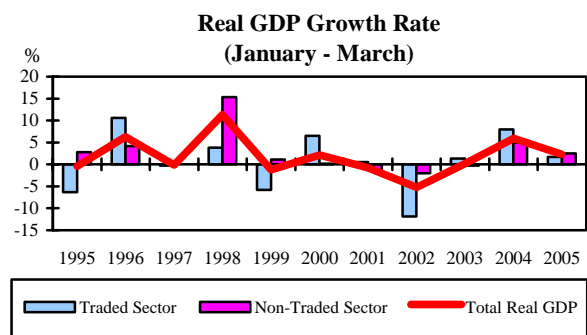


Review of the Economy For the First Three Months of 2005

Overview

Real economic activity increased by an estimated 2.3% during the first quarter of 2005, compared to 7.1% in the same period of 2004. The expansion in the economy was driven primarily by growth in the non-traded sectors, particularly wholesale and retail trade and the transportation, storage and communications sub-sectors. Overall, the non-traded sectors grew by an estimated 2.5%, while the expansion in traded sector output was estimated at 1.8%. Increases in economic activity, credit and disposable income led to strong growth in imports and the external current account recorded a deficit for the second year in succession. Yet there were higher receipts of private net long-term capital, which helped to compensate for the

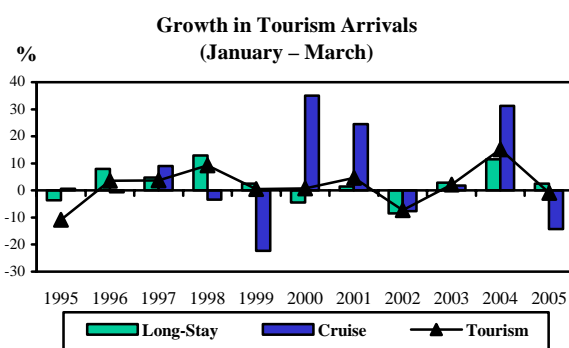
weak external current account and the net international reserves (NIR) increased by an estimated \$25.7 million. Faced with declining indirect tax revenues as well as tax reform initiatives, central government registered a deficit of \$10.4 million on its operations.



The rate of inflation at the end of December 2004 was slightly below the rate at the end of December in the previous year, while the average rate of unemployment at the end of December 2004 fell by 1.2 percentage points to 9.8%.

Sectoral Performance

In the first three months of 2005, real value-added in the tourism industry is estimated to have fallen by just under one percentage point, in contrast to a substantial expansion of 21.9% in the corresponding period of 2004 when tourism activity was boosted by the influx of visitors for the Third Test between England and the West Indies. Preliminary estimates for the January to February period indicate that cruise passenger arrivals contracted by 20.5%, while long-stay arrivals rose by 2.1%. During the first two months of the year, arrivals from the UK were up by 5.6%, reflecting in part the increased airlift capacity out of Manchester. Visitors from CARICOM increased by 10.2%, while persons travelling from the US grew by 1.6%. In contrast, arrivals from Canada fell by 18.4%, following the reduction of airlift out of that market.



Sugar production in the first quarter of 2005 totalled approximately 14,000 tonnes, up from the 8,862 tonnes produced in the corresponding period of 2004 when there was a delay in the start of the crop. Conversely, output of non-sugar agriculture is estimated to have registered a moderate decline, primarily the result of the continued contraction in milk production, as well as lower fish landings.

Manufacturing output rose by an estimated 1.8% in the first quarter of 2005. Expansions, primarily in food processing, beverages and tobacco exceeded the reductions in output of chemicals, electronics and wooden furniture.

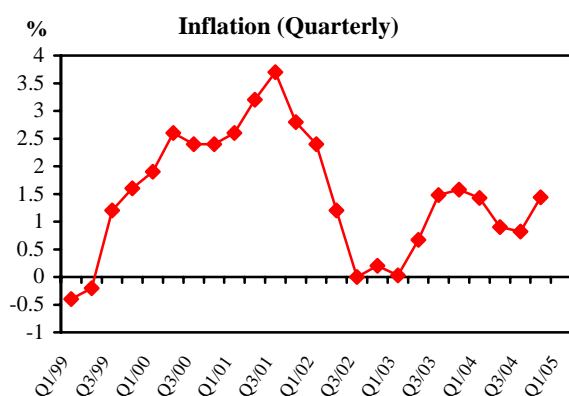
Construction activity increased by an estimated 1.6% in the first three months of the year, in contrast to a marginal decline in the same period of 2004.

With higher levels of disposable incomes, following the reduction of the personal income tax rate, and increased personal allowances the wholesale and retail industry recorded growth of around 3%, while output in the transportation, storage and communications sub-sector

rose by 3.8%, mainly on account of the continued expansion in retained imports.

