

REVIEW OF THE ECONOMY FOR THE FIRST NINE MONTHS OF 2003

OVERVIEW

In the third quarter of 2003, real economic activity registered its fifth consecutive quarterly expansion. As a result, there were gains in the number of persons employed and an improvement in Government's fiscal position. The external current account weakened on account of a surge principally in fuel and machinery imports. Nevertheless, the net international reserves (NIR) rose by \$140.8 million primarily due to divestment proceeds.

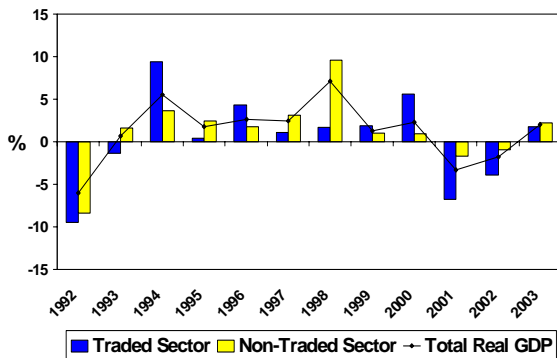
SECTORAL PERFORMANCE

Real economic activity grew by an estimated 2% over the first nine months

of 2003, a turnaround from the 1.8% decline recorded in the comparable period in 2002, and higher than the average rate of expansion of 1.1% experienced between 1998 and 2002. There was broad-based growth in the non-traded sectors, especially wholesale and retail and transport, storage and communications.

In contrast, tourism was the only traded sector activity to record a positive rate of change.

**Real GDP Growth Rate
(January to September)**



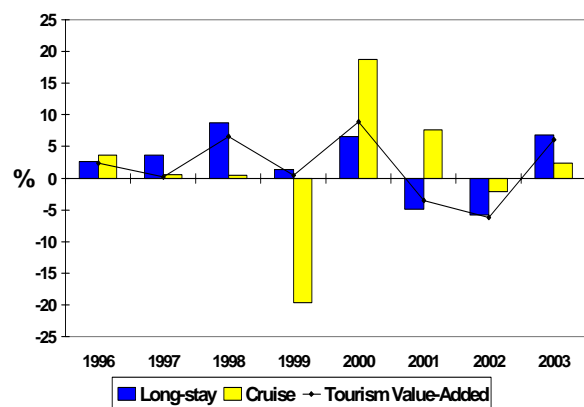
Real tourism value-added increased by an estimated 6.1% in the January-to-September period of 2003, in contrast to a decline of 6.2% in the comparable nine-month period last year. The improvement in the industry's performance was primarily reflective of a good second quarter outcome when stay-over visitor arrivals grew by approximately 19.2%. However, in the third quarter long-stay arrivals slowed to an estimated 0.6%, compared to an increase of 4.8% in the third quarter of 2002. Despite this slow-down, the cumulative increase in the number of long-stay visitors over the first nine months of 2003 was 6.9%, reversing the contraction of 5.8% one year earlier, and the average annual increase of 1.2% over the last five years. The strong growth in cumulative tourism arrivals could be attributed to the early re-launch of the "Best of Barbados"

programme and other collaborative marketing initiatives undertaken by the Barbados Tourism Authority and other tourism stakeholders.

Visitor arrivals from the UK and US were up by 4% and 4.9%, respectively, while those from Canada grew by 2.8%. Most noticeably, increases of 28.5% and 11.9% in the number of visitors from Germany and Continental Europe, respectively, were recorded, the first such occurrence since 1998.

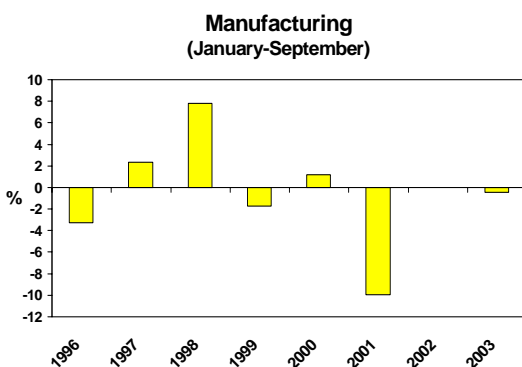
Over the first nine months of the year, cruise passenger arrivals rose by approximately 2.4%, as strong first and second quarter performances were partially outweighed by a decline in the third quarter, as a result of the loss of a major cruise ship.

