



Monthly Economic and Financial Developments November 2005

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: 30th January, 27th February, 3rd April, 1st May, 29th May, 3rd July, 31st July, 4th September, 2nd October, 30th October, 4th December

1. Domestic Economic Developments

Initial data suggests that economic activity during November was buttressed by continued robust construction activity and heightened consumer demand. For the year through September, tourist arrivals moderated as the sector continues to recover from the negative effects of past hurricanes. The surge in credit demand and the rise in international oil prices during the January to November period fuelled growth in imports, leading to a falloff in external reserve levels.

Year-to-date September statistics for the tourism sector indicated visitor arrivals to The Bahamas decreased by 3.1% to 3,773,862. Air visitors, which accounted for 31.4% of the total, rose by 1.7%, while sea arrivals fell by 5.1%. New Providence experienced overall growth of 1.2%, with an 11.8% improvement in the higher value-added air visitor component, and a decline in sea visitors of 4.2%. Weakness in the Grand Bahama market persisted, with overall arrivals receding by 19.6%. Family Island arrivals declined by 2.4%, as the 3.1% fall in sea arrivals offset the 0.8% increase in the air segment.

Available data for the hotel industry revealed continued firming in hotel occupancy rates and room revenues over the January to October period. Total room revenues improved by 9.0%, as both room sales and average daily room rates expanded by 2.8% and 6.1%, respectively. Accretions to revenue occurred in all three major ports, with Nassau up by 9.2%, Grand Bahama by 6.3% and the Family Islands, by 14.3%.

Influenced by the recent surge in oil prices, consumer price inflation for the eleven month period firmed to 2.1% from 1.0% a year earlier, with notable increases recorded for medical care & health, food & beverages, transportation & communications and education costs.

Preliminary estimates for Government's overall fiscal position for the first four months of FY2005/06 indicated that the deficit was reduced by half to \$32.2 million compared to the corresponding period of 2004. Strengthened import demand underpinned a 19.2% expansion in tax revenue, while non-tax and capital revenues rose by a combined 85.2%. These developments offset the 9.1% growth in total expenditures.

In domestic financial developments, the Bank of The Bahamas International (BOB) announced a \$25.2 million rights issue, comprising 3.6 million shares at \$7.00 each. Currently, the Government and National Insurance hold the majority (51.0%) of shares. The offer opened on November 21 and will close on December 21, 2005.

2. International Developments

The world economy continues to be driven by strong growth in the US alongside the fast pace expansion of China's economy, which has provided further stimulus for global output, especially in commodity producing economies. Global inflation was contained during the third quarter, as oil prices continued to soften.

The US economy grew by 4.1% in the third quarter, up from 3.3% in the previous quarter, and was attributed primarily to firming in consumer spending and federal government expenditures after Hurricanes Katrina and Rita, as well as investment in fixed assets. Domestic demand remained

strong as consumer spending, which accounts for about 70% of economic activity, grew by 4.2%. This helped to propel the trade deficit to a record \$68.9 billion in October, reflecting expanded imports of industrial supplies, automobiles and consumer goods. The unemployment rate remained unchanged at 5.0%, with an additional 215,000 jobs added to the economy in November, mainly in the construction and food services sectors. The Federal Reserve continued its stance of raising interest rates at a "measured pace" to achieve its stated goal of sustainable growth and price stability. Both the target and Primary Credit rates were hiked by 25 basis points each, on November 1st 2005, to 4.0% and 5.0%, respectively.

The Chinese economy strengthened during the first three quarters of the year by an estimated 9.4%, buoyed by a robust export sector. The country's trade surplus, which hit a record high of \$12.0 billion in October, narrowed to about \$10.5 billion in November, with exports rising by 18.4% and imports by 20.9%. Consumer price inflation for the January to September period remained low at 2.0%, as the rise in oil prices had only a marginal effect on domestic prices. The Central Bank projects continued growth for the economy in the fourth quarter; however, it notes that problems with excessive investment in fixed assets and unbalanced external trade still need to be addressed.

The Japanese economy continued its tentative recovery during the year, supported by accretions to exports, business investment and improved primary consumption. Despite the increase in international oil prices, reductions in key consumer utility bills resulted in average prices remaining virtually unchanged.

