Quarterly Economic Review

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QUARTERLY ECONOMIC REVIEW

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CONTENTS

	PAGE
1. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS	
DOMESTIC ECONOMIC DEVELOPMENTS	1
FISCAL OPERATIONS	3
REAL SECTOR	5
TOURISM	*5*
CONSTRUCTION	*6*
PRICES	*6*
MONEY, CREDIT & INTEREST RATES	7
CAPITAL MARKETS DEVELOPMENTS	11
INTERNATIONAL TRADE & PAYMENTS	11
INTERNATIONAL ECONOMIC DEVELOPMENTS	12
2. STATISTICAL APPENDIX (TABLES 1-16)	15
3. SPEECH:	
BASEL II AND CONSOLIDATED SUPERVISON – THE CHALLENGES AHEAD *Governor Julian Francis*	33

REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indicators suggest that the Bahamian economy weakened during the third quarter, both in comparison to the same period last year and the output strengthening noted during the first half of 2003. This outturn was primarily due, in combination, to a decrease in tourism expenditures, owing to the delayed recovery in leisure spending among households in the United States, the primary market, and softness in the construction sector, where financing for domestic projects slackened. The outlook for both sectors, however, has significantly improved since the end of the third quarter, as firming employment trends in the continued sectoral broadening of the economic expansion in the United States were expected to stimulate increased growth in The Bahamas' tourist sector by the onset of the 2004 winter season. Meanwhile, the anticipated start of significant foreign investment projects in the hotel sector should boost construction output in 2004.

As regard other developments, although mild firming continued to be noted in the annual inflation rate, the quarterly comparisons indicated more recent softening. The fiscal situation reflected the cumulative improvement in the economy since 2002, with strengthened tax collections partly contributing to a reduction in the overall budget deficit for the first quarter of FY2003/04. In the financial sector, quarterly developments were dominated by the $200 million external bond issue, which financed a reduction in the banking system's net claims on Government, a decrease in the system's net foreign liabilities. The added buoyancy in liquidity conditions underpinned further softening in average interest rates. On the external side, the estimated current account deficit widened moderately, underscored by decreased net services receipts; albeit, capital and financial inflows were boosted by the net Government's external borrowing.

For the September quarter, net free cash balances of the banking system rose by 9.3% to $138.9 million, though corresponding to a slightly reduced 3.7% of Bahamian dollar deposits. Broader surplus liquid assets increased more vigorously, by 19.6% to $177.3 million, exceeding the statutory minimum by a wider 29.6% margin, as compared to 21.7% in 2002. Although weighted average interest rates softened as a consequence, the 5 basis points drop in the deposit rate to 3.81% as opposed to a 2 basis points easing on the lending side to 12.15%, caused the average spread to widen by 3 basis points to 8.34%. The average 90-day Treasury bill rate also decreased by 28 basis points to 1.74%, while benchmark rates—the Central Bank's Discount Rate and commercial banks' Prime—were maintained at 5.75% and 6.00%, respectively.

Given a stronger buildup in private sector balances, relative to a net shift of public corporation's funds from fixed to demand balances, the money supply (M3) recovered marginally during the review period, by 0.4% to $4.0 billion, in contrast to the previous year's contraction of 0.6% to $3.9 billion. Demand balances growth accelerated to 3.0% from 0.5%, while savings, mainly in the hands of private individuals, rebounded by 0.5%. With strengthened expansion in business balances, the reduction in fixed deposits was steadied at 0.1%, while the contraction in the currency component was slightly abated to 3.1%.

Led by the Government's repayment of the $125.0 million foreign currency loan obtained from local banks in June and July 2002, domestic credit contracted by $124.9 million (2.6%), to an-end quarter stock of $4.8 billion, opposing growth of 1.7% in 2002. In particular, after advancing by 3.3% in 2002, net claims on Government decreased by $18.4 million (27.5%), inclusive of net Bahamian dollar repayments of $56.9 million (10.5%), primarily met through the balance of proceeds from the bond issue. Meanwhile, growth in the banking sector's claims on the rest of the public sector slowed to 1.5% from 6.5% last year. Private sector credit expansion at $56.2 million, 1.4% vis-à-vis 1.2% in 2002, was due solely to resumed expansion in foreign currency claims (4.7%), as the Bahamian dollar uptrend slackened to $38.3 million (1.1%). The latter was largely explained by lessened gains in residential mortgages (1.6%), which overshadowed faster growth in consumer credit (1.0%).

Total claims relative to most other private sector activities increased moderately.

In the fiscal sector, the estimated deficit for the first quarter of FY2003/04 narrowed to $23.1 million from $28.1 million in the year-earlier period. Revenue collection increased by 4.1% to $213.7 million, supported by the 3.8% gain in tax collections and higher non-tax yields (8.2%) which were linked to fee increases approved in the Budget. Meanwhile, reduced expenditure growth at 1.4% to $236.8 million, resulted from scaled back capital investments (55.0%) and decreased net lending to public corporations (23.7%), which offset an accelerated current spending increase of 7.4%. Budgetary financing for the quarter included the $200.0 million external bond, a $75.0 million domestic bonds issue and $2.8 million from other external sources. Debt amortization of $203.3 million was paced by the $125.0 million foreign currency loan repayment to local banks. Consequently, the Direct Charge on Government rose by 4.0% to $1,929.0 million. After a 4.2% reduction in contingent liabilities to $16.5 million, the National Debt grew by 2.6% to $2,301.7 million (7.2%), which was approximately $153.9 million (7.2%) above the September 2002 level.

In the tourism sector, output growth weakened during the third quarter, compared to the same period last year, with moderated cruise visitor gains occurring alongside a reduction in stopovers. Following the 11.5% rebound in 2001, visitor gains slowed to 1.5% as sea arrivals, which mirror cruise trends, rose by a lesser 2.3% to 0.72 million, as compared to the 18.2% boost last year. Air visitors, at 0.34 million, were approximately unchanged vis-à-vis 2002's decline of 0.3%. As regard the main destinations, rebounds in both air and sea arrivals underpinned an upturn in traffic to New Providence (1.8%), while the Family Islands capitalized on 2002's gains, particularly in the cruise sector, with arrivals further increased by 8.0%. Grand Bahama, however, recorded a 9.5% downturn in arrivals, on account of both air and sea visitors. The comparative decline in industry earnings during the quarter was led by a 4.4% reduction in estimated hotel room revenues, vis-à-vis weak onshore activities, particularly in New Providence. Although hotel average room rates firmed by 1.8% to $146.64 per night, occupied room nights decreased by 6.0%, as the average room occupancy rate softened to 57.5% from 63.7% last year.

While forward looking indicators foreshadow significantly elevated construction output for 2004 from new foreign investment projects, reduced mortgage lending contributed to decreased outlays on locally initiated projects during the third quarter. Growth in total mortgages outstanding among banks, insurance companies and the Bahamas Mortgage Corporation slackened to $18.2 million (1.1%) from $68.8 million (4.7%) in 2002. This was largely due to reduced lending for new construction and repairs of residential dwellings. In particular, total mortgage commitments, mainly for residential construction, decreased in numbers to 185 from 220 in 2002, and in value by 44.8% to $20.6 million.

Consumer price inflation, measured by changes in the average Retail Price Index, softened during the third quarter, to 0.3% from 0.8% in the comparable 2002 period. This was largely due to average cost decreases on recreation & entertainment services and "other" goods & services. However, the annual inflation rate for the 12 months through September firmed to 2.9% from 2.3% in 2002, paced by accelerated average cost increases for recreation & entertainment services, "other" goods & services, medical care & health, furniture & household operations, transport & communication and housing.

In the external sector, preliminary estimates suggested a widening in the current account deficit to $111.6 million from $68.7 million last year. Increased net import demand extended the trade deficit to $228.2 million from $211.2 million, while net invisible inflows decreased by 20.1% to $154.1 million, due to reduced net travel receipts (11.4%) and decreased local expenditures by offshore companies, following elevated restructuring activities in 2002. Some offset to these was provided by the narrowing in net income outflows, by 26.1% to $44.8 million, reflecting decreased remittances by banks and private companies. However, net current transfer receipts narrowed to $7.4 million from $10.3 million, owing to a reduction in net government inflows.

The estimated surplus on the capital and financial account widened to $114.4 million from $99.0 million in 2002, mainly on account of the $198.4 million net external borrowing by the Government, relative to a net repayment of $3.5 million last year. The $125.0 million domestic foreign currency loan repayment connected with this, caused a shift in the banking system's position to a net short-term outflow of $99.9 million from a net inflow of $58.6 million in 2002. Net private foreign investment inflows decreased to $30.4 million from $55.5 million, despite a $5.1 million increase in net equity inflows to $22.9 million, as net foreign real estate sales tapered to $1.5 million from $13.6 million and net loan proceeds, to $6.8 million from $25.1 million. The rest of the public sector recorded a further net external debt repayment of $5.8 million.

FISCAL OPERATIONS

Preliminary data on the Government's budgetary operations for the initial quarter of FY2003/04 indicate a narrowing in the overall deficit to $23.1 million from $28.1 million in the year-earlier period. Strengthened revenue growth of 4.1% to $213.7 million paced ahead of the 1.4% expansion in expenditures to $236.8 million, which featured significantly reduced capital outlays.

REVENUE

At $200.1 million, tax collections constituted 93.6% of the revenue intake, increasing by 3.8% vis-à-vis the corresponding period in FY2002/03. Significant revenue gain was captured under "other" non-disaggregated taxes, which doubled to $28.8 million relative to the previous fiscal year. In addition, receipts from international trade and transactions, the highest yielding component, advanced by 1.1% to $120.7 million, underpinned by the 38% rise in import duties. Gains were also noted in property tax receipts, of 2.6% to $4.6 million, and in selective taxes on tourism services, of 4.0% to $7.1 million—inclusive of a 3.6% gain in hotel occupancy taxes and a 4.8% boost in gaming taxes. In contrast, stamp taxes on financial and other transactions contracted by nearly one-fourth to $14.0 million, largely reflecting a tempered volume of financial sector activity. Reduced collections were also registered for business and professional license fees, by 12.7% to $10.4 million; motor vehicle taxes, by 7.0% to $2.4 million and departure taxes, by 15.1% to $13.4 million.

Revenues from non-tax sources, which constituted the remaining 6.4% of receipts, improved by 8.2% to $13.6 million. Corresponding to fee hikes approved in the Budget, fines, forfeitures and administrative fees rose by almost one-third to $12.2 million, to appreciably counter the more than two-thirds decline in receipts from public enterprises and other sources to $0.6 million.

Government Revenue By Source

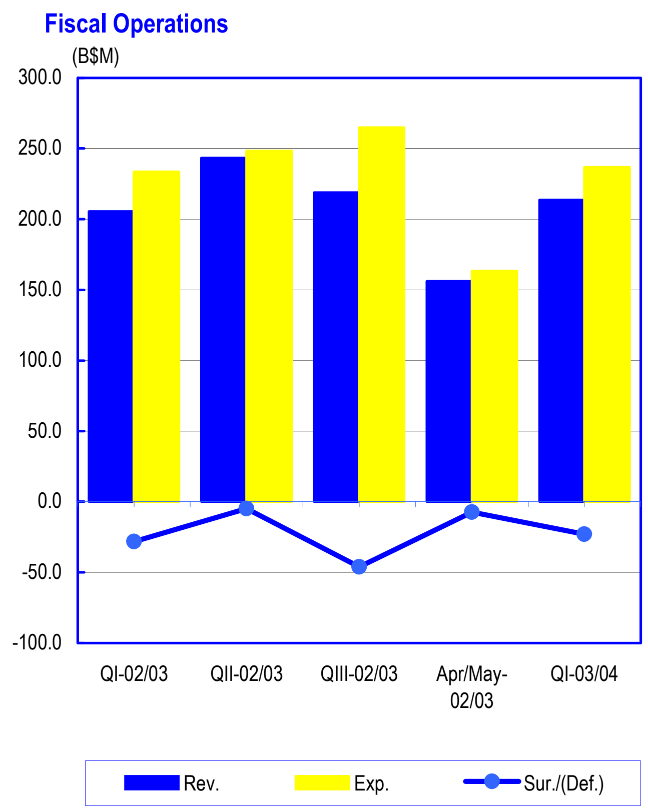
July – September

	FY 02/03p		FY 03/04p	
	B$M	B$M	B$M	%
Property tax	4.5	2.2	4.6	2.2
Selective Services tax	6.9	3.4	7.1	3.3
Bus. & Prof. Lic. Fees	12.0	5.8	10.4	4.9
Motor Vehicle tax	2.5	1.2	2.4	1.1
Departure tax	15.7	7.6	13.4	6.3
Import duties	93.0	45.3	96.6	45.2
Stamp tax from imports	23.0	11.2	22.7	10.6
Export tax	3.4	1.7	1.4	0.7
Stamp tax from exports	--	--	--	--
Other stamp duty	18.4	9.0	14.0	6.6
Other Tax revenue	14.4	7.0	28.8	13.5
Fines, forfeits. etc.	9.3	4.5	12.2	5.7
Sale of Govt. Property	0.6	0.3	0.2	0.1
Income	2.7	1.3	1.2	0.6
Other non-tax rev.	--	--	--	--
Capital Revenue	--	--	--	--
Grants	--	--	--	--
Less: Refunds	1.0	0.5	1.3	0.6
Total	205.4	100.0	213.7	100.0

EXPENDITURE

The $5.3 million (2.4%) growth in total expenditures reflected mixed trends in the major components, with the more than halving in capital outlays to $8.1 million and the 23.7% decrease in net lending to $6.6 million softening the 7.4% rise in recurrent outlays to $222.2 million. On a proportional basis, recurrent spending comprised 93.8% of total expenditure; capital outlays, 3.4% and net lending, the remaining 2.8%.

By economic classification, the uptrend in current spending included a 10.2% rise in Government consumption, led by the $7.4 million (23.9%) growth in outlays for goods and services to $38.2 million and a 5.9% rise in personal emoluments, to $104.4 million. Transfer payments also increased by 2.7%, owing to a 6.4% hike in interest payments on Government debt to $26.6 million and the incremental increase (0.9%) in subsidies & other payments to $53.0 million. As regards the latter, general subsidies to the College of The Bahamas and the Public Hospitals Authority rose by 13.9%, and transfers to non-profit enterprises by 12.5%—both largely offsetting a 25.4% reduction in transfers to households, relative to incrementally more stable transfers to other economic sectors.



