
REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary data suggests ongoing weakness in domestic economic activity during the fourth quarter of 2009, led by a contraction in tourism output, alongside sluggish private sector demand. Consumer price inflation remained relatively benign over the review period, despite a marked increase in international oil prices. The weakness in economic activity continued to impact negatively on Government's revenues; although the boost to non-tax receipts, provided by a one-off asset sale, mitigated any further deterioration in the overall fiscal deficit.

Monetary developments supported a further build-up in bank liquidity, stemming from the receipt of proceeds from Government's US \$300 million bond issue and the slowed pace of private sector credit growth. Amid the relatively high unemployment rate and lacklustre business sector activity, banks' asset quality indicators continued to deteriorate, resulting in increased levels of provisions which negatively affected their profitability.

In the external sector, the expansion in the current account deficit was primarily associated with a decline in the services surplus and a rise in net income outflows, linked to higher dividend and interest payments. Similarly, the capital and financial account surplus narrowed, owing to a sharp reduction in net inward foreign direct investments, which overshadowed the external borrowing led expansion in other "miscellaneous" investment inflows.

FISCAL OPERATIONS

OVERVIEW

Provisional estimates of Government's operations for the second quarter of FY2009/10 revealed that the overall deficit virtually stabilized at \$75.5 million when compared to the same quarter of FY2008/09. The outcome was led by a turnaround in revenue performance, to a 17.6% gain, following a 2.9% contraction a year-earlier; while aggregate expenditure—including net lending to public

corporations—advanced by 14.4%, exceeding the comparative 4.7% growth.

REVENUE

Reflecting the reduction in domestic activity, tax receipts, which constituted 70.5% of total collections, declined by 8.5% to \$254.7 million. International trade & transaction taxes fell by 19.3% to \$130.0 million, based on contractions in both import (16.2%) and excise (30.4%) taxes. Although hotel occupancy taxes recovered, selective services fees receded by 28.8% to \$6.2 million, given the decrease in gaming receipts. Similarly, collections from business and professional licence fees fell by 21.7% to \$8.1 million; other "unclassified" taxes, by 14.2% to \$11.4 million and departure taxes, by 3.0% to \$11.5 million.

Receipts from non-tax sources—at 29.5% of total revenue—expanded strongly by \$77.9 million to \$106.4 million. The outturn reflected a one-time inflow of proceeds relating to the sale of a significant business entity, which boosted income receipts to \$85.4 million. In contrast, collections from fines, forfeits & administrative fees narrowed by \$5.4 million to \$20.9 million, and proceeds from the sale of Government property fell slightly to \$0.05 million.

EXPENDITURE

Total expenditure advanced by 14.4% to \$436.6 million during the quarter, based on a 3.3% increase in current spending to \$345.4 million, and a 40.7% rise in capital outlays to \$42.9 million. Budgetary assistance to public corporations elevated net lending by \$31.5 million to \$48.3 million. On a proportional basis, recurrent expenditure accounted for 79.1% of aggregate spending, capital outlays, 9.8%, and net lending to public corporations, 11.1%.

By economic classification, growth in current expenditure included a 15.2% boost in purchases of goods & services, and a marginal hike in the dominant personal emolument (1.1%) component. Transfer payments edged up by 0.4% to \$133.2 million, led by a 2.6% rise in interest payments on debt, as subsidies and other transfers declined by 0.6% to \$91.4 million.

Approximately 21.9% of recurrent spending was earmarked for general public services, which expanded by 4.9% to \$93.1 million. In addition, outlays for education, health and other community & social services rose by 3.7%, 6.3% and 62.3%, respectively. Conversely, reduced spending was registered for defense (3.6%); social benefits & services, (5.0%); housing (23.6%) and economic services (3.4%).

Capital outlays increased by 40.7% to \$42.9 million, largely explained by a near doubling in capital formation to \$39.9 million. Specifically, spending for public works & water supply projects rose more than two-fold to \$32.7 million, offsetting a near 50% reduction in educational outlays to \$4.9 million.

Government Revenue By Source

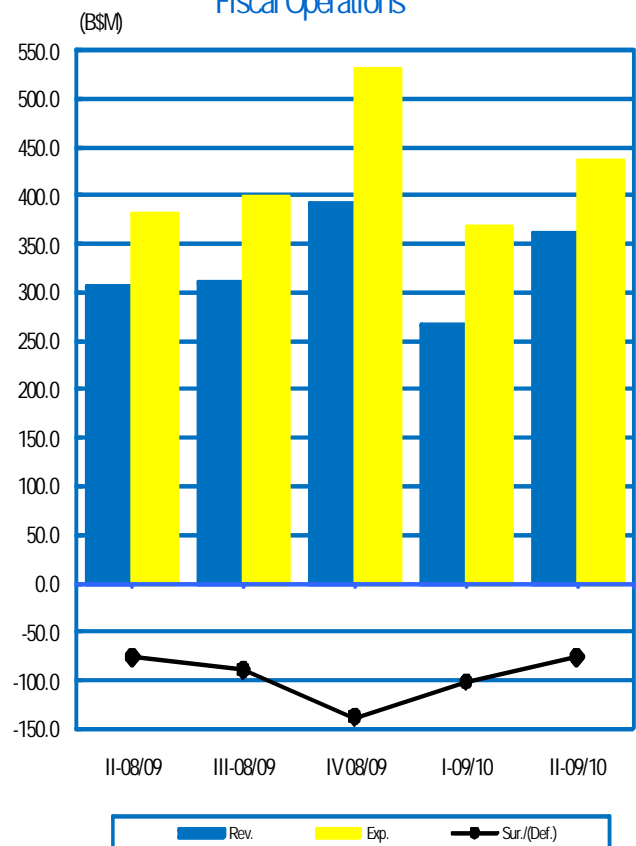
(Oct - Dec)

