



Monthly Economic and Financial Developments November 2006

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: January 29th, February 26th, April 2nd, April 30th, June 4th, July 2nd, July 30th, September 3rd, October 1st, October 29th, December 3rd

1. Domestic Economic Developments

During the month of November the Bahamian economy maintained positive momentum supported by strong consumer demand, which stimulated robust growth in private sector credit and sustained the expansion in construction activity. These developments generally muted the moderation in tourism output, signaled by the 4.7% drop in visitor arrivals for the first ten months of the year as a 7.0% downturn in sea visitors eclipsed a marginal 0.5% increase in air traffic. By port of entry, tourists traveling to New Providence contracted by 6.7%, while traffic to Grand Bahama and the Family Islands weakened by 1.2% and 1.8%, respectively.

Despite the recent global oil price hikes, consumer price inflation moderated to 1.74% for the twelve-months ended November from the 2.01% rate in the same period of 2005. Significant cost increases were registered for “other” goods & services (6.34%), food & beverages (4.66%) and furniture & household operation (2.07%). However, these were tempered by cost declines in average prices for transport & communications (2.12%), recreation & entertainment services (0.69%) and education (0.24%).

November also featured a number of investment initiatives, including the signing of an agreement between the Government and private investors for the proposed construction of a \$1.3 billion luxury resort in the Southwestern district of New Providence. Additionally, a local commercial bank offered a \$20.0 million bond issue to investors during the month.

2. International Developments

Global economic activity featured brisk growth in Asia and modest firming in Europe, which provided some offset to the slowdown in the United States economy. Oil prices appeared to have stabilized following the price surge which occurred in the first half of the year; however, risks still remain from developments in this volatile market.

Growth in the United States economy slowed by 0.4 percentage points to an estimated 2.2% in the third quarter compared to the previous three-month period, as imports accelerated, residential fixed investment decreased and private inventory investment softened. The September trade deficit improved by 7.3% to \$64.3 billion and the unemployment rate steadied at 4.5% in November, as job gains in the food, professional and business services and health care industries, offset employment reductions in construction and manufacturing. Consumer prices fell by 0.1% in November, compared to the previous month, reflecting lower food and energy costs. In other developments, the Federal Reserve Committee’s minutes from their October meeting, showed that members believed that although the downturn in the housing market would most likely persist for several quarters, the risk did not appear to have spill-over effects into other sectors.

The Chinese economy grew robustly during the first three quarters of the year, and is expected to achieve an overall growth rate of 10.7% for 2006. In November, China recorded a slightly lower trade surplus of \$23.4 billion, bringing the year-to-date position 54% higher than last year at \$157 billion. Inflation firmed to 1.9% in November on a year-on-year basis compared to a rate of 1.4% in October, reflecting higher average food costs.

In Japan, economic indicators showed that real GDP expanded by 0.5% in the third quarter, in line with the previous three-month period, led by expansions in private non-residential investment and net exports of goods and services. The unemployment rate softened by 0.1 percentage points to 4.1% in October and consumer prices fell by 0.5% in November, on a month-on-month basis, but firmed by 0.2% compared to the previous year. In this environment, the Bank of Japan decided to keep its key interest rate unchanged at its November meeting.

Real output growth for the United Kingdom stabilized at 0.7% in the third quarter, as increased output in manufacturing and utilities outstripped contractions in mining and quarrying activity. Reflecting a £0.5 billion contraction in imports, the monthly trade deficit narrowed by a similar magnitude, to £3.9 billion in October. Given the improvement in the economy, the unemployment rate steadied at 5.5% over the three-months to October, compared to the previous quarter. Monthly inflation advanced by 0.3 percentage points to 2.7% in November, the highest level in nine years--prompting the Bank of England to raise its key interest rate by 25 basis points to 5.0% in November.

