Quarterly Economic Review

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OVERVIEW

Indications are that the Bahamian economy's mildly positive growth momentum was sustained during the first quarter of 2015, aided by the recovery in the key stopover segment of the tourism market and foreign investment projects, which supported both construction activity and employment. Benefitting from the decline in global oil prices, domestic inflation remained relatively mild, although broad-based gains in several indices of the Retail Price Index were noted, following the implementation of the Value Added Tax (VAT) in January.

On the fiscal side, VAT-led gains in revenue secured a surplus in the overall balance for the third quarter of FY2014/15—the first in four (4) years. However, borrowings for the period covered pre-planned domestic long-term debt issues and external project-based loan drawdowns.

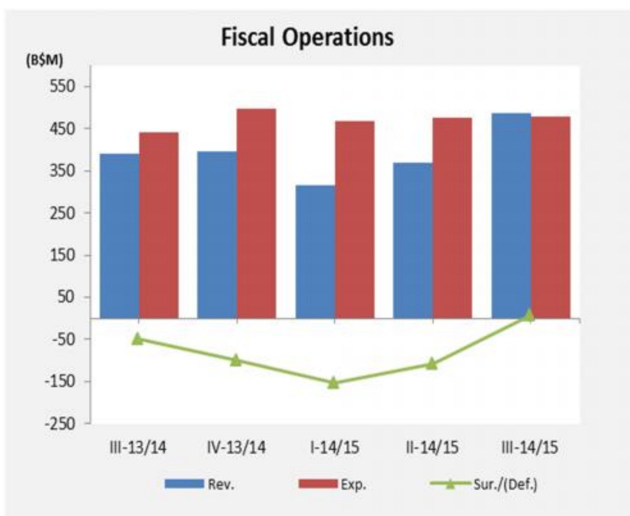
Quarterly monetary developments featured modest gains in both bank liquidity and external reserves, amid net foreign currency inflows from real sector activities, and relatively subdued private sector credit demand. Although still at elevated levels, banks' credit quality indicators improved during the period, partly due to seasonal employment-related factors.

On the external front, the estimated current account deficit deteriorated, owing mainly to a surge in net income outflows and a reduction in the services account surplus. In addition, the capital and financial account surplus contracted sharply, in comparison to 2014, when Government received net proceeds from its external bond issue.

FISCAL OPERATIONS

OVERVIEW

Buoyed by receipts from the newly implemented Value Added Tax (VAT), total revenue firmed by 24.8% to $488.4 million during the third quarter of FY2014/15, outstripping the 8.9% increase in aggregate expenditure to $479.9 million. The resultant overall surplus of $8.5 million contrasted with a deficit of $49.4 million in the comparable FY2013/14 period.



REVENUE

Tax revenue—which comprised 89.7% of total receipts—strengthened by 24.5% ($86.1 million) to $438.1 million, supported by $74.9 million in VAT collections during the first three months of its implementation. Higher intakes were also noted for non-trade related stamp taxes, of $23.0 million (55.5%) to $64.5 million, linked to property and financial transactions. Selective taxes on services also grew by $9.0 million (59.8%) to $24.0 million, as the payment of back-taxes by "web shop" operators boosted gaming tax collections more than three-fold, to $17.6 million—to offset the $3.9 million reduction in hotel occupancy taxes to $6.3 million. Growth in stopover visitors supported a $6.5 million (18.9%) improvement in departure taxes, to $40.9 million, while property taxes rose modestly by $1.5 million (4.6%) to $33.0 million. Providing some offset, taxes on international trade, the largest component at 28.5% of tax receipts, contracted by 11.1% ($15.5 million) to $124.8 million, as tariff rate reductions to compensate for the introduction of the VAT contributed to a falloff in import and excise tax receipts, by 10.6% and 16.4%, respectively. However, export taxes increased by $3.0 million.

Government Revenue By Source
(Jan. - Mar.)

	FY13/14		FY14/15	
	B$M	%	B$M	%
Property Tax	31.5	8.1	33.0	6.8
Selective Services Tax	15.0	3.8	24.0	4.9
Busines. & Prof Lic. Fees	90.3	23.1	78.7	16.1
Motor Vehicle Tax	9.1	2.3	8.4	1.7
Departure Tax	34.4	8.8	40.9	8.4
Import Duties	76.4	19.5	68.3	14.0
Stamp Tax from Imports	--	--	--	--
Excise Tax	63.4	16.2	53.1	10.9
Export Tax	0.5	0.1	3.4	0.7
Stamp Tax from Exports	--	--	--	--
Other Stamp Tax	41.5	10.6	64.5	13.2
Value Added Tax	--	--	74.9	15.3
Other Tax Revenue	-7.2	-1.8	-1.0	-0.2
Fines, Forfeits, etc.	34.9	8.9	42.6	8.7
Sales of Govt. Property	0.1	--	--	--
Income	4.3	1.1	7.2	1.5
Other Non-Tax Rev.	--	--	--	--
Capital Revenue	--	--	--	--
Grants	--	--	0.4	0.1
Less:Refunds	3.0	0.8	10.1	2.1
Total	**391.2**	**100.0**	**488.4**	**100.0**

Non-tax collections, at 10.2% of total revenue, grew by 27.2% ($10.7 million) to $49.9 million, bolstered by a timing-related rise in proceeds from fines, forfeits & administration fees, of 22.2% ($7.7 million) to $42.6 million. Income-related revenue increased by two-thirds ($2.9 million) to $7.2 million, led by an almost doubling in receipts from other "miscellaneous" sources, inclusive of interest, dividends and rent, to $5.6 million, and a $0.2 million gain in collections from public enterprises to $1.6 million. Meanwhile, proceeds from the sale of Government property were relatively stable at $0.05 million.

EXPENDITURE

Growth in spending was broad-based, with capital outlays higher by 20.5% ($7.9 million) at $46.6 million and current expenditure, by 6.4% ($24.9 million) at $413.0 million. Central Government's budgetary support to public corporations also advanced by 46.2% ($6.4 million) to $20.3 million.

By economic classification, the expansion in current disbursements was mainly linked to an 11.5% ($18.5 million) hike in transfer payments, to $179.0 million—comprising a 27.1% surge in outlays for interest payments to $66.7 million, in line with the rising level of debt, and growth in subsidies and other transfers of 4.0% ($4.3 million) to $112.3 million. The latter was explained by increases in transfers to non-profit institutions ($7.0 million), subsidies ($5.7 million), transfer to households ($2.5 million) and transfers to non-financial public enterprises ($0.7 million), which negated reductions in transfers abroad ($8.4 million) and to public corporations ($3.1 million). Consumption outlays grew by 2.8% ($6.3 million) to $234.0 million, as gains in personal emoluments, by 8.1% ($11.9 million), outpaced the 7.0% ($5.5 million) decrease in purchases of goods & services.

On a functional basis, growth in current outlays was primarily in economic services, which advanced by 34.5% ($14.8 million) to $57.5 million, mainly associated with spending gains for tourism ($13.0 million), public works & water supply ($1.2 million) and transportation services ($0.6 million). Higher disbursements were also registered for general public services, of 10.8% ($12.5 million) to $128.1 million and social benefits and services, of 3.1% ($1.1 million) to $35.7 million. More muted increases were noted for other community & social services, of 5.8% ($0.2 million) to $4.2 million, defense, of 1.3% ($0.2 million) to $13.0

million and education, of 0.9% ($0.6 million) to $61.8 million. Conversely, outlays for health services contracted by 29.1% ($18.6 million) to $45.4 million, while spending on housing stabilised at $0.8 million.

The expansion in capital outlays was led by a 56.5% ($3.9 million) boost in asset acquisitions to $10.9 million, as growth in "miscellaneous" expenditures of $5.9 million overshadowed declines in land purchases and equity investments, of $1.7 million and $0.3 million, respectively. Similarly, spending on infrastructure development advanced by 14.5% ($4.5 million) to $35.7 million; however, transfers to non-financial public enterprises were reduced by $0.5 million to a mere $0.1 million. By functional classification, growth in capital expenditure was fuelled by a more than two-fold rise in general public service outlays ($9.5 million) to $15.8 million, attributed solely to a hike in expenses for general administration. In addition, spending on defense moved higher by $5.5 million to $5.9 million and on other community & social services, by an incremental $0.4 million to $2.0 million.

FINANCING AND THE NATIONAL DEBT

In line with pre-planned financing arrangements, the Government issued $70.0 million in domestic bonds during the period, and had external loan drawdowns of $12.4 million. Government repaid approximately $82.2 million in outstanding obligations, the bulk of which ($80.0 million) went towards retiring Bahamian dollar debt.

As a consequence of these developments and after including changes in other financing items, the Direct Charge on the Government was relatively unchanged at $5,602.5 million over the quarter, but grew by $579.0 million (11.5%), year-on-year. Bahamian dollar denominated debt, at a dominant 71.4% of the total, was held primarily by commercial banks (40.5%), followed by "other" private and institutional investors (30.8%), with public corporations, the Central Bank and other local financial institutions holding smaller shares, of 16.5%, 12.0% and 0.2%, respectively. By type of instrument, Government securities constituted the majority of the local currency debt, at 76.0%, with the average age of maturity approximating 9.9 years. Next were Treasury bills (14.5%), loans (6.1%) and Central Bank advances (3.4%).

