



Monthly Economic and Financial Developments February 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: April 30th, June 4th, July 2nd, July 30th, September 3rd, October 1st, October 29th, December 3rd

1. Domestic Economic Developments

During the review month, initial data suggests that the growth momentum was maintained, buoyed by steady increases in construction related tourism investments, as well as moderate growth in domestic demand. Monetary developments featured a contraction in domestic credit which, combined with increased net foreign currency inflows, reinforced gains in both external reserves and liquidity.

In tourism developments, hotel performance indicators for the year revealed broad-based revenue gains in all major markets. Overall receipts firmed by 4.2% to \$370.4 million, propelled by the 6.3% hike in average daily room rates, which outpaced the 2.2% fall in occupancy rates. With regard to the main destinations, average room revenues in New Providence improved by 4.1%, benefiting from the 4.5% increase in room rates. In Grand Bahama, despite the 12.0% contraction in room occupancy, an expansion in average room prices by 14.1% resulted in revenue firming by 5.5%. Hotel revenues in the Family Islands grew by 3.2%, as gains in room rates (9.3%) outpaced declines in average occupancy (3.2%).

Average consumer price inflation, as measured by changes in the Retail Price Index, advanced to 2.13% for the 12-month period ending February 2007, from 1.88% in the corresponding period a year earlier. The most significant cost increases were recorded for other goods & services (7.54%); food & beverages (4.36%); medical care & health (2.34%); housing (1.46%) and clothing & footwear (1.03%).

Preliminary data for the first seven months of FY2006/07 indicate a narrowing in Government's overall deficit by 2.2% to \$69.4 million, as the 14.2% expansion in revenue and grants to \$749.4 million, outstripped the 12.6% growth in expenditures to \$818.8 million. Tax revenues firmed by 12.0% to \$73.0 million, reflecting in part gains in taxes on international trade & transactions (9.0%), stamp taxes (11.1%) and property taxes (43.2%). Expenditures broadened by 12.6% to \$818.8 million, due primarily to the 9.4% increase in current spending to \$706.9 million for consumption and the purchase of goods & services, while elevated outlays for asset acquisitions and capital formation, boosted capital outlays by 35.4% to \$76.6 million.

2. International Developments

The world economy continued on the path of steady growth during the first two months of 2007, supported by increased exports, growing domestic demand and a moderation in global oil prices. As inflation remained relatively contained, several major central banks left their key interest rates unchanged.

Real GDP in the United States grew at a reduced annual rate of 2.2% in the fourth quarter, and primarily reflected positive movements in exports, consumer expenditure and state and local Government spending. During the month of January, the goods and services deficit moderated by \$2.4 billion to \$59.1 billion. In February, the unemployment rate remained unchanged from its January figure of 4.5%, and average prices firmed by 0.4%, due to higher food and energy costs. Meanwhile, the economy continued to grapple with the ongoing effects of the slowdown in the housing market in February, as reports of the meltdown in the sub-prime mortgage market and the consequent tightening in lending standards reduced potential buyers financing options. As a result, sales of single homes in February fell by 3.9% to an annual rate of 848,000, while permits for construction activity declined by 2.5% to an annual value of 1.5 million units. In light of the countervailing forces of softness in the housing market and high inflation risks, the Federal Reserve continued its neutral stance in February, maintaining the target and primary rates at 6.25% and 5.25%, respectively.

The Chinese economy expanded by 10.7% in 2006; however, expectations are that output will moderate in 2007, as the growth in fixed asset investment is reduced. The country's trade surplus in February widened on a month-on-month basis by \$7.9 billion, on account of a 51.7% rise in exports, which outweighed the 13.1% expansion in imports. In currency markets, the Yuan registered a marginal (0.06%) appreciation against the dollar to 7.7355 in February, and has appreciated by 7.0% since the 10-year peg to the US dollar was terminated in 2005. In January, the consumer price index rose at an annualized rate of 2.2%, while the unemployment rate was 4.1% for the three-months ending January 2007. As part of its continuing effort to absorb the high level of liquidity in the banking system, the People's Bank of China raised its required reserves ratio in February, by 0.5 percentage points to 10.0%.

