



Monthly Economic and Financial Developments December 2006

In an effort to provide the public with more frequent information on its economic surveillance activities, the Central Bank has decided to release monthly reports on economic and financial sector developments in The Bahamas. The Bank monitors these conditions as part of its monetary policy mandate, to assess whether money and credit trends are sustainable relative to levels of external reserves required to protect the value of the Bahamian dollar and, if not, the degree to which credit policies ought to be adjusted. The main data source for this surveillance is financial institutions' daily reports on foreign exchange transactions and weekly balance sheet statements. Therefore, monthly approximations may not coincide with calendar estimates reported in the Central Bank's quarterly reports. The Central Bank will release its "Monthly Economic and Financial Developments" report on the Monday following its monthly Monetary Policy Committee Meeting.

Future Release Dates:

2007: February 26th, April 2nd, April 30th, June 4th, July 2nd, July 30th, September 3rd, October 1st, October 29th, December 3rd

1. Domestic Economic Developments

The expansion in economic activity was sustained during December, reflecting continued firming in private sector demand as evidenced by an increase in credit, as well as robust growth in the construction sector in response to both residential and commercial investments.

With regards to the tourism sector, information available for the hotel sector over the first ten months of the year showed that room revenues firmed by 4.9%, attributed to broad-based gains in all major markets. Specifically, room revenues in Nassau, Grand Bahama and the Family Islands improved by 4.3%, 9.5% and 3.8%, respectively.

For the year, the rate of increase in average consumer prices eased slightly to 1.84% from 1.95% in 2005, although strengthened cost upturns were registered for other goods and services (6.74%), food and beverages (4.68%) and furniture and household operations (2.02%). These were moderated by average cost declines for transportation and communication costs (1.97%), education (0.44%) and recreation and entertainment services (0.15%).

Preliminary data on the Government's fiscal performance during the first six months of FY2006/07 featured continued gains in revenue receipts, which outpaced the advance in expenditures, leading to an improvement in the overall deficit by 62.9% to \$26.4 million. Total revenue rose by 14.8% to an estimated \$625.9 million, reflecting a 12.3% increase in tax revenues, while elevated accretions to fines, forfeits and other income sources, buoyed non-tax revenues by 56.3%. On the expenditure side, increases in both current (2.5%) and capital (28.2%) spending augmented total outlays by 5.9% to an estimated \$652.3 million.

In capital market developments, BISX added the Fidelity Prime Income Fund Limited (FPI) to its list of mutual funds traded during the month of December, bringing the total domestic mutual funds listed on the Exchange to six. The Fund is managed by Fidelity Merchant Bank and Trust and is comprised of Bahamian dollar fixed income securities.

2. International Developments

Recent indications are that the global economy expanded by an estimated 5% in 2006, which was broadly-based across the major economies. The threat to economic growth from high oil prices abated somewhat in the latter half of the year, as the cost of crude oil fell from its historic high. However, inflation remained a concern for several central banks, owing to the pass-through effects from higher fuel costs in the earlier part of the year,

In the US, real GDP grew at a revised annual rate of 2.0% for the third quarter, 0.6 percentage points below the expansion noted in the April to June period. The November trade deficit contracted by \$0.6 billion to \$58.2 billion, as exports benefited from a weaker US dollar. Although non-farm employment advanced by 167,000 in December, the unemployment rate was unchanged at 4.5%. On the monetary front, the Federal Reserve maintained its primary credit and target fund rates at 6.25% and 5.25% respectively, while underscoring concern over prevailing inflationary conditions.

Indications are that China's economy accelerated at a record breaking pace of 10.5% during 2006. At year-end, the country's trade surplus surged to \$177.5 billion, buoyed by a 27% hike in exports to \$967 billion. This development underpinned the strengthening in reserves by an estimated 30.2% to US\$1.0 trillion by end-December.