Government's contingent liabilities expanded by $17.6 million (2.6%) over the quarter, and by $60.0 million (9.4%) on an annual basis, to $701.6 million, mainly attributed to a rise in the outstanding debt of the Public Hospital Authority. Given this outturn, the National Debt—which includes contingent liabilities—increased by $17.9 million (0.3%) over the three-month period, and, by $639.0 million (11.3%), year-on-year, to $6,304.2 million.

PUBLIC SECTOR FOREIGN CURRENCY DEBT

Public sector foreign currency debt grew by 1.1% ($26.9 million) over the prior quarter, to $2,484.6 million, as new drawings of $33.5 million outpaced amortizations of $6.6 million. The Government's component—which accounted for 64.5% of the total—increased marginally by 0.6% ($10.3 million), to $1,602.9 million, while the public corporations' portion firmed by 1.9% ($16.6 million) to $881.7 million.

In comparison to 2014, total foreign debt service payments declined by 78.0% ($113.8 million) to $32.2 million, given the sharp reduction in the Government's segment, to $18.1 million from $131.3 million in the prior year, when approximately $125.0 million in short-term bridging financing was repaid; however, while amortization payments fell by $124.3 million to $2.2 million, interest charges firmed over three-fold to $15.9 million. The public corporations' debt service payments were lower by 4.1% ($0.6 million) at $14.1 million, as the $1.2 million decline in amortizations to $4.5 million, offset the $0.6 million rise in interest charges. As a consequence of these developments, both the debt service and debt service to total Government revenue ratios improved, by 12.1 and 29.9 percentage points, to 3.9% and 3.7%, respectively.

Disaggregated by creditor profile, non-resident institutional investors held the largest share of foreign currency debt (38.2%), followed by private capital markets (36.2%), commercial banks (11.5%), multilateral institutions (11.2%) and bilateral agencies (2.9%). At end-March, the average maturity of the outstanding debt stock was 12.8 years and the majority (88.4%) was denominated in US dollars, with the euro and Chinese Yuan accounting for smaller proportions, of 8.8% and 2.8%, respectively.

REAL SECTOR

TOURISM

Initial data suggests steady gains in the tourism sector during the first quarter, occasioned by a rebound in the high value-added stopover segment of the market, amid the improvement in group business and improved airlift from key source markets. Although total visitor arrival growth stabilized at 0.8% to 1.8 million, the expansion in air traffic strengthened to 8.9% from a mere 0.2% a year earlier, to total approximately 0.4 million visitors. Meanwhile, the dominant sea component, at 78.8% of the total, declined by 1.2% to 1.4 million, to reverse last year's marginal 0.9% expansion.

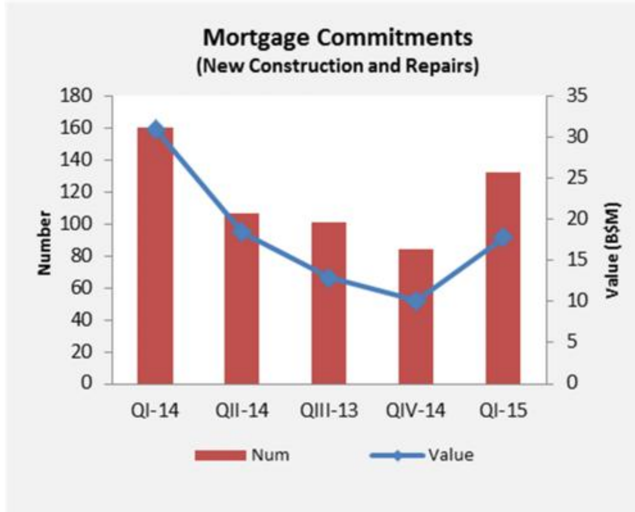
Disaggregated by first port of entry, total visitors to New Providence contracted by 8.0% to 0.9 million, vis-à-vis the prior period's 2.4% expansion, as the 12.7% falloff in sea passengers outstripped the 5.8% rebound in the air component. Growth in visitors to the Family Islands slowed to 4.2% from 6.5% in 2014, based on significantly tapered gains in sea visitors, by more than half to 3.3%, which offset the 13.4% boost in air traffic. Buoyed by the launch of a new resort in the second quarter of 2014, as well as the start of another cruise ferry service, total visitors to Grand Bahama surged by 43.6%, a turnaround from 2014's 22.0% contraction, as both sea and air visitors improved, by 48.7% and 24.7%, respectively.

Consistent with the expansion in the stopover segment, preliminary hotel sector data for a sample of large properties on New Providence and Paradise Island showed an 8.0% expansion in hotel room revenues during the first quarter, relative to the corresponding period last year. The outturn was attributed to a 7.3 percentage point rise in the average hotel occupancy rate to 75.7% and an 8.3% increase in the average daily room rate (ADR) to $285.79.

CONSTRUCTION

Quarterly construction output was underpinned by several foreign investment projects in both New Providence and the Family Islands, while the elevated levels of private sector loan arrears and unemployment continued to exert a drag on domestic private sector activity. Total mortgage disbursements for new construction and repairs—as reported by commercial banks, insurance companies, and the Bahamas Mortgage Corporation—contracted by 19.9% to $21.2 million, a reversal from a 24.1%

expansion in 2014. Specifically, the commercial segment declined sharply, by $6.2 million, to a mere $0.3 million, following growth of $6.5 million in 2014. In a modest offset, residential activity recovered by 4.9% to $20.9 million, from the year-earlier $1.4 million (6.6%) reduction.



Indications are that near-term conditions in the housing sector are poised to remain weak. Mortgage commitments for new buildings and repairs—a forward looking indicator—declined by 17.5% in number to 132 and by 42.4% in value to $17.8 million. Underpinning this outturn, the dominant residential component—at 72.0% of the total—fell in number, by 28 to 131, and by $15.8 million in value to $12.8 million. Commercial loan approvals held steady at one (1), although the value more than doubled to $5.0 million from $2.3 million.

Lending conditions posted moderate firming, with the average interest rate on residential loans higher by 10 basis points at 8.0%, year-on-year. However, the average interest rate on commercial mortgages stabilized at 8.5%.

PRICES

Domestic consumer price inflation remained mild, despite some firming in average costs following the implementation of the new broad-based Value Added Tax (VAT), in January 2015. The average Retail Price Index for The Bahamas advanced by 74 basis points over the first quarter to 1.79%, in comparison to the same period of 2014[1]. Underlying this development, gains in average prices surged for health care, by 11.5 percentage points, to 11.99% and recreation & culture, by 6.4 percentage points to 7.01%. Significant increases were also noted for average costs of food & non-alcoholic beverages, furnishing, household equipment, & routine household maintenance and alcoholic beverages and tobacco & narcotics, by 5.9, 5.8 and 4.7 percentage points, to 7.02%, 6.70%, 5.36% and 9.54%, respectively. More muted accretions to average costs were recorded for education (by 2.4

Retail Price Index
(Annual % Changes; March)

		2014		2015	
Items	Weight	Index	%	Index	%
Food & Non-Alcoholic	102.4	98.97	n.a.	101.12	2.2
Alcohol, Tobacco & Narcotics	5.94	94.80	n.a.	101.08	6.6
Clothing & Footwear	44.99	99.21	n.a.	100.25	1.0
Housing, Water, Gas,	321.7	99.44	n.a.	99.38	-0.1
Furn. & Household,	45.7	97.79	n.a.	99.90	2.2
Health	43.99	97.73	n.a.	100.34	2.7
Transportation	125	100.04	n.a.	102.69	2.7
Communication	40.9	99.79	n.a.	100.48	0.7
Rec., & Culture	24.59	95.79	n.a.	99.70	4.1
Education	42.36	96.52	n.a.	99.15	2.7
Restaurant & Hotels	56.84	97.81	n.a.	99.66	1.9
Misc. Goods & Svcs.	145.6	99.76	n.a.	100.69	0.9
ALL ITEMS	**1,000**	**99.07**	n.a.	**100.31**	**1.3**

[1] The Index has been rebased to November 2014 and features revised weights for the RPI components, which reflect changes in households' consumption patterns. For further details, see the Department of Statistics website (www.statistics.bahamas.gov.bs).

