

Eastern Caribbean Central Bank



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EASTERN CARIBBEAN CENTRAL BANK

PARTICIPATING GOVERNMENTS

Anguilla
Antigua and Barbuda
Dominica
Grenada
Montserrat
St Kitts and Nevis
St Lucia
St Vincent and the Grenadines

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The ECCB welcomes your questions and comments on this publication.

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REGIONAL ECONOMY

Overview

Economic activity in the Eastern Caribbean Currency Union is estimated to have increased in the first quarter of 2005, albeit at a rate below that in the corresponding period of 2004. The expansion was driven by growth in tourism and construction activity. Output in the agricultural sector declined, as banana and sugar production fell. Consumer prices rose in most member countries, reflecting the impact of rising international oil prices. The combined overall fiscal deficit of the central governments widened, reflecting an increase in capital outlays. In the banking sector, monetary liabilities increased and liquidity remained high, while interest rates fell slightly. In the external sector the merchandise trade deficit is estimated to have widened.

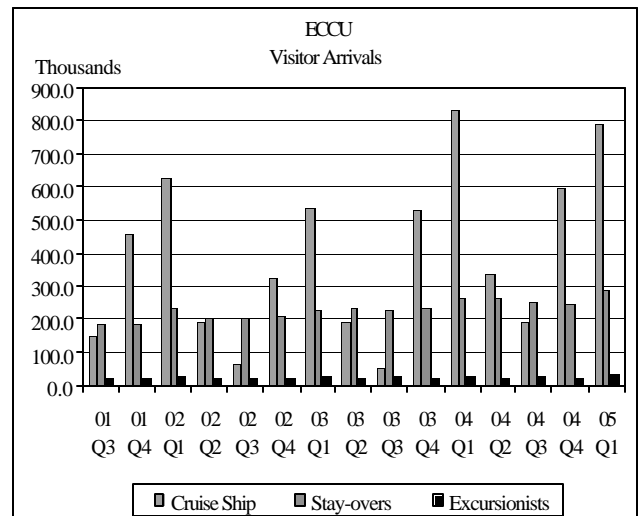
The outlook for the second half of 2005 is favourable. Growth in economic activity is projected, underpinned by an expansion in construction. Work on some ongoing projects are expected to intensify and new projects are scheduled to start in the second half of 2005. The number of visitors is projected to surpass that of 2004, as a result of increased marketing and airlift and assuming favourable economic conditions in the major markets. However, the growth in stayover arrivals is likely to be below the rate of increase in the second half of 2004. The overall fiscal deficit of the central government is projected to widen, based on larger capital expenditure. Increased imports of construction related materials, rising oil prices and a likely fall in domestic export receipts are expected to contribute to a widening of the merchandise trade deficit.

The projections are, however, subject to downside risks. These include, adverse weather, particularly

hurricanes, as well as rising geopolitical tensions and oil prices which can dampen growth in the global economy and the ECCU. High and rising international oil prices are also expected to have an adverse effect on consumer prices in the ECCU member countries.

Output and Prices

In the tourism industry, the number of stay-over visitors grew by 7.2 per cent to 282,961 in the first quarter of 2005 compared with that in the corresponding period of 2004. All the ECCU countries, except Montserrat and Grenada, reported growth in stay-over arrivals. Rates ranged from 1.2 per cent in Antigua and Barbuda to 31.0 per cent in St Vincent and the Grenadines.



Growth was recorded in stay-over visitors from all the major markets except the UK, which showed a 2.3 per cent decline. Arrivals from the USA, which accounted for 39.6 per cent of total stay-over visitors, rose by 8.6 per cent. Arrivals from Canada and the Caribbean grew by 11.7 per cent and 14.4 per cent respectively. The increase in stay-over arrivals is attributed to marketing and other promotional efforts

by the member countries, increases in airlift and the improved performance in the economies of some major markets. The number of excursionists and yacht passengers rose by 13.9 per cent and 11.9 per cent respectively. However, cruise ship passengers arrivals fell by 5.1 per cent to 788,576 in contrast to growth of 54.8 per cent recorded in the first quarter of 2004, reflecting a decline in the number of cruise ship calls. As a consequence the total number of visitors to the ECCU countries fell by 1.2 per cent to 1.1m compared with that in the corresponding period of 2004.

Activity in the construction sector is estimated to have expanded in the period under review compared with the level in the corresponding period of 2004. The focus of activity in the quarter under review was on post hurricane reconstruction work in Grenada, road rehabilitation and construction of hotel and other tourism rehabilitation and construction of hotel and other tourism related facilities, an international nursing school, commercial buildings and private residential properties.

Output in the agricultural sector is estimated to have declined in the quarter under review, attributed to a 39.4 per cent fall in banana production to 14,753 tonnes. This outturn contrasts with the performance in the first quarter of 2004 when banana production increased by 38.3 per cent. The decline in the quarter under review reflects the lagged effects of damage to crops in Grenada, St Lucia and St Vincent and the Grenadines by hurricane Ivan in September 2004, and the presence of leaf spot disease in St Lucia. Of the other traditional crops, decreases in output were recorded for sugar cane as a result of a fall in acreage under cultivation and for cocoa, nutmeg and mace in Grenada, attributed to the hurricane.

Output in the manufacturing sector is estimated to have declined in the quarter under review relative to the level in the corresponding period of 2004. St Kitts

and Nevis reported a 57.1 per cent decline in sugar production, reflecting the fall in sugar cane output. Production of manufactured goods in Grenada fell substantially due to hurricane damage in September 2004. In St Vincent and the Grenadines output of beer increased, while decreases were recorded in production of rice and flour.

Data on consumer prices for the ECCU member countries (excluding Antigua and Barbuda) show increases in all member countries, except Montserrat, during the first quarter of 2005. Increases ranged from 0.1 per cent in Anguilla and Grenada to 2.0 per cent in St Kitts and Nevis. Higher international oil prices contributed in part to the rise in consumer prices.

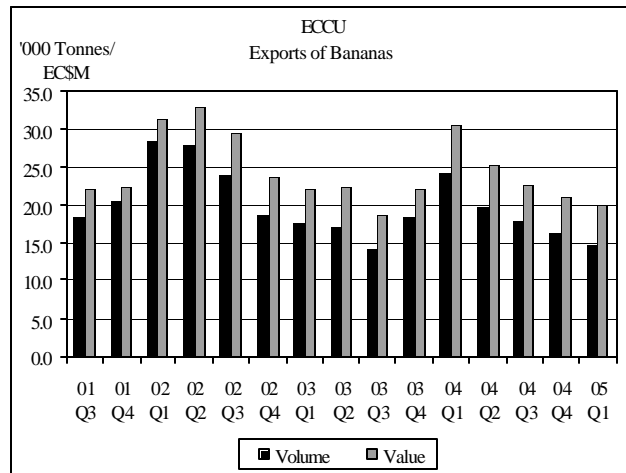
Trade and Payments

The merchandise trade deficit is estimated to have widened, as import payments increased while the value of exports declined. Provisional data for the ECCU (excluding Antigua and Barbuda for which data are unavailable) indicate that the value of imports grew by 18.4 per cent, associated in part with the expansion in economic activity and the increase in oil prices. The value of exports declined by 23.1 per cent, reflecting a fall in domestic exports attributed to decreases in the volume exported. Banana export earnings fell by 34.7 per cent to \$19.9m. Decreases were also recorded in export receipts rose by 6.7 per cent to \$863.1m, consistent with the increase in the number of stay-over visitors. External interest payments by the central governments declined by 26.6 per cent to \$43.0m, reflecting debt restructuring by some member governments.

Net disbursements to the central governments amounted to \$22.8m; in the first quarter of 2004 these were substantial, partly associated with inflows of official bond proceeds to the government of Grenada.



Commercial bank transactions resulted in a net outflow of \$314.3m in short term capital, compared with one of \$190.6m one year earlier.

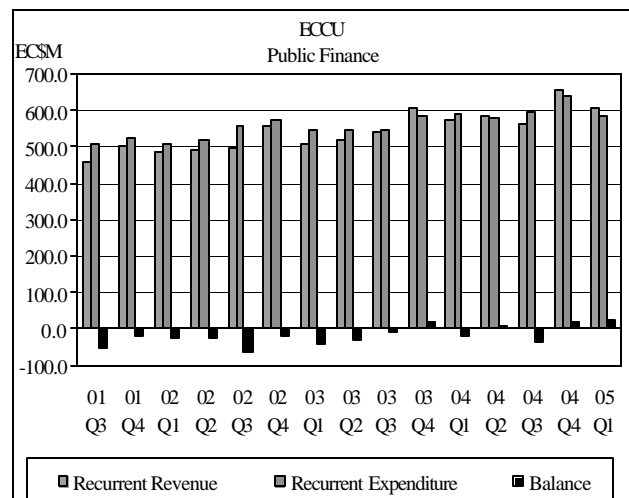


Central Government Fiscal Operations

The combined fiscal position of the central governments show an overall deficit of \$107.2m in the first quarter of 2005 compared with one of \$58.6m in the corresponding period of 2004. The widening of the deficit was influenced by strong growth in capital expenditure. Capital outlays grew by 85.4 per cent, reflecting increases in all countries except Dominica and Montserrat. Major capital projects in the quarter under review included post hurricane Ivan rehabilitation in Grenada, road works in Antigua and Barbuda, St Lucia and St Vincent and the Grenadines and airport expansion in Anguilla. Capital grants increased by 20.5 per cent, associated with the post hurricane Ivan recovery in Grenada. The primary balance shifted to a deficit of \$35.1m from a surplus of \$33.0m in the first quarter of 2004, reflecting the increase in capital expenditure.

The operations of the central governments resulted in a current account surplus of \$21.9m, in contrast to a

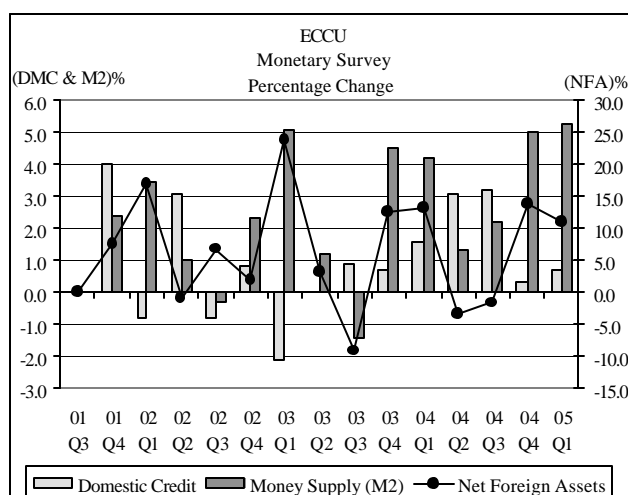
deficit of \$17.8m in the first quarter of 2004. This performance was the result of an increase in current revenue (6.7 per cent) and a decline in current expenditure (0.3 per cent). The growth in revenue stemmed in part from improvements in tax collections and compliance, particularly for income tax. Collections from taxes on income and profits rose by 24.9 per cent, largely reflecting a higher level of receipts from company tax. Revenue from taxes on international trade and transactions increased by 11.2 per cent, reflecting the growth in import payments. Receipts from taxes on domestic goods and services fell by 4.4 per cent, attributed to a decrease in revenue from licences; in the first quarter of 2004 there was a one-off windfall increase in collections from licences in St Lucia, associated with the collection of arrears.



The decline in current expenditure stemmed mainly from a 21.4 per cent fall in interest payments, largely external payments. Reductions in interest payments were recorded for Antigua and Barbuda, Dominica and Grenada as a result of debt restructuring. Outlays on personal emoluments rose by 1.6 per cent, reflecting salary increases in St Kitts and Nevis and St Vincent and the Grenadines in 2004. Expenditure on goods and services rose by 6.0 per cent.

Money and Credit

Total monetary liabilities (M2) expanded by 5.3 per cent to \$8,805.5m during the first quarter of 2005, influenced in part by the increase in economic activity. Narrow money (M1) grew by 6.0 per cent, reflecting a 9.4 per cent increase in private sector demand deposits. Currency with the public was 3.9 per cent below the level at the end of 2004, as cash holdings fell following the end of the Christmas season. Quasi money rose by 5.1 per cent, reflecting increases in private sector foreign currency deposits (12.2 per cent) and private sector savings deposits (5.0 per cent). Time deposits, which accounted for 25.0 per cent of quasi money, grew by 0.4 per cent.

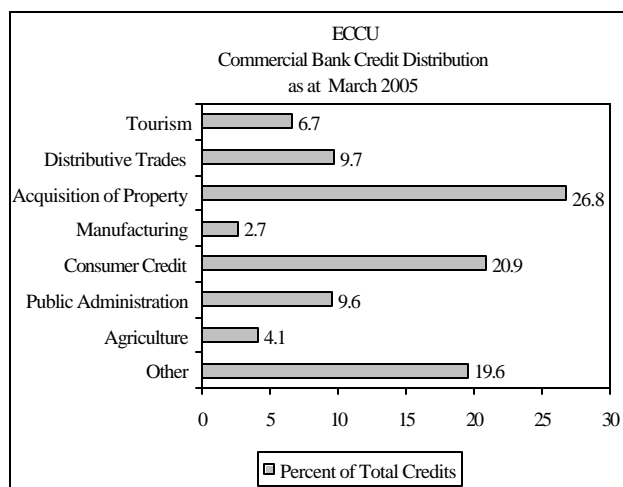


Domestic credit rose by 0.7 per cent to \$6,393.9m, partly attributed to growth in private sector outstanding credit (0.7 per cent). Of private sector credit, outstanding loans to households rose by 2.3 per cent, while credit to business entities declined by 1.4 per cent. Net credit to the non-bank financial enterprises increased by 2.6 per cent.

The net indebtedness of the central governments rose by 0.9 per cent. Credit to the central governments from the banking system increased by 4.8 per cent. Government deposits with the Central Bank increased

by 55.2 per cent (\$55.4m), reflecting the proceeds of a Treasury bill issued on the Regional Government Securities Market (RGSM) by the government of St Lucia. In the rest of the public sector the net credit of the non-financial public enterprises declined by 8.2 per cent.

The distribution of credit by economic activity show that outstanding loans for personal use, largely for home construction and renovations, increased by 4.2 per cent. Increases in outstanding credit were also recorded for agriculture and fisheries (5.4 per cent) and construction (5.9 per cent). Credit for tourism related activities fell by 3.2 per cent.



The net foreign assets of the banking system grew by 11.0 per cent to \$3,199.8m during the quarter under review. An increase of 26.7 per cent was recorded in commercial banks net foreign assets, reflective of strong growth in Anguilla, Antigua and Barbuda and St Kitts and Nevis and St Lucia partly associated with higher inflows of foreign direct investment funds. The Central Bank's net foreign assets increased by 0.2 per cent to \$1.7 billion.

Commercial bank liquidity remained at a high level during the quarter under review. The ratio of liquid assets to total deposits plus liquid liabilities edged up



by 0.5 percentage point to 38.8 per cent, reflecting an increase in liquid assets. The ratio of loans and advances to total deposits fell by 1.6 percentage points to 68.2 per cent.

Interest rates remained generally stable during the period under review except for those on 3-month time deposits, and 6-month to one-year time deposits which fell by 0.5 percentage point and 1.0 percentage point respectively.

Prospects

Economic activity in 2005 is projected to expand based on current trends and prospects for the remainder of the year. The growth will be driven largely by construction and tourism activity.

Construction activity is expected to be buoyed by ongoing tourism related investment projects, road rehabilitation and by preparations for Cricket World Cup 2007. Other public sector projects include housing in Montserrat, post hurricane re-building in Grenada, and schools and a hospital in St Lucia. Private sector activity is expected to focus on hotels in Antigua and Barbuda and St Lucia. Other tourism related projects include golf course development in Anguilla and villas in St Kitts and Nevis and St Lucia.