Indications are that economic growth in the Euro Zone softened to 0.5% in the third quarter, from 1.0% in the previous three-month period; and supported a 0.1 percentage point improvement in the unemployment rate to 7.7%. Similarly, the volume of retail trade advanced on a year-on-year basis by 1.1% in October, owing partly to an improvement in purchases in the non-food sector. In monetary developments, the ECB decided to keep its key interest rates unchanged at its November Meeting.

Following OPEC's decision to reduce production by 1.2 million barrels per day, effective November 1, crude oil prices firmed by approximately 4.0% in November to \$62.05 per barrel. Regarding other commodities, the price of gold and silver advanced by 6.8% to \$648.0 per ounce and by 13.6% to \$13.96 per ounce, respectively.

Movements in the major equity markets were mixed during the month. In the United States, gains were recorded for the Dow Jones Industrial Average (1.2%) and the S&P 500 (1.4%). However, in the European markets, both the FTSE 100 and France's CAC 40 contracted by 1.3% and 0.4%, respectively, while Germany's DAX strengthened by 0.6%. In Japan, the Nikkei 225 advanced by 1.7% during November.

3. Domestic Monetary Trends

Monetary and credit trends for the month of November featured an expansion in Bahamian dollar credit, which outpaced the growth in Bahamian dollar deposits. As a result, both external reserves and bank's liquid assets declined.

November 2006 vs. 2005

During the month of November, bank's excess cash reserves improved by \$15.8 million to \$164.8 million, owing to the rediscounting and sale of various public sector securities. However, amid strengthened demand, excess liquid assets narrowed by \$3.0 million to \$52.2 million, although below last year's \$37.9 million reduction.

External reserves were lower by 1.3% at \$448.6 million vis-à-vis last year's decline of 2.2% to \$620.5 million. This included a more than halving in the Central Bank's net foreign currency sales to \$6.0 million as the 13.4% reduction in the net sale to the public sector to \$14.7 million was countered by a \$7.1 million hike in the net purchase from banks to \$8.7 million. The latter was made possible by a reversal in commercial banks foreign currency transactions, to a net purchase of \$10.5 million, from a similar net sale a year-earlier.

Growth in total Bahamian dollar credit more than doubled to \$81.8 million, and was primarily associated with an increase in Government's net liability of \$23.0 million following a \$24.2 million reduction in the previous year. The rest of the public sector reduced their liabilities to the banking sector by a lesser \$2.1 million compared to \$14.5 million in 2005.

Credit to the private sector advanced by \$60.9 million, some 15% below last year's expansion. Consumer credit growth tapered by 12.8% to \$18.6 million, however, accretions to mortgages of \$33.4 million were comparatively higher by almost 50.0%.

Foreign currency credit softened by \$5.0 million, in contrast to an \$11.9 million increase last year. Private sector foreign currency credit lessened by \$2.0 million, reversing the \$6.6 million growth registered in 2005. The contraction in net credit to the government was extended to \$1.6 million, while credit to the rest of the public sector decreased by \$1.4 million, in contrast to the previous year's \$5.5 million expansion.

Accretions to total Bahamian dollar deposits rebounded by \$32.5 million, from last year's \$7.2 million fall-off, benefiting primarily from a \$13.2 million hike in demand deposits following a \$27.5 million reduction in 2005. Savings deposits firmed by \$25.1 million, 28.0% higher than the previous year's increase; however, fixed deposits contracted by \$5.8 million, a reversal from a marginal increase noted in 2005.

In interest rate developments, the monthly weighted average deposit rate softened by 5 basis points to 3.36%. The highest rate offered was 6.25% for 6-12 months fixed maturities. The impact of the tightened liquidity conditions was most evident in the firming of the weighted average loan rate, by 54 basis points to 10.14%.

January –November 2006

Reflecting the firming in private sector demand combined with increased outflows related to higher oil payments, excess reserves declined by \$30.6 million during the first eleven months of the year, three times higher than the previous year's contraction. Similarly, the contraction in excess liquid assets was 40% higher at \$60.2 million.