In Japan, real economic activity firmed to 2.2% in 2006 from 1.9% in 2005, and was attributed to increases in business fixed investment, housing, and production activity. The unemployment rate stood unchanged at 4.0% in January; however, the number of unemployed persons decreased by 9.6% to 2.8 million when compared to the same period last year. The consumer price index declined by 0.4% in February, extending the 0.2% drop in the previous month. In an effort to maintain the current level of economic activity, while keeping monetary policy accommodative, the Bank of Japan retained its key overnight call rate at 0.5% in February, but raised the interest rate on the complimentary lending facility, by 0.25 percentage points to 0.75%.

The economy of the United Kingdom grew by 0.8% in the fourth quarter, reflecting expansions in services, construction and household expenditure. Despite the economic improvements, the unemployment rate in the quarter ending January was steady at 5.5%; however, this rate represented a 0.4 percentage point increase over the previous year's value. In the external sector, the trade deficit for goods and services narrowed to \$3.8 billion in January from \$4.5 billion a month earlier. Domestic inflation rose marginally by 0.1 percentage points to 2.8% compared to the previous month, as higher average prices were recorded for transportation and food & beverages. Although inflation remained above the Bank of England's target rate of 2.0%, the Board voted to leave interest rates unchanged at its February meeting at 5.25%, in an effort to allow previous rate hikes to take effect in the economy.

Amid increased investment and exports, fourth quarter growth in the Euro Zone improved to 0.9%, from 0.6% in the previous three-month period. The area's current account deficit expanded to €79.4 billion in 2006, from €63.8 billion in 2005. In February, the unemployment rate contracted marginally by 0.1 percentage points to 7.4%; however, the inflation rate was unchanged on a month-on-month basis at 1.8%. The improvement in the inflation outlook prompted the European Central Bank to keep its Bank rate at 3.5%.

During the month of February, average crude oil prices firmed by 11.7% to \$61.08 per barrel, reflecting, among other factors, sharp reductions in temperatures in the Western Hemisphere, which boosted demand for heating oil. However, non-OPEC supply averaged approximately 50.5 million barrels per day (mb/d), an increase of 0.5 mb/d over the previous year's total. With regard to other major commodities, the price of silver and gold rose by 4.5% and 2.5%, to \$14.13 and \$669.35 per ounce, respectively, as investors repositioned their portfolios, following moderate declines in global stock markets.

In the United States the S&P 500 and the Dow Jones Industrial Average contracted by 2.36% and 2.8%, respectively. Similarly, in Europe, declines were recorded for the CAC 40 (1.64%), Germany's DAX (1.09%) and the United Kingdom's FTSE 100 (0.51%). However, in Japan, the main the Nikkei 225 Index rose by 1.27%.

3. Domestic Monetary and Credit Trends

During February, monetary conditions benefited from increased foreign currency inflows, which supported an improvement in banks' liquidity positions and external reserves. These gains were reinforced by a slight moderation in the overall growth of Bahamian dollar credit.

February 2007 vs. 2006

During the review month, excess reserves advanced by \$29.6 million to \$212.1 million, in contrast to a decline of \$14.5 million in 2006. Likewise, last year's \$17.3 million drop in excess liquid assets was reversed to a \$25.8 million rise to \$84.2 million, with banks increasing their holdings of Government securities.

Underlying this improvement was a more than four-fold hike in commercial banks' net purchase of foreign currency from customers to \$462.3 million which supported a shift in the Central Bank's transaction with banks, to a net purchase of \$65.6 million from a mere \$2.3 million at year-end. This outpaced an almost four-fold gain in the net sale to the public sector to \$23.8 million, for a \$43.8 million advance in external reserves to \$555.6 million. In external developments, Exchange Control data revealed a tapering off in both oil (69.3%) and non-oil imports (29.1%) payments, to \$10.4 million and \$82.1 million, respectively.