**Tourism
(January to September)**



Over the review period, real value-

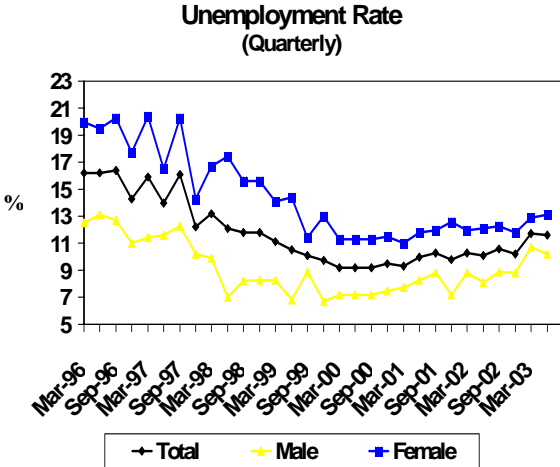
added in non-sugar agriculture fell marginally, compared with an increase of 1.2% in the same period one year earlier. The quantity of fish landings rose by 8.3%, the first cumulative nine-month increase in five years, while chicken production contracted by an estimated 1.3%. However, milk production registered its seventh consecutive quarterly contraction, partly due to a tick infestation in some cattle. Manufacturing activity is estimated to have deteriorated by around 1%, as increases in beverages and food processing were offset by declines in chemicals, non-metallic mineral products and other manufacturing industries.



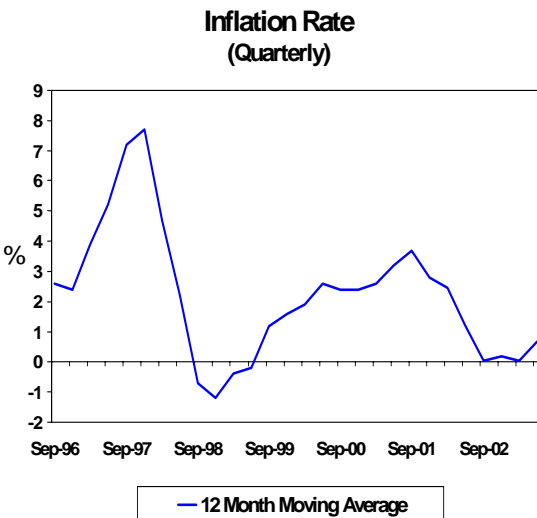
Real economic activity in the non-traded sectors grew by 2.1%, in contrast to a contraction of almost 1% recorded in the same period of 2002. The wholesale and retail trade led the non-traded sector performance, expanding by 3.1%,

due in large measure to the improved tourism outturn, while activity in the transport, storage and communications and business and other services industries was also quite strong. However, production in mining and quarrying worsened, as rising output from the new oil wells drilled over the first nine months failed to offset the declining output from older wells.

As a result of the overall expansion in economic output, the average number of persons employed between January to June 2003 rose by 2,150 persons, or approximately 1.7%, to 129,450 persons. Most of the new jobs were generated in wholesale and retail, tourism and general services, while jobs were lost primarily in finance, insurance and business and other services. Despite the rise in the number of persons employed, the average unemployment rate rose by 1.5 percentage points to 11.6%, as growth in the labour force outstripped the number of net new jobs created.



