believes that Barbados should be well positioned to take advantage of a recovery in global economic activity and further economic globalisation, particularly in the services sector.

### *Development and Reform*

The Government recognises the importance of infrastructure development to the long-term growth prospects of the economy. To this end, it has completed several improvements to the Grantley Adams International Airport, the Bridgetown Harbour, the Dodds Prison, the Judicial Centre and the national road infrastructure. See "—Principal Sectors of the Economy—Tourism".

The Government is also conscious of the need to protect the environment. Key projects identified include a water mains replacement programme, improvements to sanitation and climate change adaption projects. In addition, the Government has implemented coastal conservation and solid waste management programmes, including a landfill site at Greenland. The Government also offers 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 which provide parameters for sustainable wage policies in the economy, and which seek to develop a national employment policy and to promote industrial harmony. This social partnership signed a fifth protocol in May 2005. A number of positions in the public service sector have also been re-graded 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, to improve the efficiency of public financial institutions and to broaden the range of investment instruments available to investors. In addition, the Government has begun a gradual process of trade reform and has divested some publicly-owned assets. The Government has also privatised both the Barbados National Bank ("BNB") and the Insurance Corporation of Barbados, now the Insurance Corporation of Barbados Limited ("ICBL"). See "—State-Owned Enterprises". The Government intends to maintain and strengthen these initiatives, and its policy envisages the eventual privatisation of the seaport and the Grantley Adams International Airport.

The Government is also undertaking reforms to increase public sector efficiency. These include changes to budgeting and revenue collection systems and increasing the use of information technology. The Government's medium term fiscal strategy prioritizes regular review of the efficiency of the Government's expenditure programmes and seeks to reduce Government spending as well as improve service delivery by requiring Ministries to prioritise their programmes to reduce costs and increasing focus on containing growth in personal emoluments and transfers and subsidies. Further, the Government's strategy aims to manage carefully public sector employment and to restructure state-owned agencies to be more efficient and to rely less on Government transfers and subsidies, while emphasising accountability and improving management practices.

In addition, the Government has established a pilot project, the Enabling Environment for Private Sector Investment ("EEPSI") project, to establish an information systems network within the Government to improve the disclosure of information and co-ordination between various ministries and agencies. The Government hopes that these measures will aid 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. Additionally, the Fair Competition Act was passed in 2002 and provides the means whereby the Fair Trading Commission can encourage and improve competitiveness. Consumers and traders are also protected from unfair conduct by the Consumer Protection Act, which also came into effect in 2002.

## Gross Domestic Product

Barbados' real GDP has grown by an average rate of 2% over the last 17 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. In 2001, the Barbados economy contracted by 2.6% as a result of the depressed world economy in that period and the negative consequences of the September 11th terrorist attack, which weakened the performance of the tourism sector. Growth recovered and the Barbados economy registered high levels of growth from 2002 through 2008 with an average real GDP growth of 2.6% during that period as the tourism sector recovered and new private-investment was registered. Between 2008 and 2009, real GDP registered an average decrease in growth of 2.5% per annum.

The following table sets out the rate of growth of real GDP for the years indicated, subdivided by the traded and non-traded sectors.

**Table 5**

### Growth Rate of Real GDP

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(expressed as a percentage)				
Traded sector .....	(0.4)	(0.3)	1.9	(1.2)	(6.3)
Sugar .....	11.3	(12.0)	0.9	(6.9)	1.2
Non-sugar agriculture and fishing .....	6.9	(2.9)	2.8	2.9	3.6
Manufacturing .....	2.1	(0.7)	(1.2)	(2.2)	(12.8)
Tourism .....	(3.8)	1.6	3.0	(1.2)	(6.6)
Non-traded sector .....	5.5	4.9	4.5	0.2	(4.3)
Mining and quarrying .....	8.0	(3.1)	(5.9)	(7.9)	(37.6)
Electricity, gas and water .....	(0.6)	9.5	1.3	(0.4)	0.6
Construction .....	14.0	(0.4)	0.1	(7.9)	(22.6)
Wholesale and retail trade <sup>(1)</sup> .....	5.3	7.0	6.5	(0.8)	(5.3)
Government services .....	3.5	3.0	3.0	3.0	3.0
Transportation, storage and communications .....	4.9	5.5	6.1	2.9	(2.9)
Business and other services <sup>(2)</sup> .....	4.6	6.0	5.8	2.2	(1.3)
Total .....	<u>3.9</u>	<u>3.6</u>	<u>3.8</u>	<u>(0.2)</u>	<u>(4.8)</u>

(1) Includes establishments engaged in wholesale and retail merchandising (such as restaurants, artisanal shops, grocery markets, general tourism and beach products) and the sale of items produced by the manufacturing sector (such as electronic components, chemicals, garments and textiles, paint, paper products, furniture, edible oils, soap and food products).

(2) Includes international business and financial services, other businesses and data and information technology services.

Source: Central Bank of Barbados

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

**Table 6**

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

	Year ended 31 December									
	2005	%	2006	%	2007	%	2008	%	2009 <sup>(P)</sup>	%
	(in millions of US Dollars, except percentages)									
Traded sector .....	138.1	26.0	137.6	25.0	140.3	24.5	138.6	24.3	129.9	23.9
Sugar .....	8.2	1.5	7.2	1.3	7.3	1.3	6.8	1.2	6.9	1.3
Non sugar agriculture and fishing .....	17.4	3.3	16.9	3.1	17.4	3.0	17.9	3.1	18.5	3.4
Manufacturing .....	31.6	5.9	31.4	5.7	31.0	5.4	30.3	5.3	26.5	4.9
Tourism .....	80.9	15.2	82.1	14.9	84.6	14.8	83.6	14.7	78.1	14.4
Non-traded sector .....	393.5	74.0	412.8	75.0	431.2	75.5	431.9	75.7	413.3	76.1
Mining and quarrying .....	5.0	0.9	4.8	0.9	4.6	0.8	4.2	0.7	2.6	0.5
Electricity, gas and water .....	19.4	3.7	21.3	3.9	21.6	3.8	21.5	3.8	21.6	4.0
Construction .....	49.6	9.3	49.4	9.0	49.5	8.7	45.5	8.0	35.3	6.5
Wholesale and retail trade <sup>(1)</sup> ....	107.9	20.3	115.5	21.0	123.0	21.5	122.0	21.4	115.6	21.3
Government services .....	74.0	13.9	76.3	13.9	78.6	13.7	80.9	14.2	83.3	15.3
Transportation, storage and communications .....	45.7	8.6	48.2	8.7	51.1	8.9	52.6	9.2	51.0	9.4
Business and other Services <sup>(2)</sup> ..	91.8	17.3	97.4	17.7	103.0	18.0	105.2	18.4	103.8	19.1
<b>Total .....</b>	<b>531.6</b>	<b>100.0</b>	<b>550.5</b>	<b>100.0</b>	<b>571.6</b>	<b>100.0</b>	<b>570.5</b>	<b>100.0</b>	<b>543.2</b>	<b>100.0</b>

(1) Includes establishments engaged in wholesale and retail merchandising (such as restaurants, artisanal shops, grocery markets, general tourism and beach products) and the sale of items produced by the manufacturing sector (such as electronic components, chemicals, garments and textiles, paint, paper products, furniture, edible oils, soap and food products).

(2) Includes international business and financial services, other businesses and data and information technology services.

Source: Central Bank of Barbados

Tourism remained a major contributor to real GDP between 2005 and 2009. Tourism accounted for approximately 15% of total real GDP on average over the period 2005 to 2007 and for approximately 14.6% of total real GDP on average over the period 2008 to 2009. The contraction of the tourism sector's contribution to real GDP recorded in 2008 and 2009, was in large measure due to the impact of the global economic crisis on the demand for air travel.

The Government does not calculate the international business and financial services sector's contribution to real GDP or foreign exchange earnings, only the sector's contribution to total corporate tax revenue and total Government revenue. The international business and financial services sector generates revenue primarily through corporate tax receipts levied and, to a lesser extent, on license fees paid on new licenses issued. International business and financial services accounted for approximately 54.2% and 51.7% of total corporate tax revenue during 2007 and 2008 respectively. The Government estimates this sector's contribution to total corporate tax revenue to have remained stable in 2009, as compared to 2008. The international business and financial service sector's contribution to total Government revenue decreased slightly from 15.9% of total Government revenue in 2007 to approximately 12.0% of total

Government revenue in 2008. The Government estimates this sector's contribution to total Government revenue to have remained stable in 2009, as compared to 2008. More generally, the business and services sector, of which international business and financial services is the principal sub-component, accounted for approximately 17.7% of total real GDP on average over the period 2005 to 2007 and for approximately 18.8% of total real GDP on average over the period 2008 to 2009.

Manufacturing accounted for approximately 5.7% of total real GDP on average over the period 2005 to 2007 and for approximately 5.1% of total real GDP on average over the period 2008 to 2009. The contraction of the manufacturing sector's contribution to real GDP in 2008 and 2009 was due primarily to contractions in the output of chemicals, electronics, beverages and tobacco, food processing and furniture.

Other sectoral contributors to real GDP include the sugar and non-sugar agricultural and fishing sector, wholesale and retail trade, and the construction sector. Sugar accounted for approximately 1.4% of total real GDP on average over the period 2005 to 2007 and for approximately 1.3% of total real GDP on average over the period 2008 to 2009. Non-sugar agricultural and fishing production accounted for approximately 3.1% of total real GDP on average over the period 2005 to 2007 and for approximately 3.3% of total real GDP on average over the period 2008 to 2009. Wholesale and retail trade accounted for approximately 20.9% of total real GDP on average over the period 2005 to 2007 and for approximately 21.4% of total real GDP on average over the period 2008 to 2009. Construction accounted for approximately 9.0% of total real GDP on average over the period 2005 to 2007 and for approximately 7.3% of total real GDP on average over the period 2008 to 2009. The contraction of the construction sector's contribution to real GDP in 2008 and 2009 was due primarily to a slowdown in both private and public building projects and waning tourism-related projects due to difficult credit conditions.

## **Principal Sectors of the Economy**

### *Tourism*

Tourism is the most important economic driver of the Barbadian economy due to its multiplier effect on other economic sectors (in particular construction and retail trade), significant contribution to foreign exchange earnings and inducement for tourism-related private sector economic investment.

The Government believes that Barbados has developed a unique array of attractions that distinguishes the island as an up-market tourist destination. Barbados has historically focused its tourism product on the high-end tourism market and recently has begun to promote the appeal of Barbados as a niche tourism market, in particular for heritage and sports tourism. Tourism has also benefitted as a result of a decision by some cruise lines over the past few years to use Barbados as a homeport during the winter tourist season, which has the effect of increasing cruise ship calls and overall cruise ship visitor figures.

The Government believes the Barbados tourism sector has outperformed other regional tourism destinations (in particular Mexico and Jamaica) during the global economic crisis. The Government believes this to be true notwithstanding Barbados' focus on high-end and niche market tourism as opposed to competitor nations that do not focus on the high-end tourism market and therefore are less expensive vacation destinations than Barbados.

Long-stay tourist arrivals grew approximately 2% during the first quarter of 2010, as compared to the first quarter of 2009. However, estimated average expenditure per tourist and average length of stay continued to decrease during the first quarter of 2010. As such, hotels have been obliged to discount prices to remain competitive, with adverse effects on tourist spending.

In 2009, tourism contributed US\$78.1 million to real GDP, equivalent to 60.1% of traded sector product and 14.4% of total product for that year, as compared to US\$83.6 million, 60.3% and 14.7% in 2008, respectively. On average, over the period 2005-2007, tourism contributed US\$82.5 million to real GDP, equivalent to 59.5% of traded sector product and 15.0% of total product for the 2005-2007 period. The Government estimates that tourist spending increased to US\$1,069.3 million in 2009 from US\$896.1 million in 2005.

The following tables set out selected statistics relating to the tourism sector for the years indicated.

**Table 7**

**Key Tourism Indicators**

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
Tourism real GDP (% change) .....	(3.8)	1.6	3.0	(1.2)	(6.6)
Tourist arrivals (in thousands) .....	547.5	562.6	573.9	567.6	518.6
United Kingdom .....	202.8	211.5	223.8	219.9	190.6
United States .....	131.0	130.8	133.9	131.8	122.3
Canada .....	47.7	49.2	53.1	57.3	63.8
CARICOM .....	114.8	117.5	99.5	100.6	88.8
Other .....	51.3	53.6	63.6	57.9	53.1
Average length of stay (nights)* .....	7.4	7.2	7.4	n.a.	n.a.
Hotel room occupancy rate (%) .....	54.0	52.8	56.1	n.a.	n.a.
Cruise ship passengers (in thousands) .....	563.6	539.1	616.4	597.5	635.7
Estimated tourist spending (in millions of US\$) ....	896.1	1,056.6	1,188.7	1,194.4	1,069.3

\* Excludes people staying at the homes of friends or relatives or people who stay in apartments or villas, which are not, for these purposes, recognised accommodation.

