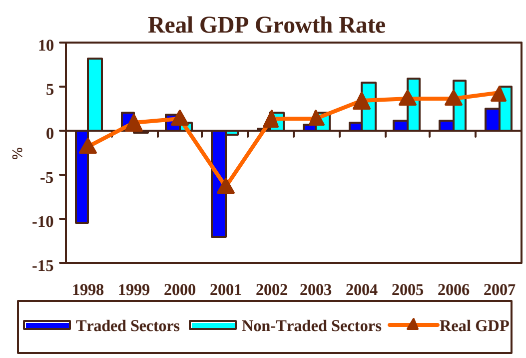
Review of the Economy for 2007

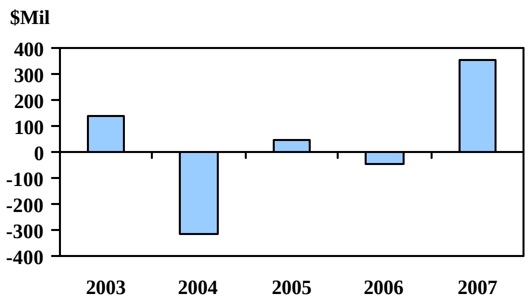
Overview

The Barbadian economy expanded for the sixth consecutive year in 2007, recorded an estimated growth rate of 4.3%. This which is significantly above the average rate of 3.1% for the last five years. Real economic output was again driven by the non-traded sectors, while the traded sectors recovered, following two years of negligible growth. A significant boost in long-stay visitors in the second quarter, plus a strong outturn in cruise passenger arrivals provided most of the impetus behind the rise in output in the traded sectors. This outturn, combined with broad-based gains in the non-traded sectors, contributed to a lower average rate of unemployment in 2007, while the rate of inflation declined moderately.



There was a modest improvement in the external current account deficit. Higher tourism receipts, together with a strong performance in the capital and financial account, led to an expansion in the net international reserves (NIR), of $353.5 million, the largest accumulation since 2001.

Change in Net International Reserves



The build-up in foreign reserves contributed to a faster rate of growth in domestic deposits, which outpaced the rate of increase in credit to the non-financial private sector. Consequently, the level of liquidity in the banking system rose and government was able to finance its deficit from domestic sources.

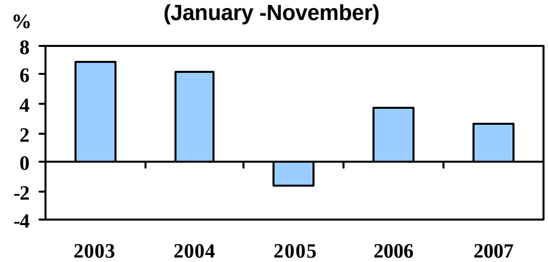
Sectoral Analysis

Real Sector

During 2007, output in the traded sectors grew by an estimated 2.5%, following sluggish performances in 2005 and 2006. After the reduction in real tourism value added in the first quarter of the year, the industry gained momentum in the remaining quarters and rose by an estimated 3.3% in 2007, a moderate increase from the 1.6% growth registered one year earlier.

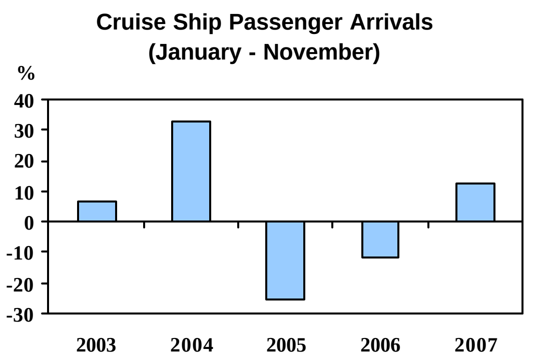
This outturn was primarily related to the expansion in the number of visitors from the non-traditional and the United Kingdom (UK) markets during the period of the Cricket World Cup (CWC) 2007 as well as the continued growth in the United States (US) and Canadian markets.

Long-Stay Tourist Arrivals
(January -November)



Preliminary data for the first eleven months of 2007 show long-stay arrivals increasing by approximately 2.6%, compared with a 3.7% expansion for the corresponding period in 2006. At the end of November 2007, visitor arrivals from the traditional markets of the UK, Canada and the US had expanded by 6.3%, 7.7% and 2.7%, respectively, despite higher costs for air travel. In contrast, visitor arrivals from the CARICOM countries declined by 16.0%, after registering consistent growth for the past five years. Higher airfares, along with route rationalisation by some Caribbean airlines, were largely responsible for the decline.

