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Publisher's Note

The *Economic Review* is published three times a year in June, September and December, by the Central Bank of Barbados. It is prepared by the Bank's Research Department and contains articles of research undertaken at the Bank. In addition, we welcome contributions of a non-technical and empirical nature on economic and policy issues in the Caribbean. Book reviews and surveys are also welcome. All submitted papers are reviewed by the Editorial Committee* and external referees.

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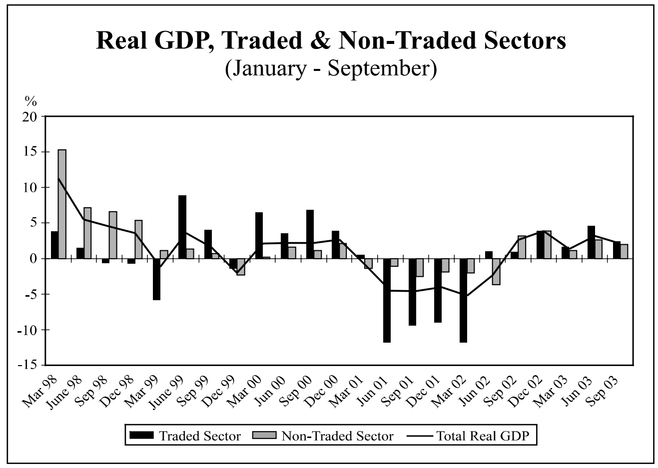
Review of Economy

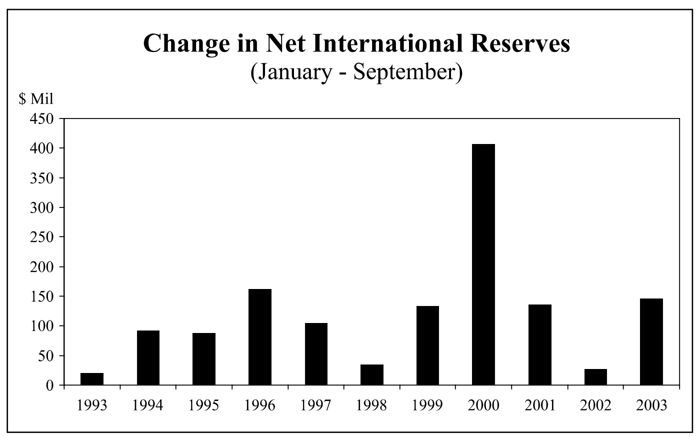
The Barbados economy grew by about 2% for the first nine months of 2003, marking the fifth consecutive quarterly increase in output since emerging from recession in the latter half of 2002. The expansion in real GDP was led by the traded sectors, primarily the tourism and non-sugar agriculture and fishing industries, whilst construction and wholesale and retail trade provided some impetus for the modest improvement in non-traded sector activity. Following below-par growth in the first six months of the year, the net international reserves (NIR) was buttressed by Government's receipt of divestment proceeds in the third quarter. This inflow boosted bank deposits, which, when coupled with the still weak demand by the non-financial private sector for new commercial bank loans, contributed to the highest level of excess liquidity in the banking system to date. The overall fiscal deficit was smaller than the deficit incurred last year, the combined effect of a moderate increase in tax revenue and lower on-budget capital expenditure.

After registering a creditable first-half performance, traded sector output slowed in the third quarter, owing to a sluggish period for tourism and an estimated reduction in the production of some non-sugar agricultural goods. As a result, overall growth in traded activity was reduced to 3% for the first nine months**.** The rate of expansion in the non-traded sectors was estimated at 2%, in contrast to a decline of around 1% in the same period of the previous year. In particular, the construction sector benefited from higher investment by both the Government and private sector. In addition, the wholesale and retail, utilities and transportation, communications and storage sub-sectors registered estimated increases in output above their rates of change in 2002. The rate of retail price inflation at the end of September 2003 was above the rate at the end of September in the previous year, while, over the first nine months, the average rate of unemployment rose by one percentage point to 11.3%.

Between the end of December 2002 and September 2003, the NIR rose by an estimated $146.6 million, on the strength of foreign inflows totaling $189 million from Government's divestment of some of its shares in the Barbados National Bank. If this inflow is subtracted from the total increase in the NIR, there is an underlying reserve loss of $42.4 million, which consists of a first-half increase of $12.8 million and a decline of $55.2 million[1] in the third quarter. This outturn contrasts with an expansion in foreign reserves of $27.2 million in the first nine months of 2002 and average underlying reserve growth of $108.5 million in the comparable nine-month periods from 1999 to 2001.



Real GDP, Traded & Non-Traded Sectors
(January - September)



Change in Net International Reserves
(January - September)

Although there was a net underlying loss of foreign re-

[1] The recorded increase in the NIR for the third quarter was $133.8 million. Therefore, subtracting the foreign reserve inflow of $189 million results in an underlying reserve loss of $55.2 million.

serves, liquid foreign assets at the end of September 2003 were sufficient to cover spending equivalent to approximately 39 weeks of imports, compared with 38 weeks at the end of September 2002. The accumulation in the NIR in the review period largely reflected substantially higher growth in retained imports, especially for fuel and machinery. This, along with continued weak domestic exports, resulted in a worsening in the external current account deficit, the sixth successive year that a current account deficit was recorded in the first nine months.

The capital and financial account registered a healthy surplus, resulting from substantially higher net long-term foreign inflows for both the public and private sectors. The recorded surplus of approximately $405 million was almost twice the surplus in the corresponding period in 2002.

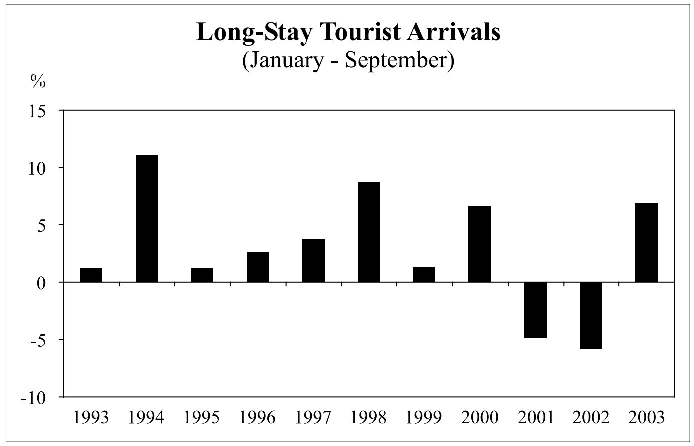
The level of excess liquidity rose by four percentage points in the third quarter to reach 22.8% by the end of September 2003. Holdings of excess cash and excess securities by commercial banks increased during the review period, contributing to further downward pressure on the 3-month Treasury bill rate to 0.94%, amid the intense competition for these short-term investments.

The smaller fiscal deficit recorded during the first nine months of 2003 resulted from the scaling back of on-budget capital expenditure and moderately higher revenue collections of corporate and value-added taxes. The deficit was financed primarily with previously-secured project funds and a portion of the divestment proceeds received in the third quarter.

Production, Prices and Employment

Tourism

Tourist arrivals slowed in the third quarter and the growth rate in tourism value-added declined from 8.6% in the first half of the year to an estimated 6.8% for the first nine months of 2003. The number of long-stay visitors rose by 0.6%



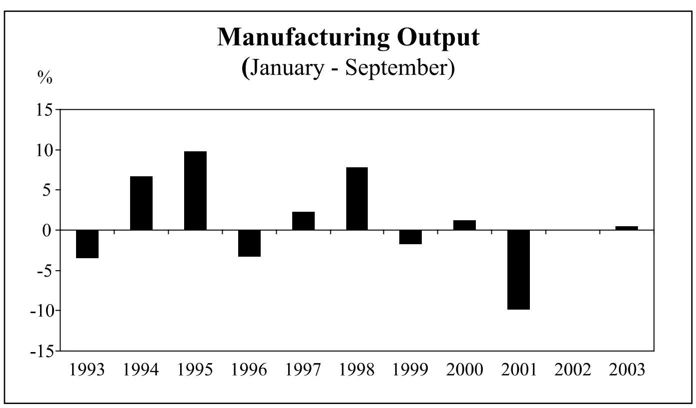
during the third quarter, compared to an increase of 4.8% for the same period in the previous year, as the expansion of 7.6% in July was offset by contractions of 1.6% in August and 7.2% in September. In particular, UK and Canadian visitors, which together accounted for just over forty percent of total long-stay arrivals, fell by 9.3% and 5.4%, respectively during this three-month period.

Despite the sluggish third-quarter performance, a cumulative increase in long-stay arrivals of 6.9% was recorded for the first nine months, a significant turnaround from the decline of almost 6% in the corresponding period of 2002. Visitors from the UK were up by 4%, after decreasing by 13.2% in the similar period in 2002, while persons travelling from the US and Canada grew by 4.8% and 2.9%, respectively. Most noticeably, tourists from Germany and other Continental Europe rose by 1,109 persons (28.5%) and 1,906 persons (13.7%) respectively, the first increase in these markets since 1999. Trinidad and Tobago (11.5%) and other CARICOM countries (13.8%) market segments benefited from the intensified regional advertising campaign.

An overall increase of 2.4% or 8,645 cruise passengers was registered for the first nine months of the year. During the comparable nine months of 2002, the number of cruise visitors to Barbados decreased by 2.1%. The improvement in cruise activity in the review period can be attributed to a gradual upturn in the demand for cruise vacations, resulting in part from the offering of discounted vacation packages to combat the slump that began in the fourth quarter of 2001.

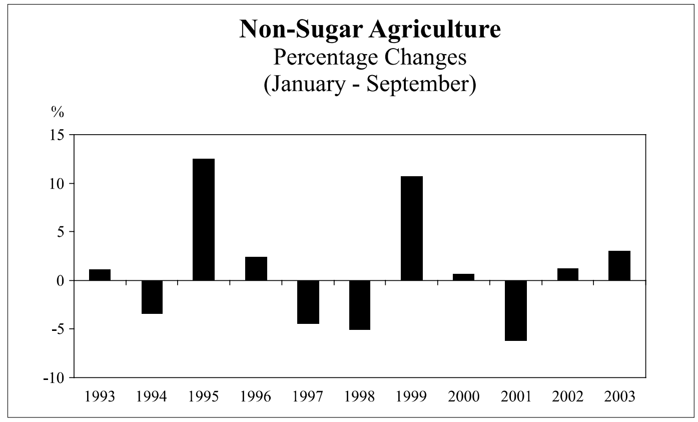
Manufacturing

Real output in the manufacturing sector increased slightly by 0.5% during the first nine months, compared to virtually no growth and a reduction of 9.9% in the corresponding nine-month periods in the previous two years. The production of processed foods, which continues to benefit from the increased local demand, grew by approximately 2.4%, compared with an increase of 6.4% in the first three quarters of 2002. Higher output of 4.1% was recorded in the beverages subsector while other manufacturing categories grew by 0.4%. The improvement in the output of beverages primarily reflected an expansion of 1.5% or 124,000 litres in rum production. Conversely, the manufacture of electronic components and chemicals, products that are primarily exported, deteriorated by 15.4% and 2.8%, respectively. The other area of manufacturing activity that posted a decline in output was non-metallic mineral products, which fell by 5%.