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 has been Canada in the 1970s, the United States in the 1980s and the United Kingdom in the 1990s and over the last decade.

During 2009, the Government estimates long-stay arrivals (visitors who stay overnight on the island, as distinct from day excursionists) fell by 8.6% as compared to 2008, the highest decline on record since 1991. Cruise ship excursionists increased by 6.4% to 635,746 in 2009 as compared to 2008, due to increased cruise ship calls and a shift away from air travel. Long-stay arrivals fell by approximately 1.1% during 2008 compared to 2007, in contrast to an increase of 4.8% from 2005 to 2007. Cruise ship passenger arrivals decreased by approximately 3.1% in 2008 compared to 2007, following an increase of 9.4% from 2005 to 2007. Arrivals for the 2008/2009 winter season were 6.1% lower than for the 2007/2008 winter season. Summer arrivals declined by around 11.2% from 2008 to 2009.

With the exception of Canada, tourist arrivals from all major source markets were down during 2009. Arrivals from Canada rose by an estimated 11.3% in 2009 compared to 2008, mainly because of increased airlift out of Western Canada and greater marketing in North America. Visitors from Canada accounted for 12.3% of long-stay arrivals in 2009. Visitors from the United Kingdom and the United States accounted for 36.8% and approximately 23.6% of long-stay arrivals in 2009, respectively. However, high unemployment rates in the United Kingdom and the United States in 2009 continued to affect arrivals from these markets with

visitors from the United Kingdom and the United States contracting by 13.3% and 7.2% respectively in 2009 compared to 2008. Visitors from CARICOM fell by 11.7% in 2009 compared to 2008.

Information regarding air service to and from Barbados as at 31 March 2010 from the principal tourist departure cities is set forth below.

**Table 8**

<b>Air Services to and from Barbados</b>	
<b>Location</b>	<b>Air Service Provider</b>
New York .....	American Airlines Jet Blue Airways
Miami .....	American Airlines
Atlanta .....	Delta Airways
Charlotte .....	US Airways
Philadelphia .....	US Airways
Puerto Rico .....	American Airlines
London .....	British Airways Virgin Atlantic
Montreal .....	Air Canada West Jet Airlines
Toronto .....	Air Canada West Jet Airlines

*Source: Barbados Tourism Authority*

Barbados also serves as a port of call for the following major cruise operators, among others: Princess Cruises, Royal Caribbean Cruise Lines, Carnival Cruise Lines, Norwegian Cruise Lines and Disney Cruise Lines.

In 2009, Barbados had total hotel capacity of approximately 6,570 rooms.

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

**Table 9**

<b>Long Stay Arrivals</b>						
	<b>United Kingdom</b>	<b>United States</b>	<b>Canada</b>	<b>CARICOM Countries</b>	<b>Other</b>	<b>Total</b>
<b>2003</b> .....	202,564	129,326	49,641	96,809	52,871	531,211
<b>2004</b> .....	213,947	129,664	50,032	104,414	53,445	551,502
<b>2005</b> .....	202,765	131,005	47,690	114,775	51,299	547,534
<b>2006</b> .....	211,523	130,767	49,198	117,469	53,601	562,558
<b>2007</b> .....	223,772	133,871	53,115	99,537	63,579	573,874
<b>2008</b> .....	219,921	131,768	57,327	100,616	57,939	567,571
<b>2009</b> .....	190,632	122,306	63,751	88,771	53,104	518,564

*Source: Barbados Statistical Service*

The decline in tourism has been very general and is reflected in hotel bookings, hotel occupancy rates, employment in the tourism sector and visitor arrivals during festival seasons. Tourism can be sensitive to external factors. Barbados, unlike other regional tourist destinations, has escaped serious storm damage in recent years, storms from the east having

tended to pass north of the island. However, 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 be likely to 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. The BTA considers the Brazilian market, due to its size and economic growth trends, to be a potential significant new source of tourism visitors in the future. 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. Many hotels have undergone substantial refurbishment and expansion, including The Sandy Lane Hotel and The Barbados Hilton. There are also plans to develop major hotel projects on the east and west coasts, and in Bridgetown, including the Four Seasons Hotel and Villas at Paradise Beach and other real estate developments at Apes Hill, Lime Grove, St. Peter’s Bay, Port Ferdinand and Beachlands, with some of these projects having already commenced.

The Government believes that Barbados has developed a unique 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 long-stay and cruise ship visitors per year.

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. In early 2007, Barbados hosted the Cricket World Cup, the third most popular sporting event in the world. The Cricket World Cup brought approximately 10,000 extra visitors to the island, contributing significantly to economic growth during that year. Barbados also served as one of the host countries in May 2010 for the ICC World Twenty20 Cricket Championship.

The construction of the Royal Westmoreland Golf Course, together with the 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, which will also enable Barbados to stage international golf tournaments.

Among cultural offerings, the Crop Over Festival (a traditional harvest 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 conference facilities at the Hilton Hotel will complement the capacity already provided at the Lloyd Erskine Sandiford Centre.

The Grantley Adams International Airport in Barbados was refurbished and expanded in 2006. Work on a new terminal began in 2000 and was completed in 2006, with a second phase of refurbishment completed in 2007.

### *Business and Other Services*

Business and other services is comprised of international business and financial services, insurance, other businesses and data and information technology services. In 2009 this sector represented 19.1% of real GDP, as compared to 18.4% of real GDP in 2008 and an average of 17.7% of real GDP over the 2005-2007 period.

#### International Business and Financial Services—General

International business and financial services are the principal components of the general “businesses and other services” sector. International business and financial services encompasses international business companies, offshore banks, exempt insurance companies and exempt insurance management companies, and societies with restricted liability, as discussed in more detail herein under “–Banking” and “–Insurance”. The international business and financial services sector relies on the well-educated, skilled labour and modern telecommunications facilities available on the island as well as from a concessionary tax structure applicable to licensed companies conducting international business. Further, the corporate tax rate in Barbados for qualifying companies is generally between 1.0% to 2.5%. See “Public Finance—Revenues”.

The Government does not calculate the international business and financial services sector’s contribution to real GDP or foreign exchange earnings, only the sector’s contribution to total corporate tax revenue and total Government revenue. International business and financial services accounted for approximately 54.2% and 51.7% of total corporate tax revenue during 2007 and 2008 respectively, primarily through corporate tax receipts levied and, to a lesser extent, on license fees paid on new licenses issued. The Government estimates this sector’s contribution to total corporate tax revenue to have remained stable in 2009, as compared to 2008. The international business and financial service sector’s contribution to total Government revenue decreased slightly from 15.9% of total Government revenue in 2007 to approximately 12.0% of total Government revenue in 2008. The Government estimates this sector’s contribution to total Government revenue to have remained stable in 2009, as compared to 2008.

Total corporate tax receipts paid, moreover, were US\$174.5 million in FY 2009/2010 and US\$223.6 million in FY 2008/2009, representing approximately 17.5%, and 14.4%, respectively, of total Government revenue in each of those periods. The increase in the value of corporate tax receipts in FY 2009/2010 compared to FY 2008/2009 was due to the recognition of tax receipts collected in the preceding fiscal year in the current fiscal period.

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 and 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 versus domestic taxation would no longer be an objective of their initiative. Two other significant issues raised by the OECD were transparency of the taxation systems and exchange of information. The Government considers its taxation system to be transparent; all tax incentives are provided through legislation and are published in the

Official Gazette of Barbados, which is readily accessible to the public. Further, Barbados has facilitated the exchange of tax information by entering into double taxation agreements with certain countries.

A major concern of the Financial Action Task Force and other initiatives has been the use of offshore centres as money laundering centres. 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 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, health and cultural services, particularly in the area 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 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 effected in 2002, replacing the offshore Banking Act. The International Financial Services 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 also been amended by the International Business (Miscellaneous Provisions) Act Cap. 2001-29.

The Government has also recognised the importance of information technology and electronic commerce and has established a policy committee to determine the appropriate legal and regulatory framework to facilitate the development of this rapidly evolving area.

The Government is currently considering a proposal for a single regulator for the financial services sector, the proposed "Financial Services Commission". The purpose for the Financial Services Commission is to consolidate the supervision and regulation of non-banking financial service entities currently undertaken by the Securities Commission, the Cooperatives Department, the International Business Unit of the Ministry of International Business and International Transport, and the Office of Supervisor of Insurance and Pensions, and to improve regulation, efficiency and oversight of the sector through improved resource allocation and streamlined oversight of regulatory functions. The Financial Services Commission will be responsible for, among other things, licensing and registration, supervision and regulation of the operation of licensees, and the establishment of standards for improving risk monitoring in the sector. The Government expects the Financial Services Commission to be established during the second half of 2010.

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

**Table 10**

**Licences in International Business and Financial Services\***

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
International Business Companies .....	372	391	506	481	379
Exempt Insurance Companies .....	11	8	9	10	5
Exempt Insurance Management Companies .....	3	1	1	3	1
Societies with Restricted Liabilities .....	42	33	151	83	19
Offshore Banks .....	0	4	5	1	2
Total .....	<u>428</u>	<u>437</u>	<u>672</u>	<u>578</u>	<u>406</u>

\* 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, Ministry of International Business and International Transport and Office of the Supervisor of Insurance

A discussion of certain areas within the international business and financial services sector follows.

International Business and Financial Services—Banking

One of the key components of the international business and financial services sector 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. In 2009, two additional offshore banks were registered in Barbados, an increase of one from the year earlier. During 2008, these firms contributed approximately 14% of the Government's total corporate tax receipts which translated to just over 2.6% of total tax revenues for the period.

International Business and Financial Services—Insurance

The insurance area includes life insurance, reinsurance captive insurance and insurance management companies. In 2009, five additional exempt insurance companies (which are exempted from taxation for fifteen years under the Exempt Insurance Act) and one new exempt insurance management company was registered. As of 31 December 2009, there were 230 companies registered in the insurance sub-sector of the offshore industry.

Other Businesses

Another important area within the business and other services sector 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. 379 IBC licenses were issued in 2009 as compared to 481 licenses issued during 2008.

Total tax revenues collected from IBCs were US\$110.0 million in 2008, US\$135.5 million in 2007 and an average of US\$128.8 million over the period 2005 to 2007, representing approximately 9.4%, 11.8% and 12.1%, respectively, of total Government revenue in each of these periods.

The treaty network established between Barbados and various other countries positions Barbados to capitalize on a rebound in economic growth amongst Barbados' principal trading partners as these economies emerge from the global economic crisis and enhances Barbados' appeal as destination source for future foreign direct investment by facilitating investment in the area of international and financial business services and more generally promoting the establishment and development of IBCs in Barbados. Barbados has entered into Double Tax Agreements ("DTAs") with Austria, Botswana, Canada, CARICOM, China, Cuba, Finland, Malta, Mauritius, Mexico, the Netherlands, Norway, Seychelles, Sweden, Switzerland, the UK, the USA, and Venezuela. There is also a regional double taxation agreement amongst the member states of CARICOM. Barbados currently has in place 18 such DTAs. Bilateral Investment Treaties ("BITs") have been concluded with the United Kingdom, Mauritius, Venezuela, Germany, Switzerland, Italy, Cuba, Canada and China. Barbados currently has in place nine BITs. 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 registering some decline during the first few years of the decade this sub-sector has started to grow again, reflecting establishment of call centres and medical transcription companies. The BIDC provides facilities for the vast majority of these companies at a number of purpose-built industrial complexes. At 31 December 2008, there were 11 active information services companies operating in BIDC-owned facilities, providing services to offshore users and employing 1,957 people, compared to 1,727 in 2007. 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*

The manufacturing sector accounted for 4.9% of real GDP in 2009, compared to 5.3% in 2008 and an average of 5.7% over the 2005 to 2007 period. 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 and Tobago but which was subsequently privatised, constitutes the only heavy industry in Barbados.

Non-sugar related manufacturing exports were US\$188.7 million in 2009, compared to US\$216.9 million in 2008 and an average of US\$194.3 million over the 2005 to 2007 period. Food and beverage, chemicals and electrical components have historically been the principal exporting sub-sectors within manufacturing. Due to the small size of the domestic market, the

Government has emphasised light industry with export potential, such as medical supplies, electronic components, leather items, wooden furniture, electro-mechanical goods, sporting goods and quality apparel. Tax concessions and other incentives are also in place to encourage export manufacturing.

The manufacturing sector contracted by an estimated 1.9% from 2005 to 2007 as most sub-sectors had difficulty adjusting to trade liberalization. From 2008 to 2009 the manufacturing sector contracted by an estimated 12.5%, due primarily to reduced output of chemicals, electronics, beverages and tobacco, food processing and furniture. The Government continues to provide assistance to help the manufacturing sector modernise plants, reduce costs and increase productivity. The Government continues to encourage manufacturers to restructure their production systems, and discard outdated plant and equipment, so as to be able 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, moreover, has been distilled on the island for over 300 years. Mount Gay Rum (majority-owned by Remy Martin), Cockspur Fine Rum (a locally-owned enterprise), ESA Field and Four Square Spiced Rum (each locally-owned) 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, particularly the United Kingdom. Barbados exported US\$28.6 million of rum in 2009, compared to US\$33.0 million in 2008 and an average of US\$27.1 million over the 2005 to 2007 period.

