The Central Bank of The Bahamas

Quarterly Economic Review

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REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indicators for the first quarter of 2001 suggested more moderate expansion in the economy, paced by healthy but less robust gains in tourism and construction output, and marked by an above average performance for Grand Bahama, which commenced its recovery at a later stage than the rest of the country. Price developments remained favourable and further progress was achieved in the area of fiscal consolidation as revenue gains were reinforced by expenditure restraint, resulting in an overall budgetary surplus. In the financial sector, tourism led inflows underpinned stronger growth in the deposit base vis-à-vis domestic credit, thereby facilitating a reduction in the system's net foreign liabilities. However, although bank liquidity was seasonally improved, deposit rates trended upward slightly, resulting in a narrowing in interest rate spreads. On the external account, the widening in the current account deficit was linked primarily to an expansion in the merchandise trade deficit, while net capital and financial inflows were considerably reduced.

In monetary developments, excess reserves of the banking system increased by 48.9% to $61.9 million, which was below the year-earlier level of $96.6 million and represented 1.8% of banks' Bahamian dollar deposit liabilities. Similarly, banks' secondary liquidity—as measured by surplus liquid assets—rose by 40.8% to $56.5 million. As liquidity still paced below the average 2000 levels, the weighted average deposit rate at commercial banks rose 15 basis points higher to 4.16%, whereas the weighted average lending rate was virtually unchanged at 11.87%, obscuring notable declines in average rates on commercial mortgages and overdrafts. The average rate on 90-day Treasury bills rose by 54 basis points to 1.42%, whereas benchmark rates—the Central Bank's Discount Rate and commercial banks' Prime Rate—were stable at 5.75% and 6.00%, respectively.

Growth in the monetary aggregates, although slowed, was supported by net foreign currency inflows and featured an accelerated 3.6% hike in fixed deposits, which constituted some 58.6% of the overall money supply. Moderating influences however, were exerted from reduced gains in savings and foreign currency deposits at 2.6% and 16.6% respectively, and contractions in currency and demand deposits of 2.2% and 0.5%, respectively. Consequently, the advance in the overall measure of money (M3) slackened to 2.7% from the year-earlier pace of 3.2%, albeit exceeding the expansion in total domestic credit.

Domestic credit growth firmed to 2.1% from the 2000 increase of 1.9%, corresponding to an incremental 0.8% rebound in net lending to the public sector following a 3.8% decline in the previous year. Meanwhile, the rate of increase in private sector credit abated to 2.3% from 3.2% a year earlier, stemming largely from a net repayment in the tourism and construction sectors. However, a positive and stronger impulse continued to emanate from personal housing and mortgage lending, which offset smaller increases in credit for consumer durables. Among other private credit categories, lending to private financial institutions also recorded notable growth.

On the fiscal side, preliminary estimates for the third quarter of FY2000/01 indicated an overall budget surplus of $8.8 million which contrasted with the year-earlier deficit of $17.3 million. The 6.2% hike in Government revenue to $240.8 million was largely associated with gains in administrative income, whereas total expenditure was reduced by 4.9% to $232.0 million as capital outlays were nearly halved following the completion of major public works projects, and budgetary assistance to public corporations was reduced by a third. Recurrent expenditure was moderately expansionary, increasing by 2.4% for a 90.6% share of total spending. Government's debt stock continued to decline, with the Direct Charge contracting by 0.5% to $1,514.3 million and debt guaranteed for public corporations contracting by 1.0%. Consequently, the National Debt fell by 0.6% to $1,868.8 million, some 0.7% below the level at end-March 2000.

Preliminary data signalled some slowing in otherwise healthy tourism expenditure growth during the first quarter. Less robust gains were achieved for both hotel sector pricing and visitor nights, but the sector also benefited from an increasing number of upscale visitors, evidenced from convention and other group bookings at major resorts. As regard visitor volumes, air arrivals staged a 6.4% recovery following last year's 2.2% contraction. However, a near halving of growth in sea arrivals to 8.5% curtailed the advance in total arrivals to 7.8% from 8.6% in 2000, for a visitor count of 0.78 million. Indicative of expenditure growth, the increase in room revenues leveled-off to 7.9% as against 19.6% a year earlier. In particular, the appreciation in the average nightly room rate tapered off to 6.3% vis-à-vis 15.0%, for an average $180.59, which occurred alongside a more moderate 1.5% increase in occupied room nights. However, as available room nights rose further by 6.5%, average hotel occupancy was consequently lower at 67.6% from 70.9% in 2000.

Construction activity was underpinned by low mortgage interest rates, and featured strong and broadly based growth in Grand Bahama which offset mixed activity in New Providence. The value of building starts increased by 1.4% to $49.9 million, with new commercial and residential activity on Grand Bahama modestly offsetting a general decline in New Providence starts. The value of building completions registered a 32.5% increase to $57.4 million, primarily reflecting a 44.9% firming in residential investments in New Providence to $32.0 million and a near doubling in Grand Bahama to $9.0 million. The outlook for future activity, based on permits granted, was mixed. The 79.4% boost in valuations to $278.2 million was based on a significant increase in planned commercial and residential projects in Grand Bahama, as comparative estimates for New Providence fell by more than a third.

Regarding price developments, the quarterly increase in the average Retail Price Index firmed to 0.7% from 0.4% in the comparative 2000 period. Higher fuel costs influenced an uptrend in the rate of increase in average transport & communication costs, to 1.0% from 0.4%, and there was a 3.9% hike in prices of 'other goods & services'. On a twelve-month basis, average consumer price inflation also rose incrementally to 1.5% from 1.4%, led by a 1.8% rebound in transportation & communication costs. Accelerated increases were also noted for food & beverages, furniture & household operations and medical care & health, although moderation stemmed from a less substantial rise in education, clothing & footwear and housing costs.

In the external sector, the estimated current account deficit for the first quarter of 2001 widened to a preliminary $47.2 million from $0.3 million in the corresponding 2000 period. In particular, the trade deficit rose by 38.2% to $335.2 million, broadly countering a 11.0% advance in net invisible receipts to $305.2 million which included an estimated 8.9% hike in net travel inflows. Nevertheless, some offset to the trade deficit was provided from a 31.3% decline in net factor income outflows to $22.5 million, particularly vis-à-vis the banking sector.

The recorded surplus on the capital and financial account contracted to an estimated $19.9 million from $145.5 million in 2000, when net foreign direct investments were significantly greater. Net private equity and loan inflows decreased to $23.6 million from $91.1 million in 2000, while net real estate transactions switched to a small outflow of $1.3 million from a net inflow of $22.8 million last year. In addition, the public sector recorded a net external debt repayment of $4.0 million as opposed to a net borrowing of $7.1 million in 2000.

FISCAL OPERATIONS

Preliminary data on Government's fiscal performance for the third quarter of FY2000/01 indicated a marked improvement in the budgetary outturn, to a surplus of $8.8 million from a deficit of $17.3 million in the comparative year-earlier period. Revenue collections increased by 6.2% to $240.8 million, largely reflecting a near doubling of income from fines, forfeits and other administrative fees; and were reinforced by the 4.9% reduction in total expenditure to $232.0 million, following the completion of several capital projects and a reduction in net lending to public corporations.

A similar pattern of fiscal consolidation was evident for the first nine months of the year, as the cumulative surplus of $21.2 million contrasted with a deficit of $33.3 million in the FY1999/00 period. In particular, revenue was 5.5% higher at $698.2 million, although equating to only 70.5% of the budget target. Total expenditures, representing a more restrained 68.3% of budgeted provisions, were 2.6% below the previous year at $677.0 million. The slowdown was concentrated in capital spending, alongside a modest decline in net lending, whereas recurrent spending rose by 0.8%.

Revenue

Quarterly tax receipts, which increased by 1.0% to $212.6 million, constituted a reduced 88.3% of total revenue as against 92.8% in the year-earlier comparative period. Taxes on international trade and transactions rose by 4.5% to $153.0 million, for a 72% share of total tax receipts. Underlying this was a 20.8% advance in stamp taxes on imports to $30.2 million and a more than twofold hike in export taxes to $3.8 million. Property taxes also grew by 20.1%, whereas double digit declines were posted for selective taxes on tourism services (23.2%), business and professional licence fees (10.9%), motor vehicle taxes (38.0%) and stamp taxes on financial and legal transactions (40.9%).

Non-tax revenue advanced by 72.7% to $28.1 million, boosted almost entirely by a strong $11.6 million (85.8%) gain in fines, forfeits and administrative fees related largely to customs and port activities. Income from public enterprises and other sources increased marginally by 3.5% to $2.8 million, and proceeds from the sale of government property and other non-tax revenues more than doubled to $0.3 million.

