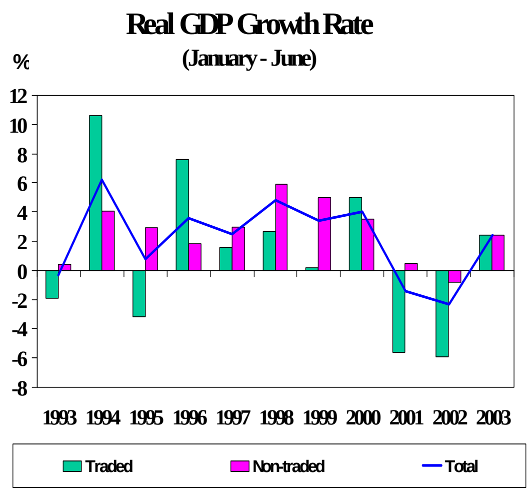
REVIEW OF THE ECONOMY FOR THE FIRST SIX MONTHS OF 2003

OVERVIEW

During the first six months of 2003, the Barbados economy continued along a gradual path of recovery, with a further improvement in real output, continued low inflation, a slight increase in the rate of unemployment and a creditable improvement in government finances. However, the external current account weakened considerably and foreign reserve accumulation was just $19.6 million.

Sectoral Analysis

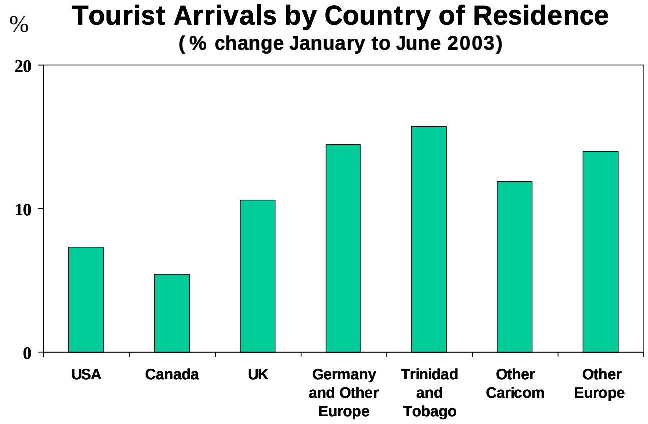
Real economic activity in Barbados rose by an estimated 2.4% over the first half of 2003, reversing the decline of 2.3% in the comparable period of 2002. Growth was recorded in both the first and second quarters of the year, with the second quarter expansion being boosted by faster growth in tourism arrivals.



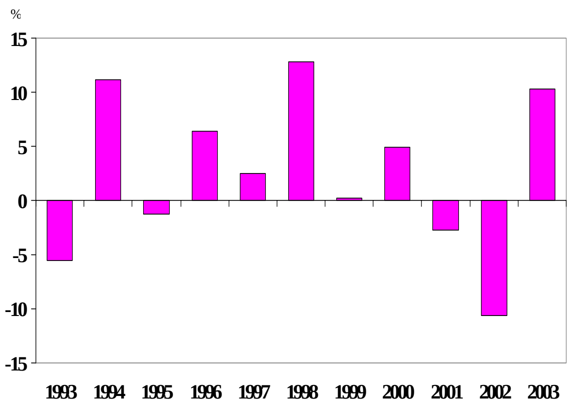
Both long-stay and cruise passenger arrivals continued to strengthen. Real tourism value-added advanced by an estimated 8.6% during the review period, after plunging by 9.7% between January and June a year ago.

The number of long-stay visitors to Barbados rose by an estimated 10.3%, compared to declines of 10.6% and 2.7% respectively, in the similar periods of 2002 and 2001. In contrast to the measured expansion in the first quarter, visitor numbers in the second quarter rose sharply, with long-stay and cruise passenger arrivals posting growth of 19.2% and 4.9%, respectively.