FINANCING AND NATIONAL DEBT

The Government's financing activity was highlighted by the flotation of a US$200.0 million bond of 30 years maturity on the international market. The issue attracted a fixed coupon rate of 6.625% and was priced at 98.936% of face value. From the net proceeds, after flotation and other costs, the Government repaid the $125 million foreign currency loan obtained from domestic banks in June and July of 2002. The Government also issued a $75.0 million domestic bond in July and made a $2.8 million drawdown on other external loan facilities. Debt amortization of $78.2 million consisted of $73.8 million in Bahamian dollar debt and $4.6 million on external loans. As a result, the Direct Charge on Government rose by $74.6 million (4.0%) to $1,929.0 million.

By holder classification, the majority of the Bahamian dollar portion was held by public corporations (40.5%), followed by domestic banks (28.0%), private and institutional investors (26.3%) and the Central Bank (5.2%). After accounting for a $16.5 million (4.2%) reduction in the contingent liabilities (mainly vis-à-vis the public corporations) to $372.6 million, the National Debt grew by 2.6% to $2,301.7 million at end-September 2003, which was some $153.9 million (7.2%) above the September 2002 level.

PUBLIC SECTOR FOREIGN CURRENCY DEBT

Provisional third quarter data on public sector foreign currency debt indicate a $61.5 million (12.4%) increase in the stock to $559.2 million at end-September 2003. New drawings of $203.3 million, which included the external bond proceeds, contrasted with principal repayments of $141.7 million—dominated by the $125.0 million foreign currency repayment to local banks. Of the total debt outstanding, the Government was directly responsible for $297.2 million (53.1%) and the public corporations, $262.1 million (46.9%).

Excluding the $125.0 million repayment, foreign currency debt servicing rose by $2.7 million (13.9%) to $21.7 million, comprising a $4.5 million increase in amortization payments to $16.7 million, relative to a $1.8 million (26.8%) decrease in interest charges to $5.0 million. The adjusted debt service, as a proportion of estimated exports of goods and non-factor services, softened to 3.5% from 3.6% last year; and the adjusted ratio of the Government's foreign currency debt service to total revenue stood at 3.2% relative to 2.4% in 2002.

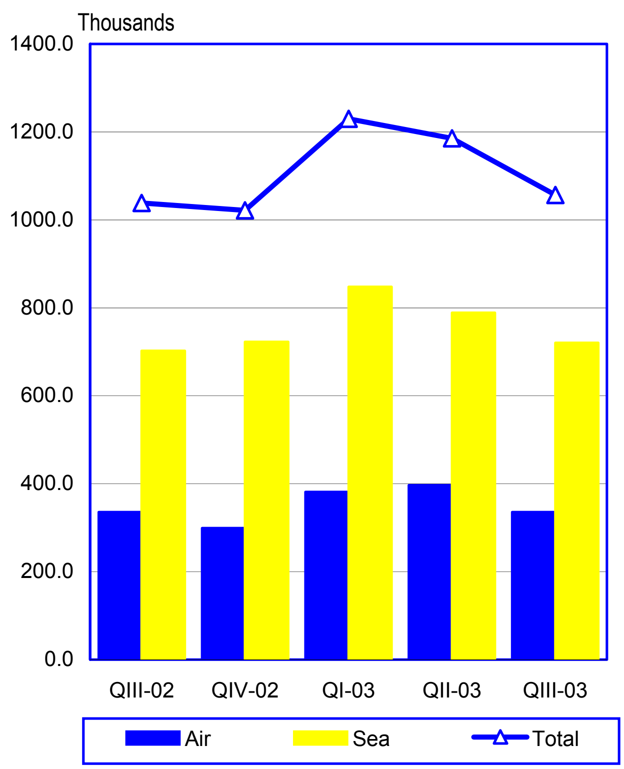
In terms of currency composition, more than 95% of the debt remained denominated in United States Dollars, although the average maturity lengthened to approximately 19 years from 10 years prior to the bond issue. After the refinancing activity, the share of the debt held by private capital markets increased to 40.2% from 4.8% in 2002, with a corresponding decline in domestic banks' share to 19.5% from 51.2%. Holdings by multilateral organizations also represented a slightly reduced 40.3% share, from 43.9% last year.

Real Sector

Tourism

Early indicators for the third quarter of 2003 suggested a decrease in tourism output, compared to the industry's advance in the same period last year and a strengthened outcome during the first half of 2003, owing to weakened stopover expenditures and more moderated gains in cruise visitors.

Visitor Arrivals



After 2002's 11.5% rebound, the increase in total visitor arrivals slackened to 1.5%, for 1.056 million tourists. Influenced by stopover trends, air arrivals were approximately unchanged at 0.34 million, signalling an almost complete end to third-quarter declines recorded in each of the previous two years. Mirroring cruise traffic, the 0.72 million sea visitors, which represented two-thirds of total arrivals, represented abated growth of 2.3% relative to an 18.2% upturn in the same quarter last year.

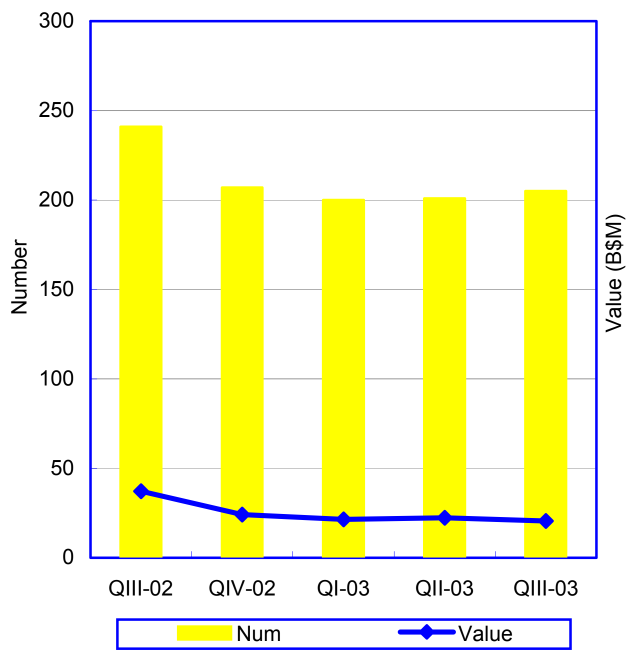
Port of entry data revealed mixed results for the major island destinations. New Providence, which accounted for 58.7% of the total visitors, experienced a marginal rebound in arrivals of 1.8%, as a result of the 2.9% upturn in sea visitors relative to the stabilized outcome in air traffic. Arrivals for Grand Bahama, at 14.4% of the total, contracted by 9.5%—reversing 2002's 6.5% rebound—and reflected significant downturns in both the air (7.6%) and sea components (11.1%). However, the Family Islands continued to display positive trends, as visitors increased further by 8.0%, aided by ongoing consolidation in sea arrivals growth to 6.8% following a significant boost in immigration clearance at these ports of entry during 2002. Family Islands also experienced a 15.0% rebound in air traffic, nearly to levels experienced in 2000.

In the context of an estimated 4.3% decline in hotel room revenues compared to 2002, indications are that stopover spending contracted during the quarter and outweighed the moderated gains in the cruise sector. Given unseasonably low occupancy levels reported by major hotel properties in September, occupied room nights fell by 6.1% for the quarter, occasioning a reduced average occupancy rate of 57.5% compared to 63.7% last year. A mild offset was provided from the 1.8% appreciation in average nightly room rates to $146.64. For New Providence, a 5.2% decrease in revenue corresponded to reduced room sales of approximately the same level, with average nightly room rates almost stable at $166.71. Grand Bahama's room revenue losses of 0.5% also reflected room sales decline of 9.4% vis-à-vis a significant price improvement of 9.8% to $77.44 per night. Conversely, the Family Islands experienced a more incremental rebound in room revenue of 1.2%, attributed to an average room rate boost of 6.5% to $162.08 per night as opposed to decreased room night sales of 5.0%.

CONSTRUCTION

With the announcements and, in some cases, the start of significant new developments in the hotel sector, foreign investment support for construction picked up significantly in both current and forward looking indicators during the third quarter. Domestically financed investments however remained below levels recorded in 2002, based on reported mortgage lending activity among banks, the Bahamas Mortgage Corporation and insurance companies.

Mortgage Comittments: New Construction and Repairs



Compared to the third quarter of 2002, lending institutions reported a reduction in the number of mortgage commitments for new construction and repairs for residential and commercial structures, to 205 from 241 in 2002, with a corresponding 44.8% decline in the associated mortgage valuation to $20.6 million. The bulk of these—185 versus 220 in 2002—represented residential mortgage commitments, valued at $16.5 million compared to $22.4 million in 2002. The contraction was more notable for new housing projects which represented 58.3% of the residential category. Weakness in the commercial sector was underscored by one fewer projects, at 20, accounting for only $4.2 million in potential financing, as opposed to $14.9 million last year.

Although data on mortgage disbursements are more indicative of actual construction expenditures, the amounts reported to the Central Bank do not distinguish between draw-downs related to home and business equity loans which represent expenditures on other economic activities, versus amounts strictly related to new construction and repairs. Nevertheless, total disbursements during the period were also reduced by 5.3% to $78.8 million for residential loans, and by 22.1% to $5.3 million for commercial loans.

Compared to 2002, outstanding residential claims, which constituted 88.6% of the total outstanding mortgages, rose on a 12-month basis by $133.0 million (10.0%), while outstanding commercial mortgages contracted by $14.7 million (7.3%). For the quarter, the increase in residential mortgages was approximately two thirds less than in 2002 at $23.9 million (1.7%), while commercial mortgages decreased during the quarter by $5.7 million (3.0%)—both underscoring the slowed pace at which resources were being generated within the economy to finance new mortgages. In particular, the insurance sector, the second important player in the mortgage market alongside the banking sector, also experienced slowed asset growth since 2000. Compared to the same period in 2002, an analysis of average interest rates indicate firmer borrowing costs during the third quarter, by 30 basis points to 9.1% for residential mortgages, and by 20 basis points to 9.6% for commercial mortgages.

PRICES

Based on quarterly variations in the average Retail Price Index, consumer price inflation for the third quarter of 2003 eased to 0.3% from 0.8% last year. More accelerated gains in average costs on medical care & health services (6.2%), food & beverages (0.8%) and the marginal upturn in average costs on clothing & footwear (0.2%) were offset by a combination of abated increases and stable prices in the other components in the Index. Average costs were unchanged for the most heavily weighted housing component and for education and furniture & household operations. Meanwhile, average price increases steadied for transportation & communication (0.2%) and the advance slowed for recreation & entertainment services (0.5%).

Average Retail Price Index
(Annual % Change)
September

		2002		2003	
Items	Weight	Index	%	Index	%
Food & Beverages	138.3	112.4	2.1	113.0	0.5
Clothing & Footwear	58.9	107.6	0.7	107.4	-0.2
Housing	328.2	102.9	0.1	103.4	0.5
Furn. & Household	88.7	112.0	3.6	118.7	5.9
Med. Care & Health	44.1	111.9	1.3	119.8	7.1
Trans. & Comm.	148.4	104.2	0.8	105.5	1.2
Rec., Enter. & Svcs.	48.7	113.0	1.2	126.3	11.7
Education	53.1	160.6	17.9	161.3	0.6
Other Goods & Svcs.	91.6	108.9	2.7	120.0	10.2
ALL ITEMS	1000	109.9	2.3	113.1	2.9

For the twelve months ending September 2003, average inflation firmed to 2.9% from 2.3% in 2002. The most significant influences included accelerated increases for recreation & entertainment services (11.7%), medical care & health (7.1%), transportation & communication (1.2%), housing (0.9%), furniture & household operations (5.9%) and costs for "other" uncategorized goods & services (10.2%). In contrast, the increase in average costs for education abated considerably to 0.6% from 17.7%, following significant tuition fee increases during 2002, and was also tempered for food & beverages (0.5%) while clothing & footwear costs decreased (0.1%).

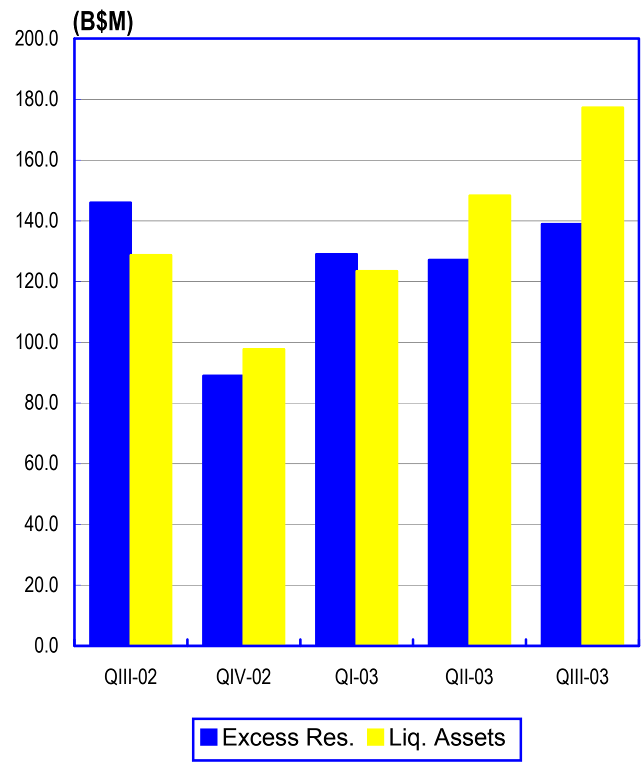
Money, Credit and Interest Rates

Overview

Money and credit developments during the third quarter were significantly impacted by the Government's external bond issue, which underpinned a sizeable decline in both Bahamian dollar and foreign currency credit. Correspondingly, there was a marked reduction in the financial system's net foreign liabilities, and a marginal upturn in the monetary aggregates. Bank liquidity also improved, but to a lesser extent, as resources were absorbed by the Government's domestic currency bond issue. In this context, commercial banks' average loan and deposit rates softened marginally during the quarter.

The latest available data on domestic banks' operations for the second quarter of 2003 indicated continued softness in profitability ratios, stemming primarily from a decrease in the average net interest margin ratios.

Liquidity



Liquidity

Despite inflows from the Government's foreign currency bond issue, liquidity improvement was muted amid the coincidental issuance of a domestic bond that involved sizeable non-bank participation. Net free cash reserves of the banking system increased by 9.3% to $138.9 million, outpacing a more incremental year-earlier firming of 1.8% to a more sizeable $146.0 million. This however, represented a reduced end-September ratio of 3.7% of Bahamian dollar deposit liabilities, compared to 4.0% in 2002. A more significant improvement was registered in the broader surplus liquid assets which, relative to the statutory minimum, increased by 19.6% to $177.3 million, approximating a larger 29.6% of the statutory minimum compared to 21.7% in the previous year.