Expenditure

The $12.0 million (4.9%) decline in total expenditure was led by a 47.1% reduction in capital outlays to $14.7 million, following the completion of major capital works which were in full swing a year ago. Net lending to the public corporations also contracted by 35.6% to $7.0 million, but some offset was provided by the $5.0 million (2.4%) hike in recurrent spending to $210.3 million which was concentrated in the wage bill. Proportionately, recurrent spending constituted 90.6% of total expenditure; capital outlays, 6.4% and net lending to the public corporations, 3.0%.

Government Revenue By Source
(January - March)

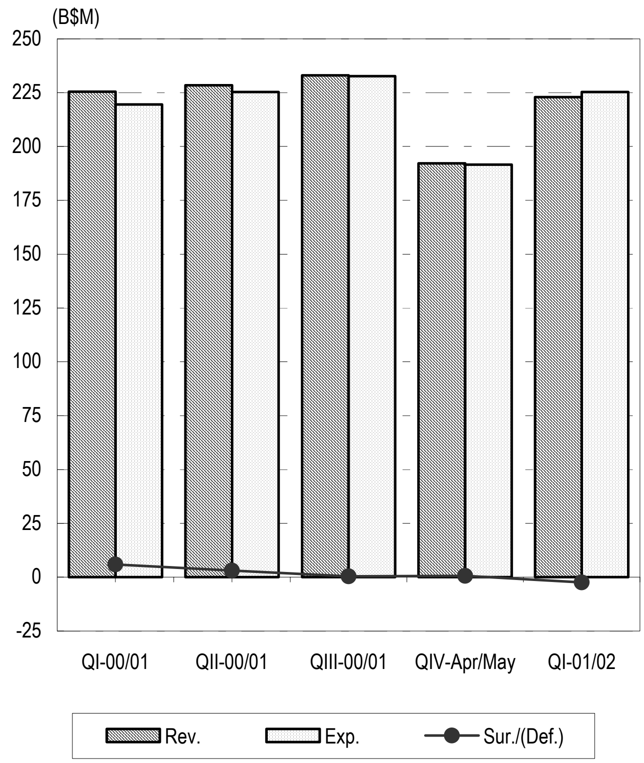
	FY99/00p		FY00/01p	
	B$M	%	B$M	%
Property tax	8.3	3.7	9.9	4.1
Selective Services tax	14.9	6.6	11.4	4.7
Bus. & Prof. Lic. fees	15.8	7.0	14.0	5.8
Motor Vehicle tax	7.3	3.2	4.5	1.9
Departure tax	15.4	6.8	15.2	6.3
Import duties	119.9	52.9	119.0	49.4
Stamp tax from imports	25.0	11.0	30.2	12.5
Export tax	1.4	0.6	3.8	1.6
Stamp tax from exports	0.1	-	-	-
Other stamp duty	27.7	12.2	16.4	6.8
Other Tax revenue	-24.4	-10.7	-10.6	-4.4
Fines, forfeits. etc.	13.4	5.9	25.0	10.4
Income	2.7	1.2	2.8	1.2
Other non-tax rev.	0.1	-	0.4	0.2
Capital Revenue	-	-	0.1	-
Grants	-	-	-	-
Less: Refunds	0.9	0.4	1.3	0.5
Total	226.7	100.0	240.8	100.0

By economic classification, personal emoluments rose by 9.1% to $91.8 million, incrementally increasing its majority share of total recurrent expenditure to 43.7%, and outlays for the procurement of goods and services were 1.2% higher at $43.3 million. Transfer payments were reduced by 4.1% to $75.1 million, as favourable interest rate conditions and the relatively stable debt stock supported a decline in contractual interest payments by 4.3% to $24.3 million, and transfers to households were 20.3% lower at $12.7 million. Conversely, current transfers abroad and to non-financial public enterprises increased marginally, to $1.9 million and $2.6 million, respectively. Other transfer payments were stable, with subsidies to quasi-autonomous agencies—including The College of The Bahamas and the Public Hospitals Authority—accounting for 38.3% of the total.

On a functional basis, general public services—which cover administration and public order and safety activities—rose by 14.2% to $56.0 million, to account for 26.6% of recurrent spending. Outlays for other priority areas such as education increased slightly to $42.0 million for 20.0% of the total; and for health, by 6.8% to

$35.5 million which equated to a 16.9% share. Defense spending also grew by 5.6% to $6.3 million; however, disbursements for economic services, which represented 13.8% of the total, fell by 7.3% to $29.0 million, and payments for social benefits and services were 10.8% lower at $14.9 million, due mainly to timing differences in other public assistance payments.

Fiscal Operations



The $13.1 million (47.1%) reduction in capital spending was largely explained by the conclusion of significant public works and water supply infrastructural investments. Less pronounced declines were registered for hotel affairs and services ($0.1 million), education ($2.6 million), defence ($0.3 million) and health ($1.6 million).

Financing and National Debt

Budgetary financing during the review quarter featured a significantly lower recourse to advances from the banking system and net debt repayment of $7.3 million, which included a $5.0 million bond maturity. The Direct Charge on Government fell by 0.5% to $1,514.3 million, with Bahamian dollar obligations representing 90.9% of the total and the predominantly US dollar–denominated foreign currency debt, the remaining 9.1%.

According to debtor profile, the bulk of the Bahamian dollar debt continued to be held by public corporations (42.7%), followed by commercial banks (27.0%), non-bank private and institutional investors (21.9%) and Other Local Financial Institutions (0.3%). The Central Bank's share fell from 9.3% to 8.0%, indicative of Treasury bill sales to commercial banks.

Accounting for the 1.0% quarterly decrease in contingent liabilities to $354.5 million, the National Debt contracted by $10.6 million (0.6%) to $1,868.8 million over the review quarter, and was some 0.7% below the March 2000 outstanding stock.

Public Sector Foreign Currency Debt

Provisional data indicated a decrease in public sector foreign currency debt of $5.4 million (1.4%) to $375.9 million, largely reflecting principal repayments as new drawings were a modest $0.3 million. The Government's direct share represented 36.5% of the total outstanding, with the balance owed by public corporations—inclusive of guaranteed debt of $208.2 million which constituted 55.4% of the total.

Compared to the first quarter of 2000, foreign currency debt servicing was $7.2 million (45.3%) lower at $8.7 million, comprising amortization and interest payments of $5.7 million and $3.0 million, respectively. Debt service as a proportion of estimated exports of goods and non-factor services was consequently reduced to 1.3% from 2.7% in the same period last year. The share of Government's foreign currency debt service in total revenue fell to 1.0% from 2.6% in 2000.

By creditor profile, multilateral institutions retained the largest share of the foreign currency debt stock (58.8%), followed by commercial banks (22.1%), private capital markets (13.3%), bilateral creditors (5.3%) and offshore financial institutions and others (0.4%). The average maturity profile of the debt was centered at just under 10 years.

REAL SECTOR

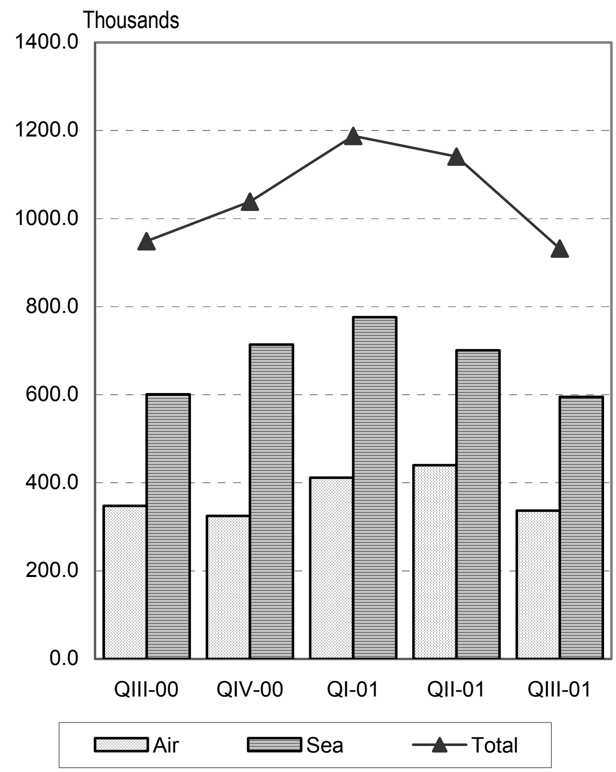
TOURISM

Based on preliminary data, tourism output registered more moderate, but healthy expansion during the first quarter of 2001. There were reduced gains in both stop-over visitor nights and in the pricing of hotel facilities, albeit indications are that the upscale quality of visitors continued to improved vis-à-vis convention and other group bookings at resort facilities. Positive trends in air visitors buffered most of the slowdown in cruise traffic, which remained disproportionately centered in Grand Bahama.

