



Monthly Economic and Financial Developments March 2007

In an effort to provide the public with more frequent information on its economic surveillance activities, the Central Bank has decided to release monthly reports on economic and financial sector developments in The Bahamas. The Bank monitors these conditions as part of its monetary policy mandate, to assess whether money and credit trends are sustainable relative to levels of external reserves required to protect the value of the Bahamian dollar and, if not, the degree to which credit policies ought to be adjusted. The main data source for this surveillance is financial institutions' daily reports on foreign exchange transactions and weekly balance sheet statements. Therefore, monthly approximations may not coincide with calendar estimates reported in the Central Bank's quarterly reports. The Central Bank will release its "Monthly Economic and Financial Developments" report on the Monday following its monthly Monetary Policy Committee Meeting.

Future Release Dates:

2007: June 4th, July 2nd, July 30th, September 3rd, October 1st, October 29th, December 3rd

1. Domestic Economic Developments

Indications are that economic growth was maintained during the month of March, buoyed by continued firming in both residential and commercial construction activity, alongside a less brisk expansion in consumer demand. Moreover, foreign currency inflows, associated in part with tourism and ongoing foreign investment projects, supported a strengthening in external reserves as well as liquidity during the review period.

On the fiscal side, preliminary data indicates that during the first nine months of FY2006/07, the deficit contracted by 10.6% (\$10.2 million) to \$85.6 million, compared to the corresponding period of FY2005/06. This improved outcome reflected a 14.2% rise in total revenue and grants to \$977.9 million, which outpaced the 11.7% firming in total expenditures to \$1,063.5 million. With regards to revenues, the 12.6% expansion in tax receipts was mainly attributed to growth in international trade and "other taxes", of 6.3% and 26.3%, respectively; while non-tax revenues firmed by 39.9%, due in large measure to timing-related increases in property income. In terms of spending, current outlays firmed by an estimated 9.6% to \$917.4 million, occasioned by increases in consumption (11.8%) and transfer payments (6.1%). Asset acquisitions, related to the purchase of computer and communication equipment, alongside public works, elevated capital expenditure by 25.1% to \$101.6 million.

Reflecting in part, increased costs for fuel products as well as fresh fruits and vegetables, consumer price inflation for the first quarter of 2007 firmed to 3.1% from 1.2% during the same period last year. The largest price accelerations in the Retail Price Index were noted for other goods & services (7.9%), recreation & entertainment services (7.2%), transport & communication services (5.0%), medical care & health (3.6%) and food & beverages (3.4%).

2. International Developments

The IMF in its April 2007 "World Economic Outlook" projected that global growth would moderate by 0.5 percentage points to approximately 4.9% in 2007, reflecting the slowdown in US output along with weakened growth in Europe, as the reduction in monetary accommodation and fiscal consolidation take effect. However, the report also pointed to potential risks to the global outlook from the possible adverse effects of the housing market slowdown on the US economy, and concerns over oil price induced inflationary pressures.

Preliminary indications are that the United States economy expanded by a modest 1.3% in the first quarter, reflecting the effects of a downturn in the housing sector and a deterioration in the terms of trade. In March, estimates of privately-owned building permits issued, housing starts and housing completions fell on an annual basis, by 25.9%, 23.0% and 25.9% respectively, compared to the corresponding period of 2006. The monthly goods and services deficit declined by \$0.5 billion to \$58.4 billion in February, while personal consumption expenditures rose by 0.6% over the January level. The unemployment rate for March remained unchanged at 4.4% as the 180,000 addition to non-farm payrolls was offset by an equivalent increase in the labour force. Propelled by higher energy costs, consumer price inflation firmed to an annualized 4.7% in the first quarter. On the

monetary side, the Federal Reserve at its March meeting, maintained the primary and target funds rates at 6.25% and 5.25%, respectively. The decision reflected the Bank's concerns over the risks of a slowdown in economic growth and higher inflation.

