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QUARTERLY ECONOMIC REVIEW

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REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

DOMESTIC ECONOMIC DEVELOPMENTS

Generally favourable tourism developments and other real sector indicators suggested modest expansion in the domestic economy during the second quarter of 2000, within an environment of mild consumer price inflation. Construction activity continued to be supported by favourable mortgage rates and the positive economic environment. A better than expected revenue performance alongside contained expenditure growth in the first eleven months of FY1999/00 led to a reversal in the deterioration in the government finances witnessed a year earlier. The external current account position registered a modest deterioration which was offset by a private direct investment led surplus on the capital and financial sector account, to allow for a small improvement in the overall balance.

Excess reserves of the banking system averaged $120.7 million for the review quarter, 34.0% higher than in the previous period but 2.2% below the comparative year-earlier level. Against this background, the weighted average deposit rate rose by 8 basis points to 4.00%, and the corresponding loan measure also firmed by 26 basis points to 11.62%, under the influence of the more heavily weighted consumer loan portfolio. As for other benchmark rates, the average yield on the 90-day Treasury bill advanced by 24 basis points to 1.20%, but commercial banks' Prime and the Central Bank's Discount Rate remained at 6.00% and 5.75%, respectively.

Monetary expansion was halved to 2.5%, reflecting the unwinding of the year-earlier impact of public sector staff disengagement packages on private individuals' deposits. In particular, both demand deposits and savings growth slowed significantly to 2.8% from 10.9% and 12.7% respectively last year, although fixed deposits recorded a slightly firmer advance of 1.8%. The increase in the currency component was also marginally reduced to 5.2%. Foreign currency deposits, however, rebounded by 13.2%, but represented less than 5.0% of the money supply. On a proportional basis, the three largest components of the $3.4 billion overall money stock were Bahamian dollar fixed deposits (57.5%), demand deposits (19.1%) and savings (17.1%).

Domestic credit expansion moderated to 1.7% from 2.9% in second quarter 1999, with a significant shift in demand from the public to the private sector. Government and the public corporations combined for a 5.8% reduction in net liabilities to the banking sector, reversing the 4.7% gain of last year. Conversely, private sector credit growth advanced to 3.2% from 2.6%, highlighted by the usual concentration of lending to the personal sector. Mortgages exhibited a stronger increase (3.9%), compared with slowed growth in consumer credit (2.6%) and a reduction in overdrafts (15.9%).

In the real sector, available tourism statistics suggested modest income growth—supported by appreciated hotel room rates and solid gains in sea visitors (31.1%) across all major ports of entry. Improving on the 11.5% growth registered last year, total visitor arrivals strengthened by 17.8% to 1.1 million. However, gains in air arrivals, which comprise the bulk of hotel visitors and more than 90% of tourism expenditure, slackened appreciably to 1.0% from 15.4%. Continuing the trend observed since 1986, sea arrivals represented the larger share of visitors at 62.1%. Notwithstanding the slowing in air arrivals, the 18.4% hike in average hotel room rates to $152.09 per night, including a peak of $179.64 in April, implied a higher level of spending. This reinforced a 3.4% capacity-related increase in occupied hotel room nights and translated into a 22.3% increase in room revenues.

Construction output during first quarter of 2000—the most recent period for which data were available—continued to be supported by low mortgage interest rates and improved economic conditions. In particular, the value of construction starts for the period appreciated by 38.0% to $49.2 million, of which 83.1% represented new housing activity. Building completions, however, declined in value by 25.7% to $43.3 million, across both residential and commercial activity. Nonetheless, the outlook for future investments remained positive as estimates of construction permits granted during the first quarter advanced by almost 24.3% to $155.1 million. In this regard, assessments on housing approvals rose by 22.5% to $92.0 million and for commercial and industrial permits, by some 52.7% to $61.5 million.

On the inflation front, the variation in the average Retail Price Index stabilized at 0.2%, although there was a mild firming in the annualized rate of increase through June 2000, to 1.6% from 1.4% in 1999. The latter developments were paced by a slightly accelerated rate of increase in education costs to 13.9%, amid further upward adjustments in tertiary level tuition. Incremental firming was also recorded in price increases for furniture & household operations, which contrasted with smaller increases for most remaining items of the Index, and a stable advance in housing costs.

Supported by the buoyancy in economic conditions, Central Government's operations for the first eleven months of FY1999/00 resulted in a provisionally estimated surplus of $8.3 million—reversing the year-earlier $73.6 million deficit. Exceeding budgetary expectations, revenue collections rose by 19.0% to $837.2 million vis-à-vis an advance of less than 6.0% a year earlier, when revenue performance was constrained by a temporary tightening in consumer credit policies. This trend was reinforced by lower than budgeted expenditure growth of 6.6%, for a total outlay of $828.8 million. Budgetary financing, mainly in the form of long-term bonds, was reduced by 32.6% to $94.8 million, and debt repayment was also significantly lower by 76.5% at $17.5 million. Consequently, the Direct Charge on Government grew by $76.1 million (5.3%) for FY1999/00 to $1.51 billion at end-June. Consequent on an $8.5 million reduction in contingent liabilities—public corporations' debt guaranteed by the Government—the National Debt rose by $67.7 million to $1.88 billion.

External sector developments suggest a widening of the current account deficit to $165.1 million from $146.6 million in the corresponding period a year-earlier. Among the key factors was a 5.3% deterioration in the surplus on services account to $245.2 million, as higher net outflows for construction services, transportation, government and miscellaneous services and a falloff in offshore companies' local operating expenses countered the modest improvement in net travel receipts. The visible trade deficit was higher by 2.9% at $389.3 million, attributable to a price-induced hike in oil import payments of 62.3%. Current net transfer receipts declined by a third to an estimated $7.9 million, but were moderated by a 26.8% decrease to $28.8 million for net income outflows—comprising employees' compensation and investment income.

On the capital and financial account, the overall surplus was marginally improved to $122.4 million from $93.2 million in 1999. Private direct foreign investments strengthened to $77.9 million from $3.2 million last year, paced by a three-fold boost in net equity inflows to $18.6 million and a sizeable reversal in net property transactions to a net inflow of $59.3 million related to sales of upscale second-homes to non-residents. Private loan flows were also approximately doubled at $109.4 million. However, a significant offset was provided by the $56.3 million decrease in the banking system's short-term net external exposure vis-à-vis last year's $41.0 million increase.

FISCAL OPERATIONS

Provisional estimates for the first eleven months of Fiscal Year 1999/00 indicate that Government operations achieved a budgetary surplus of $8.3 million, in marked contrast to the $73.6 million deficit posted in the year-earlier period. Favourable economic conditions supported revenue gains of 19.0% to $837.2 million, which paced strongly ahead of the 6.6% hike in estimated expenditures to $828.8 million. Based on these trends, the outturn for FY1999/00 is likely to significantly undershoot the $66.9 million budget deficit, which projected smaller revenue gains (12.0%) and stronger expenditure growth (10.6%).

REVENUE

Tax revenue for the review period expanded strongly by $136.2 million to $771.9 million, representing some 92.2% of total receipts. However, the non-tax component, which comprised the remaining 7.8% of revenue, contracted by $3.0 million (4.4%) to $64.9 million.

