REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary indications are that the domestic economy continued to grow at a moderate pace during the third quarter, amidst a mild inflationary climate. Growth was sustained by an improved tourism performance and ongoing, but more moderate, residential and foreign investment related construction activities. Fiscal sector developments featured an appreciable gain in revenues which, in the context of reduced growth in recurrent expenditures, resulted in a budgetary surplus for the first quarter of the FY 2000/01. Monetary conditions were characterised by firming in liquidity and interest rates, amid sustained increases in credit and a subsequent contraction in external reserves. In the external sector, some narrowing of the current account deficit, linked partially to growth in net tourism receipts, coincided with a modest expansion in net capital inflows through the private and banking sectors.

In the financial sector, excess reserves of the banking system were nearly halved to $62.5 million, in the context of strengthened private sector credit expansion and a decline in net foreign currency inflows linked to foreign investment activities. Surplus liquid assets also contracted (45.5%), to register some 52.7% below the 1999 level. Meanwhile, average interest rate spreads widened by 57 basis points to 8.19%, reflecting general firming in commercial banks' weighted average loan rate by 50 basis points to 12.12%, which contrasted with a 7 basis point drop in the average deposit rate to 3.93%. Owing to tighter liquidity, the average Treasury bill rate also fell by 30 basis points to 0.90%, but the official Discount Rate and commercial banks' Prime Rate remained at 5.75% and 6.00%, respectively.

Monetary expansion was sustained at an accelerated 1.8% as compared to 0.9% in 1999, supported by a 1.9% increase in fixed deposits. The rate of accretion to both demand and savings balances was reduced to 2.7% and 2.0%, respectively and for currency in active circulation, to 1.7%. Meanwhile, residents' foreign currency deposits declined at a more tempered pace of 10.1%.

Domestic credit expansion, which paced significantly ahead of money growth, quickened to 4.8% from 2.7%. In particular, the rate of increase in private sector credit more than doubled to 4.3%, with the 6.9% rebound in foreign currency borrowing reinforcing modestly firmer Bahamian dollar advances of 4.0%. Consumer credit growth slowed to 3.0% compared with a more than two-fold acceleration in the rate of increase in mortgages lending to 3.9%. Otherwise, the banking sector recorded significant net lending to the distribution and construction sectors. In the public sector, growth in net credit to Government advanced to 11.6% from 5.4% in 1999, however claims on the rest of the public sector contracted by 5.1%, after gaining 7.7% last year.

Tourism performance for the third quarter of 2000 was supported by positive growth trends throughout The Bahamas, as Family Island properties continue to recover from the effects of Hurricane Floyd and more rooms became available in Grand Bahama. In both New Providence and the Family Islands, strong growth in cruise arrivals helped to offset less robust growth in air arrivals. Underpinned by a 32.5% rebound in sea arrivals, growth in total visitor arrivals strengthened by 20.3% to 0.95 million, eclipsing last year's 4.1% gain. For the long-stay stopover visitors, the 3.7% advance lagged the more vigorous 10.0% registered last year. Indications are that hotel room expenditure growth remained strong (13.8%), backed by further appreciation (6.3%) in average nightly room rates to $129.09 and a 7.0% gain in occupied room nights. The Bahamas also benefited from boosted airline service, with flight capacity increasing by 6.5%, on average, and the average load factor improving to 66.5% from 63.7% in 1999.

Second quarter construction estimates indicate a softening in residential and commercial investments, as project completions tapered off. The value of building projects started during the period rose by 0.4% to $43.7 million, as commercial valuations, which appreciated by

31.8%, were broadly offset by the 5.1% fall-off in residential investments. However, building completions were broadly lower in value at $52.8 million, with the 41.8% decline in commercial completions matched by a 4.9% drop for residential projects. Although supported by ongoing expenditures on large public works projects, estimates of future public sector activity, based on permits granted, were reduced by nearly a third to $151.4 million.

On the fiscal side, the central Government recorded a provisional surplus of $7.2 million for the first quarter of FY 2000/01 in sharp contrast to a $23.7 million deficit in the year-earlier period. Consistent with continued economic expansion, revenue collections rose sharply by 8.4% to $226.4 million and coincided with a 5.6% reduction in expenditures to $212.3 million following on last year's $1,200 lump sum payment to all civil servants. Budgetary financing included a $30.0 million domestic bond issue, alongside debt repayment of $27.3 million, largely on domestic currency obligations. As a result, the Direct Charge against Government rose by 2.4% to $1,524.2 million. With contingent liabilities vis-à-vis the public corporations contracting by 0.2%, the National Debt advanced by only 1.9% to $1,894.1 million, which compares with a stock of $1,859.5 million in 1999.

Consumer price inflation, as measured by the average change in the Retail Price Index, eased to 0.1% from 0.3% in the same period in 1999, largely owing to stable average prices for education and transportation, which both led the firming in the index last year. On an annual basis, the average inflation rate advanced to 1.8% from 1.3%, with the final in a three-year series of programmed tuition increases at The College of The Bahamas boosting average education costs by 15.2% as compared to 12.4% in 1999. Average price gains were also posted for housing (0.3%) and transportation costs (2.3%). Lower comparative average rates of increase were posted for the remaining components of the Index, with medical & health care costs and furniture & household operations firming by 2.1% and 1.8%, respectively.

External sector developments featured an estimated 7.7% reduction in the current account deficit to $246.6 million. The main influence was a significant improvement in net invisible receipts by 46.9% to $162.1 million, resulting primarily from a 25.7% increase in net travel receipts vis-à-vis tourism sector growth and reduced overseas spending by residents. Meanwhile, with the strong rise in the oil bill, the merchandise trade deficit expanded by 8.2% to $391.3 million, and net factor remittances rose by 3.6% to $25.9 million. Net current transfers were relatively stable at an estimated $8.5 million.