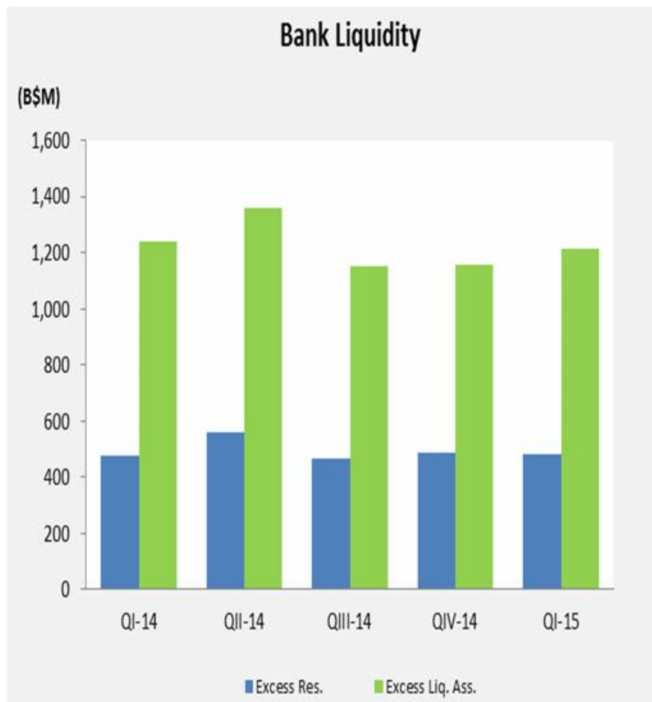
percentage points to 2.65%), restaurant & hotels (by 2.0 percentage points to 5.10%) and miscellaneous goods & services (by 0.4 percentage points to 1.61%). After registering a decline of 1.93% in the prior year, average prices for clothing & footwear advanced by 5.34%, and communication costs increased by 5.36%, compared to a flat outturn a year earlier. Indicative of the fall in global oil prices, average costs for transportation and housing, water, electricity, gas, and other fuels—the most heavily weighted category—fell by 6.57% and 0.48%, vis-à-vis respective year-earlier gains of 4.05% and 0.34%.

Domestic energy costs sustained their downward trajectory during the first quarter, with the average prices of both gasoline and diesel lower, by 16.3% and 17.6%, at $4.06 and $3.85 per gallon, over the quarter, and by 22.2% and 24.7%, respectively, year-on-year. Similarly, the Bahamas Electricity Corporation's fuel charge decreased, on both a quarterly and annual basis, by 16.3% and 7.9%, to 21.74¢ per kilowatt hour (kWh).

MONEY, CREDIT AND INTEREST RATES

OVERVIEW

During the first quarter of 2015, monetary developments were marked by modest increases in both liquidity and external reserves, in contrast with the prior year's external debt-led surge in both indicators. In the context of relatively high unemployment and tight lending standards, private sector credit contracted; however, banks' credit quality indicators improved, partly due to seasonal factors. Banks' interest rate spread narrowed, as the weighted average deposit rate rose, while the corresponding loan rate declined.



LIQUIDITY

Net free cash reserves of the banking system contracted slightly, by $3.2 million (0.7%), to $484.8 million, a turnaround from the year-earlier gain of $70.7 million (17.4%), and represented a relatively stable 7.9% of deposit liabilities. Reflecting increased holdings of Government paper, the broader excess liquid assets expanded by $55.4 million (4.8%) to $1,212.2 million, although below the $104.3 million (9.2%) advance in 2014. At end-December, the surplus liquid assets stood 116.8% above the statutory minimum, compared with 124.9% in the comparative period last year.

DEPOSITS AND MONEY

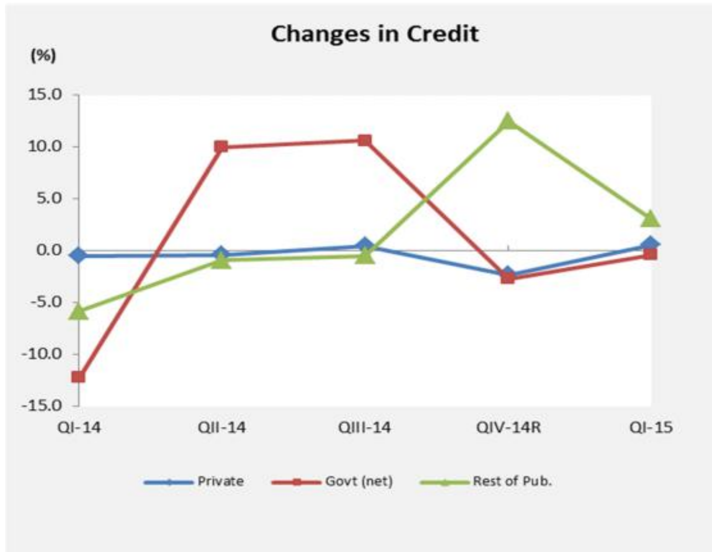
Quarterly growth in overall money accelerated to $61.8 million (1.0%) from $19.3 million (0.3%) last year, for an outstanding stock of $6,452.3 million. In a key outcome, gains in narrow money (M1) quickened to $59.0 million (3.0%) from $13.5 million (0.8%) in 2014, solely attributed to strengthened increases in demand deposits of $59.0 million (3.3%), as currency in activity circulation stabilized at $232.9 million for the second consecutive year.

The increase in broad money (M2) narrowed to $15.4 million (0.2%) from $21.0 million (0.3%) a year earlier, as private sector withdrawals in anticipation of an upcoming bond issue extended the contraction in fixed deposits to $75.4 million (2.4%) from $7.1 million (0.2%) in 2014. However, this was partially offset by strengthened growth in savings balances to $31.8 million (3.0%) from $14.6 million (1.3%) a year earlier. Foreign currency deposits recovered by $46.4 million (20.6%) from the prior year's $1.7 million (0.6%) falloff.

The largest share of the money stock comprised fixed deposits (46.9%), followed by demand (28.3%) and savings (17.0%) balances. Residents' foreign currency deposits and currency in circulation accounted for much smaller shares, of 4.2% and 3.6%, respectively.

DOMESTIC CREDIT

During the first quarter, the contraction in total domestic credit tapered to $31.1 million (0.4%) from $298.6 million (3.3%) in the corresponding quarter of 2014. This outcome was primarily explained by developments in the foreign currency component, which firmed by $10.7 million (1.8%) in contrast to the year-earlier steep decline of $139.1 million (16.5%) when the Government repaid a short-term bridging loan. Bahamian dollar credit, at 93.1% of the total, fell by $41.8 million (0.5%), a slowdown from the $159.5 million (2.0%) decrease recorded a year ago.



A disaggregation of Bahamian dollar credit showed that the decrease in claims on the public corporations, moderated to a mere $0.6 million (0.3%) from a $23.1 million (17.7%) in 2014 period. Further, the falloff in net claims on the Government slowed sharply to $13.2 million (0.7%) from $112.5 million (6.2%) in 2014, when proceeds from the Government's external bond issue were used to repay short-term debt. Reflecting the persistent softness in economic conditions and high unemployment levels, private sector credit fell by $27.9 million (0.5%) over the review quarter, not materially different from the $24.0 million (0.4%) decline recorded in 2014.

Distribution of Bank Credit By Sector

(End-March)

	2014		2015	
	B$M	%	B$M	%
Agriculture	10.9	0.2	9.9	0.1
Fisheries	8.9	0.1	8.0	0.1
Mining & Quarry	2.5	0.0	2.3	0.0
Manufacturing	52.8	0.8	30.7	0.4
Distribution	214.8	3.1	190.0	2.7
Tourism	47.8	0.7	32.0	0.5
Enter. & Catering	79.6	1.1	74.6	1.1
Transport	37.8	0.5	47.4	0.7
Construction	449.3	6.5	351.6	5.1
Government	153.8	2.2	356.5	5.1
Public Corps.	304.1	4.4	266.0	3.8
Private Financial	20.5	0.3	19.2	0.3
Prof. & Other Ser.	82.0	1.2	53.9	0.8
Personal	5,231.0	75.2	5,233.7	75.5
Miscellaneous	262.0	3.8	259.7	3.7
TOTAL	**6,957.9**	**100.0**	**6,935.5**	**100.0**

Personal loans, at a dominant 86.8% of Bahamian dollar private sector credit, fell by $27.3 million (0.5%)—to extend last year's $13.6 million (0.3%) contraction. In terms of the components, the reduction in residential mortgages and consumer loans was higher at $19.6 million (0.7%) and $14.7 million (0.7%), from the previous year's $4.7 million (0.2%) and $10.9 million (0.5%); however, growth in overdraft facilities advanced to $7.1 million (12.7%) from $1.1 million (1.7%).

A further breakout of consumer credit revealed significant net loan repayments for miscellaneous ($85.4 million), credit card ($7.8 million), land purchase ($4.8 million) and travel ($2.4 million) credits. In a partial offset, net credit for debt consolidation and private cars were higher by $83.5 million and $1.1 million, respectively, while increases of under $1.0 million were posted for the other categories.