The number of cruise ship passenger arrivals grew by 12.3% during the first eleven months of the year. This was a reversing of the decline of 4.8% recorded in the corresponding period of the preceding year. This outturn was propelled mainly by an expansion in cruise ship capacity, as both the size of vessels and the number of cruise ship calls to the Bridgetown Port increased.



Sugar production for the year rose to 33,900 tonnes, an increase of approximately 0.6% or 300 tonnes. Non-sugar agriculture and fishing also expanded, by 4.2%, a reversal from the 2.9% fall experienced during the previous year. Fish landings grew by approximately 20.7%, in contrast to an 8.4% decline in 2006. Similarly, in response to an increase in incentives for local farmers, milk production climbed by an estimated 6.4%, following a reduction of 11.0% one year earlier. Chicken production also expanded, by 4.9%, as producers stepped up supply to meet the consumption demands of CWC.

During 2007, real economic activity in the manufacturing sector remained unchanged, after three years of growth averaging 1.8%. The only category experiencing a strong expansion was the beverages and tobacco sub-sector, which advanced by 9.8%, a turnaround from the 14.3% decrease in 2006. The production of electronic components declined by 18.6%, in contrast to growth of 5.9% in the previous year. Additionally, the manufacture of garments, wooden furniture and non-metallic products contracted by 10.0%, 0.5% and 2.8%, respectively.

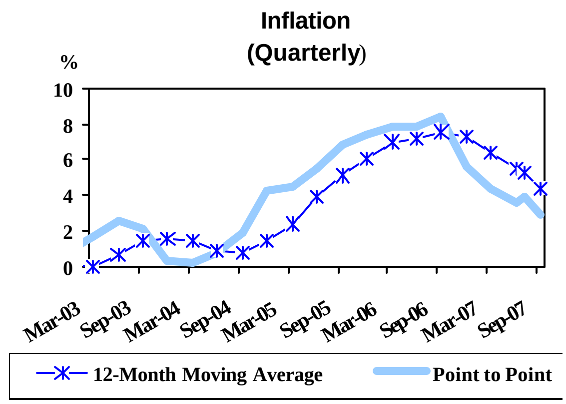
As was the case in the previous two years, real economic growth during 2007 was buttressed by the robust performance of the non-traded sectors. The main sources of the 5% expansion in non-traded activity were wholesale and retail trade, business and other services, construction and transport, storage and telecommunications.

The construction sector expanded by 5.0%, two percentage points below the growth rate of 2006, as work continued on road infrastructural programmes as well as residential and commercial developments. Real value-added in the wholesale and retail industry was up by an estimated 5.9%, slightly higher than the growth rate recorded in 2006. Output in the transport, storage and communication sector rose by an estimated 5.6%, after an upturn of 5.2% in 2006, while output in the mining and quarrying sector continued to decline, falling by a further 7.5%, following a 3.1% decline in the previous year

Four hundred and seventy new licenses were issued to international business and financial services firms during the review year, compared to five hundred and thirty-seven in 2006. Three hundred and thirty-four new international business companies were registered, a decrease of 57 companies compared to the previous year. In addition, 126 societies with restricted liability, six exempt insurance companies, one exempt insurance management company and three new offshore banks were approved for operation.

Unemployment declined as increased job opportunities were realised in construction, wholesale and retail, general services, and the transportation, storage and communication industries. The average unemployment rate at September 2007 was 7.1%, down from 9.8% in the corresponding period of 2006. The rate for males fell by 4.0 percentage points to 5.4%, and for females by 1.4 percentage points to 8.9%.

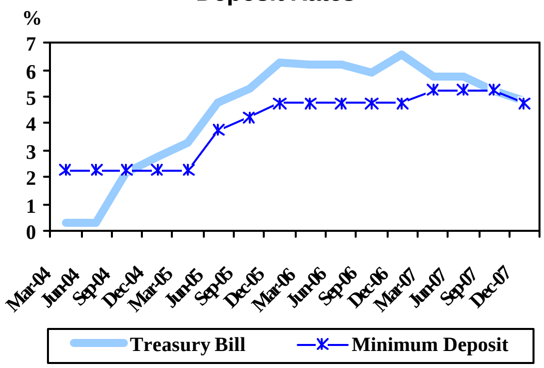
At the end of October 2007, the twelve-month moving average rate of inflation was 4.2%, compared to 7.6% for the corresponding period of 2006. The contraction in the inflation rate largely reflected the slowdown in the growth rate of prices for fuel and light, transportation and housing.



