Release Date: 19 December 2005

QUARTERLY OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

SEPTEMBER 2005

This summary is an early release, excerpted from the upcoming issue of the Central Bank's Quarterly Economic Review for the Quarter ended September 2005. The full text of the Economic Review will be released on 4 January 2006.

The Bahamas
Review of Domestic Economic Developments for Third Quarter 2005

Preliminary indications are that the domestic economy strengthened during the third quarter of 2005 due to continued momentum from construction activity, sustained levels of stopover visitors to New Providence and heightened consumer demand. Nevertheless, indications are that relatively high global oil prices contributed to higher inflation. Despite the expansion in the merchandise trade deficit, improvements in tourism receipts and lower income outflows resulted in the current account deficit contracting marginally during the review period. Monetary trends reflected moderate credit expansion, reduced liquidity levels and continued strengthening in private foreign investment flows. The first quarter of the FY 2005/06 budget produced a noticeable decline in the fiscal deficit, owing to improved revenue collections and higher tax receipts from the increased level of imports

Net free cash reserves of the banking system fell by $7.5 million to $283.7 million, compared to a contraction of $33.0 million in 2004, and represented a more buoyant 6.4% of Bahamian dollar deposit liabilities. The surplus on the broader measure of liquid assets also narrowed by $60.5 million to $243.2 million, albeit continuing to exceed the required minimum by a comfortable 33.3%. Reflecting some tightening in liquidity conditions combined with strengthened growth in consumer lending, domestic banks' weighted average loan rate firmed by 66 basis point to 10.69%. Alongside a 2 basis points rise in the average deposit rate to 3.11%, banks' average interest rate spread widened to 7.58%.

Money supply (M3) contracted by 2.1% during the quarter; however, at end-September, the stock stood higher at $4.7 billion relative to the comparative period in 2004. After expanding by 26.6% in 2004, residents' foreign currency deposits declined by 27.7% and demand deposits contracted by 11.2% relative to growth of 1.3% last year. Fixed deposits recovered by 2.1%, savings deposits remained relatively unchanged, while the expansion in currency in active circulation was significantly extended to 11.2%.

Total domestic credit expanded by 0.8% to $5.62 billion, which was appreciably below the 2.2% accretion recorded a year earlier. This outturn was mainly due to a slowdown in Bahamian dollar denominated credit growth to 1.6% from 3.0% in 2004, as Government's position was reversed to a net repayment and an extended decline in credit to the rest of the public sector. Private sector credit strengthened to 2.6%, dominated by notable increases approaching 5% in the rate of expansion for both consumer credit and residential mortgages.

Preliminary indications are that the fiscal deficit for the first quarter of FY2005/06 was more than halved to $20.4 million relative to the same period of FY2004/05, benefiting from a favourable economic environment and various revenue administrative enhancements. Supported by a 23.5% improvement in tax receipts, total revenue posted a 27.7% gain to $271.8 million, and non-taxes doubled to $18.0 million. Total expenditure growth of 12.3% to $292.2 million included an 8.4% hike in current outlays which was associated largely with recent salary increases, while various public works projects explained the more than twofold boost in capital spending. However, net lending to the public corporations was reduced by almost 50%. Budgetary financing during the period was derived solely from a $75.0 million domestic bond issue which, amid a modest repayment, elevated the Direct Charge on Government by 3.4% to $2,247.1 million. Coincident with a 15.6% increase in Government's contingent liabilities, the National Debt advanced by 3.5% to $2,753.1 million at end-September 2005, compared with a more moderated uptrend of 3.3% to $2,465.1 million in the previous year.

Indications are that tourism output for the third quarter of 2005 continued to improve relative to the depressed outturn of 2004. Visitor arrivals growth of 3.4% to 1.1 million was maintained by a 12.8% or 0.4 million hike in the higher value-added air segment, in contrast to a 0.5% decline in sea arrivals. New Providence recorded a 23.3% increase in air arrivals and marginal growth in sea arrivals, while total visitors to Grand Bahama were reduced as the island continued its recovery efforts from last year's twin Hurricanes Frances and Jeanne. Arrivals to other Family Islands remained relatively stable, with gains in air arrivals balancing the fall-off in sea visitors.

Construction activity remained strong during the third quarter of 2005, reinforced by robust residential investments. Data from mortgage lending institutions showed residential disbursements expanding by 80.5% to $143.5 million and a four-fold hike in commercial disbursements to $17.8 million relative to the third quarter of 2004. On a forward looking basis, the number of mortgage commitments for new construction and repairs rose to 531 from 386, with a corresponding 30.2% increase in value to $60.9 million. Most of the approvals (509) were for housing projects, valued at $56.4 million vis-à-vis (379) $45.1 million last year. The number of commercial commitments improved more than three-fold and were valued higher at $4.5 million, compared with $1.7 million last year. With regards to mortgage rates, average interest costs on residential and commercial mortgages softened by 6 basis points each, to 8.2% and 9.0%, respectively.

Data for the first nine months of the year, suggest a decline in total fisheries output by a third relative to the comparable period in 2004, owing mainly to a 35.2% contraction in the volume of crawfish landings, which constituted the bulk of the catch.

Quarterly inflation, as measured by the average change in the Retail Price Index, firmed to 2.3% during the review quarter from 0.9% in the same period in 2004. The recent surge in energy costs was a key factor behind the upturn in the average price for housing (the most heavily weighted component), transport & communication, food & beverages and education. Moderate average price gains were also registered for miscellaneous goods & services, furniture & household operations and recreation & entertainment services, in contrast to a decline in the average rate of increase in clothing & footwear costs. Average prices in the 12-months through September 2005 also trended higher by 2.0% compared to 1.25% in the corresponding period of 2004. Almost all of the major sub-categories registered price gains, with the sole exception of clothing & footwear items.

In the external sector, the current account deficit contracted by $8.7 million to $241.5 million, largely explained by the expansion in the services account surplus, by almost a quarter to $191.9 million, on account of improvements in travel receipts and higher inflows from offshore companies' local expenses. Equally significant was the near halving of net income outflows based on reduced repatriation of investment income by banks and other private sector companies, which helped to offset the 13.2% expansion in the merchandise trade deficit to $417.6 million. Current account transfers rose marginally as a result of higher transfers to the general government and workers' remittances.

The surplus on the capital and financial account declined by an estimated $31.4 million to $94.0 million, reflecting a reversal in "other investments" flows, which negated the expansion in direct investments.