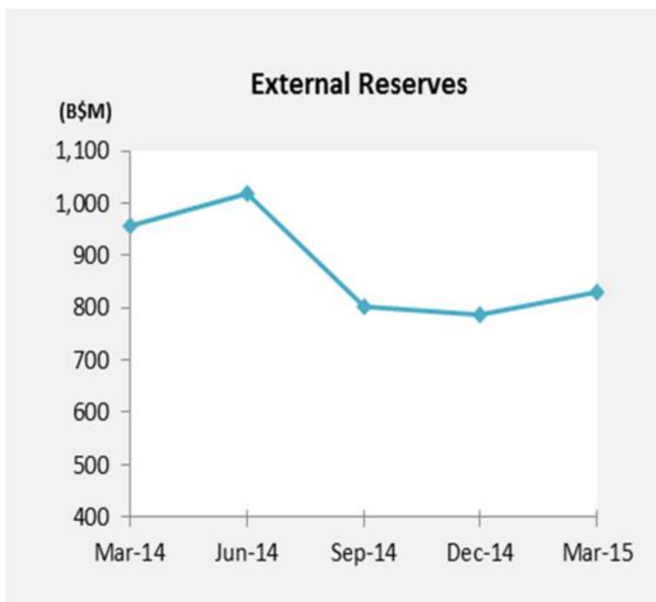
Among the balance of private sector loan components, net repayments were registered for construction ($4.6 million), professional & other services ($4.0 million), entertainment & catering ($2.1 million), manufacturing ($1.9 million), tourism ($1.6 million) and agriculture ($1.2 million). However, net gains were recorded for the miscellaneous, distribution and transportation categories, of $9.4 million, $4.3 million and $1.8 million, respectively.

MORTGAGES

Based on information provided by banks, insurance companies and the Bahamas Mortgage Corporation, total mortgages outstanding contracted by $23.6 million (0.7%) to $3,246.2 million, outpacing last year's $4.7 million (0.1%) decline. Residential mortgages—at 94.2% of the total—decreased by $19.3 million (0.6%) to $3,056.9 million, to exceed the $4.2 million (0.1%) reduction in 2014. Similarly, the falloff in commercial mortgages was extended to $4.3 million (2.2%) from $0.5 million (0.2%) in 2014, for an outstanding stock of $189.3 million. At end-March, domestic banks held the largest proportion of outstanding mortgages (88.8%), while insurance companies and the Bahamas Mortgage Corporation accounted for much smaller shares, of 6.1% and 5.1%, respectively.

THE CENTRAL BANK

Reduced holdings of Government paper explained the contraction in the Central Bank's net claim on the Government, by $66.5 million (12.8%) to $454.4 million, and the year-earlier decline of $119.7 million (24.4%) in the comparable quarter of 2014. As public corporations utilized their balances held with the Central Bank for transactional purposes, their net claim fell by $12.6 million (57.4%) to $9.3 million, vis-a-vis a $7.1 million gain in the prior period. Following a $146.7 million (22.7%) surge associated with the Government's liquidation of short-term debt obligations last year, the Bank's net liabilities to commercial banks contracted by $18.7 million (2.5%) to $726.0 million.



Supported by inflows from real sector activities, external reserves expanded by $41.4 million (5.3%) to $829.1 million—although significantly below last year's debt-led $215.8 million (29.1%) buildup. In particular, the Bank's net foreign currency purchase moderated to $39.3 million from $211.9 million a year earlier, as the net intake from the Government slowed sharply to $28.8 million from $193.1 million in 2014, while the net sale to the public corporations rose by 8.6% to $116.2 million. In contrast, the Bank's net receipts from commercial banks increased marginally by $1.0 million to $126.8 million, in line with their net purchase from clients.

At end-March 2015, the stock of external reserves was equivalent to an estimated 12.4 weeks of total merchandise imports, compared to 14.7 weeks at end-March 2014 which was boosted by the impact of

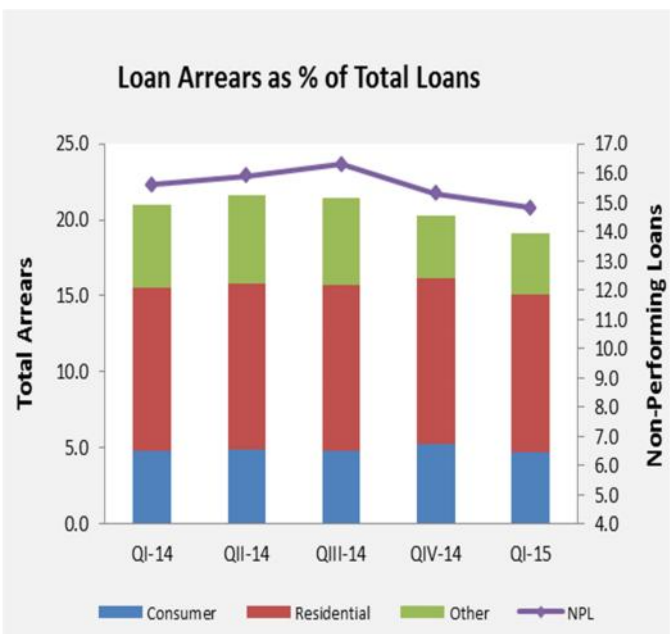
Government's foreign currency borrowings. After adjusting for the 50% statutory requirement on the Central Bank's Bahamian dollar liabilities, "Usable" reserves contracted by $100.2 million (23.5%) to $327.0 million.

DOMESTIC BANKS

Reflecting a rebound in credit to the public sector, lending by domestic banks expanded by $35.4 million (0.4%), following on the previous year's $178.3 million (2.1%) contraction. Amid increases in short-term liabilities, net claims on the Government grew by $58.5 million (3.9%), a turnaround from a sharp $117.0 million (8.0%) reduction in the same period of 2014 when proceeds from an external bond issue were utilised to repay outstanding domestic obligations. Similarly, credit to the public corporations rose by $14.7 million (3.1%), compared to the prior year's decrease of $25.8 million (5.7%). In contrast, given the weak demand conditions and the continuation of banks' conservative lending practices in the face of elevated loan arrears, credit to the private sector fell by $37.8 million (0.6%), extending last year's $35.5 million (0.5%) contraction. Dividend payments were the primary factor influencing a reduction in banks' net foreign liabilities, by $33.4 million (6.7%), although a slowdown from the $101.7 million (14.6%) decline recorded in 2014 after Government reduced its outstanding liabilities to the banks.

Total deposit liabilities grew by $84.6 million (1.3%) to $6,428.9 million, outstripping the $37.1 million (0.6%) rise in 2014. This was partly attributed to a $29.0 million (8.4%) build up in public corporations' balances, which reversed the previous year's $0.6 million (0.2%) contraction. Further, growth in private sector deposits accelerated more than three-fold, to $45.2 million (0.8%) from $13.5 million (0.2%).

At end-March, the bulk (95.8%) of total deposits were denominated in Bahamian dollars, while US dollars and other currencies accounted for much smaller shares, of 4.0% and 0.2%, respectively. In terms of depositors, private individuals held the majority (51.6%) of total local currency accounts, followed by business firms (30.0%), private financial institutions (5.6%), public corporations (4.5%), "other" entities (3.8%), the Government (3.6%) and public financial institutions (0.9%).



Fixed deposits represented the largest share of deposits, at 51.4%, followed by demand and savings balances, at 30.7% and 17.9%, respectively. The majority of accounts (88.0%) held balances of less than $10,000, although representing only 5.9% of the total value. Accounts with balances between $10,000 and $50,000 constituted 8.0% of the total number and approximately 10.8% of the overall value, while those in excess of $50,000 made up only 4.0% of the number, but a dominant 83.3% of the aggregate value.

CREDIT QUALITY

Reflecting debt consolidation activities, alongside the seasonal improvement in employment conditions during the winter tourist season, total private sector arrears contracted by $77.2 million (6.0%) to $1,216.2 million over the quarter, and by $100.4 million (7.6%) relative to the comparable period of 2014. As a consequence, the ratio of private sector arrears to total loans narrowed by 1.2 percentage points quarter-on-quarter, and by 1.3 percentage points year-on-year, to 20.3%.

The quarterly decline in total delinquencies was led by a $40.6 million (5.8%) reduction in the mortgage component, to $657.7 million, and by 1.3 percentage points to 23.3% of total loans. Similarly, consumer loan arrears contracted by $30.4 million (9.1%) to $302.1 million, lowering the associated loan ratio by 1.2 percentage points to 13.1%. For the commercial segment, the fall-off was more modest, by $6.2 million (2.4%) to $256.4 million, and by 76 basis points to 29.6% of total loans.

The improvement in delinquencies was broad-based, with the short-term (31-90 day) segment lower by $41.4 million (13.1%) at $273.9 million, for a 66 basis point reduction to 4.6% of total loans. Similarly, the non-performing component decreased by $35.8 million (3.7%) to $942.4 million, for a 52 basis point contraction in the corresponding loan ratio to 15.7%.

Commercial banks remained conservative in managing their loan portfolios, with a relatively unchanged provisioning level of $500.9 million. As a consequence, the ratio of provisions to arrears and non-performing loans advanced, by 2.4 and 1.9 percentage points, to 41.2% and 53.2%, respectively, while stabilising at 7.9% of total loans.

INTEREST RATES

Banks' weighted average interest rate spread narrowed by 42 basis points to 10.48 percentage points over the review period, associated with a 17 basis point decline in the average lending rate to 11.94% and a 25 basis point increase in the average deposit rate to 1.46%.

On the deposit side, the average rate on savings and demand balances firmed by 10 and 8 basis points to 0.96% and 0.37%, respectively, while the range on fixed deposit rates widened to 1.02% – 1.90% from 0.96% - 1.50% in the prior period.

In terms of lending, the average rates on commercial and residential mortgages fell, by 59 and 5 basis points, to 7.61% and 6.89%, respectively. In contrast, higher average rates were recorded for overdrafts (by 70 basis points to 10.48%) and consumer loans (by 2 basis points to 14.05%).