	FY08/09		FY09/10	
	B\$M	%	B\$M	%
Property Tax	28.7	9.3	36.4	10.1
Selective Services Tax	8.7	2.8	6.2	1.7
Busines. & Prof Lic. Fees	10.3	3.4	8.1	2.2
Motor Vehicle Tax	4.2	1.4	4.5	1.2
Departure Tax	11.9	3.9	11.5	3.2
Import Duties	100.2	32.6	83.9	23.2
Stamp Tax from Imports	3.6	1.2	3.6	1.0
Excise Tax	55.4	18.0	38.5	10.7
Export Tax	1.9	0.6	3.9	1.1
Stamp Tax from Exports	--	--	--	--
Other Stamp Tax	40.7	13.3	47.0	13.0
Other Tax Revenue	13.3	4.3	11.4	3.2
Fines, Forfeits, etc.	26.4	8.6	20.9	5.8
Sales of Govt. Property	0.2	0.1	0.1	0.0
Income	1.9	0.6	85.4	23.6
Other Non-Tax Rev.	--	--	--	--
Capital Revenue	0.1	--	0.1	--
Grants	--	--	--	--
Less:Refunds	0.4	0.1	0.4	0.1
Total	306.9	100.0	361.1	100.0

FINANCING AND THE NATIONAL DEBT

Budgetary financing for the quarter was provided solely by external sources, and included a US\$300.0 million bond issue and a \$4.4 million drawdown on external loans.

Fiscal Operations



Of the \$223.6 million in debt repayment, \$195.9 million went towards reducing internal obligations—including the utilisation of bond proceeds to repay a net of \$160.9 million in short-term foreign currency advances from the domestic banking system.

The Direct Charge on Government expanded over the three-month period, by 2.5% (\$80.7 million) to \$3,320.3 million at end-December, approximately 20.0% higher than the year earlier level. Bahamian dollar denominated debt represented 78.8% of the total, and was held by commercial banks (33.9%), private & institutional investors (30.6%), public corporations (27.6%), the Central Bank (7.7%) and other local financial institutions (0.2%). At end-December, Government securities accounted for the largest share of local currency debt, at 86.8%, with an average maturity of 13.1 years; followed by Treasury bills (9.3%) and bank loans & advances (3.9%).

The Government's contingent liabilities also increased during the quarter, by 32.5% to \$581.0 million, explained mainly by the refinancing activities of the Bahamas Electricity Corporation. As a result of these developments, the National Debt grew by \$223.3 million (6.1%) to \$3,901.3 million over the review quarter and by \$687.7 million (21.4%) vis-à-vis the previous year.

PUBLIC SECTOR FOREIGN CURRENCY DEBT

During the fourth quarter, public sector foreign currency debt rose by \$132.7 million (13.3%) to \$1,132.4 million, as new drawings of \$539.7 million—the bulk of which was due to refinancing activities—surpassed amortization payments of \$404.8 million. The Government's outstanding liabilities increased by 19.6% to \$704.9 million, to account for 62.2% of the total; whereas the public corporations' debt stock grew by 4.1% to \$427.5 million.

In comparison to the same period last year, total debt service payments firmed by \$391.3 million to \$419.5 million, as amortization payments—inclusive of \$396.0 million in refinancing—increased by \$393.5 million to \$404.7 million. Conversely, interest payments fell by \$9.3 million to \$14.9 million. When the refinancing activities are abstracted from the analysis, the debt service stabilized at approximately \$23.5 million, and as a percentage of exports of goods and services, the debt service rose by 0.2 percentage points to 3.6%, while the ratio of Government debt service to revenue was relatively stable at 4.7%.

By creditor profile, the majority of foreign currency debt was held by private capital markets (53.0%), followed by commercial banks (31.0%), multilateral institutions (11.1%), other entities (3.0%) and bilateral institutions (1.9%). Approximately 98.6% of the debt was denominated in United States dollars, with an average maturity of 14.9 years.

REAL SECTOR

TOURISM

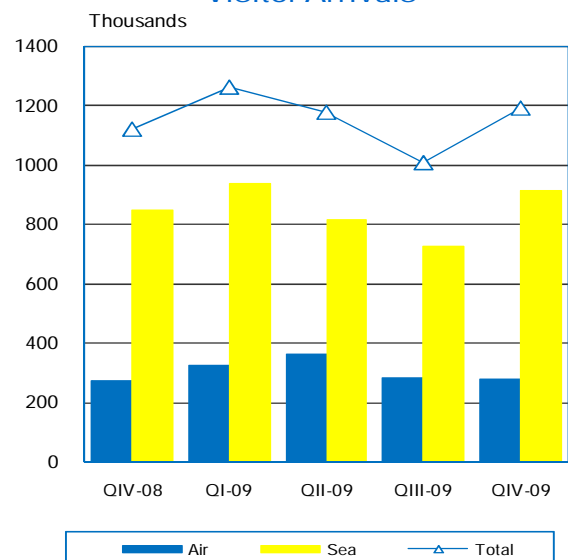
Weakness in the tourism industry persisted during the fourth quarter, reflected in declines in both average visitor spending and occupancy rates, which overshadowed the modest recovery in stopover arrivals and further improvements in the cruise sector.

Total visitor arrivals gained 6.4% to 1.2 million, extending the 0.5% increase in the corresponding quarter of 2008. Sea passengers—which comprised 76.8% of total visitors—advanced by 8.0% to 0.9 million, following an 8.7% growth last year. After declining by 18.6% in 2008, air traffic recovered by 1.2% to 0.3 million.