The Japanese economy maintained its recovery momentum, with fourth quarter growth estimated at 2.0%. Industrial production for November rose by 0.7% on a monthly basis and 4.8% year-on-year. The monthly unemployment rate improved modestly by 0.1 percentage points to 4.0% in December, and average consumer prices contracted by 0.5% in relation to the preceding month, but were 0.3% higher than a year ago.

In the UK, initial reports indicate that the trade deficit deteriorated by 15% to £4.7 billion in November, amid a £0.6 billion deterioration in the goods deficit to £7.2 billion, and a stable services surplus of £2.5 billion. Retail sales advanced by a marginal 0.5% in the three months ended November, vis-à-vis the previous quarter. Although inflation peaked at a record high of 3.0% in December, on account of heightened fuel costs in the latter months of 2006, the Bank of England kept its key interest rate unchanged at 5.0%.

Economic growth in the Euro Zone slowed to 0.5% in the third quarter, from 1.0% in the previous three-month period. According to preliminary estimates, inflation in December remained unchanged from the preceding month at 1.9%, and the trade surplus for October stood at €2.4 billion, representing a monthly rise of €0.3 billion. Monetary policy tightened in December as the ECB raised its main refinancing rate by 25 basis points to 3.50%, citing the need to contain rising inflation in the medium to longer term.

During December, OPEC continued its efforts to ensure market stability in light of the significant cooling in oil prices. Consequently, the cartel decided to trim output by 500,000 barrels per day, with effect from 1 February 2007. The price of crude oil declined by 2.0% to \$60.79 per barrel from \$62.05 per barrel in November. Similarly, precious metal prices receded, with the cost of gold and silver weakening by 1.7% and 7.6%, to \$636.70 per ounce and \$12.90 per ounce, respectively.

For the review month, gains were recorded for all of the major indices. In the US, The Dow Jones Industrial Average and the S&P 500 rose by 2.0% and 1.8%, respectively. In Europe, the FTSE 100 was up by 2.8% and the CAC 40 by 4.0%. Likewise, Germany's DAX improved by 4.6% and the largest gain of 5.9% was recorded for Japan's Nikkei 225.

3. Domestic Monetary and Credit Trends

Money and credit trends for the month of December revealed further strengthening in domestic credit, which outpaced a modest rise in total deposits. Consequently, liquidity indicators contracted, although there was a small gain in external reserves as a result of public sector borrowing activity.

December 2005 vs. 2006

Reflecting the seasonal upturn in spending, liquidity tightened in December as excess reserves fell by \$28.6 million to \$136.3 million, although below the \$87.9 million decline of 2005. Similarly, excess liquid assets contracted by \$42.6 million to \$9.7 million, following last year's \$69.2 million reduction.

External reserves rose marginally by \$3.3 million in December, a turnaround from the \$37.5 million drop registered in 2005. Underlying this, net foreign currency borrowing proceeds reversed transactions with the public sector to a net purchase of \$3.1 million from a net sale of \$5.3 million, and the net sale to commercial banks was sharply lower by \$32.2 million at \$1.0 million. In transactions with customers, commercial banks registered a net purchase of \$5.2 million, compared to a net sale of \$21.3 million a year ago.

Bahamian dollar credit growth moderated by \$39.2 million to \$71.6 million during the review period, with the slowing concentrated in the public sector. The expansion in net credit to Government was significantly lower at \$10 million vis-à-vis \$53.5 million in the previous year; and the growth in credit to the rest of the public sector was more than halved to \$4.3 million. In contrast, the rate of increase in private sector Bahamian dollar credit was \$11.5 million higher at \$57.3 million.

Domestic foreign currency credit narrowed by \$12.9 million to \$733.3 million, which was in line with 2005's \$13.0 million reduction. This development was primarily owing to the contraction in foreign currency credit to the private sector which was nearly halved to \$12.0 million. More modest declines were recorded for the Government and the public corporations, following respective expansions of \$3.3 million and \$3.5 million in 2005.

Growth in total Bahamian dollar deposits tapered off to \$20.4 million from \$63.9 million in 2005. Demand deposits advanced by \$13.4 million, one third of the rise noted a year earlier, while savings deposits contracted by \$8.8 million, a reversal from the previous year's \$11.3 million expansion. In contrast, fixed deposits firmed by \$15.8 million, outpacing 2005's gain by \$3.2 million.