Non-Sugar Agriculture and Fishing

Output in the non-sugar agriculture and fishing sector expanded by an estimated 3.0% in the first nine months of 2003, in contrast to growth of 1.2% in the corresponding



period of 2002. As a result of higher fish landings, mainly in the second quarter, output in the industry rose by 9.5%, after a decline of 6.2% in 2002. Output of chicken grew by 4.9%, following a decline of 0.8% in 2002. The production of fresh milk, which has exhibited a downward trend since 2002 due partly to a combination of supply problems, fell by an estimated 2.9%.

International Business and Financial Services

Since the beginning of the year, two hundred and thirty-seven new international business and financial services firms were registered, representing an expansion of 6.3% over the number of new companies approved in the similar period of 2002. There were two hundred and three new international business companies registered, up from 197 in the corresponding period of 2002, and twenty-four licenses were granted to societies with restricted liabilities, nine more than in the previous year. In addition, the number of new exempt insurance and exempt insurance management companies approved for operation totalled eight and one respectively, while one new offshore bank was registered.

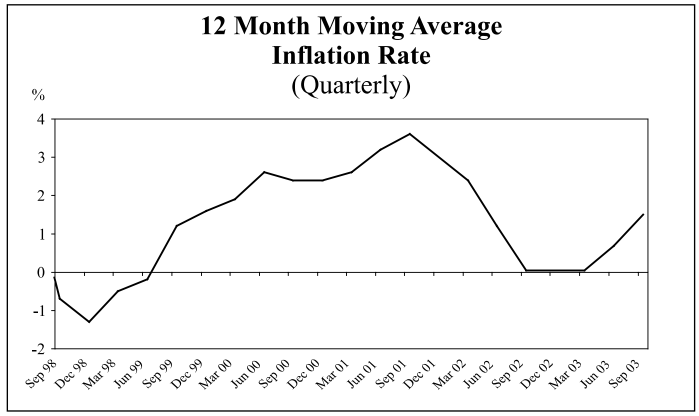
Construction

Construction value-added expanded by an estimated 3.3% during the first nine months of 2003, compared to an increase of 2.2% in the corresponding period in 2002. Activity in the sector continues to be driven primarily by the building of new tourism infrastructure, as well as the refurbishment of existing properties. In addition, construction activity continued on the Airport, commercial real estate development and road infrastructure programmes undertaken by both the government and the private sector.

Other Non-traded Sectors

After declining by 0.8% in the first nine months of 2002, output in the wholesale and retail sector increased by 3.1%, reflecting the expansions in both the tourism and construction sectors during the period. In addition, the transportation, storage and communication, utilities, and business and other services sectors, which posted growth rates of approximately 2% also benefited from the increase in economic activity. Despite recording higher output in the third quarter, the mining and quarrying sub-sector contracted by 11% in the first nine months of 2003 because of the significant reductions in the level of production crude oil in first two quarters. Moreover, domestic production of crude oil fell by 6.1% to 274,901 barrels, as the output from new wells drilled was insufficient to offset the declining production from older wells. Production of natural gas contracted by 20.7% to 17.6 thousand cubic metres, after falling by 18.5% in the comparable period of 2002. Consequently, sales of both crude oil and natural gas decreased by 6.1% and 15.7%, respectively during the review period.

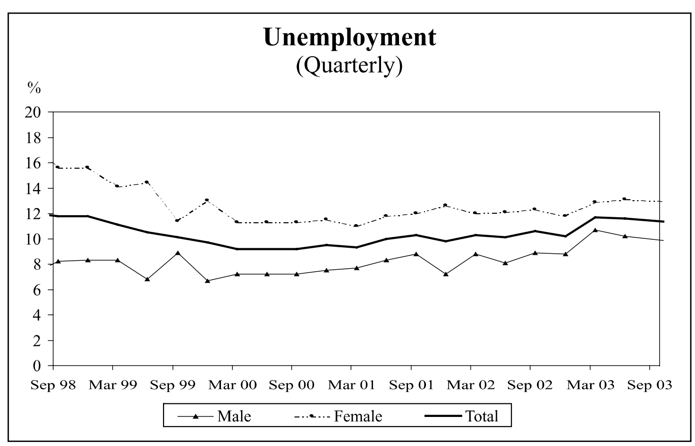
Total consumption of electricity rose by 11.7% in the first half of the year, compared to a decline of 0.9% in the corresponding period of 2002, reflecting increases for all categories of users. General services firms registered the largest usage of 15.3%, followed by commercial (12.5%) and residential (9.7%) customers. The increased usage of electricity by commercial customers was mainly in the tourism, entertainment and other commercial industries.



Prices and Employment

At the end of September 2003, the rate of inflation was 1.49%, compared to a rate of 0.05% at the end of September 2002. The slightly faster rate of increase in retail prices over the last twelve months occurred as higher prices for fuel and light (6.9%), medical and personal care items (4.1%), and food (2.6%) outweighed the declines in the prices of household operations and supplies (-2.5%), clothing and footwear (-5%), and alcoholic beverages and tobacco (-1.9%) categories.

Although there was an increase in the number of persons employed in the first three quarters, the average unemployment rate rose by one percentage point to 11.3%. In effect the job opportunities generated were not sufficient to



offset the expansion in the labour force. The average unemployment rate for males was 9.9%, compared to 8.6% one year ago, while the female unemployment rate rose by just under one percentage point to 12.9%. The most significant job losses were recorded in the finance, insurance and business services industries, where more than 2,000 net jobs were partially lost due to mergers and acquisitions of businesses. However, offsetting gains were recorded in general services, wholesale and retail and agriculture. Approximately 1,933 net new jobs were generated during the nine-month period ending September 2003, in contrast to the same period in 2002 when an estimated 3,367 were lost.

Financial Sector

Deposits

Total domestic deposits, including foreign currency deposits of residents, rose by 5.5% or $246.6 million for the first nine months of this year, compared with deposit growth of 9.8% or $388.8 million in the comparable period of 2002. All categories of economic agents registered growth in their deposits. The deposits of central government grew by $90 million, facilitated in large measure by the receipt of the divestment proceeds. Increased deposit holdings of $184.1 million and $27.3 million were recorded for private individuals and business firms, reflecting the lack of alternative investment opportunities. Deposits of financial institutions rose by $22.3 million, approximately one-sixth of the expansion ($149.6 million) in the first three quarters of 2002. In addition, the improvement in the deposits of statutory bodies was estimated to be $24.7 million, compared with deposit growth of approximately $46 million in 2002.

Credit

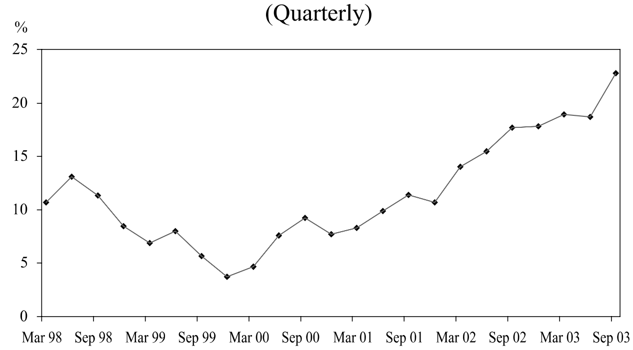
Credit to the non-financial private sector contracted by $26.3 million in the third quarter of the year, marking the third consecutive quarterly decrease in lending. For the year to date, lending declined by a further $34.8 million, following a reduction of $70.6 million in the comparable period of 2002. At the end of September, lending to the distributive and personal sectors declined by $35.3 million (12.2%) and $9.7 million (0.8%), respectively, while new loans to construction firms fell by $17.6 million (7.7%). In contrast, credit extended to tourism-related establishments and statutory bodies, increased by $36.8 million (11%) and $52.4 million (33.1%), respectively.

Liquidity and Interest Rates

After a marginal increase during the first half of the year, the level of excess liquidity expanded rapidly in the third quarter as both public capital inflows and to a lesser extent, private divestment proceeds were deposited in the banking system. As a result, the excess liquidity ratio advanced from 18.7% at the end of second quarter to 22.8% by the end of September 2003. For the nine-month period under review, the excess liquidity ratio rose by 5.0 percentage points, compared with an increase of 7.4 percentage points in the first nine months of 2002.

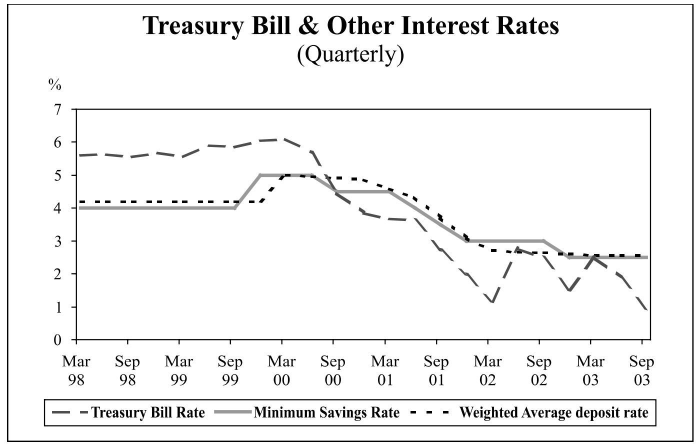
The persistent build-up in excess liquidity, which has characterised activity within the banking system over the last three years, represents the combined relative effects of

Excess Liquidity Ratio
(Quarterly)



faster growth in deposit holdings at banks and the slower extension of new lending by these institutions. As a consequence, additional downward pressure was exerted on the average rate on 3-month Treasury bills, with the excess demand for these short-term investments forcing the rate from 1.91% at the end of June to 0.94% at the end of September 2003.

In the third quarter of 2003, the weighted average rate on total loans decreased by 0.02 of a percentage point to 10.2% while the weighted average deposit rate declined by 0.02 of a percentage point to 2.6%.



Barbados: Summary Accounts of the Banking System
($ Million)

	2000		2001				2002				2003 P		
	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	**Sept. P**
Net International Reserves	1090.1	1081.0	1204.5	1224.3	1214.8	1534.1	1623.4	1606.1	1570.6	1711.3	1940.3	1929.3	**2053.0**
Monetary Authorities	1020.0	968.8	1096.4	1115.5	1106.6	1414.1	1482.2	1485.3	1441.3	1366.4	1358.3	1379.2	**1513.0**
Commercial Banks	70.1	112.2	108.1	108.8	108.2	120.0	141.3	120.8	129.3	344.9	582.0	550.1	**540.1**
Net Domestic Assets	2161.5	2253.6	2167.0	2234.3	2266.3	2002.5	2004.8	2133.6	2157.2	2186.4	1944.5	1973.8	**1976.0**
Credit to Public Sector	119.3	188.1	25.5	120.9	124.8	-67.1	-94.8	-5.4	158.3	366.9	349.1	334.3	**323.7**
Central Government (net)	386.2	471.6	337.3	405.7	477.2	241.6	235.0	390.7	553.2	659.3	643.9	684.3	**661.5**
Rest of Public Sector	-266.9	-283.5	-311.8	-284.8	-352.4	-308.7	-329.9	-396.1	-394.9	-292.4	-294.7	-350.0	**-337.8**
Credit to Rest of Financial Sector	132.1	137.3	125.5	125.6	128.6	115.9	148.1	250.4	238.4	167.1	143.6	144.3	**145.5**
Liabilities to Other Financial Institutions	252.0	301.7	257.7	244.3	254.5	265.8	350.0	359.2	374.0	403.9	378.5	372.6	**362.6**
Credit to Non-Financial Private Sector	2474.2	2504.2	2516.4	2508.6	2526.1	2512.6	2506.9	2513.5	2442.0	2599.2	2592.6	2590.7	**2564.4**
Liabilities to the Non-Financial Private Sector	3251.6	3334.5	3371.6	3458.6	3481.1	3536.6	3628.3	3712.0	3693.3	3897.7	3884.8	3903.1	**4029.1**
Demand Deposits	689.9	737.7	775.6	779.4	784.3	836.6	895.8	926.7	905.5	1096.6	1053.6	1009.6	**1121.4**
Time Deposits	420.1	407.7	390.7	418.2	425.0	413.1	399.1	417.3	384.0	345.9	347.7	341.1	**333.4**
Savings Deposits	1843.9	1878.6	1904.1	1954.2	1964.9	1974.5	2015.4	2074.6	2117.2	2117.7	2154.2	2211.0	**2235.3**
Currency in Circulation	297.8	310.7	301.2	306.8	307.0	312.4	318.1	321.1	321.1	337.5	329.3	341.4	**339.0**
MEMO:													
Domestic Deposits	3627.1	3762.8	3794.7	3866.1	3978.1	3971.8	4183.2	4417.7	4360.6	4524.7	4430.0	4505.1	**4751.7**
Liquid Assets	967.0	916.4	1055.5	1080.4	1075.4	1392.4	1460.0	1471.7	1436.5	1365.5	1356.9	1382.2	**1518.7**
Loans and Advances	2678.0.	2712.6	2721.3	2722.5	2757.1	2732.5	2771.5	2876.2	2792.8	2910.3	2811.0	2801.2	**2793.2**

