

Review of the Economy for the First Three Months of 2004

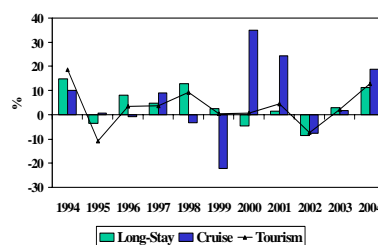
Overview

During the first three months of 2004, the Barbadian economy grew by approximately 4.2%, marking its eighth consecutive quarter of expansion. An estimated 7.1% increase in output in the traded sectors (mainly tourism) featured largely in this performance, but it was also supported by broad-based growth averaging around 3.0% in the non-traded sectors.

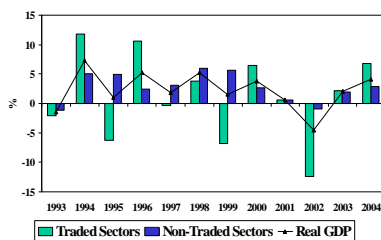
Sectoral Performance

Between January and March this year, the tourism sector expanded by an estimated 14.4%, the highest first-quarter growth rate in a decade.

Growth in Tourism Arrivals
(January – March)



Real GDP Growth Rate
(January – March)



Both long-stay and cruise tourism performed well, due in part to ongoing economic recovery in Barbados' main source markets. The sector also benefited from the continued use of Barbados' facilities as a homeport for cruise liners and

increased airlift capacity. In addition, the staging of the third Test match in the West Indies vs. England cricket series in Barbados during the first week of April provided an extra boost to arrivals at the end of the quarter.

Sugar production was down by 9.4% during the quarter because of a slightly late start in factory operations. Non-sugar agricultural production is also estimated to have fallen, primarily because of lower production of fresh milk and a decline in fish landings.

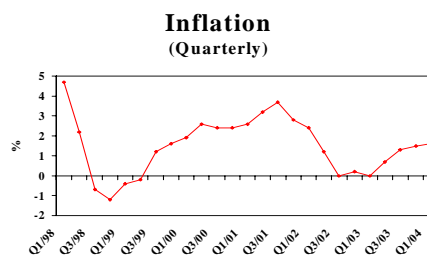
In manufacturing, real value-added continued to exhibit a downward trend. Production of processed foods and beverages and tobacco, which recorded strong growth in the first quarter of last year, contracted by an estimated 7% and 2%, respectively. In addition, output in the 'other manufacturing' category declined by around 4.5%. On the other hand, moderate increases were registered for chemicals and, to a lesser extent, non-metallic mineral products.

The wholesale and retail sector recorded robust growth of around

4.8%, which was directly related to the rise in demand resulting from the strong tourism outturn during the quarter.

Output in the construction industry increased by an estimated 3.3%, as work progressed on a number of public and private sector construction projects including the Hilton Hotel, the Airport expansion and the construction of office space in Warrens.

The average rate of inflation at the end of January was approximately 1.5%, in contrast to a year earlier, when the price level remained relatively unchanged. The food and transportation categories were responsible for most of the increase in prices.

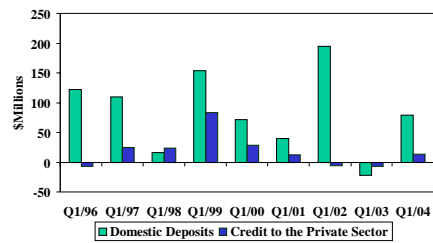


With the economy gaining momentum, domestic deposits rose by \$262.0 million (5.5%), compared

to a decline of \$22.4 million in the same quarter of 2003. The bulk of this deposit growth was due to non-financial private sector deposits, which increased by \$182.6 million. The deposits of financial institutions expanded by \$57.6 million and central government's deposits by \$17.6 million, while the deposits of statutory bodies grew by \$4.2 million.