Revenue gains were underpinned by broad-based increases in the major categories. Taxes on international trade and transactions rose by 19.0% to $497.4 million, and exceeded the 16.6% budget target. In this regard, import duties rose by 20.1%, stamp levies on imports by 10.8%, and the 57.4% hike in export taxes was partly derived from the 33.3% boost in the excise rate on domestic beer production.

Among the remaining tax categories, stamp levies on financial and other transactions were almost doubled at $73.8 million, largely related to growth in financial sector (mortgages) and real estate activities.

Government Revenue By Source
YTD - May

	FY 98/99p		FY 99/00p	
	B$M	%	B$M	%
Property tax	28.1	3.8	29.9	3.6
Selective Services tax	26.5	3.6	36.9	4.4
Bus. & Prof. Lic. fees	53.9	7.4	45.2	5.4
Motor Vehicle tax	10.9	1.5	13.7	1.6
Departure tax	48.3	6.6	52.7	6.3
Import duties	329.4	45.1	395.7	47.3
Stamp tax from imports	80.4	11.0	89.0	10.6
Export tax	7.9	1.1	12.5	1.5
Stamp tax from exports	0.2	0.0	0.3	0.0
Other stamp duty	65.0	8.9	73.8	8.8
Other Tax revenue	20.3	2.8	24.8	3.0
Fines, forfeits. etc.	44.3	6.1	46.8	5.6
Income	22.9	3.1	17.6	2.1
Other non-tax rev.	0.8	0.1	0.0	0.0
Capital Revenue	0.0	0.0	0.3	0.0
Grants	0.0	0.0	0.0	0.0
Less: Refunds	8.8	1.2	2.5	0.3
Total	730.1	100.0	836.7	100.0

The boost in the hotel occupancy tax rate from 4.0% to 6.0%, combined with the sizeable increase in both room inventory and occupancy, translated into an almost 40.0% improvement in selective taxes on tourism services to $36.9 million. This contrasted with a budgeted decline of 0.3%. Departure taxes also gained 9.3% to $52.7 million, inclusive of a 67.9% growth in passenger ticket levies to $3.1 million.

Lower refunds under various incentive legislation also had a positive impact on revenues, alongside increases in motor vehicle (25.1%), property (6.3%) and various "other" (22.4%) taxes. Consistent with budgeted projections, revenue from business and professional licence fees declined by 16.1% to $45.2 million, partly featuring contracted receipts for International Business Companies (IBC) registration (13.9%).

Under non-tax receipts, the 4.4% decline included reduced income from public enterprises ($1.7 million) and "other" sources ($3.7 million), which more than offset the small gain in fines, forfeits and administrative fees ($2.6 million).

EXPENDITURE

Growth in total expenditure of $51.5 million (6.6%) comprised a $57.8 million (8.7%) hike in recurrent outlays, a $2.2 million (2.8%) rise in capital investments, and a $8.5 million (25.0%) reduction in net lending to public corporations. On a proportional basis, recurrent spending represented 87.3% of total outlays, capital spending 9.6% and net lending, 3.1%.

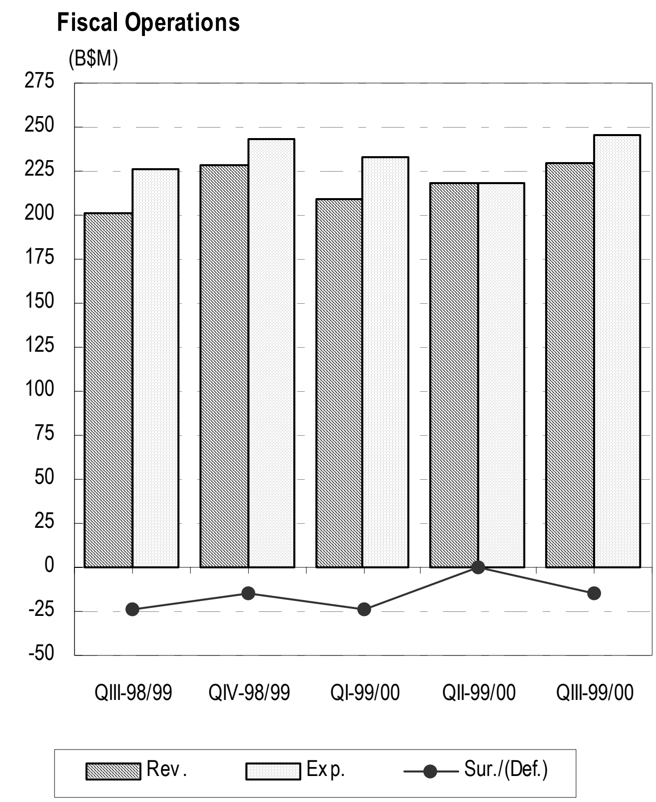
The economic analysis of expenditures continued to be impacted by the shift in health related outlays from the Central Government to the quasi-autonomous Public Hospitals Authority (PHA). Consequently, direct wages attributed to Central Government declined by some $22.9 million (6.5%)—despite the recent across-the-board cash payment ($1,200) to civil servants, which added $35.1 million to the wage bill. Similarly, outlays for the acquisition of goods and services were lower by 7.6% at $133.7 million.

Antithetical to these developments, subsidies and transfer payments rose substantially to $173.2 million from $75.9 million, capturing the PHA's first full year of operation. In this regard, budgetary subsidies at $96.6 million comprised mainly payments to various autonomous bodies, including the College of The Bahamas (14.9%), the Public Utilities Commission (0.8%), and the Hospitals Authority and public hospitals (at a combined 84.3%). Transfers to households, mainly pension and gratuity payments grew by 26.3% or $10.0 million, and the budgetary assistance to non-profit institutions was higher by 10.0%.

Contractual interest payments on Government debt fell by 5.9% to $88.2 million, largely associated with the July 1999 75 basis point reduction in the Bahamian dollar Prime Rate, to which the majority of local bond interest payments are linked.

By functional classification, recurrent expenditure on economic services, which represented 12.5% of the total, was stable at $90.8 million. However, outlays on general administrative services rose by 34.8%, to comprise 16.8% of the total. Gains of the magnitude of 7.0% were recorded for both education and defence, which accounted for respective expenditure shares of 19.3% and 3.0%. Health services, at 16.2% of recurrent outlays, rose by 5.5%, and spending on social benefits and assistance were up by 21.5%.

Capital outlays at $79.8 million featured a twofold hike in investments related to general administrative functions to $11.1 million, and growth in defence spending of $3.3 million to $11.0 million. Conversely, expenditures for infrastructural works and hotel services were stable at $27.9 million and $4.1 million, respectively. Outlays for public order & safety activities were more than halved to $3.3 million, and spending on education related projects fell by 11.4% to $15.5 million.



FINANCING AND NATIONAL DEBT

Budgetary financing during the first eleven months of FY1999/00 included some $78.0 million in Bahamian dollar bond issues and $16.8 million in external borrowings. Debt amortization was considerably lower at $17.5 million from $74.7 million last year when there were significant domestic and external bond maturities. Government's improved financial position also facilitated a net repayment on short-term debt to the banking system and an increase in cash balances.