DEPOSITS AND MONEY

Corresponding to an overall buildup in private sector deposits, the total money stock rebounded marginally by 0.4% from a 0.6% contraction in the third quarter of 2002. In particular, narrow money (M1) recovered by 1.9% from a 0.2% decrease last year. Public corporations' transfers from fixed deposits extended demand deposits growth to 3.0% from 0.5%, and outweighed a 3.1% reduction in currency in active circulation.

Broad money (M2) also rebounded by 0.5%, from a 0.4% contraction in 2002. A 0.5% rebuilding of savings deposits, relative to losses of 1.7% a year ago, more than offset the steady mild reduction in fixed deposits, where gains in private business balances nearly countered the drawdowns by public corporations. With the decline in foreign currency deposits of residents easing to 2.5% from 9.3%, overall money (M3) recorded growth of $15.0 million (0.4%) to $3,955.9 million, contrasted with the year-earlier contraction of $24.7 million (0.6%) to $3,865.1 million.

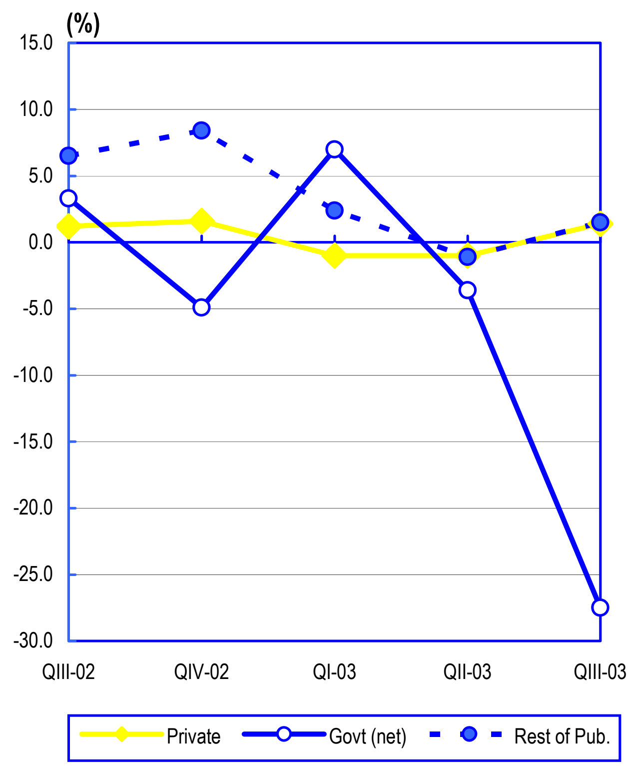
Bahamian dollar fixed deposits remained the largest component (58.1%) in the money supply, followed by demand (18.5%) and savings balances (17.0%), with smaller shares represented by currency in active circulation (3.8%) and residents' foreign currency deposits (2.6%).

Analyzed by range of values and number of accounts, the majority of Bahamian dollar accounts (90.5%) held balances of less than $10,000, corresponding only to 9.1% of aggregate deposits. On the contrary, individual deposits of over $50,000 comprised fewer accounts (2.9%), but 76.3% of the total value. Balances valued between $10,000 to $50,000, represented 6.6% of accounts and 14.6% of the total value. By depositor profile, private individuals held the majority of Bahamian dollar balances (55.7%), followed by business firms (24.6%), the public sector (9.6%), private financial institutions (5.1%) and institutional and other investors (5.0%).

DOMESTIC CREDIT

Amid a continuation of the credit restraint policy and the external debt operations of the Government, domestic credit contracted by $124.9 million (2.6%) during the third quarter, following an expansion of $82.7 million (1.7%) in 2002.

Changes in Credit



Impacted by proceeds from the foreign currency bond issue, the banking system's net claims on the public sector decreased by $181.1 million (20.3%), reversing growth of $34.3 million (4.0%) last year. In particular, net credit to Government declined by $184.4 million (27.5%) compared to the year-earlier advance of $22.0 million (3.3%). After repayment of the $125.0 million foreign currency loan obtained from local banks during June and July 2003, net foreign currency claims on Government contracted by $127.5 million. The balance of net proceeds from the issue ($70.6 million) were partly utilized to reduce short-term advances from the Central Bank and commercial banks, thereby underpinning a net decrease in local currency claims' on the Government by $56.9 million (10.5%). Meanwhile, growth in the banking sector's claims on the public corporations slowed to $3.3 million (1.5%) from $12.3 million (6.5%) in 2002.

Led by a $17.9 million (4.7%) upturn in foreign currency claims, private sector credit expansion strengthened to $56.2 million (1.4%) from $48.4 million (1.2%) in 2002. However, growth in the Bahamian dollar component slackened to $38.3 million (1.1%) from $50.1 million (1.4%) last year.

Distribution of Bank Credit By Sector
End-September

	2002		2003	
	B$M	%	B$M	%
Agriculture	7.0	0.2	7.9	0.2
Fisheries	6.2	0.1	16.8	0.4
Mining & Quarry	21.8	0.5	18.0	0.4
Manufacturing	68.3	1.6	60.9	1.4
Distribution	212.8	4.9	209.7	4.9
Tourism	232.9	5.3	219.9	5.1
Enter. & Catering	29.7	0.7	33.6	0.8
Transport	65.7	1.5	32.3	0.8
Public Corps.	184.9	4.2	198.6	4.6
Construction	344.8	7.9	266.4	6.2
Government	201.6	4.6	45.6	1.1
Private Financial	32.2	0.7	39.1	0.9
Prof. & Other Ser.	134.2	3.0	125.8	2.9
Personal	2653.2	60.6	2791.1	65.3
Miscellaneous	185.8	4.2	211.9	5.0
TOTAL	4381.1	100.0	4277.6	100.0

Most of the private sector lending was concentrated in personal loans which, also comprising the largest share of the total (69.2%), grew by $38.7 million (1.4%) compared to $45.7 million (1.8%) in 2002. Although consumer credit expansion firmed moderately to $14.6 million (1.0%), this was offset by an approximate halving in residential mortgages gains, to $19.9 million (1.6%), while personal overdrafts were almost unchanged for the quarter.

Increases under consumer credit were distributed among credit cards ($7.4 million), miscellaneous credit ($6.3 million), education ($4.6 million), travel ($3.3 million) and land purchases ($1.7 million). These contrasted with notable net repayment for private cars ($5.7 million) and debt consolidation loans ($2.1 million).

Among the remaining private sector credit components, net declines were recorded for transportation ($15.7 million), distribution ($8.6 million), professional & other services ($2.7 million), tourism ($2.6 million), mining & quarrying ($1.2 million) and manufacturing ($1.2 million). A combined offset however, was provided from significant net growth for sectors related to fisheries ($11.3 million), construction ($4.9 million), private financial institutions ($4.9 million) and for miscellaneous purposes ($24.1 million).

Commercial Banks

The impact of Government's external borrowing activity dominated commercial bank's balance sheet trends, and released net resources for increased claims on the private sector and public corporations. Net claims on Government were reduced by $153.6 million (27.5%), reversing a 1.0% foreign currency led expansion in 2002. With less available room for lending within the Central Bank's imposed credit ceiling, the expansion in claims on the private sector steadied at $57.5 million (1.5%), outpacing, nevertheless, a resumed uptrend in liabilities to the sector of $22.1 million (0.7%). Credit to the public corporations increased less markedly by 1.6%, still contrasting with an 11.0% falloff in deposits. As a result of these developments, commercial banks' net foreign liabilities were reduced by $99.9 million (17.3%).

Proportional analysis showed that commercial banks held 97.1% of the banking system's total deposits, owed mainly to private individuals (54.1%), private businesses (25.4%), private financial institutions (5.2%) and institutional investors and others (5.4%); the remainder was owed to the public sector (9.9%). The bulk of the deposits was held in fixed balances (61.1%), followed by demand (20.7%) and savings (18.2%).

Other Local Financial Institutions

During the third quarter, the 2.9% rebound in OLFIs' private sector deposits compared to a marginal downturn in private sector credit of 0.9%. Accounting for 93.5% of the loan portfolio, total mortgages declined by 1.6% to $137.7 million. After dividend payouts, the OLFIs' net foreign liabilities were stable at $17.9 million.

As regard the deposit liabilities, accounts with balances in excess of $50,000 comprised 84.4% of the total value and 36.6% of the OLFIs' total contracts. Conversely, individual balances of less than $10,000 constituted 9.3% of funds and 32.5% of accounts. An estimated 89.0% of the deposit liabilities were in fixed deposits, 10.7% were demand balances and the remainder, in savings.

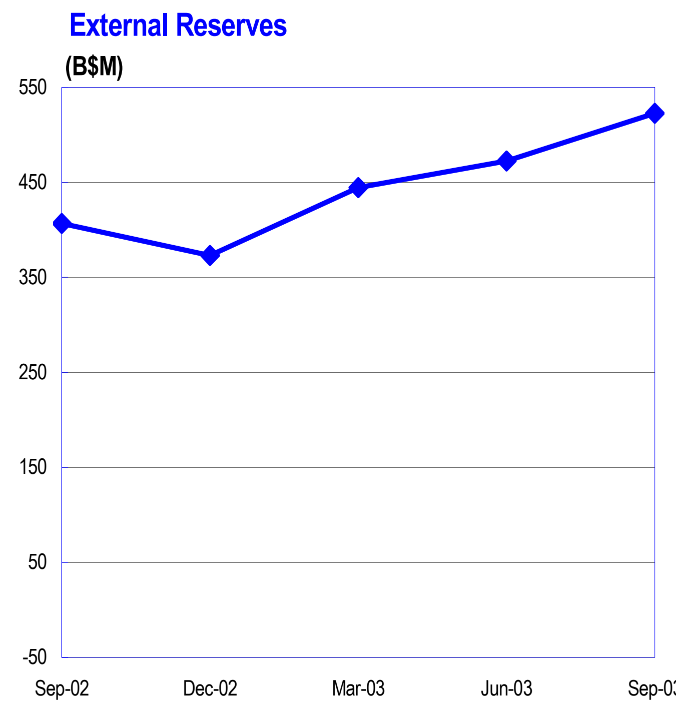
The Central Bank

During the review quarter, the Central Bank's net claims on Government decreased by $31.7 million (28.9%) to $77.9 million, owing to reduced holdings of Treasury bills ($7.0 million) and a net repayment of advances ($28.8 million). Aided by residual proceeds from the external bond issue, external reserves rose by $50.4 million (10.7%) to contrast with a decline of $53.9 million (11.7%) in 2002. The end-September position of $522.9 million, stood well above the $406.8 million attained in 2002.

Underlying this outcome, was a switch in the Bank's foreign currency transactions, to a net purchase of $47.2 million from a net sale of $56.4 million in 2002. In particular, commercial banks' net inflow of $13.8 million reversed a net outflow of $42.5 million last year, and the public sector's a net inflow of $33.4 million compared to a year-earlier net outflow of $13.8 million. As regards commercial banks' transactions, increased private sector inflows underpinned the results, as total purchases rose threefold to $122.9 million, relative to a 32.4% increase in the Central Bank's total sales to the sector.

Interest Rates

In the September quarter, commercial banks' average interest rate spread on loans and deposits widened marginally by 3 basis points to 8.34%. Although the weighted average loan rate softened by 2 basis points to 12.15%, the corresponding deposit rate fell slightly more, by 5 basis points to 3.81%.



On the deposit side, the average interest rate on fixed maturities fluctuated within a band of 3.71% - 4.66% compared to 3.76% - 4.36% in the previous quarter, while the average savings rate fell by 16 basis points to 2.56%. Trends in average lending rates were led by a 1.62 percentage point decline in the average commercial mortgage rate to 9.20%, following firming last quarter that was more characteristic of the weight attached to individual contracts as opposed to costs shifts within particular loan profiles. The average rates on residential mortgages and consumer loans also decreased by 9 and 6 basis points, to 8.91% and 13.89%, respectively. Conversely, average overdraft rates firmed by 57 basis points to 11.66%.

The average 90-day Treasury bill rate fell by 28 basis points to 1.74%. The $75.0 million Government domestic bond issue during the quarter yielded rates above Prime of 0.09375% to 0.1667% over a 14 to 20 year maturity range. On the upper end, relative to the 20-year tranche in the third quarter issue of $60.0 million in 2002, the yield was approximately 1/32 of a percentage point lower. Benchmark rates, the Central Bank's Discount Rate and commercial banks' Prime, were unchanged at 5.75% and 6.00%.

Bank Profitability

For the second quarter of 2003, the latest period for which data is available, domestic banks' net income increased by 2.9% to $40.2 million, relative to the same period in 2002. The net interest margin widened by 0.6%, as the incremental increase in interest income outpaced the rise in interest expenses. Nevertheless, higher rental expenses partly contributed to a 3.8% rise in operating costs, reducing the net earnings margin by 3.0% to $31.5 million. Providing positive support, other income, net of depreciation and bad debt expenses, increased to $8.7 million from $6.6 million.

Nevertheless, more notable growth in balance sheet aggregates resulted in decreased profitability ratios relative to average domestic assets. In particular, the ratio for the net interest margin declined by 22 basis points to 4.81% and for commission and foreign exchange income, by 1 basis point to 0.43%. The final outcome was aided however, by a 4 basis-point reduction in the operating cost ratio to 3.03% and a 12 basis-point increase in the contribution from other income sources to 0.61% of average assets. These capped the deterioration in the overall bank profitability ratio (return on assets) at 7 basis points, to 2.83%.

Capital Market Developments

Equity valuation in the domestic capital markets experienced a marginal rebound during the third quarter, a reflection of incrementally improving investor confidence vis-à-vis the economic outlook. During the third quarter of 2003, the Bahamas International Securities Exchange (BISX) All Share Price Index increased by 0.9% to 838.44 points, in contrast to a 3.3% decline last quarter. A total of 645,005 shares were traded for an aggregate transaction value of $2.4 million. The broader Fidelity Capital Market Limited's Findex weighted share price index, which also captures over the counter trading, increased in value by 1.9% to 362.91 points, as opposed to a decline of 2.8% to 356.3 points during the preceding quarter. On a year-to-date basis, however, the respective indices still indicated cumulative share price loses of 5.3% and 4.7%.

