



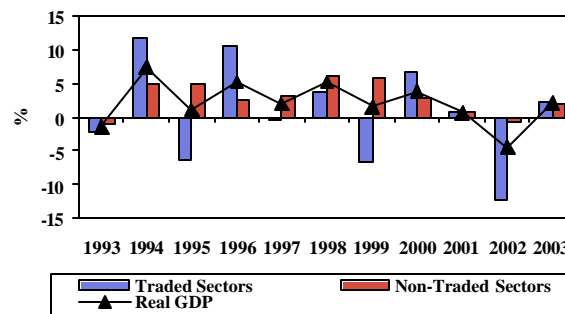
## REVIEW OF THE ECONOMY FOR THE FIRST THREE MONTHS OF 2003

Following the upturn in real economic activity in the latter half of 2002, the Barbados economy posted an estimated growth of 2.1% during the first three months of 2003. The improved first-quarter outturn this year, which contrasts with a decline of 4.5% in the corresponding period of 2002, primarily reflected higher sugar output and moderate expansions in tourism, construction and wholesale and retail trade. Overall, traded activity grew by an estimated 2.2%, whilst the rise in non-traded output was slightly over 2%.

Amid the numerous challenges to worldwide travel and tourism, in particular the uncertainty created by the lead up to the war in Iraq, Barbados recorded increases in both long-stay visitors and cruise

passenger arrivals between January and March of this year. This growth in tourism activity is estimated to

**Real GDP Growth Rate  
(First Quarter Changes)**



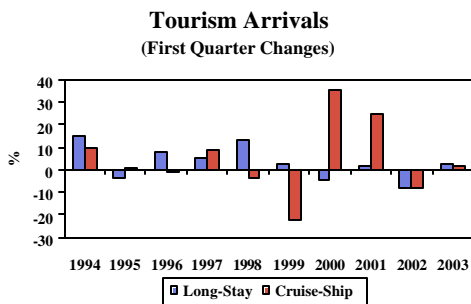
have generated an expansion in real value-added of approximately 2.7%, in contrast to a decrease of 8.2% in the first three months of 2002. For the first quarter of 2003, the number of long-stay visitors rose by 2.9% or 3,699 persons, in contrast to a decline of 8.5% or 12,062 persons in the comparable period of 2002. Arrivals out of the US were up by 1.8%, whilst the number of persons

travelling from Canada and the UK increased by 6.9% and 0.9% respectively. The German and Continental European markets also performed credibly, rising by 2.3% and 4.5%, respectively. In addition, the upward trend in visitors from Trinidad and Tobago and other CARICOM countries witnessed in the latter half of 2002 continued, with these markets recording increases of 7.1% and 5.9%, respectively.

Cruise passenger arrivals went up by an estimated 1.8%, partially offsetting the 7.6% decline in the corresponding period one year ago. This outturn marked the third successive quarterly increase, as the cruise sector appears to be recovering some lost ground precipitated by the negative spill over effects that emerged after the events of September 11, 2001.

The performance of the agricultural sector was mixed during the first quarter of this year. While a timely start to the harvesting of the sugar crop yielded approximately 11,200 tonnes of raw sugar, 1,600 tonnes more than the level of production in the corresponding period of 2002, non-sugar agricultural output fell by an estimated 1.6%, after expanding by 3.2% one year ago, on account of lower production of fresh milk and chicken, as well as fewer fish landings.

Real output in manufacturing contracted marginally during the first three months of 2003, following a decrease of 0.5% in the comparable period of 2002. The food processing and beverages and tobacco sub-sectors registered estimated increases of 2.3% and 11.5%, respectively. These gains, however, were eroded by declines in the electronics, chemicals, non-metallic mineral and other manufacturing categories, which together account for 42% of total industrial production.



Construction output expanded by an estimated 4.6% over the three-month period under review, more than offsetting the 4.2% contraction recorded in the first quarter of last year. The growth in the construction industry, which continued apace from the latter half of 2002, can be attributed mainly to higher private sector investment, especially in tourism-related and residential building. During the first quarter, the major private sector construction projects undertaken were: ongoing work on the Hilton, the Crane Beach Hotel, the Pavilion Court complex and townhouses at Clermont Green. Between January and March 2003, employment in construction and imports of building materials, both key indicators of changes in construction activity, were estimated to have expanded by just under 5%.

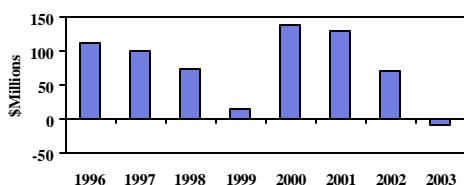
Wholesale and retail trade increased by an estimated 2.3% during the three-month period ending March 2003, as businesses replenished inventories, after two years of weak domestic demand. In addition, the expansion in overall traded activity

contributed to moderately higher output in transportation, storage and communications, business and other services and utilities. Real output in mining, however, contracted for the fourth consecutive year between January and March, largely because of a precipitous fall in crude oil production.