Compared to FY1999/00 growth in the National Debt slowed to $67.7 million (3.7%) from $112.4 million (6.6%)—placing the outstanding stock at $1,878.9 million. The Direct Charge on Government increased by $76.1 million (5.3%) to $1,513.0 million, but a net repayment of $8.5 million (2.3%) on public corporations' debt guaranteed by Government contrasted with a $40.0 million (12.0%) advance a year earlier.

Bahamian dollar borrowings, constituting mainly long-term bonds, increased by 0.6% to represent 91.0% of the Direct Charge. By creditor profile, public corporations held the largest share of the local currency debt (45.2%), followed by commercial banks (29.5%), private and institutional investors (20.7%) and the Central Bank (4.6%). In terms of maturity, a balanced 20-year profile was observed for the $1,180.6 million in domestic bonds, with 24.8% coming due over the next five years; 26.8% within 5-10 years; 26.2% within 10-15 years and 22.2% within 15-20 years.

PUBLIC SECTOR FOREIGN CURRENCY DEBT

Provisional estimates at end-June 2000 indicate that public sector foreign currency debt contracted further during FY1999/00 by 2.0% to $385.8 million. Public corporations' obligations declined by 2.8% to represent 64.7% of the total, and Government's share by 0.6% for the remaining 35.3%.

Foreign currency operations featured modestly reduced drawings on existing loan obligations of $7.8 million and, with the decreasing stock of debt, service payments were also comparatively lower at $18.4 million–divided between amortisation of $11.5 million and interest charges of $6.9 million. Based on the estimated growth in exports of goods and non-factor services, the foreign currency debt service ratio was reduced to 3.3% from 5.4% last year.

By holder profile, the largest share of the foreign currency debt was held by multilateral institutions (55.5%), followed by commercial banks (25.2%), private capital markets (13.0%) and bilateral and offshore financial institutions (6.3%). In terms of currency composition, debt denominated in US dollars continued to be the largest component, with an average maturity of 10 years.

1999/2000 BUDGET HIGHLIGHTS

The 2000/01 Budget Communication, presented to Parliament on May 31, 2000 and approved in June, reiterated the Government's commitment to promoting macroeconomic stability and to the consolidation of budgetary finances. While targeting an elimination of the overall deficit without introducing new revenue measures, the budget continued to emphasize spending on priority areas such as education and training, health, social services and public order and safety. New incentives were unveiled to promote computer literacy and the positioning of The Bahamas as an international centre for electronic commerce (e-commerce). The Government also foreshadowed a tightening and upgrading of the financial sector supervisory and regulatory infrastructure in response to various initiatives launched by the major industrial countries.

As regard national economic development, the budget echoed Government's resolve to stimulate Family Island development, with emphasis on agriculture, eco-tourism and second-home developments. Accordingly, Parliament extended duty exemptions for building materials and heavy machinery imports into the Family Islands for another two years through 2002. For the rest of The Bahamas, approval was also granted for a one-year extension of the duty exemption on imports of new automobiles for taxicabs and omnibuses. As a part of the policy to increase national computer literacy and jump-start the e-commerce industry, custom duties were eliminated on all computer hardware and peripherals, broadening the previous year's exemptions on computer software.

Taking advantage of the buoyancy in revenue performance, Government also introduced additional revenue rationalization measures. Duty rates on golf carts and video games were reduced to 20% and 35% from 50% and 65%, respectively.

A balanced budget is projected for FY2000/01, as compared to the $66.8 million deficit earlier envisaged for FY1999/00. The estimates are predicated on revenue growth of 10.5% and a more restrained spending increase of 2.8%. Projections are for tax receipts to improve by 10.2% to $898.0 million and non-tax revenue by 8.2% to $87.0 million. The Government also expects to benefit from increased grants of $5.5 million as compared to a budgeted $1.5 million in FY1999/00.

As regard taxes, the major component—levies on international trade and transactions—is anticipated to rise by 10.5% to $591.9 million, representing approximately two thirds of aggregate revenue. In particular, import duties are forecasted to increase by 10.6% and stamp taxes on imports, by 10.1%. The Government is also expecting gains in major non-trade taxes, including business and professional license fees (10.6%), property taxes (17.3%) and motor vehicles (11.9%). Similarly, selective taxes on tourism services are budgeted to rise by approximately one third, based on anticipated benefits from an expanded tourism infrastructure.

Non-tax revenue gains are expected to be derived mainly from a projected 11.3% increase in fines, forfeits and administrative fees, and supported by a 1.0% hike in income from various Government enterprises.

Compared to the 1999/00 budget, approved expenditures for FY2000/01 rose by $27.4 million (2.8%) to $990.8 million. Provisions for recurrent outlays were higher by 2.9% at $862.8 million, and for capital expenditures, by 3.4% at $99.1 million. However, the budget for net lending to public corporations was virtually unchanged at $29.0 million.

By economic classification, allocations for Government consumption were raised by 3.3% to $556.3 million. Based on the provisions for base salary increases of $1,200 for most civil servants and more sizeable raises for the Police and the Judiciary, personal emoluments were boosted by 1.2% to $376.5 million, to represent approximately 43.6% of recurrent expenses. Purchases of goods and services are set to grow by 8.0% to $179.8 million.

Transfer payments are programmed to rise by 2.2%, with subsidies and non-interest transfers up by 9.3%, but the Government benefiting from a projected decline in interest payments of 9.6% to $102.2 million.

Disbursements for non-interest subsidies at $116.9 million, which comprised the Public Hospitals Authority and the College of The Bahamas, represent a 2.4% increase over the 1999/00 provisions. Non-profit institutions will benefit from a 26.4% boost in financial assistance from the Government, and allocations for transfers to households—to cover old age pension and disability assistance—were 10.0% higher at $46.5 million.

On a functional basis, a quarter of all budgetary allocations was earmarked for general public services—inclusive of public order and safety activities. Education absorbed the second largest share (21.0%), followed by economic services (16.6%), health (16.0%), social benefits and services (6.1%) and defence (3.2%).

The capital budget rose by 3.4% to $99.0 million but included a strong 25% increase in funds earmarked for public works and water supply to $38.3 million, and a near doubling in planned investments for health to $11.6 million. Partially offsetting, allocations for defence were halved to $4.6 million, alongside a 2.5% decreased allotment for education to $23.6 million, which still represented the largest beneficiary outside of infrastructural works.

As regard budgetary financing, Government expects to incur new internal debt of $74.1 million, with repayments on existing obligations projected at $79.3 million. Along these lines, a slight reduction in the National Debt is anticipated, with a more sizeable decrease in the foreign currency portion.