Largely on account of increased outflows via the public sector, external reserves tapered by \$134.4 million, three-times higher than the decrease in 2005. The Central Bank's net foreign currency sales more than doubled to \$154.2 million, as an expansion in oil payments resulted in a 62.0% growth in public sector sales to \$201.1 million. Additionally, as commercial banks accommodated increased demand from their customers, their net foreign currency sale to the Central Bank declined by 26% to \$46.9 million. Partly reflecting subdued tourism inflows, banks also experienced a 15% reduction in their net purchases from customers to \$46.7 million.

Buoyed by robust private sector credit growth, accretions to Bahamian dollar credit were 52% higher at \$694.6 million. The advance in private sector credit accelerated by 40.3% to \$646.5 million, on account of gains in consumer credit (\$212.0 million) and mortgages (\$308.6 million). Credit to the rest of the public sector rebounded by \$29.2 million from a similar downturn last year, whereas net claims on the government declined by 23% to \$18.8 million.

Growth in domestic foreign currency credit moderated by 20.8% to \$71.3 million. Private sector credit expansion slowed by more than half to \$38.7 million; while the increase in claims on Government slackened to \$6.0 million. However, credit to the public sector switched from a \$29.9 million reduction in 2005 to an advance of \$26.6 million.

The accretion in total Bahamian dollar deposits was lower by 9.0% at \$270.6 million. There were broad-based gains, however, across all deposit categories as fixed deposits improved by \$183.3 million, savings deposits by \$76.6 million and demand deposits by \$10.7 million.

4. Outlook

The outlook for the Bahamian economy remains broadly positive for 2007, as further investments in the tourism sector are expected to propel growth in construction activity, sustain private sector demand and contribute to further employment gains. However, the progressive tightening in liquidity conditions is expected to restrain the strong level of domestic credit growth observed over the past 18 months. Short-term improvements will depend to a large extent on the pace of the foreign investment inflows and an improvement in overall tourism output. Downside risks continue to be presented by oil price uncertainty and possible moderation in the United States economy.

Recent Monetary and Credit Statistics

(B\$ Millions)

NOVEMBER						
Value		Change		Change YTD		
2005	2006	2005	2006	2005	2006	

1.0 LIQUIDITY & FOREIGN ASSETS

1.1 Excess Reserves	283.31	164.82	7.31	15.75	-8.07	-30.55
1.2 Excess Liquid Assets	181.65	52.22	-37.91	-2.98	-42.79	-60.22
1.3 External Reserves	620.45	448.57	-13.89	-6.13	-44.20	-134.35
1.4 Bank's Net Foreign Assets	-589.12	-652.80	-1.62	10.73	0.63	-93.07
1.5 Usable Reserves	275.55	152.37	-9.19	-19.81	-23.99	-107.75

2.0 DOMESTIC CREDIT

2.1 Private Sector	4,891.80	5,603.09	78.16	58.91	566.88	685.22
a. B\$ Credit	4,410.08	5,102.45	71.58	60.87	460.93	646.51
of which: Consumer Credit	1,629.70	1,861.82	21.34	18.60	149.23	211.99
Mortgages	1,876.61	2,214.99	22.89	33.36	239.90	308.60
b. F/C Credit	481.72	500.64	6.58	-1.96	105.95	38.71
of which: Mortgages	11.17	30.11	2.29	1.34	-0.60	17.82
2.2 Central Government (net)	591.12	672.68	-24.46	21.42	38.44	24.81
a. B\$ Loans & Securities	705.45	784.12	-14.44	16.87	52.34	33.21
Less Deposits	122.37	128.73	9.76	-6.16	27.94	14.37
b. F/C Loans & Securities	11.63	19.87	1.11	0.00	11.63	6.60
Less Deposits	3.60	2.58	1.37	1.62	-2.40	0.63
2.3 Rest of Public Sector	284.99	355.76	-8.99	-3.51	-58.54	55.84
a. B\$ Credit	86.85	127.51	-14.53	-2.13	-28.62	29.21
b. F/C Credit	198.15	228.25	5.54	-1.39	-29.92	26.63
2.4 Total Domestic Credit	5,767.91	6,631.53	44.71	76.81	546.78	765.87
a. B\$ Domestic Credit	5,080.01	5,885.34	32.85	81.78	456.72	694.56
b. F/C Domestic Credit	687.90	746.18	11.86	-4.97	90.06	71.31

