

Release Date: 22 June 2004



**QUARTERLY OVERVIEW OF DOMESTIC
ECONOMIC DEVELOPMENTS**

MARCH 2004

This summary is an early release, excerpted from the upcoming issue of the Central Bank's Quarterly Economic Review for the Quarter ended March 2004. The full text of the Economic Review will be released on June 29 2004.

The Bahamas

Review of Domestic Economic Developments for 1st Quarter, 2004

Extending the gains achieved in the preceding period, the expansion in domestic economic activity strengthened further during the first quarter of 2004; albeit, with a slight firming in average inflation. Benefiting largely from the continued uptrend in the US economy, tourism sector output was broadly improved, underpinned by both increased stopover and cruise visitor volumes. However, construction expenditures remained subdued, notwithstanding steady gains in residential investments. Although the fiscal situation remained constrained by sluggish tax collections, the concentration of some non-tax receipts and a sizeable capital revenue intake reduced the comparative third quarter deficit for FY2003/04. In the financial sector, the seasonal boost in foreign currency inflows resulted in a stronger accumulation of the monetary aggregates, which exceeded the uptrend in credit expansion. These developments supported more buoyant liquidity conditions and a sizeable reduction in the system's net foreign liabilities. On the external account, increased net imports surpassed the gains in net services receipts, including tourism, for an expanded current account deficit. However, net capital and financial transactions reverted to a small surplus, although encompassing decreased net private foreign investments.

Despite the comparative rebound in private sector lending, strengthened seasonal foreign currency inflows boosted the banking system's net free cash reserves by \$61.6 million (47.7%) during the first quarter, representing an increased 4.8% of Bahamian dollar deposit liabilities compared to 3.5% in 2003. Broader surplus liquid assets also improved, concentrated in balances held with the Central Bank, by 51.6% to \$237.7 million and surpassed the statutory minimum by 37.3% relative to 20.6% the year before. Amid buoyancy in liquidity and more aggressive private sector lending, the stable weighted average interest rate on deposits of 4.02% contrasted with a 46 basis point reduction in the corresponding loan rate to 11.57%, and consequently, a similar drop in the average spread to 7.55%. The average 90-day Treasury bill rate also softened by 51 basis points to 0.94%, while benchmarks rates, commercial banks' Prime rate and the

Central Bank's Discount Rate, remained at the respective July 1999 levels of 6.00% and 5.75%.

Highlighted by accelerated growth in deposits held by businesses and private individuals, monetary expansion (M3) rose strongly during the quarter, to 4.6% from 2.9% in 2003, placing the overall stock at \$4.19 billion. Growth was recorded in all categories, with demand deposits gains extended to 14.1% from 8.3%, savings, to 4.7% from 2.7% and fixed deposits, to 2.2% from 0.5%. In contrast, currency in active circulation fell by 4.2%.

Although restrictions remained on banks' total Bahamian dollar advances, the rebound in private sector lending led to accelerated domestic credit expansion of \$70.8 million (1.4%), for a \$5.04 billion stock at end-March, relative to a comparative advance of \$12.0 million (0.2%) in 2003. Concentrated in Bahamian dollar claims, credit to the private sector recovered by 1.0% from a 1.0% reduction last year, and included nearly doubled mortgages growth (4.2%) and an upturn (0.3%) in consumer credit. Conversely, public sector credit expansion eased to 3.4% from 5.8%, with a 2.1% downturn in credit to public corporations outweighing a slightly elevated 7.4% increase in net credit to Government.

Estimates for the March quarter of FY2003/04 indicate some containment of the overall deficit, to \$26.7 million from \$46.0 million in the corresponding FY2002/03 period. Owing to extraordinary receipts from the sale of equity investments, land lease payments and dividend income, revenue collections rose by 14.6% to \$250.7 million, and paced ahead of a 4.8% increase in aggregate expenditure to \$277.4 million. The latter included a 5.4% expansion in recurrent outlays to \$249.3 million and an 18.0% hike in capital outlays to \$19.1 million. Net lending to public corporations, however, was reduced by a fourth to \$9.0 million. Budgetary financing during the quarter included a \$23.3 million domestic bond issue, alongside principal repayments of \$22.2 million, mainly on domestic debt, which raised the Direct Charge on Government by 0.1% to \$1,941.9 million. After a 0.6% reduction in debt guaranteed for the public corporations, the National Debt decreased marginally by 0.1% to \$2,368.4 million, follow-

ing a 1.0% contraction to \$2,187.3 million at end-March 2003.