REAL SECTOR

TOURISM

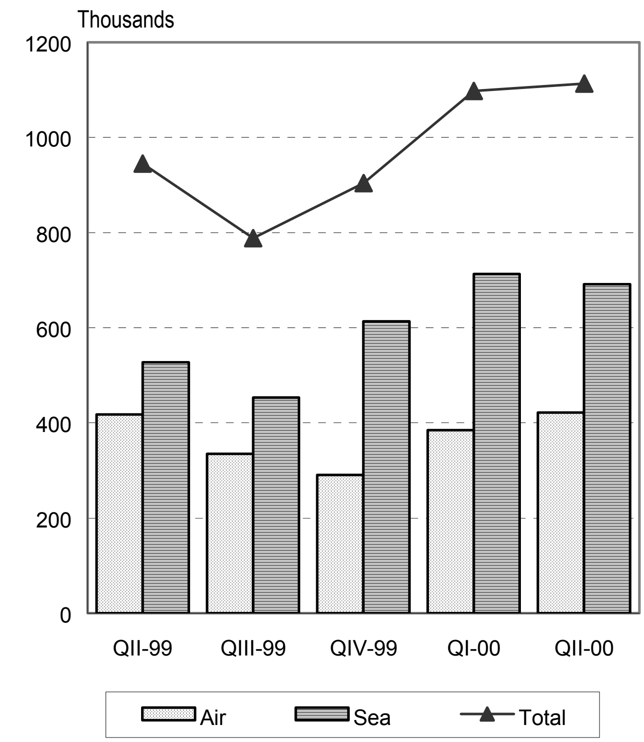
Preliminary data for the second quarter of 2000 revealed continued growth in the tourism sector, supported by strong gains in sea arrivals and per capita stopover spending. In line with expectations, the expansion was concentrated in New Providence and the Family Islands, as the hotel infrastructure in Grand Bahama remained under major renovation and expansion.

After advancing by a robust 11.5% in 1999, total visitor arrivals strengthened further by 17.8% to 1.1 million in the June quarter, reinforced by a 31.1% hike in sea arrivals. In contrast, growth in the comparatively longer stay air arrivals, which generate more than 90% of tourism expenditure, slowed to 1.0% from the robust 15.4% rebound registered in 1999 following on increases in room inventory.

Disaggregation of visitors by port of entry revealed more tempered gains for New Providence of 22.2%, as the significant strengthening in sea traffic (44.7%) resulting from the operations of Disney cruise lines was partly muted by a slight decline (1.1%) in air arrivals. Benefiting from a considerable pickup in cruise traffic, growth in visitors to the Family Islands accelerated to 18.7% from 3.2%—despite the 2.7% contraction in air arrivals, which was due largely to the closure of several properties for repairs after Hurricane Floyd. The performance was equally positive in Grand Bahama, where the nascent recovery in the stopover market influenced a 4.0% upturn in total arrivals, reversing last year's 17.9% decline.

Available indicators on stopover activity for the second quarter of 2000 suggest positive expenditure growth, principally supported by appreciated hotel room rates. In Grand Bahama, where construction work remained underway, both available and occupied hotel room nights recovered significantly by 10.0% and 19.5%, respectively. An increased average room occupancy rate of 66.4% combined with a 14.1% boost in room rates to $64.54 per night, for a 36.4% growth in estimated room revenues. In New Providence, the 3.1% growth in available room nights, alongside a 0.3% decline in occupied hotel nights translated into a slightly reduced occupancy rate of 82.6%. Nevertheless, the 22.8% appreciation in average nightly room rates to $175.64 lifted room revenues broadly higher by 22.5%. A similar pattern was evidenced in the Family Islands, where a 1.5% firming in the average nightly room rate to $150.69 and modestly improved occupancy ratio of 56.8% supported an estimated 5.4% hike in room revenues.

Arrivals



Construction

Construction estimates for the first quarter of 2000, the latest period for which data are available, suggest some broadbased strengthening in investment expenditures associated with new activity and encouraging forward looking indicators.

Construction Activity
(January-March)

	1999	2000.	% Δ
Building Permits			
Number	666	768	15.3
Value (B$M)	124.1	155.1	24.3
Building Starts			
Number	282	271	-3.9
Value (B$M)	35.7	49.2	38.0
of which: Residential	32.4	40.9	26.5
Commercial	3.3	8.1	144.5
Public	--	0.2	400.0
Building Completions			
Number	285	325	14.0
Value (B$M)	58.3	43.3	-25.7

Although the total number of building projects started during the quarter fell vis-à-vis first quarter of 1999 by some 3.9% to 271, the associated value appreciated significantly by 38.0% to $49.2 million. In the residential sector, the number of units started contracted by 15 to 250; however, the value was higher by 26.5% at $40.9 million, partly reflecting the construction of more upscale townhouses, condominiums and apartments. Commercial and industrial starts, which gained three additional units to 20, were almost threefold higher in value at $8.1 million. For the public sector, a single start was recorded valued at $0.2 million.

Building completions increased by 14.0% to 325 units, but the related value declined by 25.7% to $43.3 million--a pattern that was evidenced in both residential and commercial activity. Residential completions rose 15.5% in number to 283 projects, but fell in value by 16.5% to $26.8 million. A steeper double digit decline in value of 21.0% was also registered for commercial completions to $16.4 million.

Building permits data signal a positive level of future short-term investments, with the total number of approvals growing by 102 to 768 and assessed value by almost a quarter to $153.9 million. Both the number of commercial and residential building permits advanced by 16.9% and 15.0%, to 104 and 661 respectively. The corresponding value for commercial transactions was higher by 52.7% at $61.5 million, with a lesser gain of 22.7% to $92.0 million for the residential component. Although the number of public sector permits was unchanged at 3, value fell sharply to $1.7 million from $9.6 million in the corresponding 1999 quarter.

FISHERIES

Preliminary estimates of fisheries exports for the first six months of 2000 indicate a 4.6% fall-off in volume to 2.4 million pounds, although the overall value increased by 26.4% to $31.8 million. Crawfish exports, which dominated both export volumes (95.6%) and values (97.1%), rose by 35.6% to $30.9 million—supported by an 18.4% appreciation in the average price per pound to $13.36 and a 14.5% increase in weight to 2.3 million pounds.

The only other major exports were sponges, although earnings were almost halved to $0.6 million, and stone crabs which yielded a modest rise in income to $0.2 million. Conversely, the combined value of scale fish and conch exports was below $0.1 million relative to $0.8 million in 1999.

PRICES

Quarterly consumer price inflation, as measured by changes in the average Retail Price Index, stabilized at 0.2% relative to the comparative period last year. Movements among the indices included stronger average gains of 1% or less for clothing & footwear, furniture & household operations and medical care & health, food & beverages and transport & communication costs. A moderating influence was exerted by both average housing and education costs, which were flat, and by the 0.4% decline in recreation & entertainment costs.

For the twelve months through June 2000, average consumer price inflation rose slightly higher to 1.6% from 1.4% in 1999. Most of this increase was explained by the continued strengthening in education costs to 13.9% vis-à-vis 13.6% in the previous twelve months, in line with programmed increases in tertiary level tuition. More modest yet comparatively firmer annual increases were posted for furniture & household operations, at 1.7% from 1.0% and "other goods and services", at 1.6% from a 0.1% decline in 1999. These gains were dampened by slower average price gains for recreation & entertainment services (1.1%), medical care & health (1.9%), clothing & footwear (0.7%) and food & beverages (0.4%); and flat average housing costs.