3.0 DEPOSIT BASE

3.1 Demand Deposits	1,015.51	1,066.29	-27.49	13.22	54.76	10.67
a. Central Bank	7.51	16.08	-35.68	12.53	-74.88	-13.79
b. Banks	1,008.00	1,050.21	8.18	0.69	129.64	24.46
3.2 Savings Deposits	871.65	959.48	19.56	25.07	90.27	76.58
3.3 Fixed Deposits	2,564.49	2,760.34	0.78	-5.77	152.06	183.30
3.4 Total B\$ Deposits	4,451.65	4,786.11	-7.16	32.53	297.09	270.55
3.5 F/C Deposits of Residents	151.89	157.87	5.23	2.57	65.85	-2.01
3.6 M2	4,640.03	4,982.55	5.38	39.93	304.04	261.53
3.7 External Reserves/M2 (%)	13.37	9.00	-0.32	-0.20	-1.96	-3.34
3.8 External Reserves/Base Money (%)	94.50	79.81	-5.13	-4.24	-9.26	-19.28

Value		Year to Date		Change	
2005	2006	2005	2006	Month	YTD

4.0 FOREIGN EXCHANGE TRANSACTIONS

4.1 Central Bank Net Purchase/(Sale)	-15.42	-6.02	-60.98	-154.24	9.40	-93.26
a. Net Purchase/(Sale) from/to Banks	1.60	8.72	63.53	46.89	7.13	-16.64
i. Sales to Banks	32.66	9.17	397.26	307.23	-23.49	-90.03
ii. Purchases from Banks	34.26	17.90	460.78	354.11	-16.36	-106.67
b. Net Purchase/(Sale) from/to Others	-17.02	-14.74	-124.51	-201.13	2.27	-76.62
i. Sales to Others	37.69	29.01	318.25	403.91	-8.68	85.66
ii. Purchases from Others	20.67	14.27	193.74	202.78	-6.40	9.04
4.2 Banks Net Purchase/(Sale)	-9.99	10.49	54.85	46.69	20.47	-8.16
a. Sales to Customers	233.35	240.72	2,621.70	3,022.83	7.37	401.13
b. Purchases from Customers	223.36	251.21	2,676.54	3,069.52	27.84	392.98
4.3 B\$ Position (change)	3.87	1.22				

5.0 EXCHANGE CONTROL SALES

5.1 Current Items	288.96	0.00	2,752.55	2,930.13	-288.96	177.59
of which Public Sector	47.31	0.00	352.93	436.12	-47.31	83.19
a. Nonoil Imports	131.51	0.00	1,280.62	1,227.47	-131.51	-53.15
b. Oil Imports	48.39	0.00	352.13	464.75	-48.39	112.62
c. Travel	21.72	0.00	222.76	223.15	-21.72	0.39
d. Factor Income	8.63	0.00	168.19	127.70	-8.63	-40.49
e. Transfers	5.84	0.00	81.17	66.96	-5.84	-14.21
f. Other Current Items	72.87	0.00	647.68	820.10	-72.87	172.43
5.2 Capital Items	6.23	0.00	142.55	162.98	-6.23	20.43
of which Public Sector	1.20	0.00	43.40	28.55	-1.20	-14.85
5.3 Bank Remittances	0.07	0.00	88.37	129.60	-0.07	41.23