### *Agriculture and Fishing*

While agriculture and fishing 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. Agriculture, comprising sugar and non-sugar agriculture, once the single largest sector of the economy, accounted for 4.7% of real GDP in 2009, compared to 4.3% in 2008 and an average of 4.5% over the 2005 to 2007 period. Sugar accounted for only 1.3% of real GDP in 2009 compared to 1.2% in 2008 and an average of 1.4% over the 2005 to 2007 period.

The following table shows the production of selected agricultural products for the years indicated.

**Table 11**

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

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
Sugar cane ('Thousand Tonnes) .....	38.2	33.7	33.9	30.3	33.3
Poultry ('Thousand Kgs.) .....	14,651.0	13,571.2	14,653.7	14,387.9	6,911.5*
Milk ('Thousand Kgs.) .....	4,692.3	4,177.4	4,719.6	4,467.4	4,930.0

\* Figures are for half-year 2009 only.

Source: Central Bank of Barbados, Barbados Sugar Producers Association Inc., Pine Hill Dairy

### Sugar

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 significant employment. Sugar production in 2009 was 33.3 thousand tonnes, as compared to 30.3 thousand tonnes in 2008 and an average of 35.3 thousand tonnes over the period 2005-2007.

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. The profitability of the industry has also been hit by fluctuations in the value of the Euro and by labour disputes and costs. The Barbados Agricultural Management Company (the "BAMC"), is 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 at 31 December 2009, the BAMC had an outstanding debt of US\$37.5 million, of which the Government guaranteed US\$22.5 million. See "Public Debt—Contingent Liabilities". 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, tariffs on agricultural imports, and funds available at the international level for protection of the environment.

#### Non-Sugar Agriculture and Fishing

This sub-sector includes vegetable and root crops, fruit, livestock, cotton and fishing. In 2009, non-sugar agriculture accounted for 3.4% of real GDP, compared to 3.1% in 2008 and an average of 3.1% over the 2005 to 2007 period, although the historic performance of this sub-sector has been volatile, owing to its sensitivity to weather conditions.

#### *Wholesale and Retail Trade*

Wholesale and Retail Trade accounted for approximately 21.3% of total real GDP in 2009, 21.4% of total real GDP in 2008 and an average of 21.0% of total real GDP over the period 2005 to 2007. Wholesale and retail trade, which depends heavily on both tourism and construction, grew by 14.0% between 2005 and 2007 and decreased by 5.2% between 2008 and 2009, principally due to the impact of the decrease in economic activity experienced by the tourism, manufacturing and construction sectors.

The wholesale trade sector comprises establishments engaged in wholesaling merchandise and rendering services incidental to the sale of such merchandise. The retail trade sector comprises establishments engaged in retailing merchandise and rendering services incidental to the sale of such merchandise. The wholesale and retail trade sector encompasses, among other things, restaurants, artisanal shops, grocery markets, department stores, general tourism and beach products and the sale of items produced by the manufacturing sector, including electronic components, chemicals, garments and textiles, paint, paper products, furniture, edible oils, soap and food products. While nominally a large percentage of GDP, the wholesale and retail trade sector is heavily dependent on the tourism and manufacturing sectors of the economy for the demand for such goods and services and the supply of the goods and services on offer.

#### *Construction*

Construction accounted for approximately 6.5% of total real GDP in 2009, 8.0% of total real GDP in 2008 and an average of 9.0% of total real GDP over the period 2005 to 2007. Construction fell by an estimated 22.4% in 2009 from 2008 and registered a modest decrease of 0.2% over the period 2005-2007.

The contraction of the construction sector over the 2005-2009 period, and especially in 2008 and 2009, was due primarily to a slowdown in both private and public building projects and waning tourism-related projects due to difficult credit conditions notwithstanding a boost in construction activity due to residential construction and activity related to preparations for the Cricket World Cup held in 2007 and ongoing renovations to hotels and ancillary facilities.

### *Energy and Utilities*

In 2009, Barbados produced approximately 277,100 barrels of crude oil domestically, compared to 289,692 barrels in 2008 and an average of 335,143 barrels over the 2005 to 2007 period. Domestic production provides for approximately one-third of domestic consumption. The commercial production of crude oil in Barbados began in 1974. In early 1998 the island's only refinery was closed, in part because its products became uncompetitive. Barbados now exports its crude oil to Trinidad and Tobago for processing.

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 LIME (Barbados) Limited, are privately-owned utility enterprises, and are regulated by the Fair Trading Commission.

Barbados has a modern telecommunications network infrastructure, with the latest in digital technology and fiber optics systems, currently operated by several telecommunications network providers including Cable & Wireless (Barbados) Ltd. (trading as "LIME"), TeleBarbados Inc. and Digicell (Barbados) Ltd., which has ensured a competitive environment that has resulted in a reduction in consumer prices over the years.

The Fair Trading Commission, established by the Fair Trading Commission Act, 2001-31, oversees utility regulation, consumer protection, and fair competition matters.

### *State-Owned Enterprises*

As at 31 December 2009, the Government held a 100% interest in 11 companies in various sectors of the economy, and holds equity in six other companies, as more fully detailed below.

**Table 12**

<b>Government State Enterprises</b>	
<u>100% Ownership</u>	<u>Partial Ownership</u>
Barbados Agency for Micro Enterprise Dev. Ltd.	Barbados National Bank Inc.
Barbados Agricultural Management Co. Ltd.	Caribbean Development Bank
Barbados Agricultural Credit Trust Ltd.	Hotels & Resorts Ltd.
Barbados Conference Services Ltd.	Insurance Corporation of Barbados Ltd.
Barbados National Oil Company Ltd.	LIAT Ltd.
Barbados National Terminal Company Ltd.	Southern Golf & Country Club
Barbados Port Inc.	
Barbados Tourism Investment Inc.	
Caribbean Airways International Inc.	
Needham Point Development Inc. (Hilton Hotel)	
Needham Point Holdings Ltd.	

Since 1991, the Government has 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, its share in Barbados Mills (the Government continues to own a minority shareholding), its stake in Pine Hill Dairy, 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 and the Insurance Corporation of Barbados, which were wholly-owned enterprises. The Government intends to divest some of its shareholding in the Barbados Port Authority. The proceeds of these privatisations were 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 reported to Parliament on a quarterly or annual basis.

#### *Government Supported Initiatives*

In February 2009, the Government established the Tourism Industry Relief Fund (the "TIRF"). Applications for financial assistance from the TIRF exceeded the Government's initial allocation of BDS\$15 million and an additional BDS\$10 million was disbursed as of 31 December 2009. Funds were used to provide financial assistance to the tourism sector to reduce the financial impact caused by the global economic downturn.

In addition to the funds allocated to the TIRF programme to assist the tourism sector, the Government established the Employment Stabilisation Programme in 2009 to assist businesses with their operating costs provided such businesses maintained pre-crisis levels of employment. The Employment Stabilisation Programme also permitted employers to defer their national insurance contributions for one year. Further, a BDS\$10 million "retraining fund" was created in 2009 to facilitate the retraining of employees and the payment of a stipend to participants of vocational training courses who were registered as unemployed by the National Insurance Board.

#### **Inflation**

The Government believes that its commitment to a fixed exchange rate strategy has enabled it to maintain relatively low inflation rates. The average annual rate of inflation as at 31 December 2009 was estimated at 3.6%, compared to 8.1% as at 31 December 2008, reflecting mainly a decrease in the cost of imported oil. However, price increases were registered in 2009 with respect to food prices, housing prices and transportation prices. Inflation in Barbados is principally driven by international commodity prices (specifically oil and commodity prices related to food). Since the significant drop in oil prices since mid-2008, inflation has trended downward and is expected to remain relatively stable. Inflation for 2010 is estimated to be 3% (annualized).

#### **Employment and Labour**

During 2009, out of a labour force of approximately 142,700 persons, on average 128,500 were employed. The average rate of unemployment for 2009 was an estimated 10.0%, compared to 8.1% at the end of 2008.

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

**Table 13**

**Labour Force and Employment**

	Year ended 31 December <sup>(1)</sup>				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
Labour force .....	146,800	143,400	143,700	143,800	142,700
% of adult population .....	69.6	67.9	67.8	67.6	67.0
Employed persons .....	133,500	131,000	133,000	132,200	128,500
% of labour force .....	90.9	91.4	92.6	91.9	90.0
Unemployed persons <sup>(2)</sup> .....	13,300	12,400	10,700	11,600	14,200
% of labour force .....	9.1	8.6	7.4	8.1	10.0

(1) The statistics for 2005-2009 reflect annual averages.

(2) 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

Unemployment benefits are paid by the National Insurance Scheme, an agency of the Government. The National Insurance Scheme operates a contributory scheme that is compulsory for persons employed in the private sector aged 16 to the current pensionable age of 66 years. Employees are required to make contributions to the National Insurance Scheme for 52 weeks before they are eligible to receive unemployment benefits. Thereafter, a private sector employee is entitled to 60% of such employee's salary for the next 26 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 committee of Parliament and the public was invited to make written or oral submissions. At present, the bill is still under Government consideration.

### *Pensions*

State and public sector pensions are paid by the National Insurance Scheme. In recognition of Barbados' ageing population and low fertility rate, a review aimed at pension reform was undertaken by the National Insurance Scheme in 2003 to address the efficiency and sustainability of state and public sector pensions. The National Insurance Scheme estimates that the ratio of pensioners to the working population will be 2:1 in 20 years' time, based on current data. Actuarial reviews have also been performed in respect of the state pensions scheme. The most recent actuarial review conducted in 2009 concluded that the weighted average contribution rate of 18% of insurable earnings is inadequate to continue funding state pensions in the future, with total expenditures projected to exceed contributions by 2022. The review suggested various options to address this situation, including raising the retirement age, basing contributory pensions on an average of the best five years of the final 15 years of a person's contribution life, and extending the qualifying period for a pension from 10 to 20 years. It was in this context that after wide consultation the Pensions Act was passed in 2005. The Pensions Act provides for a 10% increase in contributions to the National Insurance Scheme for four consecutive years, basing of contributory pensions on an average of the best 5 years of the final

15 years of a person's contribution life, indexing of National Insurance Scheme insurable earnings, raising the pensionable age from 65 to 67 over a period of four years and the introduction of flexible retirement ages. Under the flexible retirement programme, pensions can be taken from as early as 60 with a reduced benefit or may be deferred up to age 70 with an increase in pension earned equal to the rate of reduced benefits earned by employees opting for early retirement. The pension is increased by 6% for every year a person works after the current pensionable age of 66 years, for which an employee is entitled to a full pension. The current pensionable age will stay at 66 years until 31 December 2013 after which this will be reviewed and possibly increased. Private pensions are also being encouraged through tax relief for contributions made to registered retirement savings plans.

### *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. Isolated work stoppages have occurred in Barbados, but there have been no general work stoppages since 1992.

Since 1993, the Government, the private sector and trade unions have agreed on successive protocols that provide parameters for sustainable wage policies in the economy. In the protocol, the signatories reaffirmed 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 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 80% of amounts advanced to an exporter to finance firm orders. Political credit risks after shipment may be insured for up to 90% of gross invoice value. 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, whilst the International Financial Services Act, 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 for Effective Banking Supervision published in 1997 (and updated in 2006) 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 currently subject to routine onsite inspection by the Central Bank, as opposed to the previous limited inspection regime.

The Central Bank co-operates 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 and Financing of Terrorism (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 in 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 and Financing of Terrorism (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 of and compliance with international standards in money laundering and terrorist financing in the region. The CFATF carries out its mandate primarily through a mutual evaluation process of member countries. The CFATF achieved Financial Action Task Force (FATF) associate

membership status in February 2008. Like the approach used by the FATF, these examinations rely on legal, financial and law enforcement experts, trained in the use of a common methodology. The CFATF also hosts semi-annual meetings for senior regional officials and an annual ministerial meeting. Round 3 evaluations of the 30 member countries are well advanced and is projected to be completed by the end of 2010. The round 3 report on Barbados was issued in June 2008. In response to the recommendations in the report, a new Money Laundering and Financing of Terrorism (Prevention and Control) Bill has been developed, along with amendments to the Transnational Organised Crime Act, Prevention of Corruption Act and Companies Act.

Each of the CFATF's 25-member countries, other than Nicaragua, has been subject to a mutual evaluation and follow-up examinations. The last CFATF evaluation on Barbados was conducted in December 2006 and the report issued in June 2008. While the report revealed no material deficiencies, a new Money Laundering and Financing of Terrorism (Prevention and Control) Bill has been drafted by the Cabinet and amendments have been made to the Transnational Organised Crime Act and Prevention of Corruption Act.

