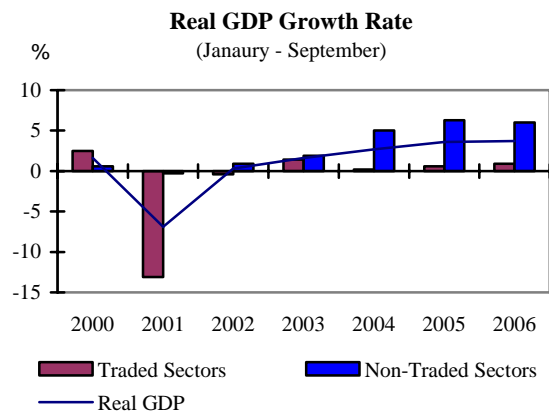


Review of the Economy for the First Nine Months of 2006

Overview

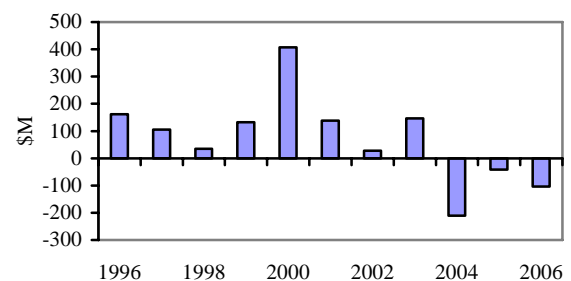
Real economic activity in Barbados grew by 3.7% for the first nine months of 2006, virtually on par with the expansion in the corresponding period of 2005. As has been the trend since the fourth quarter of 2003, the rise in real output was driven mainly by solid growth in the non-traded sectors, with traded sector output remaining sluggish.



Despite a 6.0% increase in the output of the non-traded sectors, retained imports contracted compared to the first nine months of 2005, which, along with higher travel credits and domestic exports, curbed the persistent decline in the external current

account balance. Nevertheless, the credible performance of the external capital and financial account was insufficient to prevent a \$103.7 million decrease in the net international reserves (NIR) of the monetary authorities during the review period.

Change in Net International Reserves
(January - September)



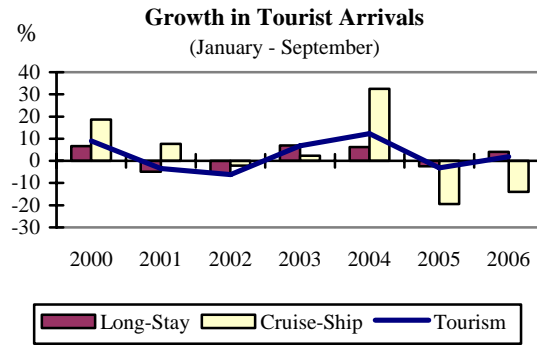
Although the estimated fall-off in retained imports was facilitated by a reduction in the rate of increase in credit to the non-financial private sector, the rate of expansion in domestic deposits continued to trail behind that of credit, and liquidity conditions during the first nine months of the year remained tight.

Nonetheless, the Central Government turned to domestic sources to finance the January-

September fiscal deficit estimated at roughly half that of the corresponding period of 2005. This improvement reflected higher tax revenue and a slowdown in the rate of growth of total expenditure.

Real Sector

During the first three quarters of 2006, there was an increase in real tourism output (1.9% compared to a decline of 3.1% in the same period of 2005), as the rebound in long-stay arrivals outweighed the decline in cruise passenger arrivals. Buoyed by the broad-based recovery of all source markets, long-stay tourist arrivals rose by an estimated 4.1%, a significant turnaround over the 2.4% decrease recorded for the comparable period of 2005. Data for the first nine months of the year suggest that arrivals from the United Kingdom, the United States of America and Canada returned to pre-2005 levels, growing by 4.7%, 3.0% and 6.8% respectively, in contrast to contractions of 8.3%, 0.8% and 10.2% in the corresponding period of 2005. Arrivals from CARICOM continued to be strong, led by a 15.3% expansion in visitors out of Trinidad and Tobago, while the number of German tourists grew by 12.4%.



