The Central Bank of The Bahamas

Quarterly Economic Review

December, 2000

Vol. 9, No.4

The Quarterly Economic Review is a publication of The Central Bank of The Bahamas, prepared by The Research Department for issue in March, June, September and December. It replaces the former Quarterly Review which was last published for March 1992. All correspondence pertaining to the Economic Review should be addressed to:

The Manager
Research Department
The Central Bank of The Bahamas
P. O. Box N-4868
Nassau, Bahamas

QUARTERLY ECONOMIC REVIEW

Volume 9, No. 4
December, 2000

CONTENTS

REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indicators for the fourth quarter of 2000 suggested a moderate rate of expansion in the Bahamian economy, in the context of abated tourism earnings growth and some leveling-off in construction output. On the fiscal side, the position continued in modest surplus, owing to ongoing revenue gains and expenditure restraint efforts aimed at producing a positive overall balance for FY2000/01. Financial sector developments featured some tightening in liquidity and narrowing in interest rate spreads, as accretions to domestic credit outpaced growth in the monetary aggregates. Consumer price inflation abated under the impact of lessened domestic and external cost pressures, which included the softening in global oil prices. On the external account, the deficit on the current account widened significantly, owing largely to increased goods imports and resumption of net reinsurance outflows.

Monetary conditions were characterized by a near halving in banks' net free cash balances to $41.6 million from $80.9 million, and a similar trend in surplus liquid assets, as private sector credit demand remained seasonally elevated relative to the first half of 2000. However, the weighted average deposit rate rose by only 8 basis points to 4.01% which, combined with the 26 basis points fall-off in average lending rates to 11.86%, reinforced a 34 basis points narrowing in the average interest rate spread to 7.85%. The average 90-day Treasury bill rate also eased by 2 basis points to 0.88%, but base rates—commercial banks' prime and the Central Bank's discount rate—were unchanged at 6.00% and 5.75%, respectively.

Reflecting the generally slower growth in net tourism inflows and moderated net foreign investments inflows, the rate of expansion in the money supply (M3) decreased to 1.5% from 2.4% at end-1999, placing the overall money stock at $3.55 billion vis-à-vis $3.25 billion a year ago. With steady accretions to public corporations' balances and a recovery in private sector holdings, growth in fixed deposits more than doubled to 2.5%. However, both savings deposits and demand balances declined by 0.5% and 2.9% from respective advances of 1.4% and 4.6% in 1999, which reflected net reinsurance settlements related to Hurricane Floyd. Moreover, the rate of increase in the currency component slackened significantly to 2.2% from 12.5% in 1999, when holdings of precautionary cash balances surged in response to Y2K concerns.

Although outpacing the expansion in the monetary aggregates, growth in domestic credit abated to 2.8% from 3.4% in the corresponding period of 1999, with the slowing evidenced in both public and private sectors. After retreating by 0.3% last year, the banking system's net claims on Government decreased further by 0.4%; albeit, growth in claims on the public corporations stabilized at 1.7%. Private sector credit expansion also slowed to 3.4% from 4.1% in 1999, due mainly to a halving in consumer credit expansion to 2.1%. However, growth in mortgage lending intensified to 11.1% from 3.1% in 1999—supported by a favourable interest rate environment and the positive economic fundamentals.

On the fiscal front, preliminary estimates for the second quarter of FY2000/01 indicated a slightly reduced budget surplus of $5.0 million compared to $7.7 million in the same period last year, with mild revenue growth of 2.2% to $231.0 million compared with a 3.5% advance in total expenditures to $226.0 million. The latter included a 4.2% increase in recurrent spending, at 85.2% of the total, and a 20.8% hike in net lending to the public corporations, which offset the 12.3% decline in capital expenditures. Budgetary financing was provided from a $25.8 million domestic bond issue and external loan drawdowns of $0.6 million, while debt repayment rose six-fold to $31.8 million. As a result, the Direct Charge on Government contracted by 0.4% to $1,518.9 million, and the National Debt fell by 0.7% to $1,875.7 million—taking into account a $7.0 million decline in the public corporations' debt guaranteed by the Government.

In the tourism sector, total visitor growth almost tripled to 15.3% for 1.04 million arrivals, which translated into higher expenditure gains over comparative 1999 levels. The improvement was broad-based, with cruise visitors' gains strengthening to 18.1% from 14.8% last year, and air arrivals—dominated by stopover traffic—expanding by 11.8% in comparison to a marginal 1.0% rise last year. Both expenditure and capacity indicators also capped year-earlier levels, as available and occupied hotel room nights rose by 10.1% and 6.9%, respectively. These developments, combined with an 8.0% increase in the average hotel room rate to $141.75 per night, boosted estimated room revenues by 15.4%—which was below last year's 30.2% advance and signalled more moderate growth in total industry earnings.

Available data for the third quarter indicated a softening in construction investments, with the notable exception of the residential market. The value of construction starts rose by 13.5% to $49.8 million, buoyed by a one-third hike in residential investments—with significant strengthening in both New Providence and Grand Bahama. These trends were supported by the favourable interest rate environment and consistent with the observed growth in mortgages. However, contributions to construction output from projects underway tapered off, falling 3.9% to $54.4 million, amid no public sector activity and more marginal gains in residential completions. Meanwhile, the outlook for future investments remained mixed as estimates of building permits granted declined by 5.1% to $117.2 million, with a scaling back in both the residential and commercial sectors.

On the inflation front, consumer price inflation—as measured by the average change in the Retail Price Index—eased to 0.4% from 1.1% in the final quarter of 1999. This development was due almost entirely to the significant deceleration in the increase in education costs—to 3.7% from 13.7% in 1999—and a marginal downturn in transport & communication costs as global fuel costs retreated. On an annual basis, inflation firmed to 1.6% from 1.3% in 1999 led by a 2.3% uptrend in transport and communication costs. The advance in education costs steadied at 11.9%, amid the final series of tuition increases at tertiary level institutions, while stronger annual gains were also recorded in average prices for food & beverage items, furniture & household operations and medical care & health.