Amid divergent trends in air and sea traffic, total arrivals expanded by 7.8% to 1.2 million, slightly below the 8.6% outturn in 2000. In particular, growth in sea arrivals was reduced to 8.5% at 775,823, compared to last year's 15.6% gain. However, following a 2.2% decline in 2000, largely associated with Y2K related travel concerns, air traffic rebounded by 6.4% to 411,633 visitors. On a destination basis, New Providence was entirely responsible for overall visitor gains, with moderately strengthened arrivals growth (15.2%) benefiting from a steady expansion in cruise traffic (21.4%) and a 5.5% rebound in air arrivals. However, visitor growth to the Family Islands slackened to 1.8%, as the significant rebound in air traffic (5.2%) contrasted with a more marked abatement in sea visitor gains. Arrivals to Grand Bahama contracted by 11.5%, with the intensified weakness in sea arrivals (27.6%) offsetting accelerated gains in air visitors (10.4%) associated with increased room capacity.

Based on more conservative hotel sector pricing and gains in room nights sold, indications are that aggregate expenditure growth, which is more driven by trends in the stopover market segment, was also abated. In particular, the increase in estimated room revenues at large properties in The Bahamas narrowed to 7.9% from 19.6% in 2000, corresponding to a smaller 6.3% boost in the average nightly room rate to $180.59 as compared to a 15.0% appreciation in 2000. Although available room nights rose further by 6.5%, the smaller revenue contribution was evident from the modest 1.5% rise in occupied nights. Consequently, the average hotel occupancy rate decreased to 67.6% from 70.9% in 2000. Meanwhile, The Bahamas also benefited from a 9.4% boost in airline seating capacity but, with a less marked increase in occupied seats (4.3%), the average load factor for airlines fell to 60.0% from 63.5% in the first quarter of 2000.

Arrivals



On a more positive note, the Grand Bahama stopover market registered above average performance, with the industry's recovery still gaining momentum. Although average first quarter room rates remained below $100 per night, the appreciation was estimated at 22.2%, with estimated room revenues similarly paced. Moreover, the respective airline seating capacity and sales for the destination rose by 12.0% and 10.8%, outpacing an estimated 7.6% expansion in hotel sector capacity.

FISHERIES

The latest estimates from the Department of Fisheries showed total fisheries landings for 2000 rising by 1.4% to 11.1 million pounds, valued 13.6% higher at $81.6 million. Landings of crawfish tails, which accounted for 59.8% of the weight and 86.4% of the value, increased by 9.9% in weight and 12.7% in value to 6.6 million pounds at $70.5 million. Despite favorable price movements, scale fish landings declined in value by 12.8% to $5.0 million and by 22.9% in weight. Conversely, the almost 20.0% hike in the average price of fresh conch to $3.00 per pound, stimulated a 41.5% boost in landings to 1.5 million pounds and a two-third increase in value to $4.4 million.

Fisheries exports for 2000 grew in volume by 8.1% to 6.9 million pounds, for a 19.6% increase in value to $90.0 million, as average prices gained 10.7% to $13.06 per pound. Crawfish exports, which represented some 96.2% of the total value, grew in volume by 12.8% to 6.3 million pounds and in value by 21.0% to $86.6 million—supported by a 7.3% gain in the average price to $13.68 per pound. Based on value, sponges were the second most significant export ($1.5 million), followed by conch ($1.0 million) and stone crabs ($0.7 million).

CONSTRUCTION

First quarter 2001 estimates on construction activity indicate more moderate investment growth, balanced between both the residential and commercial sectors, but with a significant appreciation in Grand Bahama's contribution. Grand Bahama was also singularly responsible for the firming in the immediate outlook for aggregate industry expenditures.

Although the total number of building projects started during the first quarter fell by 8 units (3.0%) to 263, the associated value appreciated by 1.4% to $49.9 million. This reflected an almost three-quarter boost in

Construction Activity
(Jan - Mar)

	2000	2001	% Δ
Building Permits			
Number	768	744	-3.1
Value (B$M)	155.0	278.2	79.4
Building Starts			
Number	271	263	-3.0
Value (B$M)	49.2	49.9	1.4
of which: Residential	40.9	36.1	-11.8
Commercial	8.1	13.8	71.4
Public	0.2	-	-100.0
Building Completions			
Number	325	370	13.8
Value (B$M)	43.3	57.4	32.5

estimates on commercial starts to $13.8 million, representing 4 less projects at 16. Weakness in New Providence caused the number of residential starts to decline by 1.2% to 247 units and estimated values more sharply by 11.8% to $36.1 million.

Building completions increased to 370 from 325 units in 2000, valued approximately one-third higher at $57.4 million. Trends in both New Providence and Grand Bahama contributed to the 52.9% hike in the estimated value of residential completions to $41.0 million, paced by a 15.9% increase in the number of units to 328. Conversely, commercial completions stabilized at 39 projects valued at $16.4 million.

Indicative of future activity, the value of building permits issued rose sharply by 79.4% to $278.2 million, despite a 3.1% decline in number. Of particular note was the surge in estimates of approved commercial projects to $191.8 million from $61.5 million in 2000, with number, however, declining by 3.1% to 744. Both the number and value of residential permits fell by 7.0% and 6.2% respectively, to a total of 615 projects valued at $86.2 million.

PRICES

Inflation, as measured by the quarterly change in the average Retail Price Index, firmed to 0.7% from 0.4% in the same period in 2000. This trend was influenced by fuel-based accelerated increases in transportation &

communication costs (1.0%), alongside an upturn in average prices for recreation & entertainment (0.1%) and "other" goods and services (3.9%); and resumed firming in average education costs (0.3%) which were flat last year. Conversely, average costs for housing and clothing & footwear were unchanged from the previous quarter, while the other components of the Index recorded marginally reduced increases, on average.

Average retail price inflation for the twelve months through March also rose slightly to 1.5% from 1.4% in 2000, with the uptrend in petroleum prices influencing a 1.8% rebound in average transportation & communication costs, relative to a marginal 0.1% decrease in 2000. Accelerated advances in average costs for food & beverages (1.9%), furniture & household operations (2.0%) and for medical care & health (2.3%) were counterbalanced by a less substantial increase for education at 8.9% from 11.9% in 2000, which reflected the unwinding of tertiary level tuition cost increases. Moderation was also noted in the average increases for clothing & footwear (0.6%), housing (0.1%) and "other' goods and services (0.5%).

Average Retail Price Index
(Annual % Change)
March

		2000		2001	
Items	Weight	Index	%	Index	%
Food & Beverages	138.3	106.9	0.1	108.8	1.9
Clothing & Footwear	58.9	106.0	0.7	106.6	0.6
Housing	328.2	102.5	0.7	102.7	0.1
Furn. & Household	88.7	104.5	1.4	106.6	2.0
Med. Care & Health	44.1	107.1	1.9	109.5	2.3
Trans. & Comm.	148.4	100.8	-0.1	102.6	1.8
Rec., Enter. & Svcs.	48.7	109.7	2.9	109.1	-0.5
Education	53.1	122.6	11.9	133.5	8.9
Other Goods & Svcs.	91.6	102.5	1.5	102.9	0.5
ALL ITEMS	1000	104.8	1.4	106.3	1.5

MONEY, CREDIT AND INTEREST RATES

OVERVIEW

Compared to 2000, seasonal expansion in the money supply continued to surpass domestic credit expansion, but paced below last year's gain. Net foreign currency inflows facilitated a comparatively smaller reduction in the financial system's net foreign liabilities, alongside the usual seasonal improvement in bank liquidity. However, with surplus balances below the previous year's average, the average interest rate spread between loans and deposits narrowed amid some tightening of deposit rates.

Banks' earnings indicators for the final quarter of 2000, the latest period for which data are available, show improvement in profitability ratios, with a widening in net interest margins alongside a marginal gain in average efficiency ratios.