The cruise industry continued to struggle, with passenger arrivals contracting by 11.6% during the January to September period on top of a near 20% reduction in the first nine months of the previous year. This performance is the result of a continuation of the challenges faced by the industry in recent times, namely: the shorter itineraries offered by some cruise lines in the face of the high fuel costs and a lower number of ship calls to Barbados by some larger cruise vessels.

Value-added from the sugar industry fell by an estimated 12.0% or 4,590 tonnes during the review period, compared to growth of 11.3% in the first nine months of 2005, owing to reduced acreage planted and lower yields. The non-sugar agriculture and fishing sector remained sluggish for the January-September period of 2006. During 2006, the sector has been plagued by supply constraints in the milk production sub-sector and a reduction in fish catches, the combined effects of which outweighed

moderate growth in chicken production. The production of other meat products increased by 11.9% during the first nine months of the year compared to 7.2% in the corresponding period of 2005.

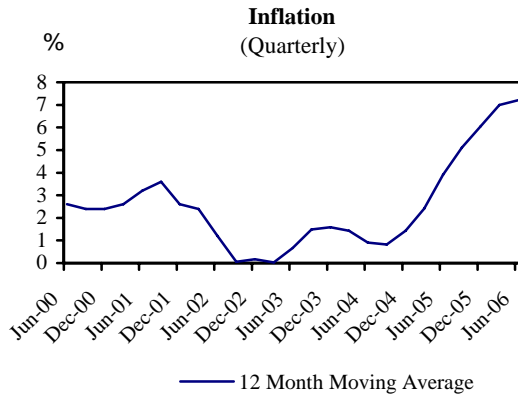
Activity within the manufacturing sector moderated, slowing from 3.4% over the first three quarters of 2005 to 2.8% during the same period of 2006. Nonetheless, this year marked the fifth consecutive nine-month expansion in the output of this sector and the sixth consecutive quarterly increase. Growth was led mainly by higher production of chemicals, wooden furniture and other non-metallic products, while beverage production, the main driver of the expansion in manufacturing in recent times, contracted.

The output of the non-traded sectors continued to be led by strong growth in the construction, utilities and transportation, storage and communications sectors. During the first nine months of 2006, the construction sector grew by 9.5%, on top of a rise of 15.7% in the corresponding period of 2005, reflecting continued preparations for Cricket World Cup 2007 and various private residential and public infrastructural projects. As a result of this activity, electricity, gas and water production as well as the output of the transportation, storage and communications sector both rose by an estimated 8.0%.

Robust growth was also registered in the wholesale and retail and business and other services sectors; however, the real value-added of the mining and quarrying sector was sluggish due to an estimated fall-off in mining output.

During the first six months of 2006, some 224 new licences were awarded to international business and financial services firms, compared to 218 in the corresponding period of 2005. Of the new licences, 180 were issued for international business companies, 40 to societies with restricted liability and 4 to exempt insurance companies. No new licences were granted to offshore banks during the first half of 2005 or 2006.

The increased economic activity spurred a reduction in the average level of unemployment for the first six months of the year, as the average unemployment rate fell by 0.7 percentage points to 8.8%. The average unemployment rate for males remained virtually unchanged at 7.6% while the average rate for females reached 10.0%, a decrease of 1.5 percentage points. The main job-creating sectors were manufacturing, wholesale and retail, tourism and government services.

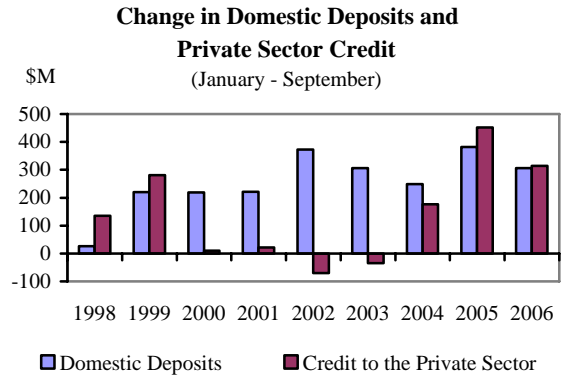


The moving average rate of inflation increased by 3.3 percentage points to 7.2% at the end of June 2006, reflecting broad-based increases in most product categories. Food, transportation, housing and fuel and light prices rose by 6.5%, 10.3% and 12.8%, respectively, while there was a 7.8% decline in the prices of clothing and footwear.