Net capital and financial inflows widened by 25.6% to an estimated $118.5 million. In particular, net foreign direct investment rose by 40.4% to $37.9 million, with both equity and net real estate investments increasing by approximately one-third. Augmenting these flows, public sector external debt transactions switched to a net borrowing of $3.8 million, and net short-term inflows through the banking sector were almost tripled at $41.1 million, in accommodation of private sector credit demand. In a modest offset, private sector net foreign currency borrowing was reduced by $28.9 million to $40.6 million.

FISCAL OPERATIONS

Provisional estimates of the central Government's operations for the first quarter of FY 2000/01 indicate an overall surplus of $7.2 million in contrast to the $23.7 million deficit recorded in the comparative 1999/00 period. The outturn was favoured by strengthened revenue collections of 8.4% to $226.4 million, alongside a 5.6% decline in expenditures to $212.3 million, which was due to lower levels of capital investments and a reduced wage bill following last year's lump sum payment to public servants.

REVENUE

Supported by continued buoyancy in the economy, revenue gains featured an 11.0% improvement in tax collections to $214.7 million (94.8% of the total). Although taxes on international trade and transactions declined by 9.6% to $115.0 million—inclusive of a $14.2 million (13.9%) fall-off in import duties—there was a more than twofold hike in "other" unclassified taxes to $34.6 million which included revenue not yet distributed among the broad tax categories. Significant increases were registered for stamp levies on financial and non-trade transactions of 41.8% to $27.3 million and for selective levies on tourism services of 27.6% to $7.7 million, mainly resulting from growth in hotel room occupancy taxes. Property and motor vehicle taxes also grew by 9.1% and 61.6%, to $4.2 million and $3.4 million, respectively, with a more marginal rise in departure taxes to $14.6 million.

Government Revenue By Source

July - September

	FY 99/00p		FY 00/01p	
	B$M	%	B$M	%
Property tax	3.4	1.8	4.2	1.9
Selective services tax	6.1	2.9	7.7	3.4
Bus. & Prof. lic. fees	6.8	3.3	9.0	4.0
Motor vehicle tax	2.1	1.0	3.4	1.5
Departure tax	14.4	6.9	14.6	6.4
Import duties	102.0	48.8	87.8	38.8
Stamp tax from imports	23.0	11.0	23.5	10.4
Export tax	2.2	1.1	3.7	1.6
Stamp tax from exports	0.0	0.0	0.0	0.0
Other stamp duty	19.2	9.2	27.3	12.1
Other tax revenue	14.0	6.7	34.6	15.3
Fines, forfeits. etc.	13.9	6.7	9.7	4.3
Income	1.4	0.7	1.9	0.8
Other non-tax rev.	0.0	0.0	0.0	0.0
Capital revenue	0.3	0.1	0.0	0.0
Grants	0.0	0.0	0.0	0.0
Less: Refunds	0.3	0.1	1.0	0.4
Total	208.9	100.0	226.4	100.0

Non-tax revenues fell by 23.3% to $11.7 million, as the decline in fines, forfeits and administrative fees countered a small gain in income from public enterprises and other sources.

Expenditure

The 5.8% decline in total expenditures to $219.3 million comprised reductions in recurrent spending of 3.6% to $199.6 million, capital outlays of 28.9% to $12.6 million and net lending to public enterprises of 10.1% to $7.0 million.

A breakdown of recurrent expenditure, which represented 94.0% of the total, by economic classification indicates a 9.8% reduction in government consumption to $120.6 million, despite a modest increase in purchases of goods and services. This was principally explained by a 15.6% fall-off in the wage bill following last year's across-the-board lump sum payment of $1,200 to public servants as part of a new five-year industrial agreement. In a partial offset, Government transfer payments rose by 7.6%, based on a 3.3% hike in interest expenses to $25.0 million, and a 9.7% rise in subsidies and other transfers payments to $54.1 million. The latter included a $3.0 million (11.0%) boost in general subsidies—to entities such as the Public Hospitals Authority and the College of The Bahamas—a doubling in payments to non-financial public enterprises ($1.0 million) and a further $2.0 million (44.7%) transfer to non-profit institutions.

By functional classification, the unwinding of last year's lump sum salary related payments underpinned a $15.4 million (21.6%) contraction in recurrent outlays for the general public service to $56.1 million, which represented 28.1% of total recurrent spending. Conversely, increased expenditures were recorded for education (11.1%), health (12.1%) and economic services (6.6%), which respectively accounted for 20.1%, 18.3% and 9.6% of the total. Defence spending was also higher (4.8%), contrasting with reduced social benefits & service-related outlays, which accounted for 8.1% of total spending.

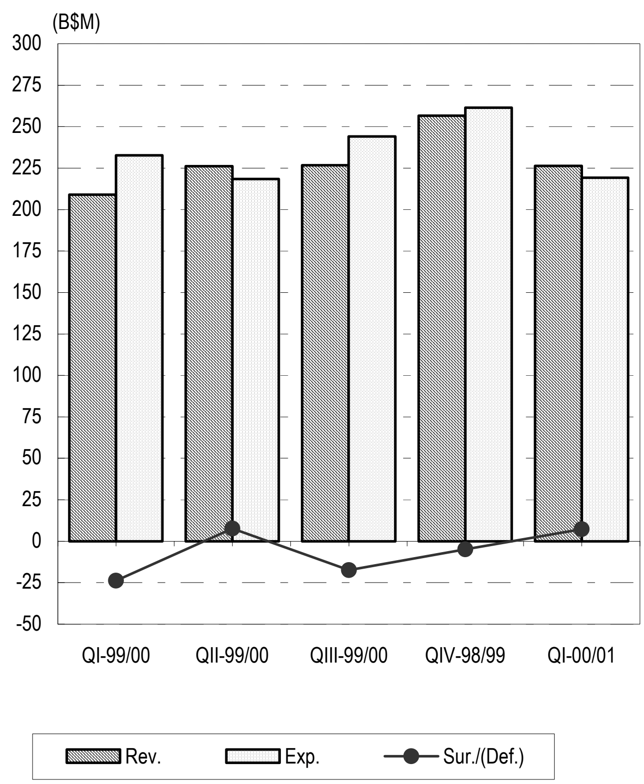
Compared to the first quarter of FY1999/00, capital expenditure contracted by almost a third to $12.6 million. Noteworthy was the sizeable reduction in outlays for defence to $0.4 million from $6.8 million and a scaling back of infrastructural expenditures by a quarter to $3.3 million. In contrast, investments in the police force and general administration rose by more than half to $3.1 million and in education, by almost a third to $4.8 million to fund preparations for the new school year.