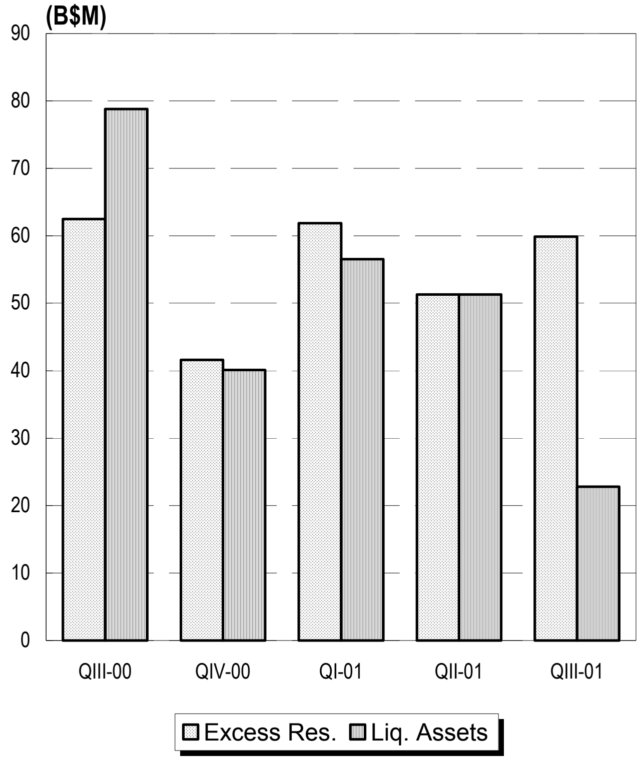
LIQUIDITY

Net free cash balances of the banking system rose sharply by 48.9% to $61.9 million, but represented a lesser 1.8% of Bahamian dollar deposit liabilities as compared to 3.0% in 2000, when excess reserves were significantly higher at $96.6 million. Likewise, the broader surplus liquid assets also increased substantially by $16.4 million (40.8%) to $56.5 million, but exceeded the statutory minimum by a lesser 10.0% as against 25.0% a year ago.

DEPOSITS AND MONEY

Growth in the overall monetary aggregates (M3) slackened to 2.7% from 3.2% in the first quarter 2000. Following a 2.3% advance last year, narrow money (M1) contracted by 0.8%, owing to a 0.5% decline in demand deposits that was concentrated in public sector deposits––contrasting with the 4.4% hike in 2000 which was underpinned by significant gains in non-business private entities and public corporations' balances. The seasonal contraction in currency in active circulation was more than halved to 2.2% from an unusually high 6.7% in 2000, when the public re-deposited Y2K cash reserves.

Liquidity



The expansion in broad money (M2) was tempered to 2.4% from 3.0% a year ago, with savings growth moderating to 2.6% from 4.3%. A rebound in business firms' balances and increased accumulations by private financial institutions, strengthened fixed deposits growth to 3.6% from 2.8%, to represent 76.2% of the overall increase in money. The other component of money, residents' foreign currency deposits, registered a more moderate advance of 16.6%.

The Bahamian dollar deposit base, inclusive of public sector balances, was $3.5 billion at end-March 2001. By holder profile, the largest share was for the account of private individuals (56.4%), next was business firms (22.0%), private financial institutions and other depositors (10.8%) and the public sector (10.8%).

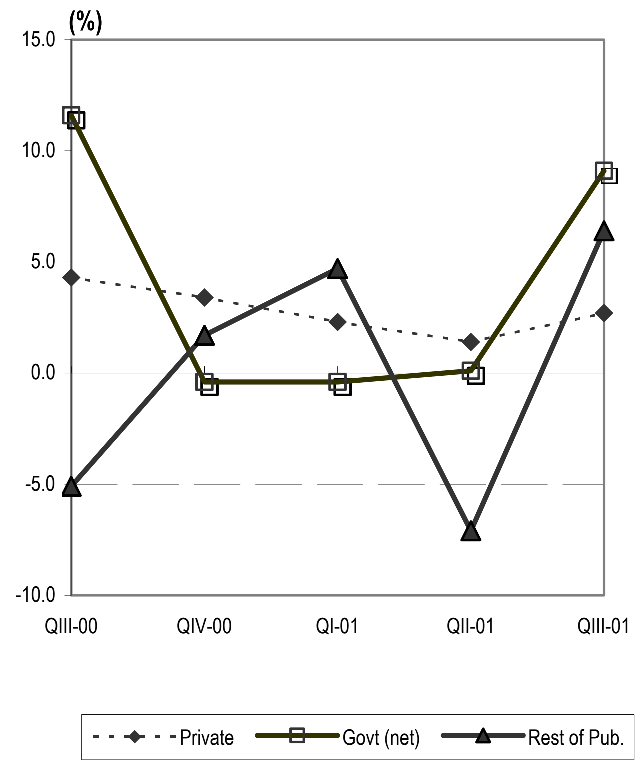
An analysis of deposits by range of values revealed that the largest concentration of depositors (91.4%) held average account balances of less than $10,000, which combined for a much smaller share (11.9%) of the total balances. In contrast, approximately 72.5% of the total continue to be held by the 2.5% of depositors with balances in excess of $50,000. The next largest share (10.0%) was held by depositors with balances in the $10,000 - $30,000 range (4.9%) and the remainder (5.6%), among depositors whose balances fell within the $30,000 - $50,000 range (1.2%).

DOMESTIC CREDIT

Growth in domestic credit was slightly higher at 2.1% from 1.9% in the first quarter of 2000, primarily reflecting a reversal in the public sector's position with the banking sector from a year-earlier net repayment to a net liability. The reduction in net credit to Government was sharply lower at 0.4% from 3.1% in 2000, while claims on public corporations rebounded by 4.7%, having declined by 5.6% last year.

Meanwhile, private sector credit expansion moderated to $84.5 million (2.3%) from $99.4 million (3.2%), due largely to a contraction in lending for construction and tourism activities, and with the slowing evident in both Bahamian dollar and foreign currency claims.

Changes in Credit



A disaggregation of private sector credit trends showed that, although personal loans' share slackened marginally to 64.5%, growth was appreciably higher at $89.3 million (3.9%) relative to $60.2 million (2.9%) last year. Developments were paced by an almost twofold hike in mortgage lending to $60.4 million (7.1%), which eclipsed moderately reduced growth in consumer credit of $15.8 million (1.1%) and a marginal decrease in overdraft balances of $0.4 million (1.0%).

Within the consumer credit portfolio, notable gains were recorded for education (10.0%), medical expenses (3.7%), private cars (2.1%), land purchases (1.9%), miscellaneous (1.8%), debt consolidation (1.5%), and home improvement (0.7%) loans. Conversely, net repayments were posted for the categories travel (6.0%), commercial vehicles (5.5%), credit cards (3.1%), furnishings & domestic appliances (2.2%) and taxis & rented cars (1.5%).

Distribution of Bank Credit By Sector
End-March

	2000		2001	
	B$M	%	B$M	%
Agriculture	11.4	0.3	8.7	0.2
Fisheries	5.8	0.2	6.6	0.2
Mining & Quarry	16.7	0.5	22.8	0.6
Manufacturing	88.4	2.6	93.7	2.4
Distribution	150.9	4.3	187.1	4.8
Tourism	223.6	6.4	221.9	5.7
Enter. & Catering	25.7	0.7	42.4	1.1
Transport	47.1	1.4	68.6	1.7
Public Corps.	149.1	4.3	134.8	3.4
Construction	243.7	7.0	309.0	7.9
Government	84.6	2.4	91.5	2.3
Private Financial	3.0	0.1	25.5	0.6
Prof. & Other Ser.	129.7	3.7	130.2	3.3
Personal	2121.6	60.9	2384.2	60.8
Miscellaneous	180.8	5.2	195.9	5.0
TOTAL	3482.1	100.0	3922.9	100.0

Despite firmer growth in personal loans, overall private credit trends were heavily influenced by the net repayments on construction sector (7.7%); tourism (3.9%) and miscellaneous (5.2%) loans. In a strong offset, outstanding credit to private financial institutions more than doubled during the quarter and there were notable increases for lending for entertainment & catering (11.5%), transport (9.4%), mining & quarrying (3.9%) and professional & other services (2.8%).

Commercial Banks

Commercial banks recorded a 3.4% increase in private sector deposit liabilities, which outpaced the 2.3% advance in credit to this sector. This contrasted with a marginal decline in net liabilities to the public corporations as claims grew faster than the respective deposits, while net credit to Government also increased (3.1%). Correspondingly, banks funded an increase in their capital and surplus position by $28.8 million (5.7%), with net foreign liabilities up marginally by $1.0 million (0.2%).

