



Monthly Economic and Financial Developments February 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:

2006: 1st May, 29th May, 3rd July, 31st July, 4th September, 30th October, 4th December

1. Domestic Economic Developments

Preliminary evidence suggests that economic growth was sustained in February, underpinned by ongoing construction activity and firming consumer demand as evidenced by growth in commercial banks' mortgage and consumer loan portfolios.

The latest available tourism data revealed growth of 20.3% in visitors for December, and an overall increase of 0.9% to 5,050,706 visitors for 2005. Arrivals to the Family Islands and Nassau rose by 9.5% and 0.1%, respectively; however, visitors to Grand Bahama declined by 11.2%.

Domestic price inflation for the twelve months to February 2006 accelerated to 2.1% from 1.1% in the previous year, reflecting higher prices for all items except clothing & footwear items, and recreation & entertainment services which registered declines.

On the fiscal side, initial data for the first seven months of FY2005/06 indicated a reduction in government's deficit by 27.1% to \$70.5 million compared to the corresponding period a year earlier. The generally improved economic environment combined with administrative enhancements supported total revenue growth of 18.8%, with accretions to both tax and non-tax revenue of \$80.4 million and \$20.4 million, respectively. Total expenditure firmed by 12.0% to \$726.5 million, reflecting increases in both current and capital expenditure outlays.

2. International Developments

Major world economies are poised to experience continued economic expansion in 2006; the IMF forecasting that world GDP will rise by 4.3%, led by improvements in the US and Chinese economies.

During the fourth quarter of 2005, the US economy grew by a revised 1.6%, a slowdown from 4.1% in the previous quarter. Robust expansion in consumer demand caused the current account deficit to expand by \$39.5 billion in the fourth quarter and by \$136.8 billion to \$804.9 billion for the year. In January, consumer spending expanded by 0.3% in real terms, while consumer prices grew marginally by 0.1% in February, as increases in food and other products offset contractions in energy costs. Preliminary estimates for February suggested that 243,000 non-farm workers were added to the labor force; however, the unemployment rate remained relatively unchanged at 4.8%. The month also saw the appointment of a new Federal Reserve Chairman Mr. Ben Bernanke who succeeded Mr. Alan Greenspan. Indicators are that the economy will continue along its current growth path in 2006, as post hurricane rebuilding efforts, inclusive of federal assistance, are expected to spur economic activity. Nonetheless, this outlook is dependent upon the stability of oil prices and domestic housing costs.

Following its stellar performance in 2004, the Chinese economy's expansion slowed marginally to 9.9% in 2005. Preliminary evidence suggests that the government plans to curb spending on investments, the main source of the country's record breaking growth in the past few years, in an effort to stimulate local consumption and reduce the level of export-led economic development. Moreover, it is anticipated that interest rates will remain steady to support this effort, and inflation for the year is forecasted at 3%.

The Japanese economy grew by 5.5% in the fourth quarter of 2005, led by increased domestic demand and higher exports. In January, the unemployment rate advanced slightly to 4.5%, while the consumer price index rose marginally by 0.1% from its December 2005 level. The favourable outlook for Japan's economy during 2006 hinges on the upbeat performances of the US and Chinese economies.

In the Euro zone, the latest data suggests that fourth quarter real GDP growth was lower at 0.3% compared to 0.6% in the previous quarter. Unemployment declined from 8.9% in 2004 to 8.3% in 2005. Further, annual inflation weakened slightly to 2.3% in February from 2.4% in the previous month. Against this background, the ECB decided to leave interest rates unchanged at 2.25%; however, the bank also signaled that it would be vigilant as the "risks to price stability in the medium-term remained on the upside". Economic output in the UK grew by an estimated 0.6% in the fourth quarter, up marginally from the 0.5% expansion registered in the previous three-month period. Manufacturing output decreased by 0.2% in the quarter ending January 2006, in the face of contractions in both the electrical and transportation equipment industries. The monthly trade deficit stabilized in January at £3.8 billion. The unemployment rate rose marginally in the three months ending January, to 5.0%, while consumer prices rose on an annualized basis by 2.0% in February. In interest rate developments, the Bank of England decided to keep its key interest rate unchanged at 4.5% during the month, following the last increase of 0.25 percentage points in August 2005.

