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QUARTERLY OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

JUNE 2007

This summary is an early release, excerpted from the upcoming issue of the Central Bank's Quarterly Economic Review for the Quarter ended June 2007. The full text of the Economic Review will be released on 15 October 2007.

The Bahamas
Review of Domestic Economic Developments for Second Quarter 2007

Preliminary data for the second quarter of 2007 indicate that the Bahamian economy expanded at a more moderate pace, compared to the same period a year earlier, based largely on weakened tourism output and reduced growth in consumer demand and tempered foreign investment inflows. Consumer price developments continue to be adversely impacted by the pass-through effects of higher global fuel and commodity prices. Based on preliminary fiscal data for the eleven months to May of FY2006/07, the Government's overall deficit widened as expenditure growth outweighed gains in revenue. In the monetary sector, the slowdown in private sector credit expansion, combined with moderated but still relatively healthy levels of foreign investment inflows, supported improvements in both liquidity and external reserves. External current account developments indicate a marginally lower deficit, benefiting from a reduction in the merchandise trade deficit and an improved surplus on the services account. However, lower foreign investment related inflows led to a narrowing of the capital and financial account surplus.

Net free cash reserves of the banking system rose by 17.6% to $233.1 million, accounting for a larger portion of Bahamian dollar deposit liabilities at 4.5%; and the broader surplus liquid assets advanced by 29.8% to $227.6 million, to exceed the statutory minimum by an elevated 26.7%. Interest rate conditions featured a 50 basis points hike in the average interest rate spread to 7.19%, as the average loan rate strengthened by 47 basis points to 10.82%, and the corresponding deposit rate softened by 3 basis points to 3.63%. The average Treasury bill rate for 90 day issues was 9 basis points higher at 2.64%, whereas the benchmark Central Bank Discount Rate and commercial banks' Prime Rate were unchanged at 5.25% and 5.50%, respectively.

The expansion in the monetary aggregates slackened to 4.0% from 4.5% in 2006. Broad money (M2) growth, however, advanced to 3.9% from 3.3%, based on higher increments to both savings (4.4%) and fixed (3.3%) deposits. Softer gains in demand deposits (5.9%) and currency in active circulation (0.4%) restrained accretions to narrow money (M1) by 1.9 percentage points to 5.0%. Total domestic credit growth at 3.6%, was slightly below the 4.0% advance noted in 2006. Credit to the private sector rose by 2.0%, down from a year-earlier 3.4%, and was buoyed mainly by increases in the personal, transportation and tourism categories. Increased short-term advances and Treasury Bill holdings elevated net credit to Government by 16.5%, up sharply from 3.4% in the previous year; while the rate of increase in credit to the rest of the public sector receded to 5.9% from 15.9%.

Central Government's deficit for the eleven months to May of FY2006/2007 widened by $15.7 million to $104.4 million, as the 12.6% hike in expenditures to $1,314.8 million, surpassed the 12.2% improvement in revenues to $1,210.4 million. Tax receipts, which also rose by 12.2%, were principally supported by increases in 'other' stamp taxes (35.8%), property taxes (42.0%) and a more modest upturn in taxes on international trade and transactions (6.9%). Moreover, dividend receipts boosted non-tax income by 16.0% ($15.8 million). On the expenditure side, higher wages and salaries and goods and services payments elevated recurrent spending by 10.5% ($107.8 million); while the 31.2% ($31.4 million) advance in capital spending was mainly explained by improvements to public school infrastructure. Net lending to public corporations for budgetary support increased by 18.5% to $52.9 million. Budgetary financing for the period included borrowings from both domestic and external sources of $230.3 million and $13.4 million, respectively. Debt amortization totaled $122.4 million, and comprised mainly Bahamian dollar obligations. On a calendar year basis, the Direct Charge on Government grew by 0.5% ($11.1 million) during the second quarter of 2007 to $2,438.2 million, vis-à-vis end-March. However, the National Debt declined by 1.2% to $2,884.6 million, as a result of a contraction in Government's contingent liabilities.

Indications are that tourism performance for the second quarter was adversely impacted by developments relating to the Western Hemisphere Travel Initiative.

Total arrivals declined by 12.1% to 1.15 million, with both air and sea visitors lower by 8.8% and 13.8% at 0.41 million and 0.74 million, respectively. The deterioration was broadly based among the major ports of call, with Grand Bahama down by 15.6%; New Providence, by 7.6%, and the Family Islands, by 19.3%. However, the sector benefited from a 6.6% appreciation in hotel room revenues to $118.6 million, as a 12.6% hike in average room rates offset the 5.3% downturn in the number of rooms sold. This outturn comprised improvements in the New Providence market, where overall room revenues expanded by 8.5%, in contrast to declines in receipts for Grand Bahama (1.1%) and the Family Islands (2.1%), respectively.

A slowdown in mortgage lending suggested a moderation in construction sector activity during the review period, as total disbursements by banking institutions, insurance companies and the Bahamas Mortgage Corporation narrowed by 5.8% to $127.8 million. Both commercial and residential components recorded respective declines of 10.0% and 5.4%. Similarly, the number of commitments for new construction and repairs receded by 29.9% to 260 and the corresponding value by 34.2% to $34.0 million. Growth in outstanding mortgages slackened to 12.5% from 17.1%, as the commercial stock declined by 1.1%, while the residential component firmed by 13.9%.

Quarterly consumer price inflation, as measured by changes in the Average Retail Price Index, advanced to 2.2% from 1.7% in the previous year. The largest cost increases were registered for furniture & household operations (5.35%), food and beverages (4.15%) and transport & communication (3.20%). Similarly, in the twelve-months to June, the rate of increase in average consumer prices firmed by 0.8 percentage points to 2.4% over the previous year, reflecting the continuing effects of higher global fuel and commodity prices. The most significant gains occurred for 'other' goods & services (6.64%) and food & beverage (4.18%) costs.

In the external sector, the current account deficit contracted marginally by $0.5 million to $291.7 million during the review quarter. This outturn reflected a $26.6 million (5.6%) improvement in the merchandise trade deficit, based on lower oil and non-oil imports. In addition, the services account surplus expanded by 6.2% to $248.3 million, as an upturn in offshore companies' local payments and a reduction in outflows for construction and other "miscellaneous" services, outpaced the weakening in net travel receipts.

The capital and financial account surplus contracted by an estimated $36.8 million to $98.0 million, due partly to a slowdown in net direct investment inflows by $8.9 million to $91.7 million, as a fall in inflows association with land sales surpassed the expansion in equity investments. Additionally, other net investment receipts weakened to $26.3 million from $61.0 million last year. This development reflected a reduction in net inflows to the private sector by $30.2 milion to $37.7 million, which offset the $13.8 million improvement in domestic banks' transactions, to a net inflow of $10.4 million.