July 2005
IMF Country Report No. 05/224

The Bahamas: Selected Issues and Statistical Appendix

This Selected Issues paper and Statistical Appendix for The Bahamas was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 9, 2005. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of The Bahamas or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund ● Publication Services
700 19th Street, N.W. ● Washington, D.C. 20431
Telephone: (202) 623 7430 ● Telefax: (202) 623 7201
E-mail: publications@imf.org ● Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

Selected Issues and Statistical Appendix

Prepared by W. Lewis, M. Dehesa, A. Faria, and E. Verreydt (all WHD)

Approved by Western Hemisphere Department

June 9, 2005

Contents Page

Figures

Text Tables

Appendices

Boxes

Statistical Appendix Tables

The Bahamas: Basic Data

I. Social and Demographic Indicators

Area (sq. km)	13,880	Nutrition (2000)	
		Calorie intake (per capita a day)	2,546
Population (2003)		Health	
Total (thousand)	316	Physicians per 100,000 inhabitants (1998)	106
Annual rate of growth (percent a year)	1.1	Hospital beds per 100,000 inhabitants (1996)	394
Density (per sq. km.)	31.7		
GDP per capita (US$)	17,396		
Population characteristics (2003)		Access to safe water (1999)	
Life expectancy at birth (years)	69.8	Percent of population	97
Crude birth rate (per thousand)	18.3	Urban	98
Crude death rate (per thousand)	4.7	Rural	86
Infant mortality (per thousand live births)	11.0		
Under five mortality rate (per thousand)	14.0		
Income distribution (2000)		Education	
Percent of income received:		Adult literacy rate (in percent, 2002)	96
By highest 10 percent of households	27.0	Gross enrollment rates (in percent)	
By lowest 20 percent of households	4.4	Primary education (2002)	92
		Secondary education (2002)	91
Distribution of labor force (in percent, 2004)			
Agriculture and fishing	4.4	GDP (in billions of B$, 2004 estimate)	5.7
Industry and mining	5.5	(In billions of US$)	5.7
Services	90.1		

II. Economic Indicators, 2001-04

	2001	2002	2003	Est. 2004
(Annual percentage changes, unless otherwise indicated)				
National accounts and prices				
Real GDP	0.8	1.4	1.9	3.0
Real GDP per capita	-0.3	0.3	0.8	1.9
GDP deflator	1.7	3.8	0.0	0.9
Consumer price index (period average)	2.0	2.2	3.0	0.9
Unemployment rate (in percent)	6.9	9.1	10.8	10.2
(Ratios to GDP)				
Public finances				
Central government 1/				
Total revenue (including grants)	18.9	16.3	16.5	16.6
Total expenditure	19.3	19.5	20.0	19.8
Of which: interest	1.8	1.9	1.9	2.0
Savings	2.2	-0.7	-1.1	-1.2
Primary balance	1.4	-1.3	-1.6	-1.2
Overall balance	-0.4	-3.2	-3.4	-3.2
Consolidated public sector 2/				
Primary balance	1.5	-0.1	-0.7	-0.3
Overall balance	-1.0	-2.4	-3.2	-2.7
(12-month percentage changes, unless otherwise indicated)				
Money and credit				
Liabilities to private sector	3.6	3.5	5.7	11.6
Of which				
Money	-1.7	3.9	8.8	19.6
Quasi-money	5.2	3.4	4.8	9.2
Net domestic assets of the banking system 3/	8.2	7.1	-0.4	4.8
Of which				
Credit to the nonfinancial public sector	2.2	2.8	1.2	0.4
Credit to the private sector	8.8	5.0	0.7	6.7
Liabilities to private sector (in percent of GDP)	65.4	64.3	66.7	71.6
Deposit interest rate (in percent) 4/	4.2	4.1	3.9	3.8

The Bahamas: Basic Data

	2001	2002	2003	Est. 2004
(In millions of U.S. dollars, unless otherwise indicated)				
Balance of payments				
Current account	-584	-342	-441	-305
Merchandise trade balance	-1,340	-1,151	-1,204	-1,349
Exports, f.o.b.	423	446	425	469
Imports, f.o.b.	1,764	1,598	1,628	1,818
Services, income, and transfers (net)	756	810	763	1043
Of which : interest	-128	-161	-107	-81
Capital and financial account	243	381	232	312
Direct investment	102	153	165	273
Other private capital (net) 5/	184	287	46	101
Public sector (net) 6/	-43	-60	21	-62
Errors and omissions	311	22	320	177
Change in net international reserves (increase -)	30	-61	-111	-184
Goods exports (in percent of GDP)	8.2	8.3	7.7	8.2
Goods imports (in percent of GDP)	34.4	29.6	29.6	31.8
Current account (in percent of GDP)	-11.4	-6.3	-8.0	-5.3
Goods exports (annual percentage change)	-26.5	5.5	-4.8	10.5
Goods imports (annual percentage change)	-7.7	-9.4	1.9	11.6
Travel receipts (annual percentage change)	-5.5	8.9	-4.2	8.0
Real effective exchange rate (12-month percentage change; depreciation -)	1.6	-0.6	-1.2	-3.0
International reserve position and external debt (as of December 31)				
Gross official reserves	312.4	373.2	484.1	667.8
(in months of imports of goods and services)	2.1	2.8	3.6	4.4
Net official reserves	312.4	373.2	484.1	667.8
Net reserves of the banking system	-234.5	-357.3	-144.0	104.0
Public external debt (in percent of GDP, end of period)	6.1	5.1	6.3	5.9
Total debt-service ratio (in percent of exports of goods and services)	3.9	3.1	8.0	3.3
Of which : interest	1.0	0.8	1.0	1.1