Preliminary indications are that the economies of the Euro-zone expanded by 0.6% in the third quarter, up marginally from the 0.4% growth in the previous quarter. Increased domestic demand, reflected in part by robust growth in mortgages, combined with higher costs for oil imports, resulted in the current account balance deteriorating to a deficit of \$5.1 billion euros in the third quarter, compared to a surplus of \$11.9 billion in the same period of 2004. The unemployment rate remained the same in October as in September at 8.3%. With growth in the UK weakening to 0.4% in the third quarter, and the unemployment rate rising by 0.2 percentage points to 4.9% in the three months ending October 2005, the Bank of England decided to leave interest rates unchanged at 4.5% in November.

Estimates are that OPEC production remained unchanged in November at about 30.0 mb/d. With regards to prices, the cost of oil weakened to \$54.68 per barrel at end-November, from the previous month's closing price of \$59.37 per barrel. This development was aided by positive developments in US refining capacity, a slowdown in Asian demand and mild winter conditions, particularly in the Northeast US. However, at end-November, prices were still up 19.8%, for the year. The precious metals markets have generally seen robust growth, with gold prices expanding by 6.0% to US \$493.08, and the price of silver by 8.9% to US \$8.24.

Equity indices advanced during November, with the major US indices, the Dow Jones Industrial Average and the S&P 500, rising by 3.5% and 3.4%, respectively. Euro zone indices also achieved gains, with the FTSE 100 up by 2.0%, the CAC 40, by 3.0% and the DAX, by 5.4%. In Asia, the Nikkei 225 increased by 9.3%.

3. Domestic Monetary and Credit Trends

Money and credit trends during the month of November were highlighted by further tightening in excess liquidity amid strong gains in Bahamian dollar credit. The heightened demand for imports was reflected in increased net sales of foreign currency, and a reduction in external reserves. On a year-to-date basis, the robust expansion in Bahamian dollar credit outpaced the moderate growth in deposits, leading to contractions in both excess liquidity and external reserves.

November 2005 vs. 2004

During November 2005, excess reserves of the banking system grew by \$7.3 million to \$283.3 million, versus a more notable \$105.8 million expansion to \$333.8 million last year. Banks' excess liquid assets also declined by \$37.9 million to \$181.7 million, a turnaround from the \$45.0 million rise recorded in 2004.

Strong private sector demand, combined with increased expenditures for oil imports, led to a \$13.9 million reduction in external reserves to \$620.5 million, reversing last year's expansion of \$54.5 million, which was partly attributed to re-insurance inflows. The Bank recorded net foreign currency sales of \$15.4 million in contrast to a year-earlier \$50.5 million net receipt. Net sales to the public sector were extended to \$17.0 million, while commercial banks' net sales to the Central Bank softened to \$1.6 million vis-à-vis \$66.2 million in 2004, as transactions with their customers were reversed to a net sale of \$9.9 million in contrast to a net purchase of \$54.8 million in 2004. According to Exchange Control data, outflows for oil and non-oil items rose by \$42.5 million and \$37.8 million, respectively.

Elevated private sector demand triggered a \$44.7 million rebound in Bahamian dollar credit, following last year's decline of approximately \$38.9 million. The growth in private sector credit more than doubled to \$78.2 million, with a more than two-fold hike in consumer credit to \$21.3 million, and with growth in mortgage levels slightly extended to \$22.9 million. Meanwhile, the \$24.2 million decline in net credit to government was 65% lower than in 2004, because of accumulated proceeds from a bond issue in October of last year. Additionally, credit to the rest of the public sector fell by \$14.5 million, contrasting with a \$5.1 million rise in 2004.

Domestic foreign currency credit grew by \$11.9 million in contrast to a \$5.9 million decline a year earlier, and reflected a rebound in financing for private sector tourism related investments. Claims on public corporations firmed by \$5.5 million, more than three times last year's expansion.

Bahamian dollar deposits declined by \$7.2 million, \$3.3 million lower than last year's contraction. The \$27.5 million reduction in demand deposits overshadowed the expansion in savings (\$19.6 million) and fixed deposits (\$0.8 million).