The number of stay-over visitors is expected to surpass that of 2004. Intense marketing and promotion, expansion in and improvements to hotel room facilities as well as an increase in airlift from the major source markets are expected to contribute to the growth in stay-over visitors. Following strong growth in 2004,

cruise ship passenger arrivals are projected to decline in 2005 as fewer ships are scheduled to visit.

Output in the agricultural sector is projected to decline. This projection is based on a fall in banana production, attributable to the lagged effect of hurricane Ivan on production in Grenada, St Lucia and St Vincent and the Grenadines and the effects of leaf spot disease in St Lucia. Production of sugar cane is projected to decline as acreage under cultivation decreases. Cocoa and nutmeg production is expected to contract due to damage to crops by hurricane Ivan.

The current fiscal operations of the central governments are projected to strengthen, as growth in revenue is expected to increase based on an expansion in economic activity, ongoing improvements in tax administration and new revenue measures, particularly in Antigua and Barbuda. Growth in capital expenditure is projected, reflecting the expected increase in public sector construction activity. The increase in capital expenditure is likely to result in a widening of the overall fiscal deficit in 2005.

The merchandise trade deficit is projected to widen based on an increase in import payments as a result of the expansion in economic activity and a rise in oil prices on the international market. Gross travel inflows are expected to increase, consistent with the growth in visitor arrivals. Inflows of grants are projected to be larger reflecting the reconstruction efforts in Grenada coupled with the inflows to finance public sector construction projects in some of the other member countries.



ANGUILLA

Overview

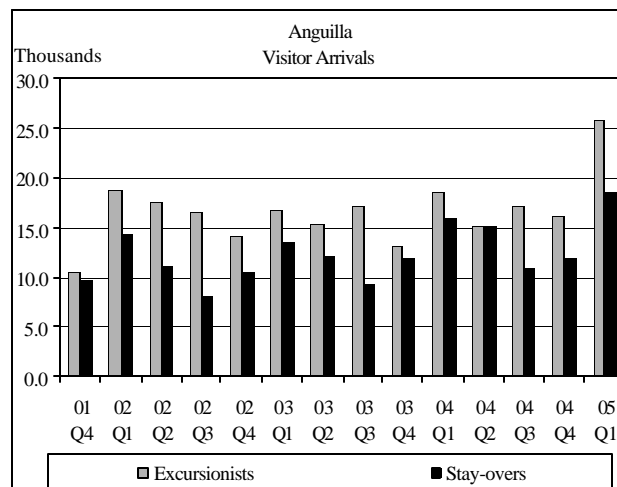
Economic activity in the first quarter of 2005 is estimated to have expanded compared with the performance in the corresponding period of 2004. The expansion was led by increased activity in tourism and construction. Consumer prices increased by 0.1 per cent during the quarter under review. The merchandise trade deficit widened, largely associated with an increase in import payments. The central government recorded an overall deficit in contrast to a surplus in the first quarter of 2004. Developments in the banking system were characterised by strong growth in net foreign assets and a high level of commercial bank liquidity.

Economic activity is projected to increase for the remainder of 2005, based on expected developments in the construction sector and the tourism industry. However, a shortage of construction labour could delay the start of some projects.

Output and Prices

Total visitor arrivals grew by 28.5 per cent to 44,388 in the quarter under review compared with the number in the corresponding period of 2004. Based on first quarter comparisons this is the largest number of visitors recorded in ten years. Intense marketing, including promotional partnerships with travel agents and travel writers, and an increase in airlift following the reopening of the airport with extended runway in December 2004 contributed to the growth. Stay-over visitor arrivals rose by 16.5 per cent to 18,635, reflecting increases from all the major markets. Arrivals from the USA market, which accounted for 73.6 per cent of total stay-overs, increased by 18.7 per cent. The number of

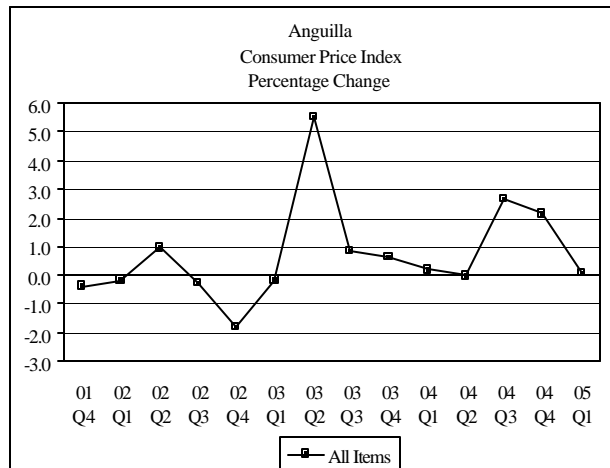
visitors from the Caribbean and the UK grew by 73.7 per cent and 31.9 per cent respectively. The number of excursionists rose by 38.9 per cent to 25,753.



Performance in the construction sector is estimated to have improved, influenced by private sector construction activity, which focussed on a hotel and 18-hole golf course to be opened in November 2005. Private sector residential construction activity is estimated to have increased marginally, based on growth of 0.9 per cent in commercial bank credit for home construction and renovation. Ongoing road development was the focus of public sector activity in the quarter under review.

The consumer price index rose by 0.1 per cent during the quarter ended March 2005. The sub-indices "housing" and "transport and communications" rose by 0.2 per cent and 0.1 per cent respectively. These increases were tempered by declines in the sub-indices "food" (0.5 per cent) and "household furnishings and equipment" (1.1 per cent).





Trade and Payments

The merchandise trade deficit rose by 42.5 per cent to \$71.1m in the first quarter of 2005 compared with the deficit in the corresponding quarter of 2004, largely as a result of an increase in import payments. The major contributors to the growth in imports were food products, furniture and building materials including wood, cement, aluminium and steel products. Outlays on capital goods increased by 85.6 per cent to \$20.8m, associated with various public and private sector developments. Import of primary goods grew by 37.3 per cent.

Gross inflows from travel are estimated at \$72.0m, or 31.8 per cent above the total recorded in the first quarter of 2004, reflective of the growth in visitor arrivals. Commercial bank transactions resulted in a net outflow of \$127.6m compared with one of \$52.4m in the corresponding period of 2004.

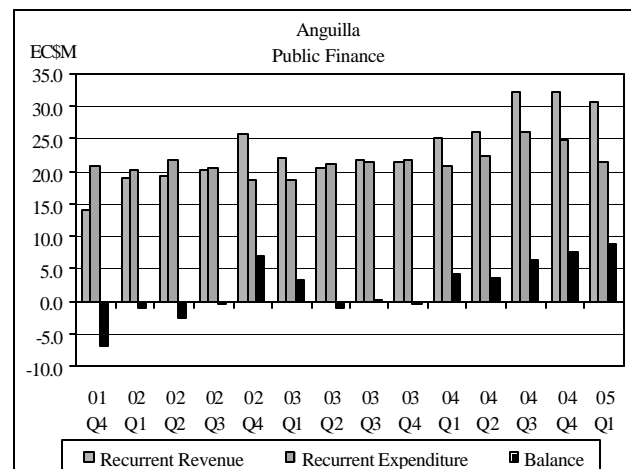
Central Government Fiscal Operations

The fiscal operations of the central government resulted in an overall deficit of \$7.6m in the first quarter of 2005, in contrast to a \$1.0m surplus recorded in the corresponding quarter of 2004. This performance was

influenced by an increase in capital expenditure. A current account surplus of \$9.0m was recorded compared with one of \$4.2m in the first quarter of 2004.

Current revenue amounted to \$30.4m in the quarter under review, representing a 20.6 per cent increase on collections in the corresponding quarter of 2004. The growth in current revenue can be traced to increases in receipts from taxes on international trade and transactions (23.5 per cent) and taxes on domestic goods and services (14.8 per cent). Collections from import duties rose by 33.6 per cent, reflective of the expansion in imports. Of taxes on domestic goods and services, revenue from the accommodation tax amounted to \$5.3m, marginally above the total in the first quarter of 2004. Receipts from stamp duties declined, in contrast to strong growth in 2004 associated with the sale of several acres of land and large residential properties. Non-tax revenue rose by 28.3 per cent to \$5.3m.

Current expenditure increased by 1.8 per cent to \$21.3m in the first quarter of 2005 compared with the total in the corresponding period of 2004. Expenditure on personal emoluments rose by 6.1 per cent (\$0.5m). This increase was partly offset by a 6.9 per cent decrease in payments for goods and services, reflective of the government's efforts to contain expenditure.



Capital expenditure is estimated at \$16.6m in the period under review, well above the total of \$3.3m recorded in the corresponding period of 2004. The increase was mainly associated with road development.

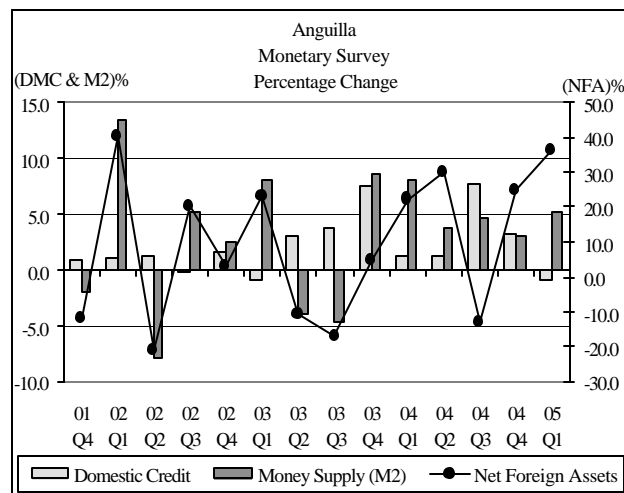
Money and Credit

Monetary liabilities (M2) grew by 5.1 per cent to \$746.1m, partly attributable to the expansion in economic activity. The growth in M2 was reflected in a 5.8 per cent increase to \$723.5m in quasi money. Private sector foreign currency deposits, which accounted for 82.3 per cent of quasi money, rose by 6.1 per cent supported by growth in visitor expenditure and inflows of investment funds for tourism related projects. Increases were also recorded in private sector time deposits (6.8 per cent) and savings deposits (2.7 per cent). Narrow money (M1) declined by 13.4 per cent (\$3.5m), attributable to decreases in both currency with the public and private sector demand deposits.

Domestic credit fell by 1.0 per cent to \$546.8m, in contrast to the 1.2 per cent increase in the comparative period of 2004. The decrease reflected a reduction of 1.3 per cent in outstanding loans to the private sector, mainly business entities, as credit to households increased by 2.6 per cent. Net credit to the central government rose by 29.5 per cent to \$47.5m, reflecting increased borrowing to finance the capital expenditure programme. Central government’s borrowings from the banking system grew by 20.1 per cent, while its deposits decreased by 9.8 per cent.

A review of credit by economic activity revealed that outstanding loans for construction increased by 7.8 per cent, while declines were recorded in credit for agriculture and fisheries (4.1 per cent), manufacturing (2.7 per cent), tourism (3.2 per cent) and distributive trades (0.5 per cent). Outstanding loans for personal use rose by 0.9 per cent during the period under review.

The net foreign assets of the banking sector increased by 36.3 per cent to \$474.5m during the quarter under review, partly associated with inflows of investment funds for tourism related projects and larger inflows from travel. Commercial banks' net foreign assets rose by 49.9 per cent to \$383.3m, reflecting growth of 46.5 per cent in assets held with banks and other institutions outside the currency union. Anguilla's imputed share of the reserves held at the Central Bank declined by 1.4 per cent to \$91.2m.



Liquidity in the commercial banking system increased during the first quarter of 2005. This was evidenced by a rise in the ratio of liquid assets to total deposits plus liquid liabilities from 49.3 per cent at the end of December 2004 to 61.2 per cent at the end of March 2005. The loans and advances to total deposits ratio decreased by 2.6 percentage points to 63.5 per cent. Interest rates remained stable during the period under review. The rates on time deposits ranged from 1.0 per cent to 8.0 per cent, and those on savings deposits from 3.0 per cent to 4.0 per cent. Prime lending rates ranged from 10.0 per cent to 12.0 per cent.



Prospects

Economic activity is projected to expand in 2005 based on developments in the tourism industry and construction sector. Tourist arrivals are projected to increase as a result of the re-opening of the airport, intense marketing and the likely favourable economic conditions in the major markets. Construction activity is projected to expand, as work on the hotel and golf course is expected to intensify.

On the fiscal accounts, current revenue is projected to be above the level in 2004, based on the expansion in economic activity. Current expenditure is projected

to increase, largely due to higher outlays on personal emoluments associated with increases in salaries and in civil service employment.

On the external accounts, the merchandise trade deficit is projected to widen due to an increase in imports associated with the expansion in tourism and construction activity. Growth in net inflows from travel is expected, attributable to the increase in visitor arrivals. However, there are some downside risks to the projections for 2005. These include unfavourable weather and rising oil prices that can adversely affect economic activity, consumer prices and the merchandise trade balance.



ANTIGUA AND BARBUDA

Overview

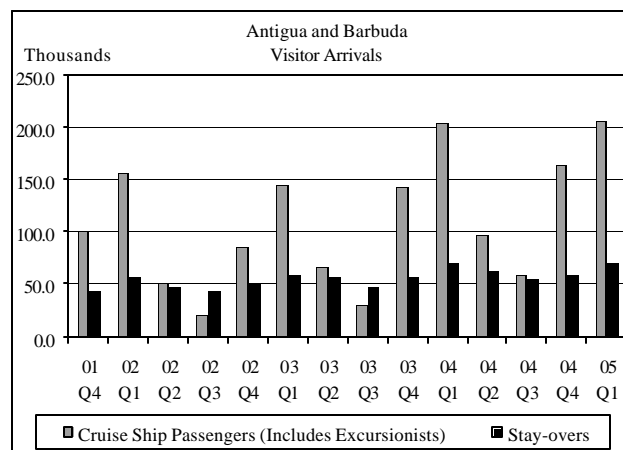
Economic activity in Antigua and Barbuda is estimated to have expanded marginally in the first quarter of 2005 relative to the performance in the corresponding period of 2004. Growth was led by tourism and construction activity. The consumer price index declined by 1.5 per cent during the period under review. The central government's fiscal operations resulted in a larger overall deficit, primarily reflecting an increase in capital expenditure. Interest rates were generally stable and commercial bank liquidity remained high.

For the remainder of 2005 output is projected to increase, with tourism and construction fuelling the expansion. This outlook is contingent on favourable developments in the economies of the major tourism markets. On the central government's fiscal accounts, a smaller overall deficit is expected as a result of new revenue and expenditure measures.

Output

Provisional data for the first three months of 2005 indicate that activity in the tourism industry increased, albeit at a slower pace than the level in the corresponding period of 2004. The number of stay-over visitors rose by 1.2 per cent to 69,857, down from the 18.8 per cent rate of growth recorded in the first quarter of 2004. The breakdown of visitors by market source shows that arrivals from Canada accounted for the largest increase (15.1 per cent). Lower rates of growth were recorded in the number of stay-over visitors from some countries in Western Europe, particularly Germany and France. Increased marketing in Canada and Western Europe contributed to growth in arrivals from those destinations. These increases were partly offset by

declines in arrivals from the two major markets the USA (3.9 per cent) and the UK (0.5 per cent).



The number of cruise ship passengers totalled 206,368 in the first three months of 2005. This represented an increase of 1.7 per cent, compared with that in the first quarter of 2004. The number of cruise ship calls rose by 2.5 per cent to 161.

Activity in the construction sector was above the level in the first quarter of 2004. In the private sector, work intensified on refurbishing and expanding a major hotel and continued on a hotel, four business complexes, the parliament building and residential properties. Public sector activity focussed on a road development project in Barbuda, a fisheries complex, a cricket stadium and a new public library.

