

**The Central Bank of The Bahamas**



# **Quarterly Economic Review**

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**March, 2003**

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

**[www.centralbankbahamas.com](http://www.centralbankbahamas.com)**  
**email address: [research@centralbankbahamas.com](mailto:research@centralbankbahamas.com)**

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# QUARTERLY ECONOMIC REVIEW

Volume 12, No. 1  
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## CONTENTS

	PAGE
<b>1. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS</b>	
DOMESTIC ECONOMIC DEVELOPMENTS	1
FISCAL OPERATIONS	2
REAL SECTOR	5
<i>TOURISM</i>	5
<i>PRICES</i>	5
MONEY, CREDIT & INTEREST RATES	6
INTERNATIONAL TRADE & PAYMENTS	10
INTERNATIONAL ECONOMIC DEVELOPMENTS	11
<b>2. STATISTICAL APPENDIX (TABLES 1-16)</b>	13
<b>3. ARTICLE</b>	
Gross Economic Contribution of Banks and Trust Companies in The Bahamas, 2002	31

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## REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

### DOMESTIC ECONOMIC DEVELOPMENTS

Provisional estimates for the first three months of 2003 signal some improvement in domestic economic activity, following significant weakness during the same period in 2002. Tourism output was sustained by recovered stopover pricing and marginally improved visitor volumes, while construction continued to experience steady support from domestic residential mortgage lending. On the pricing front, insurance premium adjustments caused marginal firming in consumer price inflation. Stable revenue intake against sizeable spending increases, linked mainly to the provision of budgetary assistance to public corporations, contributed to a marked increase in the Government's overall budget deficit for the third quarter of the fiscal year. In the financial sector, elevated seasonal foreign currency inflows, in the context of further moderation in domestic credit expansion, supported a stronger build-up in the monetary aggregates, more buoyant liquidity and a reduction in the system's net foreign liabilities. On the external account, reduced net factor income outflows and payments for foreign services provided for a small increase in the estimated current account surplus; albeit, net private foreign investments were reduced on the capital and financial account.

In the context of the continued policy constraints on banks' domestic currency lending and robust seasonal foreign currency inflows, net free cash balances of the banking system expanded by 45.1% to \$129.0 million, corresponding to an enlarged 3.5% share of Bahamian dollar deposit liabilities as compared to 3.2% at end-March 2002. With institutions holding higher liquid balances with the Central Bank, the broader surplus liquid assets also rose by 26.3% to \$123.4 million, exceeding the statutory minimum by 20.6% versus 18.1% in 2002. Despite these trends, weighted average interest rates firmed on both loans and deposits, by 55 and 12 basis points, to 11.73% and 4.03%, respectively, resulting in a 43 basis points widening in the average spread to 7.70%. The average 90-day Treasury bill rate, however, de-

creased by 13 basis points to 1.89%, while benchmark interest rates—Central Bank's Discount Rate and commercial banks' Prime—were maintained at 5.75% and 6.00%, respectively.

Reflecting the upswing in private sector foreign currency inflows, monetary expansion (M3) during the quarter strengthened to 2.9% from 2.3%, for an overall stock of \$3.95 billion. Demand deposits growth accelerated to 8.3% from 3.5% in 2002, partly owing to public corporations' transfers from fixed balances, and residents' foreign currency deposits rose by approximately one-third, reflecting some repositioning to meet scheduled debt repayments. These outpaced moderated growth in savings and fixed deposits, of 2.7% and 0.5% vis-à-vis 4.1% and 2.2%, respectively in 2002. Meanwhile, currency in active circulation contracted further by 4.0%.

With private sector demand restrained amid lending restrictions, domestic credit expansion narrowed to 0.2% for an end-March total of \$4.95 billion, and trailed respective gains of 1.0% and 2.2% in the corresponding periods of 2002 and 2001. The outcome only incorporated accelerated credit expansion within the public sector, at 5.8% as compared to 1.3% in 2002. In particular, net credit to Government rebounded by \$45.4 million (7.0%) to contrast with the sharply moderated increase in claims on public corporations of 2.4% vis-à-vis 26.7% in 2002 when proceeds from foreign currency borrowing repaid short-term lending provided to the Government during the fourth quarter of 2001. Private sector credit contracted by 1.0%, extending the 2002 weakening trend, when growth slowed to 1.0% from 2.4%. While lending for residential mortgages recorded the most notable uptrend (2.7%), it was offset by a reduction (2.6%) in lending, on balance, for other private sector activities including consumer loans.

Estimates of the fiscal performance for Fiscal Year 2002/03 suggest a widening in the overall deficit, to \$45.7 million from \$2.5 million in the same period in FY2001/02. In contrast to almost unchanged revenue collections of \$218.8 million, total expenditure rose by 20.0% to \$264.6 million, under the impact of an appreciable hike in budg-

etary support to public sector entities. Capital spending, however, was cut by \$5.9 million (26.7%), partially offsetting the \$12.8 million (5.7%) upswing in recurrent outlays. Budgetary financing during the review quarter included significant short-term funding from the local banking sector, alongside a 0.6% reduction in the Direct Charge to \$1,793.9 million, consequent on a net domestic debt repayment of \$11.0 million. Following a 2.2% decrease in the guaranteed liabilities of the public corporations to \$393.1 million, the National Debt contracted by \$19.7 million (0.9%) to \$2,187.3 million. This contrasted with an expansion of 0.8% to \$1,977.8 million in 2002.

Tourism output improved during the first three months of 2003, with firming in stopover pricing outweighing weak trends in visitor volume. Softening in US travel demand, as a result of fears related to the war in Iraq, lowered growth in visitor arrivals to 1.1% from 3.0%, for a first quarter count of 1.2 million. Of particular note, however, was the 0.3% upturn in air arrivals, the primary source for stopover expenditure, from a 5.8% contraction in 2002. Conversely, cruise visitor growth slowed sharply to 1.4% from 7.5% in 2002, and was largely sustained by continued gains in Family Island arrivals. Led by appreciated pricing in New Providence, preliminary indicators for the first two months of the year suggest a 9.8% upturn in hotel room revenues, reinforced principally by the strengthened 9.5% boost in the average nightly room rate to \$175.08, and a 0.3% gain in the volume of visitor nights sold, on account of Grand Bahama's increased capacity. As regards the March performance, feedback from the hotel industry suggests that, although room night sales declined during the immediate period surrounding the war in Iraq, pricing was still appreciated, thereby limiting the total extent of expenditure loss.

Based on changes in the average Retail Price Index, consumer price inflation accelerated to 1.4% during the March quarter, from 0.5% in 2002. Heightened average price gains were recorded for "other" goods & services (10.9%) and medical care & health (5.6%), related to boosts in life premiums on and health insurance policies, and for recreation & entertainment services (3.8%). These occurred alongside more subdued increases in most other categories, and a decline in average costs for food & beverages, furniture & household operations and clothing & footwear. On an annual basis through March, average inflation firmed slightly to 2.4% from 2.3% in

2002. Accelerated advances in average costs for furniture & household operations, recreation & entertainment services, medical care & health, and "other" non-categorized goods and services were almost offset by softened or reduced average costs on the remaining components in the Index.

For the external sector, preliminary estimates for the March 2003 quarter indicate a marginal increase in the current account surplus to \$6.0 million from \$0.7 million. Appreciated oil prices reinforced a widening in the merchandise trade deficit by 13.2% to \$296.6 million, but were more than countered by a 9.2% improvement in the services surplus to \$296.8 million, and a one-third decrease in net factor income outflows to \$30.9 million. Net transfer receipts were also slightly higher at \$13.0 million.

The capital and financial account registered an estimated deficit of \$68.8 million in contrast to the 2002 surplus of \$89.7 million. Short-term flows through the banking system were reversed to a net outflow of \$76.9 million from a net inflow of \$40.9 million in 2002. In addition, net private equity inflows narrowed to \$9.5 million from \$34.0 million; net real estate sales, to \$3.9 million from \$9.9 million, and net private loan receipts, to \$10.7 million from \$18.6 million. The public sector's net external debt repayment increased to \$6.9 million from \$5.1 million.

## **FISCAL OPERATIONS**

Preliminary estimates for the third quarter of FY2002/03 indicate that the overall deficit on the Government's budgetary operations widened to \$45.7 million from \$2.5 million in the year-earlier period. Relatively stable revenue collections of \$218.8 million contrasted with a \$44.0 million (20.0%) hike in expenditure to \$264.6 million, explained largely by a reversal in flows to public corporations—to a net lending of \$12.1 million from a \$25.0 million net repayment during the corresponding period in FY2001/02.

### **REVENUE**

The Government's revenue outcome featured an \$8.8 million (4.6%) advance in tax collections to \$203.9 million, which constituted 91.7% of the total, with an almost equivalent reduction in non-tax proceeds. Receipts from business and professional license fees ex-

panded by 32.3% to \$20.9 million, inclusive of some increases in International Business Companies license fees. Property taxes also rose by 16.5% to \$12.7 million and "other", as yet non-disaggregated revenue, doubled to \$6.1 million. Gains were also associated with some firming in tourism arrivals, as departure taxes advanced to \$15.0 million from \$13.5 million. Conversely, levies on international trade and transactions, which accounted for 56.6% of tax collections, decreased slightly (1.5%) to \$113.6 million, as a consequence of a 2.9% reduction in import duties to \$87.5 million and a 14.3% contraction in export and related stamp taxes to \$3.6 million. Stamp levies on financial and other transactions also fell by 2.6% to \$20.9 million.

As regards non-tax revenue, which constituted the remaining 8.3% of receipts, the intake fell by 30.9% to \$18.1 million. This included a nearly four-fifths reduction in income from sources other than public enterprises, to \$1.8 million; a 3.8% decrease in fines, forfeitures and administrative fees to \$15.3 million, and a halving in proceeds from the sale of Government properties to \$0.1 million

**EXPENDITURE**

Current spending rose by an estimated \$12.8 million (5.7%) to \$236.3 million, partly countered by a \$5.9 million (26.7%) cutback in capital outlays to \$16.2 million. On a proportional basis, recurrent spending comprised 89.3% of total outlays; capital expenditure, 6.1% and net lending to public corporations, 4.6%.

A breakdown of recurrent expenditure by economic classification revealed a \$5.4 million (3.6%) increase in Government consumption, as the 11.2% hike in the salary and wages bill to \$103.0 million, was partially offset by a 9.1% reduction in purchases of goods and services to \$51.2 million. Transfer payments also rose by 9.9%, with interest expense on public debt almost unchanged at \$25.8 million but subsidies and other payments advancing by 14.2% to \$56.3 million. In particular, direct subsidy payments to autonomously operating entities rose by more than one quarter to \$34.4 million, due largely to the timing of payments to The College of The Bahamas. In addition, transfers to non-profit institutions nearly doubled to \$7.2 million, while payments to non-financial public enterprises and public corporations fell by less than \$1

million in total. However, payments to households were decreased to \$11.2 million from \$14.6 million, due mainly to reduced expenses on public service gratuities and pensions.

**Government Revenue By Source**  
(January - March)

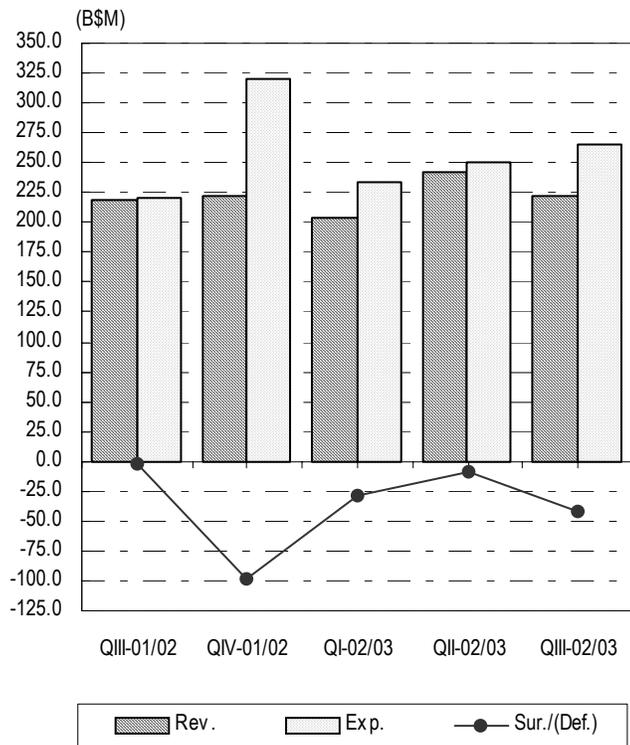
	<u>FY01/02p</u>		<u>FY02/03p</u>	
	<u>B\$M</u>	<u>%</u>	<u>B\$M</u>	<u>%</u>
Property tax	10.9	5.0	12.7	5.7
Selective Services tax	10.5	4.8	10.1	4.6
Bus. & Prof. Lic. fees	15.8	7.3	22.5	10.1
Motor Vehicle tax	4.1	1.9	4.7	2.1
Departure tax	13.5	6.2	15.0	6.8
Import duties	90.1	41.3	87.5	39.4
Stamp tax from imports	21.0	9.6	22.5	10.1
Export tax	4.2	1.9	3.6	1.6
Stamp tax from exports	0.0	0.0	0.0	0.0
Other stamp duty	19.2	8.8	20.4	9.2
Other tax revenue	3.0	1.4	6.1	2.8
Fines, forfeits. etc.	15.9	7.3	15.4	6.9
Sale of Gov't property	0.3	0.1	0.1	0.0
Income	10.1	4.6	2.7	1.2
Other non-tax rev.	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0
Less: Refunds	0.5	0.2	1.2	0.5
<b>Total</b>	<b>218.1</b>	<b>100.0</b>	<b>222.1</b>	<b>100.0</b>

On a functional basis, expenditure on general public services, which accounted for more than one-fourth of the recurrent bill, grew by 13.7% to \$64.8 million. Spending on education also rose by 19.4% to \$46.1 million; health, by 4.0% to \$38.9 million and defense, by 9.4% to \$7.0 million. Spending cutbacks of a combined 17.9% were recorded for social benefits, housing and other community services, to \$15.6 million, and for economic services, mainly tourism, of 3.8% to \$38.1 million.

The retrenchment in capital investments was due partly to a one-fourth reduction in outlays on public works developments, to \$9.7 million, as the previous year's major road works programme in New Providence has since been halted. Investments in general public services were also more than halved to \$1.5 million and for educa-

tion, by one-third to \$2.4 million. However, capital spending on health related projects rose modestly to \$1.0 million.

### Fiscal Operations



### FINANCING AND NATIONAL DEBT

For the quarter ended March 2003, budgetary financing included a significant increase in short-term advances from the local banking system, and there was a net repayment of other contractual debt. In particular, the Direct Charge decreased by \$11.0 million (0.6%) to \$1,793.9 million, compared to a \$3.4 million (2.1%) reduction to \$1,568.9 million during same period in 2002. Based on holder classification, Bahamian dollar denominated debt constituted 87.3% of the total, comprised mainly of Government bonds (\$1,299.1 million). The largest share (39.5%) was owed to the public corporations (mainly the National Insurance Board), followed by domestic banks (25.2%), private and institutional investors, including pension funds and insurance companies (24.5%) and the Central Bank (10.7%).

Consequent on an \$8.7 million (2.2%) net repayment, Government's guaranteed liabilities were reduced to \$393.1 million, bringing the National Debt lower by \$19.7 million (0.9%) to \$2,187.1 million at end-March 2003. This contrasted with last year's \$16.1 million (0.8%) advance to \$1,977.8 million.

### PUBLIC SECTOR FOREIGN CURRENCY DEBT

According to preliminary data for the first quarter of 2003, public sector foreign currency debt decreased by \$9.3 million (1.9%) to \$491.3 million, following net repayments by both the Government and public corporations. New drawings of \$0.8 million were offset by amortization payments of \$10.1 million. The Government accounted for \$228.7 million (46.6%) of the outstanding balance, and public corporations the remaining \$262.6 million (53.4%)—the bulk of which (79.7%) was guaranteed by Government. By creditor profile, domestic banks held the largest share of the foreign currency debt (48.1%), followed closely by multilateral institutions (46.8%), with private institutional investors accounting for the remainder (5.1%). The foreign currency debt continued to have an average maturity of between 7–10 years and to be denominated almost entirely in US dollars.