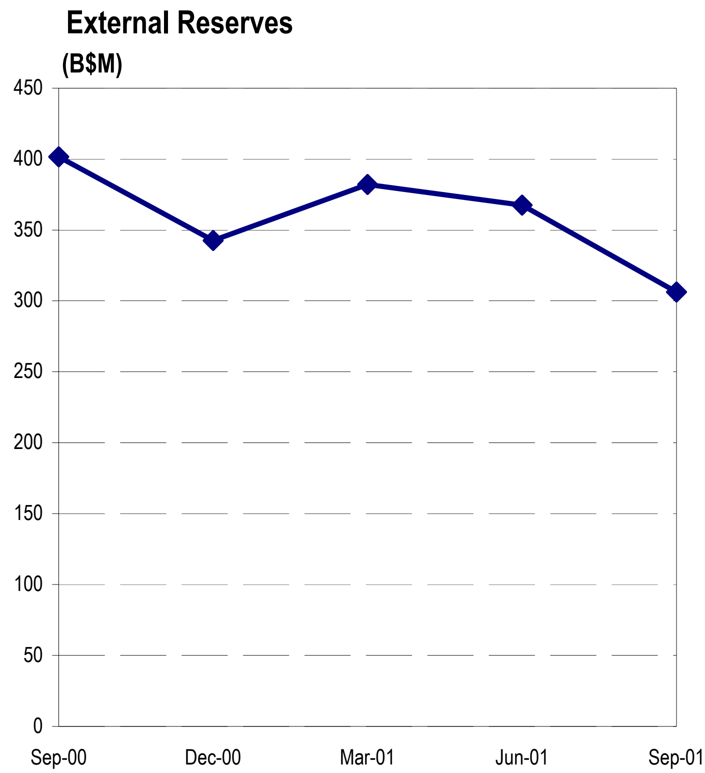
On a proportional basis, commercial banks' share of the banking sector's deposit liabilities was placed at 97.7%, with the bulk (89.1%) owing to the private sector. Approximately 61.0% of these liabilities were held in fixed balances, with 21.5% in demand and 17.5% in savings.

Other Local Financial Institutions

The OLFIs' credit to the private sector advanced by $4.7 million (4.4%) during the first quarter, but corresponding deposits fell by $2.9 million (3.4%). A broader analysis of deposit liabilities showed that the majority was held in fixed deposits (86.0%), followed by demand deposits (10.6%) and savings (3.4%). Mortgages, which constituted the largest share of the loan portfolio, rose by 5.3% to $95.3 million. The $2.1 million (8.9%) improvement in the net foreign asset position largely corresponded to a decline in private capital and surplus of 24.5%.

Central Bank

During the review quarter, the Central Bank's net claims on Government fell by 11.1% to $107.4 million, due to a net sale of Treasury bills to commercial banks. Growth in external reserves moderated to $39.5 million (11.5%) from $46.4 million (11.5%) last year, placing the stock $68.3 million lower at $382.1 million.



A closer examination of foreign reserves developments showed a near two-thirds decline in net income from investments to $4.0 million, as the combined impact of lower US interest rates and reduced external deposits mitigated the $1.9 million (5.5%) increase in the net foreign currency purchase to $35.8 million. Central Bank purchases of foreign currency rose by 8.1% to $156.5 million and sales by 8.9% to $120.8 million. On a net basis, the intake from commercial banks rose by 9.9% to $77.2 million, while other outflows—dominated by the public sector's demand—widened by 14.0% to $41.4 million.

INTEREST RATES

Commercial banks' average interest rate spread narrowed by 14 basis points to 7.71%. In the context of comparatively tighter liquidity conditions, the weighted average deposit rate firmed by 15 basis points to 4.16%, while the corresponding lending rate was relatively stable at 11.87%.

Deposit rate firming was strongest on the upper end of the maturity spectrum, with the average interest rate range on fixed deposits advancing to 4.12% - 4.67% from 3.97% - 4.40% in the previous quarter. The average rate offered on savings deposits also rose by 14 basis points to 2.70%. Movements in average lending rates included a 9 basis point hike in the more heavily weighted average rate on residential mortgages to 8.94%, which countered the 106 basis points softening in the average commercial mortgage rate to 8.59%. The average rate for consumer loans fell by 7 basis points to 13.64% and for overdrafts, by 56 basis points to 10.42%.

Official rates, the Central Bank's Discount Rate and commercial banks' Prime Rate, were unchanged at 5.75% and 6.00%, respectively. Mirroring deposit rate trends, the average rate on 90-day Treasury bills trended upwards by 54 basis points to 1.42%. There were no new issues of government bonds during the quarter; however, existing yields on variable rate issues ranged between ⅛ and 1⅜ above the Prime Rate, and for fixed rates, between 5.75% to 10.50%.

BANK PROFITABILITY

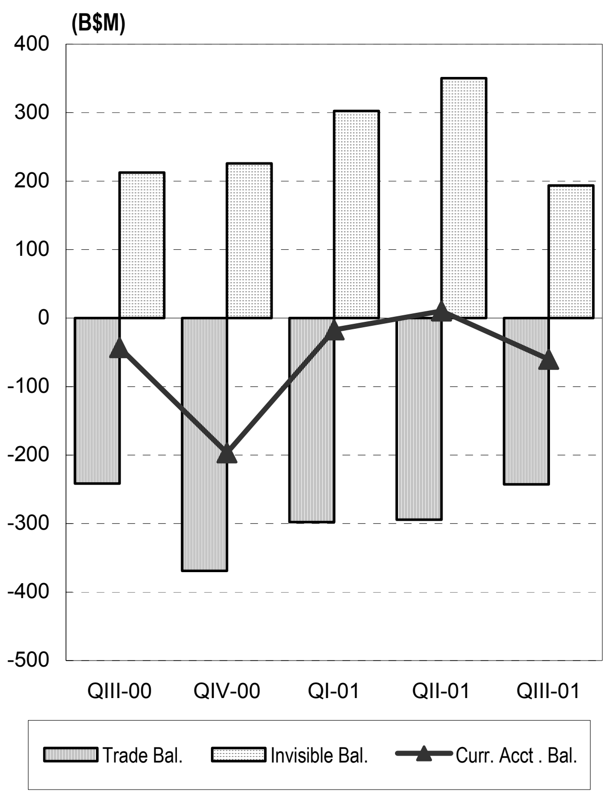
The latest available bank profitability data for the quarter ended December 2000, revealed that net income for the commercial banks and OLFIs increased by 66.2% to $37.0 million vis-à-vis 19.6% in the corresponding 1999 period. This outturn was primarily related to a 27.9% hike in the net interest margin, which mitigated a 7.0% gain in operating costs. In this regard, more accelerated growth in banks' assets base relative to deposits underpinned the increase, as the effective interest spread on loans and deposits decreased to 5.96% from 6.24% in 1999. Bad debt provisions were almost doubled from the previous year but were more than offset by the increase in non-interest income.

Profitability measures, expressed as a fraction of average domestic assets, were relatively improved vis-à-vis the year-earlier period. The net income (return on assets) ratio advanced to 3.15% from 2.04% in 1999. This corresponded to a strengthening in the net interest margin ratio to 6.05% from 5.10%, and a slightly elevated ratio for commission and foreign exchange income of 0.60%. "Other" income, net of depreciation and bad debt expenses, also firmed incrementally to 0.24%. Conversely, operating costs as a fraction of average assets decreased to 3.74% from 3.77% in the previous year, signalling marginally increased efficiency.

INTERNATIONAL TRADE AND PAYMENTS

Provisional estimates for the first quarter of 2001 revealed that the external current account deficit expanded to $47.2 million from $0.3 million in 2000 as decreased exports combined with higher imports for a 38.2% increase in the trade deficit. Some partial offset was provided by the 11.0% improvement in net invisible receipts, due mainly to gains in net tourism inflows and a near halving of net factor income outflows.

Balance of Payments



The trade deficit widened to an estimated $335.2 million from $242.5 million in 2000. Exports decreased by an estimated 6.1% to $118.1 million, alongside a 23.1% rise in merchandise imports to $453.3 million, partly associated with demand for consumer durables. Higher energy prices also continued to exert a strong influence on the import bill, which was boosted by 17.3% to $65.2 million. Average fuel price trends included a rise in the per barrel cost of bunker 'c' fuel, by 59.7%, to $24.00; motor gas, by 5.3% to $39.54; aviation gasoline, by 1.0% to $76.82 and jet fuel, by 2.0% to $36.36. In contrast, gasoline oil fell by 9.1% to $31.77 per barrel and propane prices stabilized at $30.26 per barrel.

Net invisible inflows strengthened to $305.2 million from $274.9 million in 2000, due largely to an 8.9% improvement in estimated net tourism receipts to $418.2 million. Also significant was the reduction in payments for foreign construction services by 61.7% to $9.9 million, given the lower level of foreign financed projects. These combined to restrain the impact of respective increases in net outflows for transportation (42.6%) and non-merchandise insurance (15.6%) to $29.9 million and $16.8 million, and a reduction in the offshore companies' local expenses to $16.4 million from $30.5 million, amid ongoing restructuring of manufacturing operations.

The surplus on the income account narrowed by 34.6% to $28.7 million during the review period, and included a one-third decrease in foreign workers' net remittances to $10.5 million. In addition, net private interest, dividend and profit outflows—particularly vis-à-vis the banking sector—decreased by 31.3% to $22.5 million, while the public sector's net interest receipts were incrementally reduced to $4.3 million.