The financial services sector in Barbados is also subject to the "Financial Sector Assessment Programme" ("FSAP") conducted by the IMF. The last assessment was conducted during April 2008 and a report issued in February 2009. Legislation is currently being drafted to address issues highlighted in the report. Non-bank credit unions and insurance companies are regulated under different regimes, with the regulator of non-bank credit unions being the Registrar of Co-operatives and the regulator of insurance companies being the Supervisor of Insurance. However, the Central Bank has carried out joint inspections of credit unions.

The Government is currently considering a proposal for a single regulator for the financial services sector, the proposed "Financial Services Commission". The purpose for the Financial Services Commission is to consolidate the supervision and regulation of non-banking financial service entities currently undertaken by the Securities Commission, the Cooperatives Department, the International Business Unit of the Ministry of International Business and International Transport, and the Office of Supervisor of Insurance and Pensions, and to improve regulation, efficiency and oversight of the sector through improved resource allocation and streamlined oversight of regulatory functions. The Financial Services Commission will be responsible for, among other things, licensing and registration, supervision and regulation of the operation of licensees, and the establishment of standards for improving risk monitoring in the sector. The Government expects the Financial Services Commission to be established during the second half of 2010.

### **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 2009, there were six commercial banks and several non-bank financial intermediaries including finance companies, trust companies, a mortgage company (the Barbados Mortgage Finance Company), insurance companies, 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. The Bank of Butterfield, whose head office is in Bermuda, bought the assets of the locally-owned Mutual Bank in 2003. In addition, 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 and Tobago in 2003) and the Bank of Nova Scotia, also provide banking services. Recently, The Royal Bank of Canada has successfully acquired the RBTT Bank and as such, RBC

Royal Bank Holdings Limited was established to assume the net assets of The Royal Bank of Canada branch network, as well as those of the RBTT Bank Barbados Limited; however this merger is not yet complete. In 2009, Citicorp Merchant Bank Limited was also granted a license to operate as a commercial bank. These commercial banks manage a network of branches on the island and provide loans to all sectors of the economy.

As at 31 March 2010, total assets of the commercial banks were US\$5.64 billion, reflecting a slight increase over the US\$5.57 billion in total assets as at 31 December 2009. Commercial banks accounted for approximately 80.6% of deposits and 67.9% of loans to the non-financial private sector in 2009.

Unlike commercial banks, the activities of non-bank financial intermediaries tend to be highly specialised. Barbados Mortgage Finance Co. Ltd. is a subsidiary of the Barbados National Bank that specializes in the provision of mortgage financing, primarily to lower and middle-income groups. 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.

In 2009, Colonial Insurance Company (Trinidad) Limited (the "Company"), a Trinidad & Tobago insurance and financial services company and the parent company of Clico Holdings Barbados ("Clico"), a Barbadian insurance company, experienced severe liquidity constraints which resulted in the bail-out of the Company by the Trinidad and Tobago government. The Barbadian entity, Clico, while separately regulated by the Government of Barbados and the Barbadian Supervisor of Insurance, has experienced liquidity constraints as a result of the bail-out of the parent Company. While the Government is under no legal obligation to provide support to Clico policyholders or investors, because of Clico's prominence in the Barbadian insurance and retirement sector, the Government has publicly stated that it is exploring solutions that would permit life-insurance policyholders to retain the value of their insurance policies. The Government's proposed solution is focused on the exposure of life insurance policyholders and not the exposure of other Clico investors. A specially-constituted oversight committee under the direction of the Permanent Secretary, Finance has examined potential solutions for the restructuring of Clico, including deferred asset sales, and has recently submitted a confidential report to the Government. The Government will also discuss any proposed restructuring of Clico with other governments in the region impacted by the parent Company bail-out and its effect on the Clico affiliated group throughout the region. At this time, no assurances can be given as to how this matter will ultimately be concluded or the magnitude of the financial impact of any restructuring.

The following table sets out the distribution of credit by financial institutions for the years indicated.

**Table 14**

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

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Commercial Banks .....	1,895.9	2,146.5	2,256.8	2,505.5	2,528.1
Insurance Companies .....	199.5	183.7	202.3	204.5	207.3
Trust Companies & Mortgage Finance Companies .....	237.4	262.3	270.4	277.3	274.4
Credit Unions .....	345.8	392.4	436.9	482.5	521.2
Finance Companies & Merchant Banks .....	132.5	154.9	170.8	177.5	195.0
<b>Total .....</b>	<b>2,811.1</b>	<b>3,139.8</b>	<b>3,337.2</b>	<b>3,647.3</b>	<b>3,726.0</b>

Source: Central Bank of Barbados

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

**Table 15**

**Domestic Deposits at Financial Institutions**

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Commercial Banks .....	2,919.5	3,148.7	3,672.2	3,803.6	3,793.5
Credit Unions .....	121.5	157.1	201.2	390.8	456.1
Finance Companies & Merchant Banks .....	203.5	199.6	226.1	223.9	237.8
Trust Companies & Mortgage Finance Companies .....	242.1	245.0	261.8	214.2	219.9
Total .....	<u>3,486.6</u>	<u>3,750.4</u>	<u>4,361.3</u>	<u>4,632.5</u>	<u>4,707.3</u>
Currency in Circulation with the public .....	224.3	232.5	246.0	240.0	246.3

*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. In 2006, the Central Bank introduced a foreign reserve requirement for commercial banks and, in 2009, the Central Bank also implemented a local reserve requirement for non-banking financial institutions registered under Part III of the Financial Institutions Act 1996-16, which facilitated Central Bank support to the non-bank sector. Cash and securities reserve requirements were lowered in 2009. Separately, the Central Bank sets the discount rate and the minimum deposit rate, both of which have been rising during the last year.

Liquidity in the banking system began to decline in mid 2008, due to decreases in credit growth and domestic deposit accumulation induced by the global economic crisis, and stabilised during 2009 and the first quarter of 2010. The Central Bank relaxed its monetary policy stance toward the end of 2008, and continued to do so in 2009. The minimum deposit rate, which was 4.0% for 2008, was gradually reduced to 2.5% by December 2009. Additionally, the discount rate, which is the cost of borrowing for commercial banks, was lowered from 10% to 7% over the same period. Further, the market-determined Treasury bill rate fell from 4.8% at the end of 2008 to 3.4% as at 31 December 2009.

Central Bank monetary policy during 2008 and 2009 was also influenced by the trend in interest rates abroad, particularly in the U.S. 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.

The following table sets out selected interest rates for the years indicated.

**Table 16**

<b>Interest Rates</b>					
	<b>As at 31 December</b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009<sup>(P)</sup></b>
	<b>(percentage per annum)</b>				
Excess Liquidity Ratio .....	12.7	6.6	9.0	8.9	n.a.
Treasury Bill Rate .....	6.3	6.6	4.9	4.8	3.4
Deposits					
Minimum deposit rate .....	4.8	5.3	4.8	4.0	2.5
Weighted deposit rate .....	4.1	5.1	4.8	4.1	2.7
Loans					
Prime .....	9.15-10.25	10.15-10.75	9.65-10.45	9.0-9.80	7.65-8.70
Average lending .....	10.6	10.9	10.6	10.3	9.7
Central Bank discount .....	10.0	12.0	12.0	10.0	7.0

*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—Internal 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 (the "SEB") was reincorporated and renamed the Barbados Stock Exchange Inc. (the "BSE") 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 the 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.

As at 31 March 2010, there were 29 companies listed on the BSE (22 of which are local companies). The BSE has six regional companies that are regionally cross-listed.

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 and who invest in mutual funds up to a maximum of US\$5,000 in anyone year. In addition, shares traded on the Barbados Stock Exchange Inc. are not subject to property transfer tax. As at 31 December 2009 they were approximately 21 mutual funds registered.

On July 4, 2001 the BSE switched from the manual, open auction outcry 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 each of these three exchanges and that such integrated system would be the common platform for the trading and the settlement of transactions on such exchanges. Further, a regional trading network, tentatively called the "Caribbean Exchanges Network" (or "CXN") has been formed to facilitate a strategic alliance between participating Caribbean exchanges and depositories. The CXN aims to create a common Caribbean securities market with a shared cross-border trading system with harmonized trading rules and access requirements. Regional regulators authorized the CXN in 2009; however, the system has not yet become operational. This is the first step towards the development of a regional stock exchange and such a regional body can lend support to the CSME.

## THE EXTERNAL ECONOMY

### Overview

In 2009, Barbados recorded a balance of payments surplus of US\$42.1 million or 1.1% of nominal GDP, compared with a deficit of US\$249.2 million in 2008 (6.2% of nominal GDP) and an average surplus of US\$83.4 million over the 2005 to 2007 period (2.2% of nominal GDP over the 2005 to 2007 period). For the first quarter of 2010, the balance of payments surplus was estimated at US\$12.0 million.

In 2009, the current account registered a smaller deficit when compared to the previous year as the value of retained imports was notably lower than that of the comparable period in 2008, owing to the moderation in world commodity prices and weak import demand. With respect to the capital account, foreign long-term public inflows increased in 2009, primarily as a result of an inflow of US\$201.2 million from a US\$116.1 million bond issue placed by the Government in the Trinidad and Tobago market in August 2009 and US\$85.1 million in borrowings from the IMF in the form of special drawing rights to the Government. As a result, the capital and financial account recorded a surplus of US\$308.3 million in 2009, US\$143.2 million more than in 2008. With the aid of reduced imports and the Government's additional borrowings, net international reserves increased by approximately US\$67 million from US\$678.4 million as at 31 December 2008 to US\$745.4 million as at 31 December 2009.

In 2008, rising oil prices increased the value of fuel imports, which, coupled with declines in travel and tourism receipts, substantially increased the current account deficit relative to the previous year. Capital outflows induced by the global economic crisis were also greater in 2008 as compared to the prior period, resulting in a smaller surplus on the capital financial account.

Liquid international reserves as at 31 December 2009 corresponded to an import reserve cover equivalent to approximately 21 weeks of goods and services, as compared to an import reserve cover equivalent to approximately 17 weeks of goods and services as at 31 December 2008.

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

**Table 17**

**Balance of Payments**

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Current account .....	(367.3)	(252.0)	(182.7)	(421.4)	(217.6)
Merchandise trade balance .....	(1,070.0)	(1,003.3)	(1,083.5)	(1,242.3)	(916.7)
Exports* .....	361.5	510.2	526.7	489.6	381.2
Imports* .....	1,431.5	1,513.5	1,610.2	1,731.9	1,297.9
Services (net) .....	765.0	810.2	911.3	895.5	796.8
Tourism .....	800.4	952.3	1,089.8	1,114.0	1,016.2
Other .....	78.5	(10.9)	(32.6)	(60.6)	(88.5)
Investment income (net) .....	(127.7)	(141.7)	(66.4)	(121.3)	(140.1)
Transfers (net) .....	65.4	82.8	56.1	46.8	42.3
Capital account .....	269.6	348.0	452.6	165.1	308.3
Long-term capital .....	112.1	1,491.3	1,535.1	270.9	214.6
Public sector .....	108.8	37.7	13.4	48.8	169.2
Private sector .....	1.7	473.4	760.9	159.8	45.4
Short-term capital .....	145.7	(211.1)	(435.3)	87.7	(19.8)
Errors and omissions .....	28.7	(54.6)	8.0	7.1	(48.6)
Balance for official financing .....	(69.1)	41.4	277.9	(249.2)	42.1
Change in reserves (increases) .....	(23.1)	21.3	(176.6)	95.6	(66.9)

\* Exports and imports are FOB and CIF, respectively, but have been adjusted for balance of payments presentation.

Source: Central Bank of Barbados and Barbados Statistical Service

**Current Account**

The current account position of Barbados is heavily dependent on earnings from services, particularly tourism. Despite lower earnings from tourism and exports of manufactured goods, the current account deficit improved significantly during 2009, moving from an estimated US\$421.4 million in 2008 to US\$217.6 million as at 31 December 2009. This deficit reflected a substantial decline in the value of retained imports, which mainly resulted from the decline in international commodity prices and a decrease in aggregate import demand.

Barbados is not a significant merchandise exporter and has historically maintained large merchandise trade deficits. In 2009, the merchandise trade deficit was at US\$916.7 million, an improvement relative to the US\$1,242.3 million deficit recorded in 2008 due mainly to high global commodity prices. In line with the slump in economic activity, the contraction in retained imports was underpinned by broad-based declines in all categories. Consumer goods imports fell by 16.5% in 2009, after rising by 5.8% in 2008, due mainly to reduced demand for motor vehicles and food and beverages. The import of intermediate goods decreased by 28.2%, following growth of 31.4% in 2008, due mainly to dramatically lower expenditure on building materials and fuel. In addition, the import of capital goods registered a decrease of 24.8% in 2009 compared to 2008, marking the third consecutive year of decline.