On a destination basis, arrivals to New Providence rebounded by 6.8%, in contrast to last year's 3.4% contraction, as both air and sea passengers firmed by 2.6% and 8.9%, respectively. Similarly, Grand Bahama experienced a 17.0% gain in visitors, extending last year's 11.4% upturn, benefitting from a robust 22.7% rise in sea passengers which negated the 2.9% falloff in air traffic. Growth in visitors to the Family Islands was halved to 1.9%, as a 2.5% gain in sea arrivals overshadowed a 3.6% reduction in air passengers.

Preliminary data for the hotel sector showed total revenues down by approximately 7.2% to \$81.5 million, due to an estimated 4.9% decline in the average daily room rate, along with a 2.4% falloff in occupancy levels. In terms of the main markets, revenues for Nassau properties contracted by 2.7%, occasioned by a similar fall in the average daily rate, although the average occupancy rate was unchanged. Decreased average daily rates, alongside lower levels of occupancy also explained the respective 16.0% and 47.5% declines in revenues for Grand Bahama and the Family Islands.

Visitor Arrivals



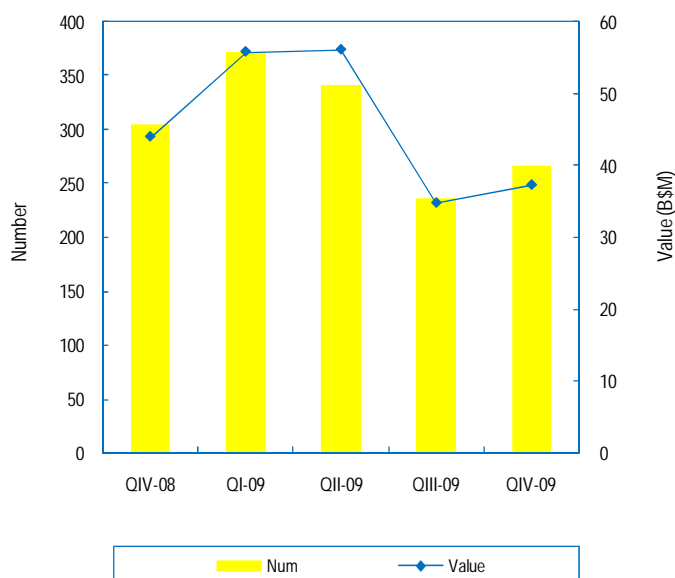
CONSTRUCTION

Partial indicators signaled contracted levels of construction output for the fourth quarter, amid weakened foreign investment activity and a ratcheting down of domestic private sector projects. Mortgage disbursements for new construction and building repairs—as reported by banks, insurance companies and the Bahamas Mortgage Corporation—fell by 13.9% to \$61.1 million, compared to the same period in 2008.

Mortgage commitments for new construction and repairs—a more forward looking indicator—contracted in number by 12.5% to 266 and in value, by 15.2% to \$37.4 million. This outturn reflected reductions in residential approvals for both volume and value, by 12.3% and 15.3%, to 257 and \$35.2 million, respectively. Similarly, the commercial component declined in number by 18.2% to 9, with a corresponding 13.4% drop in value to \$2.1 million.

In terms of mortgage financing, the average cost for residential mortgages fell by 10 basis points to 8.4%. The commercial rate also softened by 20 basis points to 8.9%.

Mortgage Commitments:
New Construction and Repairs



PRICES

Despite the uptick in global fuel prices, domestic inflation for the fourth quarter remained subdued, although the rate of increase in average prices advanced to 0.4% from 0.2% a year earlier. Average price gains firmed for “other” goods & services and medical care & health, by 1.32 and 0.56 percentage points, to 1.33% and 1.04%, respectively. Similarly, average costs for housing—the largest component of the index—furniture and household operation, as well as transport and communication, which posted respective contractions of 0.7%, 0.15% and 1.1% a year earlier, reversed to increases of 0.22%, 0.07% and 1.23%. Clothing and footwear inflation stabilized at 0.35%; while food and beverage costs moderated by 0.5%, a reversal from a 2.18% increase in 2008. The decline in average prices for recreation and entertainment services slackened further by 0.48%, vis-à-vis 0.99% in 2008.

Average Retail Price Index

(Annual % Changes)
December

Items	Weight	2008		2009	
		Index	%	Index	%
Food & Beverages	138.3	139.4	6.7	146.1	4.8
Clothing & Footwear	58.9	109.3	1.5	111.4	1.9
Housing	328.2	112.5	3.5	112.4	-0.1
Furn. & Household	88.7	138.4	6.8	142.8	3.2
Med. Care & Health	44.1	149.7	5.0	153.1	2.3
Trans. & Comm.	148.4	116.2	3.0	118.3	1.8
Rec., Enter. & Svcs.	48.7	130.3	2.5	131.3	0.7
Education	53.1	178.3	2.6	183.7	3.0
Other Goods & Svcs.	91.6	147.1	7.5	152.2	3.5
ALL ITEMS	1000	128.0	4.5	130.7	2.1

Domestic fuel prices registered some firming during the review period. The average cost per gallon of gasoline rose marginally by 0.5% to \$4.14, in contrast to a decline of 25.2% to \$4.18 per gallon in the comparable period of 2008; and the per gallon cost of diesel advanced by 7.4% to \$3.48, following last year's 30.7%

drop. The Bahamas Electricity Corporation's fuel surcharge for energy consumption also increased by 11.0% to 11.38¢ per kilowatt hour (kWh), erasing the 11.0% fall-off to 20.57¢ a year earlier.