For other key interest rates, the average 90-day Treasury bill rate, the Central Bank's Discount Rate and commercial banks' Prime rate were all stable, at 0.58%, 4.50% and 4.75%, respectively.

Banking Sector Interest Rates

Period Average (%)

	Qtr. I 2014	Qtr. IV 2014	Qtr. I 2015
Deposit Rates			
Demand Deposits	0.31	0.30	0.37
Savings Deposits	1.06	0.86	0.96
Fixed Deposits			
Up to 3 months	1.19	0.99	1.07
Up to 6 months	1.46	0.96	1.02
Up to 12 months	1.98	1.50.	1.90
Over 12 months	1.84	1.29	1.55
Weighted Avg Deposit	**1.55**	**1.21**	**1.46**
Lending Rates			
Residential mortgages	7.24	6.94	6.89
Commercial mortgages	7.93	8.20	7.61
Consumer loans	13.76	14.03	14.05
Other Local Loans	7.83	8.50	7.54
Overdrafts	9.45	9.78	10.48
Weighted Avg Loan Rate	**11.11**	**12.11**	**11.94**

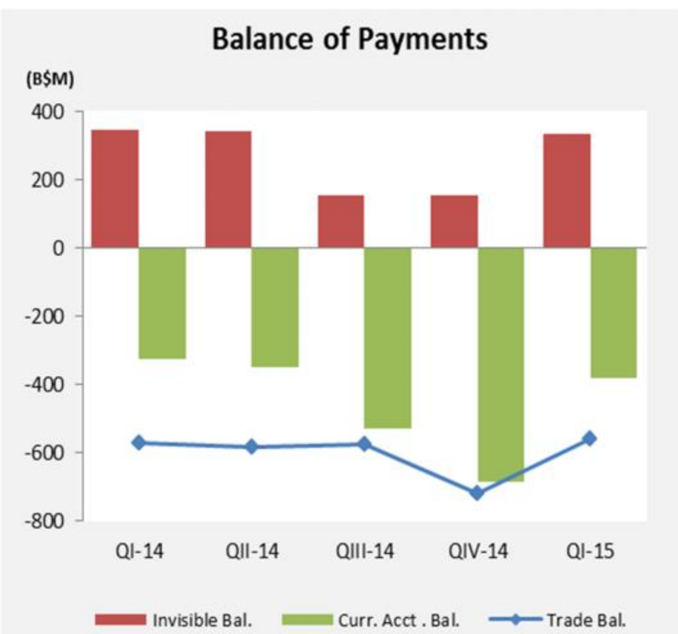
CAPITAL MARKETS DEVELOPMENTS

In domestic equity markets, gains in the share prices of several securities extended the advance in the Bahamas International Securities Exchange (BISX) All Share Index by 10.6% to 1,673.9 points at end-March, from the year earlier 8.9%. Similarly, market capitalization gained an estimated 14.2% to $3.7 billion, following an increase of 7.6% in the prior period. Activity on the Exchange remained relatively subdued, with the volume of shares traded falling by 23.7% (0.2 million) to 0.6 million, although the trading of higher priced securities influenced an increase in the corresponding value, by 28.0% ($0.9 million) to $4.2 million. During the quarter, the number of securities listed on the Exchange was higher by 2 at 29, reflecting new preference share listings by a telecommunications company, and comprised 20 common shares, 5 preference shares and 4 debt tranches.

INTERNATIONAL TRADE AND PAYMENTS

Provisional data for the first quarter of 2015 indicated that the current account deficit deteriorated by $58.7 million (18.1%) to $383.1 million, vis-à-vis the same period last year. This outturn was primarily associated with a surge in net outflows on the income account and a reduction in the services account surplus. In addition, the capital and financial account surplus narrowed more than three-fold, to $110.8 million, in comparison to the prior year when the Government floated an external bond.

The estimated merchandise trade deficit contracted by $10.7 million (1.9%) to $559.9 million, owing to an $83.9 million (10.4%) fuel-based decrease in imports to $698.1 million, which outstripped the $73.2 million (33.3%) fall in exports to $138.2 million. Payments for fuel imports declined by $60.1 million (31.5%) to $130.5 million, as both oil prices and volumes contracted. Specifically, the average cost per barrel for gas oil decreased, by 35.1% to $98.94, propane, by 44.2% to $41.96, motor gas, by 28.0% to $87.43, and jet-fuel by 17.6% to $98.26; however, aviation gas rose by 4.1% to $171.17 per barrel. Net non-oil merchandise imports firmed by $10.9 million (2.4%) to $469.8 million.



The estimated surplus on the services account narrowed by $14.4 million (4.2%) to $331.5 million. Reflecting the ongoing foreign investment activity, net payments for other “miscellaneous” and construction-related services firmed, by $14.6 million (20.7%) and $6.6 million (7.9%), to $85.2 million and $89.9 million, respectively. Similarly, increases were recorded for net outflows for royalty & license fee payments, of $5.0 million (70.5%) to $12.1 million and insurance services, of $0.6 million (1.9%) to $30.5 million. In a partial offset, reductions in local port & airport charges, passengers and air & sea freight services led to net transportation outflows falling by $2.9 million (4.0%) to $70.8 million. Further, net inflows for travel receipts expanded, by $27.6 million (4.9%) to $588.4 million, reflecting the improvement in stopover arrivals, and net inflows for Government services were up by $5.3 million (77.9%) to $12.2 million.

The deficit on the income account widened by $56.0 million (65.9%) to $140.8 million, underpinned by a hike in net investment outflows, by $49.4 million (69.7%) to $120.3 million over the prior year. Private companies’ net interest and dividends payments were higher by $33.8 million (49.2%) at $102.5 million, as commercial banks’ net outflows increased by $39.7 million (25.5%), alongside a $8.3 million (5.2%) gain in the non-bank component. In addition, net outflows for official transactions surged more than five-fold, to

$17.8 million from $2.2 million, due solely to a rise in Government's net interest payments. Net labour income remittances firmed by $6.6 million (46.9%) to $20.5 million.

Net current transfer outflows decreased marginally, by $1.0 million (6.6%) to $13.9 million, although the central Government's net inflow grew by $7.4 million (29.5%) to $32.7 million. In an offset, private sector net payments were higher by $6.5 million (16.2%) at $46.5 million, and included gains in "miscellaneous" transfer payments of $7.8 million to $19.2 million, which eclipsed the $1.3 million decline in net workers remittances to $27.4 million.

The falloff in the surplus on the capital and financial account was largely due to a sharp reduction in other "miscellaneous" investments net inflows, by $275.9 million to $112.7 million, as a reduction in the level of foreign borrowing by the Government led to a plunge in net public sector capital inflows to a mere $10.2 million from $309.8 million in 2014. In a slight offset, domestic banks net short-term outflows fell by $21.4 million to $33.4 million and private loan-based financing was marginally higher, by $2.2 million at $135.9 million. Net direct investment inflows contracted by $4.8 million to $9.6 million, which included a decrease in net receipts from land purchases to negligible levels from a $20.5 million net inflow in 2014. However, net equity investments were reversed to a net receipt of $9.6 million from a net outflow of $6.1 million. Net portfolio investment outflows fell by $6.3 million (60.3%) to $4.2 million, as no debt securities were acquired during the review period relative to a net purchase of $6.3 million last year. In addition, higher migrants' remittances elevated net capital transfers by $5.5 million to $7.4 million.

As a result of these developments, and after adjusting for net errors and omissions, the surplus on the overall balance, which corresponds to the change in the Central Bank's external reserves, narrowed sharply by $174.4 million to $41.4 million.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Despite the weather-related contraction in the United States' real GDP, indications are that the global economy sustained its gradual upward trajectory during the first quarter of 2015, supported by more tempered growth in Asian markets and muted gains in Europe. In this environment, unemployment rates among the major economies declined modestly, while inflation remained relatively subdued, as oil prices continued to trend lower. Amid the improving economic conditions, investors increased their demand for riskier assets, resulting in broad-based gains in equity markets. Meanwhile, most major central banks either retained or enhanced their accommodative monetary policy measures, to stimulate economic activity in their respective economies.

Preliminary estimates showed that the United States' real GDP contracted by 0.7% in the first quarter, a reversal from a 2.2% advance in the prior three-month period, as adverse winter weather conditions slowed growth in consumer spending, and exports and non-residential fixed investment contracted. Reflecting reductions in output in the construction, production and agricultural industries, economic growth in the United Kingdom tapered to 0.3% in the first quarter, after firming to 0.6% in the preceding period. The euro area's real GDP rose by 0.4%, which was in line with the 0.3% advance in the previous quarter, as the depreciation in the currency boosted exports and lower oil prices supported gains in consumption spending. Reduced growth in industrial production, fixed asset investments and consumer spending held China's first quarter real GDP gain to 7.0% from the prior period's 7.4%—the slowest quarterly pace in six (6) years. Buoyed by increases in both consumer and corporate spending, the Japanese economy strengthened by an annualized 2.4% during the review period—extending the 1.1% advance in the fourth quarter of 2014.