The 2006 forecasted world oil demand has been revised slightly downwards to 84.6 million barrels per day. Oil prices tapered by 6.9% to \$61.58 per barrel in February, reflecting greater stockpiles and "easing geopolitical tensions". For the year, oil prices rose by 6.9%. During the month, gold and silver fell by 1.3% to \$561.55 and 1.0% to \$9.74, respectively.

The majority of equity indices recorded gains during the month of February. In the US, the principal index, the Dow Jones Industrial Average, was up by 1.2%, while the S&P 500 registered a marginal decline. The European indices advanced, with the FTSE 100 up by 0.5%; CAC 40, by 1.1% and the DAX, by 2.2%. Conversely, the Nikkei 225 Index weakened by 2.7%.

3. Domestic Monetary Trends

During February, money and credit trends featured brisk expansion in Bahamian dollar credit, which outstripped the accretion in Bahamian dollar deposits. As a result, both external reserves and excess liquid assets narrowed. However, for the two months to February, both the excess liquid assets and excess reserves expanded, amid moderate gains in external reserves.

February 2006 vs. 2005

For the month of February, the banking system's excess reserves declined by \$14.5 million to \$210.3 million as compared to a larger contraction in 2005 of \$19.9 million to \$287.6 million. Additionally, banks' excess liquid assets fell by \$17.3 million to \$168.2 million, following a decrease of \$20.8 million in 2005.

The decline in external reserves was lower at \$2.2 million vis-à-vis \$11.4 million in the same period of 2005, as the Central Bank's net foreign currency sales were reduced to \$4.0 million from \$12.7

million a year earlier. Foreign currency transactions with banks were reversed to a net purchase of \$2.3 million from a net sale of \$3.6 million, while the net sale to the public sector contracted by 31.9% to \$6.2 million. The net foreign currency purchase between commercial banks and their customers strengthened to \$14.7 million from a mere \$0.2 million in 2005. Exchange Control data showed that estimated outflows for non-oil imports firmed by \$9.4 million to \$115.8 million, while oil imports rose by \$11.3 million to \$33.8 million.

Dominated by private sector credit growth, Bahamian dollar credit expanded by \$56.5 million—doubling the increase recorded a year ago. Credit to the private sector rose by \$48.3 million outpacing last year's increase of \$11.1 million, reinforced by an expansion in mortgages of \$26.9 million and a \$10 million hike in consumer credit. Growth in net credit to the Government slowed by \$12.5 million to \$8.7 million, and credit to the rest of the public sector declined further by \$0.6 million.

Growth in domestic foreign currency credit of \$22.9 million contrasted with last year's \$11.6 million reduction. Developments were largely influenced by the extended rise in credit to the rest of the public sector of \$27.7 million which was associated with capital equipment purchases; whereas net credit to central Government declined by \$4.5 million, and the contraction in private sector credit was lower at \$0.3 million.

The expansion in the Bahamian dollar deposit base was significantly higher at \$44.7 million from \$11.1 million in 2004—led by an almost equivalent accretion to fixed deposits, which had declined by nearly \$10.0 million in 2005. Lesser growth of \$5.1 million vis-à-vis \$12.6 million in 2005 was registered for savings deposits, whereas demand deposits fell by \$3.4 million compared to an \$8.0 million rise a year earlier.

In interest rate developments, the weighted average deposit rate at banks was relatively unchanged at 3.28%. However, the highest rate offering was higher at 6.00% for fixed maturities in the 1-3 months and over 12 months range, whereas the average loan rate firmed by 19 basis points to 10.25%.

January – February 2006

During the review period, excess reserves of the banking system advanced by \$14.9 million, reversing the \$3.8 million decrease recorded in 2005. Similarly, growth in excess liquid assets was higher at \$55.8 million vis-à-vis \$47.6 million a year ago.