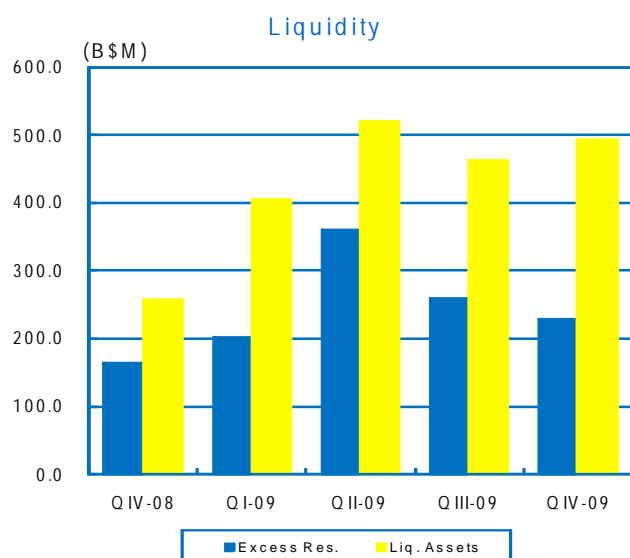
MONEY, CREDIT AND INTEREST RATES

OVERVIEW

Monetary developments during the fourth quarter featured a modest increase in overall liquidity, supported by a slowdown in private sector credit growth alongside proceeds from the Government's external bond issue. The resultant boost to external reserves secured a significant decline in the banking system's foreign liabilities. However, amid continued worsening in credit quality, which prompted increased provisions, banks' profitability weakened.

LIQUIDITY

As banks shifted excess funds into Government securities, net free cash reserves contracted by \$29.1 million (11.2%) to \$229.5 million, compared with last year's \$57.3 million (25.8%) decline to \$164.8 million. At end-December, banks' free cash balances represented 4.0% of Bahamian dollar deposits, up from 2.9% a year earlier. Correspondingly, the broader surplus liquid assets advanced by \$30.6 million (6.6%) to \$494.1 million, exceeding the statutory minimum by an elevated 53.2% in comparison to 28.3% in 2008.



DEPOSITS & MONEY

Overall money (M3) supply contracted marginally during the quarter, compared to a relatively flat position in the previous period. Narrow money (M1) grew by 0.4% (\$5.7 million), in contrast to a 3.5% decline in 2008, as a 12.8% seasonal boost in currency in active circulation, eclipsed a 1.6% decrease in demand deposits.

Accretions to broad money (M2) slowed further to 0.2% (\$8.7 million) from 0.3% (\$14.4 million) a year ago. A falloff in private individual placements moderated the accumulation in fixed deposits, by 1.0 percentage point to 0.4% (\$14.6 million); and saving deposits decreased by 1.2% (\$11.6 million) vis-à-vis a 1.4% rise in 2008. The contraction in residents' foreign currency deposits was slightly lower at 5.2%, as a 6.8% decline in private balances outstripped the 26.5% advance in public corporations' accounts. As a consequence, overall money (M3) fell by 0.1% (\$4.0 million) on a quarterly basis, for an end-December stock of \$6,032.3 million, compared to \$5,924.0 million at end 2008.

Bahamian dollar fixed deposits represented the largest component (58.4%) of the money stock, followed by demand (17.8%) and savings (16.5%). Smaller shares were accounted for by residents' foreign currency deposits (3.8%) and currency in active circulation (3.5%).

DOMESTIC CREDIT

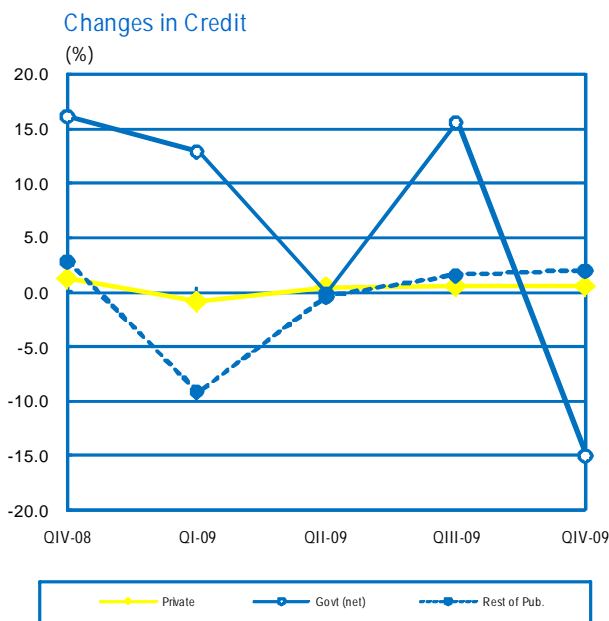
Following a \$223.6 million (2.9%) build-up last year, domestic credit contracted by \$134.7 million (1.6%). As the Government repaid foreign currency advances, the decline in banks' foreign currency claims was extended to \$148.2 million (17.2%) from \$10.3 million (1.3%) in 2008. Anemic private sector demand limited accretions to the Bahamian dollar component, to \$13.5 million (0.2%), from a public sector led \$233.8 million (3.4%) expansion in 2008.

Mirroring movements in net claims on Government, the banking system's net credit to the public sector decreased by \$172.9 million (10.7%), in contrast to a \$141.4 million (11.5%) expansion a year ago.

Amid depressed consumer demand and the adoption of more conservative lending practices by banks, private sector credit growth was more than halved to \$38.2 million (0.6%) from \$82.2 million (1.3%). The outcome was dominated by an almost 75% slowing in growth of

the Bahamian dollar component to \$23.9 million (0.4%), whereas foreign currency credit firmed by 3.4% relative to a downturn of 2.9% in 2008. The rise in personal loans—which accounted for the bulk (76.8%) of outstanding claims—slackened to \$1.9 million (0.04%) from \$108.3 million (2.2%), as accretions to consumer credit narrowed by \$13.8 million (0.6%), and residential mortgage gains were lower at \$31.1 million (1.2%). Conversely, personal overdraft balances increased by \$7.8 million (8.0%), compared to a \$1.5 million (1.4%) decline in 2008.

ments were posted for distribution (\$6.1 million), miscellaneous (\$43.0 million) and fisheries (\$2.9 million).