Trade and Payments

Complete trade statistics are not available for the first quarter of 2005. The available data on cargo throughput show that the volume of imports rose by 6.2 per cent, in contrast to a decline of 3.9 per cent in the first quarter of 2004. The growth in the volume of imports was largely attributed to a higher level of



imports of fuel and vehicles. The volume of exports grew by 33.0 per cent, primarily reflecting the re-export of fuel.

Gross travel receipts are estimated to have increased by 1.2 per cent to \$237.2m relative to the total recorded in the corresponding period of 2004, consistent with the growth in visitor arrivals. Commercial bank transactions resulted in a net outflow of \$90.6m in contrast to a net inflow of \$14.9m in the first quarter of 2004. Inflows of grants, associated with central government's projects, were estimated at \$5.8m compared with \$0.3m in the first quarter of 2004.

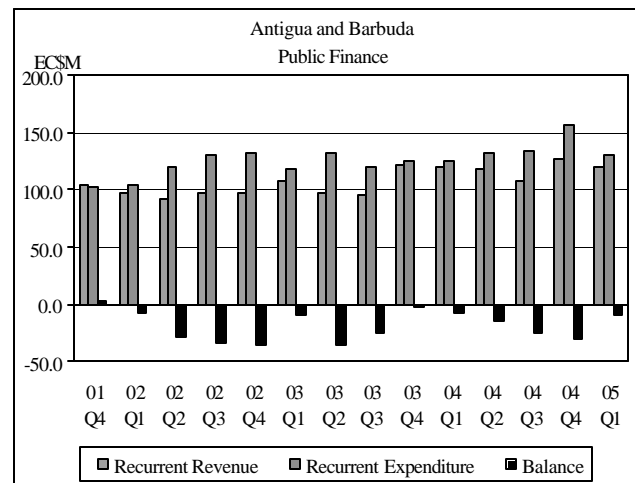
Central Government Fiscal Operations

Preliminary data on the fiscal operations of the central government show that an overall deficit of \$21.1m was recorded in the first quarter of 2005, compared with one of \$11.5m in the first three months of 2004. The larger overall deficit was attributed to an increase in capital expenditure and a widening of the current account deficit. A current account deficit of \$10.1m was recorded compared with one of \$6.4m in 2004. The overall deficit was largely financed by the accumulation of external arrears.

Capital expenditure more than doubled to \$18.6m at the end of March 2005. The increase was primarily associated with a fisheries project and work on drains and roads, particularly road development in Barbuda.

The widening of the current account deficit was the result of faster growth in expenditure relative to the increase in revenue. Current expenditure is estimated to have increased by 3.4 per cent to \$130.3m, driven by larger outlays on transfers and subsidies (34.3 per cent) and goods and services (14.5 per cent). The growth in expenditure on transfers and subsidies was associated with an increase in the minimum level of

pension from \$500 to \$750 and the transfer of funds to a new public corporation. Insurance premium payments on government buildings, and additional office furniture and equipment contributed to the larger outlays on goods and services. Expenditure on personal emoluments increased by 1.2 per cent. Those increases were partly offset by a 24.9 per cent decline in interest payments. External interest obligations fell by 26.1 per cent, attributable to debt forgiveness by two creditors at the end of 2004. Domestic interest payments decreased by 23.3 per cent; in the first quarter of 2004 interest payments had risen as some arrears were settled.



Current revenue rose by 0.5 per cent to \$120.3m compared with the total in the first quarter of 2004. The yield from taxes on international trade and transactions grew by 6.9 per cent, driven by increased collections from import duty (27.1 per cent) and the customs service charge (20.9 per cent), reflecting to some extent an improvement in tax administration. These increases were partly offset by a 6.6 per cent decline in revenue from the consumption tax. Higher international oil prices contributed to the fall in collections of consumption tax, as the government absorbed some of the increases in prices of gasoline and diesel on the domestic market.

Revenue from taxes on domestic goods and services rose by 1.5 per cent, reflecting increased receipts from the hotel and guest tax. Of the other taxes, declines were recorded in revenue from the property tax and taxes on income and profits.

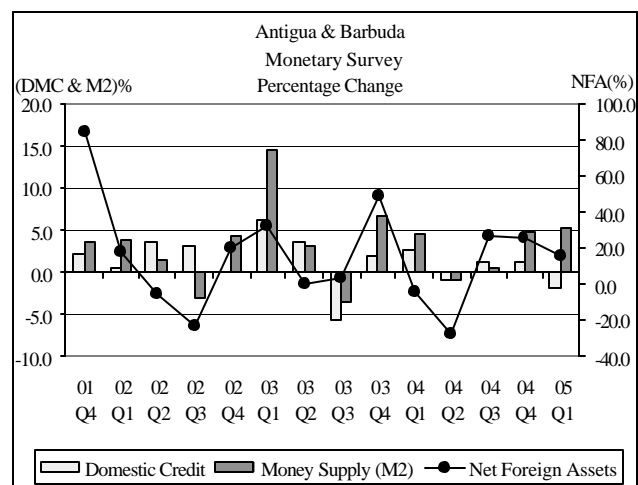
Money and Credit

Monetary liabilities (M2) grew by 5.4 per cent to \$2,150.6m during the first quarter of 2005 compared with the total at the end of December 2004. Narrow money (M1) rose by 14.2 per cent, reflecting a 20.5 per cent increase in demand deposits, associated with the inflow of funds to two private companies. The increase was partially offset by a 4.2 per cent decline in currency with the public. Quasi money rose by 2.9 per cent, reflecting increases in savings deposits (6.4 per cent) and foreign currency deposits (2.7 per cent). Time deposits fell by 0.1 per cent, continuing the downward trend observed over the past four quarters.

Domestic credit contracted by 2.0 per cent to \$1,525.1m, partly influenced by a decline in lending to the private sector, mainly to business entities. Credit to the non-financial enterprises increased by 2.4 per cent and deposits grew by 5.1 per cent, resulting in an increase in net deposits. Increases in net deposits were also recorded for subsidiaries and affiliates. Net borrowing by the central government increased by 1.8 per cent during the first quarter of 2005. This outturn was attributed to an 18.7 per cent decline in deposits with commercial banks, as government drew down on its deposits to finance some of its operations.

The breakdown of credit by economic activity shows that commercial bank credit for home construction and renovation grew by 19.7 per cent. This increase reflects the expansion in residential construction, influenced by mortgage promotions by some banks. Decreases were recorded for lending to

tourism (15.6 per cent), manufacturing (14.6 per cent) and distributive trades (4.7 per cent).



The counterpart to the growth in M2 was a 15.2 per cent increase to \$840.5m in net foreign assets. The growth in net foreign assets was partly influenced by the inflow of funds to two companies. The net foreign assets of the commercial banks rose by 22.3 per cent to \$496.1m, reflecting a build up of assets with banks and other financial institutions in the rest of the ECCU. Antigua and Barbuda's imputed share of the Central Bank's reserves stood at \$344.4m at the end of March 2005, a 6.2 per cent increase on the level at the end of December 2004.

Commercial bank liquidity remained high during the first three months of 2005. The ratio of liquid assets to total deposits plus liquid liabilities rose by 0.8 percentage point to 38.2 per cent. The loans and advances to total deposits ratio fell by 4.4 percentage points to 70.5 per cent, while the cash reserve to deposits ratio stood at 9.0 per cent.

Interest rates remained generally stable during the period under review. The rates on saving deposits ranged from 3.0 per cent to 5.0 per cent. The rates on time deposits remained in the range of 1.0 per cent to 7.0 per cent. However, the maximum rate offered on



time deposits over two years increased by 0.6 percentage point to 4.6 per cent. Prime lending rates ranged from 10.0 per cent to 11.5 per cent.

Prospects

Growth in economic activity is projected in 2005, based on developments in the tourism industry and the construction sector. Additional airlift and the return to full-scale operations by a large hotel will boost tourism activity.

Ongoing and new projects are expected to contribute to increased construction activity. Work on a fisheries complex and the World Cup cricket stadium is expected to intensify. Public sector projects likely to begin during the rest of 2005 include the airport terminal and runway expansion and the transport board headquarters. In the private sector, work on the expansion of two major hotels is expected to begin in the second quarter. Residential construction is projected to increase as some commercial banks continue to promote home mortgages.

The current account deficit of the central government is projected to contract as current revenue increases and the rate of growth of current expenditure

declines. Growth in current revenue is based on the re-introduction of personal income tax in April 2005 and continued improvements in tax administration. The slower rate of growth of current expenditure will be influenced by a decrease in interest payments and smaller outlays on personal emoluments as well as the results of public sector reform efforts. Capital expenditure, financed primarily by grants, is projected to increase associated with the construction of a fisheries complex and the World Cup cricket stadium. The overall deficit is projected to decline as the current account deficit narrows.

In the external accounts, gross travel receipts are expected to increase as the number of visitor arrivals grows. The merchandise trade deficit is projected to widen, based on higher import payments, in line with the expansion in economic activity and high international oil prices.

The downside risks to these projections include unfavourable developments in the global economy and high oil prices. These could have an adverse impact on economic activity, the merchandise trade balance, consumer prices and the central government's fiscal position.



DOMINICA

Overview

Economic activity in Dominica is estimated to have contracted in the period January to March 2005 relative to the performance in the corresponding period of 2004. This outcome was associated in part with declines in agricultural and construction activity. Performance in the tourism industry was mixed. The consumer price index rose by 0.8 per cent on an end of period basis during the period under review. The merchandise trade deficit widened. The central government's fiscal operations resulted in an overall surplus, in contrast to a deficit in the first quarter of 2004. Commercial bank liquidity increased, while interest rates were unchanged.

Real output is projected to increase in the remainder of 2005 compared with the performance in the corresponding period of 2004. Manufacturing and construction activity is likely to expand. In addition, the filming of a movie and reality series during the second quarter of 2005 is expected to boost economic activity. The central government's fiscal operations are likely to result in a lower overall surplus. Rising international oil prices are likely to have an adverse effect on consumer prices and on tourist arrivals.

Output and Prices

The decline in agricultural output was largely influenced by a decrease in banana production, the dominant activity in the sector. Production of bananas fell by 12.2 per cent to 2,799 tonnes, in contrast to growth of 14.3 per cent in the corresponding quarter of 2004. The contraction was attributed in part to a decline in the number of farmers, and damage to crops as a result of heavy rain and flooding during November 2004. Data for non-banana agricultural production are

not available. It is likely, however, that output decreased, mainly due to unfavourable weather.

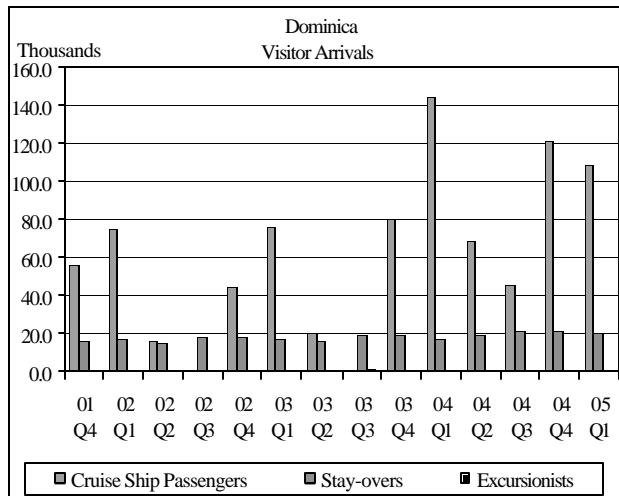
Construction activity is estimated to have declined in the first three months of 2005 compared with the level in the corresponding period of 2004, partly reflecting the completion of a major public sector project. The focus of activity in the public sector was on road rehabilitation and construction, airport improvement and enhancements to eco-tourism sites. In the private sector, residential construction activity is estimated to have declined. This was evidenced by a decrease in the number and value of housing starts and by a 2.2 per cent fall in commercial bank credit for home construction and renovation during the period under review.

Output in the manufacturing sector is estimated to have been below the level in the first quarter of 2004. Soap production, a major activity in that sector, contracted by 27.7 per cent as export demand - particularly for laundry bars - declined. Output of beverages rose by 18.2 per cent, primarily as a result of an increase in local demand. Production of dental cream and other toiletries expanded by 21.0 per cent and 27.3 per cent respectively, reflecting an increase in export demand.

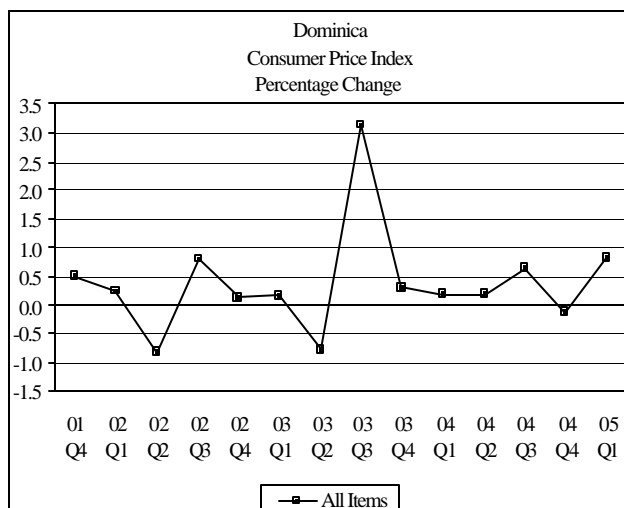
In the tourism industry, the number of stay-over visitors is estimated to have increased by 15.2 per cent, largely reflecting growth in arrivals from the Caribbean (30.3 per cent) and the USA (3.7 per cent) - the major markets. Increased arrivals from nearby Martinique and Guadeloupe largely accounted for the growth in visitors from the Caribbean. The number of cruise ship passengers fell by 25.1 per cent, consistent with a 22.2 per cent decrease in cruise ship calls.



Consequently, total visitor arrivals declined by 20.9 per cent to 128,591 in the first quarter of 2005 compared with the outturn in the corresponding period of 2004.

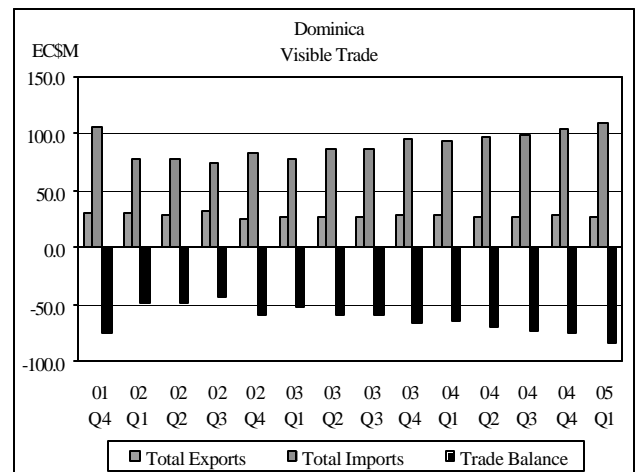


The consumer price index rose by 0.8 per cent on an end of period basis during the first quarter of 2005. The rise in the index was largely influenced by increases in the sub-indices "fuel and light" (17.5 per cent) and "food" (0.9 per cent). Higher oil prices on the international market contributed to an increase in the fuel surcharge and consequently to a rise in prices in the "fuel and light" sub-index. Decreases were recorded for the sub-indices "transport and communication" (2.7 per cent), household furnishings and supplies (0.9 per cent) and housing (0.1 per cent).



Trade and Payments

A merchandise trade deficit of \$83.5m was recorded in the first quarter of 2005, substantially above the deficit of \$63.9m in the corresponding period of 2004. This outturn mainly reflected growth of 19.4 per cent in import payments, associated in part with increases in the value of chemicals and mineral fuels. The value of exports fell by 5.7 per cent, due in part to a decrease in domestic export receipts. Of domestic exports, receipts from soap fell by 20.0 per cent (\$1.7m), attributable to the fall in demand. Banana export receipts declined by 8.6 per cent (\$0.4m), reflecting a lower volume exported as a result of the fall in production. Receipts from other agricultural exports decreased by 2.5 per cent (\$0.1m), while earnings from dental cream rose by 11.6 per cent (\$0.5m), attributable to higher demand.