Tourist Arrivals by Country of Residence
(% change January to June 2003)



Long-Stay Tourist Arrivals
(January - June)



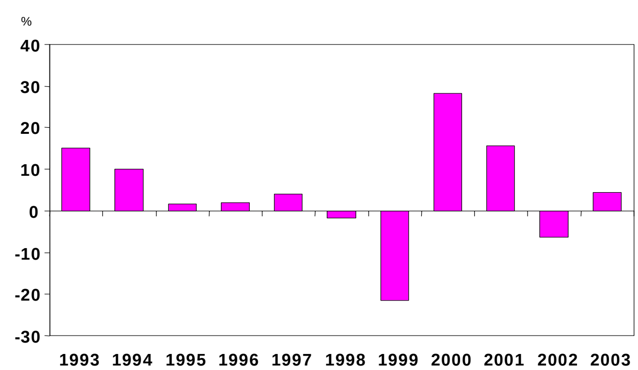
The improvement registered for most of the island's main source markets reflects last year's weak second quarter performances, early re-launch of the "Best of Barbados" campaign, and other marketing initiatives.

Over the six months, arrivals from Canada increased by 5.4%, while stay-over tourists from the United States and the United Kingdom went up by 7.3% and 10.6%, respectively. Visitors from Trinidad and Tobago, other Caricom and Germany rose by 15.7, 11.9% and 14.5% respectively.

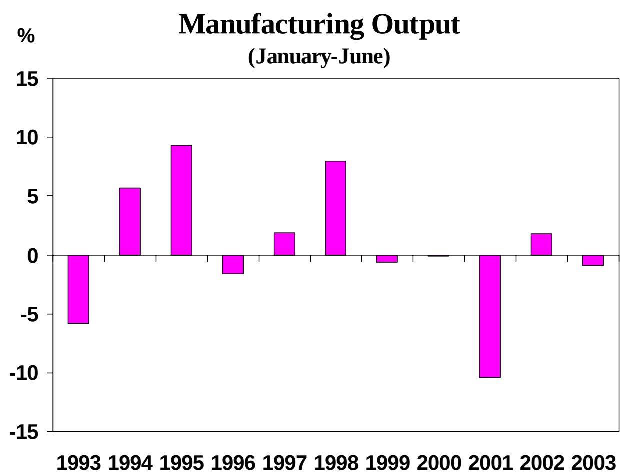
Cruise-passenger arrivals expanded by 2.7% during the first two quarters of 2003, following a 6.3% decrease in the comparable months of 2002, and robust growth of 15.7% and 28.3% in the first half of the previous two years. The improved performance may signal an increasing demand for cruise travel, as activity in the industry gradually returns to pre-September 11, 2001 levels.

The 2003 sugar crop has produced an estimated 39,600 tonnes of sugar - a decline of 5,219 tonnes or 11.6% from the level in 2002. This outturn was on account of drought conditions during the growing period as well as operational problems at the factories at the beginning of the crop.

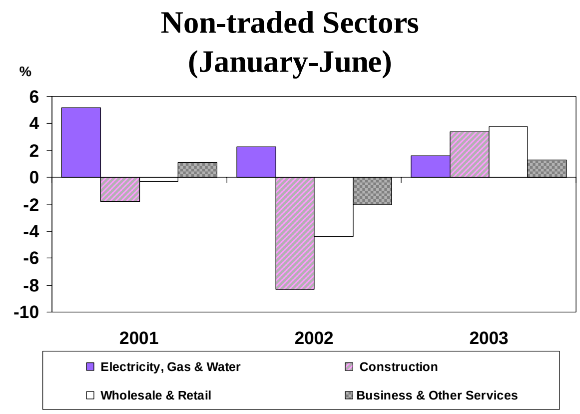
Cruise Ship Passenger Arrivals
(January - June)