Financing and National Debt

Budgetary financing included the issuance of a $30.0 million domestic bond in September, and external borrowings of $0.3 million. The Government also repaid $27.3 million of its debt, with $25.2 million (92.6%) applied to domestic currency obligations and the remaining $2.0 million to foreign currency liabilities.

The net effect was a $3.0 million (0.3%) rise in the Direct Charge on Government to $1,524.2 million, which was well below the previous year's 3.6% growth to $1,488.7 million. Government guaranteed debt of the public corporations also increased by $4.0 million (1.1%) to $369.9 million, bringing the National Debt higher by 3.8% to a quarter-end stock of $1,894.1 million vis-à-vis $1,859.5 million last year.

Fiscal Operations



The relatively stable Bahamian dollar share of the Direct Charge (90.6%), was largely held by the public corporations (43.0%), with the remainder distributed among commercial banks (29.8%), private and institutional investors (21.1%), the Central Bank (5.8%) and Other Local Financial Institutions (0.3%). In terms of instruments, local currency bonds amounted to $1,185.6 million, with a holder pattern similar to that of the total Direct Charge, and a fairly evenly spaced maturity ranging over 20 years. Treasury bills, which have remained at $132.5 million since 1996, carried a maximum maturity of 180 days, with commercial banks holding three quarters of the outstanding amount.

Public Sector Foreign Currency Debt

Based on provisional data, the stock of public sector foreign currency debt rose by $3.8 million (1.0%) during the third quarter of 2000 to $397.9 million. This reflected a $10.5 million drawdown on existing facilities relative to $12.0 million last year, and amortization payments of $6.8 million as opposed to $12.1 million in 1999. Compared to 1999, foreign currency interest payments fell by a fourth to $3.8 million, as the public corporations' portion was reduced by almost a third. Total debt service, at $10.6 million, also represented a reduced 2.0% of the estimated exports of goods and non-factor services compared with 3.6% in the same period last year, and the ratio of Government's foreign currency debt service to revenue fell to 1.3% from 3.5% in 1999.

By debtor profile, the largest portion of the foreign currency debt was owed to multilateral institutions (55.5%), followed by commercial banks (25.2%), private capital markets (13.0%) and bilateral institutions and offshore financial institutions (6.3%). More than 90% of the obligations were repayable in US dollars, and the average age to maturity of the debt was slightly less than 10 years.

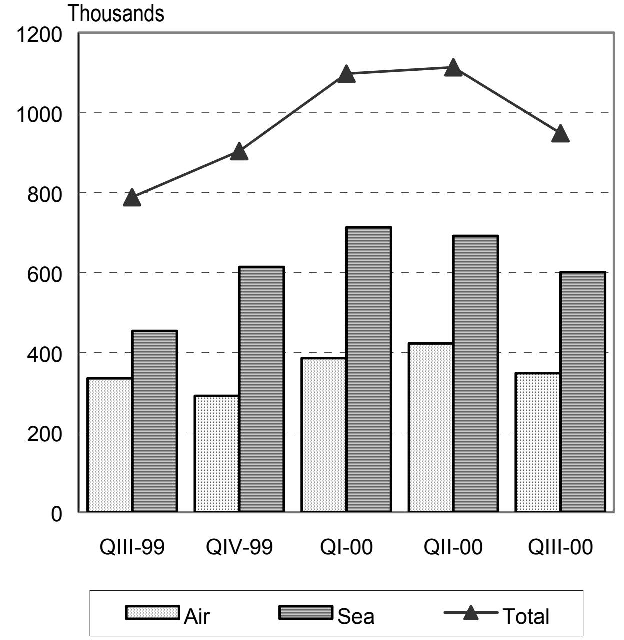
Real Sector

Tourism

Preliminary data for the third quarter of 2000 indicate expanded output in the tourism sector, supported by robust gains in sea arrivals and favourable pricing developments amid a more competitive and restored infrastructure. Growth was broadbased, inclusive of a strong recovery in stopover traffic, despite ongoing major renovation and expansion of hotel infrastructure.

Growth in total visitor arrivals strengthened by 20.3% to 0.95 million from 4.1% in 1999, and was reinforced by a 32.5% rebound in sea arrivals linked to the expanding cruise market. In contrast, gains in air arrivals, largely associated with stopover traffic, narrowed to 3.7% from a robust 10.0% in the corresponding period last year.

Arrivals



Disaggregation of port of entry data pegged visitor gains for New Providence at 23.0%, surpassing the 15.3% advance posted in the third quarter last year, as the sizeable strengthening in sea traffic (40.2%) eclipsed a more modest gain (2.3%) in air arrivals. Strong results were also recorded for the Family Islands, where visitor arrivals recovered by 38.0% from a decline of 6.8% a year earlier, mainly on account of a 73.7% surge in the cruise segment which countered a 10.2% falloff in air traffic. In Grand Bahama, the revival in the stopover market gathered momentum with the 21.4% upturn in air arrivals associated with the restoration of capacity to the hotel sector, moderating the decline in total arrivals to 0.4% vis-à-vis 14.9% a year earlier.