Relative to estimates for the corresponding period in 2002, foreign currency debt servicing was halved (56.6%) to \$15.5 million, comprising a \$21.4 million (67.8%) drop in amortization payments, which in 2002 included settlement of a short-term facility obtained a few months earlier. Interest charges rose by \$1.2 million (28.6%) to \$5.3 million. Consequent on these trends and export developments, debt service as a proportion of estimated exports of goods and non-factor services declined to 2.3% from 5.4% last year. The ratio of Government's foreign currency debt service to total revenue was also lower at 1.4% as compared to the elevated 12.6% in 2002.

## REAL SECTOR

### TOURISM

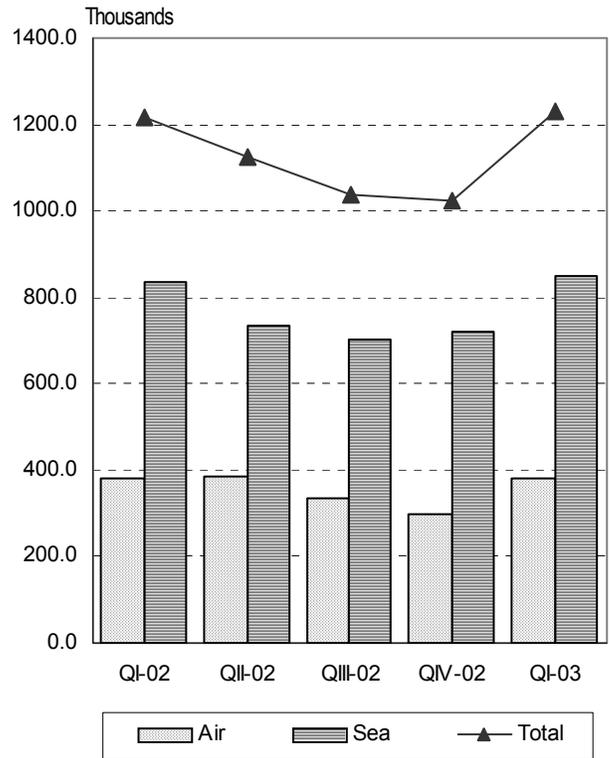
Although weakness in the global economy and the conflict in Iraq still constrained travel demand, first quarter tourism output was moderately improved compared to

2002, owing to a strengthened pricing position in the stopover sector, relative to dissipated price discounting during last year's recovery process following September 11. In contrast to the 3.0% advance achieved in 2002, growth in total visitor arrivals moderated to 1.1% for 1,229,641 tourists. Sea arrivals gains slackened significantly to 1.4% from last year's 7.5%, representing 847,932 passengers. Conversely, air arrivals, which featured stabilized stopover figures, rebounded by 0.3% to 381,709 from a 5.8% downturn in 2002.

A breakdown of port of entry data revealed that the loss in total visitors to New Providence was extended to 3.0% from 5.2% last year, attributed to a 5.1% contraction in sea traffic, which outweighed the 0.9% increase in air arrivals. For Grand Bahama, the stabilized 3.2% decrease in total arrivals corresponded to respective fall-offs in air and sea traffic of 5.3% and 1.0%. Conversely, growth in arrivals to the Family Islands increased further by 12.1%, sustained by an upturn in air passengers of 7.5% as sea visitors growth slowed to 12.8%.

Despite concerns about the war in Iraq, the recovery in air arrivals underscored better than expected results for stopover visitors and overall expenditures, notwithstanding abated growth in cruise visitors. Available stopover data for the first two months of the quarter revealed an estimated 9.8% recovery in total hotel room revenues—approaching the September 2001 outcome. The respective available room capacity and hotel room night sales increased by 3.2% and 0.3%, with the latter supported by a 9.5% hike in the average nightly room rate to \$175.80, which also surpassed the corresponding 2001 estimate of \$167.10 per night. With room sales growth lagging the increase in capacity, the average hotel occupancy rate therefore decreased to 58.8% from 60.5%. According to industry feedback, lost room night sales in March, during the height of the Iraqi war, was partly offset by sustained pricing gains.

### Arrivals



Among the various local destinations, New Providence recorded an 11.5% recovery in average nightly room rates, to \$198.54 during January and February, for an 11.5% gain in estimated revenues against relatively stable total room sales. Grand Bahama also experienced a revenue upturn of 9.1%, as average nightly rates increased by 5.3% to \$95.40. As gains in room night sales (3.6%) also slightly outpaced capacity growth (2.9%), the average hotel occupancy rate was marginally higher at 50.8%. More marked stopover weakness was experienced in the Family Islands, where average nightly room rates depreciated further by 8.4% to \$167.22 and the average hotel occupancy rate declined to 27.5% from 31.3%, on an 11.1% reduction in total sales. The consequent room revenue loss was estimated at 18.5%.

### PRICES

Consumer price inflation, measured by quarterly variations in the average Retail Price Index, firmed to 1.4% during the first quarter from 0.5% in the corresponding 2002 period. Of particular note were stronger upturns

## MONEY, CREDIT AND INTEREST RATES

### OVERVIEW

Strengthened growth in the monetary aggregates during the first quarter of 2003 was associated with the seasonal improvement in tourism and reinforced by the slackening in domestic credit expansion. As a consequence, there was a marked reduction in the banking system's net foreign liabilities and bank liquidity improved. The softening trend in domestic credit incorporated a contraction in claims on the private sector vis-à-vis accelerated flows to the public sector, and growth was concentrated entirely in domestic as opposed to foreign currency. Average interest rates firmed somewhat; however, the average spread between loans and deposits widened.

Meanwhile, the latest available data for the fourth quarter of 2002 indicated continued weakening in domestic banks' profitability ratios, due to narrowed net interest margins and higher operating cost ratios.

### LIQUIDITY

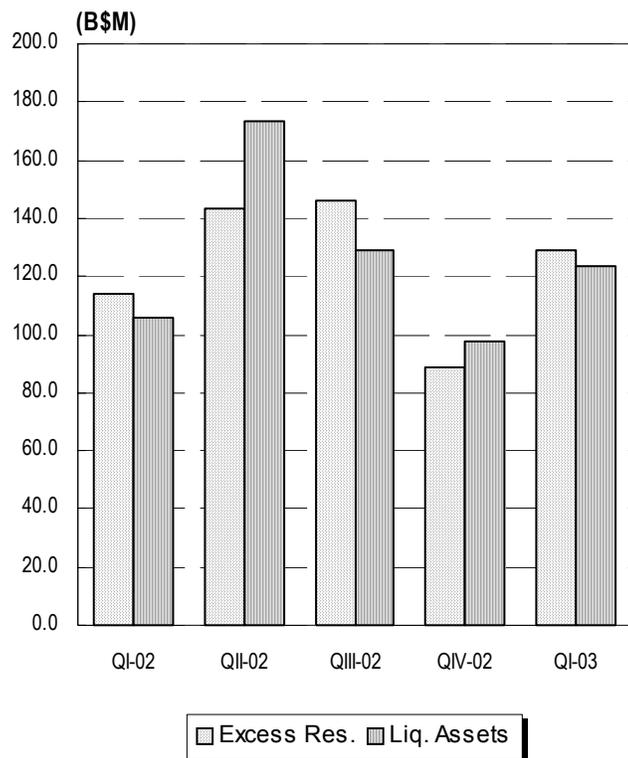
Net free cash reserves of the banking system rose by \$40.1 million (45.1%) to \$129.0 million, compared to a doubling to \$114.1 million during the same period in 2002 when the outcome benefited from public corporations' foreign currency borrowings. As a proportion of the total Bahamian dollar deposit liabilities, the excess liquidity ratio firmed to 3.5% from 3.2% at-end March 2002. Similarly, banks' excess liquid assets improved by 26.3% to \$123.4 million, representing a larger excess over the statutory minimum of 20.6% vis-à-vis last year's 18.1%. These surpluses were primarily accumulated in deposit balances at the Central Bank.

in average costs for 'other' goods & services (10.9%) and medical care & health (5.6%)—the latter being related to increased premiums on life and health insurance. Recreation & entertainment services also rose at an accelerated pace (3.8%). However, more subdued average price gains were registered for housing costs (0.3%) and transport & communication (0.2%); while marginal decreases were recorded for average prices on food & beverages (0.2%), clothing & footwear (0.1%) and furniture & household operations (0.2%).

Average Retail Price Index (Annual % Change) March					
		2002		2003	
Items	Weight	Index	%	Index	%
Food & Beverages	138.3	111.3	2.2	113.0	1.6
Clothing & Footwear	58.9	107.4	0.7	107.5	0.1
Housing	328.2	102.9	0.2	103.0	0.1
Furn. & Household	88.7	110.0	3.2	116.2	5.6
Med. Care & Health	44.1	111.2	1.5	114.3	2.8
Trans. & Comm.	148.4	104.2	1.6	104.3	0.1
Rec., Enter. & Svcs.	48.7	113.1	3.6	119.0	5.3
Education	53.1	148.5	11.2	161.0	8.4
Other Goods & Svcs.	91.6	108.1	5.0	113.6	5.2
ALL ITEMS	1000	108.8	2.3	111.3	2.4

For the 12-month period ending March 2003, average consumer price inflation firmed marginally to 2.4% from 2.3% in 2002, with broadly mixed outcomes in the various components of the Index. Accelerated average price increases were registered for furniture & household operations (5.6%), recreation & entertainment services (5.3%), medical care & health (2.8%) and 'other' goods & services (5.2%). These were tempered by a more slowed advance in average costs for educational (8.4%) as well as for food & beverages (1.6%), clothing & footwear (0.1%) and housing (0.1%), while average costs for transportation & communication decreased (0.1%).

## Liquidity



## DEPOSITS AND MONEY

During the first quarter, money supply (M3) expansion firmed to 2.9% from 2.3% in 2002. Growth was strongly supported by the accelerated gains in demand deposits to 8.3% from 3.5%, attributed mainly to accumulations by business firms and public corporations—including some transfers from fixed deposits. Although currency in active circulation fell further by 4.0%, narrow money (M1) growth rose approximately three-fold to 6.0%.

Broad money (M2) expansion was reduced to 2.0% from 2.5% last year. Accretions to savings deposits, mainly attributed to private individuals, were tempered at 2.7% from 4.1%, while the 0.5% buildup in fixed deposits lagged last year's 2.2% gain, reflecting a shift in public corporations' holdings towards demand balances and a downturn in balances held by private financial institutions and institutional depositors. Meanwhile, foreign currency deposits rose by more than one-third, in a temporary repositioning by resident businesses to meet scheduled debt repayments. As a result, the overall money stock

(M3) was higher by \$110.4 million at \$3,946.6 million, compared to a lesser expansion of \$84.6 million (2.3%) to \$3,801.7 million in 2002.

Bahamian dollar deposits represented the bulk of the money supply, predominately held in fixed balances (58.4%), followed by demand (18.2%) and savings (16.4%). Relatively smaller proportions were accounted for by foreign currency deposits (3.2%) and currency in active circulation (3.8%).

An analysis of resident deposits by range of value and number of accounts indicated that the majority of Bahamian dollar accounts (90.5%) were valued at under \$10,000 which, however, only represented 9.5% of the total value. Deposits valued at over \$50,000 comprised a much lesser share of the accounts (2.8%), but 75.7% of the total value. Meanwhile, accounts valued between \$10,000-\$30,000 constituted 5.3% of the contracts and 9.5% of value, and those balances between \$30,000-\$50,000, 1.4% of the accounts and 5.5% of the value.

Private individuals held the largest concentration of deposits (56.8%), followed by business firms (23.2%), the public sector (11.0%), institutional & other investors (5.4%) and private financial institutions (3.6%).

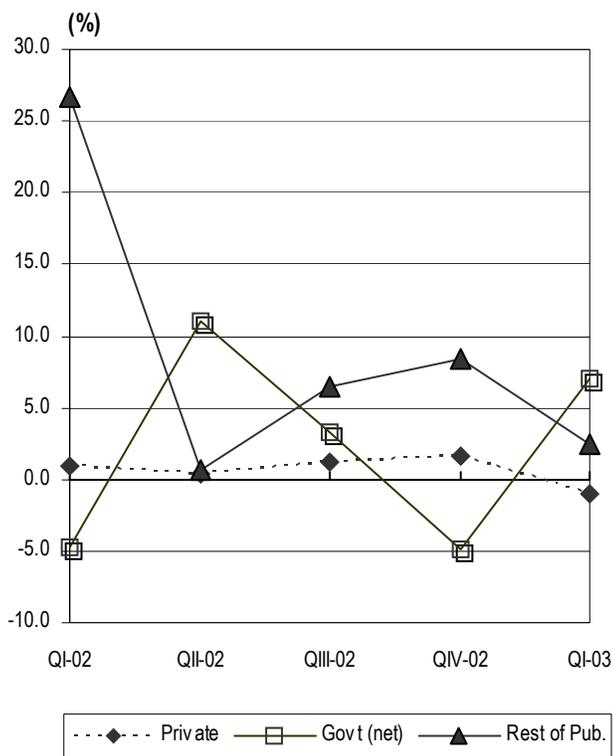
## DOMESTIC CREDIT

Amid a continuation of the credit restraint policy and otherwise fragile economic conditions, domestic credit expansion in the opening quarter of 2003 slowed for the third consecutive year, to \$12.0 million (0.2%) from \$48.1 million (1.0%) in 2002 and \$92.5 million (2.2%) in 2001. Growth also shifted more towards Bahamian dollar claims, which represented all of the advance as compared to 87.8% in 2001 when both private and public sectors had elevated net foreign currency borrowings. Net public sector borrowing, which accounted for the entire increase, advanced at an accelerated 5.8% compared to 1.3% in 2002. While growth in claims on the public corporations slowed to \$5.3 million (2.4%) from 2002's foreign currency boosted increase of \$39.9 million (26.7%), net credit to Government recorded a \$45.4 million (7.0%) upturn, to reverse last year's \$29.7 million (4.7%) contraction.

Private sector credit fell by \$38.7 million (1.0%), a turnaround from the \$37.9 million advance in 2002. The trend in foreign currency claims was reversed to a 1.8%

falloff from the 6.1% increase in 2002, while Bahamian dollar credit declined by 0.8%, relative to the 0.3% hike last year—under pressure from the weak economy and the credit restraint measures which remained in effect.

### Changes in Credit



The sectoral breakdown of private sector credit showed that personal loans fell by \$14.5 million (0.5%) as compared to a \$40.0 million (1.6%) increase in 2002. Growth was solely in residential mortgages, and at a firmer pace of \$31.0 million (2.7%) compared to \$22.2 million (2.2%) in 2002. By contrast, the reduction in consumer credit intensified to \$37.1 million (2.6%), and there was a \$0.8 million (1.6%) decrease in personal overdrafts.

Among the remaining private sector credit components, notable net repayments were registered for distribution of \$7.5 million (3.4%); construction, \$6.3 million (1.9%); agriculture, \$2.0 million (21.8%); professional & other services, \$1.7 million (1.3%) and tourism, \$6.6 million (2.8%).

### Distribution of Bank Credit By Sector End-March

	2002		2003	
	B\$M	%	B\$M	%
Agriculture	6.9	0.2	7.0	0.2
Fisheries	7.6	0.2	4.6	0.1
Mining & Quarry	23.2	0.6	20.5	0.5
Manufacturing	67.7	1.6	65.5	1.5
Distribution	223.8	5.3	213.0	4.8
Tourism	225.9	5.4	232.2	5.2
Enter. & Catering	30.9	0.7	33.5	0.7
Transport	80.1	1.9	69.3	1.6
Public Corps.	171.4	4.1	209.0	4.7
Construction	339.9	8.1	331.0	7.4
Government	98.2	2.3	219.6	4.9
Private Financial	29.2	0.7	34.3	0.8
Prof. & Other Ser.	122.8	2.9	128.8	2.9
Personal	2555.7	60.8	2698.0	60.6
Miscellaneous	217.2	5.2	184.3	4.1
<b>TOTAL</b>	<b>4200.5</b>	<b>100.0</b>	<b>4450.7</b>	<b>100.0</b>

The falloff in consumer credit corresponded to significant net repayments on miscellaneous balances (\$13.0 million), debt consolidation (\$1.9 million), private cars (\$9.0 million), credit cards (\$5.5 million), travel (\$5.0 million), education (\$1.4 million) and home improvement (\$1.9 million) loans. A net advance, however, was recorded for land purchases (\$1.9 million).