With regards to interest rate movements during December, the average deposit rate rose by 39 basis points to 3.76%, with the highest rate of 6.5% offered on maturities of over 6 to 12 months. On the contrary, the average rate for loans fell by 51 basis points to 9.63%.

January – December 2006

Sustained firming in private sector demand absorbed much of the liquidity overhang accumulated prior to the removal of the credit restrictions in 2004. Consequently, excess reserves contracted by \$59.1 million, extending last years' decline of \$96.0 million. The fall-off in the broader measure of liquid assets was \$102.8 million compared with \$112.0 million in 2005.

Under the impact of strong domestic demand and higher oil payments, external reserves were reduced by 22.5% to \$451.9 million in 2006, compared to a 12.2% contraction in 2005. Oil related payments elevated the Central Bank's net sale to the public sector by \$68.2 million to \$198.1 million, which offset the \$15.6 million increase in the net purchase from commercial banks

to \$45.9 million. Benefitting from ongoing foreign investment projects, commercial banks' net purchase from their customers rose by 54.7% to \$51.9 million.

Amid increased private sector demand, total Bahamian dollar credit advanced by \$766.1 million (35%). Growth in consumer credit and mortgages was extended to \$236.5 million and \$333.9 million, respectively; and credit to the public sector expanded by \$33.5 million, a rebound from the prior year's \$17.2 million contraction. Conversely, the growth in net credit to Government slowed significantly by \$49.0 million to \$28.8 million.

The expansion in foreign currency credit moderated by \$18.6 million to \$58.4 million in 2006. A key factor was the tapered accretions to private sector and Government credit, to \$26.8 million and \$5.4 million from \$86.2 million and \$17.3 million, respectively. Conversely, borrowings for infrastructural projects elevated credit to the rest of the public sector by \$26.3 million, reversing the \$26.4 million decline for 2005.

In 2006, Bahamian dollar deposits firmed by \$290.9 million, although below the \$361.0 million gain of 2005. Increased private sector demand contributed to a slowdown in growth in demand and savings deposits to \$24.0 million and \$67.8 million, respectively, from last year's accretions of \$94.9 million and \$101.5 million. In contrast, growth in fixed deposits advanced by \$34.5 million to \$199.1 million, partly on account of the firming in deposit rates.

4. Outlook

The expansion in the Bahamian economy achieved in 2006, is anticipated to be sustained in the coming year, underpinned by the implementation of several tourism-related projects, which should strengthen construction investments and result in improved employment conditions. The recent reductions in global oil prices are expected to alleviate the pressure exerted on the external account, and more improved signs of stability in the US economy, particularly in the financial sector, provides a positive outlook for the tourism sector.

Recent Monetary and Credit Statistics

(B\$ Millions)

DECEMBER					
Value		Change		Change YTD	
2005	2006	2005	2006	2005	2006

1.0 LIQUIDITY & FOREIGN ASSETS

1.1 Excess Reserves	195.37	136.25	-87.94	-28.57	-96.01	-59.12
1.2 Excess Liquid Assets	112.45	9.67	-69.20	-42.55	-111.99	-102.77
1.3 External Reserves	582.93	451.91	-37.52	3.33	-81.72	-131.02
1.4 Bank's Net Foreign Assets	-559.73	-626.63	29.40	26.16	30.02	-66.91
1.5 Usable Reserves	260.13	158.71	-15.43	6.33	-39.42	-101.42