On the capital and financial account, the overall surplus was sharply lower at $19.9 million from $145.5 million last year. In a continued unwinding of major tourism sector investments, net financial receipts fell to $25.3 million from $148.2 million, while migrant workers' net capital transfers doubled to $5.5 million.

Within financial flows, net inward direct investments abated to $7.1 million from $44.3 million, reflecting a reversal in net real estate transactions to an outflow of $1.3 million from an inflow of $22.8 million last year, alongside a decline in net equity investments, to $8.4 million from $21.6 million in 2000. In addition, net private loan inflows—more recently associated with the financing of tourism sector projects—fell to $23.6 million from $91.1 million last year. The public sector reduced its external liabilities by $4.0 million, following a $7.1 million increase over the comparative 2000 period.

Consequent on these developments, and after adjusting for possible errors and omissions, overall payments netted a $39.5 million surplus, just $6.8 million below the outcome for 2000.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Global economic activity weakened over the first quarter, marked by an appreciable slowdown in the United States economy and a short-lived recovery in Japan, but with the euro area displaying more buoyancy. Labour market conditions in the economies at a more mature stage of growth exhibited persistent tightness, while energy and fuel prices exerted upward pressure on inflation. With the exception of the European Central Bank, monetary policy was aggressively accommodative in the weaker economies as the authorities sought to bolster economic output. Nevertheless, investors continued to incorporate uncertainty over the economic outlook as evidenced by the broad based depreciation of equity prices, and attached a further premium to the value of the United States' dollar. On the external side, weak global demand exacerbated the divergences in the major countries' current account imbalances.

Indications are that first quarter output growth was stronger than expected among the major economies. The United States economy avoided recession as real growth paced ahead of expectations at an annualised 2.0%, due largely to a strong recovery in consumer spending and in the face of continued softening in capital investments and a significant falloff in manufacturing output. Although well below last year's advance of 4.8%, this exceeded the previous quarter's narrowed gain of 1.0%. Mixed signals from the United Kingdom suggest that the first quarter expansion was not materially different from the previous quarter's annualised rate of 1.4%, as the economy continued to enjoy a period of strong domestic demand and stable export growth.

Growth in the euro area was also buoyed by domestic demand, however the momentum showed signs of slowing due to weaker external demand and lessened gains in real disposable incomes. In Germany, more subdued activity in the manufacturing sector for the first two months of the year suggested a further slackening of output growth from the previous period's 0.8% gain. Prospects for the Japanese economy deteriorated as weakness in exports and a deceleration in industrial production threatened a first quarter decline in real GDP vis-à-vis the previous quarter's advance of 0.7%.

Employment conditions among the major economies were slightly divergent during the first quarter, but corporate hirings were generally more tempered in light of weaker earnings and demand outlook. In the United States, the average unemployment rate rose to 4.2% from 4.0% in the last quarter, whereas temporal increases in construction activity supported a slight decline in average unemployment in the United Kingdom, to 3.5% from 3.6% last quarter. The average jobless rate in the euro area was maintained through February at 8.7%, with Germany's rate stable at 9.3% for the quarter. Japan's unemployment rate was also unchanged from the previous quarter at 4.80%.

Higher food and energy prices contributed to a firming in inflation across the major economies during the review period. In the United States, average consumer price inflation rose to a seasonally adjusted annual rate of 4.0% for the three months ended March 2001 as compared to 2.3% in the previous quarter. For the euro area, an accelerated increase in unprocessed food prices offset most of the deceleration in energy costs, to keep the 12-month consumer price inflation stable at 2.6% in February vis–á–vis end-2000, and marginally below the quarterly rate of 2.7% through end-December 2000. Average prices in Germany, however, rose faster at 3.4% as compared to 2.6% in the fourth quarter of 2000, whereas rising productivity gains in the United Kingdom has kept inflation below the Bank of England's 2.5% target ceiling. In Japan, the only evidence of a possible firming in prices, particularly on imported goods, was the decelerated decline in consumer prices at 0.3% on an annualised basis, as compared to 1.2% in the last quarter.

In commodity markets, energy prices exhibited more stability over the quarter, but still firmed in response to OPEC's decision in January to reduce daily crude production by 5.6% to 25.2 million barrels. As a result, the per barrel price of North Sea Brent Crude Oil rose by 8.6% to \$25.90, although relatively unchanged from \$25.07 a year earlier. Meanwhile, in precious metal markets, the price of gold declined further by 4.1% to \$262.10 per troy ounce at end-March.

Despite comparatively reduced interest rates for the United States, major currencies were broadly depreciated against the Dollar, reflecting the stronger than expected growth in the United States economy, and the lower risk appeal of Dollar denominated investments. In particular, the Canadian dollar declined vis-à-vis the Dollar by 5.3% to C$1.58 and the Swiss franc by 7.1% to SF1.74. In addition, the euro weakened relative to the Dollar by 6.7% to €1.14; pound sterling, by 5.4% to £0.70 and the yen by 9.8% to ¥125.54.

Amid the weaker outlook for the global economy, monetary policy was aggressively accommodative in an attempt to buoy consumer and investor confidence. In the United States, the Federal Reserve cut both the discount and federal funds rates three times through March, by 150 basis points, bringing the respective rates to 4.50% and 5.00%; and orchestrated a further 100 basis points reduction over April and May. In February, the Bank of England reduced its repo rate by 25 basis points to 5.75%, and on two subsequent occasions to 5.25% by May, in a pre-emptive move against the threat of slumping overseas demand. On two occasions, the Bank of Japan also halved its discount rate to 0.25% from the 0.50% maintained since the third quarter of 1995. Conversely, the ECB held its refinancing and marginal lending facilities rates unchanged at 4.75% and 5.75% respectively, balancing reduced inflationary risks from euro area demand against upward pressures exerted from higher energy costs. A noteworthy development was the addition of Greece to the currency area, bringing the number of EMS members to 12.

Tumbling forecasts of corporate earnings and mounting uncertainty over the state of the United States and the global economy continued to fuel widespread equity price depreciation on the major bourses. The technology laden Nasdaq Composite index lost 25.5% of its value to close at 1,840 points at end-March, which represented an almost 60% decline for the 12-month period. The broader S&P 500 index retreated by 12.1% to 1,160 points, while the Dow Jones Industrial Average recorded its worse quarterly drop ever of 8.4% or 908 points to 9,879 points, eclipsing the previous quarter's mild rally of 1.3%. Responding to Wall Street's malaise and worries about the earnings outlook in the United Kingdom, the United Kingdom's FTSE 100 Index fell 9.5% to 5,634—its fifth successive quarterly decline. Germany's Dax also dropped by 9.4% to 5,830 points and Japan's Nikkei–225 Index, by 5.7% to 13,000 points.

In the external sector, major countries recorded mixed movements in their current account imbalances during the first quarter. For the United States, both the trade and current account deficits contracted as a result of a larger falloff in import demand, and Japan's current account surplus narrowed as slower global growth sapped demand for its exports amid continued increases in imports. Both the United Kingdom and Germany experienced stronger growth in import levels relative to exports, with a consequent expansion in the United Kingdom's trade deficit and a decline in Germany's current account surplus.

STATISTICAL APPENDIX

(Tables 1-16)

STATISTICAL APPENDIX

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TABLE 16 SELECTED TOURISM STATISTICS

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.**

INTRODUCTION

The 2000 survey of the Gross Economic Contribution of Banks & Trust Companies undertaken by The Central Bank of The Bahamas confirms the significant role the sector continues to play within the Bahamian economy with regard to its contributions to Gross Domestic Product (GDP) and employment. Notably, expenditures by banks and trust companies have accounted for more than half of the sector's estimated 15% share in GDP.

Survey findings indicated a continued healthy growth in industry expenditure, primarily associated with an elevated rate of capital investments and employment gains. Both trends were strongly correlated with the move by many institutions operating in the offshore sector to establish or expand their physical presence in the jurisdiction and to build internal capacity to oversee regulatory compliance issues.