Initial data suggests that China's GDP grew by 11.1% in the first quarter of 2007, compared to 10.6% in the same period of 2006, and reflected the continued strengthening of the country's trade surplus, which almost doubled to \$46.4 billion during the first three-months. Consequently, the country's foreign reserves expanded to \$1.2 trillion in March, a 37.4% advance on a year-on-year basis. Buoyed by higher costs for food and housing, consumer prices in February rose by 2.7% over the same period last year. In addition, the Peoples Bank of China raised its benchmark deposit and lending rates in March to 2.79% and 6.12%, respectively, as part of its continuing bid to curtail excessive liquidity levels, which stemmed from the country's foreign reserve build-up.

In an environment of heightened business investment and industrial production, indications are that Japan's growth momentum was sustained during the first three-months of 2007. Labor market conditions remained mild during February, as the unemployment rate softened on a year-on-year basis to 4.1%; while average consumer prices declined by 0.5% from the previous month. Against this background, the Bank of Japan kept its key uncollateralized overnight call rate at 0.5% in March.

For the United Kingdom, economic growth remained subdued in the first quarter of 2007, as manufacturing output softened by 0.2% in the three-months to February; however, retail sales expanded by 0.4%. On the external front, underpinned by a deterioration in the goods balance, the trade deficit rose on a monthly basis, by £0.3 billion to £4.3 billion in February. The unemployment rate moved upwards by 0.1 percentage points to 5.5% in the three-months ending February, while higher food and non-alcoholic beverage costs were mainly responsible for the inflation rate firming to 3.1% in March from 2.8% in the previous month. Citing the need to avoid increasing the level of uncertainty and volatility in the financial markets, the Bank of England decided to leave its key interest rate unchanged at 5.25% in March.

Preliminary estimates indicate that economic activity rose in the Euro area during the first quarter. In February, the index of industrial production firmed by 0.6%, negating the 0.5% fall in January and retail trade expanded by 0.3%, following an increase of 0.5% in the previous month. The unemployment rate was relatively steady at 7.3%; however, annual inflation stood slightly higher in March at 1.9%. In an effort to mitigate the upside risks to price stability, the European Central Bank raised its key interest rates by 25 basis points.

Given renewed geopolitical concerns in the Middle East and West Africa, combined with a constricted oil market, the monthly price of crude oil was 9.2% higher in March at \$66.7 per barrel. Total OPEC crude production in March averaged 30.03 million barrels per day, relatively unchanged from the previous month. However, the price of several major commodities narrowed, with gold and silver contracting in March by 0.8% to \$663.79 per troy ounce and 5.3% to \$13.38 per troy ounce, respectively.

In March, gains were noted for most of the major equity indices, with the United States' Dow Jones Industrial Average and the S&P 500 advancing by 0.7% and 1.6%, respectively. In Europe the

main indices also rose, with the FTSE 100 up by 2.2%; the CAC 40, by 2.1%; and the DAX, by 3.0%. In contrast, the Japanese Nikkei 225 weakened by 1.8%.

3. Domestic Monetary and Credit Trends

March 2007 vs. 2006

Reinforcing developments observed in the opening months of 2007, monetary conditions improved during March, as gains in net foreign currency inflows, amid a slowing in domestic credit growth, facilitated notable rebuilding in both liquidity and external reserves.

Benefiting from increased net foreign currency inflows, the growth in external reserves advanced strongly by 67.9% to \$65.1 million. In this regard, the Central Bank's net foreign currency purchase almost doubled to \$64.9 million, due to a \$17.5 million increase in the net purchase from banks to \$79.1 million, and a \$9.7 million reduction in the net sale to the public sector to \$14.2 million. Additionally, commercial banks' net purchase from customers rose slightly by \$1.3 million to \$65.0 million.

Bahamian dollar credit expansion slowed by 48.0% to \$38.0 million, led by a 31.1% reduction in private sector credit growth to \$30.0 million. In particular, accretions to consumer credit and mortgages were lower by 11.2% and 23.1%, at \$13.5 million and \$20.5 million, respectively. Also, Government's net borrowing was almost halved to \$12.6 million, and public corporations reduced their indebtedness by \$4.7 million, a reversal from last years' increase of \$8.1 million.