Bahamian dollar domestic credit expanded at a slightly reduced pace of \$52.3 million vis-à-vis \$56.4 million in 2006. This outcome included a moderation in private sector credit by \$15.0 million to \$33.4 million, as accretions to mortgages slowed by 15.7% to \$22.6 million, while growth in consumer credit was relatively unchanged at \$10.1 million. In contrast, net claims on the Government firmed to \$17.8 million from \$8.7 million in 2006, and credit to the rest of the public sector was reversed to a \$1.1 million advance from a \$0.6 million decrease in 2006.

Growth in domestic foreign currency credit slowed by 60.0% to \$9.1 million, led by a \$3.4 million contraction in repayments by public corporations. After expanding by \$27.7 million in 2006, credit to the public sector contracted by \$3.42 million. However, private sector credit expanded by \$11.9 million, compared to a \$0.3 million falloff last year, and net credit to Government grew by \$0.7 million, reversing the previous year's \$4.5 million decline.

Total Bahamian dollar deposits rose by \$46.6 million, up slightly from \$44.7 million in 2006. Savings deposit growth more than doubled to \$14.0 million, while demand deposits increased by \$9.0 million after contracting by \$3.4 million in 2006. In contrast, accretions to fixed deposits receded by 45.2% to \$23.6 million.

Interest rate conditions showed moderate firming in average rates during February. The weighted average deposit rate at banks rose by 10 basis points to 3.70%, with the highest rate offered of 6.50% for fixed maturities of one month and over 6 to 12 months. Similarly, the weighted average loan rate grew by 4 basis points to 10.13%.

January – February 2007

For the first two months of 2007, a slowing in credit growth, alongside increased net foreign currency inflows boosted excess reserves by \$75.9 million vis-à-vis last years' \$14.9 million expansion. Correspondingly, excess liquid assets strengthened by \$18.9 million to \$74.7 million.

Growth in external reserves was significantly higher at \$103.7 million compared to \$15.5 million in 2006, largely explained by the net receipt of public sector borrowing proceeds and increased foreign currency inflows associated with tourism and related foreign investment projects. In particular, commercial banks' net purchase of foreign currency from their customers almost doubled to \$100.7 million, and their corresponding net sale to the Central Bank increased more than two fold to \$99.3 million. In turn, the Bank's net sale to the public sector dwindled to \$0.2 million from \$29.5 million a year ago, elevating its overall net purchase to \$99.1 million from \$12.6 million in 2006. In addition, Exchange Control data showed contractions for both oil and non-oil import payments, by 40.9% and 7.3% to \$38.7 million and \$229.6 million, respectively.

Following a gain of \$37.8 million a year ago, Bahamian dollar credit fell by \$24.9 million, as the public sector utilized loan proceeds to reduce its indebtedness to the banking system by \$51.6 million, compared to a \$7.3 million decrease a year earlier. Reflecting a combination of tightened liquidity conditions and seasonal borrowing trends, growth in private sector credit slowed by 41.7% to \$52.6 million. For mortgages, which represent approximately 43.7% of private sector credit, the expansion slackened by \$10.0 million to \$36.7 million, and overshadowed the slight \$1.0 million rise in consumer credit growth to \$17.7 million. The decline in net claims on the Government was lower at \$25.9 million from \$45.2 million in the previous year.

Domestic foreign currency credit declined by \$7.6 million, in contrast to the previous year's growth of \$20.4 million, partly as a result of the reduced gains in private sector credit of \$1.9 million compared with \$11.1 million in 2006. Credit to the rest of the public sector contracted by \$9.6 million, a turnaround from last year's increase of \$13.9 million, while net credit to Government, which fell by \$4.6 million in 2006, grew marginally by \$0.1 million.