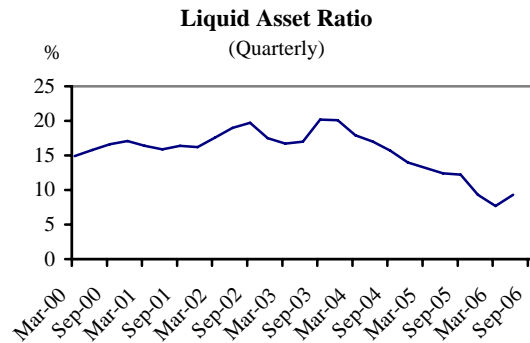
Financial Sector

During the first nine months of 2006, the rate of growth in credit to the non-financial private sector slowed from 13.7% in 2005 to approximately 8.3%, mainly due to the monetary and fiscal initiatives implemented throughout 2005. Nonetheless, personal lending continued to increase at a rapid rate, growing by 13.1% during the review period, as the demand for new residential mortgages continued unabated. Lending to the distributive sector and private financial institutions grew by 8.9% and 6.9%, respectively, compared to 19.3% and 25.3% in the similar period of 2005. Loans to

statutory bodies, on the other hand, rose by 13.5%, a turnaround from the decrease of 11.8% recorded over the first three quarters of 2005.

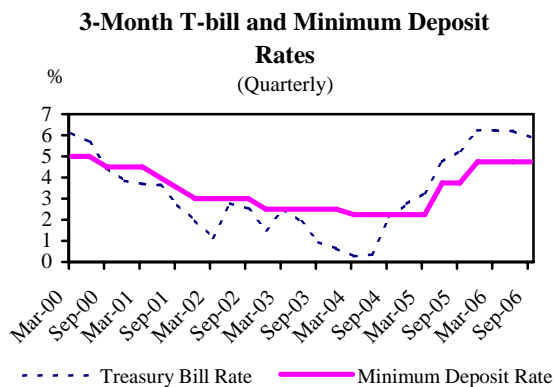


Growth in domestic deposits also slowed during the first nine months of the year, with a rate of growth of 5.2%, compared to 7.3% in the corresponding period of 2005. This outturn predominantly reflected a contraction in the deposits of Central Government.



As a result of credit growth persistently surpassing that of deposits, liquidity conditions in the banking system remained tight during the review period. As at September 27, 2006, the excess liquidity

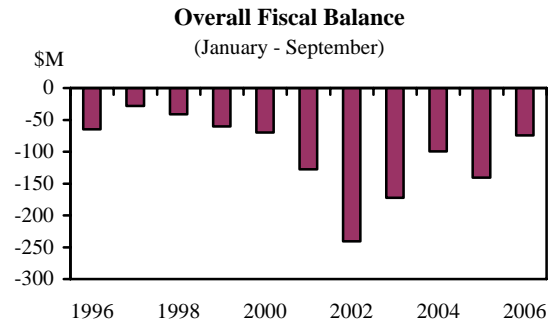
ratio was 9.4%, a reduction of 3.3 percentage points from the figure registered at the end of 2005, though higher than the 8.2% reported at the end of the first quarter of 2006. The average discount rate on 3-month treasury bills was 5.91% as at September 27, 2006 while the 6-month rate was 6.03%, following rates of 6.26% and 5.33%, respectively, at the end of 2005.



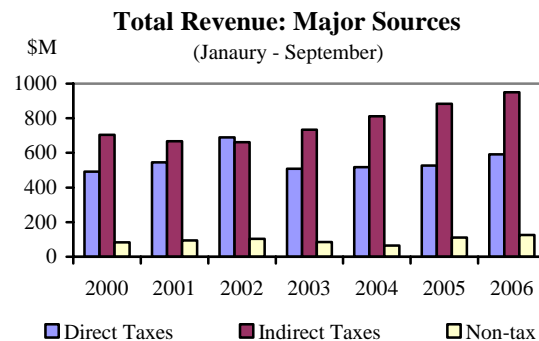
Public Sector¹

Preliminary estimates for the first nine months of the year indicate that central government operations yielded a fiscal deficit of \$74.2 million, an improvement on the \$140.8 million deficit recorded in the same period of 2005. This outcome mainly resulted from a strong first quarter performance as the second and third quarters were roughly on par with the previous year.