International Trade and Payments

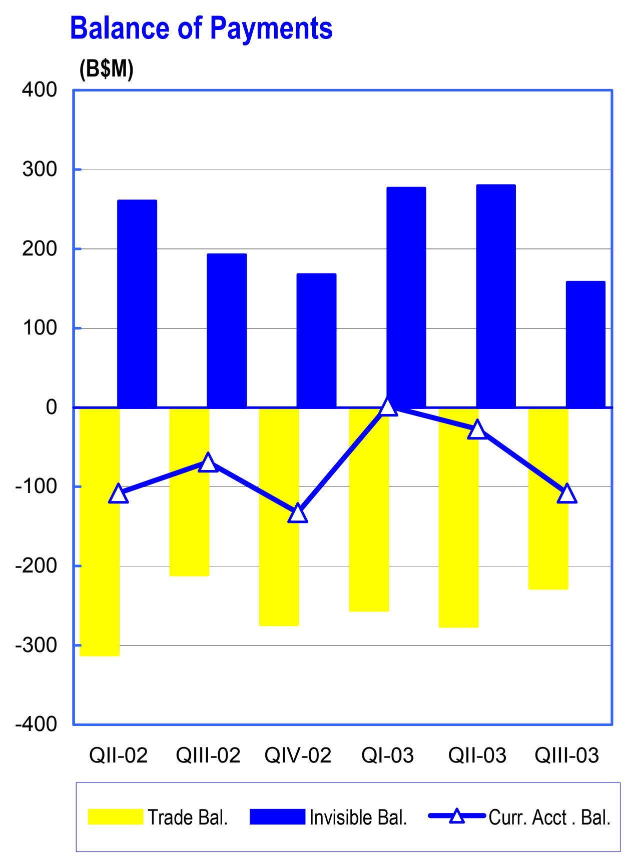
Led by reduced net services inflows, preliminary estimates for the third quarter of 2003 suggested a widening of the current account deficit, to $111.6 million from $68.7 million last year. With the decline in exports and moderately increased imports, the trade deficit expanded by 8.1%. This, in combination with reduced net travel receipts, which underpinned a 20.1% contraction in the estimated surplus on the services account, eclipsed the 26.1% decline in net income outflows.

The merchandise trade deficit widened to an estimated $228.2 million from $211.2 million in 2002. Non-oil merchandise imports rose by 3.0% to $342.5 million, alongside a 5.3% falloff in corresponding exports, to $160.1 million. In a partial offset, the oil bill decreased by 19.8% to $63.6 million as completely reduced volume mitigated higher average per barrel prices. Specifically, the per barrel cost of aviation gas rose by 23.3% to $103.60; jet fuel, by 52.5% to $48.68; motor gas, by 51.8% to $56.06 and bunker 'c' fuel, by 38.8% to $35.82. In contrast, the per barrel cost of gas oil fell by 8.6% to $29.67 and propane, by 26.9% to $30.96.

The estimated surplus on the services account narrowed by $38.8 million (20.1%) to $154.1 million, largely influenced by a 11.4% decline in estimated net travel receipts to $281.6 million. Also notable was a reduction in inflows from offshore companies local expenses, to $18.5 million from $29.6 million last year, when some companies incurred elevated staff expenses on restructuring activities. A positive influence was the 8.2% reduction in net payments for other foreign services, to $82.5 million, inclusive of reduced net outflows for construction, royalties & licencee fees and government services.

Under the income account, the net outflow slackened by 26.1% to $44.8 million. Although labour income remittances increased by 12.1% to $14.3 million, net repatriation of investment income fell by more than one-third to $30.5 million, featuring significantly reduced net profit and interest outflows (36.3%) for banks and private companies.

Under current transfers, net receipts fell by 28.5% to $7.4 million, with general government net inflows narrowed to $9.4 million from $11.7 million, and private sector net outflows increased marginally to $2.0 million.



The surplus on the capital and financial account improved to $114.4 million from $99.0 million, attributed mainly to the Government's net external borrowing. A less important component, migrant workers' net capital remittances, registered increased net payments to $8.7 million from $5.5 million; albeit, the net financial surplus rose to $123.1 million from $104.5 million in 2002.

As a result of the bond issue, the public sector recorded a net increase in external debt of $198.4 million, contrasting with a $3.5 million net repayment in 2003. Net short-term outflows through the banking system amounted to $99.9 million, as opposed to the $58.6 million inflow last year, corresponding to the Government's repayment of the $125.0 million domestic foreign currency loan.

Net private direct investment inflows slackened to $23.6 million from $30.4 million, with direct equity inflows increased to $22.1 million from $16.8 million, but net foreign real estate sales considerably reduced to $1.5 million from $13.6 million. In addition, net private loan inflows tapered to $6.8 million from $25.1 million.

Consequent on these developments and after adjusting for possible errors and omissions, the overall balance recorded a surplus of $50.4 million, as opposed to a deficit of $53.9 million in the year-earlier period.

INTERNATIONAL ECONOMIC DEVELOPMENTS

More broad base strengthening was evident in output trends in the major industrial countries during the third quarter, with the accelerated expansion in the United States joined by resumed growth in Europe. As a consequence, improvements started to register in labour markets; albeit, inflation firmed incrementally owing to a combination of pressures from energy costs and strengthening consumer demand. Meanwhile, major central banks maintained their accommodating monetary policy stance, and equity markets continued to react positively to the improving economic data, including increasing incidences of favourable corporate earnings reports. On the currency front, the United States dollar depreciated further against most major currencies, under pressure from countries' maintaining fiscal and current account imbalances. In the external sector, firmer export demand underpinned improvements in most major countries' current account balances.

As to the outlook, in the September 2003 issue of the World Economic Outlook (WEO), the International Monetary Fund (IMF) projected that the global economic expansion would continue to strengthen, supported by accumulated monetary and fiscal policy stimulus, less geopolitical uncertainties, and a restocking of business inventories. Other positive stimuli in the outlook include a softening in average energy costs and increased consumer confidence, owing to reduced unemployment concerns. However, the currency markets are expected to uphold the sizeable depreciation of the United States dollar, in view of record fiscal and trade deficits anticipated in 2004.

During the third quarter, real output trends improved in most of the major economies as, rising consumer spending and more robust exports became key features of the expansion. In the United States, GDP growth accelerated to an annualized 8.3%, the fastest quarterly pace since 1984, relative to the second quarter's 2.4% uptrend. This was due to a strong upsurge in consumer spending, business equipment purchases and continued elevated spending by the Federal Government. The euro zone economy's 1.6% recovery from the previous quarter 0.4% decline was underscored by Germany's export-led upturn of 0.8% during the third quarter, contrasting with an annualized 0.4% downturn in each of the previous two quarters, and France's output rebound vis-à-vis the 1.2% contraction in the second quarter. In the United Kingdom, strengthening service sector output and increased government spending that reached its highest level since 1981, steadied real GDP growth at 2.4% in the second and third quarters. Conversely, in Japan, indications are that the real GDP growth slackened to 1.3% in the third quarter from 2.3% in the second quarter, with business investments and export volumes holding strong, but persistent weakeness in private consumption and housing investments.

In the context of strengthening growth prospects, employment conditions were broadly improved among most major industrial countries. The United States' strong growth momentum led to a softening of the average unemployment rate to 6.1% from 6.4% in the previous quarter. Although average euro zone unemployment stabilized at 8.8% from 8.9%, Germany's jobless rate was higher at 10.5% from 9.4%, and France's at 9.7% from 9.5%. In the United Kingdom, where hiring was brisk in both the public and private sectors, the unemployment rate dropped to 3.1% from 5.0% in the second quarter. Japan's labour market also improved, as the jobless rate decreased to 5.1% from 5.3% last quarter.

Although average consumer price inflation among major industrial countries remained subdued during the third quarter, some firming was evident owing to a mixture of seasonal influences and pressures from energy costs and consumer demand. In the United States, the annualized inflation rate of 3.1% contrasted with last quarter's decline of 0.7%, with the major upward influence stemming from a new run up in energy costs. Annualized inflation in the euro area also increased marginally to 2.1% from the previous quarter's 2.0%, owing mostly to rising food costs. Germany's consumer price advance eased further to 0.4% from 1.1%, but France's firmed to 2.3% from 1.9%. In the United Kingdom, the annualized increase in retail prices continued at 2.8%; albeit, in Japan, an annualized consumer price increase of 0.4% was registered vis-à-vis a 3.1% decline in the second quarter, as overall household spending rose.

In currency markets, the United States dollar appreciated in the early months of the third quarter as demand for U.S. financial assets increased briefly when the U.S. government sold the more popular 5-year Treasury notes. The Dollar subsequently reversed these gains to end the period marginally depreciated against the pound sterling, by 0.4% to £0.601; the euro, by 1.2% to €0.858; the Japanese yen, by 6.9% to ¥111.49, and the Swiss franc, by 2.3% to SF1.319. Conversely, the Dollar was incrementally boosted against the Canadian dollar, by 0.4% to C$1.352.

Commodity markets featured increasing oil production from non-OPEC countries and ongoing recovery in Iraqi oil production, as oil prices continued to fall during the quarter, albeit staying within OPEC's targeted price band of $25-$28 per barrel. The per barrel price of Brent Sea crude fell by 10.2% to $27.12 during the third quarter. As regard production, in September OPEC announced that, in face of the improving global economy and normal seasonal demand growth expectations for the fourth quarter, it would cut oil daily output by 900,000 barrels to 24.5 million barrels as of November 1, 2003. Meanwhile, precious metals continued to provide some hedging alternative to other investments, with gold and silver prices firming by 11.2% and 12.3% to $385.35 and $5.12 per ounce, respectively.

Equity market valuations on the major bourses firmed during the quarter, in response to increasingly favourable economic data, and more positive corporate earnings reports. In the United States, the Dow Jones Industrial Average (DJIA) advanced by 3.2% to close the third quarter at 9,275.1 points and the broader S&P 500 Index, by 2.2% to 996.0 points. Japan's Nikkei 225 Index also rallied by 12.5%, to end the quarter at 10,219.0 points. Valuation increases were more subdued among European stock exchanges, where Germany's DAX Index rose by 1.1% to 3,256.8 points; France's CAC 40 Index, by 1.7% to 3,135.0 points and the United Kingdom's FTSE 100 Index, by 1.5% to 4,091.3 points.

On the monetary policy front, leading central banks maintained their accommodating stances during the third quarter. In the United States, the Federal Reserve kept its primary credit and target Federal funds rates at 2.00% and 1.00%, respectively, as set in June, encouraged by growing evidence that the recovery was becoming more broad based. Although the Bank of England lowered its key repurchase rate by 25 basis points to 3.75% in July, as a precautionary measure, the position was reversed in October, following positive information on the outlook for the economy. The European Central Bank also kept its refinancing rate steady at 2.00% and Japan's official discount rate was held at the historic low of 0.1% for the eighth consecutive quarter, with the central bank reaffirming its commitment to provide the necessary liquidity to assure financial markets stability.

Strengthening global demand led to improvements in the external current accounts of most major countries during the third quarter. In the United States, the seasonally adjusted contraction in the current account deficit was led by the 2.0% reduction in the trade deficit to an annualized $550.7 billion vis-à-vis stronger gains in exports relative to import demand. The United Kingdom's trade deficit expanded as a result of decreased earnings on oil exports, while the euro area, including Germany, benefited from rising exports, which boosted the third quarter's current account surplus relative to the €5.8 billion recorded in the second quarter. Japan also achieved an increase in its current account surplus, associated mainly with net improvements in the export sector.

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	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
				(B$ Millions)						
Net foreign assets	(50.5)	(86.6)	(234.5)	(207.7)	(178.6)	(291.1)	(357.3)	(209.1)	(123.1)	27.2
Central Bank	404.0	342.6	312.4	380.1	460.7	406.8	373.2	444.5	472.5	522.9
Commercial banks	(456.6)	(449.5)	(548.4)	(583.2)	(634.6)	(689.6)	(722.9)	(645.1)	(577.7)	(477.8)
Other local fin. institutions	2.1	20.3	1.5	(4.6)	(4.7)	(8.3)	(7.6)	(8.5)	(17.9)	(17.9)
Net domestic assets	3,298.1	3,645.6	3,951.6	4,009.4	4,068.4	4,156.2	4,193.5	4,155.7	4,064.0	3,928.7
Domestic credit	3,824.6	4,278.6	4,677.3	4,725.5	4,809.2	4,891.9	4,940.4	4,952.4	4,883.2	4,758.4
Public sector	669.4	649.8	775.2	785.5	852.8	887.1	870.8	921.5	893.9	712.8
Government (net)	495.4	508.5	626.0	596.4	662.6	684.6	651.3	696.8	671.6	487.2
Rest of public sector	174.0	141.3	149.2	189.1	190.2	202.5	219.5	224.7	222.3	225.6
Private sector	3,155.2	3,628.8	3,902.1	3,940.0	3,956.4	4004.8	4,069.6	4,030.9	3,989.3	4,045.6
Other items (net)	(526.5)	(633.0)	(725.7)	(716.1)	(740.8)	(735.7)	(746.9)	(796.7)	(819.2)	(829.7)
Monetary liabilities	3,247.6	3,559.0	3,717.1	3,801.7	3,889.8	3,865.1	3,836.2	3,946.6	3,940.9	3,946.8
Money	758.2	807.8	776.7	792.1	835.3	833.6	817.7	866.4	865.0	881.9
Currency	148.4	151.4	153.5	147.3	154.6	149.5	154.8	148.6	155.4	150.7
Demand deposits	609.8	656.4	623.2	644.8	680.7	684.1	662.9	717.8	709.6	731.2
Quasi-money	2,489.4	2,751.2	2,940.4	3,009.6	3,054.5	3,031.5	3,018.5	3,080.2	3,075.9	3,064.9
Fixed deposits	1,888.4	2,068.8	2,244.0	2,292.9	2,301.2	2298.8	2,296.2	2,307.2	2,301.4	2,289.9
Savings deposits	548.0	596.1	604.6	629.2	651.3	640.2	630.7	647.5	670.8	674.0
Foreign currency	53.0	86.3	91.8	87.5	102.0	92.5	91.6	125.5	103.7	101.0
				(percentage changes)						
Total domestic credit	11.6	11.9	9.3	1.0	1.8	1.7	1.0	0.2	(1.4)	(2.6)
Public sector	13.7	(2.9)	19.3	1.3	8.6	4.0	(1.8)	5.8	(3.0)	(20.3)
Government (net)	9.5	2.6	23.1	(4.7)	11.1	3.3	(4.9)	7.0	(3.6)	(27.5)
Rest of public sector	27.7	(18.8)	5.6	26.7	0.6	6.5	8.4	2.4	(1.1)	1.5
Private sector	11.2	15.0	7.5	1.0	0.4	1.2	1.6	(1.0)	(1.0)	1.4
Monetary liabilities	11.8	9.6	4.4	2.3	2.3	(0.6)	(0.7)	2.9	(0.1)	0.1
Money	27.1	6.5	(3.8)	2.0	5.5	(0.2)	(1.9)	6.0	(0.2)	2.0
Currency	18.2	2.0	1.4	(4.0)	5.0	(3.3)	3.5	(4.0)	4.6	(3.0)
Demand deposits	29.5	7.6	(5.1)	3.5	5.6	0.5	(3.1)	8.3	(1.1)	3.0
Quasi-money	7.9	10.5	6.9	2.4	1.5	(0.8)	(0.4)	2.0	(0.1)	(0.4)