Source: Central Bank of Barbados
P: Provisional

Government Securities

Total treasury bills outstanding at the end of September 2003 amounted to $580 million, some $83.2 million more than at end of December 2002**.** Total holdings of debentures and treasury notes increased by$72.7 million following a seven-year 5% treasury note and a ten-year 5.25% debenture issue both with nominal value of $30 million during the nine month period. The nominal value of the sinking funds for total Government debt rose by $43.9 million to reach $357.01 million at end of September.

Public Sector

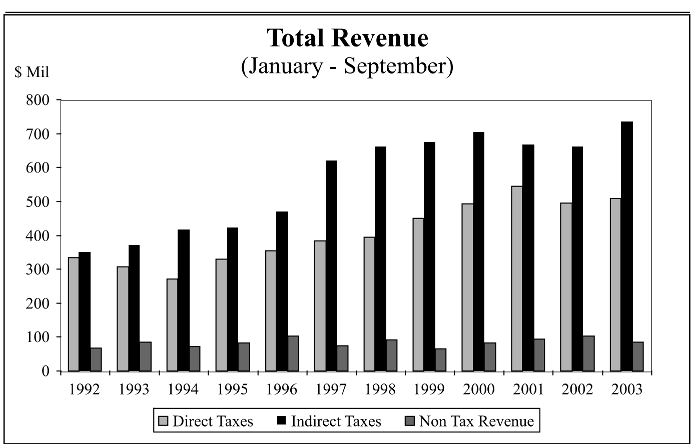
Revenue

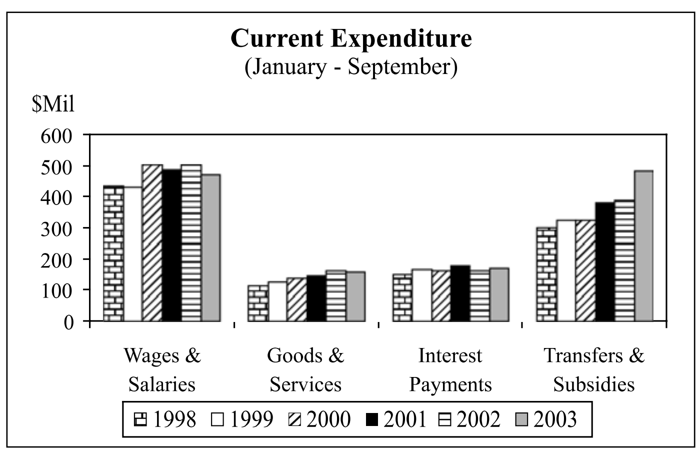
Total government revenue rose by 5.3% or $67 million to $1,327.3 million during the review period, after decreasing by 3.6% in the corresponding period of 2002. Direct taxes were up by 2.6%, buoyed by greater receipts of corporate (19.4%) and property taxes (11.9%). The improvement in corporate taxes stemmed from higher corporate profitability. On the contrary, collections of personal income taxes fell by 6.5%, compared to growth of 5% for the same period in 2002. This outturn was largely influenced by a reduction in the basic income tax rate from 25% to 22.5% and the early repayment of income tax refunds. Non-tax revenue decreased by an estimated 18.2% ($19.9 million), reversing the increase of 10% ($9.6 million) in the first nine months of 2002.

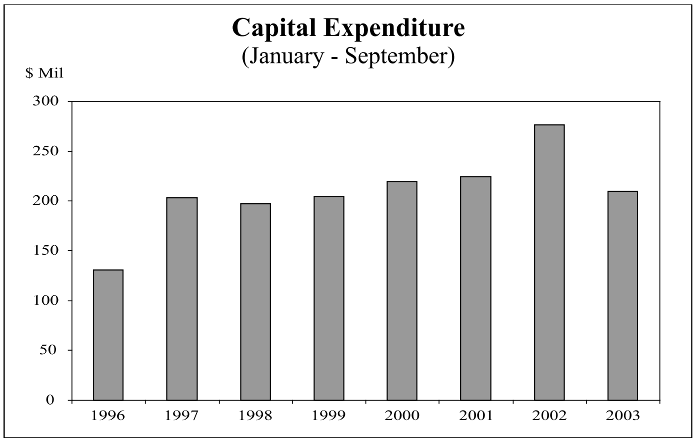
Boosted by an improvement of 9.5% in VAT receipts, indirect taxes rose by 11% in the first nine months of 2003, in contrast to a reduction of 0.8% in the corresponding period in 2002. The higher collection of VAT receipts was a result of the increase in economic activity. Intakes of import duties and excise taxes improved by 6.9% and 16.4% respectively, reflecting the resurgence in retained imports for most of the year.

Expenditure

Current expenditure grew by 5.2% to $1,283.8 million during the year to September, compared with a rise of 2.4% in the first nine months of 2002. The main source of the increase in current spending was the extra-ordinary payments of transfers and subsidies, which rose by 23.5%. The relatively stronger expansion in transfers and subsidies was mainly attributed to the reorganisation of the Queen Elizabeth Hospital (QEH) to function as a statutory body, thereby shifting government expenditure on the QEH, from wages







Government Financing
(January - September)
($ Million)

	1997	1998	1999	2000	2001	2002	2003 P
Domestic Financing	85.4	48.7	-78.7	-156.9	115.6	252.2	**6.5**
Central Bank	-90.2	-80.3	-112.6	-307.0	-45.0	199.8	**9.3**
Commercial Banks	134.2	-28.4	-44.3	133.2	69.0	117.8	**-5.8**
National Insurance	26.3	118.1	9.3	-10.1	14.1	72.2	**45.7**
Other	-3.7	61.5	69.0	27.5	77.4	-137.7	**-42.8**
Foreign Financing	-38.1	-29.7	139.1	227.2	12.9	-10.2	**171.2**
Capital Markets	0.0	0.0	150.0	200.0	0.0	0.0	**0.0**
Project Funds	30.4	22.6	14.3	55.6	41.8	38.9	**43.9**
Policy Loans	0.0	20.0	0.0	0.0	0.0	0.0	**0.0**
Amortisation	-68.5	-72.3	-25.1	-28.4	-28.9	-49.1	**-61.7**
Divestment	0.0	0.0	0.0	0.0	0.0	0.0	**189.0**
Total Financing	28.4	41.2	60.5	70.2	128.5	242.0	**177.7**

Source: Central Bank of Barbados
P: Provisional

and salaries, goods and service and capital outlays on this institution to transfers and subsidies. As a result, wages and salaries outlays on goods and services fell by 6.7% and 3.2%, respectively, after expansions of 3.6% and 10.1% in the previous year. Additionally, interest payments were up by $10.3 million (6.4%) due to the higher payment on domestic debt.

The shifting of capital spending on the QEH to transfers and subsidies and the completion of some major government projects resulted in a contraction in capital spending of 23%, in contrast to an increase of 25.7% in the corresponding period of the previous year. Nevertheless, off-budget capital expenditure is estimated to have been significant, as the Government of Barbados continues to meet most of the upfront financing for the Hilton and the Airport. Furthermore, the expenditure by Barbados Tourism Investment Inc. also contributed to the higher level of off-budget capital expenditure.

Financing

The operations of central government during the first nine months resulted in an overall fiscal deficit of $177.7 million, some $64.3 million lower than the deficit recorded in the first nine months of 2002. The majority of the funding for the deficit was obtained from project funds ($43.9 million) and a portion of the Government's divestment proceeds. While Government was a net depositor of $5.8 million at the commercial banks, lending by the National Insurance Scheme and the Central Bank amounted to $45.7 million and $9.3 million, respectively.

Government Operations

(January - September)

($ Million)

	1997	1998	1999	2000	2001	2002	**2003 P**
Total Current Revenue	1079.0	1145.3	1188.6	1278.8	1307.3	1260.6	**1327.3**
Direct Taxes	383.6	393.8	449.5	492.5	546.0	494.6	**507.7**
Personal Income Tax	194.7	204.2	197.5	216.7	246.8	259.0	**242.2**
Corporate Tax	113.9	115.5	167.0	194.5	192.7	149.1	**178.0**
Levy Tax	12.2	12.1	13.1	11.1	13.9	14.9	**4.7**
Property Tax	37.4	36.9	47.0	46.0	55.4	41.9	**46.8**
Other	25.5	25.2	24.9	24.2	37.2	29.7	**36.0**
Indirect Taxes	621.3	661.6	675.2	703.5	666.9	662.0	**734.5**
Consumption Tax	32.4	0.5	0.0	0.5	0.0	0.0	**0.0**
Stamp Duty	11.8	11.1	10.1	9.5	13.1	8.3	**11.0**
VAT	302.2	340.3	339.0	386.5	369.2	368.5	**403.4**
Import Duty	88.3	97.2	104.9	90.4	92.7	115.9	**123.9**
Excise	103.1	131.5	142.3	130.7	115.2		**97.3**
Hotel & Restaurant	4.2	0.7	0.5	0.5	0.4	0.0	**0.0**
Other	79.4	80.3	78.4	85.8	76.8	85.8	**98.9**
Non Tax Revenue	74.0	91.0	64.0	82.7	94.4	104.1	**85.1**
Current Expenditure	899.4	998.5	1044.3	1127.4	1192.2	1220.6	**1283.0**
Wages and Salaries	376.9	434.4	428.5	502.8	487.1	504.7	**470.8**
Goods and Services	120.1	114.0	127.0	138.4	147.9	162.8	**157.6**
Interest Payments	138.8	149.5	165.8	163.8	178.0	161.9	**172.2**
External	36.9	29.7	58.6	55.4	75.3	77.9	**67.2**
Domestic	101.9	119.8	107.2	108.4	102.7	84.0	**105.0**
Transfers & Subsidies	263.6	300.6	322.9	322.4	379.4	391.2	**483.2**
Current A/C Balance	179.6	147.9	144.4	151.4	115.0	40.1	**43.5**
Capital Expenditure	203.0	197.1	204.3	219.6	224.0	281.6	**216.9**
Net Lending	5.0	-8.0	0.6	2.0	19.5	0.5	**4.3**
Total Expenditure & Net Lending	1107.4	1187.6	1249.1	1349.0	1435.8	1502.6	**1505.0**
Overall Balance	-28.4	-41.2	-60.5	-70.2	-128.5	-242.0	**-177.7**

Source: Accountant General and Central Bank of Barbados

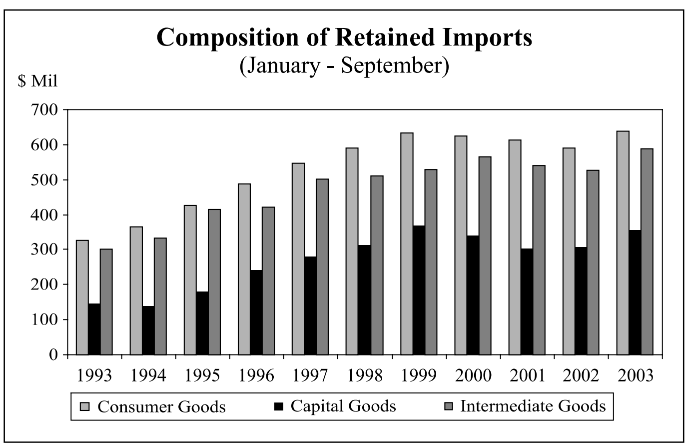
P: Provisional

Foreign Trade and Payments

Current Account

During the first nine months of 2003, an external current account deficit of $268.7 million was recorded, $98.9 million more than the deficit in the corresponding nine months of 2002. A substantial increase in retained imports coupled with the underperformance of domestic exports, which more than offset the moderately higher earnings from tourism, was mainly responsible for this outturn.