Tourism performance was more positive during the first quarter, as the improving employment and income situation among US households generated increased travel demand. Total visitor arrivals, at 1.4 million, represented a significantly accelerated gain of 13.2% relative to 1.1% last year. Leading this outcome was a 15.6% surge in the number of sea passengers versus gains of 1.4% in 2003, as a significant number of new cruise lines called on Grand Bahama. Also noteworthy was the 7.9% surge in air arrivals, consolidating the 0.3% increase in 2003 and the 5.8% decline in 2002. By port of entry, arrivals to New Providence were higher by 10.0%; Grand Bahama, by 46.6% and Family Islands, by 5.8%. This broad-base traffic growth also underpinned a more robust expansion in estimated visitor expenditures. In the stopover sector, although the average hotel room rate was slightly discounted (1.6%) at \$179.17 per night, estimated room revenues rose by 10.9%, owing to a 12.7% increase in room night sales. With room sales growth outstripping an 11.4% increase in available inventory, the average hotel occupancy rate improved to 66.0% from 65.0% in 2003.

Based on quarterly changes in the average Retail Price Index, consumer price inflation eased to 0.1% over the first three months of 2004, from an escalated 1.4% last year. Downtrends in average costs for recreation & entertainment services and in the education index, were accompanied by an abated increase for medical care & health, and unchanged average prices for housing and furniture & household operations. In the twelve months through March, average inflation firmed marginally to 2.5% from 2.4% in 2003, led by accelerated average increases for medical & health care (10.1%) and transportation & communication (2.3%) costs. Housing cost increases were also incrementally firmer (0.8%); whereas most other items in the Index recorded slowed advances.

In the construction sector, indications are that expanded domestic residential investments continued to

provide most of the support to output. Data from banks, insurance companies and The Bahamas Mortgage Corporation reveal that first quarter mortgage commitments for new construction and repairs on residential properties were higher by 23.7% at \$19.3 million over the same quarter last year. Similar commercial commitments were significantly reduced in value, to \$1.4 million from \$5.9 million last year. Total mortgage disbursements were also higher for residential financing versus a reduction in the commercial category. As a result, sustained growth in outstanding residential mortgages of \$43.7 million (2.9%) contrasted with a quarterly drop in commercial claims of \$4.3 million (2.6%). Based on the latest available data for the final quarter of 2003, the strength of residential investments was concentrated in more robust low-cost housing developments.

In the external sector, the estimated current account deficit widened to \$21.0 million from \$6.9 million in the first quarter of 2003. The trade deficit rose by 23.5% to \$344.2 million, with higher exports (1.4%) offset by more elevated imports (17.3%). Partly offsetting was the expansion in the services account surplus, by 18.9% to \$346.9 million, mainly vis-à-vis improvements in the tourism sector. Net outflows on the income account were approximately stable at \$32.7 million, whereas net current transfer receipts fell by almost a third to \$9.0 million.

The capital and financial account balance switched to a small surplus of \$2.4 million from a deficit of \$45.5 million in 2003, chiefly due to a reduction in short-term outflows through the banking sector to \$0.9 million from \$76.1 million in 2003. However, private net foreign investments decreased to \$15.6 million from \$47.7 million. Although net real estate sales improved to \$13.6 million from \$9.3 million, the direct equity stock decreased by \$1.1 million relative to a modest increase of \$10.4 million last year, and net loan financing narrowed to \$3.1 million from \$28.0 million. In the public sector, the estimated net external debt repayment decreased to \$3.6 million from \$8.1 million.