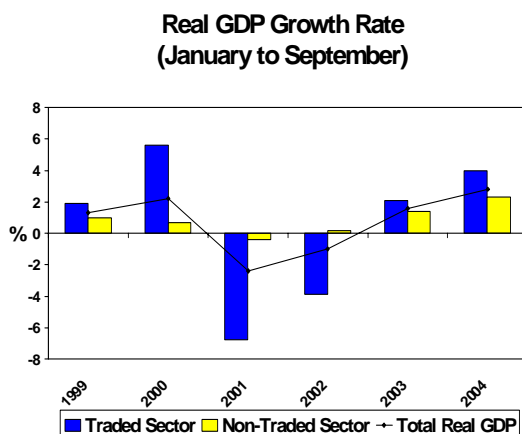


## REVIEW OF THE ECONOMY FOR THE FIRST NINE MONTHS OF 2004

### OVERVIEW

Real economic activity rose by 2.9% during the first nine months of 2004, compared to growth of 1.6% in the same period of 2003.

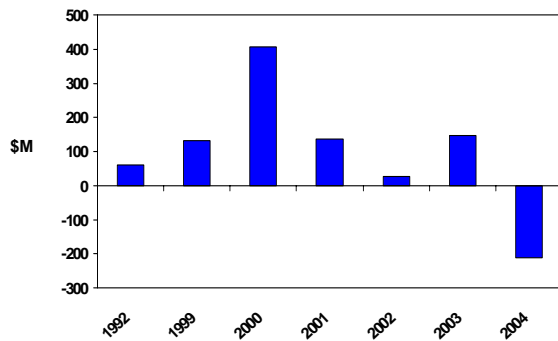


The expansion in the economy contributed to an improvement in Government's fiscal balance, while the excess liquidity in the banking system

was not quite as high, owing to a pick up in credit. In addition retained imports grew rapidly (14%) which, along with weak domestic exports and lower capital and financial inflows, contributed to a \$211.3 million contraction in the net international reserves (NIR) of the monetary authorities, before taking account of reserves under the second tier programme. The second tier of reserves is a programme in which certain entities are allowed to invest funds overseas with the approval of the Central Bank, under the guarantee that such funds be repatriated on request. Commercial Banks, Insurance Companies, pension funds and the National Insurance Scheme hold the

bulk of the funds under this programme. After adjusting for second tier reserves, which increased by \$65 million to \$149.2 million, over the nine months, the contraction in reserves is \$146 million. It should be noted that the level of reserves at the end of September remained comfortable at \$1.29 billion, which was 27.2 weeks of imports and 30.3 weeks when the second tier reserves are included. In addition, the net foreign assets of commercial banks are at very healthy levels. At \$580 million at September 30, these were more than \$300 million more than two years ago.

**Change in Net International Reserves (January-September)**

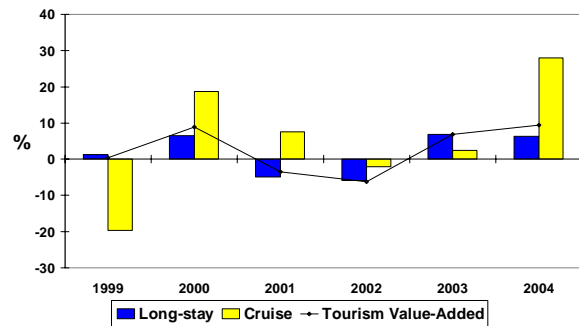


## SECTORAL PERFORMANCE

Real value-added in the tourism industry increased by an estimated 9.6% in the January-to-September period of 2004, following growth of 6.8% in the comparable nine-month period in 2003.

Based on available data for the first nine months of the year, the number of long-stay visitors grew by 6.2%. The expansion in arrivals was facilitated primarily by strong growth in the United Kingdom market, which rose by 9.4%. Additionally, arrivals from CARICOM, Canada and the United States of America were up by 13.5%, 8.2% and 1.4%, respectively.

**Tourism (January to September)**



Cruise passenger arrivals over the first nine months of the year rose by approximately 32.5%, compared to 2.4% during the same period in 2003. This outturn reflected the home porting of cruise vessels during the winter season as well as the addition of two cruise vessels during the summer period.

Activity in non-sugar agriculture fell moderately during the nine-month period ending September 2004 owing to

a contraction in fish landings and milk production. Milk production, in particular, contracted by a further 6.9% during the review period. In contrast, chicken output was up by 5.7%, approximately one percentage point higher than in 2003.