IMF data (as of March 31, 2005)	
Membership status:	Article VIII
Intervention currency and rate	Bahamian dollar at B$1.00 per U.S. dollar
Quota	SDR 130.30 million
Fund holdings of national currency	SDR 124.04 million
(as percent of quota)	95.2 percent
Outstanding purchases and loans	None
SDR Department	
Net cumulative allocation	SDR 10.23 million
Holdings of SDRs	SDR 0.02 million

Sources: The Bahamian authorities; World Bank, World Development Indicators 2005; and Fund staff estimates.

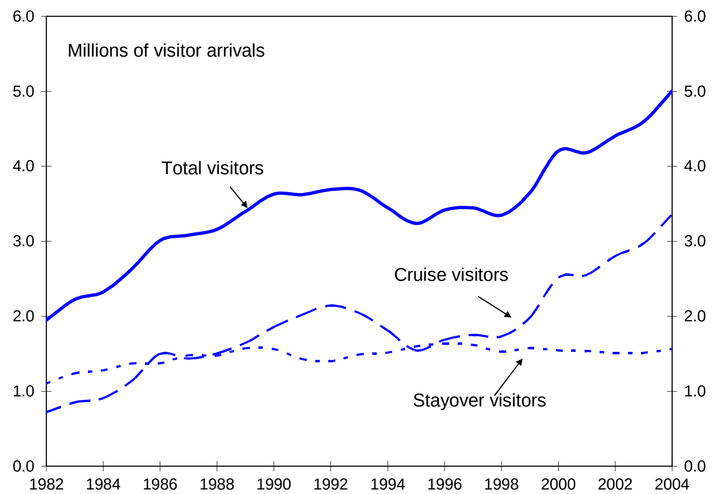
1/ Fiscal year ending June.
2/ Calendar year.
3/ With respect to liabilities to the private sector at the beginning of the period.
4/ 90-day deposit rate.
5/ Includes financial sector.
6/ Includes capital transfers.

I. The Determinants of Tourism Demand in The Bahamas [1]

1. **The Bahamas is a small open economy highly dependent on tourism and the offshore financial sector**. Though the relative dependency of tourism has been declining since the early 1990s, tourism still accounts for around a quarter of GDP. This paper reviews tourism developments in The Bahamas (Section B), explores the determinants of stayover arrivals and expenditure (Section C), and discusses possible risks to its further development (Section D).

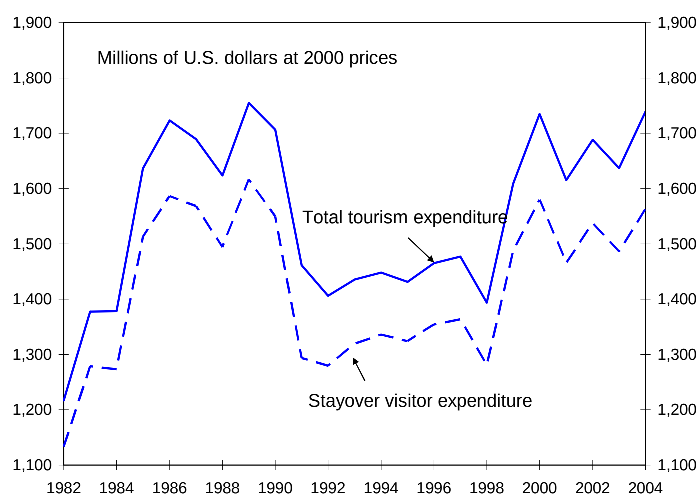
A. Recent Tourism Developments in The Bahamas

2. **The Bahamas has experienced an impressive growth in the number of visitors in the last twenty years, especially from cruise ships**. The total number of visitors grew to more than 5 million in 2004 from less than 2.5 million in 1984. Cruise ship visitors have increased by more than 9 percent a year on average since 1996, whereas the stayover sector has remained stagnant since the early 1990s. In 2004, cruise ship visitors represented 67 percent of total visitors to The Bahamas, up from 40 percent in the mid-1980s.



Source: Ministry of Tourism.