2.0 DOMESTIC CREDIT

2.1 Private Sector	4,917.87	5,648.46	26.06	45.38	592.94	730.60
a. B\$ Credit	4,455.94	5,159.77	45.85	57.32	506.79	703.83
of which: Consumer Credit	1,649.83	1,886.35	20.13	24.53	169.36	236.52
Mortgages	1,906.39	2,240.27	29.78	25.28	269.68	333.88
b. F/C Credit	461.93	488.70	-19.79	-11.95	86.16	26.77
of which: Mortgages	12.29	31.33	1.11	1.22	0.51	19.04
2.2 Central Government (net)	647.87	682.04	56.75	9.36	95.19	34.17
a. B\$ Loans & Securities	750.91	789.21	45.46	5.09	97.81	38.30
Less Deposits	114.36	123.85	-8.00	-4.89	19.93	9.48
b. F/C Loans & Securities	13.27	18.97	1.63	-0.90	13.27	5.70
Less Deposits	1.95	2.30	-1.65	-0.29	-4.05	0.35
2.3 Rest of Public Sector	299.92	359.68	14.93	3.92	-43.61	59.76
a. B\$ Credit	98.30	131.77	11.45	4.26	-17.17	33.47
b. F/C Credit	201.63	227.91	3.48	-0.34	-26.44	26.29
2.4 Total Domestic Credit	5,865.66	6,690.18	97.74	58.66	644.52	824.53
a. B\$ Domestic Credit	5,190.78	5,956.90	110.77	71.56	567.50	766.12
b. F/C Domestic Credit	674.87	733.28	-13.03	-12.90	77.03	58.41

3.0 DEPOSIT BASE

3.1 Demand Deposits	1,055.62	1,079.65	40.11	13.36	94.87	24.03
a. Central Bank	29.87	17.22	22.36	1.14	-52.52	-12.65
b. Banks	1,025.75	1,062.43	17.75	12.22	147.39	36.68
3.2 Savings Deposits	882.90	950.71	11.25	-8.76	101.52	67.82
3.3 Fixed Deposits	2,577.04	2,776.11	12.55	15.77	164.61	199.07
3.4 Total B\$ Deposits	4,515.56	4,806.46	63.91	20.36	361.00	290.91
3.5 F/C Deposits of Residents	159.89	180.92	8.00	23.04	73.84	21.03
3.6 M2	4,721.02	5,031.54	80.99	48.99	385.03	310.51
3.7 External Reserves/M2 (%)	12.35	8.98	-1.02	-0.02	-2.98	-3.37
3.8 External Reserves/Base Money (%)	99.09	80.39	4.59	0.59	-4.67	-18.70

Value		Year to Date		Change	
2005	2006	2005	2006	Month	YTD

4.0 FOREIGN EXCHANGE TRANSACTIONS

4.1 Central Bank Net Purchase/(Sale)	-38.51	2.10	-99.49	-152.14	40.61	-52.65
a. Net Purchase/(Sale) from/to Banks	-33.18	-0.97	30.34	45.92	32.22	15.58
i. Sales to Banks	63.38	12.14	460.64	319.37	-51.24	-141.27
ii. Purchases from Banks	30.20	11.17	490.98	365.29	-19.02	-125.70
b. Net Purchase/(Sale) from/to Others	-5.33	3.06	-129.84	-198.06	8.39	-68.23
i. Sales to Others	21.43	28.38	339.68	432.29	6.95	92.61
ii. Purchases from Others	16.11	31.45	209.84	234.23	15.34	24.38
4.2 Banks Net Purchase/(Sale)	-21.30	5.22	33.55	51.90	26.52	18.36
a. Sales to Customers	262.99	264.15	2,884.69	3,286.99	1.16	402.30
b. Purchases from Customers	241.69	269.37	2,918.23	3,338.89	27.68	420.65
4.3 B\$ Position (change)	-8.02	1.96				

5.0 EXCHANGE CONTROL SALES

5.1 Current Items	304.53	0.00	3,057.08	3,182.56	-304.53	125.48
of which Public Sector	48.10	0.00	401.03	482.87	-48.10	81.84
a. Nonoil Imports	128.65	0.00	1,409.28	1,323.47	-128.65	-85.80
b. Oil Imports	49.37	0.00	401.50	488.65	-49.37	87.15
c. Travel	31.14	0.00	253.90	247.89	-31.14	-6.01
d. Factor Income	8.57	0.00	176.75	133.03	-8.57	-43.73
e. Transfers	7.85	0.00	89.02	72.13	-7.85	-16.90
f. Other Current Items	78.95	0.00	726.63	917.39	-78.95	190.77
5.2 Capital Items	17.74	0.00	160.29	167.68	-17.74	7.39
of which Public Sector	5.04	0.00	48.45	28.89	-5.04	-19.56
5.3 Bank Remittances	4.00	0.00	92.37	130.60	-4.00	38.23