External sector developments featured a more than twofold increase in the current account deficit vis-à-vis the fourth quarter of 1999. A major influence was the 16.5% hike in the merchandise trade deficit to $402.6 million, which occurred alongside an increased oil bill. In addition, net invisible receipts decreased by almost one third to $172.7 million, as net non-merchandise insurance inflows in 1999 of $124.5 million, which financed hurricane reconstruction efforts, reverted to a net outflow of $17.8 million and countered an estimated 15.1% boost in net travel receipts. Meanwhile, net factor income remittances almost doubled to $57.0 million and net transfer receipts improved to $8.5 million from $6.6 million last year.

On the capital and financial account, the surplus narrowed to $65.1 million from $301.8 million in 1999—a peak period for net foreign investment inflows linked to tourism development projects. In particular, net private direct investments, including equity and real estate purchases, were lower at $75.2 million, and net long-term loan inflows were slashed to $27.7 million from $172.1 million in 1999. Meanwhile, the public sector's net foreign currency debt repayment increased to $13.9 million from $5.6 million last year. The banking sector's transactions were reversed, to a net short-term outflow of $18.3 million from an inflow of $34.4 million last year. Financing of the current account deficit resulted in a $59.0 million reduction in external reserves, approximately double the 1999 drawdown.

FISCAL OPERATIONS

Preliminary data on Government's fiscal performance for the second quarter of FY2000/01 indicated a slight reduction in the overall surplus position, to $5.0 million from $7.7 million in the year-earlier period. Revenue collections were up 2.2% at $231.0 million, while total expenditures—including net lending to the public corporations—grew by 3.5% to $226.0 million.

REVENUE

Tax collections constituted 91.4% of revenue receipts, increasing by 2.4% to $211.2 million. The more than twofold hike in the "other taxes" category, which reflects collections not yet distributed among the various revenue categories, remained a key explanatory factor and offset for the 10.8% contraction in levies on international trade and transactions to $123.9 million and the respective contractions in property and departure taxes of 4.7% and 0.3% to $13.3 million and $11.1 million. Selective taxes on tourism services, comprising gaming and hotel occupancy taxes, registered a gain of 17.3% to $6.3 million. Double digit increases were also achieved for business and professional licence fees of 13.1% to $7.1 million; stamp taxes on financial and other transactions, of 17.0% to $16.3 million; with motor vehicle fees higher by 9.0% at $2.4 million.

Revenues from non-tax sources, which constituted the remaining 8.6% of total receipts, were unchanged at $19.8 million. The 35.2% decrease in receipts from fines, forfeitures and administrative fees to $7.8 million was matched by a $4.2 million (55.8%) gain in the combined $11.9 million income from public enterprises and other sources.

EXPENDITURE

For the review quarter, the $7.6 million (3.5%) advance in total outlays was principally explained by a $7.7 million (4.2%) increase in current expenditures and a 20.8% hike in net lending to public corporations. In contrast, capital spending fell by $2.6 million (12.3%). On a proportional basis, recurrent spending comprised 85.2% of total outlays; capital expenditures, 8.3% and net lending, 6.5%.

By economic classification, personal emoluments, which accounted for 46.5% of total recurrent expenditures, rose by 8.9% to $89.6 million—primarily explained by the earlier programmed salary increase for civil servants. Outlays for goods and services fell by 5.7% to $35.1 million. Transfer payments increased by 3.9% to $67.8 million, led by a 14.5% hike in subsidies and other transfers to $49.4 million, which included a 14.7% boost in subsidies benefiting agencies such as the College of The Bahamas and the Public Hospitals Authority (PHA), and respective increases of 32.9% and 16.1% in transfers to non-financial public enterprises and households. The generally lower interest rate environment favourably impacted contractual interest payments, which fell by 16.9%.

On a functional basis, general public services—which include general administration and safety—accounted for 27.3% of recurrent spending, an increase of 9.9% to $52.6 million. Outlays for education, at 20.8% of the total, rose by 6.5% and health spending grew by 13.3% to $33.1 million for a 17.2% share. Disbursements for economic services, however, decreased by 6.6% to $24.2 million, which represented 12.6% of the total.

Government Revenue By Source
(October-December)

	FY99/00p		FY00/01p	
	B$M	%	B$M	%
Property tax	13.9	6.1	13.3	5.8
Selective Services tax	5.4	2.4	6.3	2.7
Bus. & Prof. Lic. Fees	6.3	2.8	7.1	3.1
Motor Vehicle tax	2.4	1.1	2.6	1.1
Departure tax	11.2	5.0	11.1	4.8
Import duties	108.9	48.1	94.1	40.8
Stamp tax from imports	25.2	11.1	26.1	11.3
Export tax	4.7	2.1	3.6	1.6
Stamp tax from exports	-	-	-	-
Other stamp duty	14.0	6.2	16.3	7.1
Other Tax revenue	14.9	6.6	32.5	14.1
Fines, forfeits. etc.	12.0	5.3	7.8	3.4
Income	7.6	3.4	11.9	5.2
Other non-tax rev.	0.2	-	0.2	-
Capital Revenue	-	-	-	-
Grants	-	-	-	-
Less: Refunds	0.6	0.3	1.9	0.8
Total	226.1	100.0	231.0	100.0

The decline in capital spending was traced to a reduction in public works and water supply infrastructure projects of 46.8% to $4.8 million, following the completion of upgrades to water mains in New Providence and repairs for structural damage caused by Hurricane Floyd. Also noteworthy was a $1.9 million (42.8%) fall-off in general administration investments to $2.6 million, while education outlays moderated by a quarter to $3.8 million. However, some offset was provided by a more than three-fold hike in spending on health services to $2.4

million.