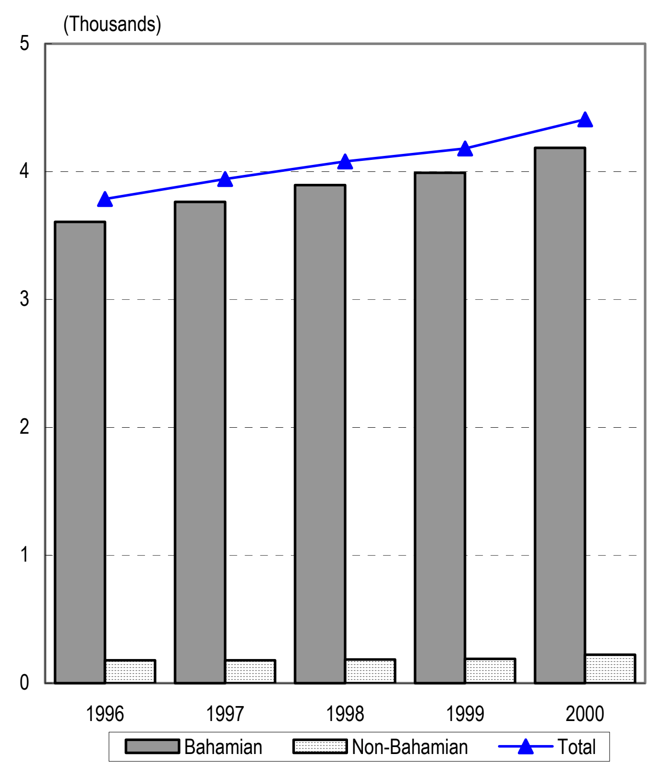
The number of institutions licensed to engage in banking and trust operations from or within The Bahamas decreased to 410 at end-2000, relative to 415 in 1999. In particular, the number of public or unrestricted banks and trust companies fell by 8 to 268, while non-active licenses rose by 1 to 17 and restricted licenses by 2 to 125. The number of physical operations, which provide the bulk of employment and expenditures within the domestic economy, rose from 199 to 204, consisting of 127 public licensees and 77 restricted operations.

Public licensees at end-2000 comprised the offshore operations of 186 Bahamian incorporated banks and trust companies, 60 euro-currency branches of foreign banks and trust companies and 22 institutions with strictly domestic or a combination of domestic and offshore business. The domestic group included two savings and loans institutions, in addition to 7 Authorized Dealers (commercial banks) and 12 Authorized Agents (trust companies), which transact mainly with foreign clients.

EMPLOYMENT TRENDS

Banking sector employment growth during 2000 benefited from both the expansion of existing operations and the establishment of physical presence by new licencees. Total employment rose by 228 (5.5%) to 4,409 persons, exceeding 1999's increase of 2.5% as well as the average annual gain achieved for the five years through 1999, of 125 (3.2%). Bahamians were the principal beneficiaries of these increased employment opportunities, with a 195 (4.9%) gain in number to 4,186, which comprised 94.9% of the sector's total workforce. This out-distanced 1999's net gain of 96 positions, and the preceding five years' annual average of 123 openings, and a marginally lower average ratio of Bahamians in the total workforce.

Employment



Employment of expatriates also increased by 33 (17.4%) to 223 in 2000, representing 5.1% of the banking sector's labour force vis-à-vis 4.5% in 1999.

EXPENDITURES

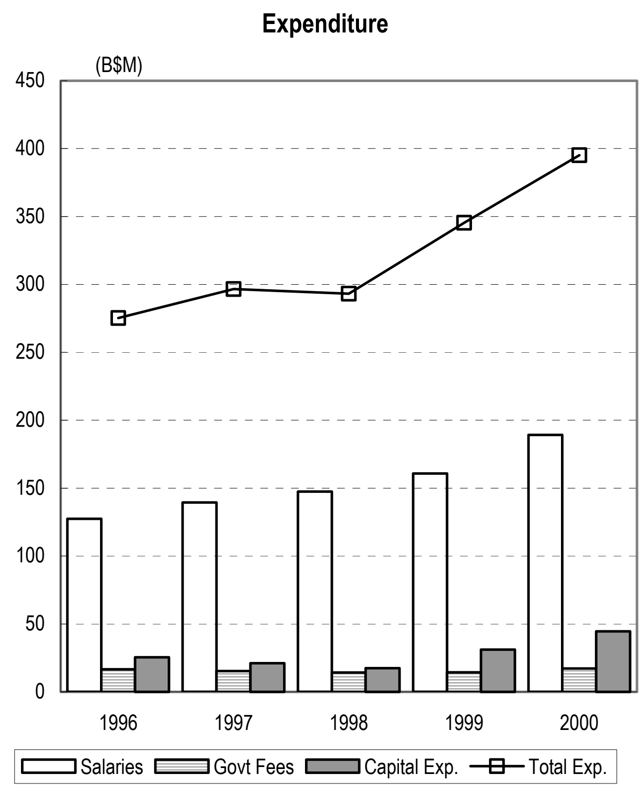
Banks and trust companies continued to report above average growth in aggregate outlays during 2000, corresponding to intensified capital investments and boosted staffing expenses. After rising by $52.1 million (17.8%) in 1999, gross outlays rose further by $49.8 million (14.4%) to $395.1 million in 2000, a more favourable contribution relative to the adjoining five-year period's average annual gain of 9.98%. On a proportional basis, operational outlays—including salaries, training, government fees, utilities and administrative costs—comprised a marginally reduced 88.7% of total expenditures, down from the 1995-1999 average of 92.0%. Correspondingly, the proportion for capital spending on new premises, renovations and the acquisition of fixed assets continued to rise at an above trend rate of 43.0% ($22.3 million) compared to an average annual gain of 11.4% over the previous five years.

Growth in banks' total operational costs, which was concentrated in staffing and administrative outlays, steadied at $36.4 million (11.6%)—for outlays of $350.6 million—and exceeded the 9.9% average annual gain achieved for the previous five year period.

Spending on salaries, at just over half of operational costs, increased by $28.4 million (17.7%) to $189.1 million, owing to hikes in both employment and average pay. This extended the $13.2 million (9.0%) boost achieved in 1999, as well as the five-year average annual gain of 7.3% since 1995. Consequently, the sector's average salary also grew by 11.6% to $42,901, maintaining the upward momentum established in earlier years. Given an average annual inflation rate of 1.3% since 1995, average salaries increased in real terms by approximately 2.6% yearly through 1999.

Non-staff administrative expenses advanced further by $4.8 million (3.5%) to $141.1 million, which was less than both the 1999 rate of increase of 22.2%, and a robust average annual uptrend of 15.4% during 1995-1999. Banks' direct disbursements for training rose unabated to $3.1 million from $1.4 million in 1995 and $2.7 million in 1999. These however, underestimate the importance of industry training provided by the various tertiary level institutions and The Bahamas Institute of Bankers.

The estimated direct revenue accruing to Government, mostly in the form of fees, rose by $2.8 million (19.4%) to $17.2 million in 2000, and accounted for 4.4% of total operational outlays. After marginal fluctuations in the intervening years, these revenues also rose above the average collections of each of the previous five years. Based upon the major fee categories, licence payments netted $8.6 million (49.8% of fees); company registration $1.1 million (6.3%); work permit fees $2.1 million (12.3%), and other levies–including stamp duties, property taxes and customs duties–$5.4 million (31.5%). Since 1995, cumulative direct inflows to Government have amounted to an estimated $93.6 million.



Like employment, recent trends in banks' capital outlays continue to underscore the expansionary thrust of operations, particularly within the offshore sector, which have had a significant positive impact on the construction industry and the real estate market. In particular, 1999's $13.8 million (79.1%) hike in investments for building renovations, new premises and other fixed assets, was augmented by another $13.4 million (43.0%) rise to a record $44.5 million in 2000. This contrasted with a five-year low of $17.4 million in 1998. Investments in renovations and new premises rose by a combined $7.8 million to $17.9 million, as compared to the estimated $10.1 million for 1999. Real estate purchases were halved to less than $1.0 million, while purchases of office equipment increased by $6.1 million to $26.0 million.

DOMESTIC VS. OFFSHORE

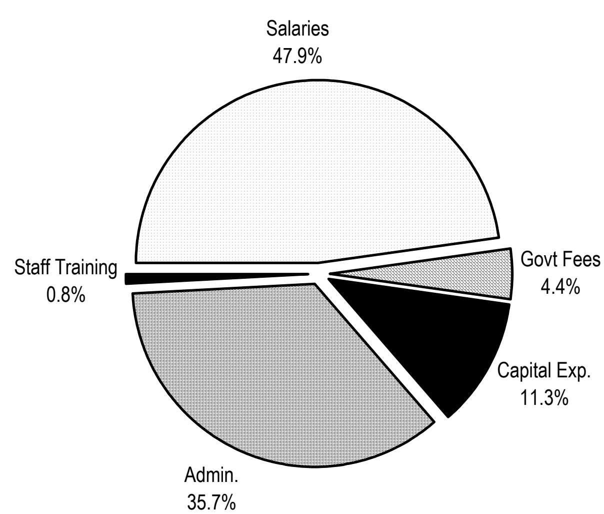
Although it is useful to compare the contributions of the banks engaged in the domestic sector vis-à-vis those in the offshore, it should be noted that some domestic banks also have substantial offshore operations. Nevertheless, given the retail nature of local operations, which contrasts with the predominance of private banking relationships in the offshore sector, the former is more labour intensive and therefore provides the greater contribution to the economy.