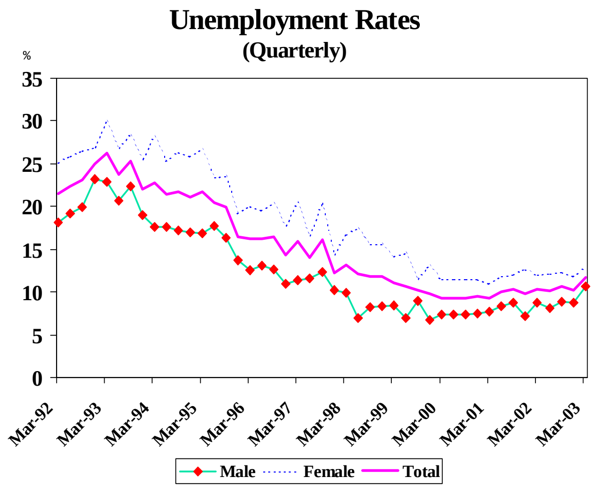
Additionally, over the six months under review, non-sugar agriculture decreased by an estimated 2.8%, almost on par with the reduction in the equivalent period last year, as growth in chicken production was outstripped by contractions in other agricultural categories.



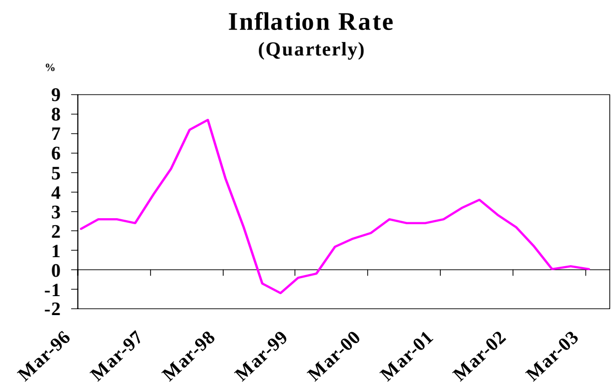
The manufacturing sector was estimated to have declined by 0.9% during the review period, in contrast to the 1.8% expansion registered over the corresponding two quarters of 2002. Food processing and beverages rose by 2.4% and 3.1%, respectively, but overall manufacturing output was hampered primarily by reductions in the production of non-metallic mineral products, other manufacturing, chemicals and electronics.



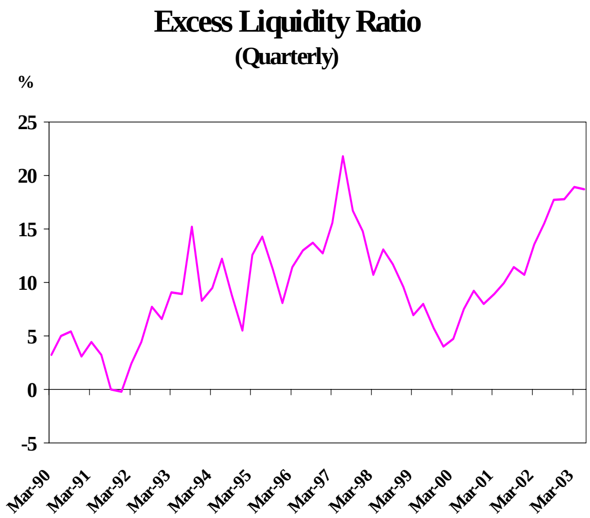
Real output in the non-traded sectors expanded by approximately 2.4%, in contrast to a downturn of 0.8% in the same six months of the previous year. After remaining virtually stagnant in the first half of 2002, construction activity rose by an estimated 3.4%, mainly reflecting an increase in residential and tourism-related building projects such as the Crane Beach Hotel, the Pavilion Court Complex and the Clermont Green Townhouse venture. In addition, wholesale and retail value-added, which benefited from the strong tourism outturn, grew by about 4.0%, following a 1.5% decrease in the similar period a year ago. Moderately higher output was also recorded for business and other services as well as electricity, gas and water. Conversely, mining and quarrying contracted by an estimated 12.5%, due primarily to lower yields of crude oil, as well as stock adjustments in the quarrying industry in the first two months of the year.



The labour force expanded by about 5,600 persons resulting in an overall rise in the unemployment rate, despite an increase in the total number of individuals employed. The rate of unemployment at the end of the first quarter of 2003 was 11.7%, some 1.4 percentage points above the figure for the same period a year ago. The male unemployment rate climbed to 10.7%, compared to 8.8% in the previous year, while the female rate rose to 12.9%, from 12.0% at end-March 2002. The most significant job losses occurred in the finance and business services, construction, and transportation and communications sectors; however, these were outweighed by noteworthy employment gains in the government services and some increases in the tourism and agriculture sectors, which caused the overall number of employed persons to increase by approximately 1,000.