Financing and National Debt

Budgetary financing during the fourth quarter was mainly sourced from a $25.8 million Bahamian dollar bond issue, along with a $0.6 million drawdown in external loan proceeds. Debt repayment amounted to $31.8 million, with $25.0 million allocated for Bahamian dollar debt and $6.8 million for foreign currency obligations. As a result, the Direct Charge on Government fell by $5.0 million (0.4%) to $1,518.9 million at end-December 2000. Bahamian dollar obligations represented 91.0% of the total Direct Charge and the predominantly U.S. dollar denominated foreign currency debt, the remaining 9.0%.

The bulk of Bahamian dollar debt continued to be held by public corporations (42.7%), followed by commercial banks (25.8%), private and institutional investors (21.9%), and Other Local Financial Institutions (0.3%). The Central Bank's share firmed to 9.3%, indicative of a seasonal shift in holdings away from banks to the Central Bank, in line with heightened private sector demand.

After accounting for a 1.9% reduction in contingent liabilities to $356.9 million, the National Debt contracted by $12.3 million (0.7%) to $1,875.7 million at end-2000, which was some $6.3 million (0.3%) below the December 1999 close.

Public Sector Foreign Currency Debt

For the period under review, provisional data indicated a reduction in public sector foreign currency debt of $13.9 million (3.6%) to $377.7 million, amid marginal drawings ($0.7 million) and scheduled repayments ($14.6 million). Of the total outstanding, the Government was directly responsible for $136.5 million (36.1%) and the public corporations for $241.2 million (63.9%)—of which $210.1 million (87.1%) was guaranteed by the Government.

Compared to the fourth quarter of 1999, foreign currency debt servicing rose by $5.4 million (32.1%) to $22.3 million, comprising increases of $3.7 million in amortization payments to $14.6 million and $1.8 million in interest charges to $7.7 million. Debt service as a proportion of estimated exports of goods and non-factor services increased to 3.9% from 2.4% last year, and the ratio of the Government's foreign currency debt service to total revenue rose marginally to 4.3% from 4.2%.

By creditor profile, multilateral institutions retained the largest share of the foreign currency debt (59.1%), followed by commercial banks (22.2%), private capital markets (13.2%), bilateral sources (5.3%) and offshore financial institutions (0.1%). The average maturity profile of the debt was just under 10 years, with more than 90% of the currency composition in US dollars.

Real Sector

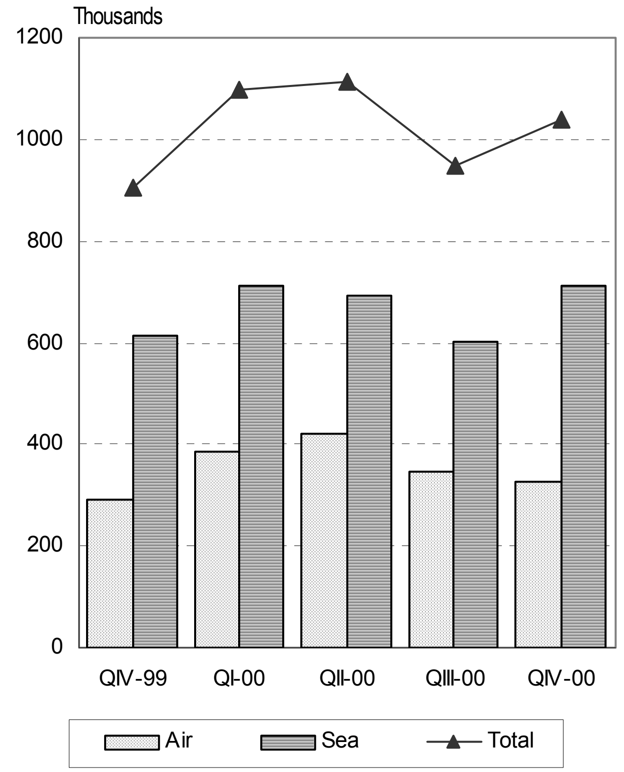
Tourism

Preliminary data for the final quarter of 2000 indicated slower growth in the tourism sector, as notable gains in stopover arrivals occurred alongside less robust hikes in room rates.

Total visitor arrivals grew strongly by 15.3% to 1,038,469 in the review period relative to 6.4% in the comparable 1999 period. The key factor was an 11.8% advance in air traffic vis-à-vis 1.0% last year, for a total of 324,675 passengers. A pickup in cruise visitors in New Providence and the Family Islands also underpinned the strengthened 17.0% hike in sea arrivals to 713,794 visitors, improving on last year's 9.2%.

Based on port of entry information, growth in visitor traffic to New Providence eased to 13.2% from 18.4% in 1999, as less robust sea visitor growth (14.5%) dampened the stronger showing for air arrivals (10.8%). The Family Islands figured importantly in the overall tourism performance, registering a 33.3% advance in visitor traffic vis-à-vis 11.9% in 1999, which reflected an appreciable strengthening in sea visitors (38.6%) and a rebound in air traffic (9.2.%). As weakness in Grand Bahama bottomed out amid increased airlift (1.7%) and growth in room capacity, total arrivals recovered marginally by 0.2% from the previous year's 31.0% fall-off. There was a significant upturn in air arrivals (17.2%), alongside a more moderate decline in sea arrivals (11.4%).