Average Retail Price Index

(Annual % Changes)

JUNE

		1999		2000	
Items	Weight	Index	%	Index	%
Food & Beverages	138.3	106.8	1.4	107.2	0.4
Clothing & Footwear	58.9	105.5	1.6	106.2	0.7
Housing	328.2	102.1	0.5	102.6	0.5
Furn. & Household	88.7	103.4	1.0	105.1	1.7
Med. Care & Health	44.1	105.7	2.4	107.7	1.9
Trans. & Comm.	148.4	100.2	-1.3	101.7	1.5
Rec., Enter. & Svcs.	48.7	108.0	4.8	109.2	1.1
Education	53.1	111.5	13.6	127.1	13.9
Other Goods & Svcs.	91.6	101.0	-0.1	102.7	1.6
ALL ITEMS	1000.0	103.6	1.4	105.3	1.6

MONEY, CREDIT AND INTEREST RATES

OVERVIEW

Growth in the money and credit aggregates continued at a sustainable pace and permitted further, although more tapered improvements in liquidity and net foreign assets. Credit conditions however, influenced a widening in the net interest rate spread on loans and deposits. As for banks' earnings ratios, data for the first quarter of 2000 suggest a comparative improvement over 1999, associated with wider net interest margins and increased operating efficiency.

LIQUIDITY

During the review quarter, net free cash balances of the banking system rose by 28.5% to $124.1 million, corresponding to a reduced 3.8% of Bahamian dollar deposit liabilities vis-à-vis 4.6% in 1999, when excess reserves were higher at $136.2 million. Liquidity conditions were characterized by almost balanced net foreign currency flows and milder credit growth. Holdings of the more broadly defined excess liquid assets at $144.5 million, represented approximately 26.8% of the statutory balance vis-à-vis 25.0% in the previous quarter.

DEPOSITS AND MONEY

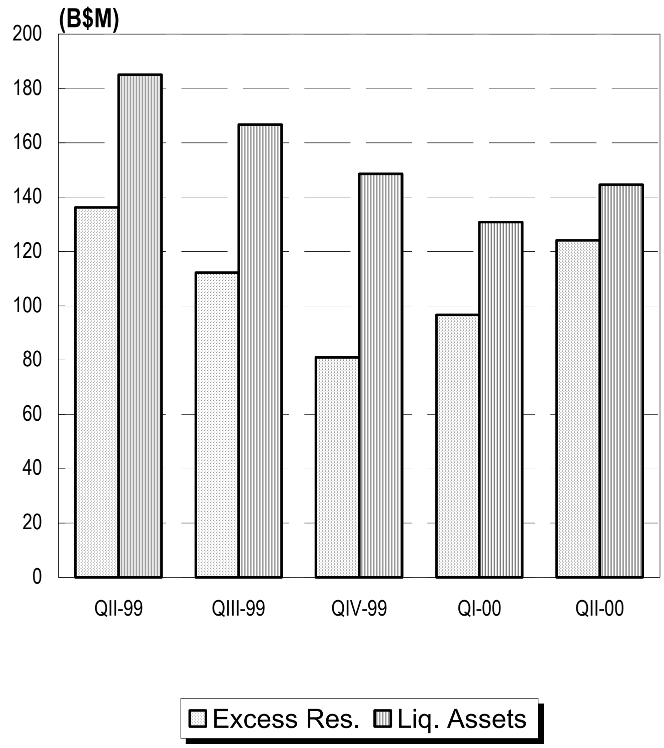
Overall money growth was comparatively slower during the second quarter, and was broadly based across the aggregates. Featuring smaller accretions to both private and public sector balances, narrow money (M1) gains slackened to 3.3% from 10.0%, almost mirrowing the decrease in demand deposits growth to 2.8% from 10.9%. Meanwhile, the increase in the currency component was relatively stable at 5.2%.

Among other deposit categories, the 2.8% hike in savings trailed a 12.7% advance in 1999, when private individuals' balances rose at a faster pace as a result of BaTelco's disengagement payments. Notwithstanding a marginal firming in fixed deposits gains to 1.8% from 1.3%, growth in broad money (M2) abated to 2.3% from 4.9%. The 13.2% strong recovery in residents' foreign currency deposits placed overall money (M3) growth at $84.8 million, which was nonetheless below last year's 4.8% accretion to $3,143.3 million.

On a proportional basis, Bahamian dollar fixed deposits remained the largest component of the money stock (57.5%), followed by demand balances (19.1%), savings deposits (17.1%), currency (4.2%) and foreign currency deposits (2.1%). By holder profile, the bulk of balances was held by private individuals (56.2%), followed by business firms (23.8%), public corporations (7.2%) other holders (6.8%), non-bank financial institutions (3.4%) and Government (2.6%).

Further analysis of Bahamian dollar accounts by depositors and range of values revealed a concentration of savers (91.1%) in the category with average balances of under $10,000, which represented 12.3% of banks' total deposits. Conversely, the largest share of deposits (71.5%) was held by 2.5% of the account holders, whose average balances were in excess of $50,000. Meanwhile, average balances within the $10,000-$50,000 range represented the remaining 6.2% of accounts and 16.2% of the aggregate value.

Liquidity

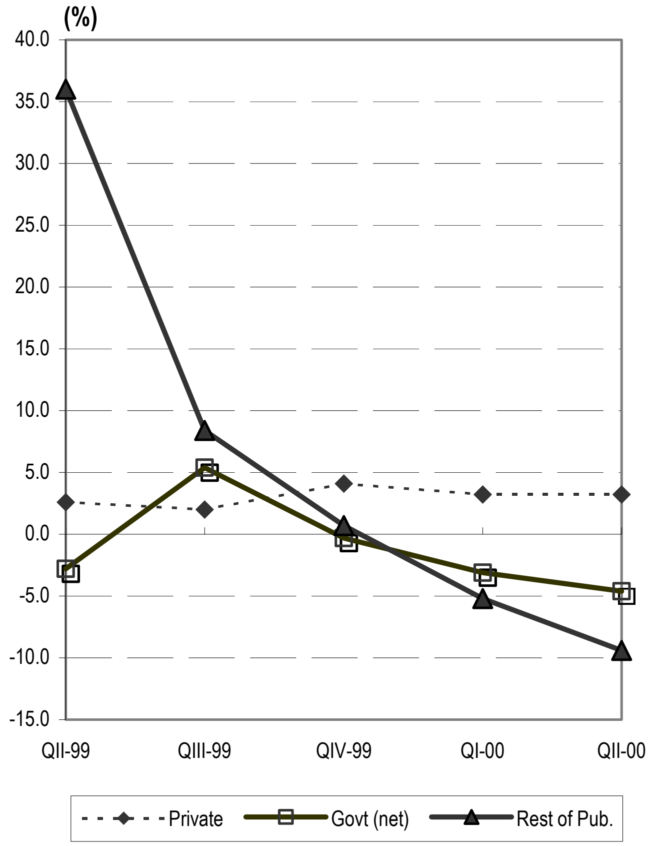


DOMESTIC CREDIT

Improvements in the public sector finances exerted a restraining influence on growth in total domestic credit, which slackened to 1.7% from 2.9% in the corresponding quarter last year. In particular, net claims on Government decreased further by 4.6% vis-à-vis 2.8% in 1999, and credit to the public corporations contracted by 9.4%, relative to a 36.0% expansion in 1999, when banking sector resources partially funded BaTelCo's staff disengagement packages.