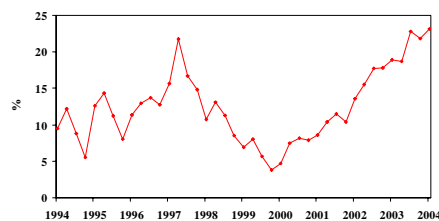
Credit to the non-financial private sector increased by about \$87.6 million (3.3%) over the quarter, following a \$6.0 million decline a year earlier, due mainly to take-over related lending and a loan to a statutory body. Personal lending rose by \$16.8 million, in contrast to a \$37.7 million reduction in the corresponding period of the previous year. Likewise, credit to the distributive sector rallied from an \$18.6 million contraction in the first quarter of 2003 to record growth of \$9.3 million. Moreover, credit to financial institutions, which had registered a \$99 million fall-off in the first three months of 2003, rose by \$5.6 million.

Growth in Domestic Deposits and Private Sector Credit
(January – March)



The excess liquidity ratio rose by 1.3 percentage points to end the quarter at 23.1%. However, discounting the 4 percentage-point reduction in the minimum securities requirement, which reclassified approximately \$200 million as excess liquidity, the effective excess liquidity ratio decreased marginally.

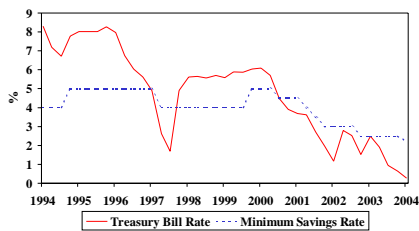
Excess Liquidity Ratio
(Quarterly)



Nevertheless, with the expansion of the deposit base continuing to outstrip credit growth, the loan/deposit ratio at the end of March was relatively unchanged at 51.5%, as compared to 52.0% at

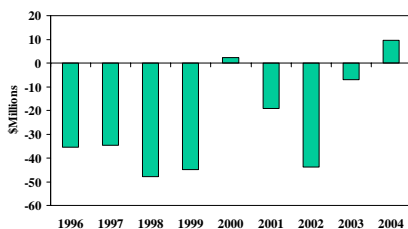
year-end 2003. The financial system therefore remained very liquid, resulting in continued high demand for treasury bills. Consequently, the treasury bill rate slid a further 0.36 of a percentage point to end the quarter at a record low of 0.28%.

Treasury Bill & Minimum Savings Rates (Quarterly)



During the period under review, Government recorded a surplus of approximately \$10.6 million on its fiscal operations, following a deficit of \$7.0 million in the comparable quarter of 2003. This was the first January-March surplus recorded since the year 2000.

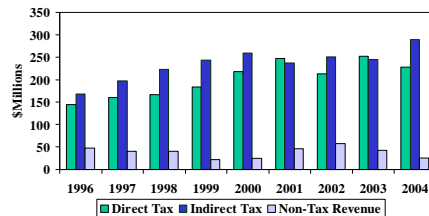
Overall Fiscal Balance (January – March)



On a fiscal-year basis, the deficit as a percentage of GDP was halved from 5.4% in FY2002/03 to 2.7% in FY2003/04.

Total tax revenue rose by approximately 4.0% during the review period, as an 18.0% increase in indirect tax collections was partially offset by a 9.5% decline in direct tax receipts. The reduced intake of direct taxes resulted from downward revisions to the personal and corporate tax rates and an increase in personal tax allowances. The rise in indirect taxes resulted from a sharp increase in collections of import duties and in Value Added Tax (VAT), in line with the strengthening in domestic demand. Increased motorcar imports also led to higher revenue from excise taxes.

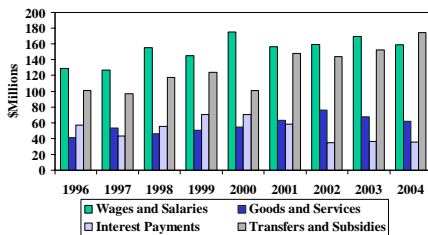
Total Revenue: Major Sources (January – March)



Total expenditure fell by 2.7% over the January to March period,

marking two consecutive declines in first-quarter spending. Current outlays increased marginally, as higher interest payments and transfers and subsidies outweighed reductions in expenditure on wages and salaries and goods and services. However, these declines and the rise in transfers and subsidies were partly due to the reclassification of the Queen Elizabeth Hospital's (QEH) expenses as transfers and subsidies.