External reserves expanded by \$15.5 million to \$598.4 million in the first two months of the year, although 63.2% lower than the \$42.1 million gain achieved in 2005. The Central Bank's net foreign currency purchase narrowed by \$26.0 million to \$12.6 million, based on a 89.1% hike in the net sale to the public sector to \$29.5 million and a 22.3% decline in the net purchase from banks to \$42.1 million. Moreover, the net purchase between commercial banks and customers fell marginally by \$0.5 million to \$52.9 million. Statistics from the Exchange Control Department showed an increase in estimated current account payments, with both non-oil and oil imports rising by an estimated 13.1% and 85.1%, respectively.

The expansion in Bahamian dollar credit slowed by 59% to \$37.8 million. This outturn primarily reflected a reversal in net credit to the Government, to a \$45.3 million decline from a \$68.2 million

expansion in 2005, and a contraction in credit to the rest of the public sector of \$7.3 million. However, continued firming in consumer demand underpinned intensified growth in private sector credit of \$90.3 million, which was led by gains in both consumer credit and mortgages of \$16.7 million and \$46.7 million, respectively.

Domestic foreign currency credit expansion strengthened to \$20.4 million from \$4.6 million last year. Credit to the rest of the public sector advanced by \$13.9 million, in contrast to a repayment of \$2.4 million in 2005, while growth in credit to the private sector almost doubled to \$11.1 million. However, net claims on Government contracted by \$4.6 million as compared to an increase of \$1.3 million last year.

The Bahamian dollar deposit base grew by \$12.3 million, due mainly to gains in fixed and savings deposits of \$40.8 million and \$2.5 million, respectively. In contrast, demand deposits fell by \$31.1 million, reversing the previous year's \$70.4 million expansion.

4. Outlook

The outlook for the Bahamian economy for the remainder of the year remains positive as the country continues to benefit from ongoing foreign direct investments in the tourism industry, in addition to buoyant domestic construction sector activity.

Recent Monetary and Credit Statistics

(B\$ Millions)