Conversely, private sector credit growth advanced to 3.2% from 2.6% in 1999, with a larger advance in the Bahamian dollar component (3.9%) countering a modest net repayment of foreign currency credit (2.5%).

Changes in Credit



Distribution of Bank Credit By Sector End-June	1999		2000	
	B$M	%	B$M	%
Agriculture	15.6	0.5	11.1	0.3
Fisheries	7.8	0.2	6.3	0.2
Mining & Quarry	18.4	0.6	16.0	0.4
Manufacturing	65.2	2.0	96.8	2.7
Distribution	179.7	5.6	142.7	4.0
Tourism	218.0	6.8	219.9	6.2
Enter. & Catering	15.6	0.5	20.5	0.6
Transport	25.1	0.8	52.7	1.5
Public Corps.	146.1	4.5	133.1	8.0
Construction	200.4	6.2	283.0	1.9
Government	98.1	3.0	66.4	3.7
Private Financial	3.7	0.1	3.4	0.1
Prof. & Other Ser.	127.2	4.0	124.7	3.5
Personal	1,959.5	61.0	2177.9	61.3
Miscellaneous	134.4	4.2	198.2	5.6
TOTAL	3214.8	100.0	3552.7	100.0

Continuing the strengthening trend observed since 1999, mortgage lending rose by 4.8% to $43.4 million and represented 42.1% of the overall advance. Growth in consumer lending at $34.4 million however, slackened to 2.6% from 3.6% in 1999, and accounted for a reduced one-third share.

An analysis of consumer credit show the miscellaneous category absorbing almost two thirds of the increase. Higher claims were also recorded for land purchases ($5.6 million), private cars ($2.8 million), travel ($2.2 million), home improvement ($2.5 million) and debt consolidation ($1.8 million). Meanwhile, credit card debt was the only category with any notable net repayment ($1.5 million).

Regarding the other components of private sector credit, steady net lending for construction of $39.4 million—a 16.2% gain—reflected ongoing strength in both residential and commercial building activity. Significant net credit was also provided for transportation ($5.6 million), manufacturing ($8.4 million) and miscellaneous purposes ($17.3 million). Conversely, notable net repayments were recorded for entertainment & catering ($5.2 million), distribution ($8.2 million), professional & other services ($5.1 million) and tourism ($3.7 million).

Commercial Banks

During the review quarter, growth in commercial banks' deposit liabilities to the private sector slowed to 1.2%, relative to a 3.1% firming in credit to the sector. The resultant resources gap was partly bridged by a boost in the Government's net credit repayment (5.9%) and the 9.9% contraction in claims on the rest of the public sector, whose deposits grew by 12.4%. In the context of the increased net flows, banks reduced their net foreign liabilities by 4.1% to $429.6 million.

On a proportional basis, commercial banks managed 97.4% of total banking sector deposits, which were mainly owed to the private sector (90.0%). A breakdown of deposits by contractual categories revealed that fixed balances maintained the largest share (59.5%), followed by demand (22.6%) and savings deposits (17.9%).

Other Local Financial Institutions (OLFIs)

The OLFIs continued to record robust growth in private sector deposit liabilities of 17.9% compared to 20.2% in 1999. With the increase in credit to the sector trailing at a more moderate 3.9% vis-à-vis 5.0% last year, the institutions' external exposure switched to a net foreign asset of $25.7 million from a net foreign liability of $12.1 million last quarter.

A broader analysis of OLFIs' deposit liabilities showed 88.0% held in fixed deposits, 8.4% in demand balances and 3.6% in savings deposits. As regard credit, mortgages represented 78.3% of the total, increasing over the review quarter by 4.1% to $75.7 million.

Central Bank

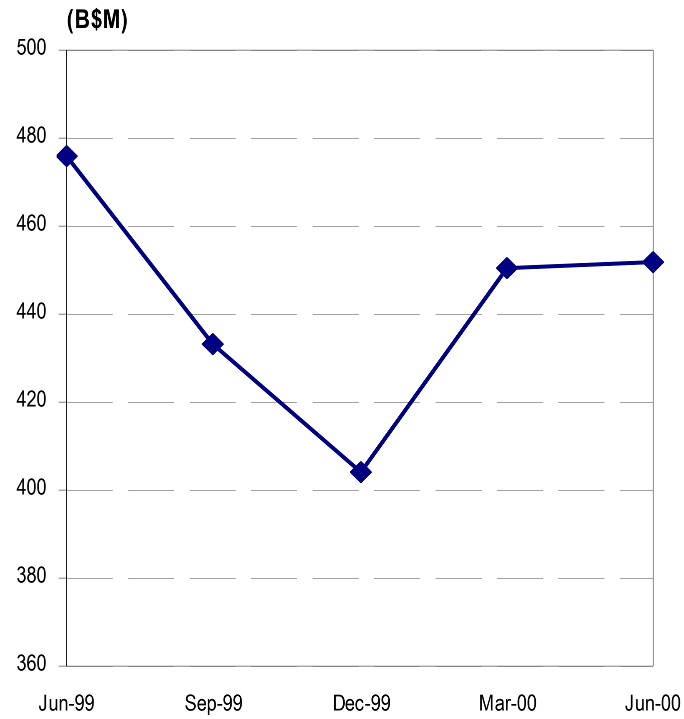
During the second quarter, the Central Bank's net claims on Government rose by 5.2% to $58.3 million. Amid reduced net foreign currency inflows through the banking system, external reserves rose marginally by $1.3 million (0.3%) to $451.7 million. By comparison, reserves growth in the comparable 1999 period was a more sizeable $64.4 million (15.6%) to a record stock of $476.0 million.

Underlying external reserves developments was a switch in the Bank's quarterly foreign currency transactions—from a net purchase of $60.5 million in 1999 to a net sale of $5.2 million. Although the net outflow via the public sector decreased by $2.7 million to $31.1 million, the net purchase from commercial banks narrowed by almost three quarters to $25.9 million. This shift reflected a combination of both demand and supply factors, as gross foreign currency purchases—mainly from banks—contracted by 20.2%, while total sales grew by just over a third.

Interest Rates

Commercial banks' average interest rates trended slightly higher during the quarter, corresponding to broad based firming among deposit categories and consumer loans rates. In particular, the weighted average interest rate on deposits rose marginally by 8 basis points to 4.00% and on loans, by 26 basis points to 11.62%. As a result, the average spread between deposit and loan rates widened by 18 basis points to 7.62%. For deposits, the average savings rate rose by 7 basis points to 2.73% and the average band on fixed deposits rates moved higher to 3.97%-4.70% from 3.92%-4.59% in the previous quarter. On the lending side, the average consumer loan rate also advanced by 32 basis points to 13.58%, with other rates broadly lower. The strongest decline was observed for commercial mortgage rates, which softened by 70 basis points to 8.93%, while average overdrafts rates fell by 39 basis points to 10.13% and residential mortgage rates by 3 basis points to 9.03%.