### COMMERCIAL BANKS

Commercial banks' lending to the private sector decreased by 1.1% during the review quarter, while deposit liabilities to the sector expanded by 2.6%. In relation to the public corporations, deposit liabilities contracted by 3.2%, whereas claims rose by 2.6%. Net claims on Government were also higher by 12.6% in comparison to last year's 0.6% decline. As a result, commercial banks' net foreign liabilities were reduced by 0.8% during the quarter.

Deposit liabilities of commercial banks represented 97.3% of the banking system's total and therefore the distribution by range of value and number of accounts closely reflected the overall industry pattern. The private sector held the largest share of these balances (86.9%),

and the remainder (11.1%) was owed to the public sector. By deposit category, the bulk of deposits were held in fixed balances (61.3%), followed by demand (21.2%) and savings deposits (17.5%).

**OTHER LOCAL FINANCIAL INSTITUTIONS**

The OLFIs' deposit liabilities to the private sector rose by 9.3% during the quarter, relative to a 3.5% expansion in private sector credit. Mortgages, which represented 93.9% of the loan portfolio, rose further by 4.1% to \$139.9 million. Over the quarter, the OLFIs increased their net foreign liabilities by 12.0% to \$8.5 million.

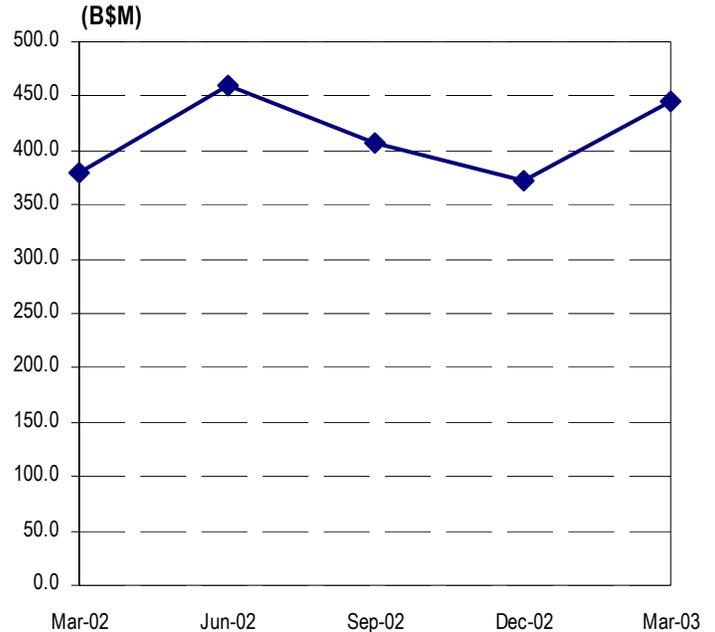
Most of the OLFIs' deposit liabilities were concentrated in accounts with average balances exceeding \$50,000 (76.1%), representing 32.2% of the total number. However, the category with the argest number of accounts, valued at up to \$10,000 (35.2%), held 17.8% of the total funds. Some 89.9% of these liabilities were fixed deposits, with another 9.8% representing savings balances, and a negligible amount held in demand deposits.

**THE CENTRAL BANK**

The Central Bank's net claims on Government fell by \$14.3 million (8.3%) during the first quarter, compared to a reduction of \$26.8 million (14.3%) in the same period last year. Underlying this was a decline in holdings of Treasury bills (12.6%) combined with Government's net repayment (7.0%) on its outstanding advances.

During the first three months of 2003, external reserves grew by \$71.3 million (19.1%) to \$444.5 million, slightly above 2002's \$67.7 million (21.7%) gain to \$380.1 million. Underlying foreign exchange transactions show the Bank's net foreign currency purchase up by \$10.2 million (15.0%) to \$68.2 million. The net intake from commercial banks strengthened by \$33.2 million to \$110.6 million, offsetting an increased net outflow through the public sector of \$42.4 million vis-à-vis \$19.3 million in 2002. On a quarterly basis, total foreign currency sales rose by 22.8% to \$136.6 million, while purchases increased by 20.2% to \$204.8 million.

**External Reserves**



**INTEREST RATES**

During the quarter, commercial banks' average interest rates firmed on both the deposit and lending sides, by 12 and 55 basis points, to 4.03% and 11.73%, respectively. As a result, the estimated loan-to-deposit rate spread widened to 7.70% from 7.27% in the previous quarter. For deposits, the average rate offered on savings rose by 1 basis point to 2.74%, while rates on fixed maturities fluctuated within a band of 3.95%–4.62% as compared to 3.83%–4.43% during the previous quarter.

Average lending rates rose for both commercial and residential mortgages by 32 and 16 basis points to 9.24% and 9.01%, respectively. Average rates on consumer loans grew more strongly by 82 basis points to 13.94%, but narrowed for overdraft by 7 basis points to 11.04%.

Benchmarks rates, commercial banks' Prime and the Central Bank's Discount Rates, were stable at 6.00% and 5.75%, respectively. However, the 90-day Treasury bill rate fell by 13 basis points to 1.89% and there was no primary activity in the long-term Government debt market during the quarter.

## BANK PROFITABILITY

For the quarter ended December 2002, the latest period for which data are available, domestic banks' net income decreased by \$1.6 million (4.7%) to \$34.3 million relative to same period in 2001, affected by the ongoing weakness in the economy. Continuing a two-year trend, the net interest margin narrowed further by 2.2%, owing to reduced interest income associated with weakened credit activity vis-à-vis relatively stable interest expenses. Meanwhile, operating costs rose by 15.3%, whereas other income net of depreciation and bad debt expenses nearly doubled to \$20.3 million.

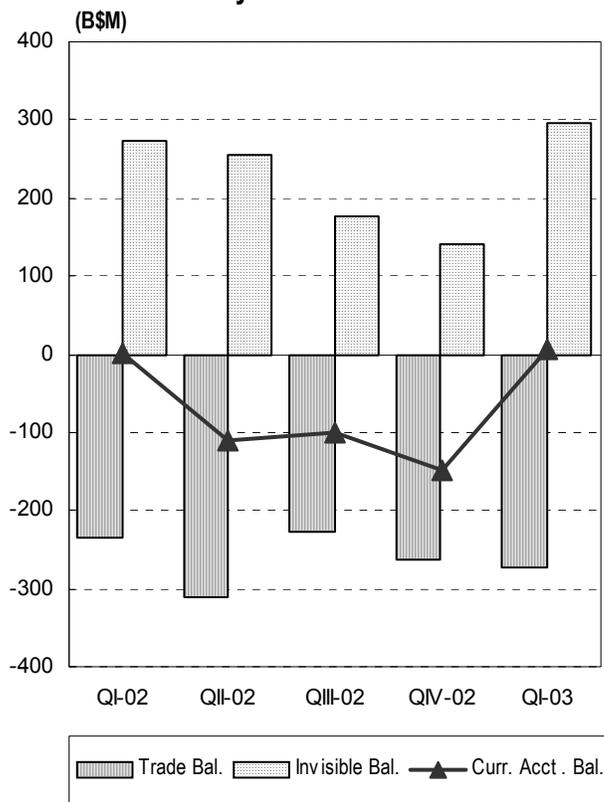
Profitability ratios also softened relative to average domestic assets. The net interest margin ratio abated to 4.94% from 5.51%, while the contribution from commission and foreign exchange income was stable at 0.43%. Nevertheless, the ratio of operating costs to average assets firmed to 3.56% from 3.29%. Despite marginally stronger support from "other" income, the overall profitability ratio (return on assets) fell to 2.46% from 2.81% in the final period of 2001.

## INTERNATIONAL TRADE AND PAYMENTS

According to preliminary estimates for the first quarter of 2003, the estimated current account surplus expanded to \$6.0 million from a nearly balanced position in 2002. In particular, a 16.0% hike in the trade deficit, associated with increased imports, was outweighed by a 9.2% improvement in net invisible inflows and a more than one-third decrease in net income outflows.

The estimated merchandise trade deficit widened to \$296.6 million from \$262.1 million in the corresponding 2002 period. With some firming in domestic demand, non-oil merchandise imports rose 7.0% to \$218.1 million, while estimated goods exports decreased by 1.6% to \$155.7 million. In addition, the upsurge in global fuel prices, influenced by the war in Iraq, boosted the oil bill by 35.1% to \$78.5 million. On an average price basis, the per barrel cost of gas oil rose by 48.5% to \$34.28; jet fuel, by 54.9% to \$42.12; bunker 'c' fuel, by 70.1% to \$37.00; motor gas, by 4.2% to \$31.16 and propane fuel, by 89.3% to \$42.09.

## Balance of Payments



On the services account, the estimated surplus improved by \$25.0 million (9.2%) to \$296.8 million. This was largely attributed to reduced net payments for external services, although also benefiting from moderately recovered tourism inflows that raised net travel receipts marginally by 1.1% to \$397.5 million. Net outflows for construction services tapered to \$0.6 million from \$18.7 million, leading the decrease in "other" external payments to \$57.6 million from \$92.4 million. In addition, offshore companies' local expenses rose by 16.0% to \$28.4 million; outflows for government services, to \$22.5 million from \$10.9 million; foreign insurance services, by 23.6% to \$20.2 million—reflecting increased international risk premiums on casualty insurance—and for transportation, by 10.1% to \$28.8 million.

Under the income account, the net outflow slackened by one-third to \$30.9 million, as the marginal increase in labor income remittances to \$11.4 million was more than countered by the 46.1% decline in net repatriation of investment income to \$19.5 million. The latter included significantly reduced (42.4%) net profit and

interest outflows, mainly due to lower banking sector remittances, as against nearly stable net interest receipts on official transactions.

Net current transfer receipts rose by 14.0% to \$13.0 million, as general government net inflows increased moderately to \$13.5 million, while private sector net payments were unchanged at \$0.5 million.

The capital and financial account switched to a deficit of \$68.8 million from a surplus of \$89.7 million in 2002, influenced largely by a net reversal in the banking system's short-term position. Although migrant workers' net capital remittances increased marginally to \$9.1 million, a net financial outflow of \$59.7 million emerged in contrast to a surplus of \$98.7 million in 2002.

On the financial account, net private sector direct investments declined to \$13.4 million from \$43.9 million, with net equity inflows lowered to \$9.5 million from \$34.0 million and net real estate sales, to \$3.9 million from \$9.9 million in 2002. In addition, the private sector's net loan receipt decreased to \$10.7 million from \$18.6 million last year. For the public sector, the external debt repayment rose to \$6.7 million from \$4.8 million in 2002. The banking sector experienced a net short-term capital outflow of \$76.9 million, in marked contrast to the net inflow of \$40.9 million in the corresponding period last year, which supported domestic foreign currency lending to the public corporations.

Adjusting for possible errors and omissions, the overall balance recorded an increased surplus of \$71.3 million, as compared to \$67.7 million in 2002.

## **INTERNATIONAL ECONOMIC DEVELOPMENTS**

Output trends in the major industrial countries remained sluggish during the first quarter of 2003, amid weak consumer confidence and business spending stemming partly from concerns over the war in Iraq. The escalating situation in Iraq also exerted significant upward pressures on oil prices throughout most of the period, and consequently most major countries' inflation rate, and engendered further instability and valuation losses on major stock exchanges. The weak business spending environment also impeded employment gains in the major countries, which otherwise maintained above average fiscal spending, but only elicited monetary policy easing at Europe's two leading central banks. External

sector developments were marked by continued weakness in the United States dollar, and widespread deterioration in the major countries' trade balances.

With the exception of the United States, depressed domestic demand led to slowed growth in the major economies during the first quarter of 2003. The United States' GDP growth firmed to 1.9% on an annualized basis, from 1.4% in the fourth quarter of 2002, mainly owing to stronger household and government expenditures; albeit, business investment expenditures and exports remained weak. Conversely, euro area output was unchanged, following a 0.1% advance in the fourth quarter of 2002, with no evidence of improvement in private sector demand. Among the group, Germany's output performance contracted by 0.8% on a seasonally adjusted basis from an unchanged position in the previous quarter, with significant weakness in business expenditure and construction activity. Despite heightened public sector spending, real output growth for the United Kingdom slowed on an annualized basis, to 0.8% from 1.6% in the previous quarter, with domestic confidence waning in advance of the war in Iraq. Japan's real GDP growth was flat compared to the previous quarter's 2.0% gain, as industrial sector expansion and recovery in business investments were muted by subdued public sector spending and household demand.

Owing to the weak business investment climate, labor market conditions deteriorated further in the major countries, with the average jobless rate in the United States advancing to 5.8% from 5.6% in the previous quarter. In the euro area, average unemployment firmed to 8.6% from 8.5%, with Germany's jobless rate higher at 8.9% from 8.6%. For the United Kingdom, the average unemployment rate steadied at 5.1%, amid persistent tightness in the job market. Japan also recorded an unchanged average unemployment rate from the second half of 2002, at 5.4% of the workforce.

International fuel prices, which remained significantly elevated throughout most of the quarter, exerted notable upward pressures on inflation in the major industrialized countries. In the United States, the average consumer price inflation quickened to a seasonally adjusted annual rate of 5.2%, in contrast to the decelerated 1.6% advance in the fourth quarter of 2002. This included a 36.0% run-up in energy costs, which was transmitted to average transportation costs. For the United Kingdom, the annu-

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alized inflation rate firmed to 3.0% from 2.6%, its highest level in five years, owing both to appreciated energy costs and housing prices. Average euro area inflation also reflected a higher energy component, although it stabilized at 2.3% as a result of less upward pressure from services sector costs. Germany and France's inflation rates, however, were marginally higher at 1.2% and 2.6%, respectively. Conversely, Japan's average consumer prices decreased further by 2.8% on an annualized basis, vis-à-vis a 3.2% reduction in the previous quarter.

In currency markets, the United States' dollar recorded mixed movements against the other major currencies. The dollar depreciated relative to the Canadian currency by 6.7% to C\$1.47 and vis-à-vis the Swiss franc and Japanese yen, by 2.3% and 0.6% to SF1.35 and ¥118.09, respectively. Conversely, the dollar gained in value against the pound sterling and the euro, by 1.7% and 4.0%, to £0.63 and €1.09, respectively.

Commodity market prices evidenced some softening, particularly during March when the possibility of a war in Iraq became more certain. Gold prices declined by 3.0% to \$337.45 per ounce by end-month, while the price of silver decreased by 6.7% to \$4.46 per ounce. On the energy side, the per barrel price of Brent crude, which exceeded \$34.0 in early March 2003, subsequently dropped to \$28.0 at end-March, representing a decline of 10.3% relative to December 2002.

Significant price volatility persisted in the major equity markets in the run-up to, and during the early days of the war. European bourses experienced the strongest losses relative to their American and Japanese counterparts, with Germany's DAX Index receding by 16.2% to 2,423.9 points and France's CAC 40 Index, by 14.5% to 2,618.5 points. The United States' Dow Jones Industrial Average (DJIA) fell by 4.2% to 7,992.1 points during the period, and the broader S&P 500 index by 3.6% to 847.0 points. In the United Kingdom, the FTSE 100 Index also lost 8.3% to 3,613.3 points, while Japan's Nikkei 225 Index dropped 7.1% to 7,972.7 points.

On the monetary policy front, further interest rate easing was only evident for Europe's two leading central banks, as compared to an unchanged stance in the United States and Japan. The United States Federal Reserve kept the discount rate and the federal funds rate

at 0.75% and 1.24%, respectively where they have remained since December 2002. The European Central Bank, however, added new stimulus to the world's second largest economy, reducing its key refinancing rate in March by 25 basis points to 2.50%. The Bank of England's Monetary Policy Committee also agreed to cut its repo rate by a quarter percent to 3.75% in February, responding to weaker than expected prospects for domestic demand. However, for the sixth consecutive quarter, the Bank of Japan maintained its official discount rate at an historic low of 0.1%, while reaffirming its commitment to uphold liquidity support for the financial markets.

On the external account, major countries experienced deteriorated trade balances during the quarter under review, owing to a weak export demand environment. Reflecting stronger incremental increases in net imports, the United States trade deficit rose marginally to an estimated \$136.4 billion, on a seasonally adjusted basis. The United Kingdom's export performance continued to suffer from soft demand within Europe, translating into an increase in the seasonally adjusted trade deficit during the first quarter; while in the euro zone, the estimated trade surplus narrowed, amid the relatively strong euro. Japan's trade surplus also contracted during the opening three months of the year, resulting from a decrease in real exports.