Financial Sector

During 2007, robust growth in domestic deposits outpaced the expansion of new commercial bank lending to the non-financial private sector. Consequently, liquidity in the banking system rose with the liquid asset ratio increasing from 7.9% at the end of December 2006 to approximately 10.1% at the end of 2007. Additionally, the excess liquidity ratio rose from 6.6% to 9.7% while the excess cash to deposit ratio grew from 0.6% to 2.2%. Given the higher level of liquidity, the rate on the three-month treasury bills fell from 6.57% by the end of December 2006 to 4.84% at December 24, 2007. With the rising liquidity levels and the decline in international interest rates, the Central Bank lowered the minimum deposit rate in November from 5.25% to 4.75%. The security reserve requirement was also reduced from 12% to 10% of deposits, in keeping with the commitment to continue the process of financial liberalisation.

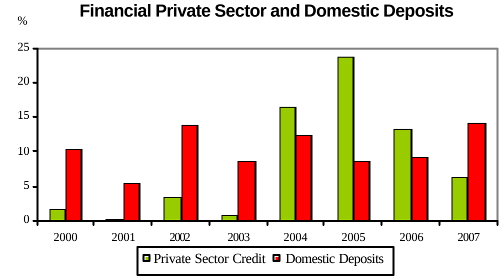
Treasury Bill & Minimum Deposit Rates



Expansion in credit to the non-financial private sector was estimated at 7.1% in 2007, compared with 6.4% in 2006. Borrowing by the personal sector grew by 11.7%, while credit to the distribution sector fell by 1.6%. Credit to central government and statutory bodies advanced by 24.8% and 14.6%, respectively.

With the substantial foreign capital inflows, domestic deposits at commercial banks grew by approximately 14.4% in 2007, considerably higher than the 9.4% increase reported in 2006. Deposits of statutory bodies as well as those of central government showed significant increases, growing by 30.3% and 23.5%, respectively. Similarly, non-bank financial institutions augmented their deposits by $257.2 million ($161.7 million above the expansion in 2006) owing to a broad-based upsurge in all component categories.

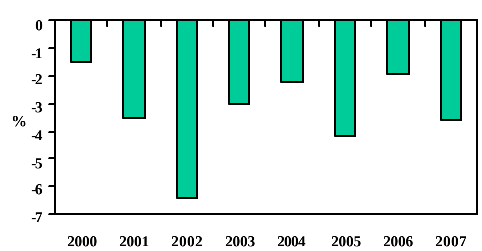
Changes in Commercial Banks' Credit to the Non-Financial Private Sector and Domestic Deposits



Fiscal Sector

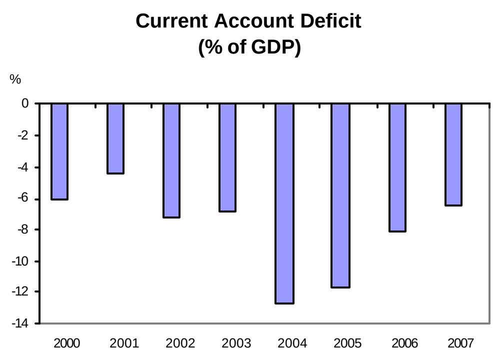
Total expenditure is estimated to have risen by 6.8% and total revenue by 5.5%. The fiscal deficit as a percentage of GDP therefore rose slightly. The deterioration in the fiscal position reflected a rise in current expenditure relative to a moderate increase in tax revenue.

Overall Fiscal Balance (% of GDP)

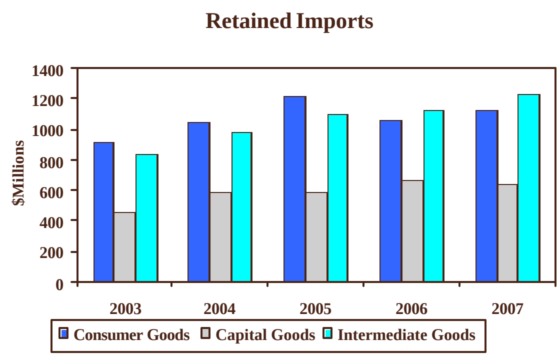


External Sector

The current account deficit improved for the third consecutive year in 2007. Robust growth in tourism receipts plus a marginal increase in domestic exports offset a moderate growth in retained imports. As a result, the external current account deficit fell to an estimated 6.6% of GDP in 2007, down from 8.1% of GDP in 2006.