Available data on stopover indicators for the third quarter of the year suggest a continuation of strong expenditure growth, buttressed by broad-based appreciation in hotel room prices. In particular, occupied hotel room nights throughout The Bahamas increased by an estimated 7.0% corresponding largely to an 8.8% boost in available rooms. With a 6.3% appreciation in the average nightly room rate to $129.09, estimated room revenues strengthened by 13.8%. In Grand Bahama, where average room revenues rose by 24.0%, the gains were secured from the combination of a 21.2% boost in occupied room nights and a 2.3% rise in average room rates to $60.06 per night. Occupied room nights and average room rates for New Providence improved by 4.1% and 8.8%, for revenue gains of 13.3%. The Family Islands experienced a 6.9% advance in room revenue which was associated with modest occupancy growth of 4.3% and a 2.4% increase in average nightly rates to $140.20.

CONSTRUCTION

Construction estimates for the second quarter of 2000—the latest period for which data are available—suggest an abatement in investment expenditures, particularly in the residential sector, although year-to-date statistics indicated a moderate upturn in new activity.

Compared to the second quarter of 1999, the total number of building projects started during the quarter fell by 6.8% to 276 units, although the associated value was marginally higher by 0.4% at $43.7 million. In particular, commercial and industrial starts, which contracted in number to 24, appreciated in value by 31.8% to $8.5 million. Conversely, the number of residential units started decreased by 18 to 252, with a corresponding 5.1% drop in value to $35.1 million.

Building completions increased by 3.3% to 340 units, but the related value declined by 2.9% to $52.8 million—a pattern evidenced in both residential and commercial activity. While the number of residential completions rose by 6.9% to 309 projects, the associated value contracted by 4.9% to $36.5 million. A more significant decline (41.8%) was registered in the value of commercial completions to $9.4 million, which corresponded to a 25.0% reduction in the number of projects to 30.

Construction Activity
(April - June)

	1999	2000	% Δ
Building Permits			
Number	1079	874	-19.0
Value (B$M)	216.3	151.4	-30.0
Building Starts			
Number	296	276	-6.8
Value (B$M)	43.5	43.7	0.5

Construction Activity (April - June)			
of which: Residential	37.0	35.1	-5.1
Commercial	6.5	8.5	30.8
Public	--	--	--
Building Completions			
Number	329	340	3.3
Value (B$M)	54.4	52.8	-2.9

Following a significant increase in 1999, planned future investments—as measured by building permits granted—fell sharply by 30.0% to $151.4 million. The number of commercial permits issued rose by 17.7% to 146, to contrast with a 24.0% decrease in residential approvals to 723. However, both commercial and residential permits declined in value to $40.2 million (62.8%) and $84.3 million (22.0%), respectively. Meanwhile, growth in public sector permit valuations was boosted to $26.8 million from approximately $0.1 million in 1999 and was associated with the planned construction of new office premises.

PRICES

Quarterly consumer price inflation, as measured by changes in the average Retail Price Index, moderated to 0.1% from 0.3% in the comparative 1999 period. Movements among the components of the Index included average firmings of 0.2% or less for clothing & footwear, furniture & household operations, medical care & health, and housing. Average prices were unchanged for food & beverages, transport & communication and education, but declined by 0.3% for recreation & entertainment services.

Average Retail Price Index
(Annual % Change)
SEPTEMBER

		1999		2000	
Items	Weight	Index	%	Index	%
Food & Beverages	138.3	106.7	0.7	107.7	1.0
Clothing & Footwear	58.9	105.7	1.4	106.4	0.7
Housing	328.2	102.3	0.8	102.6	0.3
Furn. & Household	88.7	103.7	1.1	105.6	1.8
Med. Care & Health	44.1	106.2	2.2	108.4	2.1
Trans. & Comm.	148.4	99.9	-1.6	102.3	2.3
Rec., Enter. & Svcs.	48.7	109.1	5.1	108.6	-0.5
Education	53.1	113.7	12.4	131.0	15.2
Other Goods & Svcs.	91.6	101.6	0.5	102.3	0.7
ALL ITEMS	1000.0	103.9	1.3	105.7	1.8

On an annual basis through September, average consumer price inflation firmed modestly to 1.8% from 1.3% in 1999. Among the contributing factors were the 2.3% hike in average transport & communication costs vis-à-vis a 1.6% decline last year. This was linked primarily to rising fuel costs and the 15.2% hike in the education costs, reflecting the final programmed tuition increase at The College of The Bahamas. Prices also firmed for furniture & household operations (1.8%), food & beverages (1.0%) and “other goods and services” and clothing and footwear (0.7% each), contrasting with a 0.5% decline in average prices for recreation & entertainment services. Meanwhile, price increases for medical & healthcare costs were virtually stable from the previous year at 2.1%.

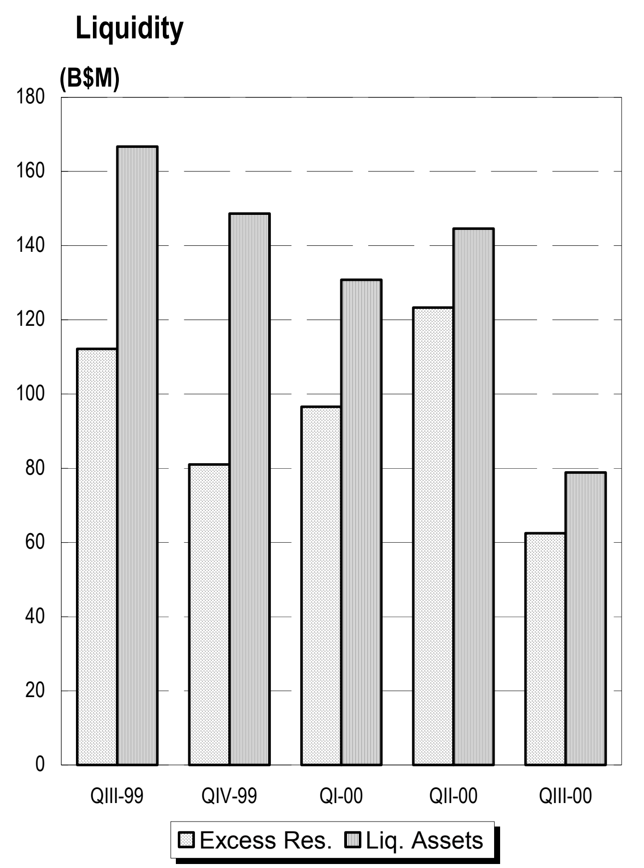
MONEY, CREDIT AND INTEREST RATES

OVERVIEW

Money and credit developments during the third quarter featured significantly strengthened expansion in domestic credit, which outpaced smaller gains to the deposit base. As a result, sizeable contractions were recorded for both external reserves and bank liquidity, and average interest rate spreads widened amid firming in most lending rates. Latest available data on bank performance show broad-based improvement in profitability ratios.