Gross receipts from travel are estimated to have increased by 16.3 per cent to \$50.7m, reflecting the growth in stay-over arrivals, the largest spending group of visitors. The transactions of commercial banks resulted in a net outflow of \$1.5m in short-term capital, in contrast to a net inflow of \$34.6m recorded in the first quarter of 2004. Net disbursements to the central government amounted to \$6.5m compared with \$13.0m, while inflows of official grants totalled \$13.0m, a



reduction of 41.4 per cent on the amount for the corresponding period of 2004.

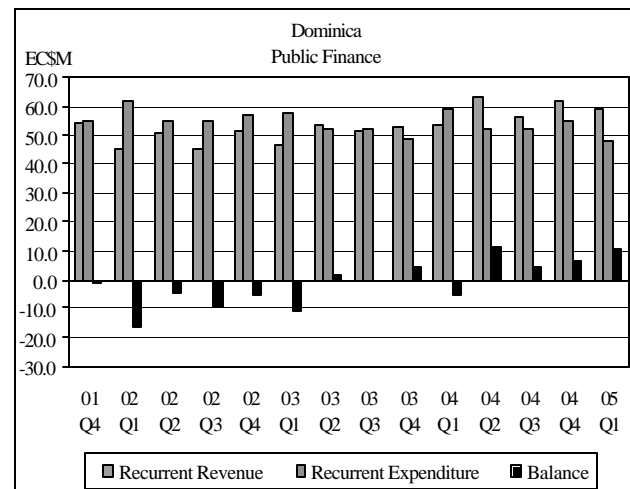
Central Government Fiscal Operations

The fiscal operations of the central government continued to benefit from stabilisation and structural adjustment measures. Dominica entered into a three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund in December 2003. In the quarter under review the country successfully completed the third and fourth review of the PRGF, having met most of the performance targets. As a result SDR 1.2 million was made available to the authorities. As part of the PRGF the government remained committed to increasing revenue, particularly through enhanced tax administration and enforcement, and to reducing expenditure by controlling the wage bill and restructuring the debt.

The central government realised an overall surplus of \$6.8m in the quarter under review, in contrast to a deficit of \$4.6m in the corresponding period of 2004. The outturn reflected growth in current revenue coupled with a decline in current expenditure.

Current revenue grew by 10.1 per cent to \$59.0m; the increase was broad based. Receipts from taxes on international trade and transactions rose by 6.5 per cent, due mainly to growth in revenue from the import duty, in line with the increase in import payments. The yield from taxes on domestic goods and services grew by 11.0 per cent, attributable in part to a 15.2 per cent (\$1.2m) increase in receipts from the sales tax. Revenue from taxes on income and profit was 6.5 per cent (\$0.7m) above collections in the corresponding quarter of 2004. The yield from property tax more than tripled to \$1.4m, associated with an increase in

land transfers. Non-tax revenue was 13.1 per cent (\$0.8m) above the level in the first quarter of 2004.



Current expenditure contracted by 17.9 per cent to \$48.4m, largely reflecting a 69.3 per cent (\$10.0m) decrease in interest payments. Interest payments on external commitments, mainly with bilateral and commercial creditors, fell by 71.9 per cent (\$6.7m), on account of the restructuring of some external loans through the issue of bonds. The government issued three bonds - short, intermediate and long term - with lower fixed interest rates of 3.5 per cent. Domestic interest payments contracted by 64.7 per cent (\$3.4m), as a result of an agreement with foreign owned commercial banks to reduce the interest rate on government debentures with a maturity of 10 years to 3.5 per cent from 7.5 per cent. In addition, interest payments on the overdraft fell, reflective of the government's commitment to reduce the level of the overdraft. Outlays on goods and services fell by 27.1 per cent (\$2.2m), while expenditure on transfers and subsidies rose by 18.8 per cent (\$1.7m), mainly associated with an increase in gratuity payments.

Capital expenditure and net lending amounted to \$17.1m compared with \$22.8m in the first quarter of 2004. The decline was largely associated with the completion of the Japanese-funded Marigot Fisheries



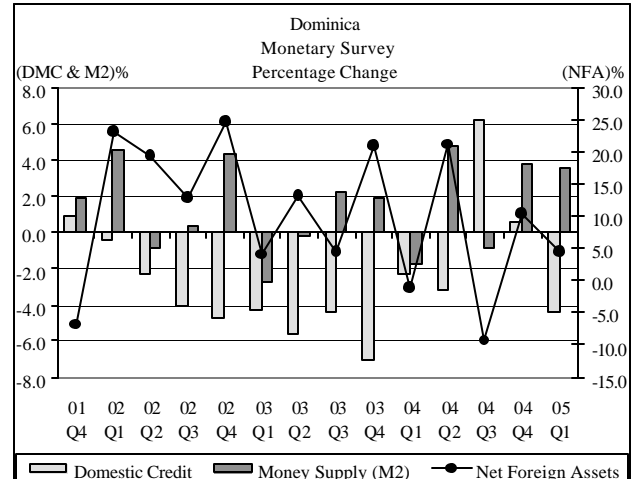
Complex which was under construction in 2004. Of capital expenditure, \$13.0m was financed by grants.

Money and Credit

Broad money (M2) increased by 3.6 per cent to \$608.5m during the first quarter of 2005, reflecting increases in both narrow money (M1) and quasi money. M1 grew by 3.0 per cent, influenced by an expansion of 10.4 per cent in currency held with the public. The relatively strong growth in currency with the public could be linked to carnival celebrations, which generally result in increased demand for cash. Quasi money rose by 3.7 per cent, attributable to an increase in private sector savings deposits (6.8 per cent). This increase was partly offset by reductions in private sector time deposits (1.6 per cent) and foreign currency deposits (17.4 per cent).

Domestic credit contracted by 4.4 per cent to \$346.9m during the first quarter of 2005, mainly influenced by the transactions of the private sector and the non-financial public enterprises. Credit to the private sector declined by 0.2 per cent, associated with a 2.7 per cent reduction in outstanding loans to households. This decrease was partly offset by a 3.5 per cent increase in business credit. A 33.2 per cent reduction in outstanding credit to the non-financial public enterprises combined with a 9.4 per cent increase in their deposits resulted in growth of 51.9 per cent in their net deposits. The fall in credit to the non-financial public enterprises was associated with the transfer of debt from a public enterprise to the central government. Credit to the non-bank financial institutions declined by 12.5 per cent, while their deposits rose by 5.1 per cent, resulting in a 5.7 per cent increase in their net deposits. By contrast, the net indebtedness of the central government to the banking system rose by 5.2 per cent to \$15.3m. The expansion in net lending to central government reflected a 70.3 per cent (\$11.2m) increase

in loans and advances from the commercial banks, as the government assumed the debt of a public enterprise. The central government's deposits grew by 20.2 per cent (\$10.1m), partly associated with grant receipts.



The composition of credit by economic activity shows increases in outstanding loans for distributive trades (2.0 per cent), manufacturing (1.5 per cent) and construction (0.2 per cent). Declines were recorded in credit for agriculture (0.5 per cent) and tourism (5.3 per cent), while credit for personal use, which accounts for roughly half of total credit, remained flat during the period under review.

The net foreign assets of the banking system rose by 4.5 per cent to \$373.0m during the first quarter of 2005. The expansion largely reflected an increase of 12.7 per cent (\$14.5m) in Dominica's imputed share of the reserves held at the Central Bank. At the end of March 2005 the commercial banks' net foreign assets were 0.6 per cent (\$1.5m) above the level at the end of December 2004.

Liquidity in the commercial banking system remained at a high level during the quarter under review. The ratio of liquid assets to total deposits plus liquid liabilities increased by 3.9 percentage points to 56.9 per cent, primarily reflecting growth in liquid assets.

The loans and advances to deposits ratio fell by 1.3 percentage points to 56.2 per cent, largely attributable to an increase in deposits. The cash reserve ratio rose to 9.2 per cent at the end of March 2005 from 8.5 per cent at the end of December 2004.

Interest rates were unchanged during the first quarter of 2005. The rates on savings deposits ranged from 3.0 per cent to 3.5 per cent. Time deposit rates ranged from 1.0 per cent to 6.0 per cent, and the prime-lending rate from 8.5 per cent to 10.0 per cent.

Prospects

Real GDP is projected to increase in 2005, largely based on the prospects for manufacturing, construction and tourism. Growth in manufactured products will be supported by higher output of beverages and household cleaners as export demand increases. Construction activity will be driven by road and infrastructure repairs following storm and earthquake damage in the latter part of 2004, the continuation of the first phase of the air access improvement project, as well as the start of the Roseau - Melville Hall road improvement project and the Windsor Park Stadium. In the tourism industry, growth in stay-over visitor arrivals is projected as a

result of increased marketing, additional hotel accommodation and the production of a Disney Film.

Growth in the current revenue of the central government is projected based on an increase in receipts from taxes on goods and services and international trade and transactions, facilitated by the ongoing PRGF programme and the expansion in the economy. The central government's fiscal operations are also likely to benefit from a reduction in interest payments following debt restructuring. The impact of the decline in interest payments is likely to be mitigated by an increase in wages and salaries. Expenditure on that category is projected to increase as the wage cut which was enforced during the fiscal year 2003-04 as part of the ongoing stabilisation programme is reversed. Capital expenditure, financed largely by grants, is projected to exceed the 2004 total based on an expansion in construction activity. The fiscal operations are therefore likely to result in a lower overall surplus in 2005. Import payments are projected to increase, reflecting growth in economic activity and high international oil prices.



GRENADA

Overview

Economic activity in Grenada is estimated to have increased in the first quarter of 2005 relative to the outturn in the corresponding period of 2004, influenced by an expansion in construction activity. Agricultural and tourism activity contracted, reflecting the lagged effect of the damage by hurricane Ivan in September 2004. The consumer price index rose by 0.1 per cent during the period under review. The fiscal accounts of the central government yielded a larger overall surplus, as a result of an increase in grants.

In the banking system broad money rose, while interest rates trended downwards as commercial bank liquidity remained high. The merchandise trade deficit widened, largely attributable to higher imports.

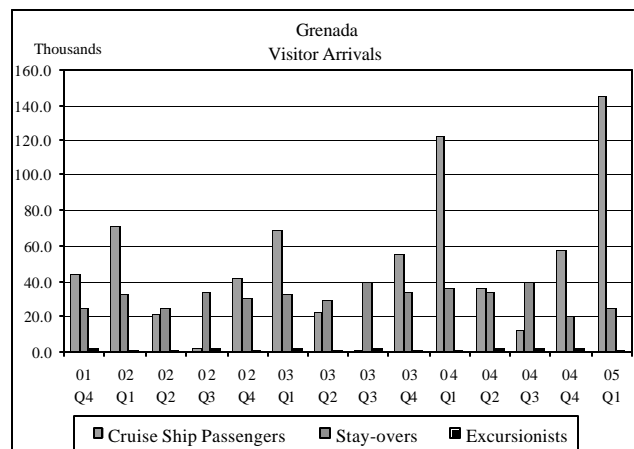
The outlook for the next three quarters is positive. Construction activity in both the public and private sectors is expected to remain buoyant. However, the pace and level of grant disbursements will influence public sector construction activity. The number of cruise ship passengers will be above that in the last three quarters of 2004, as the tourism industry is expected to benefit from visits by larger cruise ships. An overall fiscal deficit is projected based on a decrease in grant receipts. Sustained high oil prices on the international market will have an adverse impact on consumer prices and on the merchandise trade balance.

Output and Prices

The expansion in construction was driven by both private and public sector investment activity. Private sector construction included renovations to hotels as well as residential and commercial properties. The

increase in residential construction was partly reflected in growth of 2.5 per cent in commercial bank credit for home construction and renovations. In the public sector, the focus was on reconstructing roads, bridges and public buildings damaged during the hurricane as well as on ongoing work on phase II of the Melville Street cruise project and headquarters for a statutory body. Consistent with the growth in construction, activity in transport and mining and quarrying is estimated to have increased.

Agricultural output contracted in the period under review compared with the total in the corresponding period of 2004. Data show that the production of traditional crops was negligible, attributable to the lingering effects of hurricane damage. Data on the production of non-traditional crops are not available.



Tourism activity is estimated to have decreased in the period under review, reflecting a decline of 29.7 per cent to 24,861 in the number of stay-over visitors. This performance was attributed to the closure of some hotels that were damaged by the hurricane. Decreases were recorded in arrivals from all the major markets - USA (23.4 per cent), UK (63.0 per cent), Canada (42.5 per cent) and the Caribbean (12.2 per cent). Excursionist arrivals are estimated to have contracted

by 10.8 per cent to 1,020. The number of cruise ship passengers rose by 18.7 per cent to 144,363, reflective of visits by larger ships.

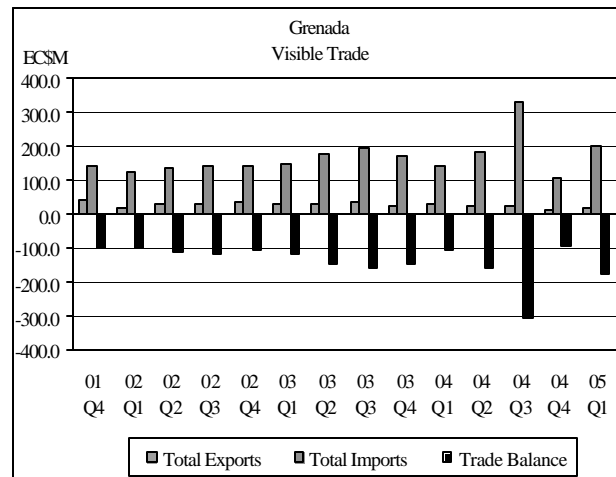
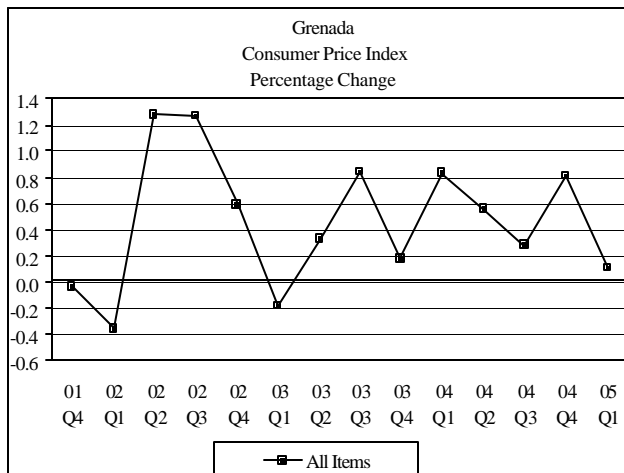
Production in the manufacturing sector fell in the period under review, partly reflecting the impact of the hurricane. Estimates of industrial production show declines in the output of flour (89.4 per cent), soft drinks (82.6 per cent), poultry feed (43.3 per cent) and beer (31.9 per cent).

The consumer price index increased by 0.1 per cent during the first three months of 2005 (on an end of period basis). The "food" sub-index rose by 0.1 per cent. Increases were also recorded in the sub-indices "alcoholic beverages and tobacco" (0.6 per cent) and "housing" (1.6 per cent). These increases were partly offset by decreases in the sub-indices "clothing and footwear" (0.7 per cent) and "fuel and light" (0.4 per cent). The fall in the "fuel and light" sub-index was largely reflective of a decrease in the electricity surcharge.

of 2004. The widening of the deficit was partly attributed to growth of 46.1 per cent to \$200.4m in import payments. The value of exports is estimated to have decreased by 30.2 per cent to \$19.1m, reflecting a fall in domestic exports, particularly manufactured exports, associated with the fall in production.