In line with the gradual improvement in economic conditions, global unemployment rates continued to trend downwards in the first quarter. In the United States, the jobless rate fell by 10 basis points over the three-month period to 5.5% at end-March, reflecting an increase in employee payrolls by 678,000 persons—mainly in the professional and business services, health care and retail trade sectors. Similarly, the United Kingdom's unemployment rate narrowed by 20 basis points to 5.5%, as an additional 202,000 persons were added to employers' payrolls. Underpinned by a 225,000 reduction in the number of unemployed persons, the euro area's jobless rate softened by 10 basis points to 11.3% at end-March. A number of Asian markets continued to experience almost full employment, with both China and Japan's unemployment rates holding steady at 4.1% and 3.4%, respectively.

Amid the sustained reduction in international oil prices, inflationary pressures eased considerably over the review period. In the United States, average consumer price inflation decelerated by 70 basis points over the quarter to a mere 0.1% at end-March, and was relatively unchanged in the United Kingdom, vis-à-vis a 0.5% increase in the prior quarter, as declines in clothing and fuel costs offset gains in several other categories. Deflationary conditions persisted in the euro area, as lower energy costs fed through to a 0.1% reduction in average consumer prices for March, after a 0.2% decrease in the fourth quarter of 2014. In Asia, quarterly inflation in China and Japan narrowed by 10 basis points each, to 1.4% and 2.3%, respectively.

In currency markets, near-term expectations that interest rates in the United States would soon rise caused the dollar to strengthen relative to several major currencies during the first quarter. The dollar advanced moderately vis-à-vis the euro (by 12.7% to €0.93), the Canadian dollar (by 9.2% to CAD$1.27), the British pound (by 5.1% to £0.67) and the Japanese Yen (by 0.4% to ¥120.12). In contrast, following the monetary authorities' decision to unpeg the undervalued Swiss Franc from the euro in January, the currency appreciated by 2.2% against the dollar to CHF0.97. Meanwhile, the dollar was unchanged versus the Chinese Yuan, at CNY6.20.

Global equity markets recorded broad based gains over the review period, supported by central banks' monetary stimulus measures. In Europe, the implementation of the monetary authority's new quantitative easing programme led to a surge in Germany's DAX and France's CAC40, by 22.0% and 17.8%, respectively, while the United Kingdom's FSTE100 added 3.2%. In China, the announcement of new monetary policy easing measures, along with increased access for international investors to the domestic capital market, sparked a 15.9% boost in China's SE Composite, and Japan's Nikkei 225 advanced by 10.1%, buoyed by positive economic data announcements and strong corporate earnings. In contrast, the United States' S&P 500 index rose by a mere 0.4%, while the Dow Jones Industrial Average (DJIA) fell marginally by 0.3%, as lower fuel costs placed downward pressure on the share prices of a number of large utilities and energy companies.

Recent trends in the crude oil market were maintained over the review quarter, as average prices fell by 6.0% to $55.60 per barrel at end-March, amid the relatively soft global demand and significant growth in supply due largely to the increase in US shale oil production. In terms of other key commodities, the price of gold fell marginally, by 0.1% to $1,183.68 per troy ounce; however, the cost of silver rose by 6.0% to $16.66 per troy ounce.

Most major central banks either maintained or enhanced their highly accommodative monetary policy measures over the first quarter, in an effort to undergird the economic recovery momentum. In the United Kingdom, the Bank of England kept its Bank rate at 0.5% and its asset purchase programme at £375 billion. Faced with anemic growth rates among member states, and below target inflation levels, the European Central Bank commenced its monthly €60 billion asset purchase programme in March, while leaving key policy rates unchanged at historic lows. Similarly, the Bank of China injected US$8.0 billion in short-term liquidity into the commercial banking system and reduced its benchmark loan and deposit rates, by 25 basis points each, to 5.35% and 2.50%, respectively, in an effort to stimulate credit demand. The Bank of Japan continued with its ¥80 trillion asset purchase programme. Although the US Federal Reserve kept its main interest rate at the record low of 0.00%-0.25%, the authorities signaled an imminent shift to a more conservative policy stance.

Developments in the external sector were mixed over the first quarter, largely influenced by currency market movements and lower international oil prices. In the United States, the trade deficit widened by 2.3% ($2.9 billion) to $129.9 billion during the three-month period, as the 4.6% ($27.2 billion) reduction in exports outweighed the 3.4% ($24.3 billion) decline in imports. Similarly, the United Kingdom's goods and services trade deficit increased by 25.4% (£1.5 billion) to £7.5 billion, owing to a decline in net exports. China recorded a 17.3% (US$26.0 million) narrowing in its trade surplus, to US$123.7 billion, as a stronger Yuan contributed to a 20.4% (US$132.0 million) decline in exports—to offset the 21.4% (US$106.0 million) fuel-led reduction in imports. Benefitting from favourable currency movements, the euro area's trade surplus improved by 0.5% (€0.3 billion) to €63.4 billion; gains in exports, of 1.1% (€5.3 billion), eclipsed the 1.2% (€5.0 billion) rise in imports. Japan's trade deficit declined by 20.7% (¥0.5 billion) to ¥1,829.7 billion, as lower fuel purchases contributed to a 7.6% (¥1.7 billion) contraction in imports, which negated a 3.8% (¥0.8 billion) reduction in exports.

STATISTICAL APPENDIX (TABLES 1-16)

GROSS ECONOMIC CONTRIBUTION OF THE FINANCIAL SECTOR IN THE BAHAMAS (2014)

INTRODUCTION

The Central Bank's 2014 survey on the contribution of the financial sector to the economy focuses on the activities of bank and trust companies, insurance companies, credit unions, investment fund administrators and financial and corporate service providers, and provides information on, inter alia, trends in expenditure and employment. Financial services are estimated to contribute approximately 15% of The Bahamas' Gross Domestic Product, second only to the tourism sector in terms of its economic impact. It also employs the largest segment of highly skilled workers, with direct and indirect income and expenditure effects on other sectors, such as tourism and construction, and other professional services.

Provisional information compiled from the survey, suggests that the performance of the banking sector remained relatively stable during the year, while the non-bank financial sector, inclusive of insurance companies, credit unions, investment fund administrators and financial and corporate service providers, maintained its positive momentum.

During the year both domestic and international banking institutions continued to face unique and dynamic challenges related to the rapidly changing economic environment. Domestic banks continued to be impacted by the relatively sluggish economic growth, alongside weak credit demand and high levels of arrears in their loan portfolios, which negatively affected their profitability. In response, banks sustained their efforts to streamline operations and reduce costs by consolidating branches and complementary lines of business, outsourcing a variety of back office operations and reducing staffing.

Similarly, the offshore financial sector continued to face intense scrutiny from a number of international institutions over the review period, as several initiatives were launched aimed at ensuring that firms within the sector were compliant with incremental capital requirements for global systemically important banks; changes in global tax and reporting requirements; and implementing strategies to reduce operating costs by consolidating group businesses and global footprint. Business operations were also impacted by the low global interest rate environment and the conservative stance of these firms' high net worth clients, which constrained profit margins. In general, the governance, risk and compliance processes were augmented due to regulatory changes in the home jurisdictions.

THE BANKING SECTOR

Banking and trust operations dominate the financial sector's contribution to the domestic economy, in terms of assets, employment and total outlays.

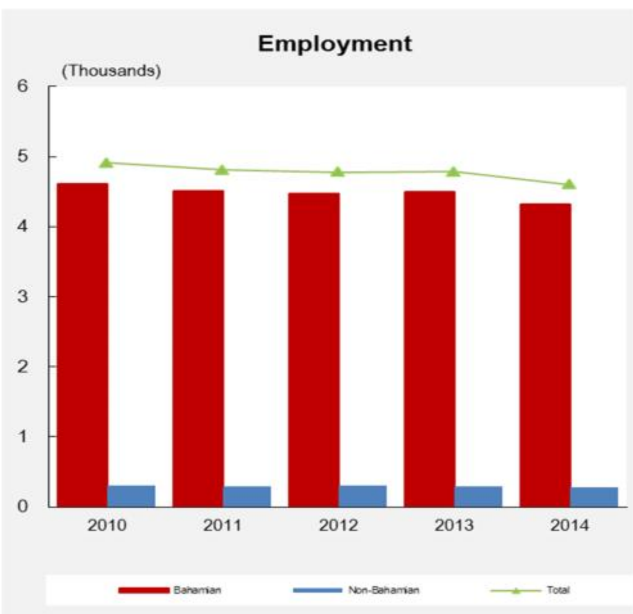
In 2014, the total number of banks and trust companies registered to operate in The Bahamas declined by 13 to 254, owing to reductions in public banks and trust licensees, by 8 to 101; restricted entities, by 6 to 146, while the non-active segment increased by 1 to 7. At end-December, 2014, public bank and trust companies comprised 65 Bahamian incorporated entities, 19 euro-currency branches of foreign banks and trust companies and 17 authorized agents. A further breakdown of authorized agents showed that 9 were trust companies and 8 were authorized dealers, which included 7 clearing banks.