LIQUIDITY

Net free cash balances of the banking system fell by one-half to $62.5 million, to represent a lesser 1.9% of Bahamian dollar deposit liabilities as compared to 3.7% in 1999 when excess reserves were significantly higher at $112.2 million. Similarly, the broader surplus liquid assets also declined sharply by $65.8 million (45.5%) to $78.8 million, exceeding the statutory minimum by 14.6% vis-à-vis 33.5% in 1999. In this regard, the contraction was mainly due to a $66.7 million (29.5%) decrease in balances held at the Central Bank amid the firming in domestic demand.



DEPOSITS AND MONEY

Expansion in the monetary aggregates comprised sustained accretions to private individuals' deposit balances, which countered marginal contraction in business deposits.

Growth in narrow money (M1) eased to 2.5% from 4.2% a year ago, with the increase in currency in active circulation slackening to 1.7% from 5.0% in 1999, and gains in demand deposits lower at 2.7%.

Conversely, broad money (M2) growth advanced to 2.0% from 1.2% in 1999, with the 1.9% rebound in fixed balances broadly offsetting the halving in savings deposit growth to 2.0%. With a more moderate contraction in residents' foreign currency deposits (10.1%), the overall growth in money (M3) was higher at 1.8% from 0.9% in 1999.

On a proportional basis, Bahamian dollar fixed deposits remained the largest component of money (57.6%), followed by demand balances (19.2%), savings deposits (17.1%), currency (4.2%) and foreign currency deposits (1.9%).

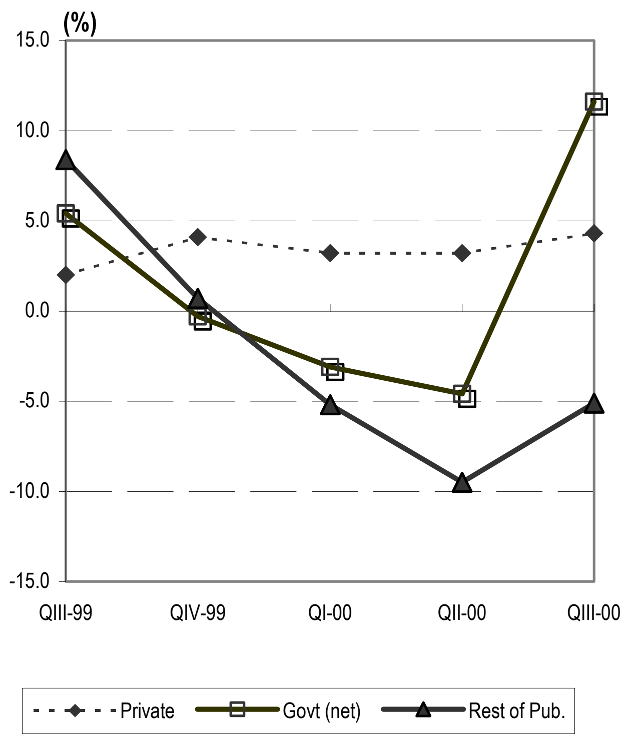
By holder profile, the largest share of deposits was held by private individuals (57.0%), next was business firms (23.1%), private financial institutions and other depositors (11.2%) and public corporations (6.7%).

DOMESTIC CREDIT

Domestic credit expansion accelerated to 4.8% from 2.7% in the corresponding quarter last year, primarily reflecting increased private sector demand. In particular, the advance in private credit more than doubled to 4.3% from 2.0% in 1999, stemming both from the upturn in foreign currency lending (6.9%) and moderately stronger growth in Bahamian dollar credit of 4.0% vis-a-vis 3.6% in the corresponding period last year. In this context, the increase in consumer credit slowed to 3.0% from 3.6% last year, but was offset by a 3.9% ($36.7 million) growth for mortgage lending. In addition significant new flows were recorded for distributive trade activities of 29.0% ($41.4 million) and in construction of 10.5% ($29.7 million).

On a sectoral basis, the personal loans category accounted for $38.2 million (26.8%) of the increase in private sector credit, retaining a 63.4% share of the outstanding balance. Growth in personal housing loans, which represented more than half of mortgage lending, was fairly stable at $21.0 million (2.6%), whereas the increase in consumer lending was marginally lower at $40.9 million (3.0%), and overdraft balances contracted further by $2.7 million (9.2%).

Changes in Credit



A further analysis of remaining private sector borrowing categories indicated net increases for entertainment and catering (57.9%), mining & quarrying (33.2%), transportation (17.2%) and miscellaneous loans (10.0%); and a more than doubling in credit to private financial institutions to $8.8 million. However, net repayments were recorded for agriculture (17.1%) professional and other services (5.4%) and manufacturing (4.1/%).

Growth within the consumer loans category was broadly based, inclusive of gains for education (19.1%), travel (15.9%), land purchases (9.6%), taxis and rented cars (6.1%) and miscellaneous (5.2%). Categories posting net repayments included medical (2.6%) and commercial vehicles (1.4%).