In interest rate developments, the weighted average deposit rate at banks softened by 8 basis points to 3.18%. The highest rate offered was 4.75% for fixed maturities in the 1-6 month range. Similarly, the weighted average loan rate fell by 9 basis points to 10.04%.

January – November 2005

During the review period, excess reserves of the banking system declined by \$8.1 million, in contrast to a significant \$165.4 million advance in the same period last year. Similarly, excess liquid assets weakened by \$42.8 million, a turnaround from the \$134.3 million boost in the previous year. Information provided by the Exchange Control Department showed that an almost 30% increase in net sales for current items, underpinned by gains in both oil and non-oil imports of 86.6% and 23%, respectively.

For the eleven month period, the easing of bank credit restrictions, heightened domestic demand, and increased outlays for imported fuel, resulted in the external reserves contracting by \$44.2 million to \$620.5 million. This contrasts with a gain of \$184.9 million in 2004 to \$667.0 million, which was partly bolstered by reinsurance proceeds. The Central Bank registered net foreign currency sales of \$61.0 million, in contrast to a \$165.7 million net purchase in 2004. In particular, the net intake from banks weakened by 79.0% to \$63.5 million, while net sales to the public sector moderated slightly by 8.8% to \$124.5 million. Moreover, commercial banks' net purchases from their customers slackened by 80.2% to \$54.9 million.

Heightened private sector demand continued to impact Bahamian dollar credit, which grew by \$456.7 million, more than double the expansion in the previous year. Similar growth was registered for private sector credit, which firmed by \$460.9 million, led by an 82% upturn in consumer credit growth to \$149.5 million and mortgage lending, of 33% to \$239.9 million. Net credit to Government advanced by \$24.4 million, reversing the \$10.0 million decline in 2004, while the weakness in credit to the rest of the public sector was extended more than twofold to \$28.6 million.

Domestic foreign currency credit recovered by \$90.0 million during the review period, primarily associated with the financing of elevated tourism investments. Growth in claims on the private sector was more than eight times higher at \$105 million; however, the value of the mortgage component declined slightly by \$0.6 million. Net claims on the Government expanded by \$14.0 million, in contrast to an \$8.5 million fall-off last year, while the decline in claims on public corporations was extended by 41.5% to \$29.9 million.

The expansion in the Bahamian dollar deposit base softened by \$30.8 million to \$297 million. Accretions to demand deposits fell by 63% to \$54.8 million, while savings deposit growth moderated by 7% to \$90.3 million. In contrast, accretions in fixed deposits advanced by 81.5% to \$152.1 million.

4. Outlook

Economic growth for the Bahamian economy should remain firm for the rest of the year and into 2006. Output is anticipated to be reinforced by ongoing investments in the tourism sector, residential construction activity, and generally increased private sector demand. The recent levelling off in growth in energy prices as well as the sustained economic output in the US economy, are favourable developments for the domestic economy in the short to medium-term.

Recent Monetary and Credit Statistics

(B\$ Millions)