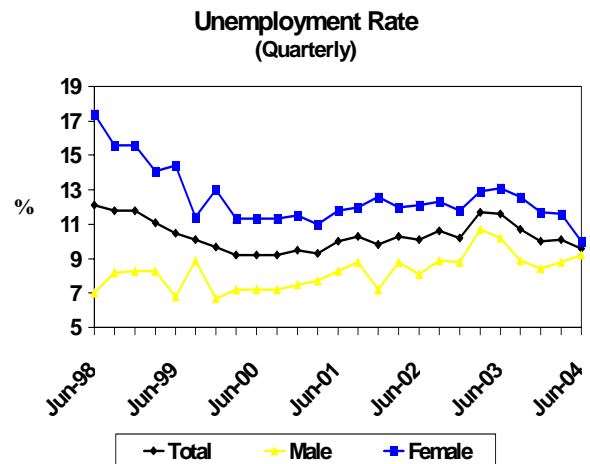
Relative to September 2003, manufacturing activity is estimated to have remained unchanged, as increases in the output of chemicals (17.1%), beverages (1.7%) and non-metallic mineral products (2.9%) were offset by a fall-off in production in food (-4.2%) and other manufacturing industries (-2.1%).

Between January and September 2004, 209 new licences for International Business Companies were issued, compared to 203 and 197 in the corresponding periods of 2003 and 2002 respectively. Over the same time, two offshore banks were issued with licences to commence operations in Barbados.

Real value-added in the non-tradable industries rose by about 2.6% during the review period, compared to growth of 1.4% in the same period of 2003. The

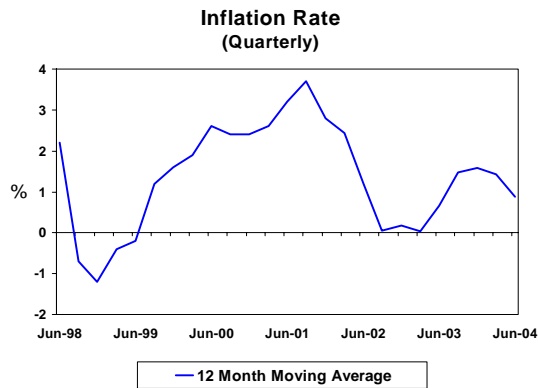
transport, storage and communications industry led the expansion, increasing by approximately 4.8%, due in part to the 14% increase in imports, while activity in the wholesale and retail trade and business and other services benefited from robust growth in tourism.

The average rate of unemployment between January and June 2004 fell to 9.8%, or approximately 1.8 percentage points lower than in 2003. The average rate of male unemployment was 9%, while that for females was 10.4%.



The moving average rate of inflation at the end of July 2004 was 0.84%, compared to 0.97% at end-July 2003. There were increases for food (principally cereals, flour and baking products and meats), medical and personal care items and transport, which offset declines in the prices for

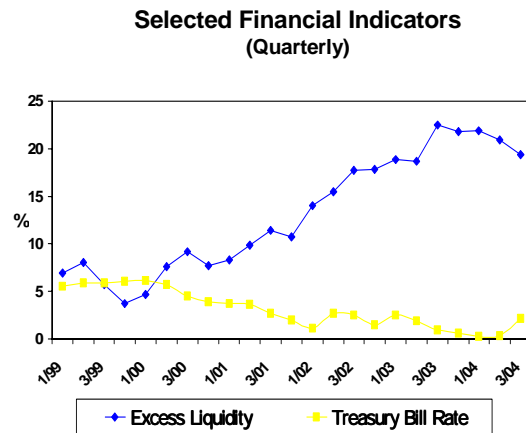
fuel and light, alcoholic beverages and tobacco as well as household operations and supplies.



At the end of September 2004, domestic deposits had risen by approximately 4.8%, after a 7.1% expansion in 2003. The slowdown in domestic deposit growth reflected the drawdown of deposits to pay for imports and the withdrawal of deposits by a government entity from the banking system. Commercial bank credit to the non-financial private sector was up by 5.7% during the January-to-September period, owing primarily to a \$60 million expansion in securities holdings by one commercial bank and a broad-based expansion in personal lending to finance housing and motor car purchases.

Between December 2003 and the end of September 2004, excess liquidity in the banking industry fell from 21.8% to 20.6%. Due to the contraction in excess

liquidity in the banking system, the Treasury bill rate jumped to 2.14% at the end of the quarter, compared to 0.64% at the beginning of the year.