After netting 25 (0.8%) new positions in 1999, hirings within domestic banks rose by 67 (2.1%) to 3,270 employees. With recruitment for offshore-related operations rising at a faster pace, local banks' corresponding share in employment fell to 74.2% from 76.6% in 1999, and compared to an average 77.9% in the five years through 1999. Employment gains continued to benefit Bahamians, whose number rose by 77 (2.4%) to 3,232, while the count for non-resident workers declined by 10 to 38. This pattern is consistent with the previous five years' trend, where moderate increases in the Bahamian work force matched a steady contraction in expatriate employees. Consequently, the ratio of Bahamians to non-Bahamians within domestic institutions rose further to 85:1 from 66:1 in 1999 and 51:1 in 1995.

The comparative ratio of Bahamians in the offshore sector decreased from approximately 6:1 to almost 5:1 in 2000, as the 16.5% rise in total employment to 1,139 positions corresponded to a proportional increase of 14.9% in jobs filled by Bahamians to 954, as compared to a 30.3% gain for expatriates to 185. This trend mainly reflects the smaller scale of physical operations started during the year, which would have reserved staffing decisions on a limited number of senior positions to the discretion of the respective foreign banks.

Average salary comparisons reflect the higher premium attached to skills in the offshore sector, with the estimate slightly narrowed to 37.4% of the domestic sector pay, relative to an average of 39.0% in the adjoining five years and a high of 44.8% in 1995. In particular, average annual compensation for employees in domestic banks rose by 10.9% to $39,112, not substantially different from the 10.0% increase for offshore sector employees to $53,777. The latter, however, was more indicative of lower average compensation for new engagements in the offshore sector, as the average pay increase for Bahamian workers in the domestic sector of 9.2% to $37,550 was less than the 14.9% raise to $44,832 for those employed in offshore banks.

Expenditure Components (% of Total)



During 2000, domestic institutions' total expenditure grew incrementally by $3.0 million (1.4%) to $222.2 million, lagging 1999's increase of 15.5% as well as the 9.9% five-year average annual uptrend since 1995. Given stronger gains in offshore sector outlays, these amounts were equivalent to a reduced 59.3% of the banking system's gross expenditures, and trailed the previous five-year average of 65.8%. In this regard, operational costs rose at a below trend rate of 2.3% to $207.9 million, as compared to 12.6% in 1999, when administrative costs rose sharply, and an average annual 10.2% in the five years since 1995. However, the rise in the salary component was above trend at 13.2% in 2000, relative to the adjoining five years' average of 6.6% per annum. Capital spending, which represented a reduced 6.4% of domestic institutions' total outlays, fell by 10.6% to $14.2 million. Although this was less than 1999's rise of 71.3%, investments still exceeded the average $12.2 million spent each year during 1995-1998, signally continued above average expenditures on renovations and new premises.

With the more intensive expansion of physical operations in The Bahamas, the offshore institutions' expenditures rose by 37.1% to $173.0 million, almost four times the estimated average growth during 1995-1999. The larger operational cost component (82.5% of the total) increased by 28.6% to $142.7 million compared to a healthy but lesser 16.4% in 1999. Corresponding to increased staffing, salaries were elevated by 28.1% and other administrative costs (excluding government fees) by 27.4%. Expansionary activities were evidenced in a two-fold hike in capital outlays, to $30.3 million, primarily reflecting renovation expenditures and office equipment purchases. Investments in new premises were paced at about the same level as in 1999, but more than doubled the yearly activity recorded during 1995-1998.

OTHER DEVELOPMENTS IN THE FINANCIAL SECTOR

Progress in banking sector developments continued to reflect the synergies provided from products and services within the financial services sector. A major boost for the domestic market was the successful May 2000 launch of The Bahamas International Securities Exchange (BISX), which had attracted trading in the equities of 15 of 18 public companies at end-2000. BISX's reach into the offshore sector is expected to begin in 2001 with mutual funds listings. As to potential business, the number of active funds rose by 20.5% to 757 at end-2000, with a 0.7% increase in the corresponding assets under management to $95.03 billion.

A more far reaching development in 2000 was the complete overhaul of the financial sector legislative landscape in response to a number initiatives launched against international financial centres by institutions of the G7 countries and the Organisation for Economic Cooperation and Development (OECD). The declared objectives of these initiatives included strengthening the international fight against money laundering, improving standards relating to banking supervision and the reduction in facilities which aid evasion of taxes.

The rapid and decisive response of The Bahamas included a complete restructuring of the regulatory regime for financial service providers, which were impacted by 9 of 11 new pieces of legislation enacted on 29 December, 2000. The banking sector witnessed the enactment of ***The Banks and Trust Companies Regulation Act, 2000***, which replaced the 1966 Act of the same name and the Banks Act of 1909, and tightened licensing supervisory requirements for banks and trust companies. These included increased authority and independence of the Governor of the Central Bank to approve and revoke licenses, and provisions for onsite inspection by both the Central Bank and foreign supervisory authorities of branches operating within The Bahamas. Also noteworthy was the new ***The Central Bank of The Bahamas Act, 2000***, which, among other things, empowers the Central Bank to share information with foreign supervisory authorities.

Since enactment of the new laws, the Central Bank has vigorously tightened its supervision of the banking sector. One of these changes has been a more tighter application of the $5.0 million minimum capital requirement for new bank licencees, which the Bank had already started to enforce since 1999. In the area of supervision, in January 2001, the Bank engaged a team of twelve professionals to carry out on-site examination of banks and trust companies, targeted, in the initial stage, at assessing the adequacy of institutions' compliance with procedures for customer identification and anti-money laundering requirements. The Bank has also begun enforcing a new policy requiring public banks and trust companies to maintain an appropriate physical presence in the jurisdiction, which extends to the maintenance of accounting records and senior level staffing.

It is expected that approximately 60 banks will not be able to comply with the new physical requirements and will wind-up their managed operations. The impact on licenses was already evident through the first quarter of 2001, when the number banks and trust companies operating within The Bahamas declined by 31 to 379. Of this total, public operations decreased by 27 to 241. Despite this adjustment, the physical presence requirement is expected to have a positive short-term effect within the local economy, as a result of new demand for office space, benefiting the commercial real estate sector, and additional staffing needs in the area of anti-money laundering compliance.

The other important regulatory changes impacting the financial sector included enactment of the following legislation.

- ***The Financial Intelligence Unit Act, 2000*** established the Financial Intelligence Unit to coordinate the fight against money laundering and to provide information assistance in criminal investigations launched by similarly situated foreign regulatory bodies.

- ***The Proceeds of Crime Act, 2000*** granted broad powers for the courts to confiscate assets financed or earned through criminal means.

- ***The Financial and Corporate Service Providers Act, 2000*** broadened the statutory definition of financial institutions to include the operations of attorneys, accountants and other entities involve in the formation or management of international business companies (IBCs) and exempted limited partnerships (ELPs); mutual fund managers and administrators, credit unions, real estate brokers and casino operators. The office of Inspector of Financial Services (vested with the Registrar General) was also established to carry out onsite and offsite inspections of, and to ensure statutory compliance by corporate service providers.

- ***The Financial Transactions Reporting Act, 2000*** outlined financial institutions' due diligence and reporting requirements in relation to anti-money laundering systems and minimum customer identification (KYC) requirements. The Act also established a Compliance Commission to regulate financial institutions not supervised by any existing supervisory agency.

- ***The International Business Companies Act, 2000*** eliminated the anonymous bearer share feature from IBC ownership, and obligated corporate service providers to maintain adequate records on the identity of IBC owners and directors.

- ***The Evidence (Proceedings in other Jurisdictions) Act, 2000*** established a framework to permit the courts to assist in collecting evidence for use in ongoing criminal investigations in other jurisdictions.

- ***Criminal Justice (International Cooperation) Act, 2000*** provided for the enforcement of foreign criminal judgments through the Bahamian courts, including confiscation orders on financial assets.

Overall, the restrictive impact of the new legislative and supervisory regime restructuring has been most evident with respect to the demand for international business companies. Indications from the industry suggest that IBC incorporations for 2001, and the number of companies remaining on the register are being substantially reduced compared to earlier years, with a resulting negative impact on the contributions of the sector.

Going forward, the authorities remain committed to further enhancements of the supervisory regime and stronger cooperative ties with major foreign authorities. The utmost care, however, is being taken to ensure that The Bahamas retains a competitive hold on the international financial services business, and that the global approach to regulatory reform occurs at an even pace. In this way, the Bahamian economy should continue to secure expanded gains from its financial services industry.