**STATISTICAL APPENDIX**

**(Tables 1-16)**

## STATISTICAL APPENDIX

TABLE 1	FINANCIAL SURVEY
TABLE 2	MONETARY SURVEY
TABLE 3	CENTRAL BANK BALANCE SHEET
TABLE 4	COMMERCIAL BANKS BALANCE SHEET
TABLE 5	OTHER LOCAL FINANCIAL INSTITUTIONS BALANCE SHEET
TABLE 6	PROFIT AND LOSS ACCOUNTS OF BANKS IN THE BAHAMAS
TABLE 7	MONEY SUPPLY
TABLE 8	CONSUMER INSTALLMENT CREDIT
TABLE 9	SELECTED INTEREST RATES
TABLE 10	SUMMARY OF BANK LIQUIDITY
TABLE 11	GOVERNMENT OPERATIONS AND FINANCING
TABLE 12	NATIONAL DEBT
TABLE 13	PUBLIC SECTOR FOREIGN CURRENCY DEBT OPERATIONS
TABLE 14	BALANCE OF PAYMENTS SUMMARY
TABLE 15	EXTERNAL TRADE
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.

**TABLE 1**  
FINANCIAL SURVEY

End of Period	2000	2001	2002	2001		2002				2003
				Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.
<b>(B\$ Millions)</b>										
<b>Net foreign assets</b>	(86.6)	(234.5)	(357.3)	(155.2)	(234.5)	(207.7)	(178.6)	(291.1)	(357.3)	(209.1)
Central Bank	342.6	312.4	373.2	306.2	312.4	380.1	460.7	406.8	373.2	444.5
Commercial banks	(449.5)	(548.4)	(722.9)	(466.5)	(548.4)	(583.2)	(634.6)	(689.6)	(722.9)	(645.1)
Other local fin. institutions	20.3	1.5	(7.6)	5.1	1.5	(4.6)	(4.7)	(8.3)	(7.6)	(8.5)
<b>Net domestic assets</b>	3,645.6	3,951.6	4,193.5	3,863.8	3,951.6	4,009.4	4,068.4	4,156.2	4,193.5	4,155.7
Domestic credit	4,278.6	4,677.3	4,940.4	4,570.2	4,677.3	4,725.5	4,809.2	4,891.9	4,940.4	4,952.4
Public sector	649.8	775.2	870.8	702.3	775.2	785.5	852.8	887.1	870.8	921.5
Government (net)	508.5	626.0	651.3	553.4	626.0	596.4	662.6	684.6	651.3	696.8
Rest of public sector	141.3	149.2	219.5	148.9	149.2	189.1	190.2	202.5	219.5	224.7
Private sector	3,628.8	3,902.1	4,069.6	3,867.9	3,902.1	3,940.0	3,956.4	4,004.8	4,069.6	4,030.9
Other items (net)	(633.0)	(725.7)	(746.9)	(706.4)	(725.7)	(716.1)	(740.8)	(735.7)	(746.9)	(796.7)
<b>Monetary liabilities</b>	3,559.0	3,717.1	3,836.2	3,708.6	3,717.1	3,801.7	3,889.8	3,865.1	3,836.2	3,946.6
Money	807.8	776.7	817.7	786.9	776.7	792.1	835.3	833.6	817.7	866.4
Currency	151.4	153.5	154.8	149.9	153.5	147.3	154.6	149.5	154.8	148.6
Demand deposits	656.4	623.2	662.9	637.0	623.2	644.8	680.7	684.1	662.9	717.8
Quasi-money	2,751.2	2,940.4	3,018.5	2,921.7	2,940.4	3,009.6	3,054.5	3,031.5	3,018.5	3,080.2
Fixed deposits	2,068.8	2,244.0	2,296.2	2,215.0	2,244.0	2,292.9	2,301.2	2,298.8	2,296.2	2,307.2
Savings deposits	596.1	604.6	630.7	620.2	604.6	629.2	651.3	640.2	630.7	647.5
Foreign currency	86.3	91.8	91.6	86.5	91.8	87.5	102.0	92.5	91.6	125.5
<b>(percentage changes)</b>										
<b>Total domestic credit</b>	11.9	9.3	5.6	3.5	2.3	1.0	1.8	1.7	1.0	0.2
Public sector	(2.9)	19.3	12.3	8.6	10.4	1.3	8.6	4.0	(1.8)	5.8
Government (net)	2.6	23.1	4.0	9.1	13.1	(4.7)	11.1	3.3	(4.9)	7.0
Rest of public sector	(18.8)	5.6	47.1	6.7	0.2	26.7	0.6	6.5	8.4	2.4
Private sector	15.0	7.5	4.3	2.6	0.9	1.0	0.4	1.2	1.6	(1.0)
<b>Monetary liabilities</b>	9.6	4.4	3.2	1.3	0.2	2.3	2.3	(0.6)	(0.7)	2.9
Money	6.5	(3.8)	5.3	(1.1)	(1.3)	2.0	5.5	(0.2)	(1.9)	6.0
Currency	2.0	1.4	0.8	0.3	2.4	(4.0)	5.0	(3.3)	3.5	(4.0)
Demand deposits	7.6	(5.1)	6.4	(1.4)	(2.2)	3.5	5.6	0.5	(3.1)	8.3
Quasi-money	10.5	6.9	2.7	2.0	0.6	2.4	1.5	(0.8)	(0.4)	2.0

Source: The Central Bank of The Bahamas

**TABLE 2**  
**MONETARY SURVEY**

End of Period	2000	2001	2002	2001		2002				2003
				Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.
<b>(B\$ Millions)</b>										
<b>Net foreign assets</b>	(106.9)	(236.0)	(349.7)	(160.3)	(236.0)	(203.1)	(173.9)	(282.8)	(349.7)	(200.6)
Central Bank	342.6	312.4	373.2	306.2	312.4	380.1	460.7	406.8	373.2	444.5
Commercial banks	(449.5)	(548.4)	(722.9)	(466.5)	(548.4)	(583.2)	(634.6)	(689.6)	(722.9)	(645.1)
<b>Net domestic assets</b>	3,572.2	3,874.7	4,092.4	3,769.7	3,874.7	3,926.8	3,972.3	4,061.4	4,092.4	4,045.0
Domestic credit	4,158.4	4,553.8	4,793.2	4,432.4	4,553.8	4,596.9	4,674.3	4,752.1	4,793.2	4,800.3
Public sector	645.3	771.9	867.6	697.9	771.9	782.3	849.6	883.8	867.6	918.4
Government (net)	504.1	622.8	648.2	549.1	622.8	593.3	659.5	681.4	648.2	693.7
Rest of public sector	141.2	149.1	219.4	148.8	149.1	189.0	190.1	202.4	219.4	224.7
Private sector	3,513.1	3,781.9	3,925.6	3,734.5	3,781.9	3,814.6	3,824.7	3,868.3	3,925.6	3,881.9
Other items (net)	(586.2)	(679.1)	(700.8)	(662.7)	(679.1)	(670.1)	(702.0)	(690.7)	(700.8)	(755.3)
<b>Monetary liabilities</b>	3,465.3	3,638.7	3,742.7	3,609.4	3,638.7	3,723.7	3,798.4	3,778.6	3,742.7	3,844.4
Money	796.6	769.2	808.5	774.6	769.2	784.7	825.3	825.8	808.5	856.4
Currency	151.9	153.5	154.8	150.5	153.5	147.3	154.6	149.6	154.8	148.6
Demand deposits	644.7	615.7	653.7	624.1	615.7	637.4	670.7	676.2	653.7	707.8
Quasi-money	2,668.7	2,869.5	2,934.2	2,834.8	2,869.5	2,939.0	2,973.1	2,952.8	2,934.2	2,988.0
Savings deposits	593.4	604.3	630.4	617.3	604.3	628.9	651.0	639.9	630.4	647.2
Fixed deposits	1,989.0	2,173.4	2,212.2	2,131.0	2,173.4	2,222.6	2,220.1	2,220.5	2,212.2	2,215.3
Foreign currency deposits	86.3	91.8	91.6	86.5	91.8	87.5	102.0	92.4	91.6	125.5
<b>(percentage change)</b>										
<b>Total domestic credit</b>	11.3	9.5	5.3	3.5	2.7	0.9	1.7	1.7	0.9	0.1
Public sector	(3.0)	19.6	12.4	8.6	10.6	1.3	8.6	4.0	(1.8)	5.9
Government (net)	2.6	23.5	4.1	9.2	13.4	(4.7)	11.2	3.3	(4.9)	7.0
Rest of public sector	(18.8)	5.6	47.1	6.7	0.2	26.8	0.6	6.5	8.4	2.4
Private sector	14.4	7.7	3.8	2.6	1.3	0.9	0.3	1.1	1.5	(1.1)
<b>Monetary liabilities</b>	9.1	5.0	2.9	1.2	0.8	2.3	2.0	(0.5)	(1.0)	2.7
Money	5.6	(3.4)	5.1	(1.1)	(0.7)	2.0	5.2	0.1	(2.1)	5.9
Currency	2.0	1.1	0.8	0.1	2.0	(4.0)	5.0	(3.2)	3.5	(4.0)
Demand deposits	6.5	(4.5)	6.2	(1.4)	(1.3)	3.5	5.2	0.8	(3.3)	8.3
Quasi-money	10.1	7.5	2.3	1.9	1.2	2.4	1.2	(0.7)	(0.6)	1.8

Source: The Central Bank of The Bahamas

**TABLE 3**  
**CENTRAL BANK BALANCE SHEET**

(B\$ Millions)

End of Period	2000	2001		2002				2003
		Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	
<b>Net foreign assets</b>	342.6	306.2	312.4	380.1	460.7	406.8	373.2	444.5
Balances with banks abroad	119.3	75.3	44.5	100.5	180.8	147.7	126.3	177.3
Foreign securities	215.1	222.8	260.0	271.8	271.5	250.8	238.3	258.6
Reserve position in the Fund	8.1	8.0	7.8	7.8	8.3	8.3	8.5	8.6
SDR holdings	0.1	0.1	0.1	--	0.1	--	0.1	--
<b>Net domestic assets</b>	31.4	100.3	107.5	66.5	52.1	71.8	92.0	43.3
Net claims on government	120.7	178.4	187.4	160.7	141.0	157.5	172.9	158.7
Claims	128.5	185.1	189.7	162.7	148.2	167.5	182.4	167.6
Treasury bills	66.2	109.5	98.8	57.7	38.7	60.6	72.0	62.9
Bahamas registered stock	8.8	8.2	34.0	38.8	42.1	39.5	38.6	37.9
Loans and advances	53.5	67.4	56.9	66.2	67.4	67.4	71.8	66.8
Deposits	(7.8)	(6.7)	(2.3)	(2.0)	(7.2)	(10.0)	(9.5)	(8.9)
In local currency	(7.8)	(6.7)	(2.3)	(2.0)	(7.2)	(10.0)	(9.5)	(8.9)
In foreign currency	--	--	--	--	--	--	--	--
Deposits of rest of public sector	(14.8)	(7.9)	(10.3)	(25.9)	(21.6)	(16.2)	(10.1)	(45.7)
Credit to commercial banks	--	--	--	--	--	--	--	--
Official capital and surplus	(98.0)	(94.5)	(94.3)	(96.6)	(95.1)	(97.6)	(98.3)	(99.7)
Net unclassified assets	15.1	16.2	16.8	20.4	20.1	20.4	19.9	22.4
Loans to rest of public sector	7.6	7.3	7.1	7.1	6.9	6.9	6.7	6.7
Public Corp Bonds/Securities	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9
<b>Liabs. to Commercial Banks &amp; OLFIs</b>	(209.3)	(243.5)	(253.6)	(286.5)	(344.6)	(315.5)	(296.5)	(325.1)
Notes and coins	(64.4)	(39.0)	(64.9)	(45.3)	(40.2)	(43.2)	(66.3)	(43.8)
Deposits	(144.9)	(204.5)	(188.7)	(241.2)	(304.4)	(272.3)	(230.2)	(281.3)
SDR allocation	(13.3)	(13.1)	(12.8)	(12.8)	(13.6)	(13.6)	(13.9)	(14.1)
Currency held by the private sector	(151.4)	(149.9)	(153.5)	(147.3)	(154.6)	(149.5)	(154.8)	(148.6)

Source: The Central Bank of The Bahamas

**TABLE 4**  
**COMMERCIAL BANKS BALANCE SHEET**

(B\$ Millions)

End of Period	2000	2001		2002				2003
		Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	
<b>Net foreign assets</b>	(449.5)	(466.5)	(548.4)	(583.2)	(634.6)	(689.6)	(722.9)	(645.1)
<b>Net claims on Central Bank</b>	207.1	230.6	248.7	279.4	339.2	310.1	291.2	317.9
Notes and Coins	63.9	38.4	64.9	45.3	40.2	43.2	66.3	43.9
Balances	144.0	193.0	184.6	234.9	299.8	267.7	225.7	274.8
Less Central Bank credit	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>Net domestic assets</b>	3,244.3	3,345.9	3,421.3	3,509.5	3,568.3	3,635.4	3,653.8	3,632.9
Net claims on government	383.4	370.7	435.4	432.6	518.5	523.9	475.3	535.0
Treasury bills	49.9	35.4	63.5	93.8	106.8	72.9	38.8	45.0
Other securities	315.3	313.7	314.2	302.5	312.7	326.5	338.1	338.3
Loans and advances	89.0	88.2	115.4	98.2	179.8	201.6	170.0	219.6
Less: deposits	70.8	66.6	57.7	61.9	80.8	77.1	71.6	67.9
Net claims on rest of public sector	(163.8)	(200.3)	(212.1)	(163.6)	(166.9)	(162.3)	(143.9)	(127.2)
Securities	6.9	6.9	8.0	9.8	9.8	9.8	9.3	8.2
Loans and advances	125.9	133.8	133.2	171.3	172.6	184.9	202.5	208.9
Less: deposits	296.6	341.0	353.3	344.7	349.3	357.0	355.7	344.3
Net claims on OLFIs.	(10.1)	(12.0)	(0.8)	(2.7)	(7.4)	15.7	16.4	12.7
Credit to the private sector	3,513.1	3,734.5	3,781.9	3,814.6	3,824.7	3,868.3	3,925.6	3,881.9
Securities	6.9	7.1	6.3	6.7	6.7	7.9	7.4	7.4
Loans and advances	3,506.2	3,727.4	3,775.6	3,807.9	3,818.0	3,860.4	3,918.2	3,874.5
Private capital and surplus	(509.9)	(575.0)	(592.8)	(591.6)	(612.1)	(626.4)	(660.4)	(692.0)
Net unclassified assets	31.6	28.0	9.7	20.2	11.5	16.2	40.8	22.5
<b>Liabilities to private sector</b>	3,001.9	3,110.0	3,121.6	3,205.7	3,272.9	3,255.9	3,222.1	3,305.7
Demand deposits	669.6	670.2	661.9	658.0	703.3	695.0	681.3	717.9
Savings deposits	596.9	618.7	606.2	630.9	653.4	643.6	634.3	651.0
Fixed deposits	1,735.4	1,821.1	1,853.5	1,916.8	1,916.2	1,917.3	1,906.5	1,936.8

Source: The Central Bank of The Bahamas

**TABLE 5**

**OTHER LOCAL FINANCIAL INSTITUTIONS BALANCE SHEET**

(B\$ Millions)

End of Period	2000	2001		2002				2003
		Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.
<b>Net foreign assets</b>	20.3	5.1	1.5	(4.6)	(4.7)	(8.3)	(7.6)	(8.5)
<b>Net claims on Central Bank</b>	(4.8)	0.6	4.0	4.2	4.3	(0.5)	4.6	4.9
Notes and Coins	0.5	0.6	--	--	--	--	--	--
Balances	4.7	5.0	4.0	4.2	4.3	4.5	4.6	4.9
Less Central Bank credit	10.0	5.0	--	--	--	5.0	--	--
<b>Net domestic assets</b>	77.7	93.3	72.8	78.4	91.8	95.3	96.5	105.8
Net claims on government	4.4	4.3	3.2	3.1	3.1	3.2	3.1	3.1
Treasury bills	--	--	--	--	--	--	--	--
Other securities	4.4	4.3	3.2	3.1	3.1	3.2	3.1	3.1
Loans and advances	--	--	--	--	--	--	--	--
Less: deposits	--	--	--	--	--	--	--	--
Net claims on rest of public sector	(0.9)	(0.7)	0.1	0.1	0.1	0.1	0.1	--
Securities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	--
Loans and advances	--	--	--	--	--	--	--	--
Less: deposits	1.0	0.8	--	--	--	--	--	--
Net claims on commercial banks	12.4	6.6	1.6	(0.4)	5.5	(9.0)	(12.9)	(13.8)
Credit to the private sector	115.7	133.4	120.2	125.4	131.7	136.5	144.0	149.0
Securities	4.2	7.3	2.7	3.0	3.1	2.9	2.7	2.1
Mortgages	90.5	104.6	110.4	115.5	121.2	126.0	134.4	139.9
Loans and advances	21.0	21.5	7.1	6.9	7.4	7.6	6.9	7.0
Private capital and surplus	(66.9)	(66.4)	(68.4)	(67.8)	(64.0)	(60.2)	(62.5)	(62.3)
Net unclassified assets	13.0	16.1	16.1	18.0	15.4	24.7	24.7	29.8
<b>Liabilities to private sector</b>	93.2	99.0	78.3	78.0	91.4	86.5	93.5	102.2
Demand deposits	11.7	12.9	7.5	7.5	10.1	7.8	9.2	10.0
Savings deposits	2.7	2.8	0.2	0.2	0.2	0.4	0.3	0.3
Fixed deposits	78.8	83.3	70.6	70.3	81.1	78.3	84.0	91.9