The expansion in economic activity led to a rise in retained imports of 12.2%, a significant turnaround from the decline of 2.3% in 2002. For the first nine months of the year, consumer goods and intermediate goods imports increased by 8.3% and 15.0%, respectively, after these imports fell by 3.9% and 2.7% in the same period of 2002. The increase in imports of consumer goods resulted mainly from higher motorcar and food and beverages imports, while the growth in intermediate goods reflected increased fuel and construction material imports. Capital goods imports expanded by 15.0%, compared to an increase of 1.7% over the similar period of 2002, owing to the upturn in the imports of machinery.

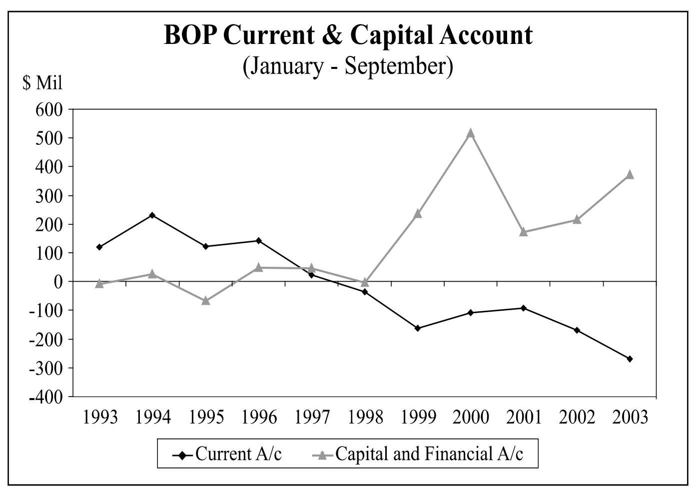


Total domestic exports declined marginally during the review period, continuing the downward trend that started since 1998. Exports of electronic components and chemicals contracted further by 6.0% and 3.5%, respectively. Similarly, receipts from food and beverages fell by 10.1%, as the increase in rum exports of 16% was outweighed by the contraction of exports in the other categories of food and beverages. Despite the contraction in sugar output, sugar receipts were only slightly lower than a year ago, due to the appreciation of the Euro against the dollar.

For the nine-month period under review, net earnings from services grew by 4.5%, in contrast to a decline of 9.7% one year earlier, largely because of moderately higher travel credits, which rose by approximately 4.3%. In addition, increased levels of imports raised net transportation outflows by 7.9%, after declining by 0.8% in the corresponding period of 2002.

Capital and Financial Account

During the first three quarters of 2003, the capital and financial account registered a surplus of $371.2 million, compared with a surplus of $214.8 million in the corresponding period of 2002. Private net long-term capital and financial inflows, which were mainly for corporate divestment activities, tourism-related projects and public utility companies amounting to $228.4 million, almost doubled the total inflows recorded in 2002. Largely, on the strength of the divestment proceeds of $189 million, net-long term public sector inflows were estimated at $135.7 million.



Balance of Payments

(January – September)
($Million)

	1998	1999	2000	2001	2002	**2003[P]**
Current Account Balance	-36.2	-162.6	-109.1	-50.7	-169.8	**-268.7**
Merchandise Trade	-937.8	-1035.6	-1033.2	-995.7	-992.2	**-1148.6**
Total Exports (BOP basis)	341.7	337.1	350.7	343.5	304.1	**229.6**
Domestic Exports	305.0	309.2	299.7	277.2	254.9	**250.9p**
Sugar	55.1	55.4	52.2	44.0	37.7	**37.5**
Other	249.9	253.8	247.5	233.2	217.2	**213.4**
Total Imports (BOP)	1356.6	1456.6	1474.6	1419.2	1371.7	**1475.4**
Retained Imports	1418.9	1536.6	1536.1	1463.9	1430.6	**1605.3**
Consumer Goods	590.9	634.6	624.7	613.9	590.1	**639.1**
Capital Goods	312.2	369.7	339.9	303.9	308.9	**355.1**
Intermediate Goods	510.2	528.6	566.7	541.4	526.5	**605.6**
Miscellaneous Goods	5.6	3.7	4.9	5.0	5.2	**5.4**
Services (Net)	903.8	874.3	925.2	934.9	844.1	**882.3**
Travel (Net)	965.6		970.9	981.8	868.7	**912.7**
0f which travel credits	1090.6	1061.0	1113.4	1141.6	1022.5	**1066.8**
Other	-61.8	-53.4	-45.7	-46.9	-24.6	**-29.7**
Income	-78.7	-95.3	-115.3	-134.0	-144.1	**-142.9**
Current Transfers	76.5	94.0	114.2	144.1	122.4	**140.5**
Capital and Financial Account	-3.7	234.1	526.1	166.7	214.8	**371.2**
Long Term	-10.7	216.5	463.1	177.7	94.4	**371.2**
Public	-22.5	153.1	244.7	-13.3	-36.2	**135.7**
Private	11.8	63.4	218.4	191.0	130.6	**228.4**
Other	3.7	-23.4	29.3	-14.5	9.4	**7.1**
Short Term	3.3	41.0	33.7	3.5	111.0	**0.0**
Errors and Omissions	40.4	94.1	-6.8	16.1	-8.5	**239.2**
Balance for Official Financing	0.5	165.6	410.2	133.9	36.5	**341.8**
Official Financing (Net)	0.0	0.0	0.0	0.0	0.0	**0.0**
IMF	0.0	0.0	0.0	0.0	0.0	**0.0**
Other Financial Institutions	0.0	0.0	0.0	0.0	0.0	**0.0**
Reserve Movements (CBB Basis) (-Increase/+Decrease)	-0.5	-165.6	-410.7	-133.9	-36.5	**-341.8**
Change in NIR (IMF Basis) (-Increase/+Decrease)	-34.3	-132.8	-407.3	-137.8	-27.2	**-146.6**

Source: Central Bank of Barbados
P: Provisional

Regional Economic Developments

Overview

Real economic activity in CARICOM is estimated to have recorded a modest improvement over 2002. In Trinidad and Tobago and Jamaica, two of the region's largest economies, output rose on account of greater production of energy and mineral products. Tourism value-added also rebounded somewhat over last year in most territories. However, average visitor expenditure was generally lower as a result of discounting. There were some employment gains while inflation rose only modestly.

The Bahamas

Overall tourism output for the six months ending June 2003 was virtually on par with that recorded in the same period in 2002, as rising spending by cruise visitors just compensated for relatively flat hotel room sales. Bahamas welcomed approximately 1.5 million cruise visitors over the review period, a 4.3% increase over 2002. At the same time, lower average room rental rates in three principal islands caused long stay arrivals to strengthen by 1.3%, a dramatic improvement over the 8.7% fall-off in the first half of 2002.

At the end of June 2003, the annual average inflation rate rose to 2.8% compared to 2.2% in the corresponding period of 2002. The largest price increases were recorded for recreation and entertainment services (8.5%), furniture, household operation expenses (6.9%) and medical care and health costs (4.4%).

At the end of review period, the rate on saving deposits was 2.75%, approximately 0.5 of a percentage point above the similar period of 2002. The weighted average rate of interest on deposits was 3.79% while the treasury bill rate stood at 2.21% almost one percentage point lower than June last year.

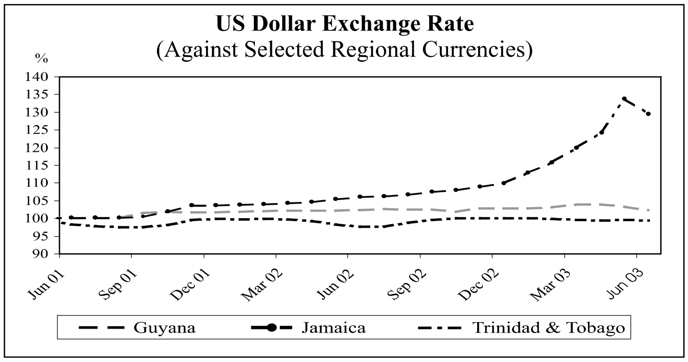
For the period January to March, the fiscal deficit worsened to B$46.0 million compared to $2.5 million in the corresponding period of 2002. The deterioration in the public sector balance was due in large measure to a substantial rise of 20% or B$44.2 million in expenditure compared to a moderate increase of 0.3% or B$0.7 million in revenue. The jump in expenditure was mainly attributed to an 11.2% hike in the salary and wages bill coupled with a 14.3% expansion in subsidies, reflective of payments to The College of the Bahamas. Capital expenditure fell by B $5.9 million (26.5%) primarily due to a reduction in outlays on public works development. The deficit was financed principally by commercial banks.

Over the first six months of 2003, the deficit on the external current account narrowed to an estimated $26.5 million, approximately $80.9 million less than in the comparable period of 2002. The surplus on the services account grew by $22.5 million principally due to a $7.8 million increase in travel receipts while there was a reduction in the deficit on the income account. In contrast, the capital and financial account registered a deficit of $30.1 million during the review period, compared to a surplus of $180.6 million in the same period of 2002. The deficit was the result of a short-term outflow through the banking system and a decline in investments inflows from commercial banks.

Jamaica

The sharp depreciation of the Jamaican dollar witnessed in the first quarter of 2003, continued in the second quarter. As a result of the uncertainties surrounding the implementation of fiscal measures in April 2003, the exchange rate depreciated by 4.7% during the second quarter, and at the end of June 2003, the Jamaica dollar traded at J$59.01 per US$1.