External Reserves



Corresponding to the tightening in average deposit rates, the average 90-day Treasury bill rate gained 24 basis points to 1.20%. Nevertheless, commercial banks' Prime and the Central Bank's Discount Rate remained at 6.00% and 5.75%, respectively.

BANK PROFITABILITY

According to available data for the first quarter of 2000, banks' net income rose by $4.4 million (17.7%) to $29.2 million vis-à-vis the corresponding quarter in 1999. In particular, the gross earnings margin improved by 14.5% to $64.0 million, reflecting a 16.8% increase in net interest income, which broadly countered a small decrease in commission and foreign exchange income. Although operating costs trailed with a 5.6% advance to $39.4 million, the impact on net income was tempered by a reduction in other income (net of depreciation and loss provisions) by a quarter to $4.6 million.

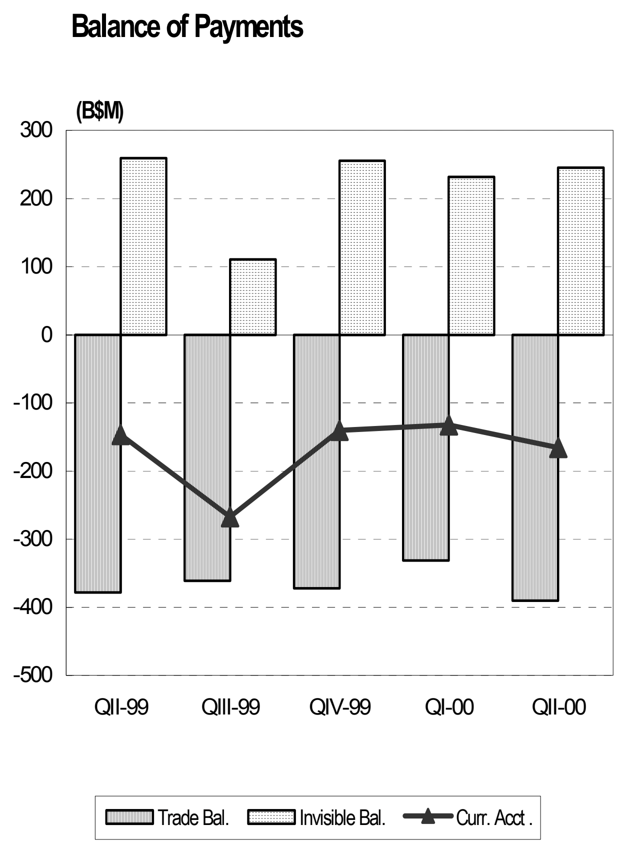
The improvement in income also boosted profitability ratios relative to average assets. The gross earnings margin ratio rose by 8 basis points to 5.73%, while the operating cost ratio decreased by 24 basis points to 3.5%, suggesting some efficiency gain. After offsets derived from higher depreciation and loss provisions, however, the improvement in the return on assets ratio (net income) measured only 11 basis points to 2.62%.

INTERNATIONAL TRADE AND PAYMENTS

Provisional estimates for the second quarter of 2000 indicated a 12.6% widening in the current account deficit vis-à-vis the comparative 1999 period to $165.1 million. Developments reflected, in combination, a 2.9% increase in the merchandise trade deficit owing to a further sizeable increase in the oil bill, and a 5.8% contraction in net invisible inflows which was linked to higher net remittances for overseas services. Private inward investments supported a modest increase in the surplus on the capital and financial account and the overall external balance.

The merchandise trade deficit widened by $10.9 million to an estimated $390.0 million during the second quarter. In line with higher fuel prices, the oil bill rose significantly by some 62.3% to $63.8 million, while non-oil imports were slightly lower by 1.3% at an estimated $350.5 million. The appreciation in the oil bill was broadly based across all products, with the per barrel cost of jet fuel gaining $14.41 (72.6%) to $34.26; motor gas, $16.33 (63.8%) to $41.92; gas oil, $11.16 (60.5%) to $29.60; propane, $8.16 (42.0%) to $27.58; bunker 'c' fuel, $6.26 (37.9%) to $22.75 and aviation gas, $4.38 (6.4%) to $73.10.

Despite an estimated 5.2% increase in net tourism inflows to $378.5 million, the surplus on the services account fell by $13.8 million (5.3%) to $245.2 million. Among the main factors was the 40.3% hike in net outlays for foreign construction services to $30.5 million; growth in government services of 74.4% to $11.1 million; transportation, by 11.9% to $34.6 million and other services (including royalties and credit card payments) by 18.4% to $57.3 million. For the latter, offshore companies' local expenses fell by 38.8% to $14.3 million, as production remained hampered by ongoing investments in the sector, and remittances for insurance contracted by 13.3% to $12.2 million.



Under the income account, net outflows narrowed by some 23.4% to $28.8 million. Net repatriation of investment income fell by more than a third to $18.5 million, to counter a marginal increase in workers' net remittances of

2.2% to $10.3 million. A key factor was the decline in net interest and dividend outflows via the private sector by a third to $18.0 million, and a more than halving in the public sector's net interest payments to $0.5 million.

For current transfers, net receipts fell to $7.9 million from $12.2 million in 1999. In particular, public sector inflows declined by 35.5% to $8.7 million, broadly offsetting a marginal decrease in the private sector net outflow to $0.8 million.

Compared to the same period a year ago, the surplus on the capital and financial account improved to $122.4 million from $93.2 million. Net outflows for migrant workers rose to $4.9 million from $2.6 million, but the dominant influence was the expansion in net financial receipts to $127.2 million from $95.8 million in l999.

Disaggregation of the financial account revealed net foreign direct investment inflows were higher at $77.9 million vis-à-vis $3.2 million last year, reflecting an expansion in private equity flows to $18.6 million from $7.7 million, and a switch in real estate transactions to a strong net inflow of $59.3 million from a net outflow of $4.5 million last year. Likewise, net private loans proceeds—largely associated with hotel sector expansion and development—more than doubled to $109.4 million from $50.0 million. These net inflows were moderated by the sizeable reversal in other net flows, which included a reduction in the banking system's net external liabilities by $56.3 million in contrast to an increase of $41.0 million in 1999. The public sector recorded a net external debt repayment of $3.7 million, as opposed to a net drawdown of $1.7 million last year.

Consequent to these developments, and after adjusting for possible errors and omissions, the overall payments balance registered a marginal surplus of $1.3 million, in contrast to a more significant $64.4 million in the year earlier period.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economic expansion continued apace for the second quarter of 2000, led by the robust strengthening of the United States' economy, the accelerating upswing in the European Union and the nascent recovery in Japan. Monetary policy remained broadly accommodative, except in the United States, where the solid expansion raised concerns about inflation, prompting a further round of tightening. The growth momentum was also supported by a low inflation environment, ongoing employment gains and positive progress in fiscal consolidation efforts. In currency markets, broader interest rate differentials caused the United States dollar to strengthen against most major currencies, however, a strong negative adjustment in e-commerce and technology stocks pushed equity prices lower on most of the leading bourses. External sector balances exhibited divergent movements, reflecting differences in the relative strength of major currencies and countries' positioning in the growth cycle.