Source: The Central Bank of The Bahamas

**TABLE 6**  
**PROFIT AND LOSS ACCOUNTS OF BANKS IN THE BAHAMAS\***

(B\$'000s)

	2000	2001	2001				2002			
			Qtr. I	Qtr. II	Qtr.III	Qtr.IV	Qtr. I	Qtr. II	Qtr.III	Qtr.IV
1. Interest Income	413,531	447,572	111,642	112,627	112,653	110,650	109,442	109,521	103,826	108,875
2. Interest Expense	133,850	146,688	33,954	35,571	36,842	40,321	40,630	41,602	37,542	40,118
3. <b>Interest Margin (1-2)</b>	279,681	300,884	77,688	77,056	75,811	70,329	68,812	67,919	66,284	68,757
4. Commission & Forex Income	23,561	24,401	7,713	5,746	5,481	5,461	5,844	5,946	5,580	5,998
5. <b>Gross Earnings Margin (3+4)</b>	303,242	325,285	85,401	82,802	81,292	75,790	74,656	73,865	71,864	74,755
6. Staff Costs	101,771	105,518	27,663	25,551	27,753	24,551	24,376	26,643	25,422	34,627
7. Occupancy Costs	17,180	18,412	4,274	4,687	5,288	4,163	3,693	3,866	4,732	3,758
8. Other Operating Costs	45,734	51,792	11,561	12,249	14,741	13,241	14,936	10,893	11,288	11,253
9. <b>Operating Costs (6+7+8)</b>	164,685	175,722	43,498	42,487	47,782	41,955	43,005	41,402	41,442	49,638
10. <b>Net Earnings Margin (5-9)</b>	138,557	149,563	41,903	40,315	33,510	33,835	31,651	32,463	30,422	25,117
11. Depreciation Costs	10,896	10,848	2,502	2,517	2,614	3,215	3,195	2,170	2,413	2,682
12. Provisions for Bad Debt	27,431	33,096	7,993	6,953	10,018	8,132	7,723	5,315	8,115	8,404
13. Other Income	58,384	58,421	14,654	14,801	15,553	13,413	15,373	14,106	14,105	20,271
14. <b>Other Income (Net) (13-11-12)</b>	20,057	14,477	4,159	5,331	2,921	2,066	4,455	6,621	3,577	9,185
15. <b>Net Income (10+14)</b>	158,614	164,040	46,062	45,646	36,431	35,901	36,106	39,084	33,999	34,302
16. <b>Effective Interest Rate Spread (%)</b>	5.74	6.31	5.96	6.56	6.48	6.24	6.12	6.00	5.96	6.40

**(Ratios To Average Assets)**

Interest Margin	6.07	6.07	6.44	6.25	6.07	5.51	5.20	5.03	4.80	4.94
Commission & Forex Income	0.52	0.50	0.64	0.47	0.44	0.43	0.44	0.44	0.40	0.43
Gross Earnings Margin	6.59	6.56	7.08	6.72	6.51	5.94	5.64	5.47	5.21	5.37
Operating Costs	3.58	3.55	3.61	3.45	3.83	3.29	3.25	3.07	3.00	3.56
Net Earnings Margin	3.01	3.02	3.47	3.27	2.68	2.65	2.39	2.41	2.21	1.80
Net Income	3.44	3.31	3.82	3.70	2.92	2.81	2.73	2.90	2.46	2.46

\*Commercial Banks and OLFIs with domestic operations

Source: The Central Bank of The Bahamas

**TABLE 7**  
**MONEY SUPPLY**

(B\$ Millions)

End of Period	2000	2001		2002				2003
		Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.
<b>Money supply (M1)</b>	807.8	786.9	776.7	792.1	835.3	833.6	817.7	866.4
1) Currency in active circulation	151.4	149.9	153.5	147.3	154.6	149.5	154.8	148.6
2) Demand deposits	656.4	637.0	623.2	644.8	680.7	684.1	662.9	717.8
Central Bank	14.8	7.9	10.3	25.9	21.6	16.2	10.1	45.7
Commercial banks	629.9	616.2	605.3	611.4	649.0	660.1	643.6	662.1
OLFIs	11.7	12.9	7.6	7.5	10.1	7.8	9.2	10.0
<b>Factors affecting changes in money (M1)</b>								
1) Net credit to government	508.5	553.4	626.0	596.4	662.6	684.6	651.3	696.8
Central Bank	120.7	178.4	187.4	160.7	141.0	157.5	172.9	158.7
Commercial banks	383.4	370.7	435.4	432.6	518.5	523.9	475.3	535.0
OLFIs	4.4	4.3	3.2	3.1	3.1	3.2	3.1	3.1
2) Other credit	3,770.1	4,016.8	4,051.3	4,129.1	4,146.6	4,207.3	4,289.1	4,255.6
Rest of public sector	141.3	148.9	149.2	189.1	190.2	202.5	219.5	224.7
Private sector	3,628.8	3,867.9	3,902.1	3,940.0	3,956.4	4,004.8	4,069.6	4,030.9
3) External reserves	342.6	306.2	312.4	380.1	460.7	406.8	373.2	444.5
4) Other external liabilities (net)	(429.2)	(461.4)	(546.9)	(587.8)	(639.3)	(697.9)	(730.5)	(653.6)
5) Quasi money	2751.2	2,921.7	2,940.4	3,009.6	3,054.5	3,031.5	3,018.5	3,080.2
6) Other items (net)	(633.0)	(706.4)	(725.7)	(716.1)	(740.8)	(735.7)	(746.9)	(796.7)

**Source: The Central Bank of The Bahamas**

**TABLE 8**  
**CONSUMER INSTALMENT CREDIT**

(B\$' 000)

End of Period	2000		2001		2002								2003	
					Mar.		Jun.		Sept.		Dec.		Mar.	
	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*
<b>CREDIT OUTSTANDING</b>														
Private cars	603	284,366	405	270,662	325	266,945	265	260,444	218	248,348	201	243,946	48	235,062
Taxis & rented cars	--	2,122	--	2,251	--	2,422	--	2,012	--	2,001	--	1,976	--	2,028
Commercial vehicles	9	4,912	8	4,385	8	4,366	8	4,228	3	4,160	--	4,022	--	3,764
Furnishings & domestic appliances	40	17,554	7	17,514	3	16,954	2	16,393	2	15,740	2	15,702	--	14,972
Travel	52	44,677	25	43,391	22	40,619	15	42,476	14	45,304	13	43,034	--	38,075
Education	30	32,968	16	49,569	15	56,412	9	55,717	8	60,619	8	59,620	--	58,266
Medical	30	12,775	22	13,304	21	13,151	20	13,423	10	13,736	10	14,164	--	13,731
Home Improvements	297	121,566	180	126,542	173	118,103	145	107,942	116	108,417	99	108,001	67	106,155
Land Purchases	107	91,561	61	95,251	56	95,595	55	95,462	36	105,317	34	107,231	6	109,204
Consolidation of debt	713	353,470	501	356,914	444	352,066	385	351,027	292	356,188	256	359,112	137	357,294
Miscellaneous	420	313,465	237	340,739	168	350,991	150	361,857	127	347,723	99	339,021	47	326,028
Credit Cards	...	131,301	...	137,768	...	138,379	...	140,494	...	150,095	...	158,784	...	153,302
<b>TOTAL</b>	<b>2,301</b>	<b>#####</b>	<b>1,462</b>	<b>#####</b>	<b>1,235</b>	<b>1,456,003</b>	<b>1,054</b>	<b>1,451,475</b>	<b>826</b>	<b>1,457,648</b>	<b>722</b>	<b>1,454,613</b>	<b>305</b>	<b>1,417,881</b>
<b>NET CREDIT EXTENDED</b>														
Private cars	(319)	19,397	(198)	(13,704)	(80)	(3,717)	(60)	(6,501)	(47)	(12,096)	(17)	(4,402)	(153)	(8,884)
Taxis & rented cars	--	448	--	129	--	--	--	(410)	0	(11)	--	(25)	--	52
Commercial vehicles	(1)	(404)	(1)	(527)	--	(19)	--	(138)	(5)	(68)	(3)	(138)	--	(258)
Furnishings & domestic appliances	(61)	808	(33)	(40)	(4)	(560)	(1)	(561)	0	(653)	--	(38)	(2)	(730)
Travel	(36)	6,577	(27)	(1,286)	(3)	(2,772)	(7)	1,857	(1)	2,828	(1)	(2,270)	(13)	(4,959)
Education	(20)	4,322	(14)	16,601	(1)	6,843	(6)	(695)	(1)	4,902	--	(999)	(8)	(1,354)
Medical	(17)	1,126	(8)	529	(1)	(153)	(1)	272	(10)	313	--	428	(10)	(433)
Home Improvements	(225)	2,496	(117)	4,976	(7)	(8,439)	(28)	(10,161)	(29)	475	(17)	(416)	(32)	(1,846)
Land Purchases	(343)	19,375	(46)	3,690	(5)	344	(1)	(133)	(19)	9,855	(2)	1,914	(28)	1,973
Consolidation of debt	(461)	7,198	(212)	3,444	(57)	(4,848)	(59)	(1,039)	(93)	5,161	(36)	2,924	(119)	(1,818)
Miscellaneous	(276)	61,915	(183)	27,274	(69)	10,252	(18)	10,866	(23)	(14,134)	(28)	(8,702)	(52)	(12,993)
Credit Cards	0	2,801	...	6,467	...	611	...	2,115	--	9,601	--	8,689	--	(5,482)
<b>TOTAL</b>	<b>(1,759)</b>	<b>126,059</b>	<b>(839)</b>	<b>47,553</b>	<b>(227)</b>	<b>(2,287)</b>	<b>(181)</b>	<b>(4,528)</b>	<b>(228)</b>	<b>6,173</b>	<b>(104)</b>	<b>(3,035)</b>	<b>(417)</b>	<b>(36,732)</b>

Source: The Central Bank of The Bahamas

\* Includes Consumer Credit previously reported under Personal Loans

**TABLE 9**  
SELECTED AVERAGE INTEREST RATES

Period	2000	2001	2002	2001		2002				2003
				Qtr. III	Qtr. IV	Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I
<b>COMMERCIAL BANKS</b>										
<b>Deposit rates</b>										
Savings deposits	2.71	2.69	2.77	2.66	2.70	2.73	2.78	2.82	2.73	2.74
Fixed deposits										
Up to 3 months	3.93	4.19	4.04	4.24	4.20	4.27	4.15	3.89	3.83	3.95
Up to 6 months	4.31	4.62	4.32	4.70	4.75	4.70	4.51	4.05	4.02	4.42
Up to 12 months	4.50	4.72	4.49	4.57	4.83	4.83	4.48	4.21	4.43	4.62
Over 12 months	4.31	4.99	4.62	5.73	4.65	5.28	4.56	4.22	4.40	4.48
Weighted average rate	3.97	4.24	4.11	4.25	4.29	4.37	4.22	3.95	3.91	4.03
<b>Lending rates</b>										
Residential mortgages	8.96	8.95	8.90	8.93	8.84	8.88	8.97	8.88	8.85	9.01
Commercial mortgages	9.46	8.87	9.04	8.80	8.94	9.07	9.30	8.85	8.92	9.24
Consumer loans	13.58	13.41	13.07	13.40	12.90	12.31	13.78	13.07	13.12	13.94
Overdrafts	10.56	10.43	10.63	9.80	10.64	10.18	10.60	10.61	11.11	11.04
Weighted average rate	11.74	11.47	11.33	11.14	11.12	11.20	11.71	11.21	11.18	11.73
<b>OLFI</b>										
<b>Deposit rates</b>										
Savings deposits	3.43	3.55	--	3.55	3.25	--	--	--	--	--
Fixed deposits										
Up to 3 months	3.57	4.13	4.10	4.01	4.30	4.25	4.39	4.27	3.48	3.92
Up to 6 months	4.08	4.16	3.91	4.25	3.75	3.92	4.27	3.50	3.95	3.70
Up to 12 months	4.30	4.06	4.22	4.09	3.68	4.46	4.12	4.22	4.09	4.18
Over 12 months	4.06	4.17	--	4.02	4.25	--	--	--	--	--
Weighted average rate	4.21	4.25	4.39	4.45	4.04	4.55	4.63	4.37	4.01	4.25
<b>Lending rates</b>										
Residential mortgages	8.97	8.89	8.64	9.10	9.08	8.91	9.14	8.23	8.28	9.07
Commercial mortgages	--	--	9.77	--	--	--	9.77	--	--	--
Consumer loans	15.01	14.97	--	15.28	15.75	--	--	--	--	--
Other loans	9.03	9.36	8.70	9.42	9.46	8.01	8.97	8.34	9.48	8.00
Weighted average rate	12.11	11.25	8.64	12.60	9.04	8.86	9.07	8.12	8.52	8.98
<b>Other rates</b>										
Prime rate	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Treasury bill (90 days)	0.99	1.94	2.50	2.00	2.55	2.63	2.96	2.37	2.02	1.89
Treasury bill re-discount rate	1.49	2.45	3.00	2.50	3.05	3.13	3.46	2.87	2.52	2.39
Bank rate (discount rate)	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75

Source: The Central Bank of The Bahamas

**TABLE 10**  
SUMMARY OF BANK LIQUIDITY

End of Period	(B\$ Millions)							
	2000	2001		2002				2003
		Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.
<b>I. Statutory Reserves</b>								
Required reserves	166.6	175.8	176.1	178.6	181.9	184.3	183.4	184.3
Average Till Cash	59.6	41.7	51.2	47.3	41.4	44.4	55.3	42.9
Average balance with central bank	149.4	194.8	182.2	246.2	284.7	286.7	217.8	271.2
Free cash reserves (period ended)	41.6	59.9	56.5	114.1	143.4	146.0	88.9	129.0
<b>II. Liquid Assets (period)</b>								
A. Minimum required Liquid assets	539.1	573.4	569.3	585.2	599.2	593.4	589.9	599.2
B. Net Eligible Liquid Assets	579.2	596.6	636.7	691.1	772.4	722.1	687.6	722.6
i) Balance with Central Bank	148.2	198.0	188.6	239.1	304.1	272.3	230.3	279.7
ii) Notes and Coins	64.9	39.5	65.4	45.8	40.7	43.7	66.8	44.4
iii) Treasury Bills	49.9	35.4	63.5	93.8	106.8	72.9	38.8	45.0
iv) Government registered stocks	303.7	302.0	306.4	294.6	305.8	320.7	335.3	336.9
v) Specified assets	20.2	16.2	16.9	18.9	18.7	18.3	17.9	16.9
vi) Net Inter-bank dem/call deposits	(6.9)	6.3	(3.3)	(0.3)	(2.9)	(5.0)	(0.7)	0.5
vii) Less: borrowings from central bank	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
C. Surplus/(Deficit)	40.1	23.2	67.4	105.9	173.2	128.7	97.7	123.4

Source: The Central Bank of The Bahamas

**TABLE 11**  
GOVERNMENT OPERATIONS AND FINANCING

(B\$ Millions)