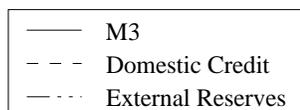
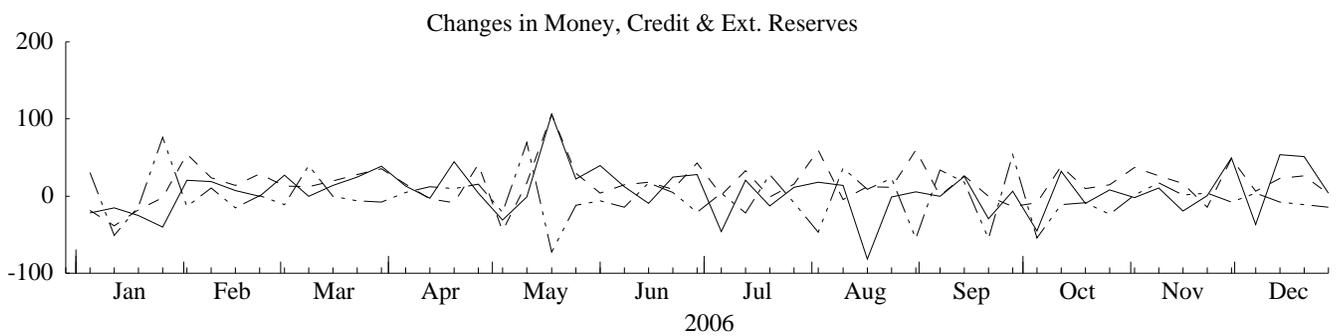
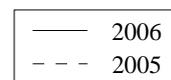
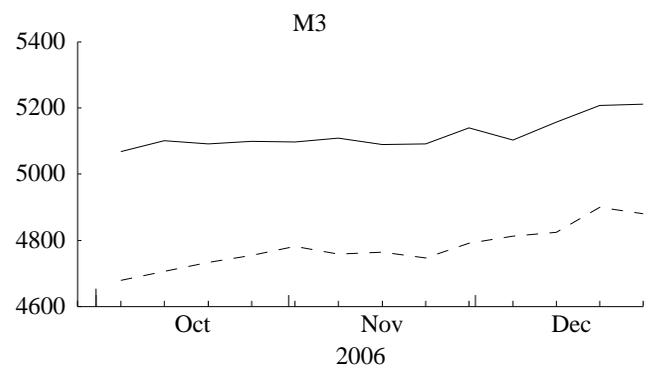
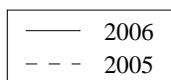
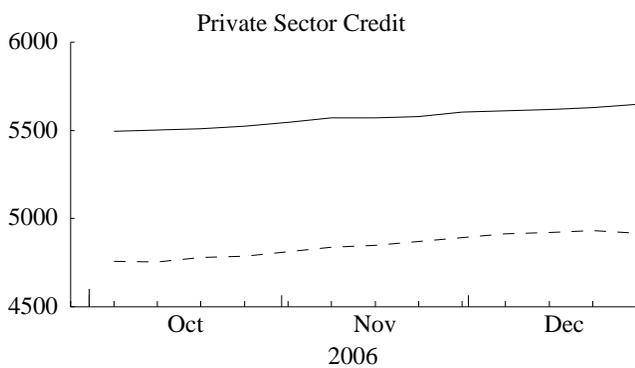
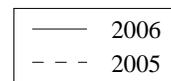
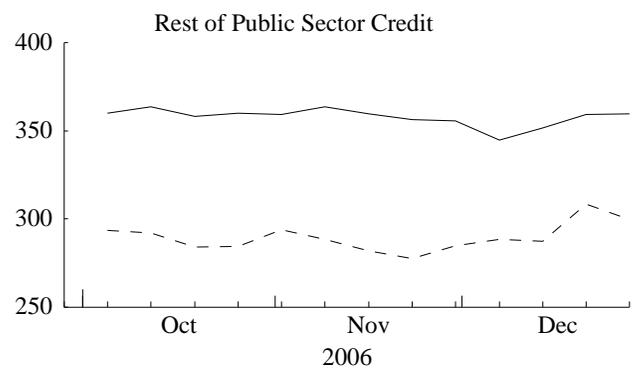