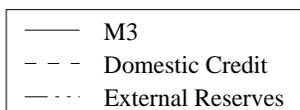
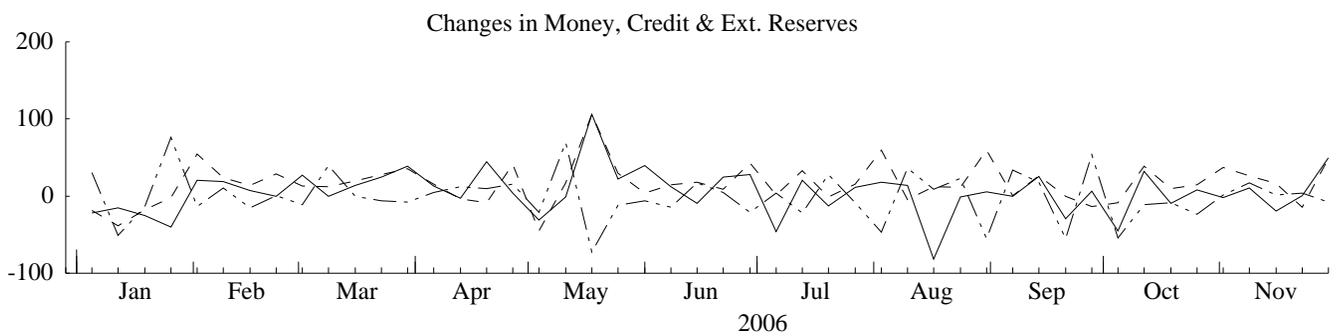
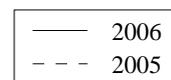
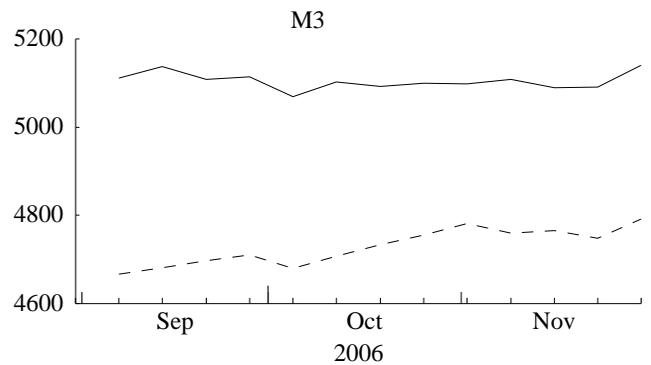
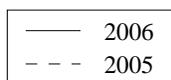
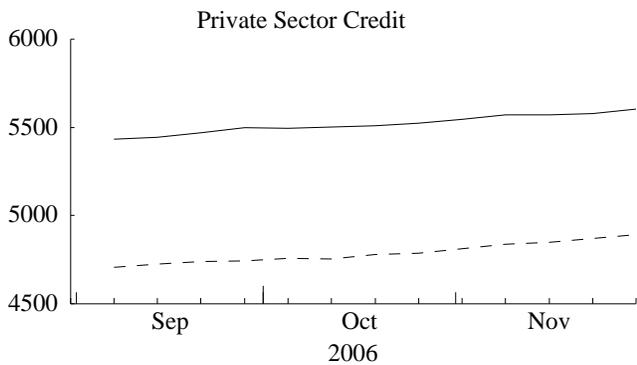
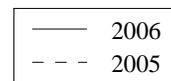
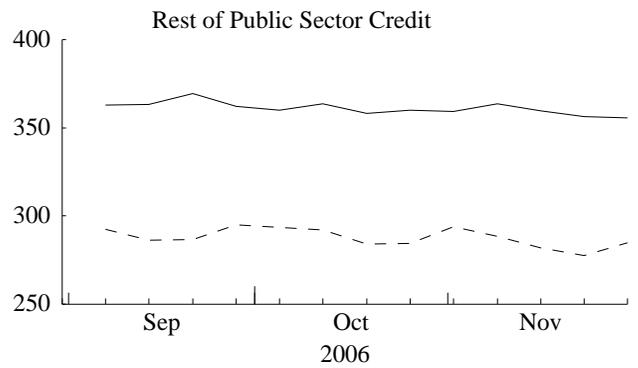