Growth in foreign currency credit moderated sharply by 75.0% to \$5.6 million, and was mainly explained by a slowdown in the expansion of private sector credit to \$4.4 million from \$19.0 million a year ago, when a domestic land developer borrowed to finance a commercial land purchase. Net foreign currency claims on the Government fell marginally by \$0.1 million vis-à-vis a \$3.4 million increase in the 2006 period, whereas foreign currency credit to the rest of the public sector was up by \$1.3 million, from a flat position in 2006.

Accretions to Bahamian dollar deposits tapered by \$15.4 million to \$74.6 million, as domestic entities' drawdown of funds to purchase Government bonds influenced a slowing in the advance in demand deposits to \$16.6 million from \$49.3 million a year earlier. Similarly, the expansion in savings deposits was lower at \$18.9 million from \$29.5 million in 2006; whereas fixed deposit growth accelerated more than threefold to \$39.2 million, as businesses responded to the more competitive interest rate yields.

During March, the weighted average deposit rate at banks softened by 3 basis points to 3.67%, although the highest rate offered at banks was 6.50% for fixed maturities of over 12 months. Conversely, the weighted average loan rate appreciated by 71 basis points to 10.84%.

January -March 2007

Following the sharp dip in the final quarter of 2006, liquidity levels recovered during the first quarter. Excess reserve growth accelerated to \$159.7 million from \$41.4 million last year; and excess liquid assets firmed by \$160.7 million, more than double 2006's advance of \$60.2 million.

In this context and amid slackened credit growth, gains in external reserves were more than three-fold higher than the previous year, at \$168.8 million, being supported by increased private sector net foreign currency inflows associated with tourism-related activities, alongside net public sector borrowing proceeds. Underlying this, the Central Bank's net foreign exchange purchase rose strongly by \$113.7 million to \$164.0 million, based on a 72.0% hike in the net purchase from commercial banks to \$178.4 million, which was derived from the latter's increased net purchase from customers of \$49.1 million to \$165.7 million. The Central Bank's outcome also benefited from a \$39.1 million reduction in the net sale to the public sector to \$14.4 million.

A significant moderation in private sector credit combined with a decline in public sector indebtedness, restrained Bahamian dollar credit growth sharply to \$13.3 million from last year's upturn of \$110.9 million. In particular, the expansion in credit to the private sector slowed by almost half to \$82.7 million, occasioned in part by a \$16.2 million tapering in mortgage growth to \$57.2 million; while accretions to consumer credit softened by \$0.7 million to \$31.2 million. Net credit to Government declined by \$13.3 million, following last year's \$23.8 million contraction; and credit to the rest of the public sector fell by \$56.3 million, to reverse a marginal rise of \$0.8 million in 2006.

Domestic foreign currency credit fell by \$2.0 million during the first three months of the year, a turnaround from the \$42.8 million gain recorded in the corresponding 2006 period. Developments included an \$8.2 million drop in credit to the rest of the public sector, a reversal from the \$13.9 million expansion in the previous year, and a slowdown in private sector credit growth by 79.4% to \$6.2 million. Government's foreign currency credit balance was unchanged, in comparison to a decline of \$1.3 million in 2006.

For the quarter, growth in total Bahamian dollar deposits strengthened to \$153.0 million from \$102.3 million in 2006. Specifically, fixed deposits expanded by \$125.2 million, more than double 2006's advance of \$52.1 million, while the rise in saving deposits was slightly higher at \$35.9 million. In contrast, demand deposits declined by \$8.2 million, following last year's \$18.2 million hike.

4. Outlook

The Bahamian economy is expected to continue on a path of stable growth during 2007, underpinned by tourism-related investments, alongside healthy private sector demand. Nonetheless, recent increases in global oil prices, combined with signs of softness in the US economy, could impact this outlook should such trends persist.