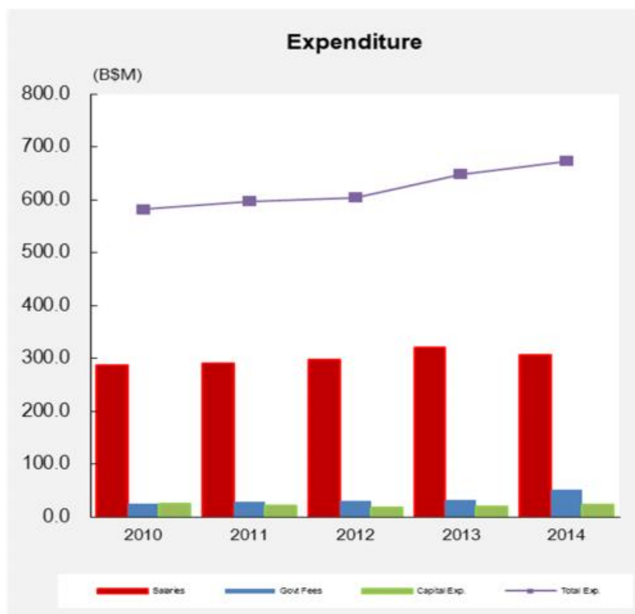
Domestic banks' total assets decreased by 1.4% ($136.1 million) to $9.6 billion, reflective of the falloff in private sector credit. Commercial banks have remained cautiously optimistic in light of the weak and slow economic recovery. They continued to be faced with rising levels of loan arrears, non-performing loans and write-offs as borrowers' ability to repay debt obligations is circumscribed by high unemployment conditions and mild economic growth. The high capital and liquidity levels provide a financial cushion and exceed the regulatory capital norms.

On the other hand, the total assets of the international banks and trusts expanded by 4.1% ($9.9 billion) to $252.6 billion, a reversal from a 32.7% slump recorded in the prior year, when one major institution transferred its treasury portfolio to its home jurisdiction. The value of fiduciary assets under management also grew by an estimated 8.2% ($16.9 billion) to $223.1 billion. In recent years, the international private banking sector has faced a series of challenges associated with sharp increases in the volatility of capital markets; low interest rate environment; increasing scope of regulation in the US, Europe and elsewhere; and structural shifts in market segments, technology and compliance. As a result, the traditional business models are undergoing change and offshore banks are focusing on managing their cost base to maintain or improve their profitability and offer a distinguished/unique service proposition.

EMPLOYMENT

Preliminary data show total employment in the banking sector contracted by an estimated 3.9% (185) to 4,600 persons at end-2014, compared to a revised marginal increase of 0.1% for 2013. The number of Bahamian and non-Bahamian employees fell by 4.0% (179) to 4,315 and by 2.1% (6) to 285, leaving the respective proportions unchanged at 93.8% and 6.2%. Approximately 68.3% persons were employed in local banking activities and the balance were engaged in offshore banking, trust administration and related wealth management services.





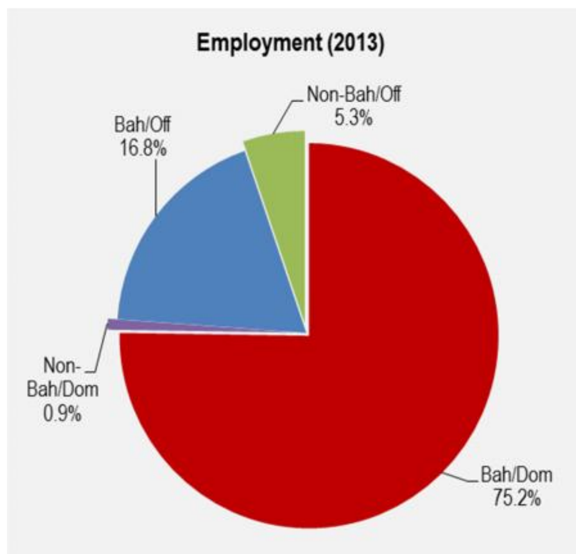
EXPENDITURES

Outlays for the banking sector rose by an estimated $25.2 million (3.9%) to $673.6 million in 2014, which were lower than the $44.1 million (7.3%) gain posted in 2013. Operational outlays—which comprises about 96.5% of the total expenditures—firmed by 3.5% to $650.1 million, a slowdown from the 7.3% expansion in 2013. Fees paid to the Government grew substantially, by 56.5% ($18.6 million), to $51.6 million, outpacing the 8.2% rise in 2013, following-on a 73.3% ($16.0 million) hike in license fees. In addition, “other” administrative costs advanced by 5.7% ($15.7 million) to $288.8 million, relative to the 6.6% ($17.0 million) gain in 2013. In a modest offset, salary payments—inclusive of bonuses—declined by 4.0% ($12.8 million) to $307.1 million, a turnaround from 2013’s 7.7% ($23.0 million) increase, as companies maintained their efforts to streamline operations and outsource several “back-office” functions. Specifically, average base salaries and bonuses contracted by 4.5% ($12.5 million) and 0.6% ($0.2 million), to $264.4 million and $42.8 million, respectively; while staff training outlays edged up by $0.2 million. Capital spending—covering construction, renovation expenses and other fixed assets—rose by 17.6% to $23.5 million, to exceed 2013’s 8.2% growth, on account of land and equipment purchases.

DOMESTIC VERSUS INTERNATIONAL BANKING

The remaining analysis of the banking sector shows a comparison of the domestic banking operations which reflect more retail oriented and staff intensive services, against the international banking and trust operations, that tend to specialize in wealth management operations and high value-added services; which typically require a more highly skilled workforce.

EMPLOYMENT



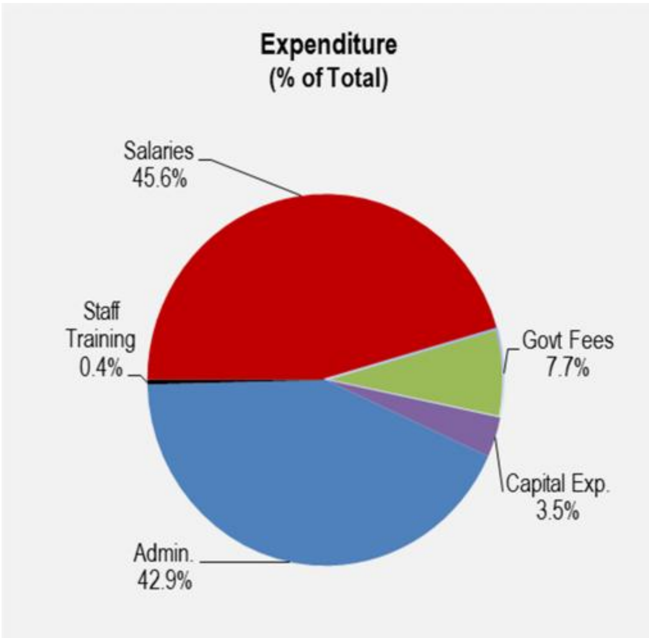
During 2014, domestic banks sustained their efforts to enhance operational efficiency via outsourcing arrangements and job rationalization exercises. As a consequence, total employment decreased by 4.5% (164 people) to 3,503, a reversal from a revised 0.8% (28 persons) increase in 2013, and a slight 0.4% decline for the prior five-year period. Reflecting the modest and uneven global growth momentum, alongside the low interest rate environment, employment in the offshore sector decreased by 1.9% (21 persons) to 1,097 persons—in line with the year-earlier decline and the change observed between 2008 and 2012.

In terms of composition, the number of Bahamians employed by domestic banks shrank by 163 persons (4.5%) to 3,461, while the significantly smaller non-Bahamian component was lower by 1 person (2.3%) to 42. As a consequence, the ratio of Bahamians to non-Bahamians employed moved downwards to 82.4:1 in 2014 from 84.3:1 in 2013.

Similar trends were noted in the offshore sector, as the Bahamian segment declined by 1.8% (16 persons) to 854, a slowdown from 2013’s 2.6% contraction, and in line with the 1.9% falloff recorded in the prior five-year period. The number of non-Bahamian workers fell by 2.0% (5 persons) to 243, vis-à-vis 2013’s slight gain of 0.4%, but was consistent with the 2.1% contraction recorded in the five years to 2012. As a result, the ratio of Bahamians to non-Bahamians held steady at approximately 3.5:1.

EXPENDITURES

Growth in domestic banks and trust companies' expenditures slowed to 3.2% ($13.2 million) from 11.5% a year earlier, to stand at $423.9 million. Operational outlays, at 95.4% of the total, firmed by 2.4% ($9.5 million) to $404.3 million, a significant retrenchment from the 11.7% expansion recorded in 2013. In particular, the rise in the relevant rates combined with the introduction of a new 3.0% levy boosted bank license fees to $31.9 million from $17.4 million in 2013, resulting in overall Government charges nearly doubling to $40.8 million from $22.6 million. Other administrative costs rose by 2.6% ($4.7 million) to $184.1 million, but remained below last year's 13.2% expansion. In contrast, salary payments declined by 7.0% ($13.4 million) to $178.3 million, largely reflecting a fall in both bonuses (12.5%) and base salaries (6.4%), to $163.3 million and $15.1 million, respectively, while spending on staff training decreased by 3.0% ($0.1 million) to $1.1 million. Meanwhile, capital outlays expanded by 23.4% ($3.7 million) to $19.6 million, compared with a lower year-earlier gain of 5.1% gain.