Period	1999/00p	2000/01p	2001/02p	Budget		2001/02p		2002/03p		
				2001/02	2002/03	QTR. III	QTR. IV	QTR. I	QTR. II	QTR. III
Total Revenue & Grants	918.5	957.5	856.8	#####	962.8	218.1	222.2	205.4	243.3	218.8
Current expenditure	817.4	846.5	895.1	893.8	953.9	223.5	264.1	207.0	225.0	236.3
Capital expenditure	106.7	85.0	103.5	108.8	127.4	22.1	42.3	17.9	17.2	16.2
Net lending	32.1	42.4	27.5	21.3	28.0	(25.0)	13.8	8.6	7.7	12.1
<b>Overall balance</b>	<b>(37.7)</b>	<b>(16.4)</b>	<b>(169.3)</b>	<b>5.8</b>	<b>(146.5)</b>	<b>(2.5)</b>	<b>(98.0)</b>	<b>(28.1)</b>	<b>(6.6)</b>	<b>(45.8)</b>
<b>FINANCING (I+II-III+IV+V)</b>	<b>37.7</b>	<b>16.4</b>	<b>169.3</b>	<b>(5.8)</b>	<b>146.5</b>	<b>2.5</b>	<b>98.0</b>	<b>28.1</b>	<b>6.6</b>	<b>45.8</b>
<b>I. Foreign currency loans</b>	<b>22.4</b>	<b>4.1</b>	<b>143.6</b>	<b>48.9</b>	<b>29.7</b>	<b>0.2</b>	<b>103.8</b>	<b>25.1</b>	<b>7.5</b>	<b>0.3</b>
External	22.4	4.1	18.6	48.9	29.7	0.2	3.8	0.1	7.5	0.3
Domestic	--	--	125.0	...	...	--	100.0	25.0	--	--
<b>II. Bahamian dollar borrowing</b>	<b>78.0</b>	<b>75.8</b>	<b>157.7</b>	<b>34.3</b>	<b>186.2</b>	<b>20.0</b>	<b>32.5</b>	<b>70.4</b>	<b>74.4</b>	<b>--</b>
<b>i) Treasury bills</b>	<b>--</b>	<b>20.0</b>	<b>26.9</b>	<b>...</b>	<b>...</b>	<b>--</b>	<b>10.8</b>	<b>--</b>	<b>--</b>	<b>--</b>
Central Bank	--	20.0	16.1	...	...	--	--	--	--	--
Commercial banks & OLFI's	--	--	10.8	...	...	--	10.8	--	--	--
Public corporations	--	--	--	...	...	--	--	--	--	--
Other	--	--	--	...	...	--	--	--	--	--
<b>ii) Long-term securities</b>	<b>78.0</b>	<b>55.8</b>	<b>95.7</b>	<b>...</b>	<b>...</b>	<b>--</b>	<b>20.5</b>	<b>60.0</b>	<b>65.0</b>	<b>--</b>
Central Bank	8.0	6.5	66.4	...	...	--	20.5	5.0	5.0	--
Commercial banks & OLFI's	33.1	8.9	10.1	...	...	--	--	18.8	21.5	--
Public corporations	18.2	14.4	4.8	...	...	--	--	10.7	7.6	--
Other	18.7	26.0	14.4	...	...	--	--	25.5	30.9	--
<b>iii) Loans and Advances</b>	<b>--</b>	<b>--</b>	<b>35.1</b>	<b>...</b>	<b>...</b>	<b>20.0</b>	<b>1.2</b>	<b>10.4</b>	<b>9.4</b>	<b>--</b>
Central Bank	--	--	33.9	...	...	20.0	--	--	4.3	--
Commercial banks	--	--	1.2	...	...	--	1.2	10.4	5.1	--
<b>III Debt repayment</b>	<b>20.6</b>	<b>75.7</b>	<b>144.5</b>	<b>87.3</b>	<b>66.8</b>	<b>54.2</b>	<b>29.4</b>	<b>29.1</b>	<b>18.8</b>	<b>11.6</b>
<b>Domestic</b>	<b>12.7</b>	<b>67.1</b>	<b>111.1</b>	<b>54.0</b>	<b>59.1</b>	<b>53.3</b>	<b>1.0</b>	<b>25.4</b>	<b>18.0</b>	<b>10.0</b>
Bahamian dollars	1.0	60.4	76.6	47.7	54.1	27.9	--	25.4	13.0	10.0
Internal foreign currency	11.8	6.7	34.5	6.2	5.0	25.4	1.0	--	5.0	--
<b>External</b>	<b>7.9</b>	<b>8.6</b>	<b>33.4</b>	<b>33.3</b>	<b>7.7</b>	<b>0.9</b>	<b>28.4</b>	<b>3.7</b>	<b>0.8</b>	<b>1.6</b>
<b>IV Cash balance change</b>	<b>(19.4)</b>	<b>10.3</b>	<b>(3.4)</b>	<b>...</b>	<b>...</b>	<b>(4.0)</b>	<b>(24.0)</b>	<b>0.9</b>	<b>15.8</b>	<b>4.3</b>
<b>V. Other Financing</b>	<b>(22.7)</b>	<b>1.9</b>	<b>15.9</b>	<b>(1.7)</b>	<b>(2.6)</b>	<b>40.5</b>	<b>15.1</b>	<b>(39.2)</b>	<b>(72.3)</b>	<b>52.8</b>

Source: Treasury Monthly Printouts. Data compiled according to the International Monetary Fund's Government Finance Statistics format.

**TABLE 12**  
**NATIONAL DEBT**

(B\$' 000s)

End of Period	2000p	2001p	2002p	2002p				2003
				Mar.	June	Sept.	Dec.	Mar.
<b>TOTAL EXTERNAL DEBT</b>	114,673	121,372	99,328	120,718	96,202	92,653	99,328	98,010
By Instrument								
Government Securities	50,500	50,500	25,000	50,500	25,000	25,000	25,000	25,000
Loans	64,173	70,852	74,328	70,218	71,202	67,653	74,328	73,010
By Holder								
Commercial banks	25,213	20,060	14,400	20,060	17,484	14,908	14,400	14,400
Offshore financial institutions	500	500	--	500	--	--	--	--
Multilateral institutions	38,960	50,812	59,928	50,158	53,718	52,745	59,928	58,610
Bilateral Institutions	--	--	--	--	--	--	--	--
Private Capital Markets	50,000	50,000	25,000	50,000	25,000	25,000	25,000	25,000
<b>TOTAL INTERNAL DEBT</b>	1,399,546	1,481,480	1,705,887	1,448,149	1,579,546	1,649,911	1,705,887	1,695,887
By Instrument								
Foreign Currency	21,205	36,826	130,435	11,435	110,435	135,435	130,435	130,435
Government securities	16,000	11,000	5,000	11,000	10,000	10,000	5,000	5,000
Loans	5,205	25,826	125,435	435	100,435	125,435	125,435	125,435
Bahamian Dollars	1,378,341	1,444,654	1,575,452	1,436,714	1,469,111	1,514,476	1,575,452	1,565,452
Advances	53,519	56,945	71,787	66,235	67,445	67,445	71,787	66,787
Treasury bills	132,500	168,600	179,400	168,600	179,400	179,400	179,400	179,400
Government securities	1,186,386	1,213,633	1,304,098	1,196,633	1,217,098	1,252,098	1,304,098	1,299,098
Loans	5,936	5,476	20,167	5,246	5,168	15,533	20,167	20,167
By Holder								
Foreign Currency	21,205	36,826	130,435	11,435	110,435	135,435	130,435	130,435
Commercial banks	21,205	36,826	130,435	11,435	110,435	135,435	130,435	130,435
Other local financial institutions	--	--	--	--	--	--	--	--
Bahamian Dollars	1,378,341	1,444,654	1,575,452	1,436,714	1,469,111	1,514,476	1,575,452	1,565,452
The Central Bank	128,895	190,554	182,823	163,136	148,606	168,005	182,823	167,987
Commercial banks	352,466	370,771	394,618	392,141	416,022	405,121	394,618	394,875
Other local financial institutions	4,287	3,128	3,128	3,127	3,127	3,127	3,128	3,127
Public corporations	590,485	562,309	619,284	565,329	582,924	596,728	619,284	618,835
Other	302,208	317,892	375,599	312,981	318,432	341,495	375,599	380,628
<b>TOTAL FOREIGN CURRENCY DEBT</b>	135,878	158,198	229,763	132,153	206,637	228,088	229,763	228,445
<b>TOTAL DIRECT CHARGE</b>	1,514,219	1,602,852	1,805,215	1,568,867	1,675,748	1,742,564	1,805,215	1,793,897
<b>TOTAL CONTINGENT LIABILITIES</b>	364,638	358,782	401,782	408,883	407,890	404,829	401,782	393,129
<b>TOTAL NATIONAL DEBT</b>	1,878,857	1,961,634	2,206,997	1,977,750	2,083,638	2,147,393	2,206,997	2,187,026

Source: Treasury Accounts & Treasury Statistical Summary Printouts  
Public Corporation Reports  
Creditor Statements, Central Bank of The Bahamas

**TABLE 13**  
PUBLIC SECTOR FOREIGN CURRENCY DEBT OPERATIONS

(B\$' 000)

	2000p	2001p	2002p	2002p				2003p
				Mar.	June	Sept.	Dec.	Mar.
<b>Outstanding debt at beginning of period</b>	<b>397,332</b>	<b>383,446</b>	<b>379,774</b>	<b>379,774</b>	<b>390,382</b>	<b>474,764</b>	<b>500,752</b>	<b>500,606</b>
Government	135,437	135,878	158,198	158,198	132,153	206,637	228,088	229,764
Public Corporations	261,895	247,568	221,576	221,576	258,229	268,127	272,664	270,842
<b>Plus new drawings</b>	<b>24,662</b>	<b>53,520</b>	<b>208,140</b>	<b>42,110</b>	<b>116,792</b>	<b>38,563</b>	<b>10,674</b>	<b>800</b>
Government	16,421	40,687	136,638	210	103,840	25,120	7,468	580
Public corporations	8,241	12,833	71,502	41,900	12,952	13,443	3,206	220
<b>Less Amortization</b>	<b>38,519</b>	<b>57,189</b>	<b>87,308</b>	<b>31,502</b>	<b>32,410</b>	<b>12,575</b>	<b>10,820</b>	<b>10,130</b>
Government	15,951	18,364	65,072	26,255	29,356	3,669	5,792	1,627
Public corporations	22,568	38,825	22,236	5,247	3,054	8,906	5,028	8,503
<b>Outstanding debt at end of period*</b>	<b>383,446</b>	<b>379,774</b>	<b>500,606</b>	<b>390,382</b>	<b>474,764</b>	<b>500,752</b>	<b>500,606</b>	<b>491,276</b>
Government	135,878	158,198	229,764	132,153	206,637	228,088	229,764	228,717
Public corporations	247,568	221,576	270,842	258,229	268,127	272,664	270,842	262,559
<b>Interest Charges</b>	<b>25,724</b>	<b>26,287</b>	<b>24,820</b>	<b>4,142</b>	<b>7,103</b>	<b>4,908</b>	<b>8,664</b>	<b>5,328</b>
Government	8,210	8,833	10,823	1,321	3,301	1,302	4,897	1,337
Public corporations	17,514	17,454	13,997	2,821	3,802	3,606	3,767	3,991
<b>Debt Service</b>	<b>64,243</b>	<b>83,476</b>	<b>112,128</b>	<b>35,644</b>	<b>39,513</b>	<b>17,483</b>	<b>19,484</b>	<b>15,458</b>
Government	24,161	27,197	75,895	27,576	32,657	4,971	10,689	2,964
Public corporations	40,082	56,279	36,233	8,068	6,856	12,512	8,795	12,494
<b>Debt Service ratio</b>	2.4	3.3	4.4	5.4	6.0	2.8	3.1	n.a.
<b>Government debt Service/ Government revenue (%)</b>	2.6	3.0	8.6	12.6	14.7	2.4	4.4	1.3
<b>MEMORANDUM</b>								
Commercial banks	81.1	91.2	238.9	106.6	213.3	245.4	238.9	236.2
Offshore Financial Institutions	0.5	0.5	0.0	0.5	0.0	0.0	0.0	0.0
Multilateral Institutions	228.9	237.3	236.5	232.5	235.8	230.0	236.5	229.6
Bilateral Institutions	21.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.1	0.7	0.2	0.7	0.6	0.3	0.2	0.2
Private Capital Markets	50.0	50.0	25.0	50.0	25.0	25.0	25.0	25.0

Source: Treasury Accounts, Treasury Statistical Printouts and Quarterly Reports from Public Corporations, Central Bank of The Bahamas.

\*Ending balances also reflect valuation adjustments due to exchange rate changes.

**TABLE 14**  
BALANCE OF PAYMENTS SUMMARY

	(B\$ Millions)							
	2000p	2001p	2002p	2002				2003
				Qtr.Ip	Qtr.IIp	Qtr.IIIp	Qtr.IVp	Qtr.Ip
<b>A. Current Account Balance (I+II+III+IV)</b>	<b>(500.9)</b>	<b>(388.1)</b>	<b>(357.4)</b>	<b>0.6</b>	<b>(110.5)</b>	<b>(99.2)</b>	<b>(148.3)</b>	<b>6.0</b>
<b>I. Merchandise (Net)</b>	<b>(1,328.6)</b>	<b>(1,111.3)</b>	<b>(1,035.5)</b>	<b>(235.4)</b>	<b>(311.2)</b>	<b>(226.7)</b>	<b>(262.2)</b>	<b>(272.9)</b>
Exports	787.1	765.0	740.3	158.2	173.0	188.0	221.1	155.7
Imports	2,115.7	1,876.3	1,775.8	393.6	484.2	414.7	483.3	428.6
<b>II. Services (Net)</b>	<b>946.0</b>	<b>857.1</b>	<b>845.3</b>	<b>271.8</b>	<b>255.0</b>	<b>177.6</b>	<b>140.9</b>	<b>296.8</b>
Transportation	(135.9)	(145.6)	(114.6)	(26.2)	(36.2)	(21.8)	(30.4)	(28.8)
Travel	1,426.2	1,339.5	1,388.5	393.2	402.6	317.8	274.9	397.5
Insurance Services	(60.7)	(82.4)	(91.2)	(16.4)	(20.0)	(29.8)	(25.0)	(20.2)
Offshore Companies Local Expenses	121.4	87.4	68.6	24.5	13.9	10.8	19.4	28.4
Other Government	(29.4)	(48.6)	(60.9)	(10.9)	(25.4)	(9.5)	(15.1)	(22.5)
Other Services	(375.5)	(293.2)	(345.1)	(92.4)	(79.9)	(89.9)	(82.9)	(57.6)
<b>III. Income (Net)</b>	<b>(161.7)</b>	<b>(175.6)</b>	<b>(209.5)</b>	<b>(47.2)</b>	<b>(70.0)</b>	<b>(60.4)</b>	<b>(31.9)</b>	<b>(30.9)</b>
1. Compensation of Employees	(51.1)	(48.5)	(49.9)	(10.9)	(13.4)	(12.8)	(12.8)	(11.4)
2. Investment Income	(110.6)	(127.1)	(159.6)	(36.3)	(56.6)	(47.6)	(19.1)	(19.5)
<b>IV. Current Transfers (Net)</b>	<b>43.4</b>	<b>41.7</b>	<b>42.3</b>	<b>11.4</b>	<b>15.7</b>	<b>10.3</b>	<b>4.9</b>	<b>13.0</b>
1. General Government	47.4	45.8	49.0	11.9	17.5	11.7	7.9	13.5
2. Private Sector	(4.0)	(4.0)	(6.7)	(0.5)	(1.8)	(1.4)	(3.0)	(0.5)
<b>B. Capital and Financial Account (I+II)</b> (excl. Reserves)	<b>420.4</b>	<b>262.8</b>	<b>440.3</b>	<b>89.6</b>	<b>122.5</b>	<b>125.8</b>	<b>102.4</b>	<b>(68.8)</b>
<b>I. Capital Account (Net Transfers)</b>	<b>(16.5)</b>	<b>(21.3)</b>	<b>(24.5)</b>	<b>(9.0)</b>	<b>(6.3)</b>	<b>(5.5)</b>	<b>(3.7)</b>	<b>(9.1)</b>
<b>II. Financial Account (Net)</b>	<b>436.8</b>	<b>284.1</b>	<b>464.8</b>	<b>98.6</b>	<b>128.8</b>	<b>131.3</b>	<b>106.1</b>	<b>(59.7)</b>
1. Direct Investment	250.3	101.2	200.0	43.9	62.1	44.8	49.2	13.4
2. Other Investments	186.5	183.0	264.8	54.7	66.7	86.5	56.9	(73.1)
Central Gov't Long Term Capital	9.0	26.3	(22.0)	(0.7)	(24.5)	(3.5)	6.7	(1.3)
Other Public Sector Capital	(11.6)	(27.4)	(13.5)	(4.1)	(1.5)	(5.9)	(2.0)	(5.6)
Banks	(29.6)	120.5	183.6	40.9	51.5	58.6	32.6	(76.9)
Other	218.7	63.6	116.7	18.6	41.2	37.3	19.6	10.7
<b>C. Net Errors and Omissions</b>	<b>19.3</b>	<b>95.1</b>	<b>(22.4)</b>	<b>(22.6)</b>	<b>68.6</b>	<b>(80.5)</b>	<b>12.1</b>	<b>134.1</b>
<b>D. Overall Balance (A+B+C)</b>	<b>(61.4)</b>	<b>(30.2)</b>	<b>60.5</b>	<b>67.6</b>	<b>80.6</b>	<b>(53.9)</b>	<b>(33.8)</b>	<b>71.3</b>
<b>E. Financing (Net)</b>	<b>61.5</b>	<b>30.0</b>	<b>(60.6)</b>	<b>(67.6)</b>	<b>(80.6)</b>	<b>53.9</b>	<b>33.7</b>	<b>(71.3)</b>
Change in SDR holdings	(0.1)	0.0	0.2	0.1	(0.1)	0.1	0.1	0.1
Change in Reserve Position with the IMF	0.5	0.3	(0.6)	0.1	(0.5)	0.0	(0.2)	(0.1)
Change in Ext. Foreign Assets ( ) = Increase	61.1	29.8	(60.2)	(67.8)	(80.0)	53.8	33.8	(71.3)