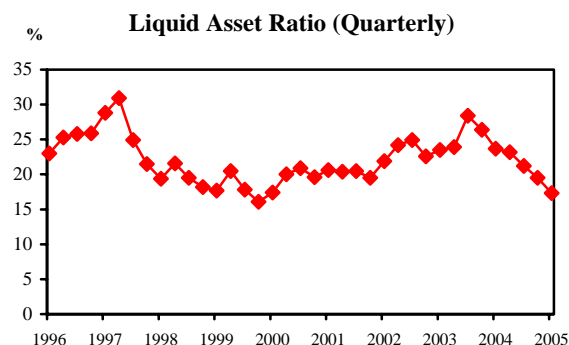
The average rate of unemployment for 2004 was 9.8%, or 1.2 percentage points lower than the rate in 2003. The average unemployment rate for females fell by 2.0 percentage points to 10.6%, while the rate for males was 9.0%, less than one percentage point below the rate in 2003.

At the end of December 2004, the average rate of inflation was estimated at 1.4%, compared to 1.6% in the corresponding period of 2003. Higher prices were registered for food, medical and personal care as well as transportation.

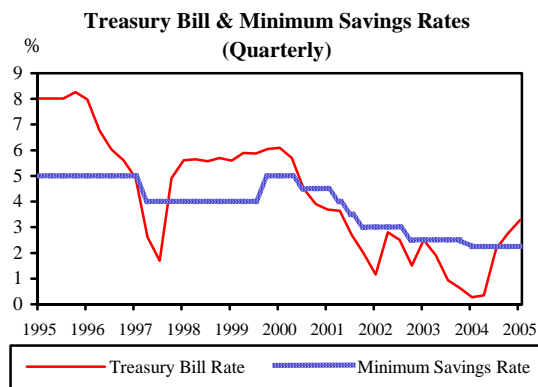


Liquidity in the banking system declined during the review period as a result of a continued high level of aggregate demand and slow growth in domestic deposits. Excess cash in the banking

system fell from \$152.0 million at the end of December 2004 to \$67.0 million at March 30, 2005. Consequently, the liquid asset ratio contracted by 2.2 percentage points to 17.3%.



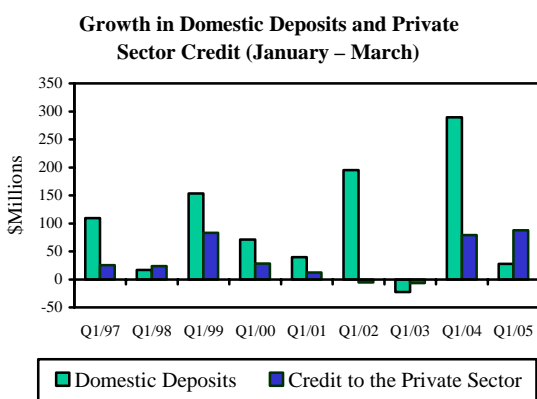
With the tightening of liquidity in the banking system, the average rate on 3-month treasury bills advanced from 2.76% at the end of 2004 to 3.28% at the end of the review period.



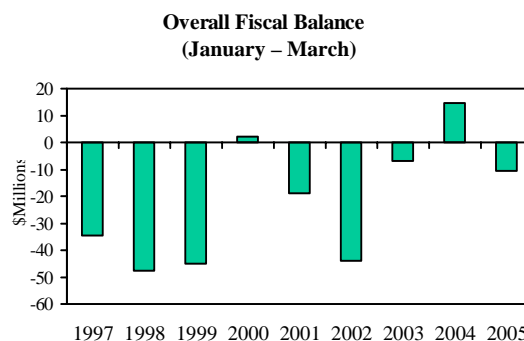
Domestic deposits increased by approximately 0.5% or \$26.6 million for the first quarter of this year, relative to deposit growth of 6% or \$289.2 million in the comparable period of 2004. Central Government and statutory bodies boosted their deposits by \$35.9

million and \$19.1 million, respectively. In contrast, deposits of financial institutions declined by \$51.1 million.

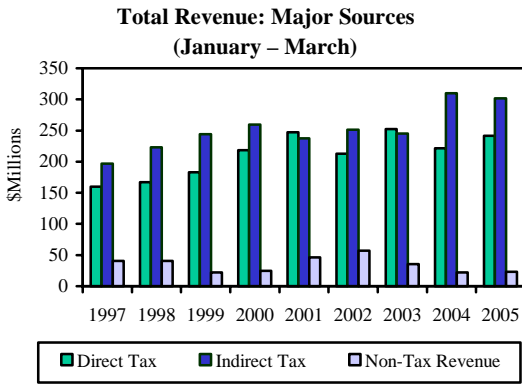
Credit to the non-financial private sector increased by about \$88.0 million over the quarter, following growth of \$79.3 million in the corresponding period of 2004. Lending to the personal and distribution sectors rose by \$62.2 million and \$20.8 million, respectively. In addition, borrowings by the financial sector increased by \$24.8 million.