A dis-aggregation of consumer loans revealed broad-based reductions for almost all categories. Notable decreases in lending were recorded for private cars (\$8.5 million), miscellaneous (\$8.3 million) and travel (\$3.3 million) loans; and declines of under \$3.0 million were posted for the remaining categories. Reflecting consumers' difficulties in servicing existing obligations, debt consolidation loans advanced by \$9.8 million; and credit card debt grew by \$1.3 million.

The remaining private sector credit categories featured expanded net lending for construction (\$36.2 million), professional & other services (\$20.2 million), tourism (\$17.6 million), manufacturing (\$5.4 million), entertainment & catering (\$8.9 million), agriculture (\$1.0 million) and transport (\$2.3 million). Conversely, net repay-

	2008		2009	
	B\$M	%	B\$M	%
Agriculture	15.0	0.2	15.6	0.2
Fisheries	9.9	0.1	7.7	0.1
Mining & Quarry	1.5	0.0	0.8	0.0
Manufacturing	41.1	0.6	37.1	0.5
Distribution	178.6	2.6	147.9	2.1
Tourism	212.5	3.0	198.9	2.9
Enter. & Catering	36.4	0.5	44.1	0.6
Transport	28.2	0.4	28.0	0.4
Construction	446.0	6.4	450.6	6.5
Government	145.8	2.1	76.5	1.1
Public Corps.	343.5	4.9	305.9	4.4
Private Financial	20.2	0.3	21.5	0.3
Prof. & Other Ser.	168.0	2.4	160.4	2.3
Personal	4,989.1	71.3	5,044.8	72.6
Miscellaneous	361.5	5.2	411.3	5.9
TOTAL	6,997.3	100.0	6,951.1	100.0

MORTGAGES

An analysis of mortgage lending, as reported by domestic banks, insurance companies and the Bahamas Mortgage Corporation, revealed that total disbursements for new construction and building repairs fell by 13.9% (\$9.9 million) to \$61.1 million, explained by retrenchments in both residential and commercial components of 10.4% and 37.7%, respectively. Total mortgages outstanding firmed by \$37.9 million (1.2%) to \$3,184.2 million, below the \$44.0 million (1.5%) increase in the comparative period last year. Residential loans—which comprised 93.2% of the total—advanced by \$37.7 million (1.3%) to \$2,966.7 million, marginally lower than the 1.6% rise in 2008. Further, the commercial segment rose by a modest \$0.2 million (0.1%) to \$217.5 million, compared to a relatively stable outcome a year earlier.

At end-2009, commercial banks held the majority of outstanding mortgages (89.0%), followed by insurance

accounts. Deposits with balances between \$10,000 and \$50,000 represented 11.6% of aggregate value and 6.2% of total accounts. Meanwhile, individual balances exceeding \$50,000 constituted 81.9% of total value and 3.1% of the accounts.

CREDIT QUALITY

During the review period, commercial banks continued to experience a steady deterioration in credit quality, amid weak economic conditions and elevated unemployment levels. Compared to the previous quarter, the value of private sector loans with payments 30 days past due rose by \$100.9 million (10.2%) to \$1,090.1 million, which represented 17.6% of total loans at end-December 2009.

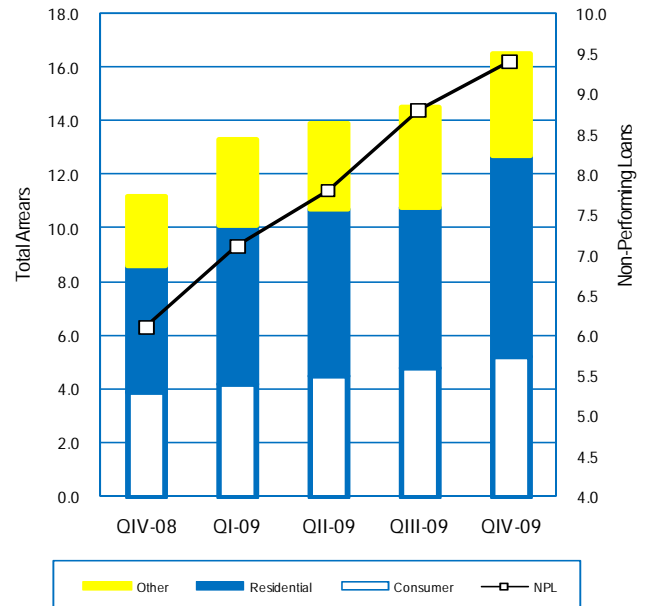
In terms of the major components, the most significant increase occurred in residential mortgage delinquencies, which firmed by \$67.1 million (14.4%) to \$531.5 million, with the corresponding ratio extended to 18.5% from 16.3% in the third quarter and 13.2% a year earlier. Similarly, consumer loan arrears advanced by \$29.5 million (10.1%) to \$323.0 million, and by 1.3 and 3.9 percentage points over the previous quarter and year to 14.7% of total loans. Commercial arrears expanded modestly by \$4.3 million (1.9%) to \$235.6 million, to represent a higher arrears rate of 22.8% compared to 15.5% at end-2008.

With regard to average age, the gains in arrears were broad-based, as delinquencies in the 31–90 days segment firmed by \$57.7 million (12.7%) to \$513.7 million, for a modest 0.9 percentage point increase in the average ratio over the quarter, to 8.41% of total loans. Similarly, non performing loans—arrears in excess of 90 days and on which banks ceased accruing interest—advanced by \$43.2 million (8.1%) to \$576.4 million. At end-December, the ratio of non-accrual loans to total bank claims rose to 9.4% from 8.8% at end-September and 6.1% a year earlier.