Source: The Central Bank of the Bahamas  
Figures may not sum to total due to rounding

**TABLE 15**  
**EXTERNAL TRADE**

(B\$ '000)

	1999	2000	1999				2000			
			Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I	Qtr. II	Qtr. III	Qtr. IV
			<b>I. OIL TRADE</b>							
i) Exports	36,941	88,303	8,017	9,936	13,721	5,267	18,124	17,512	23,907	23,493
ii) Imports	172,477	281,354	40,456	19,645	62,315	50,061	51,068	36,329	77,005	66,891
<b>II. OTHER MERCHANDISE</b>										
<b>i) Domestic Exports</b>										
Crawfish	71,857	120,641	17,301	5,457	13,305	35,794	20,584	12,299	15,729	36,235
Fish & other Crustacea	4,783	3,472	1,154	1,638	606	1,385	499	644	314	630
Fruits & Veggies.	10,394	15,600	495	147	8,828	924	10,038	1,624	148	2,866
Aragonite	388	26,146	109	186	33	60	17,359	161	1,927	6,639
Rum	30,957	25,852	5,424	12,015	6,522	6,996	6,472	12,344	28	12
Other Cordials & Liguers	70	198	6	12	--	52	3	21	99	23
Crude Salt	13,580	15,382	5,736	2,709	2,200	2,935	5,490	1,757	2,302	2,898
Hormones	1,325	8,777	1,325	--	--	--	--	3,476	2,393	2,908
Chemicals	10,778	44,632	3,165	3,307	2,461	1,845	3,365	11,397	11,854	16,171
Other Pharmaceuticals	330	1	311	18	--	1	--	--	--	--
Fragrances	247	--	76	--	171	--	--	--	--	--
Other	54,395	125,835	14,730	12,735	10,980	15,950	50,850	17,971	19,919	21,145
TOTAL	199,104	386,536	49,832	38,224	45,106	65,942	114,660	61,694	54,713	89,527
<b>ii) Re-Exports</b>	192,094	273,157	21,480	40,501	60,080	70,033	46,888	31,915	93,263	31,058
<b>iii) Total Exports (i+ii)</b>	391,198	659,693	71,312	78,725	105,186	135,975	161,548	93,609	147,976	120,585
<b>iv) Imports</b>	1,734,660	2,044,679	478,530	382,606	370,942	502,582	446,050	452,458	576,302	569,869
<b>v) Retained Imports (iv-ii)</b>	1,542,566	1,771,522	457,050	342,105	310,862	432,549	399,162	420,543	483,039	538,811
<b>vi) Trade Balance (i-v)</b>	(1,343,462)	(1,384,986)	(407,218)	(303,881)	(265,756)	(366,607)	(284,502)	(358,849)	(428,326)	(449,284)

Source: Department of Statistics Quarterly Statistical Summaries

**TABLE 16**  
SELECTED TOURISM STATISTICS

Period	2000	2001p	2002p	2002p				2003p
				Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I
<b>Visitor Arrivals</b>	<b>4,203,831</b>	<b>4,182,671</b>	<b>4,401,462</b>	<b>1,216,381</b>	<b>1,123,377</b>	<b>1,040,293</b>	<b>1,021,411</b>	<b>1,229,839</b>
Air	1,481,545	1,428,124	1,402,894	380,480	387,468	335,829	299,117	381,907
Sea	2,722,286	2,754,547	2,998,568	835,901	735,909	704,464	722,294	847,932
<b>Visitor Type</b>								
<b>Stopover</b>	<b>1,543,956</b>	<b>1,537,777</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>Cruise</b>	2,512,626	2,551,673	2,802,112	793,533	668,842	642,068	697,669	804,677
<b>Day/Transit</b>	66,587	n.a						
<b>Tourist Expenditure(B\$ 000's)</b>	<b>1,719,163</b>	<b>1,636,450</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Stopover	1,564,432	1,483,576	n.a	n.a	n.a	n.a	n.a	n.a
Cruise	147,980	147,580	n.a	n.a	n.a	n.a	n.a	n.a
Day	6,752	5,294	n.a	n.a	n.a	n.a	n.a	n.a
<b>Number of Hotel Nights</b>	<b>3,277,657</b>	<b>3,471,141</b>	<b>3,409,330</b>	<b>839,052</b>	<b>897,179</b>	<b>855,133</b>	<b>817,966</b>	<b>562,486</b>
<b>Average Hotel Occupancy Rates (%)</b>								
New Providence	73.3	66.8	68.9	73.4	71.5	60.4	70.1	<b>65.7</b>
Grand Bahama	58.2	49.8	55.0	59.3	53.1	68.3	39.2	<b>50.95</b>
Other Family Islands	41.0	36.5	34.4	36.9	43.9	30.9	25.8	<b>27.9</b>
<b>Average Nightly Room Rates (\$)</b>								
New Providence	171.7	161.6	176.1	186.7	187.8	164.1	165.6	<b>198.0</b>
Grand Bahama	63.9	82.4	80.2	93.8	85.4	71.3	70.1	<b>94.6</b>
Other Family Islands	155.5	158.6	155.8	186.4	161.3	144.5	131.0	<b>167.1</b>

Source: The Ministry of Tourism

Figures in Bold italics represents YTD February 2003

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## GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES IN THE BAHAMAS, 2002

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### INTRODUCTION

This article reports on the results of the Central Bank's 2002 survey of the gross economic contribution of banks and trust companies in The Bahamas. Value-added expenditures in the banking sector, along with the contribution from other financial services activities account for an estimated 15 percent of the Gross Domestic Product. After slowed growth in 2001, these activities and the associated employment opportunities decreased during 2002, reflecting sectoral adjustments to the new regulatory environment and weak business opportunities in both the domestic and global economy. Sluggishness in the international setting, characterized by both weak macro-economic fundamentals and turbulent financial markets, have also complicated the adjustments brought on by changes in the regulatory regime, where the competitive dimensions of the reforms have not yet been fully ascertained. An added dimension that has prevented a full assessment of the competitive effects of the regime changes is the degree to which the vigor of multilateral initiatives to encourage the strengthening of supervisory regimes among offshore financial centers have wavered, affecting the speed and the extent to which parallel reforms have taken place in many of The Bahamas' competitor jurisdictions. The evolving character and force of the initiatives also introduced delays in decisions to engage new business in international centres. Despite these short-term uncertainties, the recent changes in the regulatory regime are expected to produce positive long-term results for the sector.

An important new policy that is affecting the banking sector is the Central Bank's requirement that all public banking and trust licensees operating from or within The Bahamas establish a staffed, physical presence within the jurisdiction by June 2004. Unless their operations are managed by a public licensee with a physical presence, restricted operations must also meet this requirement. A significant number of managed licensees have decided not to satisfy this requirement and have had their licenses terminated, causing a marked reduction in the number of

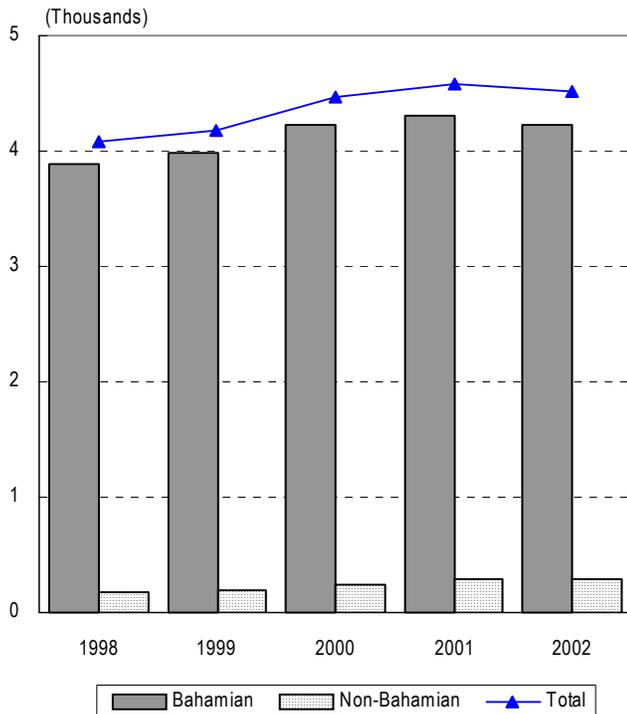
licensed operations for the second consecutive year, to 301 in 2002 from 356 in 2001 and 410 in 2000. Licensed public banking and trust operations fell by 38 to 189 and restricted non-active operations, by 17 to 112. The remaining public licensees consisted of the euro currency operations of 42 foreign branches and 122 Bahamian incorporated institutions which together comprised the international or offshore sector. A further 25 public institutions represent the domestic banking and trust operations, including 9 Authorized Dealers (commercial banks), 1 savings and loans institution and 15 Authorized Agents (trust companies).

While the reduction in licensees had less marked effects on employment, the physical presence count, which affect staffing, also declined, to 203 from 221. Some recovery is expected during 2003, as approximately 43 of the remaining managed operations are in the process of converting to physical presence. Notwithstanding, restructuring activities among domestic banks caused a decline in employment during 2002, while scaled-back capital programmes explained a sizeable decrease in expenditures.

### EMPLOYMENT TRENDS

After increasing steadily at an annualized rate of 3.9% in the five years through 2001, banking sector employment decreased by 63 (1.4%) to 4,523 persons in 2002. All of the reduction occurred in the local workforce, where the number of Bahamians fell by 73 (1.7%) to 4,227, in comparison to a gain of 77 (1.8%) to 4,300 in 2001 and average annual job growth of 107 (3.4%) in the five-years ending 2001. The transition to physical presence among managed international banks and trust companies provided marginal job gains at senior levels, with expatriates employment rising by 10 (3.5%) to 296 in 2002, augmenting the 49 positions added in 2001. As a result, the share of jobs held by non-Bahamians rose slightly, to 6.5% from 6.2% in 2001, with a corresponding marginal decrease in the share of Bahamians.

## Employment



2001 trend reflected moderated growth from the average five year advance of 8.5% up through this period.

Higher staff expenses, on a reduced workforce, caused the average annual compensation per employee to increase by 6.4% to \$44,851 in 2002, in comparison to a less robust gain of 2.8% in 2001 when bonus packages were scaled back, and an average 4.5% increase per annum for the period 1997 - 2001. Average compensation for Bahamians rose by 7.5% to \$41,600, but was a lesser 4.8% at \$40,556 when adjusted for the impact of the separation packages. This still bettered the average annual gain of 3.6% during 1997-2001. Conversely, the average pay for expatriates decreased by 3.1% to \$91,263 owing to a further reduction in the bonus component.

Emphasis on training was heightened during the year, as direct expenditures partially recovered to \$2.9 million vis-à-vis the 2001 decrease to \$2.2 million and a 5-year high of \$3.1 million in 2000. Employees capitalized on the two and four-year tertiary level programs at local institutions and diploma courses offered by the Bahamas Institute of Financial Services.

## EXPENDITURES

A marked reduction in capital spending, after three years of above average outlays, combined with decreases in administrative expenses and government fees, underpinned a contraction in the expenditure contribution of banks during 2002. Total outlays fell by \$31.7 million (7.4%) to \$396.4 million in contrast to a 4.7% increase in 2001 and the last five years' annual uptrend of 9.6% since 1997.

In this context, operating costs represented a higher share of gross outlays (95.1%) compared to 2001 (88.6%) and for the average five years through 2001 (90.7%). These outlays nevertheless, decreased marginally by \$2.4 million (0.6%) to \$377.0 million, reversing the 4.5% increase of 2001, and the average annual rise of 8.3% in the five years through 2001. Salary expenses were higher by 5.0% at \$202.9 million in 2002, mainly reflecting job separation costs associated with the reduced staffing levels. This contrasted with the previous year's growth of 5.7%, when staffing was increased to satisfy regulatory compliance functions, although the

Other administrative costs of the banking sector, inclusive of fees for professional services and utilities, contracted by 7.0% to \$155.7 million, overturning the 2001 increase of 4.8% and contrasting with the five years' average yearly gain of 9.0% through 2001. With a further reduction in the number of licencees, total fees paid to the Government decreased by 5.9% to \$15.5 million, after a reduction of 5.2% in 2001. Inclusive of 2002, the Government's total fees collected from the sector since 1997 amounted to \$93.3 million.

Banks and trust companies' capital outlays declined to \$19.4 million in 2002 from a record high of \$48.7 million in 2001, and above average spending in each of the two previous years of \$31.2 million and \$45.7 million, respectively. In this regard, the combined expenditure on new premises and renovations decreased to \$5.8 million from \$26.1 million; land purchases, to \$0.2 million from \$2.1 million and other fixed assets, to \$13.1 million from \$20.5 million.