3. **However, the largest portion of tourism expenditure in The Bahamas comes from stayover visitors and total tourism spending has been stagnant**. This reflects the fact that cruise ship visitors spend relatively modest amounts while in the country, and as a result total tourism expenditure in real terms has barely grown from 1990 to 2004. In the first half of the 1990s, tourism expenditure

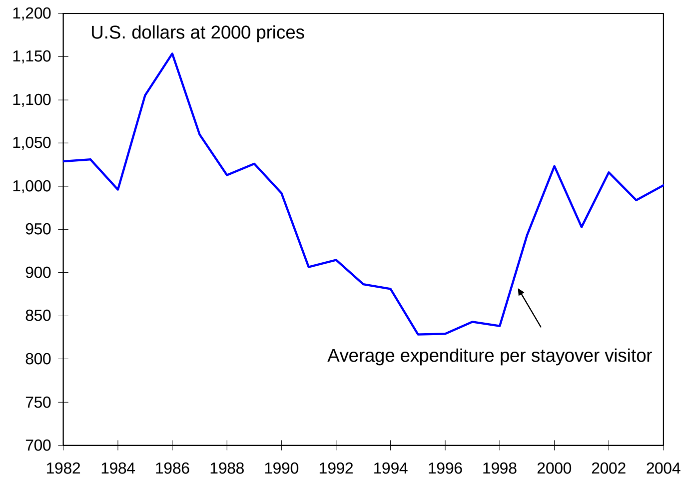


Source: Ministry of Tourism, and Fund staff calculations.

[1] Prepared by André Faria (WHD).

fell sharply as consequence of the first Gulf war, and a deterioration of hotel facilities, in particular in Nassau.[2] In the latter half of the decade, tourism expenditure recovered, mainly reflecting an increase in per visitor outlays, but have only returned to the same levels of 1990.

4. **The sharp recovery of average expenditure per stayover visitor in the late 1990s was the result of The Bahamas' strategy of targeting the upscale market**. In December 1998, a major expansion of the Atlantis Resort, on Paradise Island—just off Nassau—was concluded.[3] After the expansion by 1,200 rooms, Atlantis has more than 2,300 rooms, 17 restaurants, a 100,000 square-foot casino (the largest in the Caribbean), 30,000 square feet of retail space, and several water attractions, all of which are aimed at the high end market of the United States. In 1999, this resort alone represented 16 percent of total hotel accommodations in The Bahamas. From 1998 to 1999, Atlantis nearly doubled the number of room nights available, increased the average daily rate by 13 percent, holding an occupancy rate of more than 80 percent, and increased the casino win by 54 percent.[4] From 1998 to 1999, operating income more than doubled.[5]



Source: Ministry of Tourism, and Fund staff calculations.

5. **The "structural break" generated by the conclusion of Phase II of Atlantis was reflected in the sector-wide numbers**. From 1998 to 1999, the hotel average daily room rates increased 21 percent in The Bahamas, with occupancy

In 1999, average daily rates increased sharply...

	The Bahamas		Nassau/ Paradise Island	
	Average Daily Rate (In dollars)	Occupancy rate (In percent)	Average Daily Rate (In dollars)	Occupancy rate (In percent)
1997	100.4	69.4	112.8	74.7
1998	109.6	70.3	124.0	76.2
1999	132.4	68.6	147.7	76.0
2000	147.5	67.2	168.7	73.3
2001	148.3	60.5	164.1	67.2
2002	155.9	62.0	178.2	67.8
2003	148.4	59.2	166.6	66.4
2004	151.0	65.1	167.0	69.0

Source: Ministry of Tourism.

[2] From 1991 through 1998, Nassau and Paradise Island received 51 percent of the stayover arrivals.

[3] This was the so-called Atlantis Phase II. Phase I was launched in 1994.

[4] Casino win is the amount of money the casino has left after expenses (including winnings of the patrons).

[5] Kerzner International 2000, Annual Report, p. 36.

rates close to 70 percent.[6] Since then, occupancy rates have been closer to 60 percent due to an increase in room capacity and as a consequence of the reduction in stayover arrivals after the terrorist attacks of September 11, 2001. In 2004, both average daily room rates and occupancy rates started to recover.

B. The Determinants of Stayover Arrivals and Expenditure

6. **Stayover visitors account for 90 percent of total tourism expenditure in The Bahamas**. It is therefore to be expected that policy-makers and entrepreneurs would like to accurately predict the behavior of stayover arrivals and stayover-related expenditure. This section adopts a simple and conventional methodology that may be used to forecast tourism expenditure in The Bahamas, the single equation model, and to better understand recent developments.[7]

7. **This section summarizes a simple single-equation model of tourism outlays in The Bahamas**. The model is based on the relationship between the demand for tourism services and fundamental variables like prices and income,

$$Q_t = f(Y_t, P_t, d) \tag{1}$$

where Q_t is the tourism demand in The Bahamas by residents of other countries; Y_t is real private consumption in the origin region; P_t is the consumer price index (CPI)-based real exchange rate index of the destination vis-à-vis the competition; and d is a vector of dummy variables used to capture exogenous events that could help explain the time-series of tourism demand from abroad.