Domestic exports decreased by 13.7% in 2009 compared to 2008 due mainly to the weak performances of major export categories. Electrical components and chemicals contracted by 31.9% and 12.9%, respectively in 2009 compared to 2008. The export of rum, which for decades occupied a significant portion of Barbados' merchandise exports, recorded declined by 13.3% during 2009 compared to 2008, after a small fall-off in the previous year. During the first quarter of 2010, total domestic exports were estimated at US\$52.9 million, a marginal increase from US\$51.4 million recorded in the first quarter of 2009.

The following table sets out Barbados' merchandise exports and imports for the five years ended 31 December 2009.

**Table 18**

### Exports and Imports

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Total domestic exports (FOB basis) .....	210.5	245.8	256.7	265.6	229.3
Sugar .....	22.2	19.63	18.7	22.5	20.3
Rum .....	25.4	22.2	33.8	33.0	28.6
Electrical components .....	14.3	18.8	10.8	11.9	8.1
Chemicals .....	28.1	30.1	37.3	33.4	29.1
Other food and beverages .....	24.5	20.7	26.0	29.2	23.2
All other .....	33.9	50.9	52.8	51.7	39.3
Total retained imports (CIF basis) .....	1,604.4	1,697.4	1,746.2	1,920.2	1,449.4
Consumer goods .....	608.2	531.6	573.4	606.8	506.4
Capital goods .....	294.3	333.1	306.3	303.5	228.3
Intermediate goods .....	547.1	561.1	592.8	779.0	559.6
Miscellaneous .....	6.0	7.7	6.5	8.7	5.9

Source: Central Bank of Barbados

The following tables show the direction of trade for the five years ended 31 December 2009.

**Table 19**

### Exports (FOB) by Destination\*

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
USA .....	46.0	85.6	85.1	93.7	85.3
Canada .....	6.5	7.8	9.0	10.4	10.1
UK .....	31.4	33.0	47.2	41.2	34.6
CARICOM .....	130.0	152.1	163.5	157.6	145.6
Other countries .....	133.9	158.3	120.8	148.7	103.0
Total .....	<u>347.8</u>	<u>436.8</u>	<u>425.6</u>	<u>451.6</u>	<u>378.6</u>

\* Includes goods imported for re export. FOB means "Free on Board".

Source: Barbados Statistical Service

**Table 20****Imports (CIF) by Origin\***

	Year Ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
USA .....	586.3	602.5	603.0	637.2	527.2
Canada .....	57.3	60.1	59.2	90.7	51.5
UK .....	88.5	95.0	107.0	92.5	67.2
CARICOM .....	403.0	429.0	422.8	442.8	358.7
Other countries .....	355.0	356.2	399.1	390.9	444.8
Total .....	<u>1,490.1</u>	<u>1,542.8</u>	<u>1,591.1</u>	<u>1,654.1</u>	<u>1449.4</u>

\* Includes goods imported for re export. CIF means "Cost Insurance and Freight".

Source: Barbados Statistical Service

During 2009, total retained imports of merchandise decreased by 24.5%, after growing by 10.0% in 2008 relative to 2007. Imports from the United States and Canada declined in 2009 compared to 2008 by 17.3% and 43.2%, respectively, compared to increases of 5.7% and 53.2% in 2008 compared to 2007. In 2009, imports from the United States of un-milled wheat, furniture and fittings and electric distribution equipment all decreased compared to 2008. Imports from the United Kingdom fell by 27.4%, following a 13.6% decline in 2008, primarily as a result of a reduction in plant equipment and motor vehicle imports. Following a 4.7% expansion in 2008, imports from CARICOM countries fell by 19.0% in 2009 compared to 2008, due mainly to decreases in imports from Trinidad and Tobago.

Total domestic exports decreased by 13.7% in 2009 compared to 2008, following a 3.5% increase in 2008 compared to 2007. Declines in the export of alcoholic beverages and electrical apparatuses led to a 9.0% contraction in the value of goods exported to the United States in 2009 compared to 2008. Exports to CARICOM, of which Trinidad and Tobago accounts for a significant portion, fell by 7.6% in 2009 compared to 2008. Exports to the United Kingdom declined by 16.0% in 2009 as compared to a 12.7% decrease in 2008 relative to 2007.

**Capital Account**

Barbados has recorded surpluses on its capital and financial account since 1996. Private sector capital flows have grown significantly since 1999, principally due to capital inflows in connection with financing for new investments in tourism and ancillary services. During 2009, the surplus on the capital and financial account totalled US\$308.3 million, US\$143.2 million more than 2008, due principally to the US\$116.1 million bond issuance by the Government in the Trinidad and Tobago market in August 2009 and US\$85.1 million in borrowings from the IMF in the form of special drawing rights to the Government. Net private long-term inflows, however, contracted in 2009 by US\$114.4 million, as the global economic crisis hampered the inflow of foreign financing for a number of capital projects.

**Trade Policy and Reform**

There are a number of incentives available 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 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 ("SSP") 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:

- (i) 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. Many tariffs have been replaced by fixed rates agreed with the WTO. Certain goods will, however, remain subject to licensing for health and safety reasons;
- (ii) elimination of import duties on imports for use in the tradable sector;
- (iii) 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 maximum CET rate for manufactured goods fell from 25% to 20%, while the maximum rate on agricultural imports– which are considered sensitive industries – stands at 40%;
- (iv) the initiation of an Economic Partnership Agreement between members of the Caribbean Forum and the European Union in October 2008; and
- (v) the approval of a waiver request from the US that allow all CARICOM goods covered under the Caribbean Basin Economic Recovery Act (CBERA) to enter the US duty-free on March 24, 2009.

Barbados recognises the importance of the protection of intellectual property for the future of Barbados' international business sector and has undertaken a comprehensive review of its intellectual property legislation. A new Copyright Act was enacted in February 1998. The Copyright Act meets Barbados' obligations under the WTO Agreement on TRIPS (Trade Related Aspects of Intellectual Property Rights). The Geographical Indications Act 1998, the Integrated Circuits Topography Act 1998 and the Protection Against Unfair Competition Act 1998 were also enacted in 1998. Barbados has amended its Trade Marks Act and Patents Act to become TRIPS compliant, and the Protection of New Plant Varieties Act became effective from 5 August 2001. Since 2001, Barbados has been in full compliance with its WTO and World Intellectual Property Organisation commitments with respect to its intellectual property legislation.

Barbados, as part of the Caribbean region, is simultaneously engaged in three major trade negotiations, the WTO Doha Round, the Economic Partnership Agreement and the Free Trade Areas of the Americas. 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 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 reform includes revisions, which will result in decreases in both quotas and guaranteed prices for sugar exports to the European Union by 2015. During the transition period, guaranteed prices will be reduced but maintained until September 2012 and limits on imports will apply until October 2015. In line with these amendments, the guaranteed price for ACP raw sugar was reduced by at least 33% during 2008 and 2009.

The Common External Tariff (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 sub-sector and ancillary services. See "Principal Sectors of the Economy—Tourism". All investment by non-residents should 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 Invest Barbados, an entity responsible for securing and promoting sustainable foreign direct investment and which also services export businesses in order to increase employment, promote technology and skills transfers, foreign exchange and tax revenues. Further, the BIDC is a statutory corporation that promotes 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 speciality foods (e.g., fresh fruits and vegetables and hot chilli sauces), high quality garments, reproduction of period furniture and local arts and crafts.

In an attempt to further boost Barbados' economy, a new agency responsible for the marketing of the international financial services sector was conceptualised, and it is expected to be in operation by the start of the new financial year. In addition a fund aimed at supporting export businesses has been established. The fund will be financed by the imposition of a 3% tax on extra-regional imports over an eighteen-month period.

### **Net International Reserves and Liquid International Reserves**

As at 31 December 2009, net international reserves of the Barbadian monetary authorities were US\$745.4 million, compared to US\$678.4 million as at 31 December 2008 and an average of US\$663.1 million over the 2005 to 2007 period. The increase in net international reserves resulted in the liquid international reserves import reserve cover of goods and services ratio

increasing from approximately 17 weeks at the end of 2008 to approximately 21 weeks as of 31 December 2009. The Government seeks to maintain an import reserve cover of approximately twelve weeks of goods and services.

The following table sets out liquid international reserves and net international reserves for the years indicated. Net international reserves are liquid international reserves less the foreign currency deposits of commercial banks.

**Table 21**

**Liquid International Reserves and Net International Reserves**

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Central Bank .....	416.4	444.3	622.5	522.6	563.1
Government .....	179.2	181.2	208.1	207.2	210.8
CMCF* .....	19.8	19.4	12.2	10.0	10.0
Bilateral .....	(27.3)	(26.6)	(22.4)	(27.0)	(18.0)
Liquid international reserves .....	625.8	653.9	861.6	767.5	801.5
Liquid international reserves (in weeks of merchandise imports) .....	15.9	16.6	21.5	16.6	20.6
Net international reserves .....	618.2	597.0	774.0	678.4	745.4

\* CMCF: CARICOM Multilateral Clearing Facility.

Source: Central Bank of Barbados

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

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

**Table 22**

**Net Foreign Assets of Banking System**

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Monetary authorities .....	617.9	597.1	775.1	679.6	743.9
Central Bank .....	416.4	444.3	622.5	522.6	563.1
Government .....	179.2	181.2	208.1	207.2	210.8
Other foreign securities & IMF SDRs .....	22.4	21.0	21.1	20.8	104.8
Foreign liabilities .....	0	49.4	76.4	70.9	49.6
Commercial banks .....	186.0	248.6	349.9	196.3	171.4
Foreign assets .....	733.7	858.6	1,503.5	1,360.8	919.6
Foreign liabilities .....	547.7	610.0	1,153.6	1,164.6	748.2
Total banking system (net) .....	803.9	845.6	1,124.9	875.9	915.3

Source: Central Bank of Barbados

## **Exchange Rates**

Since 1975, the Barbados Dollar has been fixed at an exchange rate to the US Dollar of BDS\$2.00 to US\$1.00. This fixed exchange rate was originally adopted because Barbados conducted the majority of its trade with the United States during a period in which the Pound Sterling continued to weaken against the Barbados Dollar. 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. Whilst 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. 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 granted full delegated authority to commercial banks in respect of all current transactions with CARICOM except for a few transactions where it was considered prudent to continue to monitor. 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 remain to be established. With respect to the rest of the world, approval is still required for several current and capital transactions.

## **PUBLIC FINANCE**

### **Overview**

The Government's budget process is established in the Constitution and the Financial Administration and Management Act 2007-2011 and the Financial Administration and Audit (Financial) Rules 1971, which provides the financial rules and guidelines for the administration of public sector entities. The process involves the participation and co-ordination of all Government ministries and agencies. The Ministry of Finance prepares the Draft Estimates of Revenue and Expenditures (which constitute the budget of the Government, the "Estimates") 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 1 April to the following 31 March. Estimates are based on existing tax rates and projections of non-tax revenue by the various government 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 (the "Financial Statement"). This has traditionally taken place between April and June 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 to 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 to 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 non-tax 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 a separate budgetary process.

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**

As a result of the global economic crisis, the Government's fiscal deficit increased from 5.1% in FY 2008/2009 to 9.4% in FY 2009/2010, due principally to reduced revenue collection and increased Government expenditures. This increase was primarily a result of increased Government expenditures (both current and capital) coupled with slower growth in revenue collection as a result of the general downturn in economic activity. Based on current projections

of revenues and expenditures for the fiscal year, the Government anticipates a fiscal deficit for FY 2010/2011 equivalent to 8.7% of nominal GDP. For FY 2010/2011, the Government estimates a fiscal deficit of approximately US\$354.2 million. The Government estimates it will finance approximately US\$300 million of the aforementioned fiscal balance through the issuance of local Government securities. For the three fiscal year intervals from 2005/2006 to 2007/2008, the annual fiscal deficit averaged approximately 3.0% of nominal GDP.

The Government has embarked on a medium-term strategy aimed at eliminating the overall fiscal deficit by the year 2016, mainly through containment of fiscal spending with respect to transfers, subsidies, wages and salaries and greater efficiency in revenue collection, as described in more detail below.

### **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 1 January 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 non-tax revenue.

Recurring current 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 following table sets out Government revenues and expenditures by economic classification for the years indicated.