In light of these trends, banks sustained their adoption of more conservative lending practices against loan losses, expanding provisions for bad debt by \$2.8 million (1.4%) to \$213.6 million, which resulted in a marginal uptick in the ratio of provisions, to total loans by 0.03 of a percentage point to 3.44% over the quarter. However, given that the pace of growth in non-performing loans outpaced the expansion in provisions the ratio of provi-

sions to non-performing loans narrowed by 2.47 percentage points to 37.05%.

Loan Arrears & Non-Performing Balances
(% of Total Loans)



BANK PROFITABILITY

Data for the third quarter of 2009 showed that in comparison to the same period of 2008, net income contracted by \$7.5 million (12.8%) to \$51.5 million, reflecting mainly a significant increase in provisions for bad debt. The estimated net interest margin rose modestly by 0.1% to \$117.7 million, as the 10.3% reduction in interest expense outweighed the 3.8% falloff in interest income. Lower foreign exchange transaction volumes influenced a 13.9% contraction in commission and foreign exchange fee income and caused the gross earnings margin to narrow by 0.6% to \$123.0 million.

Aggregate operating expenses declined by 1.6% to \$64.3 million, on account of decreased outlays for “miscellaneous” operating and occupancy costs, which offset a modest gain in staff compensation. Banks recorded a loss of \$7.2 million on non-core activities, a reversal from the previous period’s \$0.6 million profit, owing to a significant firming in bad debt provisions, by 18.2% to \$27.7 million; while earnings from ‘miscellaneous’ activities fell by 13.2%.

In line with these trends, profitability ratios relative to average domestic assets softened over the review period. The net interest margin ratio fell by 3 basis points to 5.17%, and for commission and foreign exchange income, by 4 basis points to 0.23%, with a resultant falloff in the gross earnings margin by 7 basis points to 5.40% of average assets. Some offset was provided by the narrowing in the operating costs ratio, by 7 basis points to 2.82%, which caused the net earnings ratio to stabilize at 2.58%. However, after netting out depreciation and bad debt expenses, the net income (return on assets) ratio weakened by 35 basis points to 2.26%.

INTEREST RATES

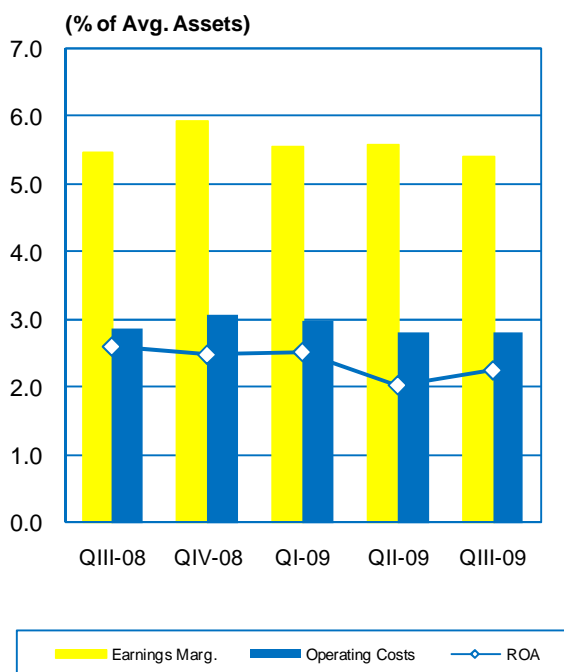
Commercial banks' fourth quarter average interest rate spread on loans and deposits declined by 21 basis points to 6.78 percentage points over the previous quarter. This reflected a 24 basis point narrowing in the weighted average loan rate to 10.45%, which outstripped a 3 basis points reduction in the corresponding deposit rate to 3.67%.

fixed maturities widened to 3.46%-4.27% vis-à-vis 3.54%-4.21% in the previous quarter. In addition, the average rate offered on demand deposits fell by 24 basis points to 1.29%.

Broad-based declines were recorded for lending rates. Average interest rates on residential mortgages fell by 5 basis points to 8.21% and for consumer loans, by 7 basis points to 8.65%. Average rates on both consumer loans and overdrafts also moderated, by 63 basis points each, to 12.46% and 10.80%, respectively.

Among other key rates, the average 90-day Treasury bill rate advanced by 0.7 of a percentage point to 2.56% during the review quarter; however, the Central Bank's Discount Rate and Commercial Banks' Prime were unchanged at 5.25% and 5.50%, respectively.

Domestic Banks' Profitability



For deposits, the average savings rate rose by 10 basis points to 2.19%; while the interest rate spread on

	Period Average (%)		
	Qtr. IV 2008	Qtr. III 2009	Qtr. IV 2009
Deposit Rates			
Demand Deposits	1.53	1.56	1.29
Savings Deposits	2.06	2.09	2.19
Fixed Deposits			3.46
Up to 3 months	3.63	3.54	3.72
Up to 6 months	4.04	3.93	4.02
Up to 12 months	4.35	3.96	4.27
Over 12 months	4.11	4.21	3.67
Weighted Avg Deposit Rate	3.86	3.70	3.70
Lending Rates			
Residential mortgages	8.25	8.26	8.21
Commercial mortgages	8.64	8.72	8.65
Consumer loans	12.55	13.09	12.46
Other Local Loans	8.22	7.57	8.76
Overdrafts	11.10	11.43	10.80
Weighted Avg Loan Rate	10.39	10.69	10.45

CAPITAL MARKETS DEVELOPMENTS

Despite the generally depressed domestic economic conditions, the Bahamas International Securities Exchange (BISX) All Share Price Index advanced modestly by 4.2% to 1,565.38 points, a turnaround from the 6.8%

decline recorded in the same quarter a year earlier—although, for 2009, the index fell by 8.6%. The total volume of shares traded on the exchange almost doubled to 2.32 million, valued at \$12.3 million, compared to 1.03 million, priced at \$6.9 million in 2008. Market capitalization rose by 4.5% to \$3.02 billion over the quarter, however, it fell by 8.5% vis-à-vis the previous year.