Arrivals



Available indicators of stopover activity suggested some moderation in expenditure growth. In particular, average nightly room rates throughout The Bahamas rose by 8.0% to $141.59—although almost one-third below the 23.7% achieved in 1999. Notwithstanding the 6.9% boost in occupied room nights, the average room occupancy ratio declined to 56.4% from 58.1%, owing to a sizable increase in room capacity (10.1%). Within this context, growth in room revenues slowed to an estimated 15.4% from 30.2% in the previous year. On a destination basis, a significant recovery got underway in Grand Bahama, where estimated room revenues rebounded by 21.7% as a result of a marked upturn in occupancy rates (18.5%) to 45.8% and a boost in the average nightly room rate (2.1%) to $56.90. In New Providence, the reduced revenue growth of 15.3% corresponded mainly to a 10.3% appreciation in average nightly room rates to $160.96. By contrast, the Family Islands benefited from a modest upturn in occupied room nights (3.0%) and a further appreciation (5.9%) in average nightly rates to $150.71, resulting in a 9.1% rebound in estimated room revenue.

CONSTRUCTION

Construction estimates for the third quarter of 2000–the latest period for which data were available—suggested mild growth in investments, supported mainly by brisk residential activity.

Although the total number of projects started during the third quarter fell by 1.7% to 243, associated value appreciated by 13.5% to $49.8 million. In the residential sector, the number of units started rose by 9 to 223, corresponding to a 37.6% boost in value to $43.8 million. In contrast, commercial and industrial starts decreased by 5 units to 20, with the estimated value halved to $6.0 million.

Building completions increased to 395 from 272 units in 1999, but the related value declined by 3.9% to $54.4 million, partly attributable to the absence of public sector activity. Paced by a significant upturn in Grand Bahama, the number of residential completions rose by 41.7% to 343, but with a marginal gain in value (1.8%) to $42.4 million. Meanwhile, the number of commercial completions, underpinned by activity in New Providence, almost doubled to 52 units, which were valued 9.4% higher at $12.0 million.

Planned future construction investments—as indicated by the number of building permits issued—declined declined by 5.1% to $117.2 million, despite a boost in the total number of approvals by 43 to 747. In particular, the respective values on both residential and commercial approvals declined by 5.2% and 0.7%, to $75.2 million and $40.6 million. This contrasted with an increased number of permits issued in both categories at 629 and 117, respectively. Permits for public sector activity also declined to $1.4 million from $3.3 million, representing a single project as opposed to four in 1999.

Construction Activity
(July – September)

	1999	2000	% Δ
Building Permits			

Construction Activity (July – September)			
Number	704	747	6.1
Value (B$M)	123.4	117.2	-5.1
Building Starts			
Number	239	243	1.7
Value (B$M)	43.9	49.8	13.5
of which: Residential	31.8	43.8	37.7
Commercial	12.1	6.0	-50.4
Public	--	--	--
Building Completions			
Number	272	395	45.2
Value (B$M)	56.6	54.4	-3.9

PRICES

During the final quarter of 2000, the average rate of increase in the Retail Price Index slackened to 0.4% from 1.1% in the same period last year. A key influence was a deceleration in the average rate of increase in education to 3.7% from 13.7% a year earlier, in line with the completion of phased hikes in tertiary level tuition. Also, average transportation & communication costs declined by 0.4% as against a 1.6% rise in the final quarter of 1999. Conversely, the recreation & entertainment services index rebounded by 2.1% vis-à-vis a 0.3% contraction in 1999. Average food & beverage costs firmed by 0.6%, while advances in the other components of the Index were, on average, less than 0.2%.

For the twelve months through December 2000, average consumer price inflation rose to 1.6% from 1.3% in 1999. Most of the firming was explained by a 2.3% oil induced hike in transportation & communication costs vis-à-vis a 1.5% decline last year, and accelerated increases in average food & beverages costs to 1.6% from 0.2%. Although education costs still exerted significant influence on the Index, the uptrend was virtually stable at 11.9%, amid the final round of programmed tuition increases at tertiary level institutions. Firming was also recorded in average prices for furniture & household operations (2.0%), medical care & health (2.4%), clothing & footwear (0.7%) and housing (0.2%). However, average prices declined for recreation & entertainment services (0.9%) and for "other" goods and services (0.4%).

Average Retail Price Index
(Annual % Changes)

		1999		2000	
Items	Weight	Index	%	Index	%
Food & Beverages	138.3	106.6	0.2	108.4	1.6
Clothing & Footwear	58.9	105.8	0.9	106.5	0.7
Housing	328.2	102.4	0.8	102.7	0.2
Furn. & Household	88.7	104.1	1.3	106.2	2.0
Med. Care & Health	44.1	106.6	2.0	109.1	2.4
Trans. & Comm.	148.4	100.0	-1.5	102.3	2.3
Rec., Enter. & Ser.	48.7	109.7	4.3	108.7	-0.9
Education	53.1	118.2	12.2	132.2	11.9
Other Goods & Ser.	91.6	102.3	1.3	101.9	-0.4
ALL ITEMS	1000	104.3	1.3	106.0	1.6