Source: The Central Bank of The Bahamas

TABLE 2

MONETARY SURVEY

End of Period	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
				(B$ Millions)						
Net foreign assets	(52.6)	(106.9)	(236.0)	(203.1)	(173.9)	(282.8)	(349.7)	(200.6)	(105.2)	45.1
Central Bank	404.0	342.6	312.4	380.1	460.7	406.8	373.2	444.5	472.5	522.9
Commercial banks	(456.6)	(449.5)	(548.4)	(583.2)	(634.6)	(689.6)	(722.9)	(645.1)	(577.7)	(477.8)
Net domestic assets	3,230.2	3,572.2	3,874.7	3,926.8	3,972.3	4,061.4	4,092.4	4,045.0	3,939.8	3,801.4
Domestic credit	3,736.8	4,158.4	4,553.8	4,596.9	4,674.3	4,752.1	4,793.2	4,800.3	4,731.4	4,607.0
Public sector	665.4	645.3	771.9	782.3	849.6	883.8	867.6	918.4	890.7	708.7
Government (net)	491.5	504.1	622.8	593.3	659.5	681.4	648.2	693.7	668.4	483.1
Rest of public sector	173.9	141.2	149.1	189.0	190.1	202.4	219.4	224.7	222.3	225.6
Private sector	3,071.4	3,513.1	3,781.9	3,814.6	3,824.7	3,868.3	3,925.6	3,881.9	3,840.7	3,898.3
Other items (net)	(506.6)	(586.2)	(679.1)	(670.1)	(702.0)	(690.7)	(700.8)	(755.3)	(791.6)	(805.6)
Monetary liabilities	3,177.6	3,465.3	3,638.7	3,723.7	3,798.4	3,778.6	3,742.7	3,844.4	3,834.6	3,846.4
Money	754.1	796.6	769.2	784.7	825.3	825.8	808.5	856.4	855.7	870.2
Currency	148.9	151.9	153.5	147.3	154.6	149.6	154.8	148.6	155.4	150.7
Demand deposits	605.2	644.7	615.7	637.4	670.7	676.2	653.7	707.8	700.3	719.5
Quasi-money	2,423.5	2,668.7	2,869.5	2,939.0	2,973.1	2,952.8	2,934.2	2,988.0	2,978.9	2,976.2
Savings deposits	545.5	593.4	604.3	628.9	651.0	639.9	630.4	647.2	670.5	673.7
Fixed deposits	1,825.1	1,989.0	2,173.4	2,222.6	2,220.1	2,220.5	2,212.2	2,215.3	2,204.7	2,201.4
Foreign currency deposits	52.9	86.3	91.8	87.5	102.0	92.4	91.6	125.5	103.7	101.1
				(percentage change)						
Total domestic credit	11.4	11.3	9.5	0.9	1.7	1.7	0.9	0.1	(1.4)	(2.6)
Public sector	13.6	(3.0)	19.6	1.3	8.6	4.0	(1.8)	5.9	(3.0)	(20.4)
Government (net)	9.4	2.6	23.5	(4.7)	11.2	3.3	(4.9)	7.0	(3.6)	(27.7)
Rest of public sector	27.6	(18.8)	5.6	26.8	0.6	6.5	8.4	2.4	(1.1)	1.5
Private sector	11.0	14.4	7.7	0.9	0.3	1.1	1.5	(1.1)	(1.1)	1.5
Monetary liabilities	11.1	9.1	5.0	2.3	2.0	(0.5)	(1.0)	2.7	(0.3)	0.3
Money	27.3	5.6	(3.4)	2.0	5.2	0.1	(2.1)	5.9	(0.1)	1.7
Currency	18.2	2.0	1.1	(4.0)	5.0	(3.2)	3.5	(4.0)	4.6	(3.0)
Demand deposits	29.8	6.5	(4.5)	3.5	5.2	0.8	(3.3)	8.3	(1.1)	2.7
Quasi-money	6.9	10.1	7.5	2.4	1.2	(0.7)	(0.6)	1.8	(0.3)	(0.1)

Source: The Central Bank of The Bahamas

TABLE 3

CENTRAL BANK BALANCE SHEET

(B$ Millions

End of Period	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Net foreign assets	404.0	342.6	312.4	380.1	460.7	406.8	373.2	444.5	472.5	522.9
Balances with banks abroad	180.6	119.3	44.5	100.5	180.8	147.7	126.3	177.3	195.3	221.1
Foreign securities	214.8	215.1	260.0	271.8	271.5	250.8	238.3	258.6	268.3	292.8
Reserve position in the Fund	8.6	8.1	7.8	7.8	8.3	8.3	8.5	8.6	8.8	8.9
SDR holdings	--	0.1	0.1	--	0.1	--	0.1	--	0.1	0.1
Net domestic assets	(16.6)	31.4	107.5	66.5	52.1	71.8	92.0	43.3	11.2	(51.1)
Net claims on government	69.8	120.7	187.4	160.7	141.0	157.5	172.9	158.7	109.6	77.9
Claims	73.0	128.5	189.7	162.7	148.2	167.5	182.4	167.6	117.4	85.6
Treasury bills	13.9	66.2	98.8	57.7	38.7	60.6	72.0	62.9	7.0	--
Bahamas registered stock	5.6	8.8	34.0	38.8	42.1	39.5	38.6	37.9	44.6	48.6
Loans and advances	53.5	53.5	56.9	66.2	67.4	67.4	71.8	66.8	65.8	37.0
Deposits	(3.2)	(7.8)	(2.3)	(2.0)	(7.2)	(10.0)	(9.5)	(8.9)	(7.8)	(7.7)
In local currency	(3.2)	(7.8)	(2.3)	(2.0)	(7.2)	(10.0)	(9.5)	(8.9)	(7.8)	(7.7)
In foreign currency	--	--	--	--	--	--	--	--	--	--
Deposits of rest of public sector	(17.4)	(14.8)	(10.3)	(25.9)	(21.6)	(16.2)	(10.1)	(45.7)	(30.0)	(59.4)
Credit to commercial banks	0.2	--	--	--	--	--	--	--	--	--
Official capital and surplus	(90.7)	(98.0)	(94.3)	(96.6)	(95.1)	(97.6)	(98.3)	(99.7)	(97.3)	(97.5)
Net unclassified assets	13.6	15.1	16.8	20.4	20.1	20.4	19.9	22.4	21.4	20.5
Loans to rest of public sector	6.5	7.6	7.1	7.1	6.9	6.9	6.7	6.7	6.6	6.5
Public Corp Bonds/Securities	1.4	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Liabs. to Commercial Banks & OLFIs	(225.0)	(209.3)	(253.6)	(286.5)	(344.6)	(315.5)	(296.5)	(325.1)	(314.0)	(306.5)
Notes and coins	(74.7)	(64.4)	(64.9)	(45.3)	(40.2)	(43.2)	(66.3)	(43.8)	(42.9)	(51.0)
Deposits	(150.3)	(144.9)	(188.7)	(241.2)	(304.4)	(272.3)	(230.2)	(281.3)	(271.1)	(255.5)
SDR allocation	(14.0)	(13.3)	(12.8)	(12.8)	(13.6)	(13.6)	(13.9)	(14.1)	(14.3)	(14.6)
Currency held by the private sector	(148.4)	(151.4)	(153.5)	(147.3)	(154.6)	(149.5)	(154.8)	(148.6)	(155.4)	(150.7)

Source: The Central Bank of The Bahamas

TABLE 4

COMMERCIAL BANKS BALANCE SHEET

(B$ Millions)

End of Period	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Net foreign assets	(456.6)	(449.5)	(548.4)	(583.2)	(634.6)	(689.6)	(722.9)	(645.1)	(577.7)	(477.8)
Net claims on Central Bank	225.4	207.1	248.7	279.4	339.2	310.1	291.2	317.9	308.0	300.1
Notes and Coins	74.2	63.9	64.9	45.3	40.2	43.2	66.3	43.9	42.9	51.0
Balances	152.0	144.0	184.6	234.9	299.8	267.7	225.7	274.8	265.9	249.9
Less Central Bank credit	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Net domestic assets	3,026.5	3,244.3	3,421.3	3,509.5	3,568.3	3,635.4	3,653.8	3,632.9	3,599.6	3,529.8
Net claims on government	421.7	383.4	435.4	432.6	518.5	523.9	475.3	535.0	558.8	405.2
Treasury bills	93.4	49.9	63.5	93.8	106.8	72.9	38.8	45.0	69.5	71.9
Other securities	327.4	315.3	314.2	302.5	312.7	326.5	338.1	338.3	350.0	369.2
Loans and advances	68.4	89.0	115.4	98.2	179.8	201.6	170.0	219.6	214.1	45.6
Less: deposits	67.5	70.8	57.7	61.9	80.8	77.1	71.6	67.9	74.8	81.5
Net claims on rest of public sector	(50.0)	(163.8)	(212.1)	(163.6)	(166.9)	(162.3)	(143.9)	(127.2)	(104.5)	(65.9)
Securities	8.5	6.9	8.0	9.8	9.8	9.8	9.3	8.2	8.6	19.7
Loans and advances	157.5	125.9	133.2	171.3	172.6	184.9	202.5	208.9	206.2	198.5
Less: deposits	216.0	296.6	353.3	344.7	349.3	357.0	355.7	344.3	319.3	284.1
Net claims on OLFIs.	(19.4)	(10.1)	(0.8)	(2.7)	(7.4)	15.7	16.4	11.8	6.2	--
Credit to the private sector	3,071.4	3,513.1	3,781.9	3,814.6	3,824.7	3,868.3	3,925.6	3,881.9	3,840.7	3,898.3
Securities	5.3	6.9	6.3	6.7	6.7	7.9	7.4	7.4	7.3	9.7
Loans and advances	3,066.1	3,506.2	3,775.6	3,807.9	3,818.0	3,860.4	3,918.2	3,874.5	3,833.4	3,888.6
Private capital and surplus	(415.3)	(509.9)	(592.8)	(591.6)	(612.1)	(626.4)	(660.4)	(692.0)	(695.0)	(913.1)
Net unclassified assets	18.1	31.6	9.7	20.2	11.5	16.2	40.8	23.4	(6.6)	205.3
Liabilities to private sector	2,795.3	3,001.9	3,121.6	3,205.7	3,272.9	3,255.9	3,222.1	3,305.7	3,329.9	3,352.1
Demand deposits	601.8	669.6	661.9	658.0	703.3	695.0	681.3	717.9	717.1	711.9
Savings deposits	544.5	596.9	606.2	630.9	653.4	643.6	634.3	651.0	674.4	676.4
Fixed deposits	1,649.0	1,735.4	1,853.5	1,916.8	1,916.2	1,917.3	1,906.5	1,936.8	1,938.4	1,963.8

Source: The Central Bank of The Bahamas

TABLE 5

OTHER LOCAL FINANCIAL INSTITUTIONS BALANCE SHEET

(B$ Millions)

End of Period	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Net foreign assets	2.1	20.3	1.5	(4.6)	(4.7)	(8.3)	(7.6)	(9.3)	(17.9)	(17.9)
Net claims on Central Bank	4.1	(4.8)	4.0	4.2	4.3	(0.5)	4.6	4.9	5.3	5.5
Notes and Coins	0.5	0.5	--	--	--	--	--	--	--	--
Balances	3.6	4.7	4.0	4.2	4.3	4.5	4.6	4.9	5.3	5.5
Less Central Bank credit	--	10.0	--	--	--	5.0	--	--	--	--
Net domestic assets	63.3	77.7	72.8	78.4	91.8	95.3	96.5	105.8	118.9	121.9
Net claims on government	3.9	4.4	3.2	3.1	3.1	3.2	3.1	3.1	3.2	4.1
Treasury bills	--	--	--	--	--	--	--	--	--	--
Other securities	3.9	4.4	3.2	3.1	3.1	3.2	3.1	3.1	3.2	4.1
Loans and advances	--	--	--	--	--	--	--	--	--	--
Less: deposits	--	--	--	--	--	--	--	--	--	--
Net claims on rest of public sector	(0.9)	(0.9)	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	1.0	--	--	--	--	--	--	--	--
Net claims on commercial banks	17.4	12.4	1.6	(0.4)	5.5	(9.0)	(12.9)	(13.8)	(4.1)	(3.0)
Credit to the private sector	83.8	115.7	120.2	125.4	131.7	136.5	144.0	149.0	148.6	147.3
Securities	0.4	4.2	2.7	3.0	3.1	2.9	2.7	2.1	2.0	3.0
Mortgages	67.0	90.5	110.4	115.5	121.2	126.0	134.4	139.9	139.9	137.7
Loans and advances	16.4	21.0	7.1	6.9	7.4	7.6	6.9	7.0	6.7	6.6
Private capital and surplus	(56.1)	(66.9)	(68.4)	(67.8)	(64.0)	(60.2)	(62.5)	(62.3)	(52.0)	(50.1)
Net unclassified assets	15.2	13.0	16.1	18.0	15.4	24.7	24.7	29.8	23.2	23.6
Liabilities to private sector	69.5	93.2	78.3	78.0	91.4	86.5	93.5	102.2	106.3	109.5
Demand deposits	4.6	11.7	7.5	7.5	10.1	7.8	9.2	10.0	9.3	11.8
Savings deposits	2.5	2.7	0.2	0.2	0.2	0.4	0.3	0.3	0.3	0.3
Fixed deposits	62.4	78.8	70.6	70.3	81.1	78.3	84.0	91.9	96.7	97.4

Source: The Central Bank of The Bahamas

TABLE 6

PROFIT AND LOSS ACCOUNTS OF BANKS IN THE BAHAMAS*

(B$'000s)