During the period under review, Government recorded a deficit of approximately \$10.4 million, in contrast to a surplus of \$14.6 million in the comparable quarter of 2004.



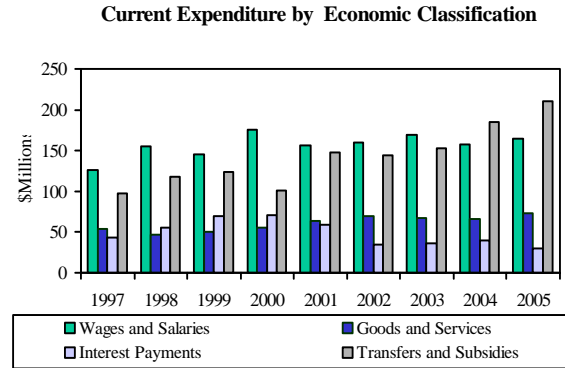
Total revenue rose by 2.7%, as the expansion in direct taxes exceeded the reduction in indirect tax receipts. Direct taxes increased by approximately 9.1%, after a decline of 12.2% in the similar period one year ago, principally as a result of a sharp rise in corporate tax intake. Despite a change in the corporate tax rate from 36% to 33% at the beginning of 2004, corporate tax receipts expanded by 35.1%, as a result of increased profitability of companies in 2004 and the collection of arrears. In contrast, personal taxes fell by 7.7%, reflective of the downward revision of the personal tax rate from 40% to 37.5% on outstanding taxable income in excess of \$24,200 as well as the increase in personal allowances from \$17,500 to \$20,000.



Indirect tax collections dipped by an estimated 2.6%, largely on account of a 3.6% contraction in value-added tax (VAT) receipts and a 9.9% fall in receipts from import duties. Excise taxes expanded by 23.7%, almost half the amount in the similar period of 2004, as consumer import demand slowed.

Total expenditure of Government is estimated to have risen by 7.5% during the review period, in contrast to a decline of just under 1% one year ago. Current expenditure grew by 7.0%, reflective of higher outlays of 14.1% (\$31 million) and 11.5% (\$7.6 million), for transfers and subsidies and goods and services, respectively. Additional payments to the Barbados Tourism Authority, Transport Board, and the University of the West Indies were responsible for the increase in transfers and subsidies. On the contrary, interest payments contracted by 23.8% (\$9.5 million) on account of lower external

outlays. Capital expenditure increased by 11.2% following the commencement of operations related to Cricket World Cup 2007.

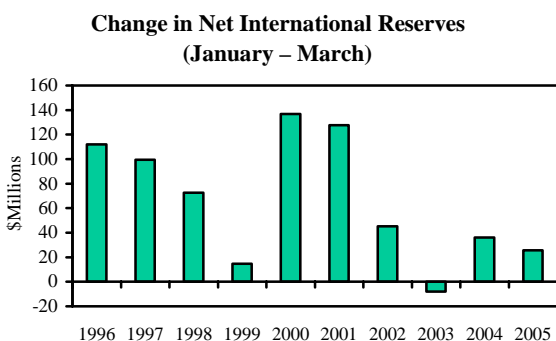


The deficit for the quarter was financed primarily from domestic sources. Net domestic financing was estimated at \$23.4 million, with commercial banks and the National Insurance Scheme expanding their holdings of government securities by \$53.0 million and \$15.0 million, respectively. However, Government's net position at the Central Bank was -\$84.9 million, as it repaid the Ways and Means and increased its deposits. In contrast, net foreign financing was \$13.0 million lower, as the \$23 million in amortisation payments was partially offset by project fund inflows of \$10.0 million.

At the close of the fiscal year ending March 2005, the fiscal deficit was estimated at \$150.3 million or 2.7% of GDP, compared to \$130.1 million or

2.5% of GDP a year ago. Total revenue advanced by 1.9% to \$1,910.9 million, while total expenditure increased by 2.8% to \$2,061.2 million.

For the first three months of 2005, the NIR rose by an estimated \$25.7 million, lower than the expansion of \$36 million registered in the similar period of 2004 and the average first-quarter growth of \$68.2 million from 1999 to 2003. The poor performance of the NIR during the quarter was largely attributed to the continued expansion in retained imports and the lacklustre performance of the tourism sector. At the end of the quarter, the outstanding funds invested overseas as second-tier reserves declined by \$14.8 million to \$168.6 million.