	NOVEMBER					
	Value		Change		Change YTD	
	2004	2005	2004	2005	2004	2005
1.0 LIQUIDITY & FOREIGN ASSETS						
1.1 Excess Reserves	333.79	283.31	105.76	7.31	165.43	-8.07
1.2 Excess Liquid Assets	271.36	181.66	45.01	-37.90	134.32	-42.78
1.3 External Reserves	667.01	620.45	54.48	-13.89	184.91	-44.20
1.4 Bank's Net Foreign Assets	-609.76	-589.12	-17.27	-1.62	-23.31	0.63
1.5 Usable Reserves	299.31	275.55	28.41	-9.19	72.19	-23.99
2.0 DOMESTIC CREDIT						
2.1 Private Sector	4,316.65	4,891.80	24.61	78.16	245.16	566.88
a. B\$ Credit	3,932.18	4,410.08	31.92	71.58	232.29	460.93
of which: Consumer Credit	1,462.33	1,629.70	8.13	21.34	82.03	149.23
Mortgages	1,612.66	1,876.61	20.78	22.89	179.83	239.90
b. F/C Credit	384.48	481.72	-7.31	6.58	12.87	105.95
of which: Mortgages	13.01	11.17	-0.07	2.29	2.36	-0.60
2.2 Central Government (net)	490.11	591.12	-70.46	-24.46	-18.49	38.44
a. B\$ Loans & Securities	611.17	705.45	-69.63	-14.44	10.16	52.34
Less Deposits	117.42	122.37	0.45	9.76	20.18	27.96
b. F/C Loans & Securities	0.00	11.63	0.00	1.11	-8.01	11.63
Less Deposits	3.65	3.60	0.39	1.37	0.45	-2.40
2.3 Rest of Public Sector	336.82	284.99	6.92	-8.99	-31.94	-58.54
a. B\$ Credit	108.03	86.85	5.09	-14.53	-10.80	-28.62
b. F/C Credit	228.79	198.15	1.82	5.54	-21.15	-29.92
2.4 Total Domestic Credit	5,143.58	5,767.91	-38.94	44.71	194.73	546.78
a. B\$ Domestic Credit	4,533.97	5,080.01	-33.06	32.85	211.47	456.72
b. F/C Domestic Credit	609.62	687.90	-5.88	11.86	-16.74	90.06
3.0 DEPOSIT BASE						
3.1 Demand Deposits	886.95	1,015.51	-34.72	-27.49	146.92	54.76
a. Central Bank	47.20	7.51	-64.46	-35.68	27.81	-74.88
b. Banks	839.74	1,008.00	29.73	8.18	119.11	129.64
3.2 Savings Deposits	775.64	871.65	0.05	19.56	97.21	90.27
3.3 Fixed Deposits	2,393.42	2,564.49	24.23	0.78	83.77	152.06
3.4 Total B\$ Deposits	4,056.00	4,451.65	-10.45	-7.16	327.91	297.09
3.5 F/C Deposits of Residents	92.37	151.89	-8.98	5.23	-5.39	65.85
3.6 M2	4,232.98	4,640.03	-2.59	5.38	344.60	304.04
3.7 External Reserves/M2 (%)	15.76	13.37	1.30	-0.32	3.36	-1.96
	Value		Year to Date		Change	
	2004	2005	2004	2005	Month	YTD
4.0 FOREIGN EXCHANGE TRANSACTIONS						
4.1 Central Bank Net Purchase/(Sale)	50.51	-15.42	165.73	-60.98	-65.93	-226.71
a. Net Purchase/(Sale) from/to Banks	66.22	1.60	302.25	63.53	-64.62	-238.73
i. Sales to Banks	35.07	32.66	309.68	397.26	-2.40	87.58
ii. Purchases from Banks	101.28	34.26	611.93	460.78	-67.02	-151.15
b. Net Purchase/(Sale) from/to Others	-15.71	-17.02	-136.52	-124.51	-1.31	12.01
i. Sales to Others	41.61	37.69	265.22	318.25	-3.93	53.02
ii. Purchases from Others	25.90	20.67	128.70	193.74	-5.23	65.04
4.2 Banks Net Purchase/(Sale)	54.80	-9.94	277.66	54.89	-64.74	-222.78
a. Sales to Customers	274.73	233.33	2,251.83	2,621.68	-41.40	369.85
b. Purchases from Customers	329.53	223.39	2,529.50	2,676.57	-106.14	147.07
4.3 B\$ Position (change)	2.57	3.87				
5.0 EXCHANGE CONTROL SALES						
5.1 Current Items	184.27	288.96	2,120.73	2,752.55	104.70	631.82
of which Public Sector	19.67	47.31	255.12	352.93	27.65	97.81
a. Nonoil Imports	93.72	131.51	1,039.78	1,280.62	37.79	240.84
b. Oil Imports	5.94	48.39	188.75	352.13	42.46	163.38
c. Travel	19.52	21.72	191.68	222.76	2.20	31.07
d. Factor Income	8.49	8.63	109.30	168.19	0.14	58.89
e. Transfers	9.73	5.84	58.41	81.17	-3.89	22.77
f. Other Current Items	46.87	72.87	532.80	647.68	26.00	114.87
5.2 Capital Items	16.68	6.23	139.21	142.55	-10.45	3.33
of which Public Sector	5.04	1.20	40.65	43.40	-3.84	2.75
5.3 Bank Remittances	0.00	0.07	73.79	88.37	0.07	14.58