Public sector activities featured a more than twofold hike in the banking systems' net claims on Government to 11.6% from 5.4%. However, credit to the public corporations contracted by 5.1%, reversing a 7.7% advance in 1999.

Commercial Banks

Commercial banks recorded a marginal increase in private sector deposit liabilities of 0.8%, which trailed the more substantial 4.2% increase in private sector credit.

Distribution of Bank Credit By Sector
End-September

	1999		2000	
	B$M	%	B$M	%
Agriculture	13.8	0.4	9.2	0.2
Fisheries	7.4	0.2	6.8	0.2
Mining & Quarry	18.3	0.6	21.3	0.6
Manufacturing	64.2	2.0	92.8	2.5
Distribution	172.9	5.3	184.2	5.0
Tourism	208.4	6.3	213.7	5.8
Enter. & Catering	24.7	0.8	32.4	0.9
Transport	33.5	1.0	61.7	1.7
Public Corps.	160.2	4.9	125.4	3.4
Construction	207.9	6.3	312.7	8.5
Government	98.8	3.0	78.2	2.1
Private Financial	5.1	0.2	8.8	0.2
Prof. & Other Ser.	118.1	3.6	117.9	3.2
Personal	1992.2	60.5	2216.1	59.9
Miscellaneous	165.7	5.0	218.0	5.9
TOTAL	3291.2	100.0	3699.2	100.0

Growth was also recorded in net credit to government (10.0%), while deposit liabilities to the rest of the public sector contracted (8.4%) and claims on this sector by 6.2%. Within this context, commercial banks' net foreign liabilities rose further by 6.4%.

On a proportional basis, commercial banks retained a stable 97.5% share of total banking sector deposit liabilities, most of which was owing to the private sector (90.3%). Approximately 60.5% of the former amount was held in fixed deposits, 21.4% in demand balances and 18.1% in savings.

Other Local Financial Institutions

The Other Local Financial Institutions' (OLFI) net foreign assets were halved to $12.2 million during the quarter. This corresponded to an acceleration in net private sector lending to 7.5% from 4.0% last year, in contrast to a decline in private sector deposit of 4.0% compared to 7.8% advance in 1999. A broader analysis of deposit liabilities showed that the majority was held in deposits (89.9%), followed by demand (6.4%) and savings (3.7%) balances. Meanwhile, private sector claims remained concentrated in mortgages (82.5%), which rose by $6.4 million (8.5%) during the quarter.

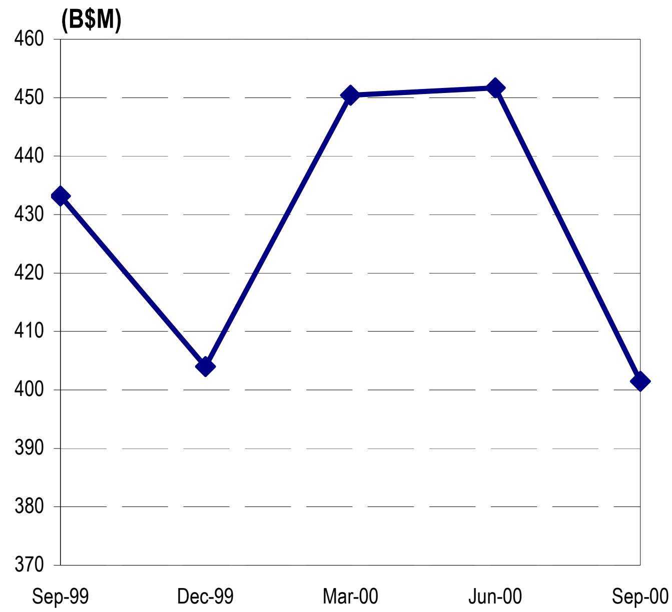
Central Bank

The Central Bank's net claims on Government rose by $13.7 million (23.5%) to $72.0 million, mainly corresponding to the more than threefold increase in Treasury bill holdings to $18.9 million. External reserves fell by $50.2 million (11.1%) to $401.5 million and were 7.3% below last year's $433.2 million. In this regard, the Bank's quarterly net foreign currency sale rose by $8.7 million (17.9%) to $57.3 million vis-à-vis 1999, with total sales rising faster (11.9%) than total purchases (8.4%). The net sale to commercial banks nearly doubled to $26.2 million, contrasting with a reduction (9.7%) in the net sale to the public sector to $31.1 million.

Interest Rates

During the third quarter, commercial banks' weighted average deposit rate softened by 7 basis points to 3.93%, contrasting with a 50 basis points firming in the weighted average lending rate to 12.12%, and producing a higher average interest rate spread of 8.19%. The decline on the deposit side was most evident on the upper end of the maturity spectrum, with the average band on fixed balances decreasing to 3.87% - 4.31% from 3.97% - 4.70% in the previous quarter. Conversely, the average savings rate rose by 17 basis points to 2.90%.

External Reserves



Higher average lending rates were influenced by a 68 basis points increase in commercial mortgages rates to 9.61%, a 47 basis points firming in overdrafts rates to 10.60%, and 19 basis points to 13.77% for consumer rates. In contrast, the average residential mortgage rate eased by 13 basis point to 8.90%.

Official rates—the Central Bank's Discount Rate and commercial banks' Prime Rate—remained unchanged at 5.75% and 6.00%, respectively. Conversely, the average 90-day Treasury bill rate softened by 30 basis points to 0.90%.

Bank profitability

Second quarter bank performance data—the latest available—indicate that banks' net income increased by $11.1 million (39.4%) to $39.2 million vis-à-vis the corresponding 1999 quarter. In particular, the gross earnings margin increased by 18.1%, with a 16.5% growth in interest income and commission and foreign exchange income stabilised. Meanwhile, operating costs trended higher by a lesser 2.6% to $39.3 million and other income (net) was higher by 19.4% to $6.4 million.