Nevertheless, based on available indicators, real economic activity in Jamaica is estimated to have expanded during the January-June period of 2003, compared to a decline in the corresponding period of 2002. Growth was re-



corded in most sectors of the economy. Output in the mining industry was boosted by an improvement of 7.9% in alumina production, which offset a moderate decline of 1.9% in the production of crude bauxite. Activity in agriculture benefited from favourable weather conditions, as an expansion in domestic crop production was only partially offset by a reduction in crops for the export market. The decline in export agriculture was attributed to the contraction in sugar cane production of 7.7% relative to output up to June 2002, reflecting low levels of replanting at the beginning of the year. Real tourism value-added also expanded, as visitor arrivals and expenditure for the period were higher by 20.1% and 11.4%, respectively, relative to 2002; cruise passenger arrivals grew by 39.2%, while stopovers rose by 7%. However, manufacturing output fell as a result of the closure of Petrojam Refinery for maintenance purposes, which offset moderate growth in the other manufacturing industries.

The moving average rate of inflation at the end of June was 7.0%, 0.6 of a percentage point below the corresponding period of 2002. The lower rate of inflation reflected declines in the prices for transportation, fuel and household supplies and miscellaneous expenses, which offset increases for all of the other remaining categories.

At the end of June 2003, the average savings deposit rate fell to 8.22%, or 0.8 of a percentage point lower than in the similar period of 2002. The average loan rate also contracted by 0.7 of a percentage point to 25.18%.

For the first half of 2003, central government operations resulted in a deficit of J$15,467 million, or J$4,280.5 million more than the deficit recorded in the first six months of 2003. The wider deficit was mainly attributed to higher expenditure, which offset buoyant revenue flows.

For the first four months of 2003, the external current account deficit widened to US$297.7 million, approximately US$52.3 million more than in the January-to-April period of 2002. The substantial rise in imports coupled with the increase in investment income outflow, which more than offset higher earnings from tourism, was mainly responsible for this outturn. The capital and financial account surplus declined considerably by US$241.6 million, reflective of reductions in other official investments which was slightly offset by the rise in private sector investment.

Organisation of Eastern Caribbean States (OECS)

The tourism performance for the currency union was mixed. For the fist six months of 2003, total visitors to the OECS fell by 3.2%, principally due to a 7.2% reduction in cruise arrivals. However, stronger stay-over numbers from the UK, the rest of the Caribbean and the USA resulted in a 3.3% rise in long-stay visitor arrivals, compared to a decline of 4.9% in 2002.

The region's other major foreign-exchange earning industry continued to struggle in the light of the new trading regime: banana production was down approximately 38.5%, on account of decreases in all the banana-producing countries. Declines in production were also registered for nutmeg (-4.7%), sugar cane (-13.7%) and cocoa (-27.4%). The only agricultural industry to record an increase was mace, which rose by 34.5% due to favourable weather conditions.

Manufacturing output was also quite sluggish over the first half of 2003, as most major product categories fell. Sugar and rice production declined and the output of electronic components contracted as a result of increased competition on the export market. Over the same period, construction activity contracted largely on account of the completion and winding down of some major projects in both the public and private sectors.

At the end of June 2003, an increase in consumer prices was registered for most member countries of the OECS. The inflation rate ranged from 5.5% in Anguilla to –0.8% in Dominica. The relatively strong increase in Anguilla was attributed to higher telecommunication rates as well as new fiscal measures introduced in the 2003 budget. While reduced consumption demand in Dominica resulted in price declines.

During the January-to-June period of 2003, the combined central government's current account deficit worsened to EC$54.8 million, approximately EC$9.1 million more than in the corresponding period of 2002, as the growth in expenditure offset the moderate expansion in revenue. Current expenditure rose by 4.5% to EC$1,073.4 million, largely reflecting higher interest payments and an increase in wages and salaries. Current revenue grew by 3.8% to EC$1,018.6 million mainly on account of the improvement in receipts from taxes on international trade and transactions.

The reduction in capital expenditure along with an increase in capital grants contributed to a smaller overall deficit of $162.3 million following a deficit of $189.9 million over the corresponding period of 2002. Capital expenditure fell by $13.3 million to $201.4 million compared with $214.7 million in the first half of 2002.

Trinidad & Tobago

For the first six months of the year, real value-added in Trinidad & Tobago grew by 2.6%, principally due to higher output in the energy industry. Energy output benefited from the commencement of operations by the third Atlantic LNG plant, which led to higher production of crude oil and petrochemicals. In contrast, the weak performance in the sugar industry led to a 16% decline in overall agriculture output. Production of raw sugar totalled 65.7 thousand tonnes, almost two-thirds the level recorded in 2002. Cane fires, dry weather conditions and the restructuring of the sugar company were the main reasons given for the contraction.

Inflation at the end of the first half of 2003 was 3.6%, approximately 0.4 of a percentage point lower than in the similar period of 2002. Lower prices for drink and tobacco, water and electricity and other fuels outweighed price increases for food, furnishings and household equipment.

At the end of the second quarter the unemployment rate was 10.2%, approximately 0.1 of a percentage point above the corresponding period in 2002. The majority of job opportunities were realised in manufacturing, agriculture, petroleum and gas and other services sector while the construction and transport, storage and communication sectors reported declines in net new job creation.

In the first six months of 2003, excess liquidity in the financial system was relatively high, mainly because of net fiscal injections and the maturity of open market securities. As a result, the weighted average interbank rate fell to 4.38% at the end of June while the average rate on three-month treasury bills stood at 5%. The overnight repurchase rate (repo) was 5.25% at the end of June 2003 compared to 5.75% one year ago. In an effort to dampen the level of liquidity, the Central Bank sold US$241.3 million in bonds over the first six months of 2003.

During the first six months of 2003, the Trinidad and Tobago dollar registered a significant depreciation against other major non-dollar currencies (Euro and Canadian dollar), as the US dollar fell in international markets. As a result, the Trinidad and Tobago dollar traded at TT$6.14 per US$1 at the end of June 2003 compared to TT$6.09 per US$1 one year ago.

For the first two quarters of 2003, the Central Government registered a fiscal surplus of $757.4 million compared with the surplus of $514.9 million in the similar period of 2002. Total revenue expanded by 12.5% to $7,960.4 million on account of an increase in oil receipts and personal income taxes. The rise in revenue more than compensated for the 9.4% increase in total expenditure on account of rising transfers and subsidies as well as wages and salaries.

During the first three months of 2003, an external current account surplus of US$496.7 million was recorded, or US$378.2 million more than the surplus in the previous three months of 2003. A substantial rise in exports of US$362.4 million reflective of increases in the value of mineral fuels, lubricants and chemicals was mainly responsible for this outturn. In contrast the capital and financial account recorded a deficit of US$497.6 million primarily due to the issue of bonds by the government and private sector.

Guyana

Economic activity within Guyana was unchanged during the first half of 2003, compared to 1.4% growth in the corresponding period of 2002, a result of lower sugar and gold production. During the review period, sugar production fell by a further 0.6% after declining by 16% in the same period of 2002. The fall-off in production was principally due to adverse weather conditions. Similarly, gold output was 16.6% below the corresponding period of 2002, largely because of a sharp decline in output from both local miner's (30.8%), and OMAI (11.3%). The reduction in output from OMAI was on account of lower yields from mines reflective of natural declines as most mines near expiration. In contrast, the expansion in the amount of acreage cultivated for rice production led to an 11.1% rise in output for the first six months of 2003, after a decline of 5.8% in the corresponding period of 2002. Timber production fell by 6.3% due to a shift in market demand to alternative building materials and a fall-off in residential construction.

At the end of June the 12-month moving average rate of inflation was 6.3%, or approximately three percentage points higher than in 2002. Higher prices were recorded for housing, food and transportation and communication reflecting in part, the increased cost of fuel with its pass through effects.

During the January-to-June period of 2003 interest rates continued to decline reflective of the high level of liquidity within the banking system. As a result the three-month treasury bill rate fell by 0.9 of a percentage point to 2.99% at the end of June 2003. The interest rate on saving deposits also declined to 3.96% at the end of the review period, compared to 4.29% recorded at the end of December 2002. The commercial banks' weighted average lending rate was lower at 16.24%, approximately 0.6 of a percentage point lower than at December 2002.

Over the period under analysis, the Guyana dollar depreciated by 1.5% following a decline of 2.1% during the same period in 2002. As a result, Guyana's dollar traded at G$193.75 per US$1 at the end of June 2003.

For the first six months of 2003, central government deficit narrowed to G$1,612.2 million, approximately G$1,036.1 million less than one year ago, principally due to reduced interest payments and lower capital outlays, which offset declines in tax intakes. Total current revenue fell by 3.1% to G$21,951.9 million on account of lower receipts of company taxes and travel taxes. Similarly, receipts from consumption tax and duties on imports contracted primarily because of a reduction in the consumption tax rate on gasoline and a decline in the value of imported consumption goods. Total current expenditure grew by 1.6% to G$20,791 reflective of higher payments for electricity and transfers.

A reduction in capital spending and an expansion in grants from the programme of Heavily Indebted Poor Countries, (HIPC), led to a smaller deficit on the capital account from G$4,835.5 million at the end of June 2002 to G$2,773.1 million at the end of June 2003. Capital revenue increased by G$1,608.7 million to G$3,411.4 million while capital expenditure contracted by G$453.7 million to G$6,184.5 million. The reduction in expenditure was reflective of the low implementation of projects undertaken by the Public Sector Investment Program.

The external current account deficit increased by US$13.4 million to an estimated US$62.1 million in the first half of 2003, from US$48.7 million at the end of June 2002. This performance was largely attributed to an expansion in the merchandise trade account (27.8%) mainly reflecting an expansion in the value of fuel imports. The capital account registered a net inflow of US$39.5 million, 17.3% above the corresponding period in 2002. The deficit was financed from the reserves of the Bank of Guyana and debt relief from the HIPC.

International Economic Developments

Overview

Amid the persistence of global economic uncertainties, some countries have exhibited signs of recovery. In particular, the US economy realized spectacular growth during the third quarter of 2003 to lead the recovery. This may be attributed to an accommodative monetary policy, generous tax cuts and improving corporate profitability in the US. Additionally, Japan, which has been mired in the trough of economic decline for the last ten years, finally showed signs of growth. Conversely, economic growth in the European industrialized countries continued to be lacklustre despite improvements in most other regions of the world. The continued appreciation of the EURO has hampered the export of European goods.

Industrial Economies

In the U.S., real GDP rose by 3% during the first three quarters of 2003, or almost 0.2 of a percentage point above the previous year. Growth was fuelled by increased personal consumption on durable goods, government spending and residential investment. Spending by consumers and businesses especially benefited from historically low interest rates. At the end of September 2003, the federal funds rate was 1% and the prime lending rate for many short-term consumer and business loans remained at 4%. However, the unemployment rate inched slightly higher to 6.1%, as firms remain cautious about hiring new workers. Inflation remained subdued over the review period, with retail prices rising by 0.5 of a percentage point to 2.2% by the end of the third quarter.

The fiscal deficit for the third quarter of 2003 was estimated at US$104 billion, more than twice the level in the corresponding period of 2002. The deterioration in government's accounts stemmed from higher defence spending and substantial tax cuts. In line with higher government dissavings, the current account deficit reached its highest at $138.7 billion in the second quarter of 2003. Nevertheless, the deficit is still being financed by foreign savings, as capital inflows totalled $43.7 billion during the first six months of 2003, $36.1 billion more than in 2002.

The combined negative effects of the SARS outbreak, a sharp appreciation of the Canadian dollar, and the beef export ban related to the mad cow disease caused the Canadian economy to expand by only 1% during the third quarter of 2003, some 7.3 percentage points below the corresponding period of 2002. The core inflation rate at the end of September was 1.7%, the third consecutive month below 2%, and reflective of broad-based weakness in the price of goods and price discounts in the tourism industry. The unemployment rate was 7.7% at the end of June 2003. During the second quarter the current account surplus was estimated at $20 billion compared to $4.9 billion in 2002.