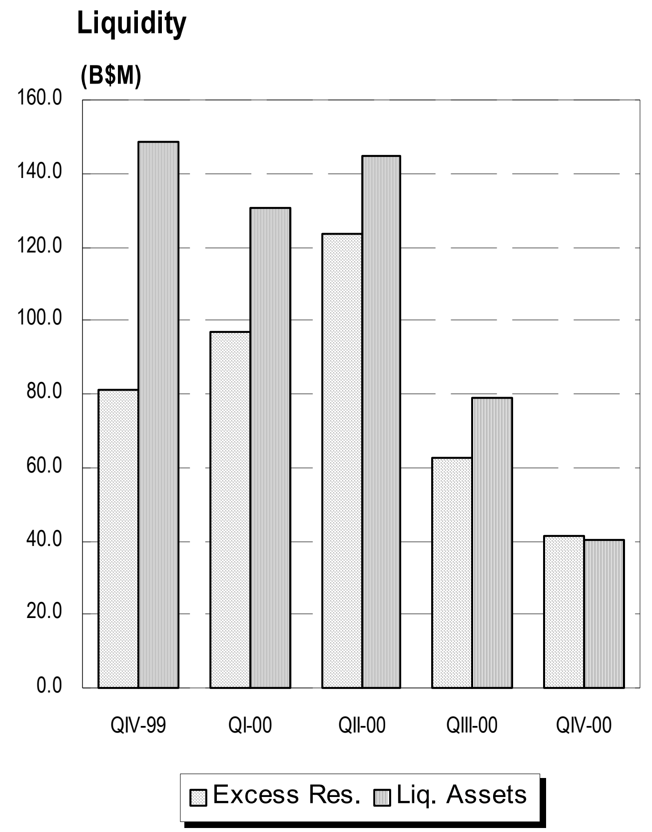
MONEY, CREDIT AND INTEREST RATES

OVERVIEW

Growth in domestic credit at 2.8% outpaced the 1.5% expansion in the monetary aggregates, occasioning a substantial reduction in bank liquidity and the financial system's net foreign assets position. However, liquidity conditions remained favourable, with only mild firming in average deposit rates, which amplified the narrowing in the average interest rate spread, given a coincident easing in average lending rates. Available profitability indicators suggested only marginally softened earnings ratios, as the increase in the operating costs ratio was mostly offset by smaller balance sheet ratios for depreciation and bad debt expenses.

LIQUIDITY

Consistent with seasonal observations, net free cash reserves of the banking system decreased by $20.9 million (33.4%) to $41.6 million during the fourth quarter, which was appreciably below the year-earlier level of $80.9 million and represented 1.2% of Bahamian dollar deposit liabilities. Banks' secondary liquidity—as measured by surplus liquid assets—also fell by $38.6 million (49.0%) to $40.1 million, representing a sharply reduced surplus over the statutory minimum of 7.4% as against 29.3% a year ago.



DEPOSITS AND MONEY

Narrow money (M1) supply contracted by $16.8 million (2.0%) vis-à-vis growth of $43.2 million (6.0%) a year earlier. Demand deposits fell by 3.0%, following last year's 4.6% gain which was influenced by reinsurance settlements associated with Hurricane Floyd. Growth in the currency component also decelerated to 2.2% from 12.5% last year when higher cash balances were maintained amid Y2K concerns.

Correspondingly, broad money (M2) expansion abated to $30.5 million (0.9%) from $72.0 million (2.3%) in 1999. The 0.5% decrease in savings balances—vis-à-vis a year-earlier gain of 1.4%—dampened the 2.5% growth in fixed deposits which was sourced mainly from public corporations and private businesses.

With residents' foreign currency deposits boosted by a third as against 7.9% in 1999, the overall money stock (M3) rose by 1.5% ($52.1 million) to $3,550.9 million, a slowing from the year-earlier pace of 2.4%.

By holder profile, the largest share of deposits was held by private individuals (55.9%), followed by business firms (23.0%), other private depositors (6.7%), and private financial institutions (3.7%); the public sector's combined share was 10.7%.

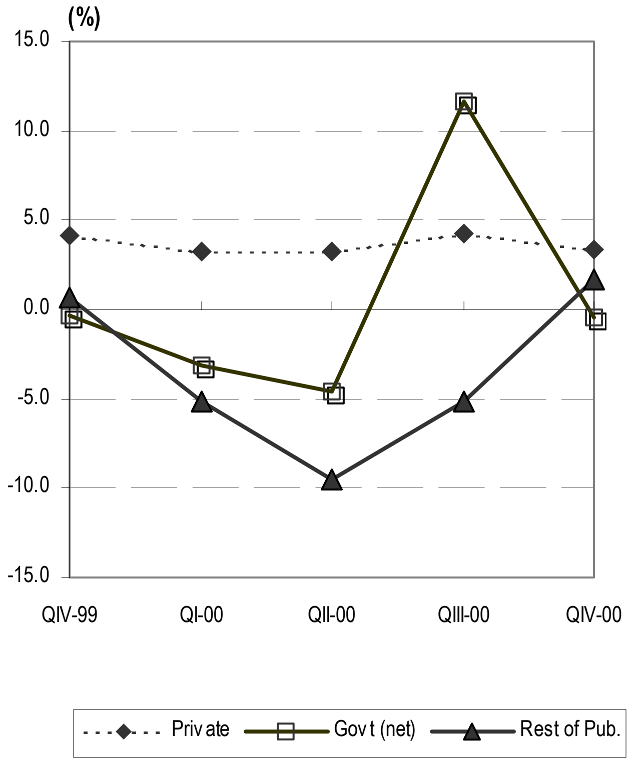
An analysis of deposits by range of value indicated that individual balances below $10,000 accounted for 91.3% of all accounts, but only 12.1% of the aggregate value. Conversely, balances exceeding $50,000 constituted 2.6% of the total number of accounts, and a disproportionately larger 72.1% of the aggregate value. In the mid-range, accounts valued between $10,001-$20,000 represented 6.1% of total deposits, followed by those ranged between $20,001-$30,000 (4.1%), $30,001-$40,000 (2.9%) and $40,001-$50,000 (2.7%).

DOMESTIC CREDIT

Domestic credit expansion during the fourth quarter waned to 2.8% from 3.4% in 1999, primarily reflecting a modestly lower advance in bank lending to the private sector. The public sector credit position was flat, as the 0.4% decline in the more heavily weighted net credit to Government offsetted the 1.7% advance in credit to the rest of the public sector. Private sector credit growth eased to 3.4% vis-à-vis 4.1% a year earlier, reflecting an appreciably slower expansion in consumer credit and construction lending, which offset broad gains in other lending categories, most notably mortgages and tourism.

On a sectoral basis, private sector credit growth was concentrated in personal loans, which expanded by a relatively stable 3.6% but accounted for a reduced 63.4% of total private credit. Analysis also indicated notable quarterly gains in lending to tourism (8.0%), entertainment and catering (17.4%), construction (7.0%), private financial institutions (35.2%), and professional and other services (7.4%). The only significant declines were recorded for distribution (1.2%), agriculture (5.4%) and loans for miscellaneous purposes (5.3%).