8. **In this paper, the demand equation is made operational through a linear equation of the following form:**

$$dq_t = \beta_0 + \beta_1 dy_t + \beta_2 dp_t + \sum_{j=1}^{n} \beta_{2+j} d_j + v_t \tag{2}$$

where lower-case variables are the logarithmic version of the variables expressed in upper case in equation (1), dx_t is the first difference of the variable x_t and n is the number of dummy

---

[6] The expansion of Atlantis boosted casino earnings by 32 percent in 1999, and heightened the importance of Nassau and Paradise Island, whose share of stayover arrivals rose to 59 percent on average from 1999 through 2004, compared with an average of 51 percent during 1991–98.

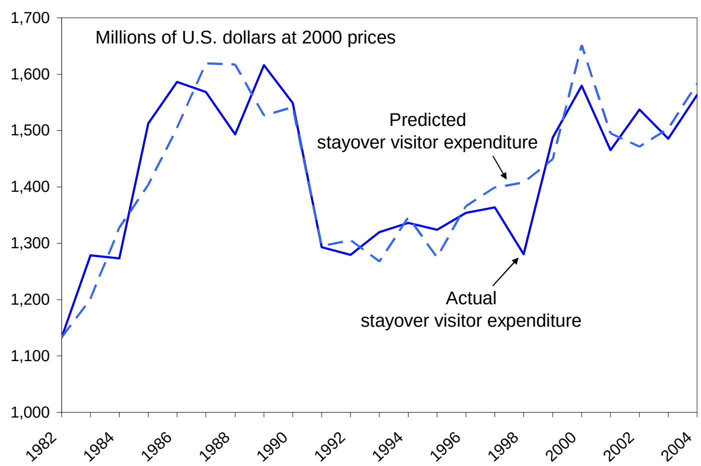
[7] Among the variety of models used in the tourism literature, this paper adopts the most widely used model of the multivariate regression class (for thorough reviews of the literature on tourism forecasting, see Witt and Witt 1995; Martin and Witt, 1989, and Song and others, 2003, evaluate the accuracy of different techniques).

variables.[8] The paper uses the equation described above to study the determinants of both stayover arrivals and stayover expenditure.

9. **The regression results indicate that private consumption expenditure in the country or countries of origin is the most important determinant of tourism in The Bahamas (Table 1)**. The income elasticity shows up with a value larger than one, especially when one focuses on expenditure, which would suggest that tourism in The Bahamas is a luxury good. The relative price of The Bahamas vis-à-vis the regional competition is not statistically significant as a determinant of stayover arrivals; however, the relative price appears with the expected sign and statistically significant as a determinant of expenditure.[9] A possible interpretation would be that when competitors lower their prices, The Bahamas' tourism operators are forced to reduce their prices, thus reducing stayover expenditure, but with no impact in stayover arrivals, as if the operators were targeting an occupancy rate. The war and hurricane dummies are statistically insignificant in both cases.

10. **Oil prices impact positively on stayover expenditure and arrivals, beyond their indirect effect on consumption expenditure**. Oil prices affect tourism demand through the substitution and income effects. The substitution effect would have a positive impact on tourism demand for The Bahamas, as the relative cost for U.S. tourists of traveling to other destinations, like Europe and Asia, would rise. However, the income effect would have a negative impact on tourism as high oil prices leave less disposable income for other activities, including tourism. The regressions indicate that high oil prices have a positive and significant impact on stayover expenditure and a positive but less significant effect on stayover arrivals.

11. **This simple model explains two thirds of the variation in stayover expenditure from 1982 to 2004**. The behavior of stayover expenditure in the last two decades is explained mainly by the variation in income in the countries of origin (more than 45 percent), whereas changes in relative prices seem to have played a minor role (less than 6 percent).



Sources: Ministry of Tourism, and Fund staff calculations.

---

[8] The equation is estimated in first differences because the data appear to be nonstationary.

[9] Crouch (1994) calls attention to the fact that although data on arrivals are more reliable, arrivals tend to be less responsive to determinants than expenditure, "since tourists are able to alter both their length of stay and their daily expenditures as they adjust to changing circumstances" (page 43).