Total expenditure of the international banking sector advanced by 5.0% ($12.0 million) to $249.7 million—compared with the marginal 0.8% rise for 2013. Operational outlays grew by 5.2% ($12.2 million) to $245.8 million, compared with a 0.5% gain in 2013, attributed primarily to an 11.7% ($10.9 million) hike in "other" administrative costs to $104.7 million—covering office rents, advertising and professional fees. In addition, salary payments increased by 0.4% ($0.6 million) to $128.8 million, as the 7.4% ($1.9 million) rise in bonus payments to $27.7 million eclipsed the 1.3% ($1.3 million) fall in salary outlays to $101.1 million; and spending on staff training moved higher by 18.9% ($0.3 million) to $1.5 million, following a 20.8% expansion a year ago. Fees paid to the Government rose by 4.5% ($0.4 million) to $10.8 million, as an upward rate adjustment led to license fees advancing by 35.4% ($1.6 million) to $5.9 million—to outstrip the reduction in payments for work permits and other Government fees. In contrast, capital spending fell by 4.8% ($0.1 million) to $4.0 million, a turnaround from a 21.9% expansion in 2013.

OTHER FINANCIAL SECTOR ACTIVITIES

INSURANCE SECTOR

In line with the economy's mildly positive growth momentum, insurance companies continued to expand their operations. Data from the Insurance Commission of The Bahamas showed that the number of licensed operations rose by 3 to 143 in 2014, due to moderate increases in both foreign-owned entities and local insurance agents & brokers, of 2 and 1, to 20 and 82, respectively. In addition, the number of locally owned firms stabilized at 9, and external insurers rose by 2 to 21. However, in a slight offset, insurance underwriting managers and external intermediaries declined by 1 each to 8 and 1, respectively, while the association of underwriters and foreign owned agents & brokers was unchanged at 1.

Preliminary data revealed that the total assets of domestic insurers grew by 6.3% ($97.8 million) to $1,661.5 million in 2014, underpinned by a 6.2% ($70.6 million) gain in the dominant life insurance component—at 72.4% of the total—and a 6.3% ($27.1 million) expansion in the non-life component.

In terms of employment, preliminary information from the Central Bank's annual survey of insurance companies, showed that the total number of persons employed in the sector increased by an estimated 0.7% (9 persons) to 1,374 persons over the year, due solely to an increase in the dominant Bahamian component—at 97.9% of the total—to 1,345 persons, while the number of non-Bahamians steadied at 29.

The sector's total expenditures fell by 3.6% ($5.6 million) to $151.6 million, associated with a falloff in capital spending by 34.1% ($6.2 million) to $11.9 million, as businesses focussed on maintaining existing premises. However, outlays for office equipment firmed by 20.6% ($1.0 million) to $5.8 million. Reflecting the slight increase in employment, insurance companies' total salaries—excluding bonuses—were up an estimated 1.0% ($0.5 million) to $47.1 million. In contrast, Government related fees decreased slightly by 0.3% ($0.1 million) to $37.1 million, as reductions in gross premium tax receipts outstripped gains in stamp duty collections, real property taxes and license fees. Conversely, spending for public utility fees and training, edged up by $0.1 million and $0.02 million, to $4.8 million and $0.6 million, respectively. Administrative fees—inclusive of rent, professional charges and advertising costs—contracted by 0.8% ($0.3 million) to $35.1 million, eclipsing the $0.1 million uptick in charitable donations to $0.9 million.

CREDIT UNIONS

Based on provisional estimates, the credit union sector continued to expand at a modest pace over 2014. The number of institutions remained at seven (7), following the prior period when the consolidation of several smaller firms into one entity reduced the number by three (3). Total assets rose by an estimated $20.1 million (6.1%) to $347.7 million at end-December 2014, although below the $46.8 million (16.7%) growth posted in 2013. The outcome reflected a $14.8 million (20.6%) accretion in liquid assets to $86.8 million and a modest $3.9 million (1.7%) growth in loans to members to $230.9 million—for 66.4% of the total. Members' deposits increased by an estimated $16.9 million (6.2%) to $291.6 million, but slowed from the previous years' $39.5 million (16.8%) expansion.

The sector's total expenses contracted by an estimated 6.2% ($0.7 million) to $10.4 million, largely attributed to a 37.9% ($0.7 million) falloff in capital expenditures to $1.2 million on account of lower real-estate acquisitions. Meanwhile, total salary outlays and administrative expenses stabilized at $4.33 million and $3.94 million, respectively.

Information compiled from the sector showed that overall employment stabilised at approximately 144 persons for 2014, compared to a decline by 2 persons in the prior year, with all positions occupied by Bahamians.

INVESTMENT FUNDS INDUSTRY

Provisional 2014 information from the Securities Commission of The Bahamas showed that the total number of active funds under management moved higher by 12.9% (95) at 830, as the amount of registered SMART[2] funds rose by 17.8% (76) to 502 and professional funds by 10.3% (23) to 247. In contrast, recognised foreign funds and standard funds fell by 6.3% (3) and 2.7% (1), to 45 and 36, respectively. The

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[2] Specific Mandate Alternate Regulatory Test Funds

total number of fund administrators—which account for the majority of employment within the sector—increased marginally by 1 to 63. In addition, the number of funds under management by administrators rose by 10.6% (77) to 804, following growth of 16.0% in the previous year.

The Commission, in its role as Inspector of Financial and Corporate Service Providers, liquidated 34 non-Bahamas based funds in 2014, and registered an estimated 109 new funds during the same period.

INTERNATIONAL BUSINESS COMPANIES (IBCS)

Activity in the International Business Companies (IBCs) sector continued to improve during 2014, as an estimated 3,125 new firms were approved during the year, a gain of 1.8%, and in line with a similar 3,233 (1.9%) increase in 2013. At end-December, the number of IBCs stood at 172,681.

OTHER FINANCIAL SECTOR DEVELOPMENTS

During the year, the domestic financial sector continued to focus on initiatives geared towards enhancing the resiliency of the sector. The Bank also reinforced its efforts to ensure that the prudential supervision and regulatory framework remained in line with international standards and best practices.

Key milestones were reached during the year under the Bank's Basel II & III implementation programme, as four (4) consultation papers were released to the industry on the definition of capital, areas of national discretion, capital charge calculations for operational risk and minimum disclosure requirements under Pillar III. The Bank also issued a Basel readiness survey to several of its licensees and based on the results, it appeared that the majority of respondents were in the process of implementing the necessary adjustments to become compliant with the new Basel regime and they were unlikely to incur any significant change in their capital levels.

In keeping with its mandate to maintain financial stability, the Bank made significant progress on the Bahamas Credit Bureau Project, with the release of the draft Credit Reporting Bill and associated regulations for industry consultation, in September. A Request For Solution was also issued to potential credit bureau service providers in November. As a complement to these initiatives, and to provide additional information to the public on the implications of the bureau, the Bank launched a public relations campaign, which is expected to continue throughout the project's lifecycle.

The supervisory remit of the Bank was also enhanced with the completion of The Bahamas Cooperative Credit Unions Bill, as well as other pieces of legislation, which are designed to bring the rapidly developing credit union industry under its oversight. It is expected that, with the passage of this legislation, the Bank will be fully responsible for the examination of firms within the sector, to ensure that they comply with international requirements.

In terms of other regulatory developments, on the 8th of April, 2014, the Government and the United States Treasury Department concluded negotiations on Model 1 of the Intergovernmental Agreement (IGA) of the Foreign Account Tax Compliance Act (FATCA), which permits specific financial institutions to report information on US Dollar accounts held by its citizens to the Internal Revenue Service (IRS). Following the negotiations, institutions were required to register with the IRS to obtain a Global Intermediary Identification Number (GIIN). The formal agreement was later signed on the 3rd of November.

CONCLUSION AND OUTLOOK

The survey of developments in The Bahamas' financial services sector indicates that the industry expanded modestly, supported by sustained gains in the non-banking sector, as consumers sought alternative forms of financing and new types of financial services. The banking sector remained stable, although domestic institutions sought to curtail and streamline operations in the face of relatively weak economic growth and high levels of non-performing loans, while ensuring continued compliance with global regulatory and tax initiatives.

Despite these challenges, the prospects for growth within the banking sector remain positive, given the country's reputation for regulatory compliance. In addition, the jurisdiction possesses a cadre of high-skilled wealth management experts, key to meeting the needs of high net worth clients in both the traditional centres of Europe and North America, as well as the emerging markets of Asia and Latin America.

As regulator, the Central Bank will continue to strengthen its already robust regulatory regime, to ensure that firms remain compliant with international best practises. In addition, the Bank's ability to execute its financial stability mandate should be enhanced through on-going initiatives, such as the implementation of the Basel II and III programmes, the establishment of a credit bureau and the further development of comprehensive stress testing and risk-based supervisory frameworks.