Receipts from nutmeg exports increased by 25.7 per cent. The volume exported rose, despite the fall in nutmeg output, as stocks held were reduced. Gross receipts from travel are estimated to have decreased by 35.3 per cent to \$53.1m, consistent with the fall in the number of stay-over visitors, the largest spending category.

Commercial bank transactions resulted in a net outflow of \$5.7m compared with one of \$31.4m in the first three months of 2004. External loan disbursements to the central government amounted to \$6.7m, well below the total of \$116.5m recorded in the corresponding period of 2004 when an external bond was floated to facilitate debt refinancing.



Trade and Payments

Preliminary data for the period under review indicate a merchandise trade deficit of \$181.3m, compared with one of \$109.8m in the first three months

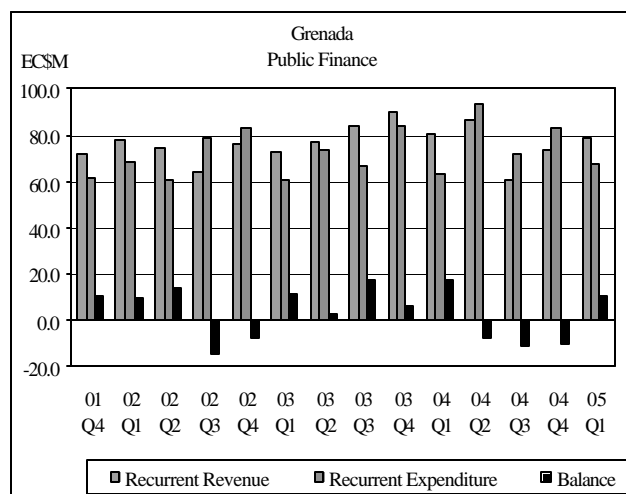
Central Government Fiscal Operations

The operations of the central government resulted in a current account surplus of \$10.6m in the first three months of 2005, compared with one of \$17.4m in the



corresponding period of 2004. The smaller surplus reflected growth of 6.8 per cent in current expenditure and a 3.1 per cent decrease in current revenue.

Of current expenditure, outlays on goods and services almost doubled to \$15.3m, primarily attributable to post-hurricane Ivan rehabilitation. Expenditure on personal emoluments grew by 2.7 per cent, while transfers and subsidies contracted by 12.8 per cent. Interest payments fell by 29.8 per cent (\$2.0m), reflecting lower external payments.



The reduction in current revenue was influenced by a 16.7 per cent decline in proceeds from taxes on income and profits, mainly company tax. This performance was attributed to the decrease in economic activity in the previous quarter in the aftermath of the hurricane. The yield from taxes on domestic goods and services contracted by 11.5 per cent, partly due to a fall in receipts from consumption tax. Revenue from taxes on international trade and transactions rose by 16.0 per cent, associated with a higher intake from import duty (18.0 per cent), consumption tax (10.2 per cent) and the customs service charge (37.8 per cent). Those developments were largely as a result of a higher level of imports of building materials and other consumer goods for the economic recovery programme. Non-

tax revenue fell by 70.0 per cent (\$4.3m), mainly reflecting a decrease in receipts of profits and dividends.

Capital expenditure amounted to \$31.3m in the first quarter of 2005 compared with \$10.6m in the corresponding period of 2004. The higher level of outlays was associated with the restoring of infrastructure. Grants, mainly for budgetary support, amounted to \$43.7m compared with \$0.7m in the first quarter of 2004. The increase in grants contributed to an overall surplus of \$23.1m, well above the surplus of \$8.6m in the first quarter of 2004.

Money and Credit

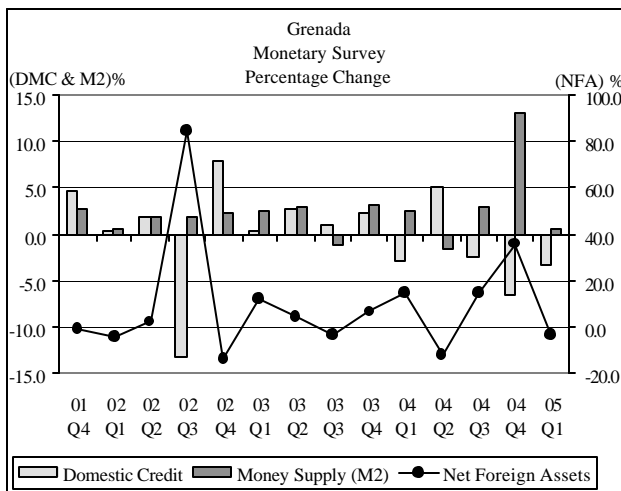
Broad money (M2) expanded by 0.6 per cent to \$1,491.9m during the first quarter of 2005, below the 2.5 per cent rate of increase recorded in the corresponding period of 2004. The slowdown in the rate of growth reflected to some extent the weak performance of the productive sectors. Quasi money rose by 1.0 per cent, reflecting increases in private sector savings deposits (2.2 per cent) and foreign currency deposits (1.4 per cent). Time deposits decreased by 3.9 per cent, partly attributable to a fall in interest rates. The narrow money supply (M1) fell by 0.9 per cent, reflecting a decrease in currency with the public.

Domestic credit declined by 3.3 per cent to \$895.7m during the first quarter of 2005, mirroring developments in both the public and private sectors. Outstanding credit to the private sector fell by 1.3 per cent, in contrast to an increase of 2.3 per cent during the first quarter of 2004. A 5.3 per cent decrease was recorded in credit to businesses, while loans to households rose by 1.1 per cent. The net indebtedness of the central government to the banking system fell by 53.4 per cent to \$33.4m. This outcome reflected growth of 81.3 per cent in deposits, associated with loan disbursements



and grant receipts for budgetary support. In the rest of the public sector, the net deposits of the non-financial public enterprises fell by 24.9 per cent, attributable to a fall in deposits and an increase in borrowing.

The distribution of loans by economic activity shows that commercial bank credit for construction grew by 6.9 per cent, consistent with the expansion in activity in that sector. Credit for personal use rose by 1.9 per cent, attributable to an increase in loans for home construction and renovation. Outstanding credit for tourism and agriculture declined by 22.2 per cent and 2.5 per cent respectively, reflecting the decrease in the level of activity.



The net foreign assets of the banking system contracted by 3.2 per cent to \$604.4m during the period under review. Grenada's imputed share of the reserves held by the Central Bank declined by 7.7 per cent. The net foreign assets of the commercial banks rose by 1.9 per cent, attributable to an increase in assets held outside the Eastern Caribbean Currency Union.

Commercial bank liquidity fell, but it remained at a high level. The ratio of liquid assets to total deposits plus liquid liabilities declined to 40.9 per cent at the end of March 2005 from 42.7 per cent at the beginning of

the year. The loans and advances to deposits ratio rose by 0.5 percentage point to 58.1 per cent.

Interest rates on time deposits trended downward during the period under review. The maximum rate on deposits over six months to twelve months fell by 3.75 percentage points to 8.0 per cent and that on deposits over two years by 1.0 percentage point. Lower rates of declines were recorded for the maximum rate on deposits up to three months and over three to six months, which fell by 0.5 percentage point and 0.25 percentage point respectively.

Prospects

Real GDP is expected to increase in 2005, based on current trends and expected developments in the construction sector over the next nine months. Construction activity will be dominated by ongoing work on infrastructure rehabilitation, phase II of the Melville Street cruise project, phase II of the new general hospital and the headquarters of a statutory body. In the private sector, construction is expected to be driven by ongoing repairs to homes and hotels that were damaged during the hurricane. With the anticipated growth in construction activity, value added in the mining and quarrying, and the wholesale and retail trade sectors is expected to increase.

A decrease in stay-over visitor arrivals is projected due to the closure of some of the major hotels for refurbishment. The number of cruise ship passengers is expected to increase, based on calls by larger vessels and the schedule for cruise ship visits. Value added in the sea and road transport sub-sectors is expected to increase. Hurricane damage to the traditional crops will continue to have a negative impact on agricultural output over the next nine months.



In the fiscal accounts, growth in current expenditure is expected as a result of increases in outlays on goods and services and on personal emoluments. Current revenue is projected to increase, contingent on the implementation of measures announced in the 2005 budget. These measures include an increase in the retail price of fuel and the introduction of a reconstruction and development levy. Capital expenditure is expected to be above the level in 2004 based on the public sector investment programme. It

is expected that debt service payments will be below the level in 2004 due to continued efforts to restructure the public debt.

In the external sector, gross travel receipts are projected to decrease as a result of the decline in stay-over arrivals. Higher import payments are projected, based on the expansion in construction activity and high international oil prices.



MONTserrat

Overview

Economic activity in Montserrat is estimated to have contracted in the first quarter of 2005 relative to the performance in the corresponding period of 2004. This assessment is largely based on decreases in construction and tourism activity. The consumer price index declined by 0.3 per cent. The deficit on the merchandise trade account narrowed as a result of lower import payments. The fiscal operations of the central government resulted in an overall deficit, in contrast to a surplus in the first quarter of 2004, influenced by a fall in grants. In the banking sector, total monetary liabilities decreased and liquidity remained high.

Contingent on subdued volcanic activity, the economy is projected to expand in the remainder of 2005. This projection is based on a higher level of construction activity and growth in visitor arrivals, reflecting increased marketing. The current account operations of the central government will likely result in a smaller deficit.

Output and Prices

The decline in construction activity in the first quarter of 2005 was reflected in decreases in the number (46.7 per cent) and value (40.7 per cent) of building starts. Decreases were also recorded in the imports of building materials, particularly cement (21.4 per cent), steel (21.0 per cent) and aggregate (20.5 per cent). Public sector activity declined as some projects were completed. Ongoing activity focussed on the airport project and housing infrastructure. In the private sector work continued on the headquarters

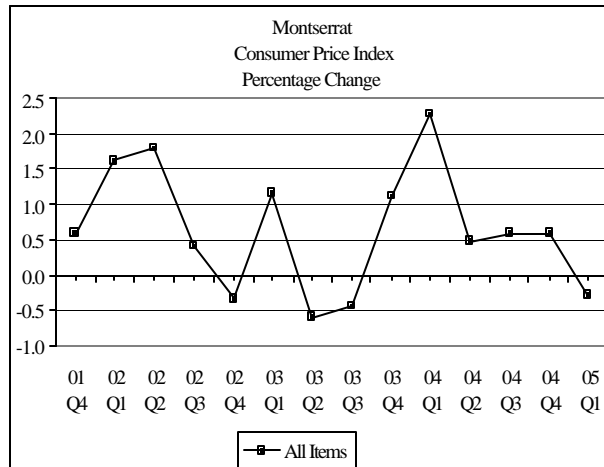
for a bank and on a new cultural centre. Residential construction is estimated to have increased based on commercial bank data which show growth of 10.8 per cent in loans for home construction and renovation, in contrast to a 3.5 per cent decline in the first quarter of 2004.

Tourism estimates show a 2.9 per cent contraction in the number of visitors to 3,673, in contrast to an 18.5 per cent increase in the corresponding period of 2004. This performance was influenced by a 50.8 per cent decline in the number of cruise ship passengers, as the ships visiting were smaller. The number of stay-over visitors fell by 1.3 per cent, reflecting decreases from all the major markets. A 2.7 per cent increase was recorded for excursionists.

In the agricultural sector, output of vegetables and root crops is estimated to have decreased by more than half, due to unfavourable weather. In the fisheries sub-sector, fish landings rose by 60.6 per cent, partly due to a 12.5 per cent increase in the number of boats being operated.

The consumer price index declined by 0.3 per cent on an end of period basis, largely due to a 1.6 per cent fall in the food sub-index. This performance was influenced by price reductions for chicken, white potatoes and cooking oil. The "services" sub-index also fell by 0.1 per cent. By contrast, increases were recorded for all other categories with the exception of "rent" which remained unchanged. The largest increase was recorded for the sub-index "household goods" (4.5 per cent), partly reflecting higher prices for paint and roofing material.





Trade and Payments

A merchandise trade deficit of \$16.5m was recorded in the first quarter of 2005 compared with one of \$18.9m in the corresponding period of 2004. The lower deficit was influenced by a 13.6 per cent decline in import payments, largely reflecting a fall in construction related imports. Gross receipts from travel are estimated to have contracted by 2.5 per cent to \$5.8m, in line with a fall in visitor arrivals.

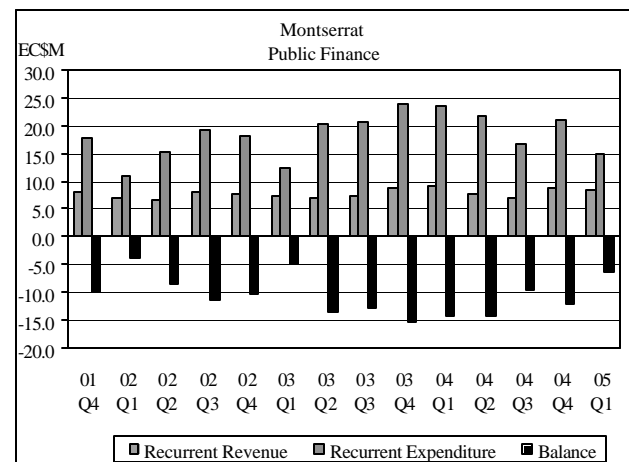
Receipts of capital grants stood at \$3.3m, representing a 75.6 per cent decrease on the total in the corresponding period of 2004. The fall in grants reflected the completion of some public sector projects. Commercial bank transactions resulted in a net inflow of \$13.2m in short term capital.

Central Government Fiscal Operations

The fiscal operations of the central government resulted in a current account deficit before grants of \$6.3m in the first quarter of 2005 compared with one of \$14.5m in the corresponding period of 2004. The lower deficit reflected a 37.4 per cent decline in expenditure to \$14.7m. Spending on goods and services fell by 71.7 per cent compared with the total in the first quarter of 2004, when outlays rose associated with an

ash-cleaning programme. Expenditure on personal emoluments rose by 6.2 per cent, the result of a 10.0 per cent salary increase to civil servants effective 1 January 2005.

The central government generated \$8.4m in current revenue, 6.7 per cent less than the amount in the first quarter of 2004. This performance was largely on account of a 10.4 per cent fall in tax revenue to \$7.7m. The yield from taxes on income and profits fell by 18.8 per cent, partly reflecting a decline of 40.2 per cent (\$0.4m) in collections from company tax, associated with a lag in payments by some companies. Receipts from personal income tax decreased by 25.8 per cent (\$1.0m), reflecting an increase in the tax band, a change in the rate structure, and the exemption of social security payments from income tax effective 1 January 2005. Collections from taxes on international trade and transactions fell by 9.8 per cent (\$0.3m), reflecting a fall in receipts from customs service charge \$0.4m, as the rate was reduced from 8.0 per cent to 5.0 per cent in June 2004.



Capital expenditure contracted by 20.0 per cent to \$6.3m with the completion of some public sector projects. The transactions on the current and capital accounts resulted in an overall deficit of \$4.4m, in contrast to a surplus of \$8.7m in the first quarter of

2004. The deficit was financed by drawing down on deposits with the commercial banks. A primary deficit of \$4.3m was recorded in contrast to a surplus of \$8.6m in the first quarter of 2004.

Money and Credit

Broad money (M2) contracted by 0.2 per cent to \$119.3m at the end of March 2005 compared with the total at the end of December 2004, consistent with the fall in economic activity. The decline was associated with a 13.0 per cent decrease in the narrow money supply (M1), influenced by contractions in private sector demand deposits (13.1 per cent) and currency with the public (12.8 per cent).