	FEBRUARY					
	Value		Change		Change YTD	
	2005	2006	2005	2006	2005	2006
1.0 LIQUIDITY & FOREIGN ASSETS						
1.1 Excess Reserves	287.64	210.26	-19.85	-14.50	-3.75	14.89
1.2 Excess Liquid Assets	272.02	168.23	-20.77	-17.29	47.58	55.79
1.3 External Reserves	706.71	598.44	-11.39	-2.16	42.06	15.52
1.4 Bank's Net Foreign Assets	-613.56	-590.18	9.78	-10.03	-23.81	-30.45
1.5 Usable Reserves	316.78	266.88	-10.17	-1.08	17.24	6.76
2.0 DOMESTIC CREDIT						
2.1 Private Sector	4,363.71	5,019.34	-1.68	48.00	38.78	101.47
a. B\$ Credit	3,982.31	4,546.27	11.13	48.34	33.16	90.33
of which: Consumer Credit	1,482.21	1,666.51	1.75	10.80	1.73	16.67
Mortgages	1,661.19	1,953.11	10.91	26.86	24.49	46.72
b. F/C Credit	381.40	473.07	-12.80	-0.33	5.62	11.14
of which: Mortgages	12.44	15.15	0.48	1.38	0.67	2.87
2.2 Central Government (net)	622.15	598.00	21.18	4.18	69.46	-49.87
a. B\$ Loans & Securities	736.72	724.64	19.76	15.08	83.62	-26.27
Less Deposits	109.87	133.33	-1.48	6.42	15.44	18.97
b. F/C Loans & Securities	0.00	14.00	0.00	0.73	0.00	0.73
Less Deposits	4.71	7.31	0.05	5.22	-1.29	5.37
2.3 Rest of Public Sector	331.69	306.55	-4.42	27.14	-11.84	6.63
a. B\$ Credit	105.97	91.05	-5.72	-0.55	-9.49	-7.25
b. F/C Credit	225.72	215.50	1.30	27.70	-2.35	13.88
2.4 Total Domestic Credit	5,317.54	5,923.88	15.09	79.32	96.41	58.23
a. B\$ Domestic Credit	4,715.13	5,228.63	26.64	56.45	91.84	37.84
b. F/C Domestic Credit	602.41	695.26	-11.56	22.87	4.56	20.39
3.0 DEPOSIT BASE						
3.1 Demand Deposits	1,031.17	1,024.56	7.98	-3.38	70.42	-31.06
a. Central Bank	145.27	44.38	16.43	5.60	62.89	14.51
b. Banks	885.90	980.18	-8.45	-8.98	7.53	-45.57
3.2 Savings Deposits	798.79	885.41	12.61	5.06	17.41	2.52
3.3 Fixed Deposits	2,422.23	2,617.88	-9.54	42.97	9.81	40.84
3.4 Total B\$ Deposits	4,252.19	4,527.86	11.05	44.65	97.64	12.30
3.5 F/C Deposits of Residents	90.90	139.31	5.77	1.90	4.86	-20.58
3.6 M2	4,418.38	4,713.98	11.63	51.79	82.38	-7.05
3.7 External Reserves/M2 (%)	15.99	12.70	-0.30	-0.19	0.67	0.35
	Value		Year to Date		Change	
	2005	2006	2005	2006	Month	YTD
4.0 FOREIGN EXCHANGE TRANSACTIONS						
4.1 Central Bank Net Purchase/(Sale)	-12.67	-3.99	38.59	12.61	8.69	-25.98
a. Net Purchase/(Sale) from/to Banks	-3.61	2.25	54.18	42.14	5.86	-12.05
i. Sales to Banks	34.26	34.83	53.37	49.18	0.57	-4.19
ii. Purchases from Banks	30.65	37.08	107.56	91.32	6.43	-16.24
b. Net Purchase/(Sale) from/to Others	-9.06	-6.23	-15.60	-29.53	2.83	-13.93
i. Sales to Others	21.98	20.74	45.74	63.30	-1.24	17.56
ii. Purchases from Others	12.92	14.50	30.14	33.78	1.58	3.63
4.2 Banks Net Purchase/(Sale)	0.19	14.65	53.36	52.93	14.46	-0.43
a. Sales to Customers	223.47	241.57	463.53	518.99	18.09	55.45
b. Purchases from Customers	223.66	256.21	516.90	571.92	32.55	55.02
4.3 B\$ Position (change)	-3.99	-19.41				
5.0 EXCHANGE CONTROL SALES						
5.1 Current Items	226.63	243.29	425.17	512.06	16.66	86.89
of which Public Sector	18.89	40.80	36.54	81.43	21.91	44.89
a. Nonoil Imports	106.37	115.75	218.97	247.68	9.38	28.71
b. Oil Imports	22.53	33.79	35.38	65.50	11.26	30.12
c. Travel	16.56	13.94	32.71	33.41	-2.62	0.70
d. Factor Income	30.02	3.21	33.18	7.59	-26.81	-25.59
e. Transfers	5.56	4.84	9.61	11.36	-0.72	1.75
f. Other Current Items	45.60	71.77	95.32	146.52	26.17	51.21
5.2 Capital Items	31.67	32.65	36.63	41.52	0.99	4.89
of which Public Sector	3.30	0.09	6.03	6.58	-3.21	0.55
5.3 Bank Remittances	23.00	82.00	24.00	82.00	59.00	58.00

Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: MARCH 02, 2005 and MARCH 01, 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.