			2001				2002				2003	
	1999	2000	Qtr. I	Qtr. II	Qtr.III	Qtr.IV	Qtr. I	Qtr. II	Qtr.III	Qtr.IV	Qtr. I	Qtr. II
1. Interest Income	362,402	413,531	111,642	112,627	112,653	110,650	109,442	109,521	103,826	108,875	105,343	110,339
2. Interest Expense	144,698	133,850	33,954	35,571	36,842	40,321	40,630	41,602	37,542	40,118	38,825	42,002
3. **Interest Margin (1-2)**	217,704	279,681	77,688	77,056	75,811	70,329	68,812	67,919	66,284	68,757	66,518	68,337
4. Commission & Forex Income	22,779	23,561	7,713	5,746	5,481	5,461	5,844	5,946	5,580	5,998	5,995	6,109
5. **Gross Earnings Margin (3+4)**	240,483	303,242	85,401	82,802	81,292	75,790	74,656	73,865	71,864	74,755	72,513	74,446
6. Staff Costs	93,338	101,771	27,663	25,551	27,753	24,551	24,376	26,643	25,422	34,627	31,003	27,084
7. Occupancy Costs	14,892	17,180	4,274	4,687	5,288	4,163	3,693	3,866	4,732	3,758	4,543	4,734
8. Other Operating Costs	45,282	45,734	11,561	12,249	14,741	13,241	14,936	10,893	11,288	11,253	10,759	11,138
9. **Operating Costs (6+7+8)**	153,512	164,685	43,498	42,487	47,782	41,955	43,005	41,402	41,442	49,638	46,305	42,956
10. **Net Earnings Margin (5-9)**	86,971	138,557	41,903	40,315	33,510	33,835	31,651	32,463	30,422	25,117	26,208	31,490
11. Depreciation Costs	11,676	10,896	2,502	2,517	2,614	3,215	3,195	2,170	2,413	2,682	2,516	2,684
12. Provisions for Bad Debt	18,416	27,431	7,993	6,953	10,018	8,132	7,723	5,315	8,115	8,404	8,774	6,405
13. Other Income	47,985	58,384	14,654	14,801	15,553	13,413	15,373	14,106	14,105	20,271	18,716	17,828
14. **Other Income (Net) (13-11-12)**	17,893	20,057	4,159	5,331	2,921	2,066	4,455	6,621	3,577	9,185	7,426	8,739
15. **Net Income (10+14)**	104,864	158,614	46,062	45,646	36,431	35,901	36,106	39,084	33,999	34,302	33,634	40,229
16. **Effective Interest Rate Spread (%)**	6.45	5.74	5.96	6.56	6.48	6.24	6.12	6.00	5.96	6.40	5.92	5.96
						(Ratios To Average Assets)						
Interest Margin	5.18	6.07	6.44	6.25	6.07	5.51	5.20	5.03	4.80	4.94	4.74	5.74
Commission & Forex Income	0.54	0.52	0.64	0.47	0.44	0.43	0.44	0.44	0.40	0.43	0.41	1.41
Gross Earnings Margin	5.72	6.59	7.08	6.72	6.51	5.94	5.64	5.47	5.21	5.37	5.15	6.15
Operating Costs	3.65	3.58	3.61	3.45	3.83	3.29	3.25	3.07	3.00	3.56	3.30	4.30
Net Earnings Margin	2.07	3.01	3.47	3.27	2.68	2.65	2.39	2.41	2.21	1.80	1.85	2.85
Net Income	2.50	3.44	3.82	3.70	2.92	2.81	2.73	2.90	2.46	2.46	2.43	3.43

***Commercial Banks and OLFIs with domestic operations**

Source: The Central Bank of The Bahamas

TABLE 7

MONEY SUPPLY

(B$ Millions)

End of Period	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Money supply (M1)	758.2	807.8	776.7	792.1	835.3	833.6	817.7	866.4	865.0	881.9
1) Currency in active circulation	148.4	151.4	153.5	147.3	154.6	149.5	154.8	148.6	155.4	150.7
2) Demand deposits	609.8	656.4	623.2	644.8	680.7	684.1	662.9	717.8	709.6	731.2
Central Bank	17.4	14.8	10.3	25.9	21.6	16.2	10.1	45.7	30.0	59.5
Commercial banks	587.8	629.9	605.3	611.4	649.0	660.1	643.6	662.1	670.3	660.0
OLFIs	4.6	11.7	7.6	7.5	10.1	7.8	9.2	10.0	9.3	11.7
Factors affecting changes in money (M1)										
1) Net credit to government	495.4	508.5	626.0	596.4	662.6	684.6	651.3	696.8	671.6	487.2
Central Bank	69.8	120.7	187.4	160.7	141.0	157.5	172.9	158.7	109.6	77.9
Commercial banks	421.7	383.4	435.4	432.6	518.5	523.9	475.3	535.0	558.8	405.2
OLFIs	3.9	4.4	3.2	3.1	3.1	3.2	3.1	3.1	3.2	4.1
2) Other credit	3,329.2	3,770.1	4,051.3	4,129.1	4,146.6	4,207.3	4,289.1	4,255.6	4,211.6	4,271.1
Rest of public sector	174.0	141.3	149.2	189.1	190.2	202.5	219.5	224.7	222.3	225.6
Private sector	3,155.2	3,628.8	3,902.1	3,940.0	3,956.4	4,004.8	4,069.6	4,030.9	3,989.3	4,045.5
3) External reserves	404.0	342.6	312.4	380.1	460.7	406.8	373.2	444.5	472.5	522.9
4) Other external liabilities (net)	(454.5)	(429.2)	(546.9)	(587.8)	(639.3)	(697.9)	(730.5)	(653.6)	(595.6)	(495.7)
5) Quasi money	2,489.4	2,751.2	2,940.4	3,009.6	3,054.5	3,031.5	3,018.5	3,080.2	3,075.9	3,074.0
6) Other items (net)	(526.5)	(633.0)	(725.7)	(716.1)	(740.8)	(735.7)	(746.9)	(796.7)	(819.2)	(829.7)

Source: The Central Bank of The Bahamas

TABLE 8
CONSUMER INSTALMENT CREDIT

(B$' 000)

End of Period	2000		2001		2002				2003					
					Sept.		Dec.		Mar.		Jun.		Sept.	
	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*	Add-on	Demand*
CREDIT OUTSTANDING														
Private cars	603	284,366	405	270,662	218	248,348	201	243,946	48	235,062	44	229,025	27	223,320
Taxis & rented cars	--	2,122	--	2,251	--	2,001	--	1,976	--	2,028	--	1,991	--	2,010
Commercial vehicles	9	4,912	8	4,385	3	4,160	--	4,022	--	3,764	--	4,032	--	4,082
Furnishings & domestic appliances	40	17,554	7	17,514	2	15,740	2	15,702	--	14,972	--	12,974	--	12,584
Travel	52	44,677	25	43,391	14	45,304	13	43,034	--	38,075	--	37,504	--	40,814
Education	30	32,968	16	49,569	8	60,619	8	59,620	--	58,266	--	47,326	--	51,936
Medical	30	12,775	22	13,304	10	13,736	10	14,164	--	13,731	--	13,803	--	13,892
Home Improvements	297	121,566	180	126,542	116	108,417	99	108,001	67	106,155	67	108,981	65	108,348
Land Purchases	107	91,561	61	95,251	36	105,317	34	107,231	6	109,204	5	115,445	4	117,191
Consolidation of debt	713	353,470	501	356,914	292	356,188	256	359,112	137	357,294	131	350,753	123	348,581
Miscellaneous	420	313,465	237	340,739	127	347,723	99	339,021	47	326,028	40	331,397	20	337,723
Credit Cards	--	131,301	--	137,768	--	150,095	--	158,784	--	153,302	--	155,004	--	162,388
TOTAL	2,301	1,410,737	1,462	1,458,290	826	1,457,648	722	1,454,613	305	1,417,881	287	1,408,235	239	1,422,869
NET CREDIT EXTENDED														
Private cars	(319)	19,397	(198)	(13,704)	(47)	(12,096)	(17)	(4,402)	(153)	(8,884)	(4)	(6,037)	(17)	(5,705)
Taxis & rented cars	--	448	--	129	--	(11)	--	(25)	--	52	--	(37)	--	19
Commercial vehicles	(1)	(404)	(1)	(527)	(5)	(68)	(3)	(138)	--	(258)	--	268	--	50
Furnishings & domestic appliances	(61)	808	(33)	(40)	--	(653)	--	(38)	(2)	(730)	--	(1,998)	--	(390)
Travel	(36)	6,577	(27)	(1,286)	(1)	2,828	(1)	(2,270)	(13)	(4,959)	--	(571)	--	3,310
Education	(20)	4,322	(14)	16,601	(1)	4,902	--	(999)	(8)	(1,354)	--	(10,940)	--	4,610
Medical	(17)	1,126	(8)	529	(10)	313	--	428	(10)	(433)	--	72	--	89
Home Improvements	(225)	2,496	(117)	4,976	(29)	475	(17)	(416)	(32)	(1,846)	--	2,826	(2)	(633)
Land Purchases	(343)	19,375	(46)	3,690	(19)	9,855	(2)	1,914	(28)	1,973	(1)	6,241	(1)	1,746
Consolidation of debt	(461)	7,198	(212)	3,444	(93)	5,161	(36)	2,924	(119)	(1,818)	(6)	(6,541)	(8)	(2,172)
Miscellaneous	(276)	61,915	(183)	27,274	(23)	(14,134)	(28)	(8,702)	(52)	(12,993)	(7)	5,369	(20)	6,326
Credit Cards	--	2,801	--	6,467	--	9,601	--	8,689	--	(5,482)	--	1,702	--	7,384
TOTAL	(1,759)	126,059	(839)	47,553	(228)	6,173	(104)	(3,035)	(417)	(36,732)	(18)	(9,646)	(48)	14,634

Source: The Central Bank of The Bahamas

* Includes Consumer Credit previously reported under Personal Loan

TABLE 9

SELECTED AVERAGE INTEREST RATES

Period	2000	2001	2002	2002				2003		
				Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I	Qtr. II	Qtr. III
COMMERCIAL BANKS										
Deposit rates										
Savings deposits	2.71	2.69	2.77	2.73	2.78	2.82	2.73	2.74	2.72	2.56
Fixed deposits										
Up to 3 months	3.93	4.19	4.04	4.27	4.15	3.89	3.83	3.95	3.76	3.71
Up to 6 months	4.31	4.62	4.32	4.70	4.51	4.05	4.02	4.42	4.01	3.99
Up to 12 months	4.50	4.72	4.49	4.83	4.48	4.21	4.43	4.62	4.30	4.14
Over 12 months	4.31	4.99	4.62	5.28	4.56	4.22	4.40	4.48	4.36	4.66
Weighted average rate	3.97	4.24	4.11	4.37	4.22	3.95	3.91	4.03	3.86	3.81
Lending rates										
Residential mortgages	8.96	8.95	8.90	8.88	8.97	8.88	8.85	9.01	9.00	8.91
Commercial mortgages	9.46	8.87	9.04	9.07	9.30	8.85	8.92	9.24	10.82	9.20
Consumer loans	13.58	13.41	13.07	12.31	13.78	13.07	13.12	13.94	13.95	13.89
Overdrafts	10.56	10.43	10.63	10.18	10.60	10.61	11.11	11.04	11.09	11.66
Weighted average rate	11.74	11.47	11.33	11.20	11.71	11.21	11.18	11.73	12.17	12.15
OLFIs										
Deposit rates										
Savings deposits	3.43	3.55	--	--	--	--	--	--	--	1.75
Fixed deposits										
Up to 3 months	3.57	4.13	4.10	4.25	4.39	4.27	3.48	3.92	4.06	4.32
Up to 6 months	4.08	4.16	3.91	3.92	4.27	3.50	3.95	3.70	4.35	3.89
Up to 12 months	4.30	4.06	4.22	4.46	4.12	4.22	4.09	4.18	4.71	4.33
Over 12 months	4.06	4.17	--	--	--	--	--	--	--	--
Weighted average rate	4.21	4.25	4.39	4.55	4.63	4.37	4.01	4.25	4.62	4.37
Lending rates										
Residential mortgages	8.97	8.89	8.64	8.91	9.14	8.23	8.28	9.07	8.35	8.92
Commercial mortgages	--	--	9.77	--	9.77	--	--	--	--	--
Consumer loans	15.01	14.97	--	--	--	--	--	--	--	9.99
Other loans	9.03	9.36	8.70	8.01	8.97	8.34	9.48	8.00	--	9.75
Weighted average rate	12.11	11.25	8.64	8.86	9.07	8.12	8.52	8.98	8.35	9.21
Other rates										
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	2.63	2.96	2.37	2.02	1.89	2.02	1.74
Treasury bill re-discount rate	1.49	2.45	3.00	3.13	3.46	2.87	2.52	2.39	2.52	2.24
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

(B$ Millions)

End of Period	1999	2000	2001	2002				2003		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
I. Statutory Reserves										
Required reserves	153.9	166.6	176.1	178.6	181.9	184.3	183.4	184.3	185.4	185.4
Average Till Cash	61.0	59.6	51.2	47.3	41.4	44.4	55.3	42.9	42.8	50.7
Average balance with central bank	174.7	149.4	182.2	246.2	284.7	286.7	217.8	271.2	270.5	274.3
Free cash reserves (period ended)	81.0	41.6	56.5	114.1	143.4	146.0	88.9	129.0	127.1	138.9
II. Liquid Assets (period)										
A. Minimum required Liquid assets	507.9	539.1	569.3	585.2	599.2	593.4	589.9	599.2	600.3	598.8
B. Net Eligible Liquid Assets	656.6	579.2	636.7	691.1	772.4	722.1	687.6	722.6	748.6	776.1
i) Balance with Central Bank	155.5	148.2	188.6	239.1	304.1	272.3	230.3	279.7	271.1	255.5
ii) Notes and Coins	75.1	64.9	65.4	45.8	40.7	43.7	66.8	44.4	43.4	51.5
iii) Treasury Bills	93.4	49.9	63.5	93.8	106.8	72.9	38.8	45.0	69.5	71.9
iv) Government registered stocks	311.4	303.7	306.4	294.6	305.8	320.7	335.3	336.9	350.2	370.2
v) Specified assets	20.8	20.2	16.9	18.9	18.7	18.3	17.9	16.9	15.7	26.7
vi) Net Inter-bank dem/call deposits	1.2	(6.9)	(3.3)	(0.3)	(2.9)	(5.0)	(0.7)	0.5	(0.5)	1.1
vii) Less: borrowings from central bank	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
C. Surplus/(Deficit)	148.7	40.1	67.4	105.9	173.2	128.7	97.7	123.4	148.3	177.3