Credit to the private sector grew by 8.0 per cent, reflecting increases in lending to business entities (14.4 per cent) and households (6.4 per cent). The net deposits of the central government fell by 20.2 per cent, attributable to a draw down of deposits to finance the fiscal operations. The breakdown of credit by economic activity shows a 6.7 per cent increase in credit for personal use, mainly for mortgages, reflecting the expansion in residential construction. Credit for distributive trade grew by 3.7 per cent.

The net foreign assets of the banking system contracted by 7.3 per cent to \$160.6m during the period under review. Commercial banks reduced their net foreign assets by 9.8 per cent, attributable to a decline in gross foreign assets. Montserrat's imputed share of the reserves held by the Central Bank rose by 1.6 per cent.

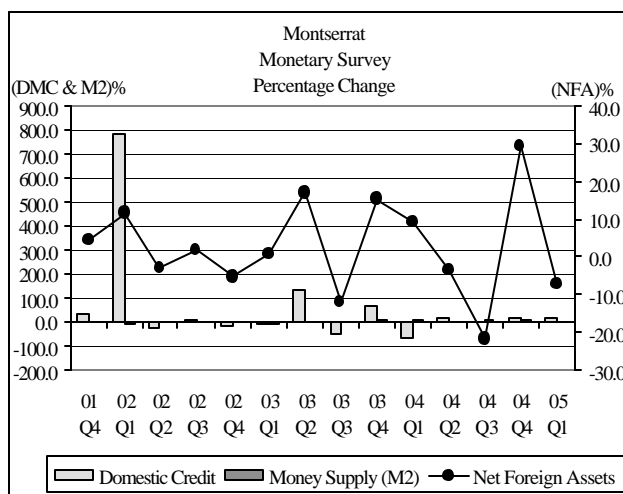
Commercial bank liquidity remained high at the end of March 2005. The ratio of total liquid assets to total deposits plus liquid liabilities was 107.1 per cent, up from 102.9 per cent at the end of December 2004. The loans and advances to total deposits ratio rose by 0.8 percentage point to 14.2 per cent. During the quarter under review, the maximum interest rate on time deposits over six to twelve months fell by 1.25 percentage points to 4.0 per cent.

Prospects

Real GDP is projected to increase in 2005, influenced by public and private sector construction projects. These include homes, road works, and a public market. Work is expected to continue on the airport, infrastructure development at the new commercial centre (Little Bay), headquarters for a bank, and the cultural centre.

Visitor arrivals are projected to grow based on increased marketing efforts, which include a photographic exhibition in the UK.

The current fiscal operations of the central government are expected to result in a lower deficit (before grants). This projection is based on a reduction in expenditure, influenced by a fall in outlays on transfers and subsidies as the ferry service is discontinued. Higher outlays on personal emoluments are projected based on the 10.0 per cent salary increase to civil servants.



In the external sector, the merchandise trade deficit is expected to widen based on a projected increase in import payments in line with increased

residential construction. Travel receipts are projected to grow, consistent with the increase in visitor arrivals.



ST KITTS AND NEVIS

Overview

Available data for the first quarter of 2005 suggest that economic activity increased compared with the performance in the corresponding period of 2004. The expansion was supported in part by favourable developments in the construction sector and the tourism industry. Output in the agricultural and manufacturing sectors decreased as a result of a weak performance in the sugar industry. The consumer price index rose by 2.0 per cent during the period under review. The overall fiscal deficit of the federal government declined, largely influenced by growth in revenue. Monetary liabilities increased and commercial bank liquidity remained at a high level.

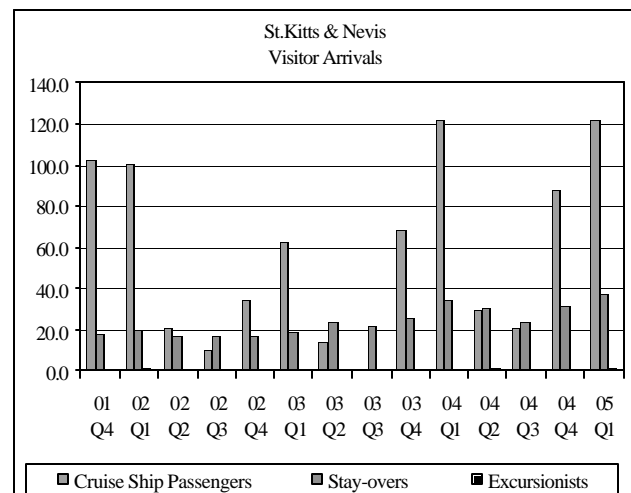
The prospects for economic growth in the rest of 2005 are favourable, based on the projections for construction and tourism activity. Rising international oil prices and geopolitical tensions, however, could have an adverse impact on the domestic economy.

Output and Prices

Growth in the construction sector in the quarter under review was spurred by both public and private sector investments. Activity included ongoing work on the redevelopment of a sporting complex for cricket, housing, villa and road development, construction of a golf course, racecourse and a university of nursing. During the quarter civil servants continued to access loan funds under the civil service scheme introduced in 2004 to assist with housing development, contributing to an increase in residential construction.

Complete statistics on visitor arrivals to St Kitts and Nevis are not available for the period January to

March 2005. Based on passenger movements at both airports, stay-over arrivals are estimated to have increased by 12.1 per cent compared with the total in the first quarter of 2004. Cruise ship passenger arrivals are estimated to have decreased by 0.2 per cent to 121,814 visitors, in contrast to strong growth in the first three months of 2004. The decline was attributed to a fall in the number of cruise ship calls. The total number of visitors is estimated to have increased by 2.5 per cent to 163,286 in the period under review.



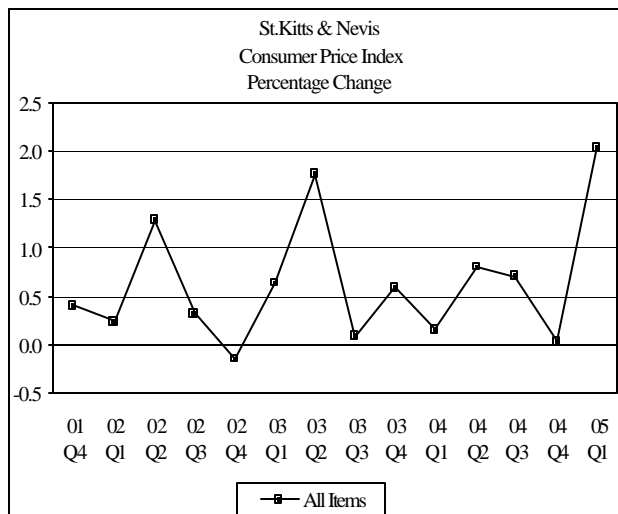
Agricultural output is estimated to have contracted in the quarter under review. Production of sugar cane, a major activity, fell by 55.3 per cent to 18,016 tons, partly as a result of less acreage under cultivation. Output of vegetables and root crops declined by 4.7 per cent, reflecting decreases in the production of carrots, white potatoes and sweet peppers. Production of beef, mutton and pork declined, while output of eggs rose, influenced by an increase in domestic demand.

The weak performance of the sugar industry had an adverse effect on the manufacturing sector. Output in that sector is estimated to have declined, influenced by a 57.1 per cent decrease to 1,484 tons in sugar production, which more than offset increases in other



manufactured goods. Output of electronic components is likely to have increased in the period under review. Statistics on US imports of electronic components from St Kitts and Nevis show growth of 16.8 per cent compared with the total imported in the first quarter of 2004. The production of blocks and pre-mixed concrete is estimated to have increased based on the expansion in construction. This was supported by a larger volume of cement imported during the quarter. Output of beverages rose, reflecting an increase in export demand on account of marketing initiatives by a major company.

The consumer price index rose by 2.0 per cent on an end of period basis. This outturn was partly influenced by an increase in the sub-index "fuel and light" (1.4 per cent), associated with a rise in the retail fuel price from \$6.60 to \$8.30 per gallon, effective February 2005. The higher fuel prices led to an increase in bus fares and consequently an 8.0 per cent rise in the "transport and communication" sub-index. The sub-index "food", the highest weighted category, rose by 0.2 per cent.



Trade and Payments

Complete trade statistics are not available for the first quarter of 2005. Data on cargo throughput for

St Kitts show growth of 7.2 per cent in the volume of imports, partly associated with increases in the volume of vehicles, general cargo and cement. The volume of exports rose substantially, attributed in part to an increase in molasses, reflecting the timing of shipment. The volume of alcoholic beverages exported also rose, as a result of intense marketing.

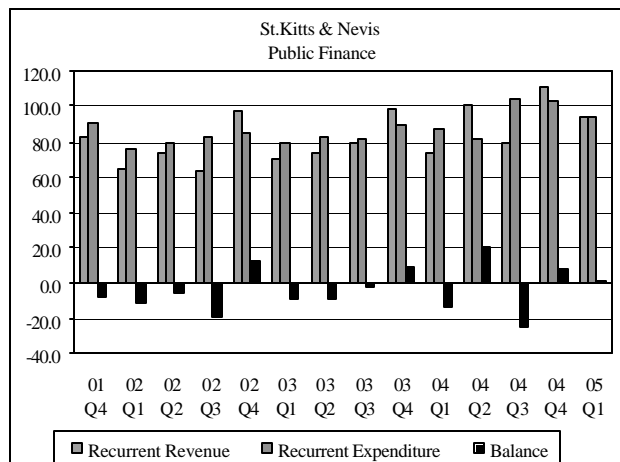
Gross travel receipts are estimated at \$97.0m, an increase of 12.9 per cent on the total for the first quarter of 2004, reflecting the growth in stay-over arrivals. Disbursements of external loans to the central government amounted to \$1.4m, while amortisation totalled \$20.4m. Commercial bank transactions resulted in a net outflow of \$33.9m in short-term capital, compared with one of \$55.5m in the first three months of 2004.

Central Government Fiscal Operations

The fiscal position of the federal government improved in the first quarter of 2005 compared with the level in the corresponding period of 2004. An overall deficit of \$6.9m was realised, well below the deficit of \$23.9m recorded in first quarter of 2004, mainly attributable to an expansion in revenue. The shortfall was financed from domestic sources, mainly from the commercial banking sector. A primary surplus of \$10.8m was realised in contrast to a deficit of \$1.5m in the first quarter of 2004. The federal government's current operations resulted in a surplus of \$1.0m. Based on first quarter comparisons, this is the first surplus in eight years, as current account deficits were recorded in the first quarters of 1997 through 2004. The outcome in 2005 resulted from growth of 29.3 per cent to \$94.5m in current revenue, reflecting increased tax revenue (43.1 per cent).

Of tax revenue, proceeds from taxes on income and profits more than doubled, attributable to increased

receipts from corporate income tax as establishments responded favourably to quarterly invoices issued by the Inland Revenue Department. Increases were also recorded in collections from taxes on international trade and transactions (27.7 per cent) and from taxes on domestic goods and services (17.8 per cent), reflective of the higher level of activity during the period under review. Non-tax revenue was 0.5 per cent above the level in the first quarter of 2004.



Current expenditure at \$93.6m was 7.3 per cent above the total in the first quarter of 2004 due to increased spending on goods and services and personal emoluments. Outlays on goods and services grew by 47.9 per cent, reflecting increased operating and maintenance costs, partly as a result of higher fuel prices. Expenditure on personal emoluments rose by 13.9 per cent, mainly reflecting the impact of salary increases to civil servants in August 2004. By contrast, interest payments decreased by 21.2 per cent (\$4.7m), as both domestic and external payments fell, mainly reflecting the timing of payments. Expenditure associated with transfers and subsidies fell by 17.9 per cent (\$2.2m).

Capital expenditure and net lending, which amounted to \$14.0m, was 18.2 per cent above the level in the first three months of 2004. The increase was

mainly associated with housing and road development, community centres and sporting complexes and upgrading the electricity and water supply. Capital grants amounted to \$4.1m, associated with the redevelopment of a sporting complex.

The disaggregated fiscal accounts show that the operations of the central government resulted in an overall deficit of \$10.7m compared with one of \$24.3m in the first three months of 2004. Strong growth in current revenue (35.5 per cent) relative to the increase in current expenditure (6.6 per cent) led to a current account deficit of \$3.8m, well below the total of \$18.4m realised in the period January to March 2004. Current revenue benefited from improved tax administration. The growth in current expenditure was attributed to larger outlays on goods and services, reflecting the rise in oil prices and a higher level of expenditure on personal emoluments, attributable to the 10.0 per cent salary increase. There were decreases in expenditure on interest payments (\$5.4m) and transfers and subsidies (\$1.9m). Capital expenditure and net lending totalled \$12.9m, while capital grants amounted to \$4.0m.

The fiscal accounts of the Nevis Island Administration show an overall surplus of \$3.8m in the first quarter of 2005, in contrast to a deficit of \$0.3m recorded in the corresponding period of 2004. This outcome was largely the result of a lower level of capital spending. Capital expenditure amounted to \$1.0m compared with \$4.0m in the first three months of 2004. A current account surplus of \$4.8m was realised compared with one of \$4.4m in the first quarter of 2004. Current revenue rose by 11.2 per cent to \$20.6m, reflecting increased collections from taxes on international trade and transactions, and taxes on income and profits. Current expenditure grew by 11.4 per cent, partly reflective of the salary increase in August 2004.



Money and Credit

Broad money (M2) grew by 11.6 per cent to \$1,226.7m during the first quarter of 2005, consistent with the expansion in the economy. The growth in M2 was influenced by increases in both quasi money and narrow money (M1). Quasi money rose by 10.8 per cent, reflecting increases in private sector savings, time and foreign currency deposits. Growth of 23.9 per cent in demand deposits was responsible for a 16.3 per cent increase in M1, as currency with the public fell by 4.5 per cent.

Domestic credit stood at \$1,016.9m at the end of March 2005, an increase of 2.6 per cent on the level at the end of December 2004. The net indebtedness of the federal government to the banking system grew by 7.3 per cent, reflecting a 10.6 per cent increase in credit to the central government and a 12.4 per cent decrease in its deposits. In the rest of the public sector, the net deposits of the non-financial public enterprises fell by 48.8 per cent, mirroring an expansion in credit. Outstanding loans to the private sector rose by 1.1 per cent, reflecting growth in lending to households (2.3 per cent) which was partly offset by a decrease in credit to business enterprises (1.1 per cent).

The distribution of credit by economic activity indicates a higher level of outstanding loans for construction (6.0 per cent) and tourism (1.4 per cent), reflecting the expansion in activity. Credit for personal use, including the acquisition of property, rose by 0.6 per cent.

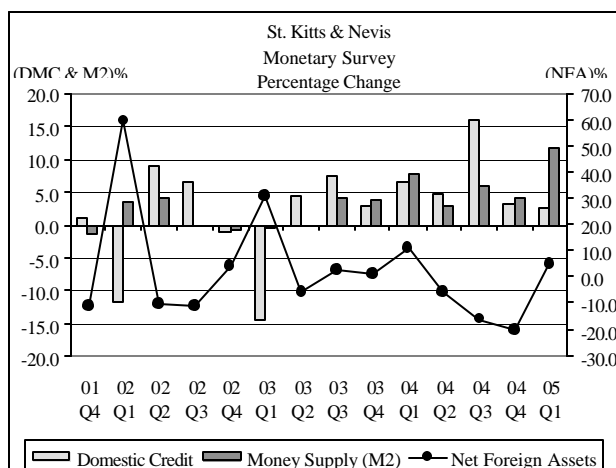
The net foreign assets of the banking system increased by 5.3 per cent to \$298.6m during the period under review compared with the total at the end of 2004. Growth of 47.0 per cent was recorded in the net foreign assets of commercial banks, as banks increased their net assets held at financial institutions abroad. St Kitts and Nevis' imputed share of the reserves at the Central Bank fell by 8.9 per cent to \$192.7m.