**Table 23**

**Government Revenues and Expenditures**

	Fiscal year ended 31 March					
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 <sup>(E)</sup>
	(in millions of US Dollars unless otherwise indicated)					
Tax revenue .....	1,021.1	1,065.4	1,168.5	1,216.7	1,072.8	1,124.4
Income and profit .....	360.9	412.6	473.5	458.7	411.7	441.0
Levies .....	0.0	0.0	0.0	0.0	0.0	0.0
Property .....	68.7	75.7	51.6	79.1	57.7	65.3
Goods and services .....	490.3	470.4	533.8	559.8	507.1	515.5
Import duties .....	90.2	93.2	98.6	109.7	89.2	95.6
Stamp duties .....	11.0	13.5	11.0	9.3	7.2	6.9
Non-tax revenue .....	48.5	43.9	55.7	90.4	57.4	71.4
Total revenue .....	<u>1,080.7</u>	<u>1,118.2</u>	<u>1,238.5</u>	<u>1,323.3</u>	<u>1,158.0</u>	<u>1,219.1</u>
Current expenditure .....	1,000.8	1,056.2	1,246.1	1,393.4	1,407.2	1,475.9
Wages and salaries .....	343.7	349.3	404.5	416.4	432.9	501.7
Goods and services .....	116.6	131.6	180.9	210.3	207.1	209.9
Interest .....	149.4	164.9	171.8	198.2	218.7	254.4
Foreign .....	52.9	59.6	70.3	74.5	76.8	76.3
Domestic .....	96.6	105.3	101.1	123.8	141.9	178.1
Current transfers .....	391.0	410.3	488.9	568.5	548.5	509.9
Capital expenditure .....	126.2	124.7	119.1	116.0	97.4	78.4
Net Lending .....	43.9	54.0	19.1	19.1	19.1	19.1
Total expenditure .....	<u>1,170.9</u>	<u>1,235.0</u>	<u>1,384.3</u>	<u>1,528.5</u>	<u>1,523.6</u>	<u>1,573.3</u>
Fiscal balance .....	(90.2)	(116.8)	(145.8)	(205.3)	(365.6)	(354.2)
Fiscal balance (as % of nominal GDP) .....	(2.4)	(3.0)	(3.6)	(5.1)	(9.4)	(8.7)

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

The following table sets out the percentage change of Government revenues and expenditures by economic classification for the years indicated.

**Table 24**

**Government Revenues and Expenditures–Percent Change From Previous Fiscal Year**

	Fiscal year ended 31 March				
	2006-07	2007-08	2008-09	2009-10	2010-11 <sup>(E)</sup>
	(expressed as a percentage change from the previous fiscal year)				
Tax revenue .....	4.3	9.7	4.1	(11.8)	4.8
Income and profit .....	14.3	14.8	(3.1)	(10.2)	7.1
Levies .....	n.a.	n.a.	n.a.	n.a.	n.a.
Property .....	9.8	(31.6)	53.3	(27.1)	13.2
Goods and services .....	(4.1)	13.5	4.9	(9.4)	1.7
Import duties .....	3.3	5.8	11.3	(18.7)	7.2
Stamp duties .....	22.7	(18.5)	(15.5)	(22.6)	(4.2)
Non-tax revenue .....	(9.5)	26.9	62.3	(36.5)	24.4
Total revenue .....	<u>3.5</u>	<u>10.8</u>	<u>6.8</u>	<u>(12.5)</u>	<u>5.3</u>
Current expenditure .....	5.5	18.0	11.8	1.0	4.9
Wages and salaries .....	1.6	15.8	2.9	4.0	15.9
Goods and services .....	12.9	37.5	16.3	(1.5)	1.4
Interest .....	10.4	4.2	15.4	10.3	16.3
Foreign .....	12.7	18.0	6.0	3.1	(0.7)
Domestic .....	9.0	(4.0)	22.5	14.6	25.5
Current transfers .....	4.9	19.2	16.3	(3.5)	(7.0)
Capital expenditure .....	(1.2)	(4.5)	(2.6)	(16.0)	(19.5)
Net Lending .....	23.0	(64.6)	0.0	0.0	0.0
Total expenditure .....	<u>5.5</u>	<u>12.1</u>	<u>10.4</u>	<u>(0.3)</u>	<u>3.3</u>
Fiscal balance .....	29.5	24.8	40.8	78.1	(3.1)
Fiscal balance (as % of nominal GDP) ...	25.0	20.0	41.7	84.3	(7.4)

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

**Revenues**

Total Government revenues decreased by an estimated 12.5% during FY 2009/2010 after having increased 6.8% during FY 2008/2009, principally due to decreases in corporate tax receipts and indirect tax proceeds and lower receipts from VAT and import duties, which declined in line with the reductions in economic activity and imports. However, personal tax receipts rose in FY 2009/2010 as compared to the prior year due primarily to increases in wages and salaries in both the public and private sectors. Over the period FY 2005/2006 to 2007/2008, revenues grew at an average of 7.2% per annum, principally due to increases in revenue from VAT, offshore corporate tax receipts and a rise in indirect tax receipts. Driven primarily by indirect tax receipts, FY 2007/2008 proved to be an exceptional year during the five-year period, as total revenue increased by 10.8% over the previous year.

The Government's medium-term fiscal strategy for improving revenue collection envisions improving the efficiency of existing revenue collecting agencies and a comprehensive review of the existing tax framework. As such, the Government aims to establish by the end of FY 2010/2011 a centralized revenue authority to consolidate all major revenue collecting agencies under a single agency, the "Central Revenue Authority". The Government also plans to adopt a more aggressive approach to the collection of taxes, non-tax revenue and arrears through increased use of technology, compliance audits and cost-efficient approaches to revenue collection. Other initiatives under consideration include strengthening and modernising legislation to give revenue collecting agencies greater authority to enforce compliance, broadening the VAT base by restructuring fiscal incentives and increasing license fees and other government fees to match inflation costs.

### *Taxation Revenue*

Barbados' tax legislation is enacted by Parliament. The legislative process begins with the budgetary procedures described under "Public Finance—General". 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 is no capital gains or inheritance tax in Barbados.

Residents of Barbados are generally subject to tax on world-wide income, and non-residents are liable to Barbadian tax only on income derived from Barbados. Companies and other corporate bodies that are resident in Barbados are subject to corporation tax, with non-resident 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.

Presently, the basic rate of tax for Barbadian corporations is 25%, having been systematically reduced from 40% in 2001 but there are special low rates of between 3% and 5% applicable to insurance companies. There is a special tax rate on remittances abroad of 10%, which is payable on profits remitted by an office, branch or agency of a non-resident 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 non-residents predominantly at the rate of 15%, although interest payable on the Notes to non-resident 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 sector 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.

## Expenditures

Total Government expenditures decreased by an estimated 0.3% in FY 2009/2010, as compared to a 10.4% increase in the prior year and an average increase per annum of 8.8% over the period FY 2005/2006 to 2007/2008. The decrease in expansion in Government expenditures in FY 2009/2010 was primarily attributed to the lower rate of growth in transfers and subsidies and a reduction in capital expenditure and interest payments.

Following a decrease in capital expenditure of 4.5% from FY 2006/2007 to FY 2007/2008, capital expenditure fell to approximately US\$116.0 million in FY 2008/2009 and an estimated US\$97.4 million in FY 2009/2010. This trend of decreased capital expenditures occurred despite continued transfers to Government institutions such as Caves of Barbados and the Urban and Rural Development Commission and improvements to road infrastructure, the building of an office complex at Warrens and the construction of housing under the Government's programme "Housing Every Last Person". Capital expenditure outflow is estimated to fall further by an estimated 19.5% in FY 2010/2011 compared to FY 2009/2010.

Current expenditures increased by an estimated 1.0% in FY 2009/2010 as compared to an increase of 11.8% in FY 2008/2009, primarily due to reduced transfers and decreases in wages and salaries paid. Over the period FY 2005/2006 to 2007/2008, current expenditures increased on average 11.8% per annum, principally due to a broad-based increase in transfers, interest payments and goods and services. Transfers rose largely as a result of expenditure incurred at the Queen Elizabeth Hospital, the University of the West Indies and the Transport Board. Wages and salaries paid by the Government also rose by an estimated 4.0% in FY 2009/2010, after having increased 2.9% in the prior period, because of retroactive payments and legislative salary adjustments. Current expenditure outflow is estimated to increase by 4.9% in FY 2010/2011 compared to FY 2009/2010.

The Government's medium-term fiscal strategy for reducing expenditures consists of reducing current expenditures such as transfer payments and subsidies to statutory boards, statutory corporations and Government-owned companies and by reducing capital expenditures through facilitating greater use of private-public sector partnership arrangements in financing capital projects (in which the Government anticipates savings in expenditures and additional revenues to finance associated lease payments on such arrangements). Other initiatives to reduce expenditure include containing the growth in public sector employment, reducing Government spending on goods and services through improved use of technology and improving sourcing and procurement methods.

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

**Table 25**

**Government Total Expenditure by Functional Classification**

	Fiscal year ended 31 March				
	2006-07	2007-08	2008-09	2009-10 <sup>(E)(1)</sup>	2010-11 <sup>(E)</sup>
	(expressed as a percentage change from the previous fiscal)				
General public service .....	8.9	39.4	33.7	(7.6)	8.5
Defence .....	12.1	(14.3)	17.8	6.8	8.2
Education .....	4.9	4.4	12.2	0.7	0.1
Health .....	9.2	41.5	9.7	1.0	(4.4)
Social security and welfare .....	3.7	(3.9)	10.8	3.4	2.1
Housing .....	2.7	1.1	12.5	(5.4)	(11.8)
Other social services <sup>(2)</sup> .....	5.9	194.0	15.6	8.6	(3.7)
Economic services <sup>(3)</sup> .....	(3.7)	42.9	12.4	2.9	(3.7)
Charges of debt interest .....	10.4	4.2	15.4	10.3	16.3
External .....	12.7	18.0	6.0	3.1	(0.7)
Domestic .....	9.0	(4.0)	22.5	14.6	25.5
Net Lending .....	23.0	(64.6)	0.0	0.0	0.0
Total expenditures .....	5.5	12.1	10.4	(0.3)	3.3

(1) FY 2009/10 & 2010/11 are based on accrual basis from Ministry.

(2) Includes culture, sports, parks and beaches.

(3) Includes trade, industry, agriculture, roads, civil aviation, tourism, lands and surveys and labour.

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 comprised an estimated 14.4% of overall expenditure in FY 2009/2010, compared to 13.0% in FY 2008/2009. Education and health absorbed an estimated 17.3% and 14.8%, of the budget respectively in FY 2009/2010 (17.1% and 14.6%, respectively in FY 2008/2009), reflecting Government's continued emphasis on providing access to free, high quality education up to tertiary level, and health care for all citizens. During FY 2009/2010, it is estimated that the Government spent 14.8% of its budget on economic services such as civil aviation, tourism, trade, industries, labour and land and surveys (as compared to 14.3% for FY 2008/2009) demonstrating Government's effort in preparing Barbados for the challenges of a global economy. Among organisations benefitting from these outlays were Caves of Barbados and the Urban Development Commission. Better ancillary tourism services are also partly responsible for the increase in spending on economic services.

Spending on social security and welfare was estimated at 8.1% of overall spending in FY 2009/2010, compared to 7.8% in FY 2008/2009. 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 on the island. 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 in connection with significant improvements in its traffic management infrastructure that will regulate the transportation system.

Barbados is in the process of developing programme 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” or committed, and “non-statutory”, or 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 variable.

### **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 Government expenditures and obligations. The Minister of Finance must, before the end of each fiscal year (which runs from 1 April to the following 31 March), prepare and lay before the House of Assembly annual estimates of revenue and expenditure for public services for 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”.

## PUBLIC DEBT

### Overview

Barbados has always met its obligations in respect of repaying borrowed monies 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 External Loan Act and are invested in domestic and foreign securities. The External Loan 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 External Loan 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, while accessing new sources of financing by issuing debt securities in the international capital markets.

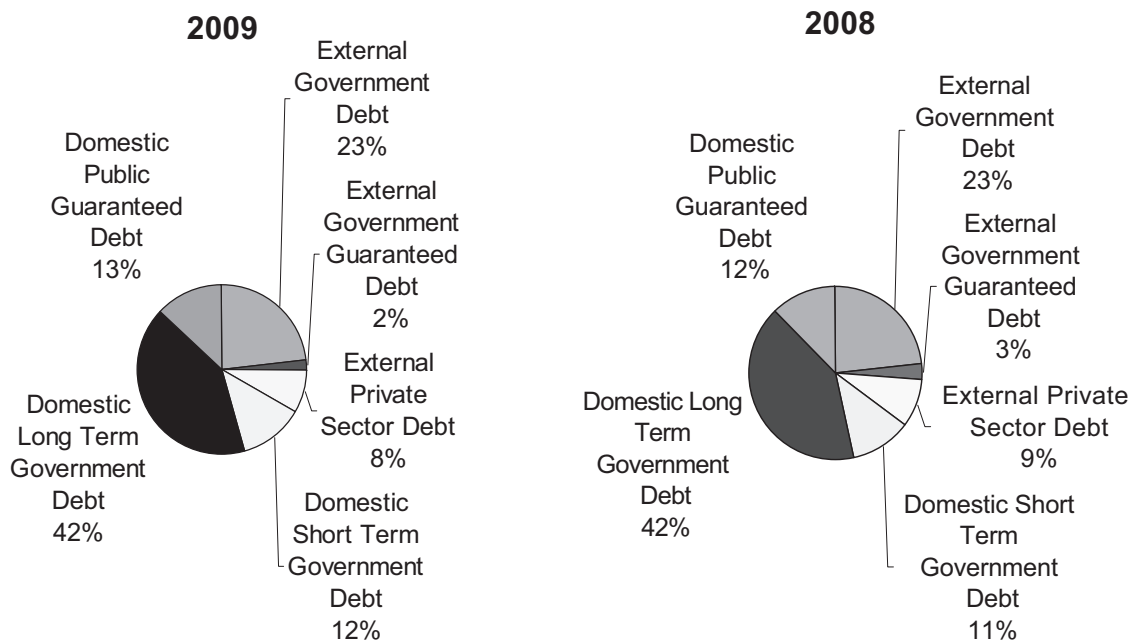
The following tables set out the total debt, public and private, outstanding for the years indicated together with a graphical representation of the debt breakdown for 2009 and 2008.