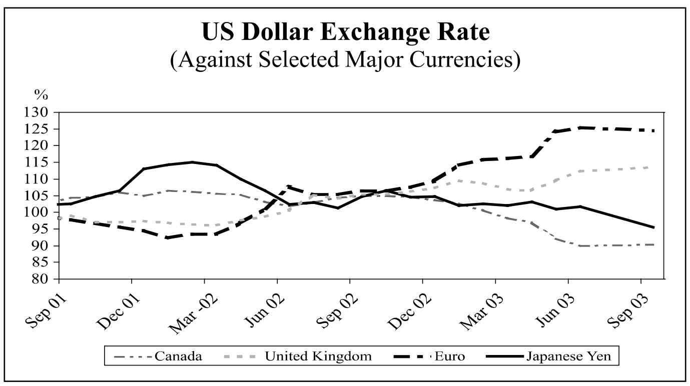
Total output in the Euro-Zone grew marginally during the first three quarters of the year as falling investment and a slowdown in private consumption expenditure was compensated by rising government consumption. As a result, Germany, France and Italy were all in breach of the 3% ceiling on the budget deficit as outlined by the EU's stability and growth pact. The weak domestic demand, especially in Europe's two biggest economies, Germany and France, caused the unemployment rate for the region to rise by 0.5 of a percentage point to 8.2%, while inflation was well below the previous year's rate.

Economic activity in France and Germany declined by 0.2% in the third quarter of 2003, following an improvement of 1.3% and 1.2% in the similar period one year ago. The slower growth in both economies was on account of falling exports, investment stagnation and weak consumer demand. Spain was the only country in the Euro-zone that maintained positive economic growth of 3.7%. Growth in this country was spurred by greater domestic demand, resulting from the implementation of tax cuts and higher infrastructure investment by the public sector. Spain's unemployment rate also fell to 11.2% in the third quarter of 2003, compared to

11.4% one year ago.

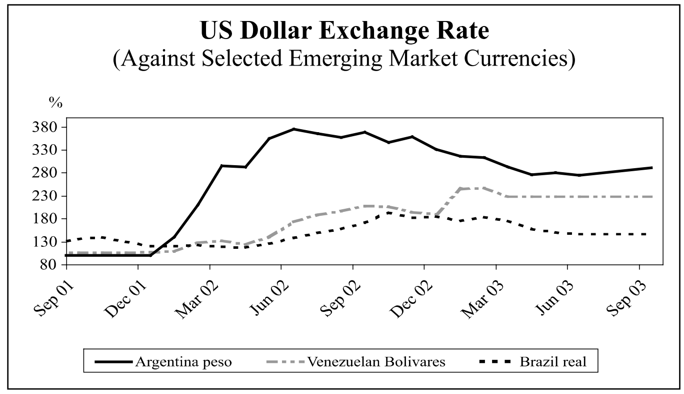
Buoyed by strong growth in output within the service sector, economic activity in the United Kingdom grew by 1.9% during the third quarter of 2003. At the end of September the unemployment rate was 5%, or 0.2 of a percentage point lower than the similar period in 2002. The inflation rate has remained above the target (2.5%) at 2.8% in the third quarter of 2003, while the minimum lending rate was reduced to 3.5% compared to 4% one year ago. At the end of September the 3-month treasury bill rate was 3.6%.

Real value added in Japan rose by 1.8% in the third quarter of 2003 stemming from a significant increase in business and consumer spending. Nevertheless, the Japanese economy continued to struggle with deflation, as prices fell by a further 0.2% in September. The unemployment rate fell to 5.1%, about 0.3 percentage points lower than the corresponding period of 2002. With the positive growth outturn, however, the Nikkei 225 stock average at end September was 8% higher than one year ago, reflecting improved corporate profits and better economic prospects. The Japanese trade surplus widened to $9.1 billion yen in September fuelled by an expansion of exports to USA and Asia.



Emerging Market Economies

China's economy grew by an estimated 8.5% during the first three quarters of 2003 on account of expansions in industrial production, fixed investments and exports. In an effort to reduce the level of liquidity, the Central Bank sold bonds, tightened regulation on lending to property developers and raised the reserve requirement ratio. The weighted average overnight interest rate was 1% compared to 2% over the corresponding period of 2002. At the end of the third quarter the current account surplus was equivalent to US$6.9 billion, an increase of US$1.9 billion over the corresponding period of 2002.



Real economic activity grew by 9.8% in Argentina during the third quarter of 2003 because of a surge in grain exports, steel and textile production. As a result, the unemployment rate fell to 15.6% in May, almost 6 percentage points lower than in May 2002. The peso which lost about 70% of its value against the dollar in 2002, strengthened by approximately 18% between the end of December 2002 and the end of September this year.

The Brazilian economy contracted by 1.5% in the third quarter of 2003, as business investment and household expenditure sagged. Consequently, the unemployment rate rose to 12.9%, 5.3 percentage points higher than the previous year's rate. At the end of September 2003 the average inflation rate was 15.1% compared to 8% at the end of September 2002. In an effort to spur economic activity within the country, the Central Bank of Brazil cut the key interest rate, (selic rate), by 1.5% to reach 17.5%. Additionally, following a speculation that foreign debt payments and other dollar outflows will be greater than new overseas bond sales, the Brazilian currency depreciated.

Regional and International Capital Markets

Caribbean Stock Markets: Third Quarter 2003

Barbados Stock Exchange (BSE)

There was moderate trading on the Barbados Stock Exchange during the third quarter of 2003. The Local Index recorded a quarterly increase of approximately 6.0% to end the period at 2,267.39 points, as ten companies advanced, four declined and the other ten remained unchanged. This generated a rise of 4.0% in the market capitalisation of the Local Index, which closed the quarter at Bds$6,882.52 million. The Cross-listed Index also recorded an increase for the period of 4.4%, while the Junior market, which declined for the first half of the year, continued to contract during the third quarter.

The volume of shares to cross the floor of the Exchange declined for the review period, compared to previous quarters. Activity was dominated by trading in Sagicor Financial Corporation shares, as this company was the volume leader for each month of the quarter, recording an average volume of 4.32 million shares. The other volume leaders for the third quarter included the Insurance Corporation of Barbados in July with 89,255 shares, Grace Kennedy & Co. Ltd in August with 1.04 million shares and Barbados Shipping & Trading in September, with a total share volume of 365,917.

Barbados Stock Exchange Statistics
(Quarterly)

Index	Mar 2003	Jun 2003	**Sept 2003**
Local	2,274.59	2,144.86	**2,267.39**
Cross-Listed	1,213.65	1,209.05	**1,261.79**
Junior	2,021.19	1,951.24	**1,756.97**
Market Cap. ($M)			
Local	6,713.48	6,623.62	**6,882.52**
Cross-Listed	3,870.95	3,858.31	**3,947.42**
Junior	86.27	89.78	**82.34**

Mutual Funds

The net asset value of all local mutual funds rose during the third quarter, due to a number of companies recording an appreciation in their stock prices for the period. In addition, the relatively steady performance of the regional and US equity markets, impacted favourably on the performance of local mutual funds that have exposure in these markets.

Mutual Fund Performance
(Quarterly)

	June 2003 NAV (Bds$)	**September 2003 NAV (Bds$)**
Roybar Investment Corp.	10.53	**10.64**
Fortress Caribbean Growth Fund	2.38	**2.56**
Mutual Global Balanced Fund	1.51	**1.56**
BNB Income Fund	1.09	**1.11**
BNB Capital Growth Fund	1.09	**1.13**
BNB Gift Trust Fund	0.92	**0.96**
CLICO Balanced Fund Inc.	1.02	**1.05**

Jamaica Stock Exchange (JSE)

Share volume on the JSE increased by 92.34% and the Index rose by 27.26% to 57,769.13 points, during the third quarter. This outturn was the result of heightened investor activity and the favourable performance of most companies on the JSE; 30 companies advanced, 7 declined and 3 companies remained unchanged. Dyoll Group registered the highest growth in share price of 62.50%, while the worst performing company in this market was the First Caribbean International Bank, which declined by 6.98%. The JSE registered increases for each month of the quarter but July was the record month for the period, with a share volume of 973.82 million.

Trinidad and Tobago Stock Exchange (TTSE)

The TTSE Index increased by 6.48% for the quarter and recorded advances for 16 companies, while 9 companies declined and 5 remained unchanged. Caribbean Communications Network registered the best share performance increase of 28.81%, in contrast to the worst performing company in this market, BWIA, which declined by 10.56%. The market was very actively traded with trading on the TTSE being dominated by trading in the cross-listed Jamaica Money Market Brokers (JMMB), which contributed 32.7% to total volume traded. September was the peak month for the quarter, with the largest volume traded of 36.97 million shares.

Interest Rates

United States of America

During the quarter ending September 30, the Federal Reserve held US interest rates at 1.00%. In keeping rates unchanged at each policy meeting for the third quarter, the Fed. reiterated the need for an accomodative monetary policy stance. In being committed to providing ongoing support to the economy and the Fed. acknowledged that interest rates could be kept low for a considerable period.

Still, with annual growth projected to be approximately 4%, an accelerating economic recovery in the United States would lead to an increase in interest rates over time.

Share prices moved higher on Wall Street and there was a moderate rally by the U.S. dollar in the foreign exchange market, after the latest decision to keep US interest rates at 45-year lows. The decision also sparked a decline in U.S bond prices, as investors began factoring in the prospect that interest rates would be higher by the time bonds reached maturity, thereby driving up yields.

Canada

The Bank of Canada cut interest rates twice during the third quarter, lowering its key overnight rate by twenty-five

Top Ten Performing Companies*

Barbados		Jamaica		Trinidad	
Insurance Corporation of B'dos	57.14%	Dyoll Group	62.50%	Caribbean Communications Network	28.81%
West Indies Rum Distillery	56.00%	CMP Industries	60.00%g	RBTT Financial Holdings	26.17%
Almond Resorts Inc.	31.58%	Capital & Credit Merchant Bank	59.00%	Trinidad Publishing Co. Ltd	18.33%
B'dos Shipping & Trading	30.88%	Caribbean Cement	51.93%	Furness Trinidad Limited	17.57%
Sagicor	27.27%	Salada Foods	43.75%	Ansa Finance & Merchant Bank Ltd.	14.20%
Neal &Massy	18.52%	Radio Jamaica	40.63%	Barbados Shipping & Trading Co. Ltd	12.73%
Goddard Enterprises Ltd.	6.12%	Pan Caribbean Financial Services	37.78%	Scotia Bank of T&T Ltd	10.27%
B'dos Farms	4.29%	Jamaica First Life Insurance	34.02%	Guardian Holdings Limited	9.90%
C & W Barbados	3.12%	Bank of Nova Scotia	33.33%	Ansa McAl Ltd.	8.32%
Banks Holdings	1.75%	Dehring, Bunting & Golding	31.25%	Trinidad Cement Limited	8.18%

* Based on the appreciation in share value.

basis points on each occasion, to end the quarter at a rate of 2.75%. While inflationary pressures appear benign, the Canadian economy has been hit during the year by SARS, mad cow disease, a significant power blackout in Ontario, and forest fires in western Canada. Accordingly, in the second quarter, the economy contracted at an annual rate of 0.3%, the first contraction since the third quarter of 2001.