Recent Monetary and Credit Statistics

(B\$ Millions)

MARCH						
Value		Change		Change YTD		
2006	2007	2006	2007	2006	2007	

1.0 LIQUIDITY & FOREIGN ASSETS

1.1 Excess Reserves	236.76	295.89	26.50	83.81	41.39	159.73
1.2 Excess Liquid Assets	172.68	170.09	4.44	85.92	60.23	160.66
1.3 External Reserves	637.21	620.72	38.77	65.08	54.29	168.82
1.4 Bank's Net Foreign Assets	-632.39	-702.40	-42.17	3.93	-72.67	-70.01
1.5 Usable Reserves	286.98	257.28	19.81	20.18	26.86	98.57

2.0 DOMESTIC CREDIT

2.1 Private Sector	5,081.96	5,736.92	62.62	34.39	164.09	88.89
a. B\$ Credit	4,589.87	5,236.25	43.61	30.03	133.94	82.67
of which: Consumer Credit	1,681.72	1,917.56	15.21	13.50	31.89	31.21
Mortgages	1,979.75	2,297.43	26.64	20.49	73.36	57.16
b. F/C Credit	492.09	500.67	19.02	4.36	30.16	6.22
of which: Mortgages	16.45	33.58	1.30	1.30	4.16	2.26
2.2 Central Government (net)	622.79	668.78	24.79	12.54	-25.08	-13.26
a. B\$ Loans & Securities	752.78	763.52	28.15	11.05	1.87	-25.69
Less Deposits	140.04	111.41	6.71	-1.57	25.68	-12.43
b. F/C Loans & Securities	14.00	18.97	0.00	0.00	0.73	0.00
Less Deposits	3.96	2.30	-3.35	0.09	2.01	0.00
2.3 Rest of Public Sector	314.59	295.16	8.09	-3.33	14.67	-64.52
a. B\$ Credit	99.09	75.48	8.09	-4.66	0.79	-56.29
b. F/C Credit	215.50	219.68	0.00	1.34	13.88	-8.24
2.4 Total Domestic Credit	6,019.34	6,700.86	95.50	43.59	153.68	11.11
a. B\$ Domestic Credit	5,301.71	5,963.84	73.13	37.99	110.93	13.13
b. F/C Domestic Credit	717.63	737.02	22.37	5.60	42.76	-2.02

3.0 DEPOSIT BASE

3.1 Demand Deposits	1,073.86	1,068.57	49.30	16.58	18.24	-8.19
a. Central Bank	53.50	21.47	9.12	3.20	23.63	4.25
b. Banks	1,020.36	1,047.10	40.18	13.39	-5.39	-12.44
3.2 Savings Deposits	914.92	986.65	29.50	18.87	32.02	35.93
3.3 Fixed Deposits	2,629.10	2,906.15	11.21	39.17	52.06	125.21
3.4 Total B\$ Deposits	4,617.87	4,961.37	90.01	74.63	102.32	152.95
3.5 F/C Deposits of Residents	129.39	172.08	-9.92	16.79	-30.49	-8.84
3.6 M2	4,802.10	5,158.87	88.12	73.42	81.07	125.29
3.7 External Reserves/M2 (%)	13.27	12.03	0.57	1.11	0.92	3.05
3.8 External Reserves/Base Money (%)	104.62	89.03	2.03	-1.54	5.53	8.64

Value		Year to Date		Change	
2006	2007	2006	2007	Month	YTD

4.0 FOREIGN EXCHANGE TRANSACTIONS

4.1 Central Bank Net Purchase/(Sale)	37.63	64.86	50.24	163.98	27.23	113.74
a. Net Purchase/(Sale) from/to Banks	61.58	79.07	103.72	178.36	17.49	74.64
i. Sales to Banks	9.15	2.89	58.34	23.59	-6.26	-34.74
ii. Purchases from Banks	70.74	81.96	162.06	201.95	11.23	39.90
b. Net Purchase/(Sale) from/to Others	-23.96	-14.22	-53.48	-14.38	9.74	39.10
i. Sales to Others	40.32	31.62	103.62	122.26	-8.70	18.63
ii. Purchases from Others	16.37	17.41	50.14	107.88	1.04	57.74
4.2 Banks Net Purchase/(Sale)	63.69	64.99	116.62	165.72	1.31	49.10
a. Sales to Customers	215.93	242.28	734.91	776.86	26.35	41.94
b. Purchases from Customers	279.61	307.27	851.53	942.57	27.66	91.05
4.3 B\$ Position (change)	-21.51	14.60				