Accretions to Bahamian dollar deposits rose by \$66.0 million to \$78.3 million, as increases in fixed and savings balances offset declines in demand deposits. Occasioned in part by the favorable interest rate environment, fixed deposits firmed by \$86.0 million, more than double the previous year's expansion. Savings deposit growth strengthened to \$17.1 million from \$2.5 million in 2006; however, the decline in demand deposits was slightly reduced at \$24.8 million.

4. Outlook

The outlook for the domestic economy during the year remains positive, buttressed by tourism related investment inflows, which should support further improvements in both liquidity and external reserves. Steady construction activity and generally healthy consumer demand fundamentals should contribute favourably to this outcome. Although domestic prices have firmed, largely reflecting the pass-through effects of global oil price increases experienced over the past year, expectations are that future cost increases will be relatively contained.

Recent Monetary and Credit Statistics

(B\$ Millions)

FEBRUARY						
Value		Change		Change YTD		
2006	2007	2006	2007	2006	2007	

1.0 LIQUIDITY & FOREIGN ASSETS

1.1 Excess Reserves	210.26	212.08	-14.50	29.62	14.89	75.92
1.2 Excess Liquid Assets	168.24	84.17	-17.29	25.77	55.79	74.74
1.3 External Reserves	598.44	555.64	-2.16	43.84	15.52	103.73
1.4 Bank's Net Foreign Assets	-590.22	-706.33	-10.07	-65.88	-30.49	-73.94
1.5 Usable Reserves	267.17	237.09	-0.79	28.49	7.05	78.39

2.0 DOMESTIC CREDIT

2.1 Private Sector	5,019.34	5,702.53	48.00	45.24	101.47	54.50
a. B\$ Credit	4,546.27	5,206.22	48.34	33.36	90.33	52.64
of which: Consumer Credit	1,666.51	1,904.06	10.80	10.08	16.67	17.70
Mortgages	1,953.11	2,276.95	26.86	22.63	46.72	36.67
b. F/C Credit	473.07	496.31	-0.33	11.87	11.14	1.86
of which: Mortgages	15.15	32.28	1.38	1.47	2.87	0.96
2.2 Central Government (net)	598.00	656.25	4.18	18.53	-49.87	-25.79
a. B\$ Loans & Securities	724.64	752.47	15.08	9.11	-26.27	-36.74
Less Deposits	133.33	112.99	6.42	-8.73	18.97	-10.86
b. F/C Loans & Securities	14.00	18.97	0.73	0.00	0.73	0.00
Less Deposits	7.31	2.20	5.22	-0.69	5.37	-0.09
2.3 Rest of Public Sector	306.51	298.48	27.10	-2.35	6.59	-61.20
a. B\$ Credit	91.01	80.14	-0.60	1.07	-7.29	-51.62
b. F/C Credit	215.50	218.34	27.70	-3.42	13.88	-9.57
2.4 Total Domestic Credit	5,923.84	6,657.26	79.28	61.41	58.19	-32.49
a. B\$ Domestic Credit	5,228.58	5,925.85	56.41	52.27	37.80	-24.86
b. F/C Domestic Credit	695.26	731.42	22.87	9.14	20.39	-7.62

3.0 DEPOSIT BASE

3.1 Demand Deposits	1,024.56	1,051.98	-3.38	9.00	-31.06	-24.78
a. Central Bank	44.38	18.27	5.60	-1.37	14.51	1.05
b. Banks	980.18	1,033.71	-8.98	10.37	-45.57	-25.83
3.2 Savings Deposits	885.41	967.77	5.06	14.03	2.52	17.06
3.3 Fixed Deposits	2,617.88	2,866.99	42.97	23.55	40.84	86.04
3.4 Total B\$ Deposits	4,527.86	4,886.74	44.65	46.58	12.30	78.32
3.5 F/C Deposits of Residents	139.31	155.29	1.90	-5.25	-20.58	-25.63
3.6 M2	4,713.98	5,085.45	51.79	54.24	-7.05	51.87
3.7 External Reserves/M2 (%)	12.70	10.93	-0.19	0.75	0.35	1.95
3.8 External Reserves/Base Money (%)	102.59	90.57	1.43	2.27	3.50	10.18