INTERNATIONAL TRADE AND PAYMENTS

Preliminary estimates for the fourth quarter of 2009 showed a \$58.0 million (23.9%) widening in the current account deficit, to \$300.8 million over the same period a year ago. The outcome reflected a downturn in the services account surplus and a doubling in net income outflows. Similarly, the capital and financial account surplus narrowed by \$79.1 million to \$221.5 million, owing to a sharp reduction in foreign direct investment inflows, which outweighed the advance in other “miscellaneous” investments.

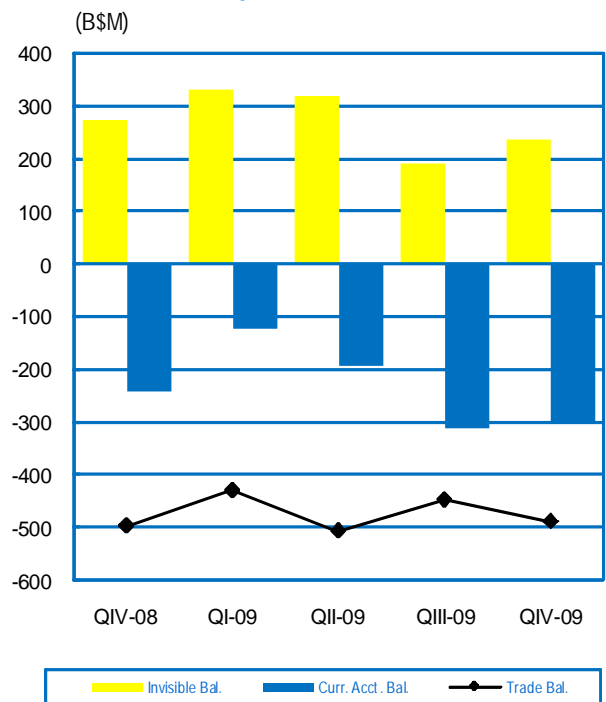
The estimated goods account deficit contracted by \$8.1 million (1.6%) to \$489.8 million, as the \$93.0 million (12.6%) decline in payments for imports outpaced the \$84.9 million (35.7%) falloff in export receipts. The contraction in imports was mainly attributed to lower fuel purchases, which fell by \$61.1 million (10.2%), as the significant reduction in import volumes outstripped the rise in average product costs. In this regard, the price per barrel of propane gas increased by 17.9% to \$46.07; motor gas, by 33.9% to \$64.19 and jet fuel, by 6.1% to \$84.93. Non-oil imports fell by an estimated \$9.3 million (2.4%) to \$397.5 million.

The services account surplus narrowed by approximately \$37.2 million (13.6%) to \$236.5 million, as the falloff in the high value-added stopover segment of the tourism market reduced net travel receipts, by \$39.8 million (9.8%) to \$365.5 million. Offshore companies’ local expenses also contracted by almost 50% to \$39.7 million. Net payments for Government services grew by \$1.9 million (14.0%) to \$15.2 million, whereas a decrease in payments for air and sea freight services brought the net outflow for transportation lower by \$4.8 million (6.3%) at \$71.6 million. In line with the slowdown in domestic activity, the net payment for other “miscellaneous” servic-

es decreased by \$19.1 million (24.6%) to \$58.5 million and construction-related service fees were reduced by \$11.1 million (89.3%) to \$1.3 million. More modest declines of \$1.2 million and \$0.3 million were recorded for net outflows for insurance services and royalty & license fees.

The deficit on the income account more than doubled to \$61.8 million, as a three-fold hike in private enterprises’ interest and dividend payments resulted in net investment payments growing by \$26.9 million to \$43.4 million. In addition, the net outflow for official transactions firmed by \$3.2 million (55.2%) to \$9.1 million, inclusive of a \$2.4 million (44.0%) falloff in the Central Bank’s foreign earnings, due to the low global interest rate environment.

Balance of Payments



Net current transfer inflows expanded by \$3.7 million (35.4%) to \$14.3 million, owing to a \$3.2 million (26.0%) advance in net Government inflows to \$15.5 million and a \$0.5 million (26.5%) decline in net workers’ remittances to \$1.5 million.

The estimated surplus on the capital and financial account was reduced by almost one-third to \$221.5

million, following on a \$227.2 million contraction in direct investments to \$72.6 million. This outturn reflected a slump in inflows from equity and land purchases, by \$170.2 million and \$57.0 million, to \$49.9 million and \$22.7 million, respectively. With a slight uptick in equity investments, the net portfolio outflow moved higher to \$6.6 million, while debt purchases remained steady. Conversely, net inflows from other “miscellaneous” investment activities advanced more than three-fold to \$160.8 million, boosted by proceeds from Government’s \$300 million external bond issue, and resulted in a similar gain in net public sector capital inflows. As Government utilized its external borrowings to repay outstanding advances, domestic banks recorded a net repayment of \$114.9 million, vis-à-vis a net inflow of \$24.2 million in the previous year. Other private—mainly loan financing—investments were reversed, to a net repayment of \$7.5 million from a net borrowing of \$6.9 million in 2008; while the contraction in the capital account deficit, to \$5.3 million from \$35.5 million, reflected solely a falloff in migrants’ transfers.