At the end of the first three months of 2003, the inflation rate was approximately 0.2%, the same as at the end of March last year.

With an upsurge in retained imports and an outflow of \$30 million for the early repayment of a bond issue, the net international reserves (NIR) of the monetary authorities fell by approximately \$8.1 million in the first quarter of this year, the first contraction in the January-to-March period since 1991. When this one-off repayment is excluded from the reserve flows, an underlying increase in the NIR of \$21.9 million is recorded, which was still significantly below the average expansion of \$128.6 million over the past three years.

**Net International Reserve**  
(First Quarter Changes)



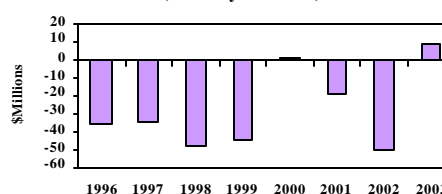
For the quarter under review, an estimated deficit of \$3.2 million was registered on the external current account, in contrast to a surplus of \$40 million in the first quarter of 2002. Tourism receipts rose by an estimated 2.9% whilst domestic exports went up by 3.1% (\$2 million) due to increased exports of chemicals, food and beverages and miscellaneous products. However, the gains in these categories were eroded by an estimated 11% expansion in retained imports, reflecting higher purchases of capital goods (21.4%) and intermediate imports (19.8%). Purchases of consumer goods were down marginally.

The capital and financial account registered a surplus of approximately \$2.8 million, considerably lower than the surplus recorded one year earlier. The narrowing of the surplus

occurred primarily because net long-term public outflows of \$39.7 million, of which \$30 million was a loan repayment by the Government of Barbados on behalf of Hotel and Resorts Ltd, almost offset net long-term private sector and other short-term inflows of \$42.5 million.

An overall fiscal surplus of \$9.6 million was recorded for the first three months of 2003, the first surplus since the corresponding quarter of 2000. This was due to a sharp reduction in capital expenditure and robust growth in direct tax receipts.

**Overall Fiscal Deficit**  
(January - March)



During the January to March period this year, total revenue rose by approximately 5.1% to \$518.9 million, in contrast to a decline of 4.2% in the similar period last year. Direct taxes, the main contributor to the growth in tax revenue, went up by 20.5%. Personal taxes expanded

strongly by about 21.8%, compared to a marginal increase over the relevant period in 2002, due in large part to the collection of arrears. Additionally, in spite of lower nominal tax rates, corporate taxes surged by 24.6%, after a drop of 24% in the corresponding three-month period of 2002, as a result of higher corporate profitability. However, property tax collections declined by roughly 11.6% (\$1.5 million) over the review period.

During the first three months of 2000, value added tax (VAT) collections expanded by an estimated 1.4%, following a gain of 7.8% in the same period in the previous year. As a result of increased imports over the review period, import duties rose by approximately 2.1%, compared to an expansion of 66.1% recorded one year ago, on account of the implementation of the 60% tariff on selected manufactured imports. Moreover, excise taxes also grew by 2.5%, after a 27.7% shortfall over the corresponding period in 2002.

Current expenditure expanded by 1.7% during the first quarter of 2003, in contrast to a decline of 2.9% during the corresponding period of 2002. Spending on wages and salaries increased by approximately 2.9%. However, in line with a reduction in capital expenditure, purchases of goods and services fell by about 13.9%. Interest payments rose by around 1.1%, in contrast to a decrease of 40.6% over the same period last year, when domestic interest expenditure fell sharply on account of declining interest rates. Domestic interest outlays surged by approximately 41%, while external interest payments declined by about 12.8%, following a 26.3% shortfall in the corresponding period of 2002. In addition, transfers and subsidies expanded by about 2.8%, erasing the 2.8% fall-off recorded one year earlier.

Government reduced its capital expenditure by 23.4% to an estimated \$120.4 million, almost offsetting the 36.6% expansion in the first three months of 2002. This reduction was partially caused by the

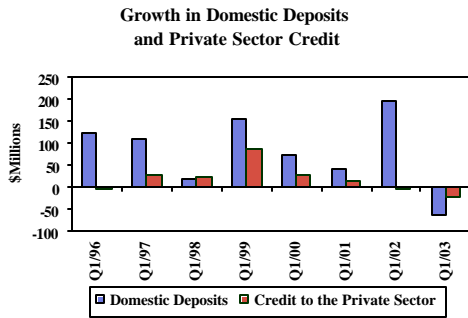
completion of some of the Government's capital projects, such as the South Coast Sewerage Project and the Forensic Science Laboratory.