Value		Year to Date		Change	
2006	2007	2006	2007	Month	YTD

4.0 FOREIGN EXCHANGE TRANSACTIONS

4.1 Central Bank Net Purchase/(Sale)	-3.99	41.75	12.61	99.13	45.74	86.51
a. Net Purchase/(Sale) from/to Banks	2.25	65.56	42.14	99.29	63.32	57.15
i. Sales to Banks	34.83	9.38	49.18	20.70	-25.45	-28.48
ii. Purchases from Banks	37.08	74.95	91.32	119.99	37.86	28.67
b. Net Purchase/(Sale) from/to Others	-6.23	-23.81	-29.53	-0.16	-17.58	29.36
i. Sales to Others	20.74	33.87	63.30	90.63	13.14	27.33
ii. Purchases from Others	14.50	10.06	33.78	90.47	-4.44	56.70
4.2 Banks Net Purchase/(Sale)	14.65	62.31	52.93	100.73	47.67	47.80
a. Sales to Customers	241.57	229.45	518.99	534.58	-12.11	15.59
b. Purchases from Customers	256.21	291.76	571.92	635.30	35.55	63.39
4.3 B\$ Position (change)	-19.41	0.52				

5.0 EXCHANGE CONTROL SALES

5.1 Current Items	243.29	166.87	512.06	465.75	-76.42	-46.31
of which Public Sector	40.80	3.85	81.43	53.29	-36.95	-28.15
a. Nonoil Imports	115.75	82.09	247.68	229.62	-33.66	-18.06
b. Oil Imports	33.79	10.38	65.50	38.71	-23.40	-26.79
c. Travel	13.94	14.87	33.41	36.17	0.93	2.76
d. Factor Income	3.21	7.59	7.59	10.21	4.38	2.62
e. Transfers	4.84	4.74	11.36	16.12	-0.10	4.76
f. Other Current Items	71.77	47.20	146.52	134.93	-24.56	-11.59
5.2 Capital Items	32.65	8.28	41.52	19.17	-24.37	-22.34
of which Public Sector	0.09	2.54	6.58	10.06	2.45	3.48
5.3 Bank Remittances	82.00	1.00	82.00	6.00	-81.00	-76.00

Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: MARCH 01, 2006 and FEBRUARY 28, 2007

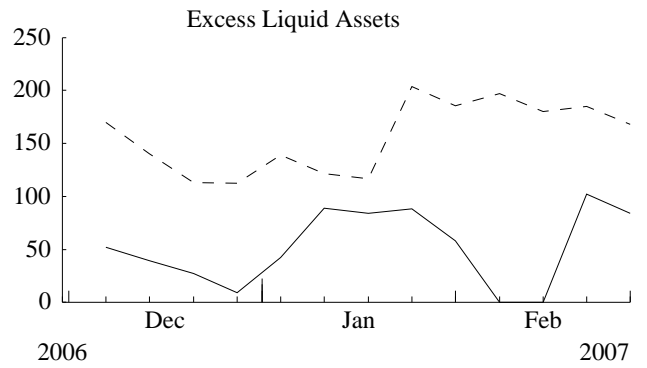
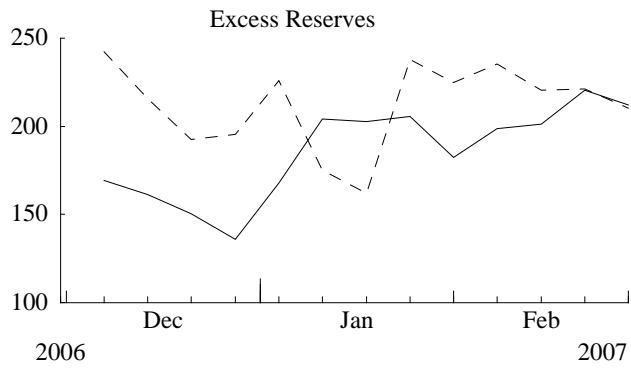
Exchange Control Sales figures are as at month end.