As a result of these developments, and after adjusting for net errors and omissions, the overall balance—which corresponds to the change in the Central Bank’s external reserves—registered a surplus of \$61.0 million vis-à-vis last year’s deficit of \$87.3 million.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global recovery gained momentum during the fourth quarter of 2009, bolstered by governments’ fiscal stimulus measures and central banks’ expansionary monetary policies. However, consumer spending remained anemic, and unemployment rates stayed at historic highs. Global inflation firmed modestly, as international oil and commodity prices trended upwards. In the currency markets, the US dollar appreciated against most major currencies, buoyed by signs of a sustained recovery in that economy; and major equity indices registered further gains, as the improving economic outlook provided a boost to investors’ confidence.

The recovery in the US economy deepened, with real GDP growth expanding to 5.9% from 2.2% in the previous quarter, owing primarily to an upturn in private

inventory investment, exports and private consumption. However, economic activity in the United Kingdom remained tepid, as real output rose marginally by 0.1%, following a 0.2% contraction in the third quarter, reflecting growth in the services and industrial sectors. Conditions were also lackluster in the euro area, where lower output of intermediate and capital goods restrained the improvement of real GDP to 0.1% from 0.4% in the previous three months. Supported by Government’s economic stimulus measures and an accommodative credit environment, China’s quarterly real output expanded robustly, to 10.7% from 9.1% in the third quarter. The Japanese economy continued to recover, as GDP increased by 1.1%, owing to a firming in business investments, exports and domestic demand.

Indications are that labor market conditions stabilized during the review quarter. In the United States, the unemployment rate grew marginally by 0.4 of a percentage point to 10.0%, owing to a falloff in construction, manufacturing and wholesale trade jobs. The jobless rate in the United Kingdom was unchanged at 7.8% from the previous quarter, while the euro area’s jobless rate rose by a mere 0.2 of a percentage point to 9.9%. Japan’s unemployment rate narrowed by 0.4 of a percentage point to 5.0%; however, China’s jobless rate held steady at 4.3%.

The quarterly firming in consumer price inflation was broadly based across all of the major economies, given the upward movement in international energy prices. In the United States, the inflation rate for the twelve months to December strengthened to 2.7% from 0.1% in 2008. Annual inflation in the United Kingdom advanced by 1.8 percentage points to 2.9%, primarily linked to an upward adjustment in value-added tax rates to “pre-crisis” levels. For the euro area, higher prices for alcohol & tobacco, transport and miscellaneous good & services, pushed the rise in annual inflation to 0.9%, following a decline of 0.3% in the same period last year. In China, higher food and housing costs elevated consumer prices by 1.9%, while deflationary pressures in Japan moderated the contraction in consumer prices by 0.5 of a percentage point to 1.7%.

Supported by an improving outlook for the US economy, the dollar strengthened against most of the major currencies. The dollar appreciated against the Yen and

euro, by 3.7% and 2.2%, respectively, and moved marginally higher relative to the Swiss Franc by 0.06%. It depreciated against the British pound by 1.2%, but was relatively stable against the Chinese currency.

As the upturn in the global economy gathered pace, the improvement in investor sentiment translated into increased valuations in the major equity markets. In the United States, the Dow Jones Industrial Average (DJIA) and the Standard & Poor's 500 Index recorded increases of 7.4% to 10,428 and 5.9% to 1,110.7 points, respectively. Similarly, in Europe, the United Kingdom's FTSE 100 rose by 5.4% to 5,879.80 points; Germany's DAX, by 5.0% to 6,851.75 points and France's CAC 40 index, by 3.7% to 4,869.79 points. China's market remained volatile, with the major Shanghai SE Composite index appreciating by 17.9% to 4,383.39 points, and a more modest gain of 4.1% to 13,592.47 was posted for Japan's Nikkei 225 index.

The combination of positive economic developments and severe cold weather in the Northern hemisphere largely explained the 19.3% surge in crude oil prices to \$77.85 per barrel in the final quarter of 2009. In terms of other commodities, gold prices increased by 8.9% to \$1,096.95 per ounce at end-December, as investors—including central banks—continued to boost holdings of relatively 'safe' assets. Silver rose by 1.4% to \$16.88 per ounce.

Most of the major central banks maintained their accommodative monetary policy stance in the final quarter of 2009, in an effort to support the economic recovery, although several signaled their intention to unwind these policies in the near future. The Federal Reserve kept the federal funds rate in the range of 0.0% to 0.25%, and announced its decision to allow the liquidity facilities to expire February 1, 2010. In contrast, the Bank of England extended the asset purchase program by an additional £25.0 billion to £200 billion. Based on the anemic level of economic activity, the European Central Bank (ECB) kept its key policy rates unchanged, as was also the case in both Japan and China.

In the external sector, trade balances of the major economies reflected the steady pace of global recovery. Consistent with the modest upturn in spending and corresponding increases in imports, the United States' current account deficit expanded by 13.0% to \$115.0

billion. The seasonally adjusted goods and services trade deficit for the United Kingdom rose to £9.5 billion from £8.1 billion in the third quarter, led by an expansion in the goods deficit. However, the euro zone's external trade surplus advanced by €5.2 billion to €18.0 billion, as the contraction in imports outweighed the falloff in exports. China's buoyant recovery in exports resulted in the trade surplus widening further, by 56.4% to 61 trillion Yuan, when compared with the previous three-month period. Supported by a robust recovery in exports, Japan's surplus on the goods and services balance firmed by 70.0%, on a quarterly basis, to ¥1,556.8 trillion.

STATISTICAL APPENDIX
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STATISTICAL APPENDIX

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The following symbols and conventions are used throughout this report:

1. n.a. not available
2. -- nil
3. p provisional
4. Due to rounding, the sum of separate items may differ from the total