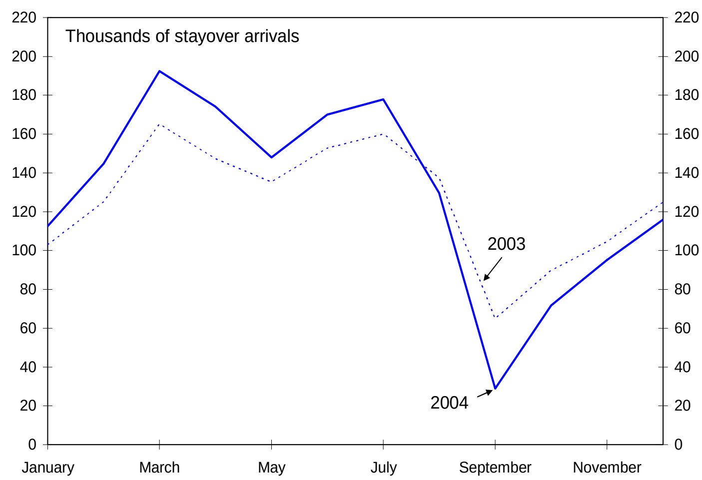
12. **A separate analysis of tourism from the United States yields similar results**. Private consumption expenditure in the United States is the most important variable to explain stayover arrivals and expenditure from the United States to The Bahamas with an income elasticity significantly greater than unity (Table 2).[10] The price elasticity is not a significant determinant of stayover arrivals, but it is a significant determinant of stayover expenditure. War and hurricane dummies are not significant as determinants of tourism demand, whereas oil prices impact positively on stayover expenditure by U.S. tourists.

C. Risks and Vulnerabilities

13. **This section highlights four risks for the tourism sector in The Bahamas**. These risks are the extreme dependency on the United States, hurricanes, the strategy of targeting the high end of the market, and the nature of the product The Bahamas is selling.

14. **Tourism in The Bahamas depends heavily on the U.S. economy**. As the previous section illustrated, stayover arrivals and expenditure of tourists from the United States are a function of the economic situation in that country. This has been good for The Bahamas, given the strong and sustained pace of growth in the United States. Nevertheless, this heavy dependence[11] may be risky in case there is a significant slowdown or a major disruption caused by terrorist attacks. A way to reduce such dependence would be to broaden the base of customers of The Bahamas, particularly to countries with high growth and low or negative correlation with the U.S. cycle.[12]

15. **Hurricanes are a recurring event in the Caribbean and in the Gulf of Mexico**. Although regressions with annual data do not capture the effect of hurricanes in a given year, monthly data indicate that they do have a negative impact. For example, Hurricanes Frances and Jeanne in September 2004 seem to have had a large impact on stayover arrivals in that month and afterward. Although hurricanes are unavoidable, policies that enforce



Source: Ministry of Tourism.

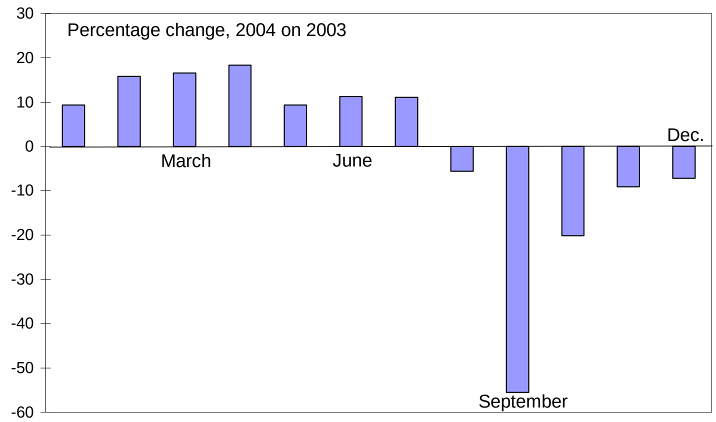
[10] See, for example, Song and others (2003), and Syriopoulos (1995).

[11] This dependence is not surprising given the proximity to the United States. Several gravity trade models show that distance is a powerful determinant of bilateral trade (see, for example, Evenett and Keller, 2002).

[12] As documented by Kose and others (2003), there is evidence of a common world factor as an important source of volatility in most countries, in particular North America and Europe, which limits such a strategy. A natural candidate, however, would be the Asian markets that show little co-movement with the rest of the world (Japan is the exception) and high growth rates. However, distance can be a deterrent.

adequate building codes and preparedness for the event can help to minimize damages and speed recoveries.

16. **The strategy of targeting the high end of the market seems to have been successful thus far in buoying up tourism expenditure, but it is subject to risks**. Since the market for luxury vacations is a limited segment of the overall tourism market, there is a risk of saturation and excess capacity. This risk may not yet appear to be significant, given the pipeline of luxury tourism projects that have been proposed to the Bahamian authorities, but this also underscores the importance of not distorting private investment decisions by government incentives.



Sources: Ministry of Tourism; and Fund staff calculations.

17. **The Caribbean vacation may be a product reaching maturity**. According to the World Travel and Tourism Council, Caribbean travel and tourism activity are expected to grow at an annual average rate of 3½ percent from 2006 through 2015, the lowest of all the regional averages. This contrasts strongly with the projected real growth rate for South Asia of 8 percent and for Southeast Asia of 6¼ percent. The fact that The Bahamas is in the Caribbean region represents itself a risk as it may be selling a mature product.

D. Conclusions

18. **Despite a weak performance in terms of stayover arrivals, The Bahamas has been able to recover in terms of tourism expenditure**. Although the real expenditure is at the same levels as in the beginning of the 1990s, this represents a major recovery from the depressed levels of the mid-1990s.