**Table 26**

### Debt Outstanding

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Total External Debt . . . . .	1,347.7	1,495.5	1,565.1	1,522.9	1,645.4
Government . . . . .	777.2	821.9	860.5	990.8	1,123.5
Government guaranteed . . . . .	114.4	103.6	136.7	126.7	116.4
Central Bank . . . . .	0.0	0.0	0.0	0.0	0.0
Private Sector . . . . .	456.1	570.0	568.0	405.5	405.5
Total Domestic Debt . . . . .	2,051.2	2,108.7	2,507.4	2,752.3	3,266.4
Government . . . . .	1,686.7	1,688.8	1,992.0	2,235.2	2,616.9
Short Term . . . . .	394.9	330.9	418.8	481.7	583.1
Treasury bills . . . . .	311.3	244.3	345.2	328.9	429.0
Loans & Advances . . . . .	83.5	86.6	73.6	152.8	154.1
Long-term . . . . .	1,291.9	1,357.9	1,573.3	1,753.5	2,033.8
Debentures . . . . .	1,147.9	1,194.9	1,350.8	1,565.0	1,782.3
Savings & Bonds . . . . .	58.5	53.9	50.8	47.3	48.0
Loans & Advances . . . . .	85.5	109.0	171.8	141.3	203.5
Guaranteed . . . . .	364.5	419.9	515.4	517.0	649.5
Public . . . . .	364.5	419.9	515.4	517.0	649.5
Private . . . . .	0.0	0.0	0.0	0.0	0.0

Source: Central Bank of Barbados



### Debt to GDP Ratio

The ratio of Government debt to GDP ratio as at 31 March 2010 was 93.5%. After deducting Government debt held by the National Insurance Scheme and deposits of Government and statutory bodies, the net debt to GDP ratio was 47.6%.

The ratio of Government debt to GDP rose from 80.9% in 2008 to 94.6% as at 31 December 2009. After deducting Government debt held by the National Insurance Scheme and deposits of Government and statutory bodies, the net Government debt to GDP ratio as at 31 December 2009 was 48.6%.

Total domestic debt of the Central Government, exclusive of Government-guaranteed debt, was US\$1,969.5 million as at 31 March 2010 compared to US\$2,616.9 million as at 31 December 2009. Total Government-guaranteed domestic debt was US\$696.0 million as at 31 March 2010 compared to US\$649.5 million as at 31 December 2009.

Total external debt of the Central Government, exclusive of Government-guaranteed debt, was US\$941.2 million as at 31 March 2010 compared to US\$1,123.5 million as at 31 December 2009. Total Government-guaranteed external debt was US\$179.9 million as at 31 March 2010 compared to US\$116.4 million as at 31 December 2009.

The Government believes its debt to GDP ratio and its total interest payments to expenditure ratio remain within accepted international norms for countries rated similarly by Standard & Poor's and Moody's. As a result of the Government's belief that the Barbadian economy is well positioned to benefit from an increase in global economic activity and based on the Government's medium-term fiscal strategy, the Government does not foresee any difficulties in meeting its interest and principal payment obligations on outstanding indebtedness or in the maintenance of an adequate level of net international reserves.

The following table sets out the Government's net debt to GDP ratio for the years indicated.

**Table 27**

<b>Net Debt to GDP Ratio*</b>	
(expressed as a percentage)	
2005 .....	31.2
2006 .....	32.1
2007 .....	34.6
2008 .....	39.3
2009 .....	48.6
1Q 2010 .....	47.6

\* Excludes Government debt held by the National Insurance Scheme and deposits of Government and statutory bodies. Figures are for the year ended 31 December, or in the case of 1Q 2010, for the quarter ended 31 March.

Source: Central Bank of Barbados

### Domestic Debt

The Government is empowered to create and issue domestic debt instruments up to a maximum aggregate annual amount of US\$2 billion (excluding Treasury bills) pursuant to the Local Loans Act Cap. 98. As at 31 March 2010, domestic debt issued directly by the Central Government represented approximately 70.0% of its overall indebtedness. This share of domestic debt to total debt has more or less been maintained since 2002 as the favourable conditions in the local capital markets made funds readily available to the Government. Funds are raised in local currency through the issue of Treasury bills and notes, savings bonds, commercial bank loans and advances, debentures and other securities. Commercial banks and the National Insurance Fund 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. 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 addition, the Central Bank may hold government securities, which it trades with commercial banks. As at 31 March 2010, borrowings from the Central Bank stood at US\$152.6 million.

The following table sets out the composition of domestic debt as at 31 March 2010 and as at 31 December 2009.

**Table 28**

<b>Composition of Domestic Debt</b>		
<b>Domestic Debt</b>	<b>31 March 2010</b>	<b>31 December 2009</b>
	(in millions of US Dollars)	
Treasury bills and notes .....	468.0	429.0
Commercial bank loans and advances .....	21.1	22.4
Debentures .....	1,883.5	1,782.3
Savings bonds .....	49.9	48.0

Source: Central Bank of Barbados

Total interest expense on domestic debt for the fiscal quarter ended 31 March 2010 was US\$23.5 million. The average cost of domestic debt in 2009 was 5.2%. Total domestic debt of the Central Government, exclusive of Government-guaranteed debt, was US\$1,969.5 million as at 31 March 2010 compared to US\$2,616.9 million as at 31 December 2009. Total Government-guaranteed domestic debt was US\$696.0 million as at 31 March 2010 compared to US\$649.5 million as at 31 December 2009. In addition, the Government has exposure to potential indirect or contingent financial commitments. See “—Contingent Liabilities”.

The following table sets out Barbados’ domestic debt amortisation amounts for the years indicated.

**Table 29**

Domestic Debt Amortisation													
Instrument	Year ended 31 December												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(in millions of US Dollars)												
Debentures . . . . .	130.0	125.0	128.1	142.5	180.0	180.0	206.8	192.5	142.6	100.0	122.5	50.0	112.5

Source: Central Bank of Barbados

## External Debt

At 31 December 2009, long-term public external debt consisted primarily of loans to the Government, multilateral and bilateral loan borrowings from international financial institutions and international bond issuances denominated mainly in US Dollars. As at 31 December 2009, international financial institutions participating in multilateral and bilateral loan facilities with the Government of Barbados, such as the World Bank, the IADB and the Caribbean Development Bank, accounted for approximately one-third of the Government’s external indebtedness. International bond issuances accounted for approximately half of the Government’s external indebtedness. See “Table 31—Government External Debt by Creditor”. The Government estimates medium and long-term multilateral and bilateral loan borrowings of approximately US\$290 million over the next three to five years. See “—Contemplated Borrowings”.

Following the final repayment of a US\$75.0 million bond, a US\$100.0 million bond and the issuance by the Government of a US\$116.1 million bond in the Trinidad and Tobago market in August 2009, the Government has five external debt issues outstanding. The maturities on these bonds are spread between 2011 – 2014, 2015, 2013 – 2019, 2021 and 2035.

Additionally, the Government has one external dollar-denominated term-loan outstanding in the amount of US\$100.0 million, due to mature on 10 December 2010. This loan was incurred on 10 June 2010 to fund the repayment of a US\$100 million external debt issuance which matured on 15 June 2010. The lender under the term loan facility was Deutsche Bank AG, London Branch, an affiliate of Deutsche Bank Securities Inc.

Total interest expense on external debt for the fiscal quarter ended 31 March 2010 was US\$20.0 million. The average cost of external debt in 2009 was 7.3%. Total external debt of the Central Government, exclusive of Government-guaranteed debt, was US\$941.2 million as at 31 March 2010 compared to US\$1,123.5 million as at 31 December 2009. Total Government-guaranteed external debt was US\$179.9 million as at 31 March 2010 compared to US\$116.4 million as at 31 December 2009. In addition, the Government has exposure to potential indirect or contingent financial commitments. See “—Contingent Liabilities”.

The following table sets out details of the five external debt issuances and one external international loan outstanding.

**Table 30**

**Government External Debt Issuances and Loans Outstanding**

<u>Principal Amount</u>	<u>Issue Date</u>	<u>Maturity</u>
US\$100.0 million (loan) .....	2010	2010
US\$80.0 million .....	2009	2014
GB£27.1 million .....	1990	2015
US\$40.0 million .....	2009	2019
US\$150.0 million .....	2001	2021
US\$190.0 million* .....	2005/2006	2035

\* This placement was first issued in 2005 (US\$125 million) and then reopened in 2006 (US\$65 million).

Source: Central Bank of Barbados

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

**Table 31**

**Public Sector External Debt Outstanding by Currency**

	<u>Year ended 31 December</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>(P)</sup></u>
	<u>(in millions of US Dollars)</u>				
<b>Government</b>					
US Dollar .....	709.1	757.4	797.6	928.2	1,053.4
Pound Sterling .....	61.1	59.3	58.4	60.8	66.9
Japanese Yen .....	0.0	0.0	0.0	0.0	0.0
Chinese RMB .....	5.3	3.4	2.7	2.0	1.5
T&T .....	1.6	1.6	1.6	1.6	1.4
Other .....	0.3	0.3	0.3	0.3	0.3
<b>Total</b> .....	<b>777.2</b>	<b>821.9</b>	<b>860.5</b>	<b>992.8</b>	<b>1,123.5</b>

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 32**

**Government External Debt by Creditor**

	Year ended 31 December				
	2005	2006	2007	2008	2009 <sup>(P)</sup>
	(in millions of US Dollars)				
Total External*	777.2	821.9	860.4	992.8	1,123.4
Multilateral	264.8	257.7	253.1	263.7	295.7
Caribbean Development Bank	82.3	82.6	96.1	103.0	96.0
European Economic Community	1.5	1.8	1.8	5.5	12.5
International Bank for Reconstruction & Development	12.4	14.8	14.7	14.1	20.3
Inter-American Development Bank	160.3	152.1	135.0	136.5	163.2
European Investment Bank	8.4	6.3	5.5	4.6	3.7
Bilateral	9.9	7.5	71.1	70.0	58.9
Suppliers' Credit & Prison Lease	11.1	19.4	18.1	160.4	158.4
Bond placements	491.4	537.3	518.2	498.7	610.5

\* Excludes Government-guaranteed debt.

Source: Central Bank of Barbados

Annual debt service payments from 2001-2009 and projections on existing debt for 2010-2014 are shown in the table below.

**Table 33**

**Central Government Debt Service Payments  
(in millions of US Dollars)**

<u>Year</u>	<u>Total amortisation</u>	<u>Total interest</u>	<u>Total debt service</u>
2001 .....	80.6	107.6	215.1
2002 .....	84.1	128.5	240.7
2003 .....	113.3	128.7	271.6
2004 .....	132.9	125.0	277.2
2005 .....	105.9	141.1	280.7
2006 .....	115.3	154.1	306.9
2007 .....	197.0	168.2	407.2
2008 .....	138.5	191.0	375.8
2009 .....	154.5	208.1	402.5
2010 <sup>(E)</sup> .....	138.9	246.5	385.4*
2011 <sup>(E)</sup> .....	58.2	247.0	305.2*
2012 <sup>(E)</sup> .....	74.3	262.8	337.1*
2013 <sup>(E)</sup> .....	75.1	278.2	353.3*
2014 <sup>(E)</sup> .....	69.2	288.7	357.9*

\* Excludes sinking fund payments.

*Source: Accountant General and Central Bank of Barbados*

The Government hedges in the forward market and enters into currency swap transactions from time to time when appropriate.

### **Contingent Liabilities**

As at 31 March 2010, material indirect or contingent financial commitments of the Government include US\$60 million in loan financing guarantees for the Four Seasons Hotel and Villas at Paradise Beach. The Government is also the guarantor on a US\$80 million loan by Barbados National Bank Inc. in December 2009 to the Barbados National Oil Company Limited. As at 31 March 2010, the Government also guaranteed US\$22.5 million in outstanding debt of the BAMC.