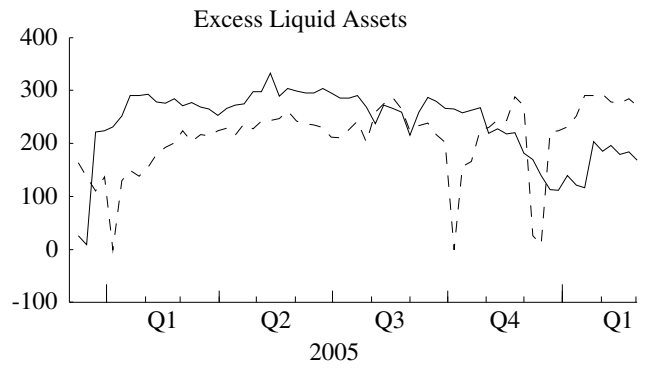
Components may not sum to totals due to round-off error.

SELECTED MONEY AND CREDIT INDICATORS

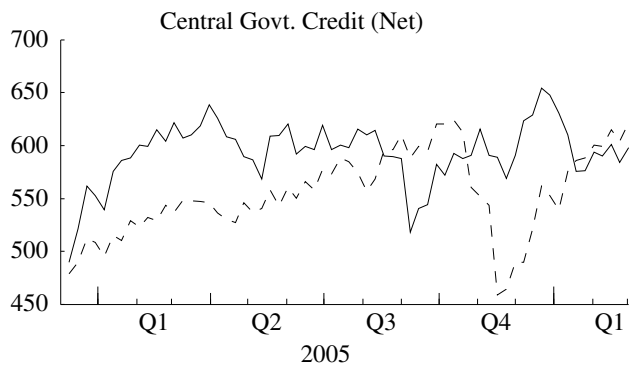
(B\$ Millions)



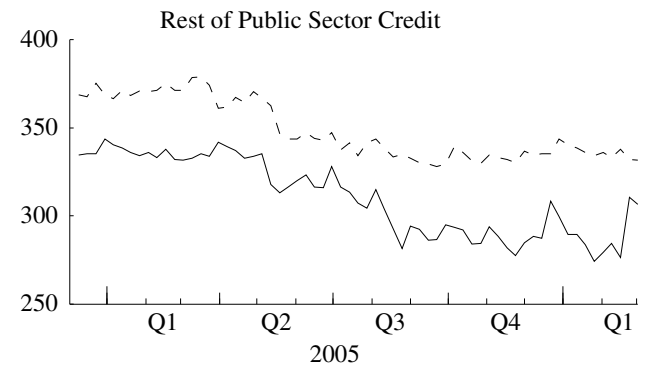
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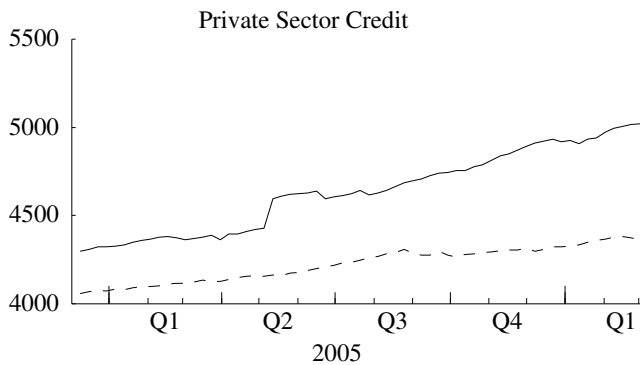
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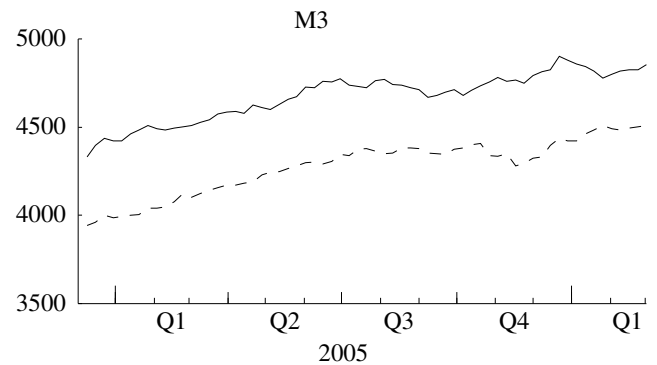
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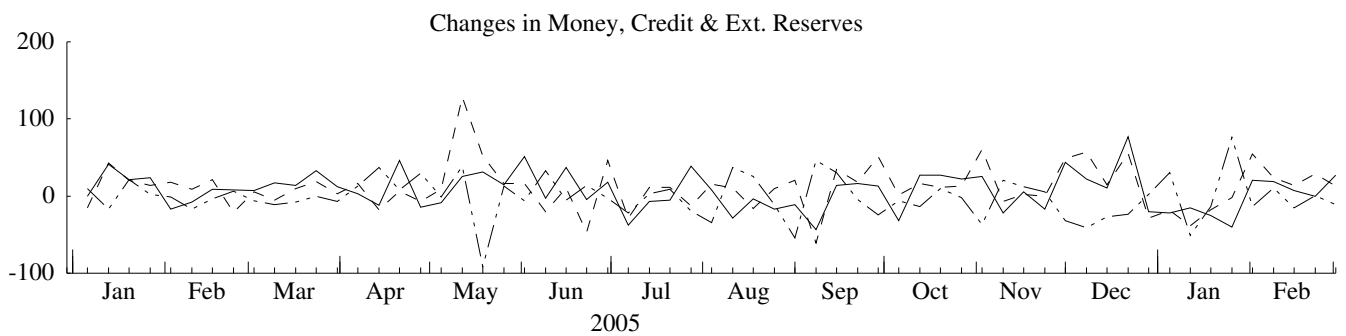
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— M3
- - - Domestic Credit
- · - · External Reserves