Liquidity in the commercial banking system remained at a high level during the period under review. The ratio of liquid assets to total deposits plus liquid liabilities was 43.1 per cent, roughly 3.2 percentage points below that at the end of 2004. The loans and advances to deposits ratio fell by 3.4 percentage points to 72.2 per cent.

Prospects

The outlook for real GDP growth in 2005 is favourable. Increased marketing, including extensive coverage in leading travel magazines, and additional airlift from the USA are expected to lead to growth in visitor arrivals. However, high oil prices, fuelled by buoyant demand, supply bottlenecks and the disruptions of oil supplies in some areas, pose some downside risks to the prospects for growth in the domestic economy.

Construction activity is expected to intensify, influenced by ongoing and new projects in both the public and private sectors. These projects include



housing, villa and road development, sea defence work at New Guinea and Old Road; a stadium for the World Cup Cricket 2007; a golf course; a racecourse; a fisheries complex; and four commercial buildings at Port Zante. Agricultural output is projected to contract based on a decline in acreage under cultivation, while manufacturing output is likely to remain flat.

On the fiscal accounts of the federal government, growth in current revenue is expected, in line with the

increase in economic activity and ongoing improvements in tax administration. Current expenditure is projected to rise, mainly influenced by higher fuel costs and outlays on personal emoluments. Capital spending is expected to be above the level in 2004, based on ongoing and new projects.



ST LUCIA

Overview

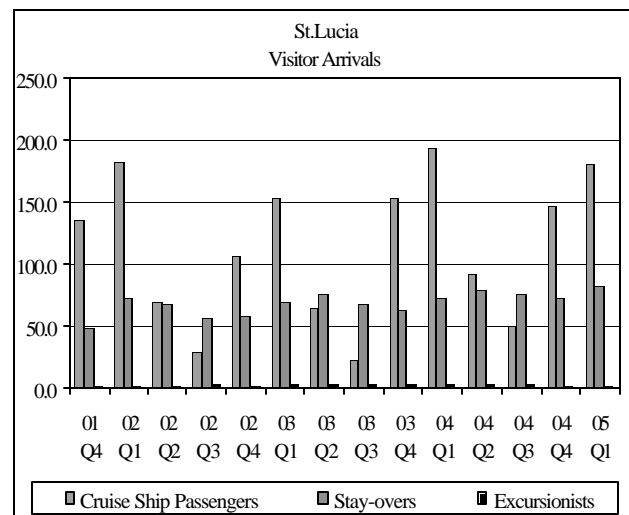
Economic activity is estimated to have increased in the first quarter of 2005 relative to the performance in the corresponding period of 2004. The expansion was driven by increases in tourism and construction activity. Output in the agricultural sector fell, reflecting a decline in banana production. The consumer price index (CPI) increased by 0.6 per cent during the first quarter of 2005. The merchandise trade deficit is estimated to have widened due to an increase in import payments and a decline in export receipts. The central government's fiscal operations resulted in an increase in the overall deficit, influenced by growth in capital expenditure. Monetary liabilities and commercial bank liquidity increased, while interest rates on time deposits declined.

The economic expansion is projected to continue in the remainder of 2005, contingent on developments in the construction sector and the tourism industry, and favourable conditions in the world economy. Notwithstanding, high international oil prices could pose some downside risk to the projections.

Output and Prices

In the tourism industry the number of stay-over visitors rose by 15.6 per cent to 83,546, well above the 3.0 per cent rate of growth in the first quarter of 2004. The growth in arrivals reflected in part increases in marketing and promotions, as well as in airlift out of the major markets, and a depreciation in the US dollar relative to the pound sterling and the euro. The classification of stay-over visitors by market sources shows that arrivals from the USA and the UK, the main markets, increased by 8.3 per cent and 12.7 per cent, respectively. Arrivals from the Caribbean, the

third largest source, were 31.1 per cent above the total in the first quarter of 2004, as St Lucia was host to a number of meetings. The estimated average occupancy for hotels was 77.0 per cent, roughly 9.8 percentage points above the rate in the first quarter of 2004.



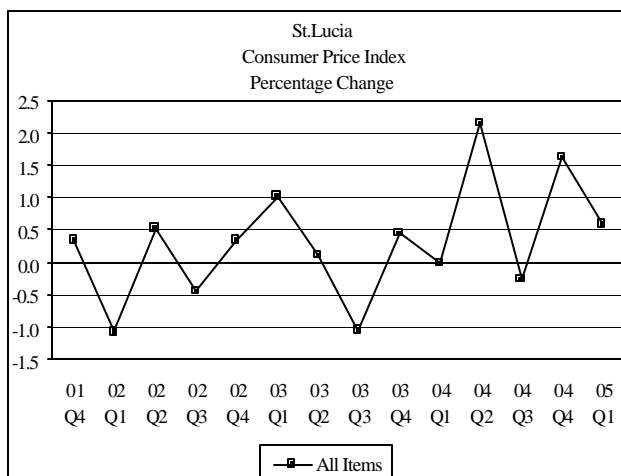
The number of cruise ship passengers declined by 6.8 per cent to 179,840 in contrast to growth of 25.0 per cent in the corresponding quarter of 2004. The decrease was associated in part with a 16.5 per cent fall in the number of cruise ship calls. Excursionist arrivals contracted by 68.8 per cent to 1,117. The declines in the number of cruise ship passengers and excursionists contributed to a 0.8 per cent decrease to 273,332 in total visitors.

Construction activity is estimated to have increased relative to the level in the first quarter of 2004, driven by public sector investment in infrastructure development. Activity in the public sector focussed on rehabilitation of the East Coast Highway and a sea defence project at Dennery. In the private sector it is likely that residential construction activity rose, based on commercial bank data which

show a 1.4 per cent increase in lending for home construction and renovation.

Activity in the agricultural sector is estimated to have contracted during the period under review compared with the level in the first quarter of 2004. Production of bananas, the primary activity, fell by 40.2 per cent to 7,485 tonnes in contrast to an increase of 34.7 per cent in the first quarter of 2004. The decline reflects the incidence of leaf spot disease and the lagged effect of damage to the crop by hurricane Ivan in September 2004. Data on other agricultural crops show increases in production of some crops, partly attributed to ongoing efforts by the government to diversify the agricultural sector.

Consumer prices rose on average by 0.6 per cent during the period under review, influenced by a 1.1 per cent increase in the "food" sub-index. The increase reflected higher prices for cornflakes, salted snout, frozen beef, various chicken parts and tuna. The "fuel and light" sub-index fell by 0.6 per cent as electricity rates decreased.



Trade and Payments

A merchandise trade deficit of \$277.6m was recorded in the first quarter of 2005, roughly 20.8 per

cent above the level in the comparative period of 2004. The outturn was due to the combined effect of a 10.9 per cent rise in import payments and a 36.6 per cent fall in the value of exports.

The larger import payments were mainly attributable to increases in imports of intermediate goods, particularly oil related imports; capital goods, largely machinery and transport equipment; and consumer goods. The decline in the value of exports was attributed to a 39.2 per cent fall to \$10.1m in revenue from banana exports, due to a decrease in the volume exported.

Gross visitor expenditure in the first quarter of 2005 is estimated at \$272.1m, representing a 14.1 per cent increase on the total in the corresponding quarter of 2004. This increase was attributed to the growth in stay-over arrivals. Commercial bank transactions resulted in a net outflow of \$34.3m during the first three months of 2005. Disbursements of external loans to the central government amounted to \$31.2m and amortisation totalled \$4.2m.

Central Government Fiscal Operations

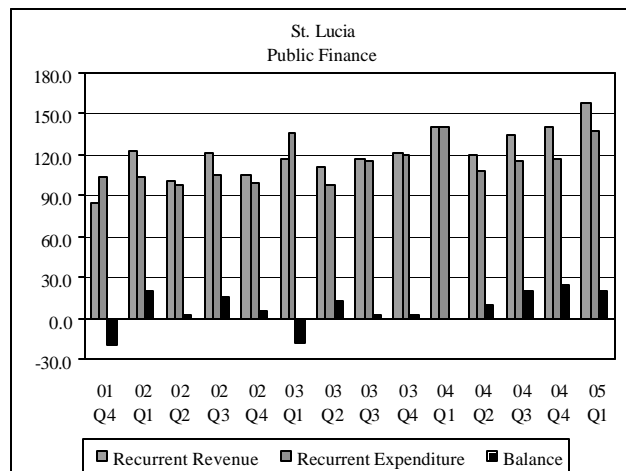
The operations of the central government resulted in a current account surplus of \$19.4m in the quarter under review in contrast to a deficit of \$0.1m in the first quarter of 2004. This outcome was the result of an increase in current revenue and a decline in current expenditure.

Current revenue amounted to \$156.9m, an increase of 11.2 per cent on the total in the corresponding period of 2004, influenced by growth of 12.9 per cent in tax revenue. Of tax revenue, increases were recorded in receipts from taxes on income and profits and taxes on international trade and transactions. Revenue from taxes on income and profits rose by 54.6 per cent,



reflecting larger receipts from corporation taxes as a result of increased compliance and a higher level of corporate profits. Collections from taxes on international trade and transactions rose by 12.8 per cent (\$8.8m), mirroring increases in revenue from import duties (\$2.6m), service charge (\$2.2m) and excise taxes (\$2.1m), consistent with the growth in import payments.

The yield from taxes on domestic goods and services decreased by 25.0 per cent, reflecting a decline in revenue from licences. In the corresponding period of 2004 collections from licences rose sharply, associated with the collection of arrears. Non-tax revenue fell by 6.9 per cent (\$0.8m), partly attributable to a decline in embarkation fee collections from cruise ship visitors, in line with the decrease in arrivals.



Current expenditure amounted to \$137.5m, roughly 2.6 per cent less than the amount collected in the first quarter of 2004. Expenditure on personal emoluments, which accounted for 40.4 per cent of current expenditure, fell by 10.1 per cent. This performance contrasts with the outturn in the first quarter of 2004 when outlays rose by 15.7 per cent, associated with retroactive payments. Expenditure on goods and services fell by 0.7 per cent, while interest payments grew by 14.6 per cent, influenced by larger domestic interest payments. External interest payments declined

by 14.8 per cent (\$1.6m), as government issued Treasury bills to refinance some of its external debt. Outlays on transfers and subsidies rose by 1.6 per cent, associated in part with increased contributions to overseas missions.

Capital expenditure more than doubled to \$94.1m, associated with continuing work on road rehabilitation and disaster mitigation projects. An overall deficit of \$74.7m was recorded on central government's fiscal operations compared with one of \$37.0m in the first quarter of 2004. The deficit was financed by domestic and external loans.

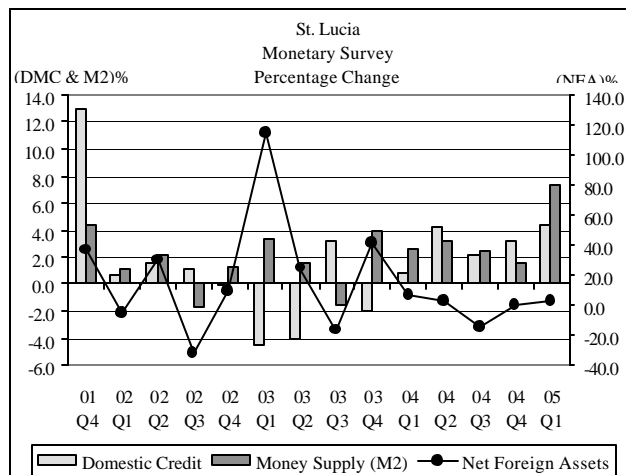
Money and Credit

Broad money (M2) grew by 7.3 per cent to \$1,619.9m during the first quarter of 2005, partly influenced by the expansion in economic activity. Quasi money rose by 9.6 per cent, as private sector foreign currency deposits more than doubled and savings deposits increased by 6.3 per cent. However, time deposits decreased by 6.7 per cent, reflecting a fall in interest rates. The narrow money supply (M1) grew by 2.6 per cent, attributable to growth in private sector demand deposits.

Domestic credit increased by 4.3 per cent to \$1,528.6m, mainly reflecting growth in private sector credit. Outstanding credit to the private sector grew by 3.6 per cent, mirroring increases in credit to households (4.4 per cent) and businesses (2.8 per cent). Those developments are indicative of an increase in consumer and business confidence. The net deposits of the non-financial public enterprises fell by 9.4 per cent as the growth in credit outpaced that of deposits. The central government's indebtedness to the banking system rose by 18.4 per cent, largely reflecting increased holdings of Treasury bills by the commercial banks. However, the central government's deposits

increased by 12.8 per cent, resulting in a 4.7 per cent increase in its net deposits.

The breakdown of credit by economic activity indicates an increase of 4.9 per cent in outstanding loans for personal use, primarily reflecting growth in credit for house and land purchase. Outstanding credit for tourism and distributive trades was up by 9.8 per cent and 6.4 per cent respectively.



The net foreign assets of the banking system increased by 3.4 per cent to \$329.4m during the first quarter of 2005, reflecting developments in the commercial banking sector. The commercial banks shifted to a net assets position of \$1.5m from a net liabilities position of \$32.9m at the end of December 2004, as assets increased at a higher rate relative to the growth in liabilities. St Lucia's imputed share of the reserves held with the Central Bank fell by 6.7 per cent to \$327.9m.

Liquidity in the banking system improved during the quarter under review. This was indicated by a 1.0 percentage point decrease to 26.0 per cent in the ratio of net liquid assets to total deposits plus liquid liabilities. The loans and advances to deposits ratio fell to 80.6 per cent from 80.7 per cent at the end of 2004.

Interest rates remained stable during the first quarter of 2005, except for the maximum rates on some time deposits. The maximum rate on three-month time deposits fell to 3.0 per cent, from 5.25 per cent at the end of December 2004. The rate on deposits over three months to six months decreased by 2.5 percentage points to 3.0 per cent and that on deposits over six months to twelve months fell by 1.75 percentage points to 4.0 per cent. The rates offered on savings deposits remained in the range of 3.0 per cent to 4.75 per cent. Prime lending rates ranged from 9.5 per cent to 10.0 per cent.

Prospects

Growth in real GDP in St Lucia is projected in 2005 although at a rate below that recorded in 2004. The expansion is expected to be supported by developments in the tourism industry and the construction sector. In the tourism industry, growth in arrivals will be spurred by intense marketing and an increase in airlift out of the major markets. Construction activity in the public and private sectors is expected to intensify in the latter part of 2005. Public sector construction will include new schools and hospitals, road development, expansion of the Beausejour cricket ground and facilities, and other infrastructure development in preparation for the Cricket World Cup 2007. In the private sector, activity is expected to be led by two new resorts and refurbishing and expansion of the hotel plant. In the agricultural sector, banana production is expected to decline on account of leaf spot disease.

In the fiscal accounts, current revenue is projected to increase based on the expansion in economic activity and an improvement in tax compliance. Expenditure on personal emoluments is likely to be below the level in 2004, when retroactive payments were made. Capital expenditure will grow as spending increases



on infrastructural development projects. The overall deficit is expected to widen and is likely to be financed largely by the issue of bonds and Treasury bills on the RGSM.

In the external sector, the merchandise trade deficit will widen, largely influenced by an increase in import payments, associated with higher international oil prices

and the expansion in construction and tourism activity. Lower earnings from banana exports are projected. There are some downside risks to the outlook for 2005. These include rising international oil prices, which can adversely affect the trade balance, consumer prices and tourist traffic. Unfavourable weather could also slow economic activity.