The Government, under the terms of a lease agreement with the Barbados Correction Corporation with respect to the Dodds Prison, is also responsible for annual payments of US\$15 million to be paid to the Barbados Correction Corporation beginning in January 2008 until the last payment date in January 2032.

**Contemplated Borrowings**

The Government estimates medium and long-term multilateral and bilateral loan borrowings of approximately US\$290 million over the next three to five years, including US\$200 million from the Caribbean Development Bank under its Country Strategy Programme 2010-2014, US\$30 million from the IADB under each of its Coastal Infrastructure Program and its Education Project and US\$27.5 million from the IADB under its Housing and Neighbourhood Programme.

## **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.

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 depositories 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 has been 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 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 United States Holders subject to special tax rules, such as life insurance companies, tax-exempt organisations, financial institutions, 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” for United States tax purposes, persons entering into “constructive sale” transactions with respect to Notes and United States Holders whose functional currency is not the US Dollar. The discussion below is based on United States 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 federal income tax consequences different from those discussed below. Each prospective purchaser should consult its tax adviser with respect to the United States federal state, local and foreign tax consequences of acquiring, holding and disposing of Notes. 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) it validly elects to be treated as United States person for U.S. federal income tax purposes or (b) 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. 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) 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 should be treated as a foreign source income for United States foreign tax credit purposes and, with certain exceptions, will be treated as “passive” income.

Subject to generally applicable restrictions and conditions, if any foreign income taxes are withheld on interest payments on the notes, a United States Holder generally will be entitled to a foreign tax credit in respect of any such foreign income taxes. Alternatively, the United States Holder may deduct such taxes in computing taxable income provided that the United States Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year. The rules regarding foreign tax credits and deduction of foreign income taxes are complex, so United States Holders should consult their own tax advisors regarding the availability of foreign tax credits or deductions in respect of foreign income taxes based on their particular circumstances.

#### *Sale, Exchange or Other Taxable Disposition*

Upon the sale, exchange or other taxable 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 or other taxable 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 holder). Such gain or loss generally will be capital gain or loss. In the case of a non-corporate United States Holder, the maximum marginal United States tax rate applicable to any capital will be lower than the maximum marginal United States tax rate applicable to ordinary income if the United States Holder’s holding period in the Note exceeds one year. A reduction of these rates would apply for Notes held longer than 5 years for any Notes sold after 31 December 2010. 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 or other taxable disposition of a Note generally will be treated as United States source income for United States foreign tax credit purposes.

If any foreign income tax is withheld on the sale or other taxable disposition of a note, the amount realized by a United States Holder will include the gross amount of the proceeds of that sale or other taxable disposition before deduction of such tax. Capital gain or loss, if any, realized by a United States Holder on the sale or other taxable disposition of the notes generally will be treated as U.S.-source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a note that is subject to foreign income tax, the United States Holder may not be able to benefit from a foreign tax credit for the tax unless the United States Holder can apply the credit against United States federal income tax payable on other income from foreign sources. Alternatively, the United States Holder may take a deduction for the foreign income tax if the United States Holder does not elect to claim a foreign tax credit for any foreign income taxes paid during the taxable year.

#### *United States Back-up Withholding and Information Reporting*

Payment on the notes and sales or redemption proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and to backup withholding unless (i) the holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

Any amounts withheld under the backup withholding rules from a payment to a holder will be refunded (or credited against such holder’s U.S. federal income tax liability, if any), provided the required information is timely furnished to the U.S. Internal Revenue Service.

Beginning in 2011, recently enacted legislation may require individual United States Holders to report to the U.S. Internal Revenue Service certain information with respect to their beneficial ownership of the Notes not held through an account with a financial institution. Investors who fail to report required information could be subject to substantial penalties.

#### **Internal Revenue Service Circular 230 Disclosure**

**To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that the discussion of tax matters set forth in this Offering Memorandum was written in connection with the preparation of this Offering Memorandum and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state, or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.**

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.

#### **Proposed European Directive on the Taxation of Savings**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required 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 or to certain limited types of entities established in that other Member State. However, for a transitional period, 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 adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in a subscription agreement dated 2010 (the "Subscription Agreement") between the Government and Deutsche Bank, the Government has agreed to sell to Deutsche Bank, and Deutsche Bank has agreed to purchase from the Government, the principal amount of the Notes set forth opposite its name below:

	<u>Principal Amount of the Notes</u>
Deutsche Bank Securities Inc. ....	US\$200,000,000

The obligations of Deutsche Bank under the Subscription Agreement will be subject to certain conditions precedent, and Deutsche Bank is entitled to terminate the Subscription Agreement in certain circumstances.

Prior to this offering of the Notes, there has been no market in the United States for the Notes. The Government has been advised by Deutsche Bank 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. 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 against certain liabilities under the Securities Act, and will reimburse payments Deutsche Bank 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 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 4 August 2010, which will be the sixth business day in the United States following the date of pricing of the notes ("T+6"). 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 4 August 2010 will be required, by virtue of the fact that the Notes will initially settle in T+6, to specify an alternative settlement cycle at the time of any such trade.

Deutsche Bank 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 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 to be reclaimed when Notes originally sold by Deutsche Bank 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 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. In particular, an affiliate of the Manager is a lender to the Government under its US\$100 million term loan facility entered into on 10 June 2010. A portion of the net proceeds from the sale of the Notes will be used to repay the term loan facility.

## **Selling Restrictions**

### *United Kingdom*

Deutsche Bank represents and agrees that:

(a) 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

(b) 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.

### *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 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 Notes which are the subject of the offering contemplated by the Offering Circular to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized 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 EUR43,000,000; and (3) an annual net turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Deutsche Bank; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the Government or Deutsche Bank to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 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 and the expression “Prospectus Directive” means Directive 2003/71/EC of 4 November 2003 and includes any relevant implementing measure in each Relevant Member State.

## 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 unauthorised, 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.

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, special 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 Barbados 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 and United States 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

### Due Authorisation and Sinking Fund

The creation and issue of the Notes have been 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 3 May 2010. Pursuant to the Act, a sinking fund will be established for the redemption of the Notes. The moneys 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.

### Listing

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

### Litigation

Significant legal proceedings against the Government are summarized below.

#### *Barrack Construction Limited vs. National Housing Corporation*

On 13 August 1998, the National Housing Corporation (“NHC”), a statutory corporation, contracted Barrack Construction Limited (“Barrack”) to construct a 5-story office complex at Warrens, St. Michael. During the construction process, a dispute arose between the parties as to the cause of certain delays in construction and as to the deduction of liquidated damages by NHC from the contractual construction costs.

The dispute was submitted to arbitration and in a written decision dated 7 September 2006 the arbitrator found in favour of Barrack. The arbitrator awarded Barrack BDS\$34.5 million, with interest. The arbitrator made a further order in writing dated 28 September 2006 as to costs in which Barrack was awarded BDS\$5.8 million. The Government made an application to the Supreme Court of Barbados to set aside the award of the arbitrator. The High Court of Barbados gave leave to Barrack to enforce the award of the arbitrator, including the award as to costs.

The High Court further ordered on 28 January 2010 that final charging orders be imposed on the Warrens Office Complex in St. Michael and other lands of NHC located in St. Phillip. By subsequent proceedings in the High Court, Barrack sought delivery of possession of the properties subject to the charging orders, the sale thereof to satisfy the judgment obligation and payment of reasonable rents for the Government’s occupation of the Warrens Office Complex. The judgment obligation was approximately BDS\$61 million as of 8 February 2010.

#### *Peter A. Allard vs. The Government of Barbados*

Peter Allard, a Canadian citizen, is the owner of the Graeme Hall Nature Sanctuary (the “Sanctuary”) in Barbados. The Sanctuary consists of 34.25 acres of natural wetlands on the south coast of Barbados. In September 2009, Mr. Allard gave the Government of Barbados notice of the existence of a dispute (the “Notice of Dispute”) pursuant to the agreement between the Government of Canada and the Government of Barbados for the Reciprocal Promotion and Protection of Investments (the “Bilateral Agreement”).

Mr. Allard alleged in the Notice of Dispute that certain acts or omissions by the Government of Barbados including, in particular, failure to enforce environmental laws and a change of land use policy, have caused environmental damage to the Sanctuary thereby reducing the value of his investments in the Sanctuary. Mr. Allard alleged that the Government is in breach of the Bilateral Agreement in that his investments have not been accorded fair and equitable treatment in accordance with principles of international law.

By notice dated 21 May 2010, Mr. Allard submitted the dispute to arbitration under the Arbitration Rules of the United Nations Commission on International Trade Law pursuant to the Bilateral Agreement.

In such notice of arbitration, Mr. Allard claimed that he invested approximately US\$35 million in Barbados to develop a world class eco-tourism site. He alleged he did so with the legitimate expectation that Barbados would exercise due diligence to enforce its environmental protection laws and that it would abide by its international treaty commitments to protect the natural environment of the site and surrounding area. Mr. Allard further claims that the Government failed to take reasonable and necessary environmental protection measures, and, as a result, directly contributed to the contamination of the eco-tourism site, thereby reducing the value of his investment and in turn, violating the Government's international obligations to Canadian investors under the Bilateral Agreement.

The relief sought in the arbitration is an order for the Government to provide restitution to Mr. Allard's wholly owned corporation, Graeme Hall Nature Sanctuary Inc., of its property interest in the Sanctuary by taking measures to fully repair all damage to the Sanctuary caused by its alleged breaches of the Bilateral Agreement; or, in the alternative, an order for the Government to pay monetary compensation in an amount not less than US\$35 million plus interest, costs of the arbitration and other legal costs. While the Government intends to defend itself, the parties have had discussions with a view to meeting to negotiate a resolution to this matter with respect to Mr. Allard's request for monetary compensation. If such negotiations are unsuccessful, the arbitration proceedings will continue.

### *3S Structural Steel Solutions LLC & 3S (Barbados) SRL vs. The Attorney General*

The Government of Barbados and 3S Structural Steel Solutions LLC ("3S LLC"), by memoranda of understanding dated 5 September 2005 and 26 July 2006, agreed that 3S (BARBADOS) SRL ("3S") would design and carry out certain road works along the 'ABC Highway' in Barbados, supply and install a traffic synchronization system and undertake a traffic study review for the city of Bridgetown.

The plaintiffs, 3S LLC, filed suit in the Supreme Court of Barbados on 22 May 2009 claiming wrongful termination and/or repudiation of the engagement by the Government, and claiming damages in the amount of BDS\$39 million.

A defence and counterclaim has been filed on behalf of the Attorney General. The Attorney General alleged abandonment and/or repudiation of the contract by the plaintiffs as well as improperly executed works. The proceedings have reached the interlocutory and document request stage of trial.

### *Claim of Alpha Incorporated in relation to Parking Meters*

In September 1994, after public tender, Alpha Incorporated was awarded a contract for the supply, installation, maintenance and operation of parking meters in the Bridgetown area. The tender was awarded subject to the enactment of appropriate or necessary legislation. No action

was taken to fulfill the contract until about January 1996 when the relevant Ministry advised the contractor to proceed with the importation of the necessary equipment for the installation and operation of the parking meters. Alpha Incorporated proceeded to procure, though not import, the necessary equipment sometime in 1996. A written agreement for such supply, installation, maintenance and operation of parking meters was entered into between the Government of Barbados and Alpha Incorporated on 15 September 1996. However, the enabling legislation was never enacted and the parking meters were never installed.

The contractor submitted a claim to the Solicitor General of Barbados dated 1 March 2004 in the amount of BDS\$18.5 million. At that time, the Government engaged in informal discussions with the contractor which did not result in a settlement. However, legal proceedings have never been instituted and no formal action has been taken in the matter by either side since 2004.

*Davion Callender vs. The Attorney General and The Board of Management of Alexandra Secondary School*

This suit was initially filed on 13 February 1995. It arose from an incident occurring at the Alexandra School in July 1994 where the plaintiff, then 14 years old, sustained injuries while engaged in a gymnastics exercise. The plaintiff suffered a broken neck and was diagnosed with permanent complete quadriplegia. The claim submitted is in the amount of BDS\$19 million. Although the claim dates to 1995, the parties continue to negotiate a settlement as to damages. The claim figure has not been reduced since the filing of the claim. However, a payment of approximately BDS\$397.9 thousand was made in 2003 to cover medical treatment and expenses.

**Availability of Documents**

Copies of the following documents may be inspected free of charge (and, in the case of (a), (b) and (e), obtainable 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 and Deed of Covenant; and
- (e) The Government of Barbados's estimates for FY 2010-2011 (copies of which will be made available upon request).

**Clearing**

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 clearance through the facilities of The Depository Trust Company, Euroclear and Clearstream Luxembourg under CUSIP P48864AD7, ISIN USP48864AD77 and Common Code 053086446. The CUSIP number for the Notes represented by the Restricted Global Note Certificate is 067070AF9, the ISIN is US067070AF98 and the Common Code is 053086454.

**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**  
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St. Michael  
Barbados

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