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.

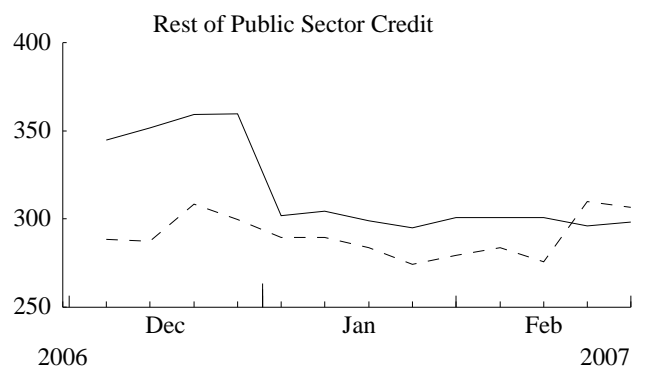
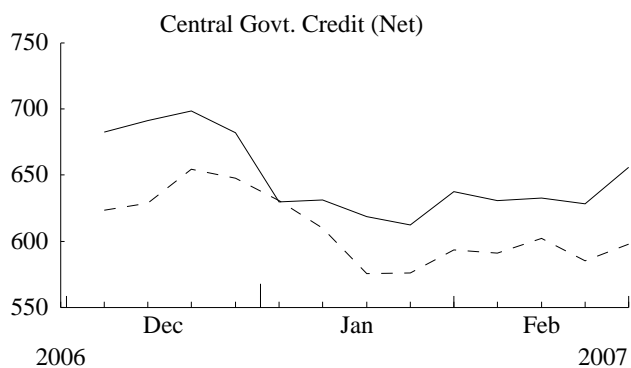
SELECTED MONEY AND CREDIT INDICATORS

(B\$ Millions)



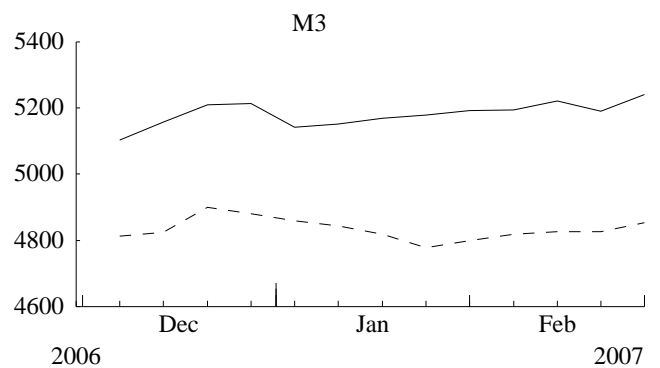
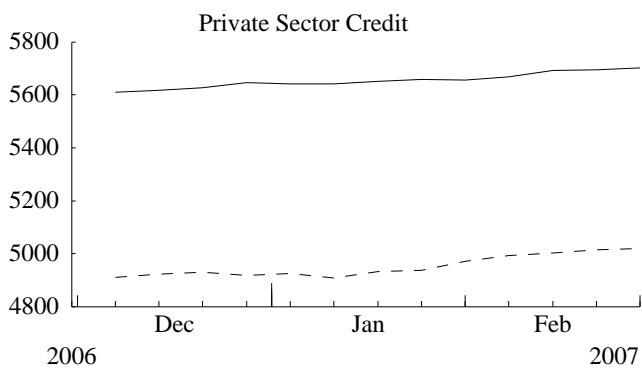
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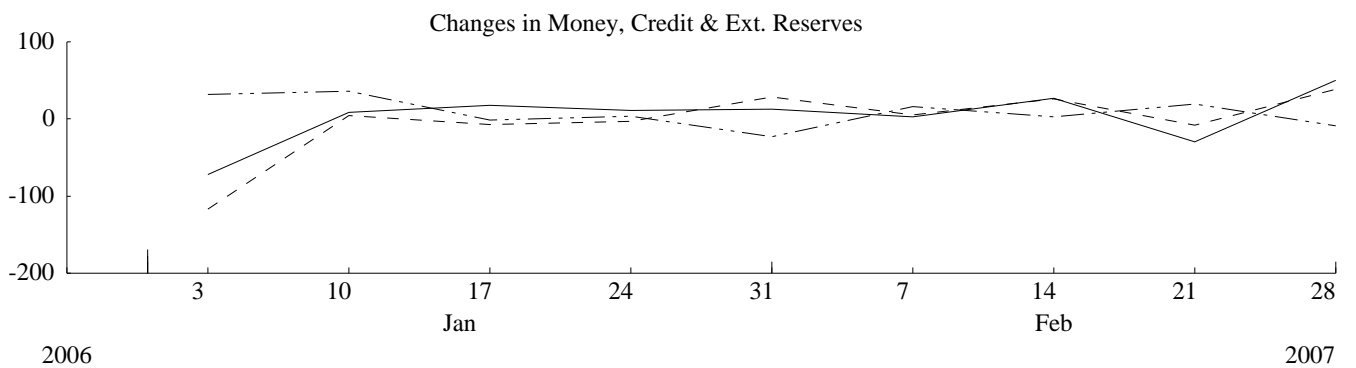
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— M3
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Selected International Statistics