Source: The Central Bank of The Bahamas

TABLE 11

GOVERNMENT OPERATIONS AND FINANCING

Period	1999/00p	2000/01p	2001/02p	Budget 2002/03	Budget 2003/04	2002/03p QTR. I	2002/03p QTR. II	2002/03p QTR. III	2002/03p QTR. IV*	2003/04 QTR. I
Total Revenue & Grants	918.5	957.5	856.8	962.8	991.5	205.4	243.3	218.8	156.1	213.7
Current expenditure	818.2	847.7	896.7	953.9	968.9	207.0	223.4	236.5	143.1	222.2
Capital expenditure	106.7	85.0	103.6	127.4	119.7	17.9	17.2	16.2	14.1	8.1
Net lending	32.1	42.5	27.5	28.0	25.9	8.6	7.7	12.1	6.3	6.5
Overall balance	-38.5	-17.7	-171.0	-146.5	-123.0	-28.1	-5.0	-46.0	-7.4	-23.1
FINANCING (I+II-III+IV+V)	38.5	17.7	171.0	146.5	123.0	28.1	5.0	46.0	7.4	23.1
I. Foreign currency borrowing	23.6	4.3	143.6	29.7	26.1	25.1	7.5	0.3	1.5	202.8
External	23.6	4.3	18.6	29.7	26.1	0.1	7.5	0.3	1.5	202.8
Domestic	--	--	125.0	. . .	. . .	25.0	--	--	--	--
II. Bahamian dollar borrowing	78.0	75.8	157.7	186.2	173.3	70.4	74.4	--	61.1	75.0
i) Treasury bills	--	20.0	26.9	. . .	. . .	--	--	--	--	-
Central Bank	--	20.0	16.1	. . .	. . .	--	--	--	--	-
Commercial banks & OLFI's	--	--	10.8	. . .	. . .	--	--	--	--	-
Public corporations	--	--	--	. . .	. . .	--	--	--	--	-
Other	--	--	--	. . .	. . .	--	--	--	--	-
ii) Long-term securities	78.0	55.8	95.7	. . .	. . .	60.0	65.0	--	61.1	75.0
Central Bank	8.0	6.5	66.4	. . .	. . .	5.0	5.0	--	10.0	10.0
Commercial banks & OLFI's	33.1	8.9	10.1	. . .	. . .	18.8	21.5	--	16.1	20.1
Public corporations	18.2	14.4	4.8	. . .	. . .	10.7	7.6	--	14.9	21.7
Other	18.7	26.0	14.4	. . .	. . .	25.5	30.9	--	20.1	23.2
iii) Loans and Advances	--	--	35.1	. . .	. . .	10.4	9.4	--	--	--
Central Bank	--	--	33.9	. . .	. . .	--	4.3	--	--	--
Commercial banks	--	--	1.2	. . .	. . .	10.4	5.1	--	--	--
III Debt repayment	21.6	75.6	144.8	66.8	74.0	29.1	18.3	13.7	1.0	203.2
Domestic	12.4	67.1	111.1	59.1	65.3	25.4	18.0	10.0	1.0	198.8
Bahamian dollars	1.0	60.4	76.6	54.1	60.3	25.4	13.0	10.0	1.0	73.8
Internal foreign currency	11.4	6.7	34.5	5.0	5.0	--	5.0	--	--	125.0
External	9.2	8.5	33.7	7.7	8.7	3.7	0.3	3.7	--	4.4
IV. Cash balance change	-19.3	10.3	-3.3	. . .	. . .	0.9	15.8	4.3	2.0	-5.9
V. Other Financing	-22.2	2.9	17.8	-2.6	-2.4	-39.2	-74.4	55.1	-56.2	-45.6

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		
				Sept.	Dec.	Mar.	June	Sept.
TOTAL EXTERNAL DEBT	110,247	117,495	95,953	88,771	95,953	92,575	93,803	292,155
By Instrument								
Government Securities	50,500	50,500	25,000	25,000	25,000	25,000	25,000	225,000
Loans	59,747	66,995	70,953	63,771	70,953	67,575	68,803	67,155
By Holder								
Commercial banks	20,611	15,458	10,305	10,305	10,305	7,729	7,729	5,153
Offshore financial institutions	500	500	--	--	--	--	--	--
Multilateral institutions	39,136	51,537	60,648	53,466	60,648	59,846	61,074	62,002
Bilateral Institutions	--	--	--	--	--	--	--	--
Private Capital Markets	50,000	50,000	25,000	25,000	25,000	25,000	25,000	225,000
TOTAL INTERNAL DEBT	1,404,110	1,486,044	1,710,531	1,654,124	1,710,531	1,700,531	1,760,631	1,636,863
By Instrument								
Foreign Currency	20,770	36,390	130,000	135,000	130,000	130,000	130,000	5,000
Government securities	16,000	11,000	5,000	10,000	5,000	5,000	5,000	5,000
Loans	4,770	25,390	125,000	125,000	125,000	125,000	125,000	--
Bahamian Dollars	1,383,340	1,449,654	1,580,531	1,519,124	1,580,531	1,570,531	1,630,631	1,631,863
Advances	53,519	56,945	71,787	67,445	71,787	66,787	65,787	37,019
Treasury bills	132,500	168,600	179,400	179,400	179,400	179,400	179,400	179,400
Government securities	1,186,386	1,213,633	1,304,098	1,252,098	1,304,098	1,299,098	1,360,198	1,405,198
Loans	10,935	10,476	25,246	20,181	25,246	25,246	25,246	10,246
By Holder								
Foreign Currency	20,770	36,390	130,000	135,000	130,000	130,000	130,000	5,000
Commercial banks	20,770	36,390	130,000	135,000	130,000	130,000	130,000	5,000
Other local financial institutions	--	--	--	--	--	--	--	--
Bahamian Dollars	1,383,340	1,449,654	1,580,531	1,519,124	1,580,531	1,570,531	1,630,631	1,631,863
The Central Bank	128,895	190,554	182,823	168,005	182,823	167,987	117,430	85,613
Commercial banks	357,465	375,771	399,697	409,769	399,697	399,954	441,661	453,294
Other local financial institutions	4,287	3,128	3,128	3,127	3,128	3,127	3,128	3,127
Public corporations	590,485	562,309	619,284	596,728	619,284	618,835	665,756	661,422
Other	302,208	317,892	375,599	341,495	375,599	380,628	402,656	428,407
TOTAL FOREIGN CURRENCY DEBT	131,017	153,885	225,953	223,771	225,953	222,575	223,803	297,155
TOTAL DIRECT CHARGE	1,514,357	1,603,539	1,806,484	1,742,895	1,806,484	1,793,106	1,854,434	1,929,018
TOTAL CONTINGENT LIABILITIES	364,626	358,772	406,603	404,826	406,603	398,963	389,112	372,635
TOTAL NATIONAL DEBT	1,878,983	1,962,311	2,213,087	2,147,721	2,213,087	2,192,069	2,243,546	2,301,653

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		
				Sept.	Dec.	Mar.	June	Sept.
Outstanding debt at beginning of peri	**466,317**	**425,124**	**402,886**	**494,229**	**525,101**	**522,404**	**508,328**	**497,707**
Government	134,087	131,017	153,885	202,321	223,771	225,953	222,575	223,803
Public Corporations	332,230	294,107	249,001	291,908	301,330	296,451	285,753	273,904
Plus new drawings	**22,987**	**58,204**	**230,974**	**49,396**	**10,673**	**550**	**1,665**	**203,250**
Government	14,746	40,687	136,638	25,119	7,467	330	1,514	202,812
Public corporations	8,241	17,517	94,336	24,277	3,206	220	151	438
Less Amortization	**64,180**	**80,442**	**111,456**	**18,524**	**13,370**	**14,626**	**12,286**	**141,746**
Government	17,816	17,819	64,570	3,669	5,285	3,708	286	129,460
Public corporations	46,364	62,623	46,886	14,855	8,085	10,918	12,000	12,286
Outstanding debt at end of period	**425,124**	**402,886**	**522,404**	**525,101**	**522,404**	**508,328**	**497,707**	**559,211**
Government	131,017	153,885	225,953	223,771	225,953	222,575	223,803	297,155
Public corporations	294,107	249,001	296,451	301,330	296,451	285,753	273,904	262,056
Interest Charges	**31,531**	**29,112**	**24,703**	**5,073**	**7,722**	**7,237**	**6,773**	**4,955**
Government	9,078	9,142	9,558	1,297	3,248	3,431	2,869	2,376
Public corporations	22,453	19,970	15,145	3,776	4,474	3,806	3,904	2,579
Debt Service	**95,711**	**109,554**	**136,159**	**23,597**	**21,092**	**21,863**	**19,059**	**146,701**
Government	26,894	26,961	74,128	4,966	8,533	7,139	3,155	131,836
Public corporations	68,817	82,593	62,031	18,631	12,559	14,724	15,904	14,865
Debt Service ratio	3.6	4.3	5.2	3.6	3.3	3.2	2.9	23.8
Government debt Service/ Government revenue (%)	2.9	2.9	8.3	2.4	3.5	3.3	n.a.	61.7
MEMORANDUM								
Holder distribution (B$ Mil):								
Commercial banks	122.6	113.6	259.7	269.0	259.7	251.1	243.2	108.8
Offshore Financial Institutions	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral Institutions	229.1	238.0	237.5	230.7	237.5	232.1	229.3	225.3
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	0.3	0.2	0.1	0.2	0.2
Private Capital Markets	50.0	50.0	25.0	25.0	25.0	25.0	25.0	225.0

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

TABLE 14

BALANCE OF PAYMENTS SUMMARY

(B$ Millions)

	2000p	2001p	2002p	2002		2003		
				Qtr.IIIp	Qtr.IVp	Qtr.Ip	Qtr.IIp	Qtr.IIIp
A. Current Account Balance (I+II+III+IV)	**(532.5)**	**(419.6)**	**(299.6)**	**(68.9)**	**(132.3)**	**2.0**	**(27.1)**	**(107.8)**
I. Merchandise (Net)	**(1,308.5)**	**(1,093.7)**	**(1,019.1)**	**(211.2)**	**(274.0)**	**(256.0)**	**(276.1)**	**(228.2)**
Exports	787.2	765.1	740.5	199.9	204.8	169.2	143.0	178.6
Imports	2,095.7	1,858.8	1,759.6	411.1	478.8	425.2	419.1	406.8
II. Services (Net)	**894.3**	**808.6**	**887.9**	**192.7**	**167.6**	**276.6**	**279.5**	**157.8**
Transportation	(153.9)	(161.3)	(129.0)	(25.1)	(34.4)	(31.9)	(33.0)	(28.3)
Travel	1,426.2	1,339.5	1,388.5	317.8	274.9	397.5	406.1	285.3
Insurance Services	(62.5)	(84.2)	(92.8)	(30.2)	(25.5)	(20.6)	(25.2)	(30.7)
Offshore Companies Local Expenses	89.4	56.4	126.4	29.6	49.8	22.7	20.0	18.5
Other Government	(29.4)	(48.6)	(60.9)	(9.5)	(15.1)	(22.5)	(17.3)	(4.5)
Other Services	(375.5)	(293.2)	(344.3)	(89.9)	(82.1)	(68.6)	(71.1)	(82.5)
III. Income (Net)	**(161.7)**	**(176.2)**	**(210.7)**	**(60.7)**	**(30.8)**	**(31.6)**	**(38.8)**	**(44.8)**
1. Compensation of Employees	(51.1)	(48.5)	(49.9)	(12.8)	(12.8)	(11.4)	(13.1)	(14.3)
2. Investment Income	(110.6)	(127.7)	(160.8)	(47.9)	(18.0)	(20.2)	(25.7)	(30.5)
IV. Current Transfers (Net)	**43.4**	**41.7**	**42.3**	**10.3**	**4.9**	**13.0**	**8.3**	**7.4**
1. General Government	47.4	45.8	49.0	11.7	7.9	13.5	9.8	9.4
2. Private Sector	(4.0)	(4.0)	(6.7)	(1.4)	(3.0)	(0.5)	(1.5)	(2.0)
B. Capital and Financial Account (I+II) (excl. Reserves)	**420.4**	**243.3**	**372.6**	**99.1**	**93.5**	**(45.5)**	**26.5**	**114.4**
I. Capital Account (Net Transfers)	**(16.5)**	**(21.3)**	**(24.5)**	**(5.5)**	**(3.7)**	**(9.1)**	**(7.4)**	**(8.7)**
II. Financial Account (Net)	**436.8**	**264.6**	**397.1**	**104.6**	**97.2**	**(36.4)**	**33.9**	**123.1**
1. Direct Investment	250.3	102.1	141.8	30.4	35.0	19.7	28.3	23.6
2. Other Investments	186.5	162.7	252.3	74.2	62.2	(56.1)	5.6	99.5
Central Gov't Long Term Capital	9.0	6.7	(21.4)	(3.5)	7.2	(3.4)	1.2	198.4
Other Public Sector Capital	(11.6)	(28.7)	(13.5)	(5.9)	(2.0)	(4.7)	(5.0)	(5.8)
Banks	(29.6)	120.5	183.6	58.6	32.6	(76.1)	(58.8)	(99.9)
Other	218.7	64.2	103.8	25.1	24.4	28.0	68.2	6.8
C. Net Errors and Omissions	**50.9**	**146.1**	**(12.3)**	**(84.1)**	**5.2**	**114.8**	**28.7**	**43.8**
D. Overall Balance (A+B+C)	**(61.4)**	**(30.2)**	**60.7**	**(53.9)**	**(33.6)**	**71.3**	**28.1**	**50.4**
E. Financing (Net)	**61.5**	**30.0**	**(60.8)**	**53.9**	**33.5**	**(71.3)**	**(28.1)**	**(50.4)**
Change in SDR holdings	(0.1)	--	--	0.1	(0.1)	0.1	(0.1)	--
Change in Reserve Position with the IMF	0.5	0.3	(0.6)	0.0	(0.2)	(0.1)	(0.2)	(0.2)
Change in Ext. Foreign Assets ( ) = Increase	61.1	29.8	(60.2)	53.8	33.8	(71.3)	(27.8)	(50.2)