**TABLE B. GROSS ECONOMIC CONTRIBUTION OF BANKS AND TRUST COMPANIES**

Period	1997	1998	1999	2000	2001p	2002p	1997	1998	1999	2000	2001p	2002p
	DOMESTIC						INTERNATIONAL					
<b>A. TOTAL EMPLOYMENT</b>	3,050	3,178	3,203	3,274	3,341	3,284	892	902	978	1,186	1,245	1,239
Bahamians	2,999	3,123	3,155	3,232	3,299	3,240	764	772	836	991	1,001	987
Non-Bahamians	51	55	48	42	42	44	128	130	142	195	244	252
	(B\$ Millions)											
<b>B. TOTAL OPERATIONAL COSTS</b>	185.1	180.5	203.2	216.4	227.7	227.3	90.4	95.3	111.0	146.8	151.7	149.7
(1+2+3+4)												
1. Salaries	100.1	105.8	113.0	119.9	121.5	128.8	39.4	41.7	47.8	63.0	71.7	74.1
2. Government Fees	7.2	4.6	6.5	6.2	6.6	6.3	8.0	9.6	7.9	11.2	9.9	9.2
i) Licence	1.7	2.1	3.0	3.0	3.0	3.1	5.9	5.8	5.2	5.7	5.0	4.2
ii) Company Registration	0.3	0.3	0.6	0.3	1.1	0.7	0.3	0.3	0.4	0.7	1.4	2.1
iii) Work Permits	0.4	0.4	0.5	0.4	0.5	0.4	0.7	0.7	0.8	1.8	1.8	1.9
iv) Other Government Fees	4.8	1.8	2.4	2.5	2.0	2.2	1.1	2.8	1.5	3.0	1.7	1.0
3. Staff Training	1.4	1.6	1.5	1.7	1.2	1.3	0.7	0.9	1.2	1.5	1.0	1.6
4. Other Administrative Costs	76.4	68.5	82.2	88.6	98.4	90.9	42.3	43.1	54.1	71.1	69.1	64.9
<b>C. CAPITAL EXPENDITURE 1/</b>	12.9	9.3	15.9	14.2	25.3	13.2	8.2	8.2	15.2	31.4	23.3	6.2
<b>D. TOTAL EXPENDITURE (B+C)</b>	198.0	189.8	219.1	230.6	253.0	240.5	98.6	103.5	126.2	178.2	175.0	155.9
<b>E. AVERAGE SALARY (B\$'000)</b>	32,808	33,296	35,270	36,619	36,381	39,217	44,180	46,255	48,874	53,134	57,603	59,785

Source: The Central Bank of The Bahamas

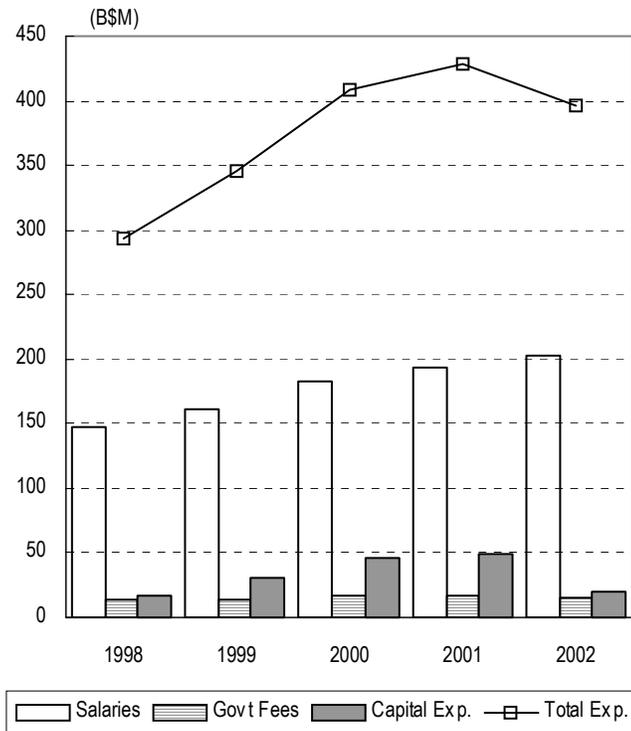
1/ (includes construction, renovation expenses and other fixed assets)

## DOMESTIC VS. INTERNATIONAL

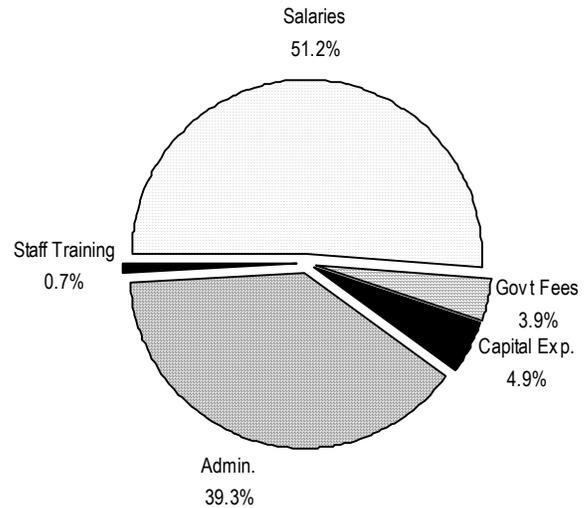
An analysis by domestic and international operations provides additional useful insights into the banking sector's contribution to the economy. By comparison, domestic operations are of the retail, labour intensive nature, as compared to the more high-end, skills dependent private banking and assets management functions of the international sector. It is important to note however, that many domestic licencees also have significant international or non-resident operations.

duced to 98.7%, although there was some preservation of the overall trend, which shifted the employment share gradually higher in favour of locals, relative to the 1997 share of 98.3%.

### Expenditure



### Expenditure Components (% of Total)



Offshore sector employment was less markedly reduced, by 6 (0.5%) to 1,239, with Bahamian jobs lowered by 14 (1.4%) to 987, and offsetting the 2001 gain of 10 (1.0%). Conversely, expatriate positions rose by 8 (3.3%) to 252. As a result, the ratio of Bahamians to non-Bahamians in the international banking sector softened to 4:1 from the previous five years' average of 5:1.

During 2002, total expenditures among local operations contracted by 4.9% to \$240.5 million, marked by a 47.7% decrease in capital outlays to \$13.2 million. However, the 2.4% increase in staff costs dampened the total falloff in operating costs, at 0.2% to \$227.3 million. While training outlays were restored to their 2000 levels, reduced outlays were registered for administrative costs (7.7%) and Government fees (3.9%). Nonetheless, in line with total employment shares, domestic operations continued to account for the bulk of expenditures. The share increased slightly to 60.7% in 2002, as these amounts fell by a smaller fraction than the corresponding outlays in the international sector, but was less than the five-year average ratio of 61.5% through 2001.

Total employment among domestic banks fell by 57 (1.7%) to 3,284 during 2002, representing a stable 72.6% of all positions within the sector. Developments were largely influenced by the pairing down of the operations of one institution with an international focus, and reduced staffing at a number of retail operations. The downsizing exercises nevertheless, only affected jobs held by Bahamians, which decreased by 59 to 3,240, while expatriate jobs rose by 2 to 44. Correspondingly, the share of jobs in the local sector held by Bahamians was slightly re-

In the international sector, total expenditure declined further by 10.9% to \$155.9 million, also led by a downturn in investments outlays to \$6.2 million from \$23.3 million in 2001. Although less marked, operating costs fell by 1.3% to \$149.7 million in comparison to gains of 3.3% in 2001 and average annual growth of 13.8% in the five years through 2001. Despite the noted reduction in the number of public licensees, staff outlays were augmented by 3.3%, albeit, fees paid to Government decreased correspondingly by 7.5% and other administration costs declined by 6.1%.

Once job separation effects were excluded, average salary differences, which favour international banking, were maintained during 2002. Unadjusted, average pay in the domestic sector rose by 7.8% to \$39,217. Excluding the separation packages, the increase was 3.9% to \$37,812 per annum, still contrasting with an average compensation gain of 3.9% to \$59,785 for those engaged in the international sector. These compared with respective average annual pay increases of 2.6% and 6.9% in the corresponding sectors during the five years through 2001. Using the adjusted estimate, the average premium on salaries for international operations relative to those in the domestic sector was approximately stable at 58.1%.

## **REGULATORY AND SUPERVISORY ACTIVITIES**

In the context of these developments, efforts continued unabated at strengthening supervisory processes with the banking sector. Into its second year, the Central Bank's onsite examination of banks and trust companies resulted in another 102 inspections carried out during 2002 as compared to 115 in 2001. These included 9 follow-up examinations, 91 first time inspections of international operations and 2 examinations of domestic retail institutions. In addition to prudential issues related to the safety and soundness of financial institutions, examinations assessed the adequacy of anti-money laundering and "know-your-customer (KYC)" compliance and control systems mandated by the 2000 package of legislation. The offsite examinations, which are a counterpart to these inspections, continued to assess the ongoing financial positions of active licensees, employing audited financial statements and other statutory reports. As an adjunct to the process, prudential discussions were held with the senior management of 148 licensees, concentrating, among other issues, on peer-wise comparisons of

licensees' performance as well as on business plans, risk management systems and procedures and capital adequacy. The Central Bank also continued to vet and approve the appointment of directors and senior officers of licensees.

In addition to the continued phasing out of managed operations, work intensified during 2002 on the issuance of Central Bank guidelines affecting the operations of banks and trust companies in The Bahamas. These included comprehensive guidelines for the licence application process and enhanced fit and proper requirements, including diligence procedures for the approval of directors and senior executives of licensees; procedures for reviewing license applications and for assessing the fitness and propriety of applicants. The Central Bank also issued a number of managed licensee guidelines, addressing the transitioning of such entities to full physical presence, and requirements that such entities would have to satisfy, either as branches or restricted operations, to remain as managed licensees.

The development of supervisory policies and guidelines has also been subject to an increased level of consultations with the industry. Draft prudential guidelines and regulations being circulated for public review and comments at the end of 2002 had as their focus a variety of issues, including large exposures limits, liquidity requirements and foreign currency limits.

As regard cross-border supervision, the Central Bank has also intensified its cooperation with foreign supervisory authorities during 2002. Consolidated supervision of the branch operations of banks licensed in other jurisdictions is an important new feature in the Banks and Trust Companies Regulation Act, 2000, as is greater scope for the Bank to provide assistance to request for information from such agencies. Under such provisions, foreign supervisory authorities were permitted to carry out at least four inspections of Bahamas-based branch operations in 2002, utilizing terms established in earlier Memorandum of Understandings (MOUs), which the Bank concluded with such agencies. During 2002, the Bank executed MOUs along similar lines with additional foreign supervisory authorities. The Bank also either initiated investigations into or provided assistance on information requests in 41 cases originating from supervisory authorities in some 19 countries.

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The uniform application of anti-money laundering measures across all financial sector activities meanwhile, provided scope for closer cooperation among the various domestic regulatory and supervisory agencies. In October 2002, a MOU was executed between the Central Bank, the Securities Commission, the Registrar of Insurance, the Registrar General's Department and the Corporate and Financial Services Unit within the Ministry of Financial Services and Investment, formally providing for information sharing, inter-regulatory cooperation and the harmonization of regulatory policies and practices. Under the terms of the MOU, the regulators have already started joint on-site examinations of licensees that are supervised by more than one agency.

As regard other structural changes in the local sector, regulatory approval was granted by the Central Bank and other regional supervisory authorities (except the British Virgin Island) to effect the combination of the Caribbean operations of Barclays Bank Plc and CIBC (West Indies) Holdings Limited. The newly created institution, FirstCaribbean International Bank, is headquartered in Barbados, where the local supervisory and regulatory responsibilities also rest. The domestic sector was also impacted by the closure announcement by Lloyds Bank and Trust (Bahamas) Limited in October 2002, with plans to transfer operations to its North American office.

## **OTHER DEVELOPMENTS IN THE FINANCIAL SECTOR**

The Central Bank also surveyed the economic contribution of other financial sector activities during 2002, including credit unions, the insurance sector, mutual funds administrators and corporate services providers.

Some 20 credit unions operated locally during 2002, compared to 19 in 2001, with an increased asset base of \$132.0 million relative to \$120.4 million in the previous year. During 2002, credit unions provided employment for approximately 96 Bahamians, with estimated expenditures in the local economy of \$5.6 million. The salary component represented 36.3% of total outlays, followed by capital expenditures (34.7%) and administrative fees (21.1%). However, fees paid to Government averaged slightly less than 1.0% of the total. The average salary among credit union employees was estimated at \$12,146.

In the insurance sector, the number of registered companies, brokers and agents increased by 3 to 147 during 2002, reflecting growth in domestic operations, as the number of external insurers remained at 27. Based on the latest available information for 2001, the asset base of domestic insurers was in excess of \$680 million. Although less complete information is available on the sector's contribution, the 2002 survey results covering 13 of the larger domestic operations, which represented nearly 700 employees, indicated an average salary around \$37,000 per annum, with the estimated compensation for Bahamians closer to \$36,000. Some 98.1% of the workforce were Bahamians. For the entities surveyed, salaries represented 56.0% of the total expenditures; administrative expenses, 30.0% and license fees, work permit and other fees paid to Government, approximately 8.0%. Capital outlays were less than 2% of the 2002 expenditures; albeit, similar to the banking sector, insurance companies also expended above average amounts in the last five years on renovations and the construction of new premises.

Statistics compiled by the Securities Commission indicated a modest increase in the number of active mutual funds under management, to 706 during 2002, with a slight increase in assets to \$97.3 billion. Less comprehensive data is available on the industry's contribution to the economy, since such operations are managed by a combination of mutual fund administrators licensed by the Securities Commission as well and banks and trust companies licensed by the Central Bank. Based on responses received from 9 out of 18 fund administrators surveyed, average annual compensation appears much higher than in insurance and domestic banking, consistent with the international focus of the sector—approximating \$48,000 for Bahamians and in excess of \$100,000 for non-residents. It is estimated by the Securities Commission that the Government collects nearly \$1.0 million annually from the licensing and registration of mutual funds.

Responses from 20 corporate service providers, handling mainly IBC business, indicate that Government fees approximate about \$500 per entity in 2002, with most ranging between \$300 - \$700 per annum. Although a precise estimate on the number of funds was not available, indications are that incorporation and registration activities rebounded during 2002, as fees collected

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by the Government recovered by nearly 50% to \$18.0 million during Fiscal Year 2001/02. Fee collection was also more than 10.0% higher during the first three quarters of FY2002/03.

Domestic capital market developments during 2002 were underscored by continued weakness in the level of trading activities which further impeded the operating results of the Bahamas International Securities Exchange (BISX). The expected launch of international products, expected to generate most of the operating revenues, particularly mutual funds listing, did not occur as originally anticipated, while ability to attract international business stalled in the face of the changing regulatory landscape, which nearly coincided with the opening of the Exchange. BISX's operations have therefore relied exclusively on domestic securities listings and trading. Corresponding to similar weakness in the local over-the-counter market, the volume of local shares traded on BISX fell by 30.6% to 2.748 million, with a reduced estimated value of \$13.6 million, compared to \$23.7 million in 2001. Reflecting this market valuation loss, the BISX All Share Price Index declined by 13.0% during 2002. The number of publicly traded companies in The Bahamas remained at 23, although BISX-listed entities decreased by one to 16, following the voluntary delisting of RND Holdings Limited in August 2002.

Amid challenges, efforts to formulate a more financially viable development strategy for the Exchange intensified during 2002. A BISX Joint Capital Market Development Working Group, including the Central Bank, was formed in February 2002 to develop a long-term financing proposal for the Exchange. This work concluded in August with the presentation to the Government of a set of recommendations on financial support for BISX, submitted by the Central Bank and BISX's board of directors. In November, the Government subsequently appointed a select Committee, to advise it on a final support strategy for the Exchange.

## **CONCLUSION**

The competitive dimensions of supplying international financial services have risen to the forefront in

recent years, and The Bahamas has responded by increasing the level of resources dedicated to the promotion of the sector, and through ongoing regulatory enhancements. The securities industry and the insurance sector are currently at the centre of such initiatives. Industry comments have already been received on a third draft of a new insurance sector bill, which is expected to be considered by Parliament before the fall of 2003. Among other things, the legislation is expected to address increased reporting and prudential requirements for insurance companies, and update the requirements for the provision of insurance in the domestic sector, including brokerage services. As regard the securities industry, the replacement to the Mutual Funds Act 1995, The Investments Fund Act, was approved by Parliament in May 2003 and is expected to come into force well before the end of 2003. Apart from supervisory considerations, the Act is noteworthy for its recognition of the potential for growth in business opportunities for the international sector, beyond the more limited range of mutual funds, and is in keeping with the diverse character of investment vehicles available in international financial markets.

Aside from product enhancements along the above lines, more convergence is foreshadowed in the supervisory processes being applied to the various sub-sectors of The Bahamas' financial services industry, capitalizing on the cooperative structures that have been created among local supervisory agencies. In addition to gains in the quality of prudential oversight, the flow of data on the performance of the sector is expected to improve, providing more timely input to policy formulation. Having strengthened the regulatory framework of the jurisdiction, The Bahamas is better poised to take advantage of long-term growth opportunities in the supply of these services with more assured confidence from its international supervisory peers and the clientele base. Such inroads should ensure a sustained and expanded contribution of financial services within the economy.

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**Table C: Other Selected Financial Sector Statistics**

	<b>Unit</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Mutual Funds</b>				
Licensed Mutual Funds	Number	757	673	706
<i>Assets Under Management</i>	<i>B\$ Billions</i>	<i>95.02</i>	<i>94.47</i>	<i>97.34</i>
<b>Insurance Companies and Agents</b>				
Total Insurer and Agents	Number	144	147	149
Domestic Companies and Agents	Number	117	120	122
<i>Total Domestic Assets</i>	<i>B\$ Millions</i>	<i>620.4</i>	<i>682.6</i>	<i>n/a</i>
External Insurers	Number	27	27	27
<b>Credit Unions</b>				
Number of Unions	Number	18	19	20
<i>Total Assets</i>	<i>B\$ Million</i>	<i>110.9</i>	<i>120.4</i>	<i>132.0</i>
<b>Bahamas International Securities Exchange (BISX)</b>				
Listed Companies	Number	15	17	16
Shares Traded	Millions	3.72	3.96	2.75
Market Capitalization	B\$ Billion	1.74	1.68	1.31

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**Sources:**

The Central Bank of The Bahamas, Bahamas International Securities Exchange (BISX),  
The Securities Commission of The Bahamas and The Registrar of Insurance Companies.