¹ Figures do not include off-budget expenditure.



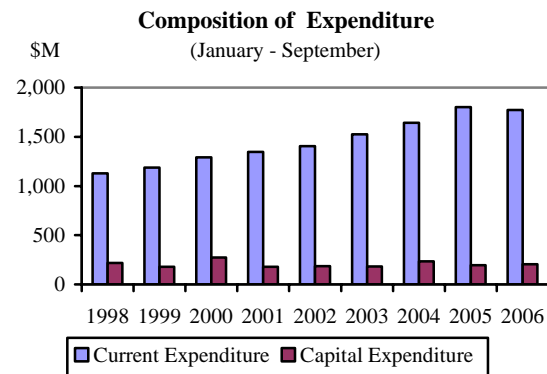
Tax receipts during the review period increased by an estimated 9.3%, compared to 5.9% during the same period of 2005, predominantly due to a rebound in direct tax receipts, which were up by approximately 12.2%, after a mere 1.6% increase last year. This recovery reflected the halt in the decline of personal tax receipts that had persisted for the last three years and continued strong corporate tax receipts – especially from the international business and financial services sector. In addition, there was an increase in property tax receipts as a result of property revaluations, greater compliance and a wider tax base.



Indirect tax receipts continued to show solid growth, rising by an estimated 7.6% during the January-September period of 2006 compared to an 8.6% expansion in the corresponding period of 2005. As has been the case in recent times, VAT receipts accounted for a large proportion of this increase, surging by approximately 13.7% over the first nine months of the year, nearly doubling the rate posted in 2005. This year's outcome, however, also took into account tax prepayments that were made at the end of 2005 but registered in the first quarter of 2006. Excise tax collections rose by around 8.8%, a deceleration from the rate of 16.4% experienced in 2005, while import duties are estimated to have declined by 9.0% during the first three quarters, a reversal of the 5.5% increase in the similar period of 2005.

Total government expenditure during the first nine months of 2006 expanded by 4.7%, less than half the rate of increase reported in 2005 when government spending rose by 11.1%. This outturn mainly reflected the deceleration in expenditure for goods and services from the pace of 17.8% in the first three quarters of 2005 to 1.6% in the same period of 2006, while wages and salaries increased by 4.3% compared to 4.4% in 2005. The rate of growth of interest payments, on the other hand, more than doubled during the review period, as a result of higher external as well as domestic debt

payments. In addition, transfers and subsidies were 4.5% higher than in 2005, on account of additional payments that were made to the Barbados Tourism Authority and the University of the West Indies. On-budget capital expenditure expanded by an estimated 26.3%, nearly double the rate of growth in the same period of the previous year, reflecting increased spending associated with preparations for the Cricket World Cup 2007.



Financing for government operations was provided primarily by domestic sources during the January-September period of 2006. The Central Bank lent approximately \$131.1 million, the highest level of lending by the Bank since 2002. Private non-bank institutions and the National Insurance Scheme contributed an estimated \$87.8 million and \$30.0 million, respectively, while divestment proceeds from the sale of the Insurance Corporation of Barbados added another \$31.4 million. Commercial bank lending to government, on the other hand, declined by \$12.5 million during the

first three quarters of the year, as commercial banks continued to liquidate their holdings of government securities. Despite the receipt of project funds valued at \$36.8 million, there were net foreign outflows of \$35.8 million, due to amortisation payments of roughly \$72.7 million during the period.