Selected International Statistics

A: Selected Macroeconomic Projections (Annual % Change and % of labor force)						
	Real GDP		Inflation Rate		Unemployment	
	2005	2006	2005	2006	2005	2006
Bahamas	3.5	3.5	2.2	n/a	n/a	n/a
United States	3.5	3.3	3.1	2.8	5.2	5.2
Euro-Area	1.2	1.8	2.1	1.8	8.7	8.4
<i>Germany</i>	<i>0.8</i>	<i>1.2</i>	<i>1.7</i>	<i>1.7</i>	<i>9.5</i>	<i>9.3</i>
Japan	2.0	2.0	-0.4	-0.1	4.3	4.1
United Kingdom	1.9	2.2	2.0	1.9	4.7	4.8
Canada	2.9	3.2	2.2	2.5	6.8	6.7
<i>Sources: IMF World Economic Outlook ,September 2005</i>						

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
January 2005	5.75	2.00	3.25	2.25	4.75
February 2005	5.25	2.00	3.50	2.50	4.75
March 2005	5.25	2.00	3.75	2.75	4.75
April 2005	5.25	2.00	3.75	2.75	4.75
May 2005	5.25	2.00	4.00	3.00	4.75
June 2005	5.25	2.00	4.25	3.25	4.75
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

Selected International Statistics

C. Selected Currencies (Per United States Dollars)						
Currency	Feb-05	Jan-05	Feb-06	Mthly % Change	YTD % Change	12-Mth% Change
Euro	0.7560	0.7670	0.8389	2.0	-0.6	8.7
Yen	104.63	103.7	115.8	-1.2	-1.7	8.1
Pound	0.5206	0.5311	0.5703	1.5	-1.7	7.8
Canadian \$	1.2339	1.2398	1.1368	-0.2	-2.2	-6.1
Swiss Franc	1.1631	1.1889	1.3117	2.6	-0.1	9.6
<i>Source: Bloomberg March 6, 2006</i>						

D. Selected Commodity Prices (\$)					
Commodity	Feb 2005	Jan 2005	Feb 2006	Mthly % Change	YTD % Change
Gold / Ounce	435.65	422.60	561.55	-1.3	8.6
Silver / Ounce	7.30	6.72	9.74	-1.0	10.4
Oil / Barrel	49.32	45.63	61.58	-6.91	6.9
<i>Source: Bloomberg March 6, 2006</i>					