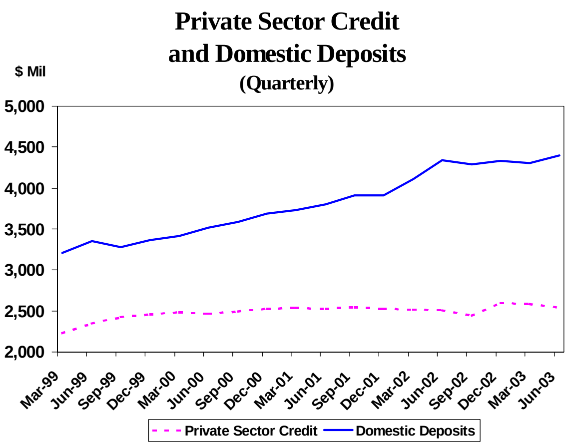


Inflation was negligible at the end of March 2003, compared to a 2.4% rise for the corresponding period in 2002. Despite the overall absence of inflation, several of the subcategories within the consumer price index registered higher prices. Among these were the medical and personal care, and the fuel and light indices, which rose by 5.3% and 3.0%, respectively. Housing and food prices also registered modest growth. The noticeable slowdown in the inflation rate, however, was largely attributed to a 6.1% fall in the cost of clothing and footwear and a 3.8% decline in the price of household operations and supplies. Lower international airfares, and reductions in the prices of vehicle parts pushed down transportation prices by 1.6%.



Excess liquidity in the banking system rose to 18.7% at the end of June, up from 17.8% at the end of last year. Despite the rise in excess funds in the system, the Treasury bill rate rose by 40 basis points to reach 1.91% by the end of the second quarter.

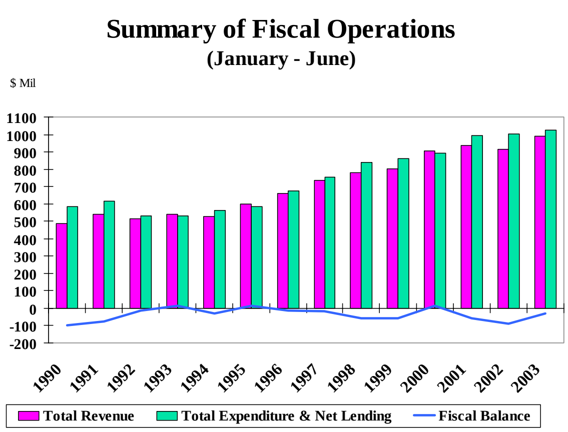
Domestic deposits grew by 1.7% ($72.7 million), some 9.1 percentage points less than the growth in the similar half year period a year earlier. Public financial institutions and statutory bodies both registered significantly higher deposits, while the deposits of private financial institutions and Government were below the levels registered in 2002.



Credit to the non-financial private sector contracted by an estimated 2.0% ($53.2 million) in the first two quarters, just over twice the decline in the corresponding period a year prior. Reductions in loans to the distribution and personal sectors were partly responsible for this outcome. There was also a plunge of 65.0% ($102.7 million) in commercial bank credit to private financial institutions, attributed in large measure to the repayment of a loan by a financial institution. In contrast, lending to statutory bodies expanded during the period.

The fiscal deficit for the first six months of 2003 was estimated at $31.9 million, less than half of the $88.8 million deficit recorded in the corresponding period a year earlier. The improvement in the fiscal position was attributed to a significant rise in tax revenue along with a reduction in capital expenditure.