Current Expenditure by Economic Classification



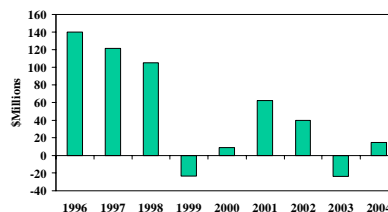
On-budget capital expenditure contracted by 16.3% in the first three months of 2004, as QEH capital expenses were reclassified as transfers and subsidies, while work ended or neared completion on a number of major projects.

With a surplus on its fiscal operations, government was a net

depositor with the Central Bank for the quarter. The funds on deposit amounted to \$100.3 million, contrasting with total borrowings from the commercial banking system (\$56 million), the National Insurance Service (\$15 million) and other miscellaneous lenders (\$22.7 million). A net outflow was recorded in respect of foreign financing, as inflows of \$20 million in project funds were eclipsed by amortisation payments of \$23.3 million.

The external current account surplus for the period was estimated at \$22.3 million, in contrast to the \$23.7 million deficit recorded a year earlier, as increased exports of services and slower growth in retained imports offset a decline in merchandise exports.

Current Account Balance (January – March)



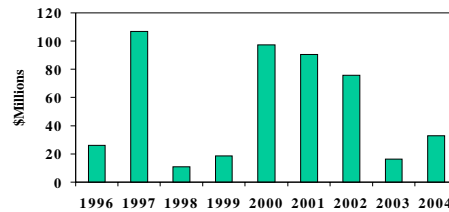
Domestic exports of goods fell by about 20.2%, as contractions were

recorded in most categories. However, net inflows from services exports rose by an estimated 18.2%, reflecting the excellent tourism performance over the period.

In addition, overall growth in retained imports decelerated from 16.1% in the first quarter of 2003 to an estimated 1.9% during the review period. However, imports of consumer goods such as food and beverages and motorcars recorded an increase of approximately 12.8%, spurred by the recovery in real economic activity.

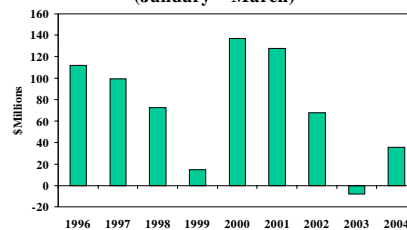
The surplus on the capital and financial account for the quarter ended March 31, 2004 was \$32.9 million, more than double that recorded a year earlier. However, this mainly reflected a large capital outflow at the beginning of 2003 for repayment of government guaranteed debt. Capital inflows between January and March 2004 were 26.4% lower than for the same period of 2003.

Capital and Financial Account
(January – March)



Although both the external current and capital accounts were in surplus, the net international reserves (NIR) rose by a modest \$35.6 million during the quarter, about half the average increase of comparable periods of 1994-2002. This was largely attributable to the fall-off in capital inflows, but it also reflected in part the strong growth in consumer goods imports.

Change in Net International Reserves
(January – March)



Outlook for the Rest of 2004

Continued expansion in the tourism sector is expected to provide the impetus for real GDP growth of between 2.5% and 3.0% in 2004. With the economy strengthening in

the coming months, more job opportunities are expected, while a slight increase in inflation is anticipated, on account of higher food and fuel prices.

The outlook for the year in both land-based and cruise tourism is promising, based on expectations of further increases in airlift and ongoing economic recovery in the major source markets. In addition, the reopening of the Hilton Hotel in the fourth quarter will contribute to an expansion of the available room stock.

Manufacturing is likely to remain sluggish throughout the year, but agricultural production should recover by year-end.

The Airport expansion, Government's road rehabilitation projects and the planned redevelopment of Kensington Oval are expected to support growth in construction. At the same time, the distribution sector stands to gain from greater consumer demand resulting from the tourism outturn, as well as the increase in consumers'

disposable income due to the recent tax reform.

The projections for tourism augur well for the external current account balance, which may show a reduced deficit for 2004. However, expectations of a continued fall-off in long-term capital inflows and further growth in retained imports increase the likelihood that the NIR will decline over the course of the year.

Credit is expected to rise in response to lower interest rates. Nevertheless, this is not likely to absorb a significant amount of the liquidity in the system and consequently the current high level of excess liquidity is expected to persist throughout 2004.

A higher intake of indirect tax revenue from VAT, excise taxes and import duties is also expected. This, along with reduced capital expenditure, should lead to a further narrowing of the fiscal deficit.

27/04/2004