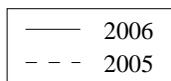
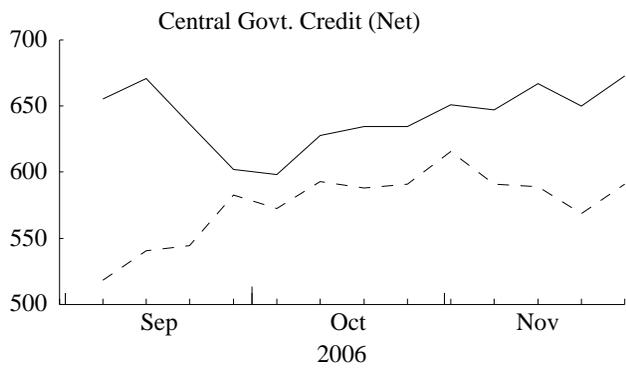
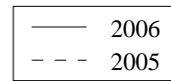
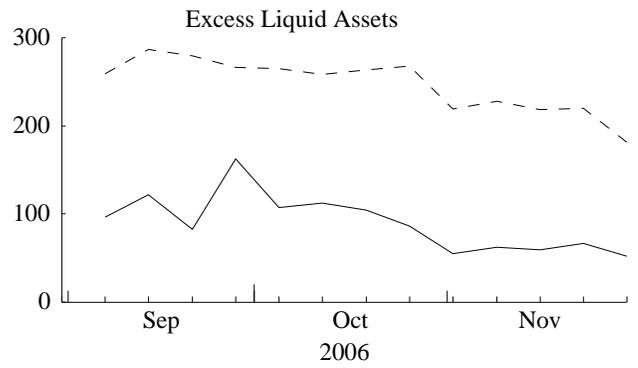
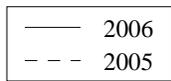
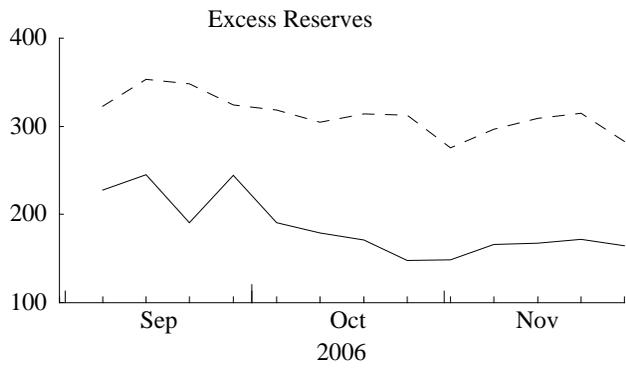
Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: NOVEMBER 30, 2005 and NOVEMBER 29, 2006