19. **The most important factor in explaining this recovery has been overseas demand, especially from U.S. tourists**. Relative prices vis-à-vis competing destinations appear to have an impact on stayover expenditure, though they are unimportant in terms of stayover arrivals: low prices of competitors reduce stayover expenditure, but do not affect stayover arrivals, a finding that is consistent with a strategy based on achieving a certain level of occupancy rate. Higher oil prices positively impact both expenditure and arrivals.

20. **The Bahamas benefits from its dependence on a healthy economy as that of the United States**. However, this is also risky. If a recession were to happen in the United States, The Bahamas would be likely to feel the effect more strongly than if the tourist base were widely diversified. With relatively few tourists from other countries, it would be expected that stayover arrivals and especially stayover expenditure would be negatively affected.

21. **The strategy of targeting the upscale market has been successful in recovering average expenditure per stayover visitor, but it is not free of risks**. The Bahamas should be cautious about building up excess capacity that could lead to a price war among operators and, in the end, jeopardize this strategy.

Table I.1. Total Stayover Arrivals and Expenditure: Ordinary Least Squares Regression of First Differences

	Total Stayover Expenditure					Total Stayover Arrivals				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Private consumption expenditure	4.67***	4.84***	4.55***	4.90***	5.10***	2.13**	1.86	2.17**	2.18**	1.99
in the countries of origin	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.16)	(0.03)	(0.02)	(0.12)
Relative price of The Bahamas	-0.41***	-0.43**	-0.39**	-0.32**	-0.34	0.09	0.11	0.08	0.15	0.16
vis-à-vis Caribbean competitors	(0.01)	(0.02)	(0.03)	(0.05)	(0.12)	(0.53)	(0.38)	(0.61)	(0.34)	(0.28)
Oil price				0.11**	0.11**				0.07	0.08
				(0.04)	(0.04)				(0.13)	(0.14)
Hurricanes in The Bahamas			0.02		0.00			-0.01		-0.03
			(0.57)		(0.92)			(0.71)		(0.25)
Wars in which the U.S. participated		0.01			0.01		-0.02			-0.02
		(0.79)			(0.76)		(0.53)			(0.42)
Constant	-0.13***	-0.13***	-0.13***	-0.13***	-0.14***	-0.05*	-0.04	-0.05*	-0.05**	-0.04
	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.06)	(0.36)	(0.06)	(0.04)	(0.35)
Observations	22	22	22	22	22	24	24	24	24	24
R-squared	0.56	0.56	0.56	0.66	0.66	0.30	0.31	0.30	0.38	0.42

Sources: Central Bank of The Bahamas; Ministry of Tourism; International Financial Statistics; and Fund staff calculations.

Note: Robust *p* values in parentheses. * significant at the 10 percent level; ** significant at the 5 percent level; *** significant at the 1 percent level. Stayover arrivals, stayover expenditure, private consumption expenditure, relative price, and oil price are all first differences of logarithms.

Table I.2. U.S. Stayover Arrivals and Expenditure: Ordinary Least Squares Regression of First Differences

	U.S. Stayover Expenditure					U.S. Stayover Arrivals				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Private consumption expenditure	5.38***	5.96***	5.34***	5.61***	6.28***	2.41***	1.97*	2.52**	2.46***	2.16**
in the U.S.	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.07)	(0.01)	(0.01)	(0.03)
Relative price of The Bahamas	-0.44**	-0.49**	-0.43*	-0.34*	-0.41	0.18	0.21	0.15	0.23	0.25
vis-à-vis Caribbean competitors	(0.02)	(0.05)	(0.06)	(0.10)	(0.15)	(0.43)	(0.32)	(0.52)	(0.33)	(0.31)
Oil price				0.11*	0.12**				0.07	0.09
				(0.05)	(0.04)				(0.14)	(0.12)
Hurricanes in The Bahamas			0.01		-0.02			-0.02		-0.04
			(0.86)		(0.55)			(0.53)		(0.18)
Wars in which the U.S. participated		0.02			0.02		-0.03			-0.03
		(0.49)			(0.05)		(0.24)			(0.21)
Constant	-0.15***	-0.17***	-0.15***	-0.15***	-0.17***	-0.06**	-0.04	-0.06**	-0.06**	-0.04
	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.02)	(0.26)	(0.02)	(0.01)	(0.22)
Observations	22	22	22	22	22	24	24	24	24	24
R-squared	0.56	0.57	0.56	0.65	0.66	0.33	0.34	0.34	0.38	0.44

Sources: Central Bank of The Bahamas; Ministry of Tourism; International Financial Statistics; and Fund staff calculations.

Note: Robust *p* values in parentheses. * significant at the 10 percent level; ** significant at the 5 percent level; *** significant at the 1 percent level. Stayover arrivals, stayover expenditure, private consumption expenditure, relative price, and oil price are all first differences of logarithms.