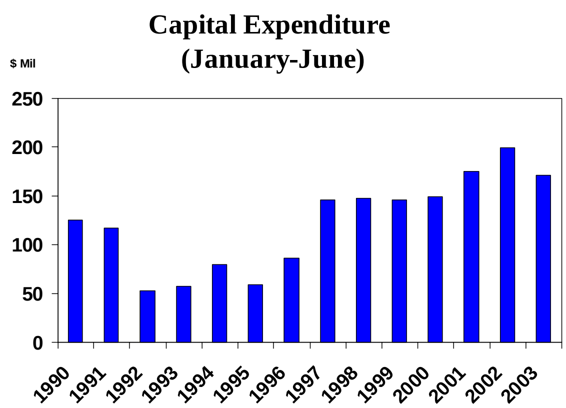
Government revenue went up by an estimated 8.3% ($76.1 million), as both direct and indirect tax receipts expanded, more than offsetting a downturn in non-tax revenue. The intake of direct taxes increased by about 13.2%, in stark contrast to the similar period last year, when a decrease of 10.7% was registered. Personal tax revenue jumped by 4.5%, boosted partly by higher incomes and improved collection of arrears. Furthermore, corporate taxes surged by 38.8%, a turnaround from the 21.7% plunge in the first half of 2002. Property tax receipts fell by 8.7% during the review period, after dropping by 22.4% a year ago.



Indirect tax revenue rose by about 10.7% over the January-to-June period, fuelled primarily by an expansion in excise taxes and VAT receipts. The resumption in import growth pushed up excise taxes by 26.6%, ending the downward trend established in recent years. VAT receipts also benefited from the upturn in economic activity, rising by 9.7% over the same period of last year. Import duties, which experienced a robust upturn in the first half of 2002, expanded by 1.4% in the current period. Non-tax revenue shrank by an estimated 27.4%, following three straight years of relatively strong growth.

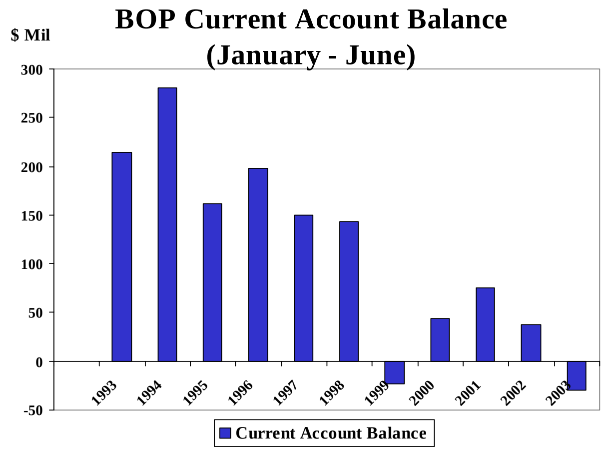
Current expenditure expanded by an estimated 6.0% ($47.9 million) in the first two quarters of 2003, propelled by greater outlays for interest payments and transfers and subsidies. This reversed the small contraction recorded during the comparable months of the previous year. Interest expense was 10.7% above the level in 2002, primarily because of a considerable rise in the domestic component. The rise in transfers and subsidies (up 15.8%) reflected an expenditure reclassification, as the administration of the Queen Elizabeth Hospital was placed in the hands of a statutory board. Wages and salaries were unchanged over the comparable period of 2002, but goods and services spending fell by 4.7%.

Capital expenditure was estimated to have decreased by 14.4% ($28.8 million), following expansions of 14.1% and 17.5% in the comparable six months of 2002 and 2001, respectively. The fall-off in capital expenditure reflected the winding down or completion of some of Government's capital works projects, such as the South Coast Sewerage Project and the Forensic Science Centre.

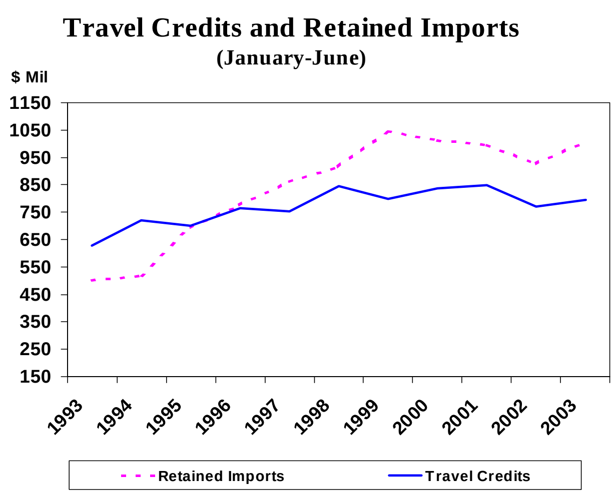


Government financed its fiscal deficit mainly from domestic resources. In particular, the Central Bank and the National Insurance Scheme contributed approximately $40.1 million and $25.2 million, respectively, while commercial banks increased lending to Government by $7.1 million and private non-bank institutions supplied around $8.4 million in funding. However, the government reduced its liabilities to other domestic entities by about $53.3 million. Net foreign financing totalled $4.4 million, compared to $2.4 million one year ago, as project fund inflows of $40.0 million, outstripped amortisation payments.