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
I. OIL TRADE										
i) Exports	36,941	83,036	8,017	9,936	13,721	5,267	18,124	17,512	23,907	23,493
ii) Imports	172,477	231,293	40,456	19,645	62,315	50,061	51,068	36,329	77,005	66,891
II. OTHER MERCHANDISE										
i) Domestic Exports										
Crawfish	71,857	84,847	17,301	5,457	13,305	35,794	20,584	12,299	15,729	36,235
Fish & other Crustacea	4,783	2,087	1,154	1,638	606	1,385	499	644	314	630
Fruits & Vegs.	10,394	14,676	495	147	8,828	924	10,038	1,624	148	2,866
Aragonite	388	26,086	109	186	33	60	17,359	161	1,927	6,639
Rum	30,957	18,856	5,424	12,015	6,522	6,996	6,472	12,344	28	12
Other Cordials & Liquers	70	146	6	12	--	52	3	21	99	23
Crude Salt	13,580	12,447	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	42,787	3,165	3,307	2,461	1,845	3,365	11,397	11,854	16,171
Other Pharmaceuticals	330	--	311	18	--	1	--	--	--	--
Fragrances	247	--	76	--	171	--	--	--	--	--
Other	54,395	109,885	14,730	12,735	10,980	15,950	50,850	17,971	19,919	21,145
TOTAL	199,104	320,594	49,832	38,224	45,106	65,942	114,660	61,694	54,713	89,527
ii) Re-Exports	192,094	203,124	21,480	40,501	60,080	70,033	46,888	31,915	93,263	31,058
iii) Total Exports (i+ii)	391,198	523,718	71,312	78,725	105,186	135,975	161,548	93,609	147,976	120,585
iv) Imports	1,734,660	2,044,679	478,530	382,606	370,942	502,582	446,050	452,458	576,302	569,869
v) Retained Imports (iv-ii)	1,542,566	1,841,555	457,050	342,105	310,862	432,549	399,162	420,543	483,039	538,811
vi) Trade Balance (i-v)	(1,343,462)	(1,520,961)	(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	Qtr. II	Qtr. III
Visitor Arrivals	**4,203,831**	**4,182,671**	**4,405,971**	**1,216,839**	**1,123,377**	**1,040,293**	**1,025,462**	**1,229,641**	**1,185,158**	**1,056,272**
Air	1,481,545	1,428,124	1,402,894	380,480	387,468	335,829	299,117	381,709	396,446	335,622
Sea	2,722,286	2,754,547	3,003,077	836,359	735,909	704,464	726,345	847,932	788,712	720,650
Visitor Type										
Stopover	**1,543,956**	**1,537,777**	1,513,146	398,687	437,839	375,110	301,510	**n.a**	**n.a**	**n.a**
Cruise	2,512,626	2,551,673	2,802,112	793,533	668,842	642,068	697,669	804,677	720,834	662,612
Day/Transit	66,587	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Tourist Expenditure(B$ 000's)	**1,719,163**	**1,636,450**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Stopover	1,564,432	1,483,576	n.a	n.a	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	n.a	n.a
Day	6,752	5,294	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Number of Hotel Nights	3,277,657	3,471,141	3,443,432	839,021	861,877	855,133	887,401	859,062	897,438	889,775
Average Hotel Occupancy Rates (%)										
New Providence	73.3	66.8	67.9	73.4	71.5	68.4	58.2	71.9	70.5	64.5
Grand Bahama	58.2	49.8	54.8	59.3	62.2	60.1	39.2	56.9	47.9	46.7
Other Family Islands	41.0	36.5	34.8	36.9	43.3	32.1	26.0	34.5	46.1	32.5
Average Nightly Room Rates ($)										
New Providence	171.7	161.6	178.2	188.8	187.7	166.9	167.1	208.8	190.7	166.7
Grand Bahama	63.9	82.4	81.5	96.8	84.9	70.6	70.0	96.4	84.3	77.4
Other Family Islands	155.5	158.6	161.8	183.5	166.1	152.2	134.7	171.4	159.6	162.1

Source: The Ministry of Tourism

Basel II and Consolidated Supervision – The Challenges Ahead

By Governor Julian W. Francis

Remarks at the Opening Ceremony of the Association of Bank Supervisors of the Americas (ASBA) Financial Stabilities Institute (FSI) Seminar on Consolidated Supervision and the New Basel Accord, Nassau, Bahamas, 6th October, 2003.

Introduction

This seminar on Consolidated Supervision and the New Basel Accord is extremely timely and relevant to our region as we embrace the challenges posed by our preparation for the new Capital Accord. Basel Committee Chairman Caruana, in a recent speech, noted the higher than expected volume of responses to the third consultative paper. In my review of the responses, I was pleased to note that many of the supervisory authorities in our region, including The Bahamas, actively participated in the debate and voiced concerns and suggestions in an effort to ensure that the most effective Accord possible is developed. We should commend the Basel Committee for its consultative approach to the development of the new Accord. Additionally, ASBA and the FSI should be applauded for seminars like this one, which ensure that supervisors are knowledgeable about the issues and are therefore prepared to execute effectively in this new, ever more demanding environment.

It is important to state that The Bahamas is committed to implementing a capital adequacy regime which is appropriate to the maintenance of a strong international banking centre. The Central Bank of Bahamas requires its licensees, by law, to maintain capital arrangements which are at least consistent with the existing Basel requirements.

The Bahamas implemented the current Accord in 1992, with the exception of the market risk amendments which are scheduled to be introduced in 2004. Because of the Bahamian exchange control requirements and the limited capital market activities of domestic banks, we expect that our retail banks will be below the Basel materiality thresholds for market risk.

We have also experienced that consolidated supervision has proven to be an essential tool for the supervision of banks. This comprehensive approach takes into consideration the risks and activities of the entire banking group or financial conglomerate, including direct subsidiaries and branches, and also non-bank companies and other financial affiliates and special purpose vehicles. The supervisory authority must satisfy itself of the proper management and supervision of the inherent risks of the groups' activities, wherever they are booked and therefore must go well beyond the accounting concept of "consolidation" or the preparation of consolidated accounts, in seeking to monitor and supervise the activities of financial groupings.

Consolidated supervision is a particularly important matter for The Bahamas as this jurisdiction hosts 288 licensees from over 30 countries. As a host jurisdiction, therefore, there are any number of peculiarities which must be understood and responded to, if this critical system is to function as it must.

Cross Border Considerations

First, the vast majority of our banks have extensive international activities. Therefore, cross border supervision becomes extremely important. The Bahamas, as a member of the Offshore Group of Banking Supervisors (OGBS) endorsed the Report on the Supervision of Cross Border Banking in 1996 and we have taken important steps in the implementation of the report's recommendations.

The Bahamas' revised supervisory legislation introduced in 2000 in some respects codified practices that were already in place and broadened and deepened the scope for consolidated supervision, information sharing and co-operation with foreign supervisory authorities. Since 2001, The Bahamas has frequently accommodated onsite inspections by home country regulators. We have also made the inspection of overseas branches and subsidiaries of our licensees a priority for 2004. Negotiations of Memorandums of Understandings (MOUs) between The Bahamas and a number of home-country supervisors have either been concluded or are being actively pursued by ourselves.

Upward Consolidated Supervision

Second, we realize fully, that we must be concerned not only with "downward consolidated supervision", that is of subsidiaries and branches of our licensees, but also with what we term "upward consolidated supervision", or addressing supervisory issues as they relate to the parent entities of licensees.

In terms of upward consolidated supervision, the Central Bank must be assured of the financial viability of the parent institution, and the control and oversight provided by the parent office and also the quality of supervision by the parent bank's regulator. This is especially important to control the risks from intra-group exposures.

The flow of information is, of course, important for upward consolidated supervision. The focus has traditionally been on the flows of information from the subsidiary to the parent company for the purpose of accounting consolidation. However, it is more and more imperative that home supervisors be proactive in raising material issues and concerns with their host country counterparts and respond to host country supervisory requests for information in a timely and satisfactory manner.

Basel II and Consolidated Supervision

Basel II requires enhancements to the traditional concept of consolidated supervision. The Basel Committee has stated firmly, that the New Accord should be applied on a consolidated basis to internationally active banks. Additionally the scope of application will extend to any holding company that is the parent entity within a banking group and to every tier within a banking group.

I would now like to address some specific issues of each component of Basel II in terms of Consolidated Supervision.

Pillar 1 Issues

It has been observed that Basel II provides supervisors with a large number of options for implementation. The Central Bank of The Bahamas is excited about the ability to tailor the Accord to our needs, but recognizes the complexity involved.

Firstly, The Bahamas is a host jurisdiction for a number subsidiaries and branches of US and EU banks. We, therefore, must play close attention to the position taken by these countries with respect to the implementation of Basel II. We have noted, with interest, Federal Reserve Board Vice Chairman Roger Ferguson's comments that the United States intends only to apply the advanced approaches of Basel II to the largest, most internationally active US banks. He estimated that some 20 US banks, which represent approximately 99% of US bank foreign assets, would be expected to adopt Basel II from the onset. The remaining 8,000 US banks would be permitted to continue operating in accordance with the existing Accord.

The European Union appears to be taking the position, that its banks will be allowed flexibility in terms of options under the new accord, but that most, if not all banks will be required to move to Basel II.

It will be necessary, therefore, for The Bahamas, and all jurisdictions which host subsidiaries, branches or affiliates of US or EU banks, to be familiar with these different approaches to the New Accord.

As Basel II is applied on a consolidated basis to the entire banking group, we can expect that our licensees which are part of US and some EU banking groups will be expected to put in place the infrastructure for the measurement of capital adequacy consistent with Basel II. In the case of branches and subsidiaries of those 20 or so US banks, we can expect that our licensees will be using the advanced IRB approach. In the case of branches and subsidiaries of EU banks, we can expect a range of approaches being used.

For those subsidiaries and branches in our jurisdictions of banking groups using the advanced Internal Ratings Based (IRB) approach, there will be a need to construct the required data sets on the probability of default (PD), exposure at default (EAD), loss given default (LGD) and maturity (M). This will take time and considerable expertise. Banks in host jurisdictions, like The Bahamas, however, may find it less challenging to move to the more advanced approaches under Basel II, as the required data for the IRB approach often relates to the home country and in most instances would the same or similar to the parent bank. Nevertheless, we will be required to understand and audit the banks' internal models.

Supervisors in host countries may be faced with the situation where, their licensees are using advanced approaches because of requirements of the home office, while the jurisdiction has not yet fully implemented Basel I. This scenario brings to mind Roland Raskopf's well known PowerPoint slide of a turtle resting upon a Ferrari. The Ferrari is meant to represent the banking industry, and the turtle represents the Supervisor. The situation is similar here. This is not to say however, that adequate supervision of the licensee's capital adequacy cannot be provided where the licensee is implementing a more advanced approach. Two options are likely.

First, the host supervisor may require its licensees, in addition to the reporting of capital by the IRB method to the home office, to measure capital adequacy on a consolidated and solo basis using Basel I or the simpler Basel II options. This would result in banks having dual systems for the measurement and monitoring of capital; one for the purpose of consolidation into the numbers of the group, and the other to fulfil its statutory requirements to its local regulator. Such an approach may not result in competitive disadvantages for our banks as we already mandate fairly high minimum levels of capital. Additionally, in The Bahamas, because of the liability driven nature of private banking, average capital ratios are considerably higher than 8%.

A second option entails the expansion of the concept of consolidated supervision. In this scenario, the host supervisory authority may need to rely on the home supervisor's assessment of the group's capital adequacy, including the testing of the bank's and the group's internal models in the short to median term. As such, new MOUs may need to be developed and existing MOUs expanded to establish the protocols for these examinations. Here, we would need to ensure that the home supervisor is capable of, and willing to provide adequate supervision for the global use and the back-testing of models through the international banking group.

These joint inspections may also enable the transfer of expertise from countries with a long history of models testing to jurisdictions in our region where banks have traditionally operated much more simply.

Pillar 1 and Ratings Agency

While the Internal Ratings Based Approach poses several important challenges for small jurisdictions, utilization of the Standardized Approach also has peculiarities for implementation in The Bahamas and will require an even richer relationship with home supervisors.

We note that the Standardized Approach requires the use of credit ratings agencies which currently, for the most part, do not exist in the Caribbean Region. Under Basel II, Supervisors will be required to approve the credit ratings agencies using strict criteria. This will mean that The Bahamas, where necessary, will need to approve the use of credit ratings agencies in over 30 countries. I say this because it makes little sense for a ratings agency in The Bahamas to rate the risks of a licensee which is a subsidiary of, for example, a Brazilian bank with Brazilian exposures. It would be better for that Bahamian subsidiary of the Brazilian bank to utilize an approved credit rating agency in Brazil, perhaps the same credit ratings agency used by the parent bank. Therefore, there will be a need to enhance the co-ordination and information sharing between home and host supervisors to ensure that the Standardized Approach functions in this regard.

Pillar 2 Issues

The Bahamas supports the introduction of Pillar 2 – Supervisory Review, into the new capital adequacy framework. The implementation of Pillar 2 should not be a major challenge for the Central Bank of The Bahamas, as powers to require a licensee to hold additional capital above the 8% requirement already exist under current legislation.

Once again, in terms of internationally active banks, Pillar 2 can be strengthened by better consolidated supervision and better flows of information between supervisors. We urge home supervisors to remember that information flows must be bi-directional to ensure effective consolidated supervision. While a problem arising in a subsidiary may result in difficulties with the parent bank, a problem within the parent entity signals, with almost certainty, problems within the subsidiary entities.

Going forward, the Central Bank of The Bahamas plans to seek negative assurance from all home regulators that nothing during the period of review has come to their attention that would inhibit the parent bank's ability to provide support should it be required. We have also strengthened our requirements for letters of comfort by requiring the notification of the home supervisor. In this way, we seek to detect problems before they endanger the solvency of the bank.

Pillar 3 Issues – Market Discipline

Market discipline through disclosure of both quantitative and qualitative information is an important mechanism for reducing the potential for moral hazard by allowing enhanced monitoring of the bank's activities by its shareholder and depositors. More frequent and informative disclosures, also serve to promote better consolidated supervision by increasing the flow of information to the home supervisor and supervisors of other group institutions. As such, we support the introduction of this Pillar.

We note that the more sophisticated and dynamic the market, the better disclosure serves as a disciplining measure. The international banking market is, therefore, well suited for such a mechanism as market participants and stakeholders tend to be sophisticated.

The Bahamas has always required the publication of audited financial accounts of licensees. The Central Bank plans to expand this requirement through the introduction of a new guideline on minimum disclosure requirements. We are also happy to see that the New Accord tidies up some interpretative difficulties over what is to be consolidated into a bank's balance sheet and capital adequacy calculation which are sometimes less than absolutely clear under the present Accord.

However, under Basel II there will be an extra cost for licensees as disclosures will have to be made more frequently. The disclosures, as outlined in Pillar 3, are also quite extensive. We recognize that considerations will also need to be given to the resource constraints for the local audit firms as the required disclosures and the frequency of disclosure expand. Nevertheless, we are certain that the benefits of the disciplining effects of the market through increased transparency and disclosure will outweigh the costs.

Conclusion

The topics of Consolidated Supervision and Basel II are natural partners. In some instances, consolidated supervision is the vehicle through which Basel II will be properly implemented. In other cases, the new requirements stemming from Basel II require enhanced consolidated supervision. The Bahamas remains positive about the implementation of Basel II. We feel that it allows for greater risk sensitivity and transfers greater responsibility for determination of capital requirements to the industry. These are appropriate reforms. However, we must be cognizant of the many challenges which the New Accord poses for the regulatory system and for supervisors and prepare to overcome them.

We, in the Bahamas, are certain that improvements to the standards of supervision of banks in general, and to consolidated supervision, including the supervision of cross border establishments, can contribute importantly to the effectiveness of Basel II. Forms which address these issues are therefore important steps in the right direction.