Nevertheless, domestic demand growth has remained robust, and the adverse effects of these factors have begun to dissipate. By further lowering its key interest rate, the Bank of Canada also reduced the differential with US rates, and ultimately improved its competitiveness by minimizing borrowing costs. On the other hand, the interest rate gap has been attracting investment in Canada. This advantage will now be reduced, given that it has declined to a mere 42 basis points on long-term interest rates.

The Bank of Canada's next rate announcement is set for October 15, but most analysts do not expect that there will be any alteration to interest rates through the remainder of the year.

United Kingdom

The Bank of England (BOE), responding to weaker consumer spending and fragile economic recoveries abroad, lowered interest rates by 25 basis points in July, to 3.5%. Since then, however, signs that the economy is improving along with concerns about the rapid accumulation of debt by consumers, led the central bank to hold interest rates steady, thus implying that the current level of interest rates is sufficient to sustain domestic demand. Lower rates also served to prompt a recovery in the British housing market.

In light of positive economic indicators, investors have discounted a rate increase before year-end, but following comments by BOE Monetary Policy Committee members, a hike at the October 8th-9th meeting appear unlikely.

The Euro Zone

During the third quarter the European Central Bank (ECB) on the back of expectations of a moderate recovery in 2004, held rates at 2.00%.

Since the 50-basis point reduction in June, Eurozone rates have been at their lowest in 40 years and rates were left untouched for the remainder of 2003. With the Eurozone economy shrinking by 0.1% in the second quarter, Bank officials expect that the low rates will spur growth by minimizing borrowing costs for businesses and making it easier for them to invest and expand their operations. These low rates can be effectively considered to be at zero, after subtracting inflation. With inflation anchored at the desired 1.8%, the ECB believes that such price stability provides every opportunity for the European economy to grow and for jobs to be created.

One threat to the ECB's optimistic scenario is the recent rise in the Euro. A strong Euro can hurt European exports - and therefore growth. In addition, the Bank has hesitated to cut rates further due to emerging signs of a recovery and because the Euro-zone's largest economies, Germany and France, are breaking budget deficit caps intended to support the Euro.

Equity Market – US

US equity markets recorded significant gains during the third quarter of this year, with the Nasdaq gaining 10.1%, the Dow Jones Industrial Average 3.2% and the S&P 500 Index 2.2%.

For the month of July, technology shares achieved the biggest gains resulting in the Nasdaq rising by 6.9%. The Dow and the S&P500 rose by 2.8% and 1.6%, respectively, for the month.

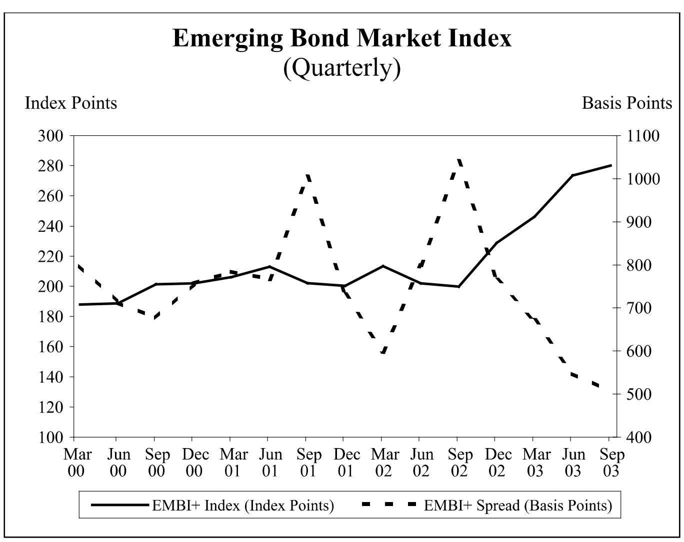
As investors found encouragement in positive economic news during August, the equity markets recorded further gains and continued to rally. In August, the Nasdaq rose by 4.44% to close at 1,810.45, a new sixteen-month high, after gains for seven consecutive months. This compares to increases in the Dow Jones Industrial Average of 2% and the S&P 500 Index by 1.85%, each having risen for the sixth consecutive month for the year.

In September, the rally in the markets ended due to weak economic reports and a technology sell-off, which set the pace for a broader market decline. For the month, the Nasdaq fell by 1.2% and the Dow and S&P by 1.3% and 1.2%, respectively.

Emerging Markets

Slowdown in Emerging Bond Market

Following a sustained period of investor risk aversion, the first six months of 2003 had seen investors displaying increased risk appetite, as low short-term interest rates in major markets led them to higher yielding instruments. This had prompted a move back into corporate and emerging market bonds, reducing spreads on this class of bonds considerably. However, upsurges in US Treasury yields and renewed investor interest in mature equity markets, (due to improved corporate finances and expectations of growth) reduced interest in emerging bond markets slightly during the third quarter. This was in spite of returns on these bonds continuing to compare favourably to other asset classes.



Equity Markets Continue to Rise

Emerging equity markets performed very well over the quarter, especially the Latin American markets. This pick-up was led by the Brazilian Bovespa, which benefited from positive market sentiment, especially after the Central Bank began aggressively cutting interest rates to revive the economy. In Argentina, a dearth of other investment opportunities, in conjunction with positive economic data, made the Merval a very attractive investment option and resulted in the Index reaching a six-year high. Stocks were also up in Asia, with the exception of China, which suffered as a result of a number of negative factors.

Emerging Market Equity Indices
(Quarterly)

Country/Region	Index	June 2003	Sept. 2003	% Ch
Argentina	Merval	724.3	782.52	8
Brazil	Bovespa	12,972.58	16,010.67	23.4
Chile	IPSA	1,228.12	1430.49	16.5
Mexico	IPC	7,054.99	7,822.48	10.9
Venezuela	Caracas	13,666.40	16,956.29	24.1
Latin America				16.6
China	Shanghai	1,486.02	1,367.16	-8
Hong Kong	Hang Seng	9,577.12	11,229.87	17.3
Indonesia	Jakarta	505.5	597.65	18.2
Malaysia	Kuala Lumpur	691.96	733.45	6
Philippines	PSE	1,222.80	1,297.42	6.1
Singapore	Straits Times	1,447.89	1,630.80	12.6
South Korea	Seoul	669.93	697.52	4.1
Thailand	SET	461.82	578.98	25.4
Taiwan	Weighted	4,872.15	5,611.41	15.2
Asia				12.7

Currency Controversy in Asia; Mixed Performances in Latin America

Asian currencies were at the centre of international controversy during the third quarter, as European and US policy makers blamed Asian governments for the huge job losses seen in those countries. European and US manufacturing industries, had been unable to compete with Asian exports - made cheaper by what the US called Asian "exchange rate manipulation".

The main target of these criticisms was China, which intervened in the markets to maintain its currency peg of 8.28 Yuan to the US dollar, thereby allowing the Yuan to track the dollar downward. However, other Asian central banks were also buying dollars to stop their currencies rising, including the Thai and Korean authorities. Among Latin American currencies, only the Chilean and Mexican Pesos recorded significant movements, the former rising on the strength of a bullish market for copper, the drop in oil prices and greater investor and consumer optimism regarding an economic recovery, while the latter fell on concerns that the Mexican economy had failed to benefit from greater industrial output in the US, its largest trading partner.

Emerging Market Currencies
(Quarterly)

Country/Region	Currency	June 2003	Sept. 2003	% Ch
Argentina	Peso	2.81	2.92	-3.7
Brazil	Real	2.84	2.90	-2.0
Chile	Peso	700.90	660.95	5.7
Mexico	Peso	10.46	10.99	-5.1
Venezuela	Bolivar	1,598.00	1,598.00	0.0
Latin America				-1.0
China	Yuan	8.28	8.28	0.0
Hong Kong	Dollar	7.80	7.74	0.7
Indonesia	Rupiah	8,275.00	8,395.00	-1.5
Malaysia	Ringitt	3.80	3.80	0.0
Philippines	Peso	53.48	54.88	-2.6
Singapore	Dollar	1.76	1.73	1.9
South Korea	Won	1,193.05	1,150.10	3.6
Thailand	Baht	42.00	40.03	4.7
Taiwan	Dollar	34.64	33.74	2.6
Asia				2.0

Trade Issues

ACP-EU Relations: Past, Present And Future

Background

Historical Context

Strong historical ties exist between the African, Caribbean and Pacific (ACP) group of countries and the countries comprising the modern European Union (EU). These links were forged in colonial times and were reinforced by the Cold War and the 1970s oil crises, as a result of which ACP countries began to assume considerable geopolitical and economic importance. In effect, ACP countries have been a key market for EU exports and a major source of primary inputs, as well as a valuable political support-base. These factors have laid the foundation for a long tradition of political and economic cooperation between the two groupings.

The blueprint for such cooperation has been mapped out in a series of formal agreements between ACP countries and EU member states, starting with the 1957 Treaty of Rome and progressing through the two Yaoundé Conventions, as well as the three Lomé Conventions, before the signing of the present Cotonou Agreement in June 2000. These agreements have been designed in line with a number of key objectives: poverty eradication, sustainable development, the integration of developing countries into the global economy, regional integration, the development of the private sector and institutional development.

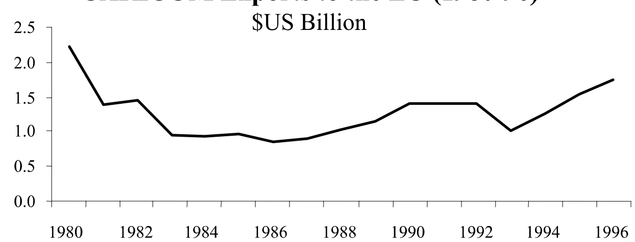
These objectives have been pursued through aid and trade, the two main pillars of the ACP-EU cooperation framework. The aid component of each agreement has been administered (1) through the European Investment Bank (EIB), which mainly provides loan financing, (2) through the European Commission itself, out of the EC's general budget, and (3) through European Development Funds (EDFs), which are financed out of EC members' contributions, where each agreement is linked to a specific EDF.

EDFs have generally been allocated to provide support for regional integration efforts, project finance, general budgetary support and infrastructural rehabilitation, compensation for reductions in commodity export earnings, and structural adjustment support. All ACP countries are eligible to receive EDF funds and the recipients of the funds have been governmental departments or agencies, in line with the conditions set out in the agreements. To be eligible for EDF funding, projects must fall within agreed national or regional (multi-country) strategies set out in Country and Regional Strategy Papers and National or Regional Indicative Programmes.

The trade element of each agreement has provided for duty-free access for ACP exports of certain primary products, excluding those protected under the EU's Common Agricultural Policy (CAP). Most manufactured goods have also entered EU markets duty free. In addition, there have been a number of commodity protocols, such as the Banana, Rum and Sugar Protocols, under which ACP countries have received preferential access to EU markets. In the past, CARICOM's sugar, rum and banana industries have benefited considerably from the maintenance of these protocols.

CARICOM Exports to the EU (1980-96)

$US Billion



Cotonou – A Turning Point in ACP-EU Relations

All of the previous agreements, from the Treaty of Rome to Lomé IV, have therefore been characterised by substantial financial outflows from the EU to the ACP in the form of aid and trade preferences. However, the original rationale for adopting this approach is being gradually negated by a number of recent trends.