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	1.7	2.7	n/a	n/a
United States	3.4	2.9	3.3	2.6	4.8	4.9
Euro-Area	2.4	2.0	2.3	2.2	7.9	7.7
<i>Germany</i>	<i>2.0</i>	<i>1.3</i>	<i>2.0</i>	<i>2.2</i>	<i>8.0</i>	<i>7.8</i>
Japan	2.7	2.1	0.6	1.1	4.1	4.0
United Kingdom	2.7	2.7	2.7	2.2	5.3	5.1
Canada	3.1	3.0	1.9	2.0	6.3	6.3

Sources: IMF World Economic Outlook, September 2006

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

Selected International Statistics

C. Selected Currencies (Per United States Dollars)						
Currency	Feb-06	Jan-07	Feb-07	Mthly % Change	YTD % Change	12-Mth% Change
Euro	0.8389	0.7673	0.7559	-1.5	-0.2	-9.9
Yen	115.8	120.69	118.56	-1.8	-0.4	2.4
Pound	0.5703	0.5088	0.5092	0.1	-0.3	-10.7
Canadian \$	1.1368	1.1768	1.1699	-0.6	0.3	2.9
Swiss Franc	1.3117	1.2441	1.2196	-2.0	0.0	-7.0

Source: Bloomberg as at February 28, 2007

D. Selected Commodity Prices (\$)					
Commodity	Feb 2006	Jan 2007	Feb 2007	Mthly % Change	YTD % Change
Gold / Ounce	561.55	653.2	669.35	2.5	5.1
Silver / Ounce	9.74	13.52	14.13	4.5	9.5
Oil / Barrel	61.58	54.7	61.08	11.7	0.5

Source: Bloomberg as at February 28, 2007

E. Equity Market Valuations – February, 2007 (%chg)							
	BISX	DJIA	S&P 500	FTSE 100	CAC 40	DAX	Nikkei 225
1 month	1.88	-2.80	-2.36	-0.51	-1.64	-1.09	1.27
3 month	5.28	-1.56	-1.37	-0.79	-0.46	1.80	2.20
YTD	5.28	-1.56	-1.37	-0.79	-0.46	1.80	2.20
12-month	29.35	11.60	9.86	6.56	10.32	15.86	8.63

Sources: Bloomberg and BISX

F: Short Term Deposit Rates in Selected Currencies (%)			
	USD	GBP	EUR
o/n	5.23	5.29	3.55
1 Month	5.28	5.37	3.70
3 Month	5.29	5.47	3.82
6 Month	5.25	5.58	3.91
9 Month	5.22	5.65	3.99
1 year	5.16	5.69	4.03

Source: Bloomberg, as at February 28, 2007