Real GDP growth in the United States firmed to a preliminary 5.3% from 4.8% in the first quarter. Although recent interest rate hikes by the Federal Reserve appear to have cooled the sensitive housing market and dampened consumer demand, the pace of growth was primarily sustained by a one time boost in Government spending for the 2000 census and further increases in business investment. In the United Kingdom, real output growth stabilized at an annualized 3.1% as strong consumer demand mitigated the weakness in net exports caused by the pound sterling's appreciation against the Euro. Similarly, Germany's real GDP rose by an estimated 2.3%, matching the pace of the previous quarter, as the economy continued to benefit from an export-led recovery. Preliminary data also suggested a further consolidation of Japan's positive 0.7% upturn in the March quarter, supported by more buoyant consumer demand and strengthening corporate profitability and investment, particularly in the high technology sector.

Labour market conditions tightened on balance in the major industrial economies. In particular, the United States' jobless rate was marginally lower at 4.0% at end-June—although mainly because of the census effort—while the average rate for the first half of the year stabilized at a 30-year low of 4.0%. In Europe's two largest economies, Germany and France, jobless rates fell to 9.6% at end-June compared to 10.1% and 10.0%, respectively in March. Likewise, the claimant count unemployment rate in the United Kingdom was further reduced to 3.8% from 4.0% at end-March, the lowest level since November 1975. Japan's jobless rate improved to 4.7% from 4.9% in March, with the first half average also estimated at 4.7%.

Despite substantial increases in energy costs, average consumer price inflation remained generally subdued in the major industrial countries. In the United States, this measure of inflation firmed to 3.3% in the second quarter from 3.1% last quarter. Influenced by the appreciation of sterling, average consumer prices for the United Kingdom also trended upwards to 3.1% from 2.3% in the March quarter. However, some moderation in consumer price inflation was observed for the Euro area, with Germany's rate easing to 1.6% from 1.8%. Deflationary conditions persisted in Japan, where average consumer prices decreased for the second consecutive quarter by 0.7% as compared to 0.6% during the previous period.

In foreign exchange markets, most major currencies moved lower against the United States dollar, owing to the tightening in US interest rates and continued confidence in the durability of the economic expansion. Although the Euro recovered from its lifetime low in mid-May to close at €1.05, it still recorded a 3.0% quarterly decline against the dollar. The pound sterling also weakened against the dollar by 4.6% to £0.66; the Canadian dollar, by 2.0% to C$1.48 and the Japanese Yen, by 0.5% to ¥106.02. Conversely, the Swiss Franc appreciated vis-à-vis the dollar by 1.7% to SF1.63 vis-à-vis the dollar.

Commodity market developments were dominated by the volatility in fuel prices. Notwithstanding OPEC's agreement to increase daily crude production in March, which produced an initial fall-off in prices, the market reverted to an upward trend, responding to record low inventories and increased demand ahead of peak summer automobile use in the United States. As at end-June, North Sea Brent crude oil prices stood 29.9% higher at $31.32 per barrel, compared to the March close of $24.12. Likewise, precious metal markets remained volatile, with the price of gold ending the period 4.1% lower at $288.15 per ounce, but silver prices higher by 1.8% at $5.02 per ounce.

Global equity markets lost ground over the second quarter, in the wake of substantial volatility. Valuation emphasis shifted to the profit and liquidity fundamentals of the underlying companies, and most of the correction was borne by technology and e-commerce stocks, amid volatile swings in the various indices. In the United States, the technology laden Nasdaq Composite Index fell by 13.3% to end the quarter at 3,966.11 points. The Dow Jones Industrial Average declined by a more modest 4.3% to 12,447.9 points and the S&P 500 lost 2.9% to 1,454.6 points. Added to the previous quarter's trend, the Dow therefore lost 9.1% over the first half of the year; the Nasdaq, a lesser 2.5% and the S&P 500, only 1.0%. In Japan, where the overall health of the financial sector remained a concern, the Nikkei 225 index was also broadly lower by 14.4% at 17,411.1 points. European bourses were also lacklustre as a result of the weak Euro. London's FTSE 100 index loss 3.5% to 6,312.2 points and 8.9% over the first half of the year. Germany's Dax also dropped 9.2% for the quarter to 6,898.21 points, for a 0.9% contraction in the first half of 2000. In contrast, France's CAC-40 index gained 2.5% during the second quarter, capping an 8.2% rally for the first six months of 2000.

On the monetary front, the United States was the only major economy to undertake another round of interest rate tightening during the second quarter. Capacity constraints and the perceived disparity between growth and potential supply caused the Federal Reserve to raise the discount rate by another 50 basis points to 6.50% in May. The European Central Bank also increased its repurchase rate by 75 basis points in the face of a mild mid-quarter recovery in the Euro/dollar exchange rate, while the Bank of England kept its official short-term rate at 6.00%. Meanwhile, the Bank of Japan delayed its decision to repeal its zero interest rate policy until the third quarter.

Budgetary consolidation efforts remained on course in the major economies during the second quarter. Deficit reduction initiatives in the Euro area benefited from improving economic conditions and reduced joblessness, which allowed for expenditure cutbacks, and were reinforced by growth in revenue intake. In the United States, debate focused on the best way to spend a forecasted $211 billion surplus for the current fiscal year ending September 30, and the anticipated $228 billion for the 2001 fiscal year. Increased attention was also centered on the feasibility of retiring the Government's benchmark 30-year bond and the possibility of completely paying off the national debt over the next five years. In contrast, the Japanese Government announced that it was once again considering a stimulus package to support the tentative recovery, even though this would increase the deficit above the current record 11.0% of GDP.

Divergent trends continued to be observed across the major industrial countries' current account balances. Estimates of the United States' current account deficit indicated a further widening beyond the first quarter's annualized \$102.4 billion or 4.2% of GDP, as robust economic growth sustained rising net imports. In the United Kingdom, the influence of the strong economy and the appreciation of the pound sterling vis-à-vis the Euro resulted in a further deterioration of the current account shortfall beyond last quarter's annualized \$40.1 billion. Conversely, Germany's current account surplus was extended from the previous period's \$3.1 billion, while the Japanese current account surplus, which had widened to 2.9% of GDP, is expected to continue to benefit from strong economic growth in other industrialized countries.

At the spring meeting of the Board of Governors of the International Monetary Fund and the World Bank held in Washington, DC during April 17-19, Governors called for faster action on expanding debt relief and debt forgiveness for poor nations and closer cooperation between the multilateral organizations. To better coordinate these poverty reduction activities, Governors therefore endorsed the creation of the Joint IMF/World Bank Implementation Committee, whose mandate is to monitor progress in the implementation of joint initiatives and coordinate the production of regular reports and briefings to the Executive Boards. Policy makers also called for increased private creditor involvement in aiding troubled economies.

STATISTICAL APPENDIX

(Tables 1-16)

STATISTICAL APPENDIX

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.**