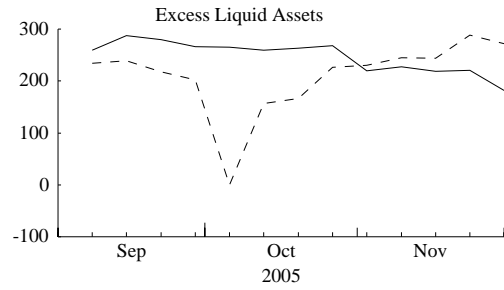
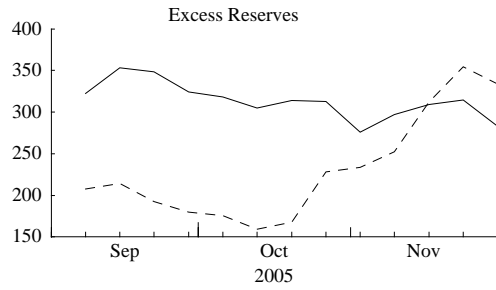
Sources: Research Department Weekly Brief Database and Banking Brief for the weeks ending: DECEMBER 01, 2004 and NOVEMBER 30, 2005

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.

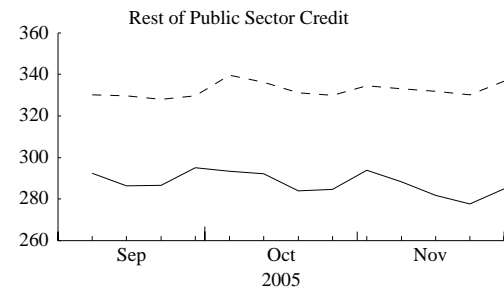
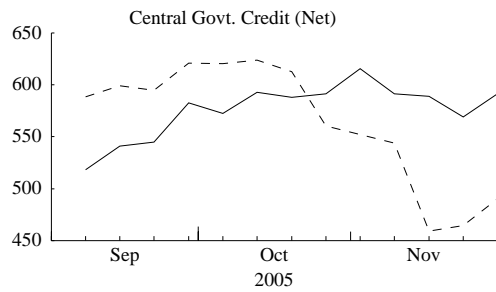
Components may not sum to totals due to round-off error.

SELECTED MONEY AND CREDIT INDICATORS (B\$ Millions)



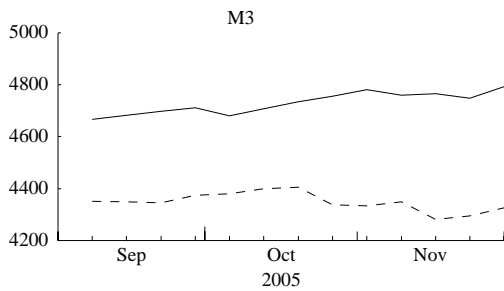
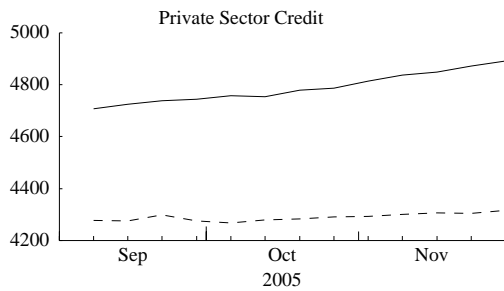
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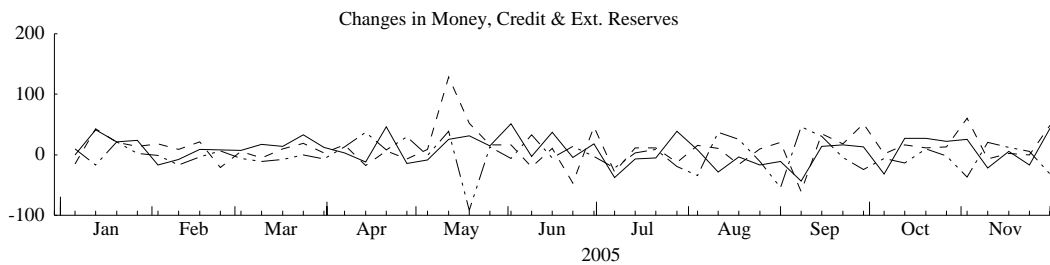
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— M3
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