References

Central Bank of The Bahamas, 2005, *Quarterly Statistical Digest*, Vol. 14, No.1 (February).

Crouch, Geoffrey I, 1994, "The Study of International Tourism Demand: A Survey of Practice," *Journal of Travel Research*, Vol. 32, No. 4 (Spring), pp. 41–55.

Everett, Simon J., and Wolfgang Keller, 2002, "On Theories Explaining the Success of the Gravity Equation," *Journal of Political Economy*, Vol. 110, No. 2, pp. 281–316.

International Monetary Fund, 2005, *International Financial Statistics* (Washington, D.C.). Available via the Internet: http://ifs.apdi.net/imf/logon.aspx

Kerzner International, 2000, Annual Report (Paradise Island, The Bahamas). Available via the Internet: http://www.kerzner.com/index_invest.html

Kose, M. Ayhan, Christopher Otrok, and Charles H. Whiteman, 2003, "International Business Cycles: World, Region, and Country-Specific Factors," *American Economic Review*, Vol. 93, No. 4, pp. 1216–39.

Martin, Christine A., and Stephen F. Witt, 1989, "Accuracy of Econometric Forecasts of Tourism," *Annals of Tourism Research*, Vol. 16, No. 3, pp. 407–28.

Ministry of Tourism, 2004, *Tourism and Information Hospitality Network – Statistics* (Nassau, The Bahamas). Available via the Internet: http://www.tourismbahamas.org/di_scripts/content.php?c_category=statistics2

Song, Haiyan, Stephen F. Witt, and Thomas C. Jensen, 2003, "Tourism Forecasting: Accuracy of Alternative Econometric Models," *International Journal of Forecasting*, Vol. 19, No. 1, pp. 123–41.

Syriopoulos, Theodore C., 1995, "A Dynamic Model of Demand for Mediterranean Tourism," *International Review of Applied Economics*, Vol. 9, No. 3, 318–36.

Witt, Stephen F., and Christine A. Witt, 1995, "Forecasting Tourism Demand: A Review of Empirical Research," *International Journal of Forecasting*, Vol. 11, No. 3, pp. 447–75.

Data Sources

The data sources and the construction of variables are as follows. In equation (1), Q_t is the real expenditure by stayover visitors to The Bahamas (or the stayover arrivals). This variable is constructed by deflating total stayover expenditure by the CPI in The Bahamas;[13] data were obtained from The Bahamas' Ministry of Tourism, and the Central Bank of The Bahamas. Y_t is real private consumption expenditure in the countries of origin; this series is a weighted average of the real household consumption expenditure in the countries of origin.[14] Data on household consumption expenditure for the countries of origin (Canada, France, Germany, Italy, United Kingdom, and United States) and CPIs for the Caribbean competitors were obtained from International Monetary Fund's International Financial Statistics. P_t is the CPI-based real exchange rate index of The Bahamas vis-à-vis the Caribbean competitors;[15, 16] and d is a vector of dummy variables used to capture exogenous events such as hurricanes, the first Gulf War, the terrorist attacks on the U.S. on September 11, 2001, the U.S.-led Afghanistan War, and the second Gulf War. In addition to these variables, a simple average of Brent, Dubai, and WTI oil prices per barrel, deflated by the U.S. CPI, is used to capture the effects of oil prices in tourism demand.

---

[13] Since deflators pertaining to tourism-related expenditure are not available for the full period of analysis, the CPI is used. Martin and Witt (1987) showed that the CPI is a reasonable approximation for a tourism price index.

[14] The weights are based on the average share of stayover arrivals from Canada, Europe, and United States for the period 2000-04. Consumption expenditure for Europe is based on the shares of arrivals in the four most important countries of origin in Europe (France, Germany, Italy, and United Kingdom).

[15] The ideal ratio of relative prices would focus on tourism only. Again, the CPI is used instead (see footnote 13).

[16] The weights of the competitors are determined by their market shares. The competitors for which data are available are Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Mexico, Netherlands Antilles, St. Lucia, St. Vincent and The Grenadines, and Trinidad and Tobago.

II. The Bahamas Experience with the 2004 Hurricanes[1]

1. **Natural disasters have become more frequent in The Bahamas in the last two decades**. This suggests a greater importance of policies to prepare for future hurricanes, including preparedness measures, insurance, and plans for post-hurricane response. Against this background, Section A of the paper assesses the magnitude and frequency of natural disasters in The Bahamas; Section B presents guidelines for effective disaster management; Section C describes the adverse impact of the 2004 hurricanes and provides a sectoral analysis; and Section E assesses the government response to the 2004 hurricanes.

A. Incidence of Natural Disasters

2. **In the last few decades, natural disasters worldwide have become more common and damaging**. From the 1970s to the 1990s, the number of disasters nearly doubled, and economic losses increased by over 450 percent (Kwon, 2005). Part of the observed increase may be due to better reporting, but the increased concentration of the population in high-risk areas may have contributed to this trend. Low-income countries and the poor are particularly at risk (Freeman, 2003 A).