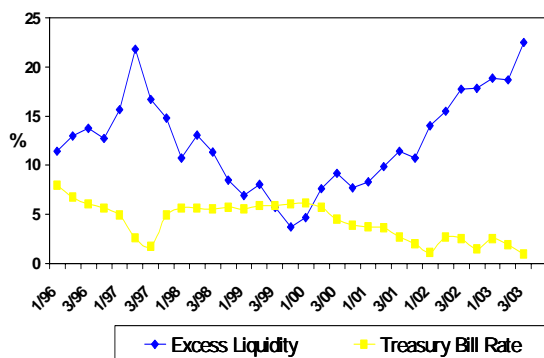
The moving average rate of inflation at the end of July 2003, was 1%, compared to 0.7% at end-July 2002. The higher level of inflation was due to increases for fuel and light (7.5%), medical and personal care (4.8%) and food (1.9%), which more than offset declines in household operations and supplies (-3%), clothing and footwear (-6.1%) and alcoholic beverages and tobacco (-1.8%).



At the end of September 2003, domestic deposits had risen by approximately 7.9%, following the 9.5% expansion registered in 2002. The robust growth in deposits occurred on account of Government divestment proceeds and rising individual deposits, which overshadowed weaker deposit growth for business firms. Commercial bank credit to the private sector was below that of last year as declines in the personal and distribution categories were offset by a 7.1% increase in loans and advances for tourism-related establishments.

Between 31st December 2002 and 30th September 2003, excess liquidity in the banking industry increased from 17.8% to end the quarter at 22.5%. A substantial proportion of this increase resulted from Government's sale of shares in BNB, which were then deposited in the financial system. As a result, the treasury bill rate fell to 0.94% at the end of the quarter, compared to 1.51% at the beginning of the year.

**Selected Financial Indicators
(Quarterly)**

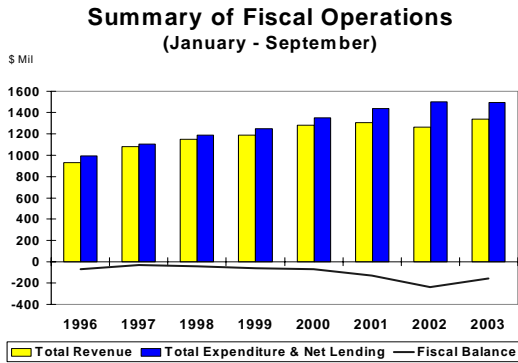


For the period January-September 2003, government recorded an estimated fiscal deficit of \$155.5 million, approximately \$80.4 million less than for the corresponding period in the previous year. Total revenues expanded by an estimated 6%, due primarily to greater corporate tax and VAT receipts – reflecting the improved economic outturn in the non-traded sectors.

Total expenditure of central government fell marginally over the nine-month period ending September 2003, when compared to one year ago. This outcome primarily reflected a 22% reduction in on-budget capital expenditure. However, off-budget capital expenditure is estimated to have been significant. The Government of Barbados has been meeting most of the upfront financing for the Hilton and airport. Nevertheless, as a result of rising off-budget capital expenditure,

higher levels of contingent liabilities have been noticed. Current expenditure expanded by 4.4%, two percentage points higher than in the January to September period of 2002, mainly due to an increase in foreign interest payments. There was also a substantive rise in transfers and subsidies, but these were counterbalanced by a decline in the wages and salaries bill and outlays on goods and services, reflecting the reorganisation implemented at the Queen Elizabeth Hospital.

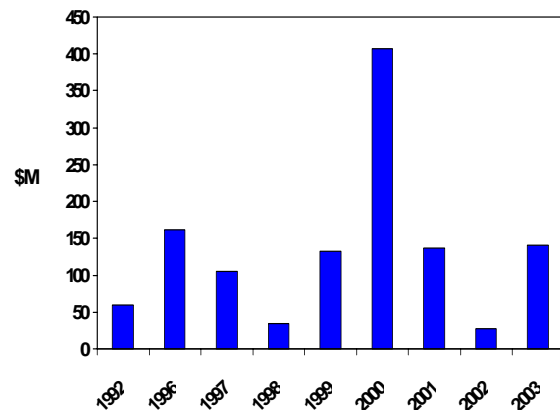
The fiscal deficit was financed mainly from foreign sources by way of project funds and the divestment of shares in Barbados National Bank (BNB). The Central Bank of Barbados and the National Insurance Board provided additional funds to cover some of Government's operations.