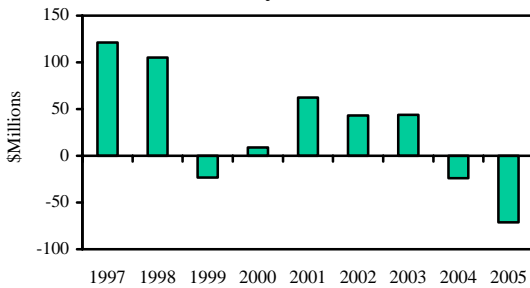
Retained imports grew by approximately 12.1% over the first three-month period of 2005, after expansions of 16.1% and 18.1% during similar periods in 2003 and 2004, respectively. As a result, the

external current account deficit widened to \$71.3 million, approximately \$47.3 million more than the deficit in the corresponding period of 2004.

For the first two months of 2005, imports of consumer goods grew by 11.7% as an increase of 12.0% in food and beverages outweighed a marginal decline of 5.7% in motorcar imports. Capital goods imports increased by 15.4%, while imports of intermediate goods rose by 18.2%, mainly reflecting an upturn in purchases of construction materials.

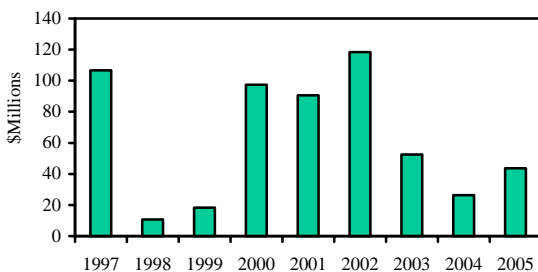
Domestic exports expanded by an estimated 16.9% (\$10.9 million) in contrast to a decline of 13.9% (\$10.4 million) one year ago. For the first two months of 2005 exports of chemicals grew by 70.8% (\$4.2 million), while exports of food and beverages expanded by 26.0% (\$2.4 million) as rum receipts more than doubled. In contrast, exports of electronic components contracted by 9.7% (\$4.8 million). Net receipts from services increased by 1.7%, on account of marginally higher tourist expenditure.

**Current Account Balance
(January – March)**



During the first quarter of 2005, the capital and financial account registered a surplus of \$43.6 million, an improvement over the surplus of \$26.4 million in the corresponding period of 2004. Private net long-term capital and financial inflows, which were mainly for real estate projects and portfolio investment, amounted to approximately \$47.1 million. Net long-term public sector outflows were reduced to \$13.9 million, the result of a decline in debt service payments.

**Capital and Financial Account
(January – March)**



Outlook for the rest of 2005

Real GDP is forecasted to expand by between 2.0% and 3.0% in 2005, with the main impetus being the non-traded sectors.

Real tourism value-added is predicted to increase by around 2% for the year with the reopening of the Hilton Hotel expected to contribute to the expansion in tourist arrivals.

Sugar production in 2005 is projected to be higher than in 2004, owing to more favourable weather conditions. It is also expected that earnings could surpass those of 2004 if the euro/dollar rate remains favourable. In addition, the overall performance of the agricultural industry is likely to improve in 2005. Moreover, the incentives provided by Government in December 2004 should stimulate activity within the industry.

Real value-added in construction is projected to benefit from new housing and industrial projects, as well as the country's preparation for the Cricket World Cup in 2007. Similarly, output in the wholesale and retail industry should continue to expand on account of

growth in the tourism industry and further increases in disposable income.

Retail price inflation is projected to be above the rate registered at the end of December 2004, due primarily to the effect of persistently high energy prices in 2004.

The fiscal deficit is estimated to be approximately 2.7% of GDP during the year. Total revenue is likely to be propelled by greater indirect tax receipts, primarily VAT and import duties. The upturn in indirect tax receipts should offset the expected contraction in direct tax revenue owing to current tax reform initiatives. A higher intake of tax revenue is expected to be overshadowed by an upswing in expenditure. The growth in expenditure will be a direct result of a build-up in capital outlays, due in part to the implementation of the plans for World Cup 2007.

Domestic deposits are likely to increase further, owing to the expansion in economic activity as well as the reduction in both personal and corporate tax rates. Credit growth is anticipated to be driven by the demand for residential and industrial mortgages. However, the demand for credit may continue to exceed deposit growth and liquidity should continue to tighten.

The NIR is expected to decline during the year, given the expected rise in aggregate demand arising from the increase in disposable incomes anticipated from the reduction in the personal tax rate, the expansion in personal allowances and negotiated salary increases. The Central Bank has begun to institute policies to help dampen credit demand and stimulate savings.

April 26, 2005