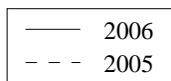
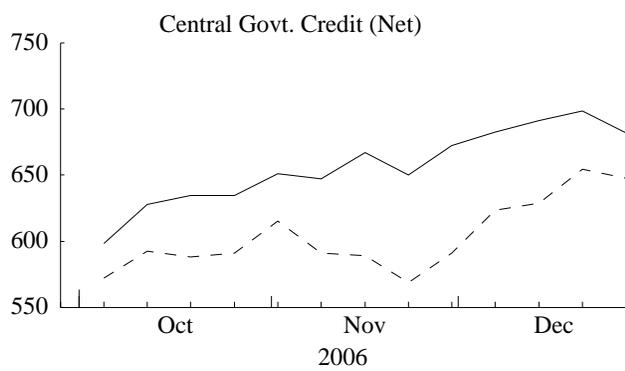
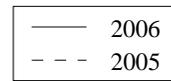
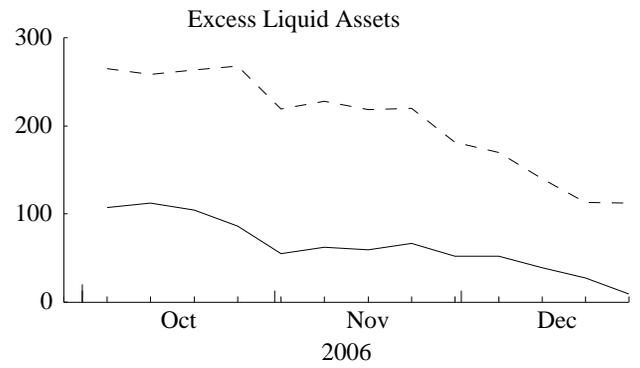
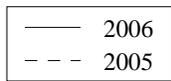
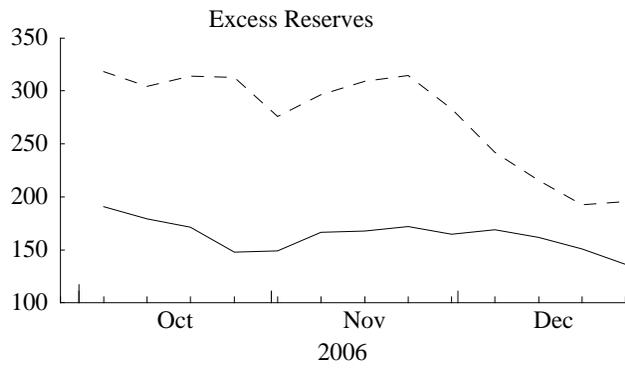
Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: DECEMBER 28, 2005 and DECEMBER 27, 2006