At the end of the fiscal year 2002/2003, the fiscal deficit was estimated at 5.1% of GDP compared to 4.2% of GDP at the end of fiscal year 2001/2002. The deficit was financed from domestic sources.

During the first quarter of 2003, Government reduced both its domestic and foreign financing. Commercial banks decreased their holdings of government securities by \$20.5 million while government increased its net deposit at the Central Bank by \$35 million. These more than outweighed the additional holdings of securities of \$25.2 million and \$1.5 million by the National Insurance Scheme and private non-banks, respectively. With respect to foreign financing, project fund inflows of \$20 million were completely offset by amortisation payments on foreign debt of \$25.6 million.

During the first quarter of 2003, domestic deposits at commercial banks decreased by about 0.7%, in contrast to an increase of 4.9% in the comparable period of 2002. Actual data for the first two months of 2003 indicated that the deposit holdings of Government and the category of deposits classified as "other deposits" fell by 15.8% and 5.1%, respectively, whilst the total deposits held by private individuals, business firms, and statutory bodies increased moderately.

Commercial bank credit to the non-financial private sector continued to be sluggish, falling by approximately 0.8%, compared with a marginal decline in the similar period one year earlier. Available data up to February revealed that credit to the non-financial sectors was down or relatively flat. Loans to financial institutions plunged by \$102.6 million or 65.1%, partly due to a financial institution repayment of loans used to finance the acquisition.



Excess liquidity in the banking system expanded by a further 1.1 percentage points to 18.9% between the end of December 2002 and March 26, 2003, amid weak credit demand. However, the average tender rate on Treasury Bills, which is usually inversely related to changes in excess liquidity, rose from 1.5% at the end of 2002 to 2.5% by the end of March, after falling as low as 0.8% during the period.

## **OUTLOOK FOR THE REST OF 2003**

Despite the achievement of positive real economic growth in the first quarter of 2003, the outlook for the remainder of the year largely depends on the changes in

expectations in international markets regarding daily events in Iraq. Assuming that a second-quarter end to substantive armed conflict will sufficiently spur business and consumer confidence in Barbados' major trading partners, the economy is projected to expand within the range of 0% and 1.0% for 2003. If there is a terrorist backlash or some unforeseen military engagement that could prolong an end to the war, however, then a less favourable growth forecast is likely, as businesses and consumers are expected to postpone expenditures until the macroeconomic and geopolitical environment is more certain.

Against this background, real tourism activity is projected to decrease by about 1.9%, on the anticipation of some cancellations of holiday vacations in Barbados and a slowdown in forward bookings. In particular, long-stay arrivals from the US and the UK markets are expected to record the steepest declines in the second quarter.

Notwithstanding some delays and work stoppages at sugar factories

during the harvest period, sugar production is forecasted to be slightly higher than in 2002, as the early start to the crop and better weather conditions during the planting period are likely to boost yields. The manufacturing sector is predicted to expand marginally, assuming that the continuation of the “Buy-Local” initiative and the protective measures provide the necessary support for those sub-sectors that are able to weather the current unfavourable international market. Overall, the traded sector is predicted to decrease by around 1%, compared with a decline of almost 2% in 2002.

The non-traded sectors are projected to register broad-based gains, with construction activity expected to provide the main impetus for growth. The Pierhead Development Project, the new Consumer General Insurance (CGI) Building and Government offices in Warrens, and continuing work on the Hilton and Crane Beach Hotels are noteworthy in this regard.

With only marginal or possibly no growth in real GDP expected for the year, there is likely to be no increase in overall employment, although some new jobs are likely to be created in the construction and wholesale and retail industries. The inflation rate is expected to rise to around 2.0% by the end of the year.

The NIR is projected to contract by about \$33.7 million this year, primarily reflecting a worsening external current account, which is attributed to an anticipated pickup in retained imports and continued sluggishness in domestic exports. Nevertheless, the predicted reserve cover of goods is not expected to fall below 30 weeks.

The build-up in domestic liquidity over the last two years is forecasted to decline if there is an improvement in the international macroeconomic environment and an easing of the geo-political uncertainty, which has loomed since the end of the third quarter of 2002.

For calendar year 2003, the fiscal deficit is projected to decrease to 3.9% of GDP, and 4.7% of GDP for the fiscal year 2003/2004. The narrowing of the fiscal deficit is expected to be achieved by significant cuts in capital expenditure, resulting from the completion of outstanding capital projects such as the Forensic Laboratory, the South Coast Sewage, reductions in funding for the Edutech and West Coast Sewage projects, and the postponement of the Tamarind Hall Project.

April 30, 2003