Against the backdrop of strong growth in net income banks' overall profitability ratios also improved during the second quarter. The net interest margin as a percentage of average assets increased to 5.73% from 5.20% in 1999, to comfortably offset the modestly reduced ratio for commission and foreign exchange income of 0.53%. These movements occurred against a slight narrowing in the operating expense ratio to 3.41% from 3.63%, resulting in a higher return on assets ratio (net income) of 3.41% relative to 2.67% in 1999.

International Trade and Payments

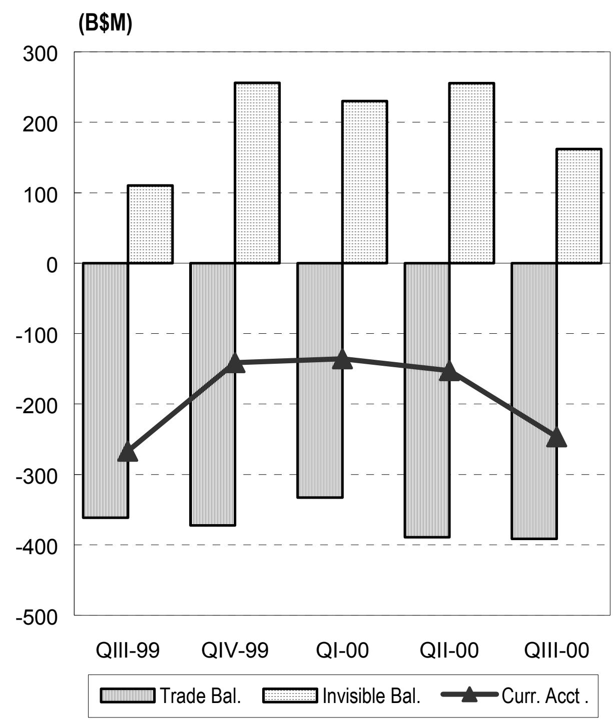
Preliminary data for the third quarter indicate a 7.7% narrowing in the current account deficit to $246.6 million when compared to the corresponding 1999 period. This was due mainly to a notable increase in the surplus on the services account, which was supported by a significant improvement in net travel receipts.

The estimated merchandise trade deficit widened by 8.2% to $391.3 million, led by a significant hike (80.8%) in the value of oil imports to $91.1 million based on a combination of hikes in the average price of oil products and increased volumes for foreign bunkering. The non-oil import bill also advanced by $7.6 million (1.9%) to $414.8 million, but a strong offset was provided by the $18.4 million (19.0%) growth in estimated export receipts to $115.2 million, which included higher fuel sales to foreign ships.

Regarding average oil prices, the per barrel cost of gas oil rose 75.0% to $35.95; motor gas, 30.0% to $39.82; aviation gas, 27.0% to $20.73; jet fuel 17.6% to $47.89 and bunker 'c' fuel, 7.1% to $22.32. Conversely, provisional data for propane suggests a stable price of $16.73 per barrel.

On the services account, the estimated net surplus widened by $51.7 million (46.9%) to $162.1 million, largely attributable to a $59.4 million (25.7%) improvement in net travel receipts underlined by steady growth in tourism receipts and a fall in residents' overseas expenditures. Further disaggregation of the services account revealed increased net payments for construction services of 76.8% to $29.8 million; insurance, 25.3% to $20.6 million; royalty and license fees, 49.9% to $3.6 million; and a contraction in offshore companies local expenses of 37.2% to $12.2 million. Partly countering these trends, net outward remittances for transportation declined 10.7% to $26.8 million; government services, 6.6% to $5.2 million, and "other services", 20.7% to $54.8 million, partly reflecting reduced external expenses for hotel properties.

Balance of Payments



Under the income account, overall net outflows widened by 3.6% to $25.9 million as workers' remittances increased 11.4% to $11.2 million, outpacing a marginal decline in net repatriation of investment income to $14.7 million.

For current transfers, net receipts fell by 4.2% to $8.5 million, as general government posted a slightly smaller net inflow of $10.4 million and private sector net outflows were unchanged at $1.9 million.

On the capital and financial account, a significant increase in net financial inflows of 25.3% to $123.3 million extended the overall surplus to $118.5 million from $94.3 million in 1999. For migrant workers' capital transfers, the net remittance firmed incrementally to $4.9 million from $4.1 million in the comparative 1999 quarter.

A breakdown of the financial account revealed an expansion in net foreign direct investments to an estimated $37.9 million from $27.0 million last year, with net equity inflows improving to $29.1 million from $22.8 million, and net real estate sales doubling to $8.8 million. Similarly, the public sector recorded a net borrowing of $3.8 million as compared to a net repayment of $0.1 million last year, and net short-term inflows through the banking system rose almost threefold to $41.1 million. Conversely, private sector net loan proceeds were reduced to $40.6 million from $57.1 million in 1999.

Consequent upon these developments, and adjusting for possible errors and omissions, the overall balance recorded a slightly higher deficit of $50.2 million as against $42.8 million in the year-earlier period.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Amid the cumulative impact of tightened monetary policies, the pace of economic growth among the major industrial countries, although remaining strong, moderated during the third quarter of 2000 and contributed to reduced inflationary pressures. Although monetary authorities maintained their anti-inflation stance, tightening was only evident in Europe and Japan. Employment conditions remained favourable, led by job gains within the European Monetary System. However, equity prices on the major bourses moved broadly lower, as technology stocks were further downgraded and investors responded negatively to higher official interest rates. In the external sector, the major currencies continued to depreciate against the United States' dollar which, along with rising fuel prices, produced some deterioration in the major countries' current account imbalances.

As higher official interest rates achieved their desired effect on demand, indications are that economic growth moderated among the major industrial countries. In particular, the United States' economy expanded at an annualised 2.7%—its slowest pace in more than a year and down from a robust 5.6% last quarter and a year-on-year gain of 6.0%. The moderation, accompanied by a weakening in inflationary pressures, was due mainly to the slowdown in housing construction and government spending. Real growth in the United Kingdom also slackened to an annualised 2.1% from the 3.8% in the second quarter, partly attributed to a cutback in export-oriented industrial output in response to the pound sterling's steady appreciation against the euro.