Exchange Control Sales figures are as at month end.

Notes: 1.0, 2.0 and 3.0 YTD change reflects change of current month over previous year end; for 4.0 and 5.0 change is over corresponding period of previous year.

Components may not sum to totals due to round-off error.

SELECTED MONEY AND CREDIT INDICATORS (B\$ Millions)



Selected International Statistics

A: Selected Macroeconomic Projections (Annual % Change and % of labor force)						
	Real GDP		Inflation Rate		Unemployment	
	2006	2007	2006	2007	2006	2007
Bahamas	4.0	4.5	1.7	2.7	n/a	n/a
United States	3.4	2.9	3.3	2.6	4.8	4.9
Euro-Area	2.4	2.0	2.3	2.2	7.9	7.7
<i>Germany</i>	<i>2.0</i>	<i>1.3</i>	<i>2.0</i>	<i>2.2</i>	<i>8.0</i>	<i>7.8</i>
Japan	2.7	2.1	0.6	1.1	4.1	4.0
United Kingdom	2.7	2.7	2.7	2.2	5.3	5.1
Canada	3.1	3.0	1.9	2.0	6.3	6.3

Sources: IMF World Economic Outlook, September 2006

B: Official Interest Rates - Selected Countries (%)					
<i>With effect</i> <i>from</i>	CBOB	ECB (EU)	Federal Reserve (US)		Bank of England
	Bank Rate	Refinancing Rate	Primary Credit Rate	Target Funds Rate	Repo Rate
July 2005	5.25	2.00	4.25	3.25	4.75
August 2005	5.25	2.00	4.50	3.50	4.50
September 2005	5.25	2.00	4.75	3.75	4.50
October 2005	5.25	2.00	4.75	3.75	4.50
November 2005	5.25	2.00	5.00	4.00	4.50
December 2005	5.25	2.25	5.25	4.25	4.50
January 2006	5.25	2.25	5.50	4.50	4.50
February 2006	5.25	2.25	5.50	4.50	4.50
March 2006	5.25	2.50	5.75	4.75	4.50
April 2006	5.25	2.50	5.75	4.75	4.50
May 2006	5.25	2.50	6.00	5.00	4.50
June 2006	5.25	2.75	6.25	5.25	4.50
July 2006	5.25	2.75	6.25	5.25	4.50
August 2006	5.25	3.00	6.25	5.25	4.75
September 2006	5.25	3.00	6.25	5.25	4.75
October 2006	5.25	3.25	6.25	5.25	4.75
November 2006	5.25	3.25	6.25	5.25	5.00
December 2006	5.25	3.50	6.25	5.25	5.00

Selected International Statistics

C. Selected Currencies (Per United States Dollars)						
Currency	Dec-05	Nov-06	Dec-06	Mthly % Change	**YTD % Change	12-Mth% Change
Euro	0.8440	0.7551	0.7576	0.3	-10.2	-10.2
Yen	117.75	115.8	119.07	2.8	1.1	1.1
Pound	0.5804	0.5086	0.5105	0.4	-12.0	-12.0
Canadian \$	1.1620	1.1405	1.1659	2.2	0.3	0.3
Swiss Franc	1.3134	1.1978	1.219	1.8	-7.2	-7.2

Source: Bloomberg as at December 31, 2006

D. Selected Commodity Prices (\$)					
Commodity	Dec 2005	Nov 2006	Dec 2006	Mthly % Change	**YTD % Change
Gold / Ounce	517.00	648.00	636.70	-1.7	23.2
Silver / Ounce	8.82	13.96	12.9	-7.6	46.3
Oil / Barrel	57.63	62.05	60.79	-2.0	5.5

Source: Bloomberg as at December 31, 2006

E. Equity Market Valuations – December 2006 (%chg)							
	BISX	DJIA	S&P 500	FTSE 100	CAC 40	DAX	Nikkei 225
1 month	0.52	1.97	1.82	2.84	4.02	4.56	5.85
3 month	1.50	3.17	3.27	1.49	3.61	5.23	5.04
**YTD	24.10	16.29	13.83	10.71	17.53	21.98	6.92
12-month	24.10	16.29	13.83	10.71	17.53	21.98	6.92

Sources: Bloomberg and BISX

F: Short Term Deposit Rates in Selected Currencies (%)			
	USD	GBP	EUR
o/n	5.22	4.99	3.46
1 Month	5.27	5.14	3.58
3 Month	5.29	5.31	3.71
6 Month	5.24	5.41	3.87
9 Month	5.30	5.51	3.96
1 year	5.28	5.57	3.94

Source: Bloomberg, as at December 31, 2006

** Revised