Firstly, the post-Cold War era has seen a substantial decline in the strategic importance of the ACP countries, with a parallel rise in the profile of Central and East European countries. These countries are currently preparing for accession to the EU and, as a result, have been steadily increasing their share of EU aid, trade and investment flows. In addition, the development of a rules-based multilateral trading system under the WTO has placed pressure on the ACP-EU trade regime to conform to WTO rules, which has greatly circumscribed the EU's ability to continue according preferential treatment to ACP countries. Furthermore, the EU has been somewhat disappointed with the rather modest record of achievement of ACP-EU cooperation in the past. For example, despite benefiting from trade preferences, the ACP trade performance has been below par, with growth in trade for the period 1980-2000 (0.7%) falling far below the world average of 7%.

All of these factors have prompted a radical reassessment of the traditional cooperation framework by the EU, as outlined in the European Commission's 1996 Green Paper[1]. The new approach has been reflected in the current Cotonou agreement, which has ushered in a number of significant changes designed to adapt the framework to a globalised and liberalised post-Cold War world. However, this has raised a number of issues pertaining to ACP countries' ability to survive in such a world.

In this regard, the successful challenge to the Banana Protocol by multinational importers of Latin American bananas, as well as the EU-US deal to remove the tariff-quota on non-ACP rum, are telling examples of the way that preferences are being eroded as a result of WTO developments. The effects of the amendments to the Banana Protocol have been unambiguously devastating for banana-exporting CARICOM countries – especially Dominica, whose economy virtually collapsed as a result – presaging the prospects for rum and sugar. The Rum Protocol has been eliminated altogether, albeit with provision for compensation over a transitional period until 2008. The Sugar Protocol remains in effect, but will expire in 2007, with the recent challenge to the EU sugar regime by Australia and Brazil placing its renewal further in doubt.

In response, the focus with regard to the aid component has shifted more towards building ACP countries' capacity to cope with trade liberalisation. To this end, the new EDF (No. 9), amounting to 13.5 billion Euros in aid, has been allocated to programmes promoting regional integration, infrastructural development and structural adjustment, etc., as well as financial support to ACP countries affected by the erosion of preferences, a new investment facility (Pro-Invest) and loan funding. Furthermore, it provides for the reform of aid administration to narrow the gap between aid commitments and disbursements and make aid funding accessible to NGOs and the private sector for the first time. However, ACP countries feel that some other changes to the aid component have placed them at a disadvantage, especially the move towards increased conditionality, whereby more emphasis is being placed on aid disbursement based on countries' performance with respect to certain criteria.

There are also concerns about the increased politicisation of the cooperation framework, with an apparent shift in focus from economic cooperation, i.e. aid and trade, to more political cooperation on issues such as governance, security and migration. The fear is that the Agreement is being used by the EU to impose rules on a bilateral basis that ACP countries have previously rejected at the plurilateral and multilateral levels. Cotonou already contains provisions for the harmonisation of policy in a range of trade-related areas with political implications. Through these provisions the EU is pushing ACP countries to strengthen their regulatory frameworks with regard to issues such as competition policy,

[1] See Bibliography

intellectual property rights, standardisation and certification, sanitary and phytosanitary measures, trade and environmental issues, labour standards and consumer protection policies. ACP countries are also apprehensive about the possibility that implementation of some of these rules could become a pre-condition for receiving aid.

All of these changes are reflective of the EU's agenda, which in turn is being driven by domestic and external political considerations, as well as the imperatives of EU enlargement and trade liberalisation. A major step for the EU in advancing this agenda has been the introduction of the concept of the Economic Partnership Agreement (EPA), which represents the most radical change of all for ACP-EU cooperation.

Economic Partnership Agreements

Negotiating Framework

The Cotonou Agreement has set out four main principles upon which EPAs should be founded: Development, Regionalism, Differentiation and – the newest feature of ACP-EU relations – the principle of Reciprocity. Like previous agreements, EPAs are intended to ensure sustainable development and economic growth in ACP countries and foster regional integration efforts. In addition, the principle of Differentiation will require that EPAs take into consideration the disparate levels of development of the contracting parties, allowing for flexibility and asymmetry in favour of less developed countries and regions. However, unlike previous agreements, preferential treatment for ACP countries

Cotonou Timetable

Preparatory Period	
Jun 2000	Signature of Cotonou Agreement
Jun 2000 – Sep 2002	Exploratory discussions on basis for negotiations
Phase I (All-ACP-EU)	
Sep 2002	Start of All-ACP-EU negotiations on future trade agreements
Phase II (Regional)	
Sep 2003	Start of negotiations on Regional Economic Partnership Agreements
2004	Exploration of alternative trade arrangements for Non-LDCs
2005	Non-reciprocal duty free access for essentially all products from least developed countries to be introduced
2006	Formal and comprehensive review of progress in negotiations
31 Dec 2007	End of application of current Cotonou Agreement non-reciprocal preferences
01 Jan 2008	Entry into force of any Regional Economic Partnership Agreements concluded
Implementation Period	
2008	Start of transitional implementation of Regional Economic Partnership Agreements
2018/20	Full entry into force of WTO-compatible free trade area arrangements

will be replaced under these EPAs by market access in line with the principle of Reciprocity. Hence, EPAs will essentially constitute free trade agreements, which will seek to make the Cotonou Agreement fully WTO-compatible and may even extend liberalisation beyond WTO boundaries.

The provisions of the Cotonou Agreement also set out a timetable for EPA negotiations, which has been divided into a number of stages, as illustrated in Table 1. Phase I of the negotiations, consisting of all-ACP talks with the EU, commenced in September 2002 and was slated to end in September 2003. This was also the scheduled launch date for Phase II, when the ACP grouping would be divided into regional blocks in order to negotiate regional EPAs with the EU.

Interim Results of Phase I

As at the end of September 2003, there remained considerable divergence between the ACP and EU positions on a number of issues. Overall, the main areas of disagreement were negotiating principles and objectives, the scope, coverage and sequencing of negotiations and implementation of commitments, the issue of WTO-compatibility versus Special and Differential Treatment (SDT), as well as the question of funding for ACP capacity building.

Throughout the negotiations there had also been disagreement on the need for a formal, legally binding, framework agreement to conclude Phase I, which would guide negotiations in Phase II. However, the agreement concluded on October 2, 2003 was not legally binding and was merely a set of guidelines for the forthcoming negotiations. Nevertheless, with so many issues outstanding, it has been agreed between the two parties that discussions should continue at the all-ACP-EU level throughout 2004. It was also agreed that the Phase I discussions would run parallel to Phase II discussions, which were to be launched between the EU and those ACP regions that found themselves in a position to do so.

The EU has already proposed a four-pronged approach to these Phase II negotiations, which would comprise: an initial exploratory phase until the end of 2003, during which the objectives, priority issues, structure and timetable for the negotiations would be established, a second phase from 2004 to mid-2005, during which current trade and production data, as well as tariff and policy regimes would be reviewed and analysed and sectoral/issues based consultations would be launched, a third phase from mid-2005 to mid-2006, where the stucture of the EPAs would be agreed and draft texts issued, and the fourth phase, when the entire process would be finalised.

Prospects For ACP Countries In The Context Of EPA Negotiations

Challenges Ahead

The stakes are very high for ACP countries as they move into Phase II of the negotiations, which was launched at the end of September. They face a number of challenges, which, if not adequately met, could seriously undermine their trade and development prospects.

Reference has already been made to a number of challenges arising from the Cotonou agreement itself: the increased conditionality of aid disbursement, the elimination of trade preferences and the increased politicisation of ACP-EU relations. However, fresh challenges are expected to emerge as a result of the negotiation and implementation of the regional EPAs.

The main challenge is that of realising the purported benefits of the liberalisation process under the EPAs. The European Commission has touted the potential benefits to ACP countries of WTO-plus access to EU markets and investment and increased scope for exploiting economies of scale and specialisation in trade. However, studies[3] have failed to predict any significant gains from EPAs for ACP countries

[3] See Bibliography for studies on related topics

in terms of increased exports of goods to the EU. On the contrary, the EU is expected to increase its share of exports to the ACP and provide stiff competition for ACP exporters. In this regard, ACP countries' supply-side constraints continue to limit their capacity to exploit economies of scale. Furthermore, in many cases, scope for developing current areas of ACP specialisation – generally agricultural commodity exports – continues to be eroded by the perverse provisions of the EU's Common Agricultural Policy. This is exacerbated by the continued inroads being made by the EU Candidate Countries into ACP countries' share of aid, investment and trade flows.

A related challenge arises out of the elimination of trade preferences and the resulting reductions in ACP countries' tariffs on EU goods, which is expected to have adverse fiscal implications for ACP countries that remain dependent on import taxes. The Caribbean provides a number of ideal case studies in connection with this issue: the 2001 Annual Report of the Eastern Caribbean Central Bank revealed that border taxes as a share of recurrent fiscal revenues in six Member Countries were over 50%.

The actual negotiating process also holds a number of challenges for ACP countries. For example, the refusal of the EU to accept ACP countries' call for a binding agreement at the end of Phase I, which would summarise the basic principles guiding negotiations in the second phase, leaves the various ACP regions vulnerable in bilateral negotiations with the EU. Such an agreement would be an important tool for harnessing the considerable collective bargaining power of a united ACP in an attempt to counterbalance the EU's formidable negotiating strength.

In addition, the breakdown of WTO talks in Cancún has put on hold ACP countries' hopes of effecting changes to WTO rules on free trade areas to allow for special and differential treatment for less developed countries, which would have meant more flexibility with regard to the required scope and coverage of liberalisation commitments in the EPAs. Furthermore, the fact that discussions in the Doha Round are ongoing makes EPA negotiations even more complex, since ideally WTO decisions or commitments would form the baseline for countries' EPA commitments. Indeed, there is a considerable degree of interrelatedness between the various negotiating theatres. For example, Cotonou requires CARICOM countries to automatically grant to the EU the same level of market access as they grant to the US in the FTAA negotiations. Thus, the simultaneous negotiation of multiple agreements in itself poses a serious challenge, especially in light of the limited negotiating capacity of many ACP countries.

The Way Forward

Unfortunately, the above is by no means an exhaustive list of the perceived challenges arising from the forthcoming EPA negotiations. Indeed, the challenges involved are likely to intensify and multiply as the negotiations progress. In order to surmount these challenges, ACP policymakers must therefore craft policies that speak to building capacity, with a view to exploiting any opportunities that may arise.

Hence, macroeconomic policy must focus on diversifying domestic economies and prioritising regional integration, while emphasising sustainable development. In this regard, utilising the funding available from the EDF for the development of non-traditional export sectors and support for regional integration efforts will be paramount. Fiscal reform will also be a key ingredient of ACP countries' survival strategy, as alternative sources of revenue must be found to compensate for the loss of revenue expected as a result of tariff reduction.

With respect to trade policy, ACP countries need to regroup and refocus in light of the failure of the Cancún talks, while building on the awareness gained at Cancún that their strength lies in their ability to unite. They must therefore find ways to draw on the support of the full ACP grouping in pursuit of regional interests during regional negotiations. To this end, they must identify among themselves the areas of common interest and attempt to ensure that the proposal for a binding agreement on the results of Phase I remains on the table. They should also continue to press for a more flexible interpretation of WTO rules.

On the whole, it is difficult to overstate the challenges that past and future changes in ACP-EU relations pose for ACP countries. Furthermore, whereas all ACP countries will be affected, the problems will be particularly acute for CARICOM countries. The main challenges for countries in the region will lie in diversifying their economies and sources of government revenue, formulating a coherent negotiating strategy for such a group of economically diverse countries and ensuring consistency across negotiating theatres. These and all the other challenges identified are inescapable and must be faced head-on by CARICOM, using the policy tools at their disposal.

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