Changes in Credit



Regarding the personal loans component, consumer credit represented the largest share (61.6%), followed by personal mortgages (37.2%) and overdrafts (1.8%). The bulk of consumer loans growth was earmarked for miscellaneous purposes (5.4%), credit cards (3.1%), land purchases (4.1%), private cars (1.0%), furnishings and domestic appliances (9.7%), home improvements (1.1%), and travel (2.0%). Net repayments were recorded for commercial vehicles (12.7%) and debt consolidation (0.3%).

Commercial Banks

Commercial banks' consolidated balance sheet showed a 0.9% quarterly increase in private sector deposit liabilities, outpaced by private sector credit expansion of 3.2%. Additional financing resources were derived from the 11.9% decline in net credit to Government and an 18.1% increase in net deposit liabilities to the rest of the public sector. Within this context, commercial banks also reduced their net foreign liabilities by 1.6%. An analysis of commercial banks' deposits indicated that some 60.6% were held in fixed maturities, 21.7% in demand deposits and 17.7% in savings. Of the total, 89.1% was owed to the private sector.

Distribution of Bank Credit By Sector

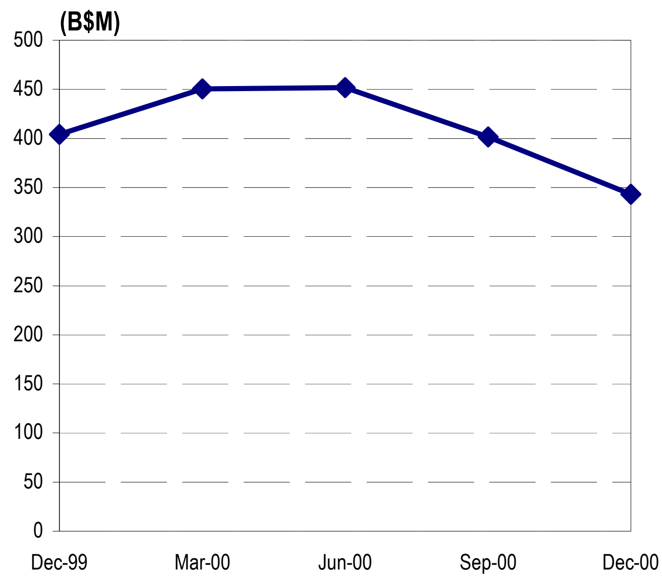
End-December

	1999		2000	
	B$M	%	B$M	%
Agriculture	11.8	0.3	8.7	0.2
Fisheries	5.7	0.2	6.8	0.2
Mining & Quarry	17.5	0.5	21.9	0.6
Manufacturing	62.7	1.9	93.1	2.4
Distribution	161.2	4.8	181.9	4.8
Tourism	215.0	6.4	230.8	6.0
Enter. & Catering	25.5	0.7	38.1	1.0
Transport	45.0	1.3	62.7	1.6
Public Corps.	157.5	4.7	131.1	3.4
Construction	239.1	7.1	334.7	8.7
Government	68.5	2.0	89.0	2.3
Private Financial	3.8	0.1	12.0	0.3
Prof. & Other Ser.	130.0	3.8	126.6	3.3
Personal	2,061.4	61.1	2,294.9	59.8
Miscellaneous	171.4	5.1	206.5	5.4
TOTAL	3,376.1	100.0	3,838.8	100.0

Other Local Financial Institutions

The OLFIs recorded a 2.8% increase in private sector deposit liabilities over the review quarter, alongside an 8.0% advance in credit. In this regard, mortgage lending grew by 10.2%, to account for just over 84% of the private sector loan portfolio. The OLFIs nearly doubled their net foreign assets to $23.0 million, reflecting capital movements and increased portfolio holdings. Of the total deposit liabilities, the bulk was held in fixed balances (87.2%), followed by demand (9.6%) and savings (3.2%) deposits.

External Reserves



Central Bank

The Central Bank's net credit to Government rose by 67.8% to $120.8 million, as banks rediscounted short-term Government paper to accommodate the private sector's holiday cash and credit demands.

Compared to the final quarter of 1999 when foreign currency inflows were more robust, the Bank's net foreign currency sale more than doubled to $61.9 million, with total foreign currency sales of $193.1 million outpacing a more moderate 10.3% rise in total purchases to $131.2 million. This outturn was based on appreciable increases in net sales to the public sector and commercial banks of $26.1 million and $11.9 million respectively, with the net sale to the Government halved to $5.7 million.

Factoring in the Bank's net foreign exchange income of $3.4 million, the quarterly decline in external reserves was stemmed to 14.7% vis-à-vis a more moderate 6.7% in 1999. At end-December, the stock of external reserves at $342.6 million was 15.2% below the year-earlier level.

Interest Rates

Commercial banks' average interest rate spread during the review quarter narrowed by 34 basis points to 7.85%. Amid tighter—although healthy—liquidity conditions, the weighted average deposit rate firmed by 8 basis points to 4.01%; however, the corresponding loan rate was trimmed by 26 basis points to 11.86%.

The average rate offered on savings deposits fell by 34 basis points to 2.56%, and rates on fixed deposit balances settled within a higher average band of 3.97%-4.40% vis-à-vis 3.87%-4.31% in the previous quarter.

On the lending side, average rates on overdrafts firmed by 38 basis points to 10.98%, and on commercial mortgages, by 4 basis points to 9.65%. Conversely, average residential mortgage and consumer loan rates eased by 5 basis points and 6 basis points, to 8.85% and 13.71%, respectively.

Benchmark rates—commercial banks' prime lending rate and the Central Bank's discount rate—remained unchanged at 6.00% and 5.75%, respectively; but the average 90-day Treasury bill rate was 2 basis points lower at 0.88%.