ST VINCENT AND THE GRENADINES

Overview

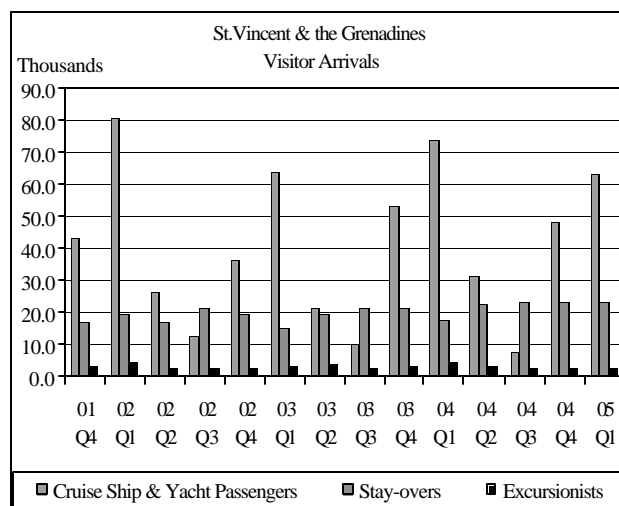
Developments in construction and tourism in the first quarter of 2005 indicate an increase in economic activity relative to the level in the corresponding period of 2004. Output in the agricultural and manufacturing sectors is estimated to have declined. The consumer price index increased by 1.9 per cent. The central government's fiscal position weakened, as an overall deficit was recorded in contrast to a surplus in the first quarter of 2004. In the external sector, the merchandise trade deficit widened due to an increase in import payments. Liquidity in the commercial banking system remained at a high level. There were some movements in interest rates on time deposits during the quarter under review.

The economic outlook for the remainder of 2005 is positive, based on likely developments in tourism and construction. However these prospects are predicated on favourable conditions in the external environment and good weather.

Output and Prices

In the construction sector activity expanded, driven by public sector investment in housing and infrastructure development. Activity included the start of construction of a power plant and ongoing work on the new headquarters for the St Vincent and the Grenadines' National Insurance Services (NIS), renovations to the Victoria Park, low-income housing development and rehabilitation of the Windward Highway. Work was completed on the new corporate headquarters for the National Lotteries Authority (NLA), the George McIntosh Community Market funded by NLA and two day centres for the elderly funded by NIS.

The performance of the tourism industry improved compared with the outturn in the first quarter of 2004, influenced by growth in the numbers of stay-over visitors and yacht passengers. Stay-over arrivals are estimated to have increased by 31.0 per cent to 23,044, mainly attributable to additional hotel accommodation with the reopening of a resort on Canouan in mid-2004. A 300-member film production crew from the USA also contributed to the increase in the number of stay-over visitors. Of the major markets, increases were recorded in stay-over arrivals from the USA (40.7 per cent), UK (35.0 per cent) and Canada (29.9 per cent). Intensified regional marketing efforts, including promotion of a Blues Festival in January and Union Island's Easterval in March, contributed to a 20.7 per cent increase in stay-over arrivals from the Caribbean. Yacht activity showed signs of recovery in the first quarter of 2005. The number of yacht passengers increased by 10.0 per cent to 33,190, in contrast to declines recorded in the corresponding quarters of 2001 to 2004. The recovery reflected the success of various promotional activities and heightened security measures.



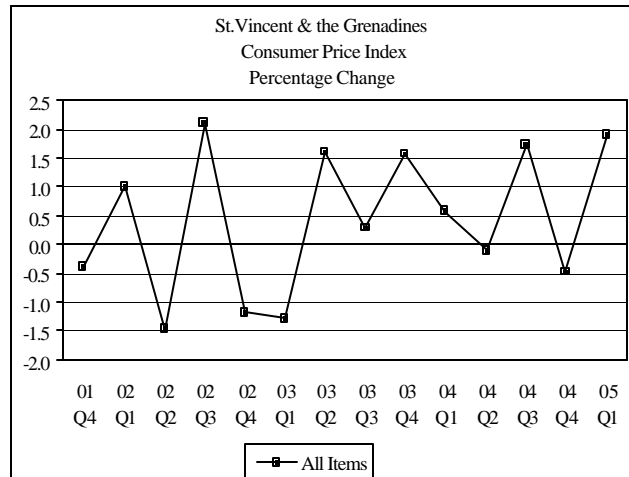
The increases in stay-over and yacht passenger arrivals were more than offset by reductions in cruise ship passenger arrivals and excursionists. The number of cruise ship passengers fell by 30.9 per cent, consistent with a reduction in cruise ship calls. There were 42 fewer calls during January to March 2005 compared with the number in the corresponding period of 2004. Excursionists decreased by 29.6 per cent to 3,092. Those developments resulted in a 6.6 per cent fall to 89,471 in the total number of visitors to St Vincent and the Grenadines.

Output in the agricultural sector is estimated to have been below the level in the first quarter of 2004. Banana production decreased by 41.4 per cent to 4,469 tonnes, in contrast to the 41.2 per cent increase reported in the first quarter of 2004. The decline in output was the combined result of hurricane damage in September 2004, extensive rain and land-slippage in November 2004 and drought in the first quarter of 2005. In the case of other crops, output of dasheen, eddoes and plantain increased at rates in excess of 10.0 per cent.

Manufacturing activity is estimated to have declined in the quarter under review compared with the level in the corresponding quarter of 2004. Flour production, a major activity, fell by 2.4 per cent and output of rice decreased by 2.9 per cent. By contrast, beer production rose by 27.3 per cent, reflecting an increase in demand. Output of feeds was 0.3 per cent above the total in the first quarter of 2004.

Consumer prices rose on average by 1.9 per cent during the first quarter of 2005, partly reflecting increases in the prices of food, fuel and light. The "food" sub-index rose by 2.7 per cent, attributable to increases in the prices of fish and breadfruit. A 13.7 per cent rise in the "fuel and light" sub-index was reflective of price increases for petroleum products and electricity services in response to higher

international oil prices. There were decreases in the sub-indices "household furnishings and supplies" (2.7 per cent) and "transport and communications" (2.2 per cent).



Trade and Payments

Preliminary data show a merchandise trade deficit of \$109.9m in the period January to March 2005, roughly 2.5 per cent above the deficit in the corresponding quarter of 2004. The larger deficit was primarily the result of growth of 3.6 per cent in import payments, associated with increased payments for mineral fuels, lubricants and related materials, reflecting the rise in oil prices. Imports of machinery and transport equipment also increased, partly associated with the Disney film production and the expansion in construction.

The value of exports increased by 8.0 per cent, driven largely by the re-export of machinery and construction equipment following the completion of some projects. Receipts from domestic exports fell by 2.4 per cent, primarily attributable to developments in the banana industry. Banana export earnings totalled \$6.1m, representing a decline of 37.2 per cent on receipts in the first quarter of 2004. The lower value

was reflective of a reduction in export volume consequent upon the fall in banana output.

Gross visitor expenditure is estimated to have increased by 17.0 per cent to \$84.3m, supported by the higher numbers of stay-over visitors and yacht passengers. There were net inflows of \$22.7m in commercial bank short-term capital in the first quarter of 2005, slightly above those of \$21.5m recorded in the corresponding period of 2004.

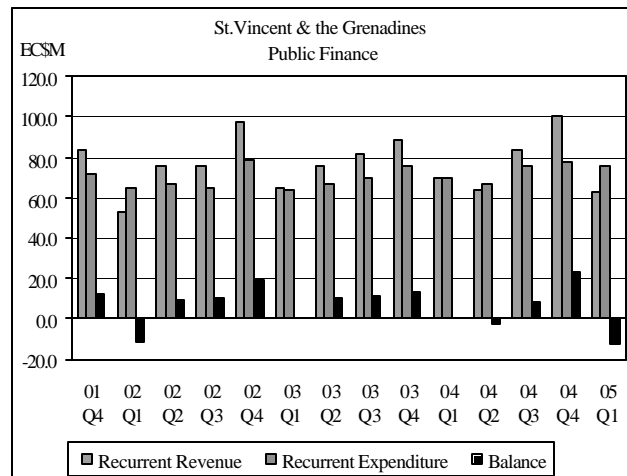
Central Government Fiscal Operations

The central government's fiscal operations resulted in a current account deficit of \$12.3m in the first quarter of 2005 in contrast to a surplus of \$1.0m in the corresponding period of 2004. The deterioration was the combined result of a fall in current revenue and an increase in current expenditure.

Current revenue decreased by 10.3 per cent to \$62.8m, mainly reflecting declines in non-tax revenue and tax receipts. Reduced receipts from interest, rents and dividends contributed to a 30.5 per cent (\$4.4m) decrease in non-tax revenue; in the first quarter of 2004 non-tax receipts rose substantially as arrears were collected. Tax revenue fell by 4.8 per cent during the quarter under review, mirroring declines in all the major categories except taxes on income and profits, which rose by 0.3 per cent. Receipts from taxes on domestic goods and services fell by 11.7 per cent (\$1.5m). This outturn reflected a 31.2 per cent (\$2.0m) reduction in revenue from stamp duties, which was unusually large in the first quarter of 2004 because of property transfers. Collections from taxes on international trade and transactions declined by 4.1 per cent (\$1.2m), attributed in part to a 9.1 per cent (\$1.6m) fall in receipts from consumption tax; in the first quarter of 2004 revenue from the consumption tax rose sharply, influenced by increased importation of

telecommunications equipment. Increases were recorded in collections from the import duty (4.0 per cent) and the customs service charge (2.8 per cent).

Current expenditure amounted to \$75.1m, representing an 8.9 per cent increase relative to the



total in the first quarter of 2004. This performance was partly the result of a higher level of spending on personal emoluments (9.0 per cent), associated with a 3.0 per cent salary increase paid to civil servants, effective January 2005. Outlays on transfers and subsidies increased by 12.7 per cent. Interest payments rose by 18.4 per cent (\$1.2m), reflecting increases in both domestic and external obligations.

Capital expenditure doubled to \$12.8m, associated with increased spending on infrastructure projects. Capital grants amounted to \$0.8m, roughly 66.2 per cent below the level in the first quarter of 2004. The fall in capital grants was in part attributed to reduced spending on the fisheries complex as it neared completion. The transactions in the current and capital accounts resulted in an overall deficit of \$22.5m in contrast to a surplus of \$0.2m in the first quarter of 2004. The deficit was financed from domestic sources.

Money and Credit



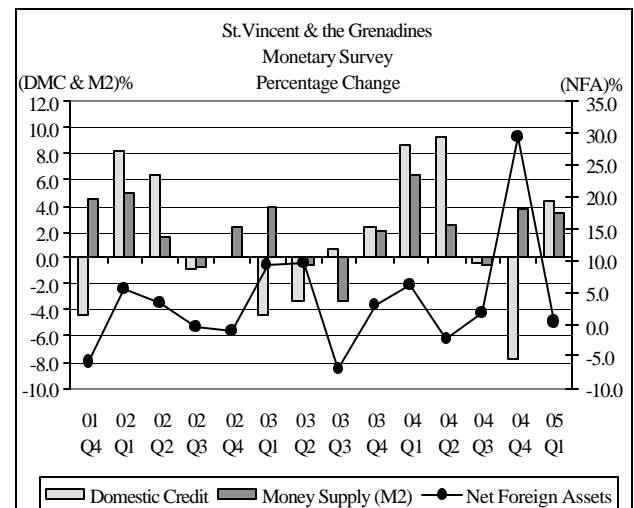
Broad money (M2) increased by 3.4 per cent to \$840.1m during the quarter under review, supported in part by the expansion in economic activity. The growth in M2 reflected increases of 6.5 per cent and 1.8 per cent in narrow money (M1) and quasi-money respectively. Of M1, private sector demand deposits rose by 8.8 per cent, while currency with the public decreased by 1.4 per cent. Of the components of quasi-money, increases were recorded in private sector savings (3.8 per cent) and time deposits (0.9 per cent) but these were partly offset by a 22.5 per cent fall in private sector foreign currency deposits.

Domestic credit grew by 4.3 per cent to \$578.2m, partly influenced by increased borrowing by the private sector and a drawdown of deposits by the central government. Credit to the private sector rose by 1.2 per cent, mirroring increases of 2.1 per cent and 0.9 per cent in outstanding loans to businesses and households respectively. The central government's accounts moved from a net deposits position of \$4.7m at the end of December 2004 to a net credit position of \$0.4m at the end of March 2005. The shift was the result of a 16.3 per cent reduction in its deposits at commercial banks, in part to finance its overall deficit. Central government's borrowings from the banking system decreased by 8.4 per cent, as it continued to use the Regional Government Securities Market (RGSM) as a source of funding. The net deposits of the non-financial public enterprises declined by 16.6 per cent, mainly reflecting a fall in deposits, while those of the non-bank financial institutions increased by 5.9 per cent.

The classification of credit by economic activity indicates decreases in outstanding loans for most of the categories. Credit for construction decreased by 12.0 per cent, reflecting a decline in borrowing by the private sector. Outstanding loans for distributive trades and tourism fell by 3.7 per cent and 2.9 per cent

respectively. Personal loans decreased by 1.3 per cent during the quarter under review. Of personal loans, credit for home construction and renovations fell by 4.7 per cent, while that for property purchase increased by 3.7 per cent. The growth in credit for property purchase could be linked to the government's low-income housing programme. Outstanding loans for agriculture and fisheries quadrupled as farmers were advanced credit to facilitate the replanting of crops damaged by severe weather in the latter part of 2004. Credit for manufacturing (including mining and quarrying) rose by 7.7 per cent.

The net foreign assets of the banking system rose by 0.3 per cent to \$430.5m compared with the total at



the end of 2004. An expansion of 12.0 per cent was recorded in St Vincent and the Grenadines' imputed share of ECCB's reserves. This increase was partly offset by a decline of 9.9 per cent in the net foreign assets of the commercial banks.

The commercial banking system continued to exhibit a high level of liquidity. The ratio of liquid assets to total deposits plus liquid liabilities rose to 43.5 per cent at the end of March 2005 from 41.4 per cent at the beginning of the year. The loans and advances to



deposits ratio was 70.7 per cent, roughly 0.5 percentage point below that at the end of 2004.

There were some movements in commercial bank interest rates on time deposits during the quarter under review. The maximum rates on time deposits of less than one year fell by 0.25 percentage point. Interest rates on savings deposits remained stable in the range of 3.0 per cent to 4.5 per cent. Prime lending rates ranged from 9.0 per cent to 11.0 per cent.

Prospects

The economy is projected to expand in 2005 on the basis of growth in tourism and construction activity. An increase in stay-over arrivals is projected in 2005, with additional airlift from Puerto Rico, the opening of the resort in Canouan in August 2004 and the production of a Disney film by a 300 strong crew. The number of yacht visitors is expected to increase for the first time in four years based on intense marketing and heightened security measures. Ongoing and new projects, including rehabilitation of the Windward Highway, low income housing, a power plant, a public library complex and a cross-country road, are expected to contribute to an increase in construction activity. In the case of agriculture, banana production is projected to contract due to adverse weather.

Fiscal projections for 2005 show a weakening in the overall balance, as the rate of increase in expenditure is likely to exceed that in revenue. Growth in current expenditure is projected, based in part on larger outlays on personal emoluments as a result of salary increases to civil servants. Interest payments are expected to increase, on account of the larger stock of the central government's debt. Growth in capital expenditure is projected, associated with the implementation of infrastructure development projects. New tax measures and a strengthening of tax administration are expected to contribute to an increase in current revenue. These measures include a 5.0 per cent tax on mobile calls and a 10.0 per cent tax on winnings in excess of \$500 from games of chance. Increases in the retail price of petroleum products effective 01 January are expected to result in a larger intake from taxes on these products.

The merchandise trade deficit is expected to widen, based on the expansion in construction and high international oil prices. Gross travel receipts are expected to be above the level in 2004 as a result of growth in visitor arrivals. M2 is likely to increase based on the prospects for economic expansion. Liquidity in the commercial banking system is expected to remain high.