5.0 EXCHANGE CONTROL SALES

5.1 Current Items	320.29	ND	832.35	ND	ND	ND
of which Public Sector	65.98	ND	147.41	ND	ND	ND
a. Nonoil Imports	132.38	ND	380.06	ND	ND	ND
b. Oil Imports	50.74	ND	116.24	ND	ND	ND
c. Travel	17.85	ND	51.26	ND	ND	ND
d. Factor Income	15.94	ND	23.53	ND	ND	ND
e. Transfers	7.51	ND	18.87	ND	ND	ND
f. Other Current Items	95.88	ND	242.40	ND	ND	ND
5.2 Capital Items	5.16	ND	46.67	ND	ND	ND
of which Public Sector	1.29	ND	7.87	ND	ND	ND
5.3 Bank Remittances	0.00	ND	82.00	ND	ND	ND

Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: MARCH 29, 2006 and MARCH 28, 2007

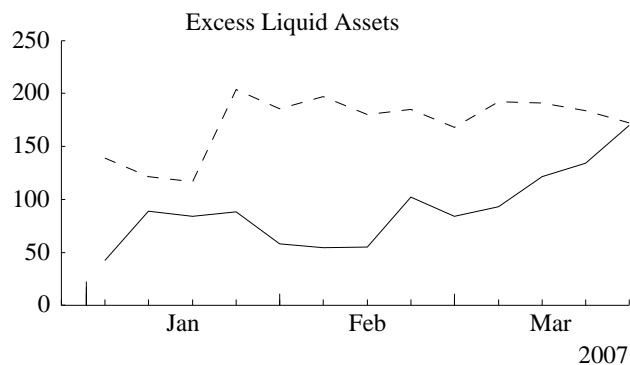
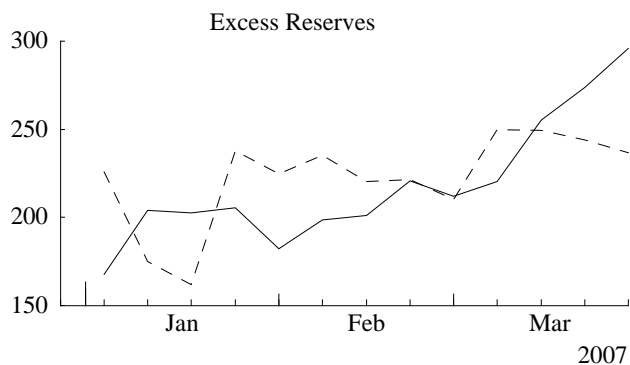
Exchange Control Sales figures are as at month end.

Notes: 1.0, 2.0 and 3.0 YTD change reflects change of current month over previous year end; for 4.0 and 5.0 change is over corresponding period of previous year.

Components may not sum to totals due to round-off error.

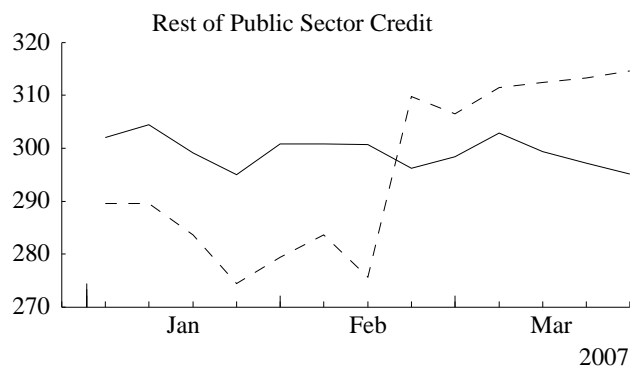
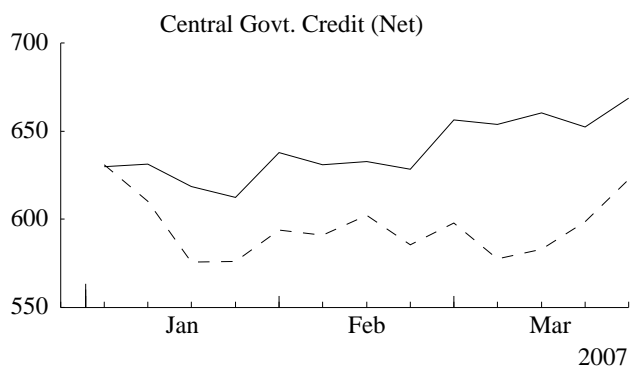
SELECTED MONEY AND CREDIT INDICATORS