Bank Profitability

Data for the three months ended September 2000, revealed that the net income of commercial banks and OLFIs rose by 7.0% to $31.8 million vis-à-vis the third quarter of 1999, when this indicator posted a year-on-year decline of 0.7%. A wider net interest margin offset the reduction in commission and foreign exchange income, for a boosted gross earnings margin of $67.8 million, which was 8.6% above the year-earlier outturn. However, this increase was tempered by higher operating costs.

Based on steady growth in balance sheet aggregates, profitability indicators relative to average domestic assets were only marginally reduced for the three months under review, with the net income (return on assets) ratio estimated at 2.74% relative to 2.78% in 1999. In this regard, the net earnings margin decreased to 2.21% from 2.39%, with a marginal firming in the operating cost ratio offsetting a higher net interest ratio, and a slightly reduced weighting for depreciation and bad debt expenses. In line with the observed narrowing in interest rate spreads on new loans and deposits, the effective spread was also comparatively reduced to 5.20% from 6.56% in the third quarter of 1999.

INTERNATIONAL TRADE AND PAYMENTS

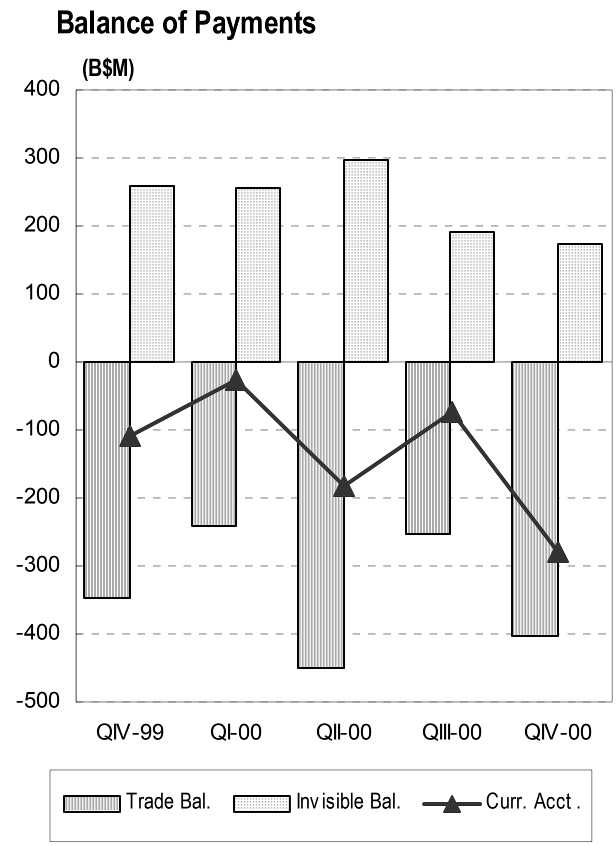
Provisional estimates for the fourth quarter indicated a doubling of the current account deficit, to $278.4 million vis-à-vis the comparative 1999 period. Higher goods imports influenced a significant increase of the merchandise trade deficit, while the net invisible surplus narrowed by 33.5% on account of a return to net reinsurance outflows following Hurricane Floyd related inflows and boosted net factor income payments.

During the review quarter, the merchandise trade deficit widened by an estimated $57.0 million (16.5%) to $402.6 million. Non-oil imports increased by $41.1 million (12.8%) to $361.7 million, offsetting a $9.0 million (47.5%) hike in the oil bill to $64.1 million—which continued to reflect higher global crude oil prices.

The estimated surplus on the services account narrowed to $172.7 million from $259.6 million in 1999, due largely to a reversal in non-merchandise insurance flows to an estimated outflow of $17.8 million from last year's $24.5 million net inflow, and an increase (14.5%) in net external payments for transportation to $34.4 million. Otherwise, positive benefits were derived from a boost in net travel receipts to $309.2 million from $268.7 million in 1999; a small increase in offshore companies local expenses to $16.0 million; and reductions in net external payments for construction services (46.2%) to $13.3 million, government services (46.0%) to $3.7 million and other services (4.3%) to $76.0 million.

Under the income account, net factor remittances were almost doubled to $57.0 million, driven largely by an 87.3% hike in net profit repatriation by private non-bank entities. Net labour income outflows also rose incrementally to $13.7 million, while official net interest receipts stabilized at $2.1 million.

Net transfer receipts increased to $8.5 million from $6.6 million in 1999, with net public sector inflows widening to $9.4 million and private sector net outflows unchanged at $1.0 million.



On the capital and financial account, the winding down of major investment projects in the tourism sector led to a sharp reduction in the overall surplus, to an estimated $65.1 million from $301.8 million in 1999. While migrant workers' net capital transfers rose marginally to $5.7 million, the most important influence was the reduction in estimated net financial inflows to $70.8 million from $306.2 million in the previous year.

A breakdown of financial flows revealed a substantial decline in estimated net inward direct investments to $75.2 million from $105.4 million last year—largely reflecting a reduction in net equity inflows to $49.9 million from $85.1 million in 1999. However, net inflows from real estate transactions improved to $25.3 million from $20.3 million. In line with the completion of large scale hotel sector construction projects, a more sizeable contraction was recorded in net private loan inflows—to an estimated $27.7 million from $172.1 million in 1999. Meanwhile, the public sector reduced its external liabilities by $13.9 million compared with $5.6 million last year, and banks recorded a short-term capital outflow of $18.3 million, to partially reverse the year-earlier $34.4 million net inflows.

Consequent upon these developments and after adjusting for possible errors and omissions, the overall balance of payments doubled to $59.0 million.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Fourth quarter developments for 2000 suggested a general slowdown in economic activity among the major industrial economies, led by growing weakness in the United States. Inflationary pressures were broadly contained, owing to a continuation of tight monetary policy measures and a significant falloff in oil prices; and employment trends were stable to improved. Equity markets continued to be hampered by fears of a slowing global economy which sparked heavy selling, particularly in US markets, and influenced a depreciation in the dollar against most major currencies. Under these conditions, most major countries experienced some deterioration in their external account positions.