E. Equity Market Valuations – February 2006 (%chg)							
	BISX	DJIA	S&P 500	FTSE 100	CAC 40	DAX	Nikkei 225
1 month	0.45	1.21	-0.09	0.54	1.06	2.15	-2.66
3 month	1.00	2.57	2.20	3.07	6.05	7.17	0.58
YTD	5.76	1.74	2.50	6.79	9.48	11.60	8.96
12-month	24.35	4.66	8.32	18.33	22.93	33.28	38.88
<i>Sources: Bloomberg and BISX</i>							

F: Short Term Deposit Rates in Selected Currencies (%)			
	USD	GBP	EUR
o/n	4.49	4.43	2.30
1 Month	4.63	4.49	2.56
3 Month	4.80	4.49	2.63
6 Month	4.96	4.53	2.74
9 Month	5.06	4.55	2.91
1 year	5.06	4.63	2.93
<i>Source: Bloomberg, as at March 6, 2006</i>			

SUMMARY ACCOUNTS OF THE CENTRAL BANK

(B\$ Millions)

	VALUE										CHANGE									
	Jan. 04	Jan. 11	Jan. 18	Jan. 25	Feb. 01	Feb. 08	Feb. 15	Feb. 22	Jan. 04	Jan. 11	Jan. 18	Jan. 25	Feb. 01	Feb. 08	Feb. 15	Feb. 22				
I. External Reserves	590.24	598.78	606.71	602.80	600.61	611.49	592.95	601.07	7.32	8.53	7.93	-3.91	-2.19	10.89	-18.54	8.11				
II. Net Domestic Assets (A + B + C + D)	8.16	-63.62	-89.21	-3.01	-6.88	-13.83	-7.99	-15.53	2.81	-71.78	-25.59	86.20	-3.87	-6.95	5.84	-7.54				
A. Net Credit to Gov¹(i + ii + iii - iv)	121.89	78.93	50.70	121.33	120.37	118.79	118.64	117.18	-0.78	-42.96	-28.23	70.63	-0.96	-1.58	-0.15	-1.46				
i) Advances	76.99	76.99	76.99	76.99	76.99	76.99	76.99	76.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
ii) Registered Stock	72.71	72.71	76.72	76.28	75.70	75.58	75.20	74.98	0.03	0.00	4.01	-0.44	-0.58	-0.12	-0.38	-0.21				
iii) Treasury Bills	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
iv) Deposits	27.81	70.77	103.01	31.94	32.32	33.78	33.55	34.79	0.81	42.96	32.24	-71.06	0.37	1.46	-0.23	1.25				
B. Rest of Public Sector (Net) (i + ii - iii)	-19.86	-46.91	-45.61	-29.87	-31.54	-38.80	-31.19	-37.59	2.70	-27.05	1.30	15.74	-1.67	-7.26	7.61	-6.39				
i) BDB Loans	7.30	7.30	7.24	7.24	7.24	7.24	7.24	7.24	0.00	0.00	-0.06	0.00	0.00	0.00	0.00	0.00				
ii) BMC Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
iii) Deposits	27.16	54.21	52.85	37.11	38.78	46.04	38.43	44.82	-2.70	27.05	-1.37	-15.74	1.67	7.26	-7.61	6.39				
C. Loans to Deposits with Banks	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
D. Other Items (Net)*	-93.86	-95.63	-94.30	-94.47	-95.70	-93.81	-95.43	-95.12	0.89	-1.77	1.33	-0.17	-1.24	1.89	-1.62	0.31				
III. Monetary Base	598.41	535.16	517.49	599.79	593.73	597.67	584.96	585.54	10.12	-63.23	-17.66	82.29	-6.06	3.94	-12.70	0.58				
A. Currency in Circulation	274.40	247.44	237.59	240.27	248.41	247.99	248.77	243.89	-22.27	-26.96	-9.85	2.68	8.14	-0.42	0.78	-4.88				
B. Bank Balances with CBOB	324.01	287.72	279.90	359.52	345.32	349.68	336.19	341.65	32.39	-36.29	-7.81	79.61	-14.20	4.36	-13.48	5.45				

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