After contracting by 1.5% in 2006, retained imports grew by 5.0% during 2007, compared to the annual average expansion of 13.5% during 2003 to 2005. Consumer goods imports increased by 6.0%, while imports of food and beverages grew by an estimated 8.7%, in contrast to a slight decline in 2006. In addition, imports of pharmaceuticals, motor vehicles and other manufactured goods rose by 13.7%, 11.0% and 9.1%, respectively. Spending on intermediate goods imports picked up by 9.4% in 2007, after increasing by 2.6% in 2006, owing to higher oil prices during the year. The value of imported fuel rose by an estimated 22.8%, in contrast to a decrease of 0.8% in 2006. Preliminary data indicate that higher outlays were also registered for iron and steel as well as cement, which went up by 19.0% and 28.0%, respectively, while payment for structural parts was down by 31.3%. Conversely, spending on capital goods fell by 3.8%, a turnaround from the 13.2% expansion one year earlier.



Domestic export of merchandise goods rose marginally in contrast to the 16.8% growth rate recorded in 2006, and recorded its 4th year of expansion. Despite robust growth in the export of food and beverages (33.5% or $33.6 million), domestic exports was significantly constrained by the combined effects of a sharp reduction in the sale of electronic components (40.6% or $15.3 million) and other manufactures (12.3% or $14.0 million). The strong outturn in the export of food and beverages was led by a $19.4 million expansion in the sale of rum overseas. In addition, the export of chemicals declined by $1.6 million, partly owing to a fire at one of the island leading chemical manufacturers.

Net receipts from the export of services rose by an estimated 12.6%, the fifth straight year of expansion, and principally because of the performance of tourism, which contributed to a 10.3% increase in travel receipts, reflecting an expansion in both cruise and long-stay tourist arrivals.

The capital and financial account recorded an estimated surplus of $879.4 million, approximately $252.6 million above the surplus in 2006. Net-long-term private sector inflows declined in 2007 to approximately $637.9 million, relative to $875.0 million reported during the previous year. These inflows were earmarked principally for tourism-related projects, the purchase of real estate, proceeds for the construction of the prison and portfolio investment in one of the island's leading conglomerates. Furthermore, short-term inflows were estimated at $33.9 million, in contrast to the outflow of $429.0 million in 2006, and largely reflected inflows of loan proceeds for the airport project and pre-shipment financing for the sugar harvest.

Net long-term public sector inflows were estimated at $49.7 million, compared to $96.2 million in 2006.

Outlook for 2008

The international environment will play a significant part in the performance of the Barbadian economy in the year ahead. In 2008, economic activity in Barbados is projected to grow between 3.0% and 3.5%, based on currently available information. These estimates are likely to be revised, depending on the magnitude and duration of the expected recession in the United States. Currently we are projecting for a downturn in the US economy. However, the impact on Barbados is likely to be greater if there is a recession which moves beyond the US, particularly if it involves Canada, Europe and the UK, particularly the latter.

The tourism industry should continue to improve albeit at a slower rate and a pick-up in the manufacturing sector is being projected. Broad based expansion is also expected to persist in the non-traded sectors. As a result of the increase in economic activity, the unemployment rate is predicted to remain in single digits. Inflation is expected to moderate further, especially if growth in international energy and commodity prices is constrained by the expected recession in the United States.

Competition for Caribbean tourism, as a result of the staging of the Olympics in China and the 2008 UEFA European Cup in Austria and Switzerland, coupled with an increasing import bill will quite likely cause the external current account to deteriorate relative to that of 2007. Foreign capital inflows are expected to go primarily towards the construction of large private sector projects. However, total capital inflows are projected to be weaker than in 2007 and the surplus is likely to be insufficient to offset the larger external current account deficit. Consequently, the NIR of the monetary authorities is projected to fall.

Liquidity in the banking system should remain high in 2008 as the rate of growth of deposits is projected to remain strong relative to the demand for credit.

The fiscal deficit is expected to grow, based on planned government expenditure and continued sluggish growth revenue. Given the high level of liquidity in the banking system it is anticipated that government will once more rely on domestic financing for its projects.

29 January 2008