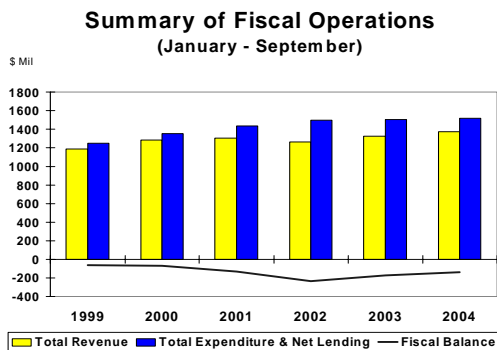


For the period January to September 2004, the central government fiscal deficit was estimated at \$138.5 million, approximately \$34.9 million less than in the corresponding period of the previous year. Total revenues expanded by around 4%, as greater indirect tax receipts offset a slight decline in collections of direct taxes. Indirect taxes rose by 11.9%, driven by a 41.7% rise in excise taxes, a 17% expansion in import duties and an 8.4% growth in VAT receipts.

Due to an estimated 17.6% reduction in capital expenditure, total expenditure of the central government rose by just under 1% over the nine-month period ending September 2004. The decline in

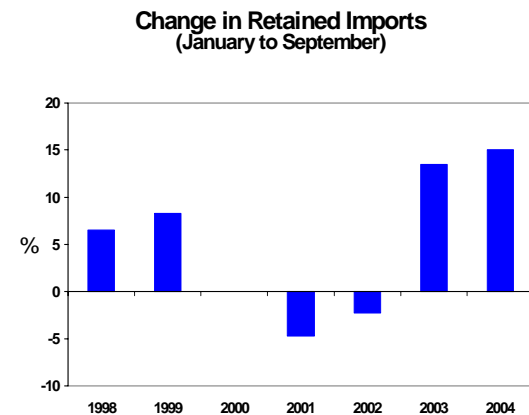
capital expenditure comes on the heels of a 23% reduction in the same period in 2003. Current expenditure expanded by 3.9%, approximately 1.3 percentage points higher than for last year. There was a substantial rise in transfers and subsidies, reflecting the reorganisation implemented at the Queen Elizabeth Hospital. In addition, an expanding stock of domestic debt led to a 4.4% rise in domestic interest payments.

The fiscal deficit was financed mainly from domestic sources. The Central Bank contributed \$62.2 million through the Ways and Means Balance. Additional funds needed to cover central government's operations were obtained from commercial banks and the non-financial private sector. Net foreign financing totalled \$2.1 million only, as project fund inflows were marginally higher than foreign amortisation payments.



The deficit on the external current

account was estimated at \$286.1 million, or almost \$98 million more than in the corresponding nine months of 2003. Retained imports were up by an estimated 14%, following an increase of 13.5% recorded a year earlier. Consumer goods imports, in particular, grew by around 15.7%, owing to a forty percent surge in motorcar imports and a significant increase in food and beverage imports. Higher growth rates for imports of capital and intermediate goods were also reported during the period.



In line with the trends witnessed since 2001, domestic exports rose slightly over the nine-month period ending September 2004. In contrast, net receipts from services expanded by an estimated 10.9%, on account of rising tourist expenditure.

The deficit on the external current account was partly financed by a \$249

million surplus on the capital and financial account. During the nine-month period ending September 2004, net long-term private capital inflows were estimated at \$184 million compared with \$211 million in the previous year, while net long-term public capital inflows were significantly lower than in 2003 when government benefited from the sale of shares in the Barbados National Bank.

#### **OUTLOOK FOR THE REST OF 2004**

The economy is expected to grow by between 2% to 3% in 2004. Tourism, wholesale and retail and transport, storage and communications activities are anticipated to be the key drivers of the economy. Tourism is projected to grow by about 7% in 2004, as some of the momentum from the first quarter is expected to be carried over to the remainder of the year. Wholesale and retail trade should benefit from expanding disposable incomes on account of lower effective rates of income tax, while rising import demand should boost activity in the transport, storage and communications industry.

Retail prices are projected to be up by around 1.5% in 2004, while the average rate of unemployment should remain

below 10% in 2004, as greater economic activity continues to spur job creation. With continued strong import growth, the external current account deficit is likely to worsen somewhat in 2004 but the NIR is expected to remain at comfortable levels.

Government's fiscal position in 2004 is anticipated to improve somewhat to approximately 2.9% of GDP, compared to the 3.1% deficit registered in 2003 and should occur on account of a cutback in Government's on-budget capital expenditure. Commercial bank credit is anticipated to grow for the rest of the year, and liquidity in the banking system may tighten somewhat.

**October 29, 2004**