External Sector

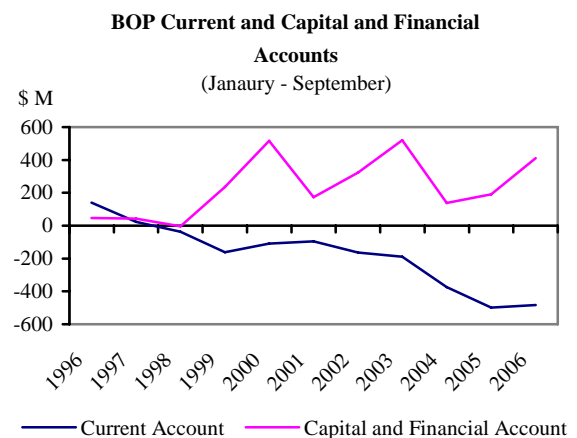
During the January-September months of 2006, the external current account deficit moved from \$499.2 million to an estimated \$483.0 million, as a result of a contraction in the level of retained imports coupled with higher domestic exports and travel credits.

Retained imports declined by an estimated 1.2% over the first three quarters of 2006, compared to growth rates of 14.4% and 14.1% in 2004 and 2005, respectively. Indeed, the January-September period of 2006 marks the first time since 2002 that the level of retained imports has fallen during the first nine months. Specifically, consumer goods imports, one of the largest import categories, fell by 11.9% on account of declining imports of motorcars, food and beverages and miscellaneous manufactured goods.

Following the 18.4% surge in the first nine months of 2005, the value of imports of intermediate goods for the same period of

2006 remained virtually unchanged. Capital goods imports, on the other hand, expanded by 16.8% compared to 2.0% in the first three quarters of 2005, owing to an increase in machinery imports.

Domestic exports rose by an estimated 16.9% during the January-September period of 2006, slightly below the rate of 17.5% posted in the same period of 2005. Leading export categories so far for 2006 included electronic components, chemicals and other miscellaneous exports, which grew by an estimated 45.7%, 7.4% and 45.8%, respectively. Stemming from the rebound in tourism activity and higher prices, travel credits went up by 9.2%, compared with only marginal growth in 2005.



Preliminary estimates suggest that the surplus on the external capital and financial account more than doubled over the first nine months of 2006 when compared to the corresponding period of the previous year. Net long-term public capital outflows were

approximately \$29.2 million lower and marks the third consecutive year that the public sector has reduced its net foreign outflows over the January-September period. Long-term private sector inflows, on the other hand, have remained on par with the same nine-month period of 2005, while short-term inflows almost doubled as a result of pre-shipment financing for the sugar harvest and some inflows related to the construction of the prison.

Outlook

The Barbadian economy is forecasted to grow by between 3.5% and 4.0% in 2006, propelled by the continued strong expansion in the non-traded sectors. In particular, construction activity, transportation, storage and communications services, wholesale and retail trade and business and other services should underpin the growth in the non-traded sectors in the lead-up to the Cricket World Cup in 2007. Traded sector activity is expected to pick-up on account of higher projected tourist arrivals, especially in the first half of 2007.

Based on these expectations, the average rate of unemployment should remain below 10% for the remainder of 2006 and into 2007. Inflationary pressures are also expected to ease somewhat, though this assumption hinges on the continued

moderation of international oil prices as predicted by global analysts.

Nonetheless, even with a forecasted slowdown in credit growth, the elevated price levels may hamper deposit accumulation, keeping the rate of growth of deposits below that of credit. Consequently, liquidity conditions should remain constrained, though the rapid tightening observed since 2004 is not anticipated in the short- to medium-term.

Despite the increased demand associated with Cricket World Cup 2007, which should place some upward pressure on the level of imports, growth in retained imports is forecasted to remain below the 6.7% averaged for the last five years. Domestic exports are forecasted to grow at a moderate pace while travel credits should grow in line with tourist arrivals. Consequently, the external current account deficit as a percentage of GDP should hover around 11.7%, marginally below the 11.9% recorded in 2005.

The capital and financial account is expected to remain buoyant in 2006. However, the significant reserve outflows experienced in the second quarter, in particular, would be difficult to recoup by the end of the year; therefore, a net reserve loss is anticipated in 2006. The situation is forecasted to improve

in the first half of 2007, however, boosted by earnings related to the hosting of the Cricket World Cup.

In the short- to medium-term, therefore, the import cover should continue to decline, especially in light of higher projected debt service payments. Despite increased interest payments, however, the growth in government current expenditure is expected to moderate. Coupled with higher tax collections, the fiscal deficit should contract in 2006 and the first half of 2007.