The current account of the balance of payments registered a deficit of approximately $70.7 million during the period, significantly below the average first-half surplus of $41.5 million in the previous three years, as higher retained imports and sluggish domestic exports eclipsed the improvement in travel credits. Domestic exports posted a modest increase of 1.0%, compared with declines of 10.4% and 7.5% respectively, in 2002 and 2001. This outcome reflects reductions in the exports of chemicals (down 2.1%), electronic components (down 9.5%), and food and beverages (down 8.1%), which were outweighed by gains in miscellaneous exports (11.6%). Foreign income from sugar is estimated to be about the same level as last year owing to appreciation of the EURO. Nevertheless, with the upswing in tourism activity, travel credits grew by 4.0%, following a 9.0% downturn a year ago.



Retained imports, boosted somewhat by the pick-up in economic activity, expanded by an estimated 14.5%. This was in contrast to the 7.1% drop in the equivalent period of 2002, when all categories of imports contracted. The turnaround was generally broad-based, with imports of capital goods and intermediate goods increasing by 21.1% and 20.5%, respectively, while consumer goods imports rose by 6.4%.



The capital and financial account, recorded an estimated surplus of $58.4 million, about $18.1 million more than the surplus recorded last year. Net long-term private sector capital inflows amounted to approximately $92.2 million or $48 million in excess of the previous year's figure.

However, net long-term public capital outflows totalled $33.8 million, compared to net outflows of $7.8 million in the same period of 2002, largely reflecting a $30.0 million loan repayment by the government of Barbados on behalf of Hotels and Resorts Ltd.

OUTLOOK FOR THE REMAINDER OF 2003

The Barbados economy has recorded steady and encouraging growth sustained over four consecutive quarters and there is cautious optimism that real GDP will grow by 1% to 2% in 2003. But the international environment is still somewhat sluggish and the forecast is subject to downside risks. The traded sector is projected to expand by 1.7%, driven principally by growth in the tourism sector, which is likely to continue to benefit from the "Best of Barbados" programme and other marketing initiatives in the region. Indeed, real tourism value-added should increase by 5% in 2003, following two successive years of decline. But manufacturing output will continue to be sluggish and a moderate decline is possible as the sector continues to grapple with the challenges of an increasingly liberalised trading environment. Non-traded activity is projected to grow modestly, with all sub-sectors, except mining and quarrying, recording expansions in output. The strongest sectoral performances are expected from construction, wholesale and retail activity and electricity and gas.

Despite the rise in real economic activity, the average rate of unemployment for 2003 may be moderately higher than in 2002, although some gains in the number of persons employed may occur in the construction, tourism and wholesale and retail sectors. The inflation rate should remain low.

Increased retained imports coupled with sluggish domestic exports will result in an expansion in the external current account deficit from its current level of 5.1% of nominal GDP at December last year. This will limit the expansion in the NIR to about $97 million during the year despite the higher travel credits and the receipt of substantial proceeds from the sale of the Barbados National Bank.

The fiscal deficit should moderate to less than 4.5% of GDP by year-end, from 5.9% of GDP last year. This improvement is expected to result from continued reduction in capital spending and higher receipts from direct and indirect taxes. However, the fiscal deficit has not yet reverted to the pre-2002 levels and continued expenditure restraint is therefore anticipated over the course of the fiscal year.

Commercial bank credit to the private sector is not projected to grow significantly during the year. Domestic deposits are expected to grow modestly and as a consequence, the prevailing high liquidity in the banking system may continue into 2004.

30 July 2003