(B\$ Millions)



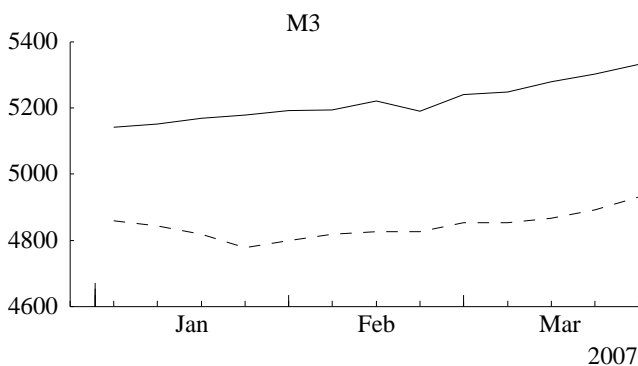
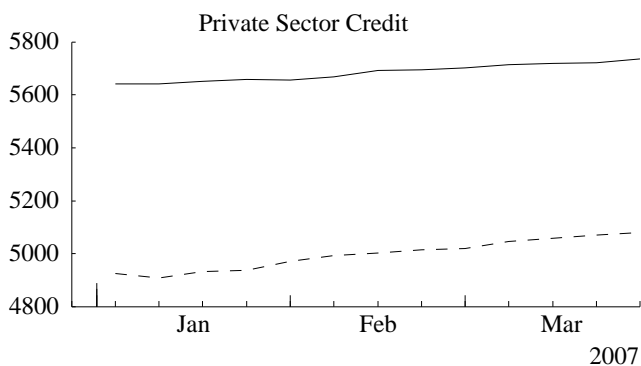
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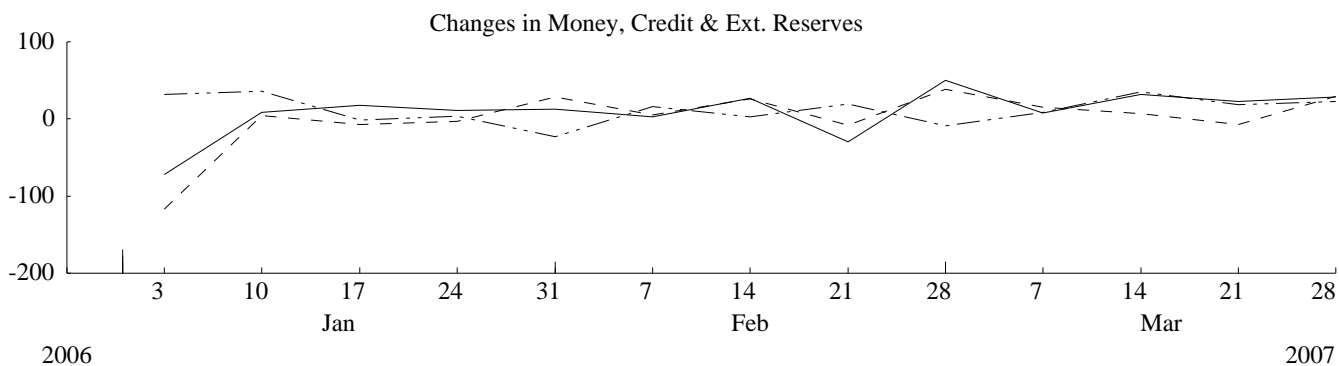
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— M3
- - - Domestic Credit
- · - · External Reserves