A significant pick-up in retained imports, and the continued underperformance of most of Barbados' non-tourism foreign exchange earning industries, resulted in a current account deficit estimated at \$297.8 million, almost twice the size of the deficit in the corresponding nine months of 2002. Retained imports rose by approximately 12.5%, in contrast to the decline of 2.3% recorded a year earlier, and the five-year average annual rate of growth of just 1.6% over a similar period. Intermediate goods rose by 15.4%, reflecting a surge in fuel imports, and accounted for most of the increase in retained imports, while capital goods grew as a result of greater machinery imports. In contrast, domestic exports registered a small fall-off as virtually all the major categories declined. Net receipts from services expanded by an estimated 3.4%, the largest rate of increase in three years, primarily due to greater tourism earnings.

Over the review period, the capital and financial account recorded a surplus of \$405 million. Net long-term public capital inflows were \$151.8 million, reflecting proceeds from Government's sale of shares in BNB to Republic Bank, while net long-term private capital inflows, estimated at \$253.2 million, were twice as high as one year earlier. As a result, the net international reserves expanded by \$140.8 million for the nine months ending in September 2003.

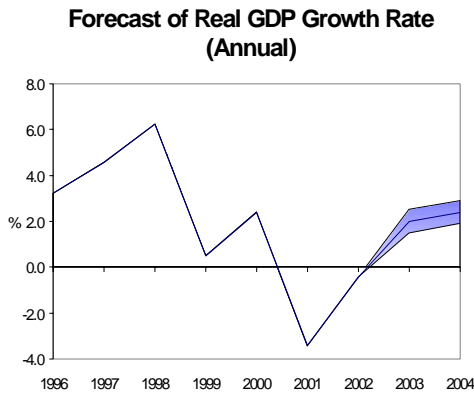
Change in Net International Reserves
(January-September)



OUTLOOK FOR THE REST OF 2003 AND 2004

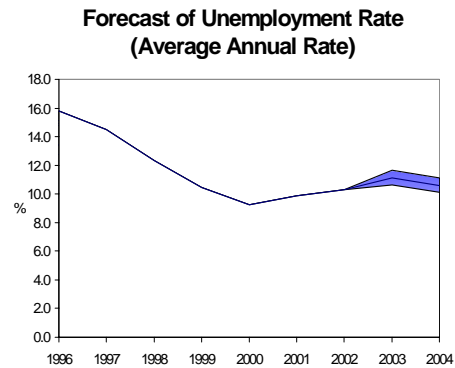
The economy is expected to grow by between 1% to 2% in 2003, followed by growth of between 2% to 3% in 2004. Tourism and wholesale and retail activities are anticipated to continue to

be the key drivers of the economy. Tourism is projected to grow by 5% in 2003 and at least 3% in the following year, as stay-over numbers are expected to be bolstered by visitors in the second quarter for the English cricket tour of the Caribbean and expanded airline-seating capacity to accommodate increased travel demand during the winter season. Wholesale and retail trade should benefit from rising disposable incomes on account of further reductions in income tax rates over the medium-term and the rise in tourist arrivals.



Retail price inflation may grow by 1.5% in 2003. The average rate of unemployment should increase slightly in 2003, as growth of the labour force outstrips the number of new jobs created, but should eventually fall in 2004 as greater economic activity spurs

faster job creation.



As a result of the weakness in the non-tourism foreign-exchange earning industries, the external current account deficit is likely to worsen in 2003 and 2004. Nevertheless, the NIR could expand by between \$60 million to \$90 million in 2003, mainly due to Government's divestment proceeds and higher private capital inflows for tourism-related projects and utilities.

Government's fiscal position in 2003 is anticipated to improve somewhat to approximately 4.3% of GDP, 1.6 percentage points lower than in 2002. The positive outcome should occur as a result of higher corporate revenues and a cutback in its on-budget capital works programme. Commercial bank credit is unlikely to grow for the rest of the year, while robust tourism inflows for the fourth quarter should add to an already liquid system.

October 30, 2003