According to fourth quarter estimates, the United States economy turned in its weakest performance in more than five years, as real output growth was halved to an annual rate of 1.1% from 2.2% in the third quarter. The anaemic performance reflected declining exports, a downturn in business investments, as well as sluggish consumer spending. Despite ongoing momentum in the manufacturing and services sectors, the annualised rate of expansion in the United Kingdom slackened to 1.2%—its slowest pace in two years—amid weaker than expected business investments. In Germany, Europe's largest economy, the annualised fourth quarter expansion moderated to 2.0% from the previous quarter's 2.4%, as export growth was hampered by both the modest recovery in the value of the euro and accumulating evidence of a slowdown among its major trading partners. Meanwhile, the sharp quarterly falloff in Japan's industrial sector output, to 1.2% from 6.4% on an annualised basis, signalled a continuation of the sluggish third quarter trends, when real GDP contracted by 2.4%.

Indications are that the economic recovery in Latin America remained strong, as evidenced by healthy output performances among the area's major economies. Real GDP growth in Venezuela advanced by 5.6% over the same period in 1999, as the oil industry, which accounts for about a third of the economy, expanded by 8.9% and non-oil economic activity rose by 3.9%. The expansion in Brazil continued at a brisk annualised rate of 4.6%—its fastest pace in three years—fuelled by falling interest rates which bolstered consumer demand. In Mexico, however, real output growth slowed to 5.1% from 7.0% in the third quarter, following a drop in exports to the United States.

Labour market conditions were stable to improving in most of the major industrial economies. The average unemployment rate was unchanged from the previous quarter in both the United States and the United Kingdom, at 4.0% and 3.6% of the total workforce, respectively. However, Germany experienced slightly better conditions, with the average jobless rate easing to 9.3% from 9.5% in the third quarter. Conversely, Japan's average unemployment rate deteriorated marginally, to 4.8% from 4.6% last quarter, as corporate restructuring activities continued.

Underscored by considerable moderation in world oil prices, inflation trends in the major countries were mild but mixed. Firming was noted in the United States, with the average consumer price increase advancing at a seasonally adjusted annual rate of 2.2% from 1.8% in the preceding quarter. In the United Kingdom, inflation was subdued at 2.1%—and well within the Bank of England's target ceiling of 2.5%. Germany's quarterly inflation rate also stabilized at 2.4%, partly attributed to the recovery in the euro. Despite rising import prices, average consumer prices in Japan declined further by 0.8% vis-à-vis 0.4% in the third quarter.

Foreign exchange market developments featured appreciations in most major currencies against the United States dollar, reflecting a more severe slowdown in the United States economy in comparison to the other industrial economies. Notably, the euro recovered by 6.1% against the dollar to €1.06 and the Swiss franc by 8.5% to SF1.61. The pound sterling rose less aggressively, by 1.5% to £0.67, while the Canadian dollar was stable at C$1.50. In contrast, the United States' dollar appreciated against the Japanese yen by 7.0% to ¥114.35, reflecting Japan's weak economic performance.

Crude oil prices trended steadily lower, following an especially volatile third quarter when prices attained a September all time high of $34.98 per barrel. The average per barrel price of Brent Sea crude fell by 2.0% to $23.87, which represented a 4.7% increase on the year. In precious metals markets, the price of gold also declined marginally by 0.6% to $272.00 per ounce, extending the 12 month decline to 5.7%.

On the monetary front, the major economies generally maintained their anti-inflation policy stances, leaving official interest rates relatively unchanged. The United States' Federal Reserve held the discount and federal funds rates steady at 5.50% and 6.00%, respectively, but altered their bias to one of economic weakness—paving the way for an interest rate cut in early 2001. The Bank of England and the Bank of Japan also kept their official rates stable at 6.00% and 0.5%, respectively. However, the European Central Bank boosted both its refinancing and marginal lending facilities rates by a further 25 basis points to 4.75% and 5.75% respectively, in a bid to dampen increasing demand pressures within the euro area.

Equity indexes produced weak fourth quarter results, hampered by decreased valuations in the hard-hit information technology (IT) sector and mounting concern over the slowdown of the United States economy. Profit warnings from a number of highly visible companies sparked heavy selling, particularly among technology shares, which drove the United States' tech-heavy Nasdaq composite index down by a third to 2,470.5 points—its worst quarterly percentage loss ever. Losses among the broader S & P 500 index were more moderate at 8.1% to 1,320.3 points, while the Dow Jones Industrial Average (DJIA) posted a mild rally of 1.3% to 10,786.9 points as the bigger blue chip companies gained investors' favour. Declines were also noted in other international markets, with the United Kingdom's FTSE 100 Index decreasing by 1.1% to 6,222.5 points, and Germany's DAX Index by 5.4% to 6,433.6 points. In Japan, problems in the banking sector dragged the Nikkei 225 Index down by 12.5% to 13,785.7 points.

In the external sector, most of the major countries' current account balances deteriorated during the fourth quarter. Indications are that the United States' current account deficit widened from $455.1 billion in the third quarter, despite the slowing economy, as did the seasonally adjusted deficit for Germany—partly owing to weakened demand from the United States and some loss in competitiveness associated with currency appreciation. Japan's surplus is estimated to have narrowed by roughly 30% from last quarter's ¥3.5 trillion, due to decelerating export growth. A weakening pound sterling against the euro combined with increased net exports to Europe, allowed for a reduction in the United Kingdom's deficit from $18.8 billion in the third quarter.

STATISTICAL APPENDIX

(Tables 1-16)

STATISTICAL APPENDIX

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 totals.