Selected International Statistics

A: Selected Macroeconomic Projections (Annual % Change and % of labor force)						
	Real GDP		Inflation Rate		Unemployment	
	2006	2007	2006	2007	2006	2007
Bahamas	4.0	4.5	1.9	1.9	7.6	n/a
United States	3.3	2.2	3.2	1.9	4.6	4.8
Euro-Area	2.6	2.3	2.2	2.0	7.7	7.3
<i>Germany</i>	<i>1.8</i>	<i>1.9</i>	<i>1.8</i>	<i>2.0</i>	<i>8.1</i>	<i>7.8</i>
Japan	2.2	2.3	0.2	0.3	4.1	4.0
United Kingdom	2.7	2.9	2.3	2.3	5.4	5.3
Canada	2.7	2.4	2.0	1.7	6.3	6.2
<i>Sources: IMF World Economic Outlook, April 2007 & The Bahamas Department of Statistics.</i>						

B: Official Interest Rates - Selected Countries (%)					
<i>With effect</i> <i>from</i>	CBOB	ECB (EU)	Federal Reserve (US)		Bank of England
	Bank Rate	Refinancing Rate	Primary Credit Rate	Target Funds Rate	Repo Rate
January 2006	5.25	2.25	5.50	4.50	4.50
February 2006	5.25	2.25	5.50	4.50	4.50
March 2006	5.25	2.50	5.75	4.75	4.50
April 2006	5.25	2.50	5.75	4.75	4.50
May 2006	5.25	2.50	6.00	5.00	4.50
June 2006	5.25	2.75	6.25	5.25	4.50
July 2006	5.25	2.75	6.25	5.25	4.50
August 2006	5.25	3.00	6.25	5.25	4.75
September 2006	5.25	3.00	6.25	5.25	4.75
October 2006	5.25	3.25	6.25	5.25	4.75
November 2006	5.25	3.25	6.25	5.25	5.00
December 2006	5.25	3.50	6.25	5.25	5.00
January 2007	5.25	3.50	6.25	5.25	5.25
February 2007	5.25	3.50	6.25	5.25	5.25
March 2007	5.25	3.75	6.25	5.25	5.25

Selected International Statistics

C. Selected Currencies (Per United States Dollars)						
Currency	Mar-06	Feb-07	Mar-07	Mthly % Change	YTD % Change	12-Mth% Change
Euro	0.8252	0.7559	0.7488	-0.9	-1.2	-9.3
Yen	117.8	118.56	117.8	-0.6	-1.0	0.0
Pound	0.5756	0.5092	0.5082	-0.2	-0.5	-11.7
Canadian \$	1.1686	1.1699	1.154	-1.4	-1.0	-1.2
Swiss Franc	1.3042	1.2196	1.2156	-0.3	-0.3	-6.8

Source: Bloomberg as at March 31, 2007

D. Selected Commodity Prices (\$)					
Commodity	Mar 2006	Feb 2007	Mar 2007	Mthly % Change	YTD % Change
Gold / Ounce	583.65	669.35	663.79	-0.8	4.3
Silver / Ounce	11.51	14.13	13.38	-5.3	3.7
Oil / Barrel	66.22	61.08	66.7	9.2	9.7

Source: Bloomberg as at March 31, 2007

E. Equity Market Valuations – March, 2007 (%chg)							
	BISX	DJIA	S&P 500	FTSE 100	CAC 40	DAX	Nikkei 225
1 month	0.94	0.70	1.58	2.21	2.14	3.00	-1.80
3 month	2.84	-2.12	-0.82	1.69	0.46	1.88	-0.55
YTD	6.27	-0.87	0.20	1.40	1.67	4.85	0.36
12-month	29.49	11.21	9.81	5.76	7.92	15.86	1.34

Sources: Bloomberg and BISX

F: Short Term Deposit Rates in Selected Currencies (%)			
	USD	GBP	EUR
o/n	5.31	5.33	3.83
1 Month	5.30	5.44	3.85
3 Month	5.31	5.55	3.91
6 Month	5.27	5.69	4.03
9 Month	5.24	5.77	4.11
1 year	5.16	5.84	4.16

Source: Bloomberg, as at March 31, 2007

