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QUARTERLY OVERVIEW OF DOMESTIC ECONOMIC DEVELOPMENTS

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This summary is an early release, excerpted from the upcoming issue of the Central Bank's Quarterly Economic Review for the Quarter ended June 2005. The full text of the Economic Review will be released on 27 September 2005.

The Bahamas
Review of Domestic Economic Developments for Second Quarter 2005

Preliminary indications suggest that the expansion in the Bahamian economy was sustained during the second quarter of 2005, benefiting from steady tourism and foreign investment inflows, and robust domestic housing activity. Although revenue performance was positive over the first eleven months of FY2004/05, fiscal operations resulted in a widened deficit due to growth in both recurrent and capital outlays. Monetary conditions supported moderately strong growth in the monetary aggregates and intensified expansion in domestic credit with the ongoing buoyancy in liquidity driving average interest rates broadly lower. On the external side, the hike in global oil prices contributed to a deterioration in the current account deficit which was mitigated by a widening surplus on capital and financial transactions, partly due to significant net short-term inflows through the banking sector and other private inflows.

Foreign currency inflows from the sale of properties connected with the Cable Beach redevelopment project contributed to a 25.8% expansion in net free cash balances of the banking system to $291.2 million, which constituted a larger 6.6% share of Bahamian dollar deposit liabilities compared to 4.7% last year. The broader surplus liquid assets increased by 15.3% to $303.7 million, with the excess over the statutory minimum advancing to 42.3% from 34.5%. Reflecting these developments, the weighted average interest rate softened for both loans and deposits, by 61 and 35 basis points, to 10.03% and 3.09%, respectively, for a 26 basis points reduction in the average spread to 6.94%. The average 90-day Treasury bill rate also narrowed by 3 basis points to 0.15%, while benchmark interest rates—Central Bank's Discount Rate and commercial banks' Prime—remained unchanged at 5.25% and 5.50%, respectively.

Growth in the monetary aggregates, although slowed from the comparative year-earlier period, continued to be underpinned by healthy foreign currency inflows, and an upsurge in residents' foreign currency deposits. The overall money supply (M3) expanded by 3.4% relative to 4.1% last year, placing the stock at $4.77 billion. Similarly, the expansion in broad money (M2) abated to 2.7% from 4.0%, amid more modest gains in savings and fixed deposits. A decline in currency in active circulation alongside slowed accretions to demand deposits caused narrow money (M1) to post lower growth of 3.8% compared to 10.3% a year earlier.

Domestic credit expanded by $221.6 million (4.1%), up strongly from $99.8 million (2.0%) the previous year, for outstanding claims of $5.58 billion. Underlying this development was a $248.8 million (5.7%) hike in credit to the private sector, as borrowings to support tourism sector developments boosted the foreign currency component. Residential mortgages and consumer credit also registered steady gains, and the increase for personal overdrafts more than doubled. Meanwhile, claims on the public corporations contracted by 2.3%, extending the 5.1% decline of 2004.

On the fiscal front, preliminary estimates indicated that the deficit on the Government's operations rose to $137.2 million for the first eleven months of FY2004/05 from $85.9 million in FY2003/04. Improved revenue collection measures and favourable economic conditions supported total revenue growth of 4.9% to $910.4 million, reflecting an 8.2% hike in tax receipts to $840.2 million. On the other hand, total expenditure increased by 9.9% to $1,047.6 million, inclusive of a 6.8% boost in current outlays to $927.3 million. Dominated by outlays for land acquisition, capital expenditure also rose by 38.0% to $77.1 million, while net lending to the public corporations was enlarged by 45.5% to $43.2 million. Budgetary financing for the first eleven months through May 2005 was entirely from domestic sources, comprising bonds ($200 million), Treasury bills ($13.1 million) and advances from Central Bank ($5.7 million). Consequently, the Direct Charge on Government increased by 3.4% to $2,173.1 million and the National Debt was also 3.4% higher at $2,662.2 million at end-June 2005.

Despite ongoing weakness in Grand Bahama, linked to hurricane-related disruptions in supply, indications are that tourism output stabilized relative to the previous quarter but remained below the pre-hurricane levels of 2004. Healthy gains in occupancy and average room rates in New Providence/Paradise Island sustained expenditure growth and helped offset an 8.3% reduction in overall visitor arrivals to 1,290,189. Both air and sea arrivals contracted by 0.9% and 11.6%, from year-earlier respective advances of 9.8% and 23.2%. Weakness was mainly concentrated in Grand Bahama, where arrivals fell by 20.0%—although visitors to New Providence and the Family Islands also declined by 8.1% and 2.0%, respectively. The Ministry of Tourism's survey of large hotel properties indicated that average nightly room rate gains of 0.3% to $181.33 for the six months to June was augmented by a 7.3% increase in nightly room sales, to secure estimated room revenue growth of 7.6% to $171.4 million.

Construction sector output gained further momentum during the second quarter, as hurricane rebuilding efforts reinforced the ongoing rally in residential investments. Industry data confirmed the buoyancy in housing market activity as the number of residential mortgage commitments for new construction and repairs more than doubled, to 459 from 213, with the corresponding value also higher by $37.8 million at $56.8 million.

During the review quarter, consumer price inflation, measured by changes in the average Retail Price Index, firmed to 1.68% from 0.88% in the comparable 2004 period. Partly reflecting the pass through effects of higher oil prices, increases were recorded in average costs for food and beverages, housing, transport & communication, as well as in education and 'other' goods & services. For the 12 months through June 2005 however, average inflation narrowed to 1.4% from 1.8% in 2004, paced by decelerations in clothing & footwear, furniture & household operation and recreation & entertainment services.

In the external sector, preliminary estimates for the June 2005 quarter indicate a significant widening of the current account deficit to $124.1 million from $14.4 million a year earlier. An appreciation in the oil import bill reinforced an increase in the merchandise trade deficit of 19.3% to $402.8 million. Meanwhile, the services account surplus fell by 6.0% to $309.4 million, partly due to a decline in net travel receipts of $50.8 million (10.0%) to $457.4 million. Net foreign income outflows rose to $43.6 million from $32.2 million in the year-earlier period, mainly on account of stronger investment income outflows. Net current transfer receipts slackened to $12.8 million from $26.1 million last year, which was attributed to general government activity.

Developments on the capital and financial account more than compensated for the growing current account deficit, as the surplus strengthened to $123.3 million from $24.2 million in 2004. Other investments switched from a net outflow of $28.5 million in the year-earlier period to a net inflow of $90.3 million. In particular, net short-term inflows through the banking system at $68.5 million, contrasted with a net outflow of $40.0 million last year, and captured funding associated with the Cable Beach redevelopment project. Other private loan net inflows also increased, to $24.0 million from $13.0 million, and there was a modest rise in the public sector's net external debt repayment to $2.2 million.