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)



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 from</i>	CBOB	ECB (EU)	Federal Reserve (US)		Bank of England
	Bank Rate	Refinancing Rate	Primary Credit Rate	Target Funds Rate	Repo Rate
July 2005	5.25	2.00	4.25	3.25	4.75
August 2005	5.25	2.00	4.50	3.50	4.50
September 2005	5.25	2.00	4.75	3.75	4.50
October 2005	5.25	2.00	4.75	3.75	4.50
November 2005	5.25	2.00	5.00	4.00	4.50
December 2005	5.25	2.25	5.25	4.25	4.50
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

Selected International Statistics

C. Selected Currencies (Per United States Dollars)						
Currency	Oct-05	Sep-06	Oct-06	Mthly % Change	**YTD % Change	12-Mth% Change
Euro	0.8339	0.7890	0.7836	-0.7	-7.2	-6.0
Yen	116.40	118.18	116.98	-1.0	-0.7	0.5
Pound	0.5650	0.5341	0.5243	-1.8	-9.7	-7.2
Canadian \$	1.1822	1.1180	1.1221	0.4	-3.4	-5.1
Swiss Franc	1.2885	1.2506	1.2441	-0.5	-5.3	-3.4

Source: Bloomberg November 1, 2006

D. Selected Commodity Prices (\$)					
Commodity	Oct 2005	Sep 2006	Oct 2006	Mthly % Change	**YTD % Change
Gold / Ounce	465.18	598.30	606.60	1.4	17.3
Silver / Ounce	7.57	11.44	12.29	7.4	39.3
Oil / Barrel	59.37	62.57	59.59	-4.8	3.4

Source: Bloomberg November 1, 2006

E. Equity Market Valuations – October 2006 (%chg)							
	BISX	DJIA	S&P 500	FTSE 100	CAC 40	DAX	Nikkei 225
1 month	1.31	3.44	2.81	2.83	1.88	4.41	1.69
3 month	3.88	6.15	5.03	3.78	3.56	6.99	1.60
**YTD	22.26	12.72	10.23	9.08	13.44	15.91	1.79
12-month	29.45	15.71	14.33	15.27	20.56	27.18	20.53

Sources: Bloomberg and BISX

F: Short Term Deposit Rates in Selected Currencies (%)			
	USD	GBP	EUR
o/n	5.28	4.82	3.27
1 Month	5.27	4.92	3.35
3 Month	5.24	5.15	3.52
6 Month	5.22	5.21	3.66
9 Month	5.24	5.26	3.73
1 year	5.11	5.31	3.69

Source: Bloomberg, as at November 1, 2006

** Revised

SUMMARY ACCOUNTS OF THE CENTRAL BANK

(B\$ Millions)

	VALUE										CHANGE									
	Oct. 04	Oct. 11	Oct. 18	Oct. 25	Nov. 01	Nov. 08	Nov. 15	Nov. 22	Nov. 29		Oct. 04	Oct. 11	Oct. 18	Oct. 25	Nov. 01	Nov. 08	Nov. 15	Nov. 22	Nov. 29	
I. External Reserves	513.97	508.65	491.06	475.95	454.70	457.91	442.88	448.28	448.57											
II. Net Domestic Assets (A + B + C + D)	62.84	50.70	60.75	49.78	86.33	92.30	108.43	106.95	113.51											
A. Net Credit to Gov^h(i + ii + iii - iv)	166.06	173.40	172.69	167.72	186.04	194.04	217.06	216.53	217.11											
i) Advances	61.99	61.99	61.99	61.99	61.99	61.99	61.99	61.99	61.99											
ii) Registered Stock	77.35	77.23	77.14	77.13	77.05	76.92	76.93	76.69	76.69											
iii) Treasury Bills	43.42	51.97	51.97	46.99	66.94	74.94	92.05	92.05	92.05											
iv) Deposits	16.69	17.79	18.41	18.38	19.94	19.81	13.91	14.20	13.63											
B. Rest of Public Sector (Net) (i + ii - iii)	-3.76	-21.58	-10.74	-16.66	3.47	1.18	-13.89	-14.67	-9.06											
i) BDB Loans	7.10	7.10	7.10	7.10	7.03	7.03	7.03	7.03	7.03											
ii) BMC Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00											
iii) Deposits	10.86	28.68	17.84	23.76	3.55	5.85	20.92	21.69	16.08											
C. Loans to/Deposits with Banks	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00											
D. Other Items (Net)*	-99.46	-101.12	-101.20	-101.28	-103.18	-102.92	-94.73	-94.92	-94.54											
III. Monetary Base	576.81	559.36	551.81	525.73	541.03	550.20	551.31	555.23	562.09											
A. Currency in Circulation	261.33	263.89	259.06	257.21	266.86	265.72	263.46	267.32	273.79											
B. Bank Balances with CBOB	315.48	295.47	292.75	268.52	274.17	284.48	287.85	287.91	288.30											

* Includes capital, provisions and surplus account, fixed and other assets, and other demand liabilities of Bank