Meanwhile, growth within the euro area remained strong, albeit moderated from the previous quarter's 3.7% advance, with smaller industrial output gains signalling a slowing in Germany's expansion below the previous period's 3.6%. Activity has been aided by resilient export growth, amid the strengthening global recovery and a highly competitive currency. With moderate gains in business investments and net exports, the Japanese economy also continued to experience modest growth, following the second quarter slackening to 1.0%.

Labour market data suggest slight improvements in the jobless rate in most major economies, marked by steady employment growth. As capacity pressures persisted in the United States, average unemployment remained near its post-war low at 4.0%. However, average unemployment in the euro area fell incrementally to 9.1% in the two months to August, with Germany and France posting respective declines of 9.5% and 9.6% (through August) from 9.6% and 9.8% last quarter. The United Kingdom's average unemployment rate also eased to 3.6% from 3.8%, whereas in Japan, the jobless rate remained near recent historic highs at 4.7% (in July and August), owing to ongoing corporate restructuring.

Average consumer price inflation trends were mixed among the major industrial countries, with substantial increases in energy costs reinforced in some cases by depreciated currencies, but offsetted elsewhere by tighter monetary policies. In the United States and the United Kingdom, where aggregate demand was more constrained, the respective average quarterly inflation rates decreased to 3.1% and 1.8% from 3.7% and 2.4%. However, in the euro area, the depreciated currency contributed to a firming in the average inflation rate to 2.5% from 2.1%, which also registered in Germany and France at 2.7% and 2.5% respectively, from a uniform

1.2% in the second quarter. In Japan, rising costs on imported commodities influenced a marginal firming in average consumer prices of 0.5%, halting more than three consecutive quarters of decline.

In foreign exchange markets, the dominant strength of the US economy and higher official interest rates continued to support broad-based appreciation of the U.S. dollar against other major currencies. In particular, the dollar rose further by 9.6% against the euro to €1.14 and by 3.0% against the pound sterling to £0.68, representing respective gains of 17.2% and 11.8% from the corresponding averages in 1999. The dollar also advanced by 0.6% against the Canadian dollar to C$1.49; by 0.7% vis-à-vis the Japanese yen to ¥106.84 and by 7.1% relative to the Swiss franc to SF1.76.

Commodity market developments featured significant volatility and firming in oil prices during the third quarter, amid uncertainty over OPEC's future intentions to boost daily production. The average per barrel price of Brent Sea crude rose by 13.6% to $30.43, but with the end-September close lower by 8.6% to $28.62 vis-à-vis June. Conversely, the IMF's index of non-fuel commodity prices declined further by 4.2%, with a softening in average prices for food and agricultural raw materials outweighing firmer prices for metals. Likewise, in precious metal markets, the price of gold fell by 5.7% to $273.60 per ounce at end-September.

The monetary policy stance in the major economies reflected continued vigilance against inflation, although further official interest rate increases were not widespread. Amid evidence that aggregate demand pressures were slackening, the United States' Federal Reserve maintained its target federal funds rate at 6.50%. The Bank of England also maintained its official rate at 6.00%. However, the European Central Bank boosted both its marginal lending facility and the refinancing facility by 25 basis points to 4.5% and 5.50% respectively, in a bid to bolster the currency. In Japan, the return to positive rates of inflation and modest strengthening of the economy justified the termination of the central bank's zero interest rate policy, with the target for the overnight inter-bank rate increased to 0.25%.

Major world bourses recorded further depreciation in equity prices, marked by significant daily volatility, as investors continued to deflate technology share valuations and downgraded other sectors because of rising interest rates. Nonetheless, volatility, as measured by the annualised 22-day standard deviation of market returns, was lower in the third quarter—having declined in each month through September. As regard information technology sectors, markets were adversely affected by earnings downgrades, and a rising number of e-commerce company failures. Against this backdrop, the Dow Jones Industrial Average closed the quarter 2.5% lower at 10,650.9 points and the broader S&P 500 index was 1.3% lower at 4,436.51 points. Declines were also posted for Japan's Nikkei 225 index of 9.3% to 15,747.26 points, Germany's DAX index, 3.5% to 6,798.12 points, and the United Kingdom's FTSE 100 share price index, 0.3% to 6,294.2 points.

In the external sector, modest deterioration was recorded on all of the major countries' current account balances, mainly corresponding to higher import prices from weakened bilateral exchange rates and the rising cost of imported fuel. For the United States, where the current account deficit rose further beyond the second quarter's annualised $424.6 billion, rising domestic import demand continued to outpace stronger export gains. In the United Kingdom, exports to the rest of Europe remained hampered by the appreciation of sterling vis-à-vis the euro, with a consequent extension in the annualized current account shortfall to more than $20.0 billion. Although the weakened euro benefited most payment balances within the euro area, Germany's current account deficit increased slightly due to the more negative impact of the euro and higher oil prices on the annualised trade surplus, which fell slightly below the second quarter's $51.6 billion. Japan's estimated current account surplus was below the annualised $128.4 billion of the second quarter, affected in part by the levelling-off in net export growth to neighbouring Asian economies.

At the Fifty-Fifth Annual Meeting of the Board of Governors of the International Monetary Fund (IMF) and the World Bank held in Prague, the Czech Republic, during September 26-28, Governors noted the urgency of ensuring that the benefits of globalisation accrued equally among all countries and that the costs, particularly for developing countries, were minimised. Emphasis was therefore placed on the role of crisis prevention and surveillance in the Fund's activities, and the recently implemented joint Poverty Reduction and Growth Facility

(PRGF) of the IMF and World Bank Group. Policy makers also acknowledged the importance of productive private sectors and the need to strengthen such under-pinnings, especially in developing 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.