3. **The Caribbean countries are among the most disaster-prone in the world (Table 1)**. This is true when measuring the frequency of natural disasters in terms of size of land area or the size of the population and reflects the fact that islands in this region are located in areas that are prone to tropical cyclones and have relatively long coast lines.

4. **The frequency of hurricanes in The Bahamas has increased over the last 15 years**. From 1926 to 2004 The Bahamas experienced 13 hurricanes, one flood and one tropical storm (Table 2). However in the last 15 years The Bahamas endured six hurricanes including three hurricanes included in the list of the 40 most costly natural disasters for the insurance industry (Swiss Re, 2005). Hurricane Andrew in 1992 caused insured losses of about 9.6 percent of GDP and Hurricane Floyd caused insured losses of about 5.3 percent of GDP (Axco 2005).

5. **The damage caused by the hurricanes is a source of policy concern in The Bahamas**. The cumulative economic losses as a proportion of GDP is larger than the damage inflicted by natural disasters to the advanced economies although within the Caribbean region, the Eastern Caribbean Currency Union (ECCU) countries, the Dominican Republic, and Jamaica recorded larger economic losses than The Bahamas (Table 1).[2] Despite the economic losses resulting from hurricanes in The Bahamas, the number of persons affected as a share of the population was lower than in the Caribbean region. This feature is consistent

---

[1] Prepared by Mario Dehesa (WHD).

[2] The available databases display gaps in coverage and inconsistencies in definitions and underlying methods (IDB-OVE, 2004). The reported damages in the EM-DAT database must be interpreted with caution, as the source does not always differentiate between total damage and insured losses.

with the cross-country evidence reported by Rasmussen (2004), which suggests that the capacity of countries to mitigate the human cost of disasters improves as the income level increases.

B. Management of Disaster Risk

6. **Based on country experience, the IDB has proposed a comprehensive framework to organize policy actions for natural disaster management (Table 3)**. The challenge facing policy makers is to create an effective national system that addresses both the pre- and post-disaster phases. The pre-disaster phase includes risk identification, mitigation, risk transfer, and preparedness. Mitigation policies cover a wide range of measures from engineering design to building codes, based on hazard assessment and physical and social vulnerability analysis. The post-disaster phase focuses on the emergency response and rehabilitation and reconstruction.

7. **Insurance is the primary risk transfer tool to linking the various components of a national disaster management system**. Market insurance and re-insurance provide replacement coverage for private and public assets. However, Gurenko and Lester (2004) point out that in many developing countries insurance markets are not well developed, and coverage for natural disasters is limited. In addition, Freeman (2003 A) indicates that government-owned buildings in most developing countries are typically not insured.

8. **Some countries seek self-insurance to cope with natural disasters through the establishment of disaster funds**. Calamity funds are commonly funded through annual budgetary allocations and are used for expenditure on emergency relief and related needs after natural disasters occur. An alternative instrument for financial planning by disaster prone countries would be a contingent credit line. Contingent credit arrangements are similar to insurance policies in that they also guarantee access to funds immediately after a disaster. However, such arrangements do not transfer risk, as they only postpone and spread the financial burden of a natural disaster. An alternative tool to cope with natural disasters is a catastrophe bond, i.e., a high-yield bond on which interest or principal may be lost in the event of a specified catastrophe. [3]

C. Economic Impact of 2004 Hurricanes

9. **The Caribbean basin was severely affected by a series of hurricanes that repeatedly battered the region during the 2004 hurricane season**. Hurricane Frances, a category 4 hurricane in the Saffir-Simpson scale, and Jeanne (category 3) hit The Bahamas within a short interval in September 2004. Despite their strength, only two casualties were reported, even though 9 percent of the population was affected (Economic Commission for

[3] By issuing a catastrophe bond, a government seeking protection against the risk of a hurricane may use the proceeds from the bond to finance reconstruction, if the specified hurricane occurs.

Latin America and the Caribbean (ECLAC), 2004). The entire Bahamian archipelago was hit, but economic damage was concentrated in the Grand Bahama island.

10. **The total damage inflicted on The Bahamas by the 2004 hurricanes amounted to about 6.7 percent of GDP, according to the preliminary estimate done by ECLAC (Table 4)**. About 4 percent of GDP was in direct damages, including 1.3 percent of GDP in damages to the mostly uninsured public infrastructure in the transportation, education, and health (TEH) sectors, with business foregone in the tourism, agriculture, and fisheries sectors accounting for most of the indirect losses. The authorities' more detailed assessment put the estimate of direct damage in the TEH sectors at only about 0.4 percent of GDP; the preliminary estimates may have included damage from previous storms. Damages to the public telecommunications and electricity sectors, both insured, amounted to 0.7 percent of GDP.

11. **The total damage inflicted by the hurricanes to The Bahamas was in the middle range of damages caused by hurricanes elsewhere in the Caribbean in 2004**. According to ECLAC, hurricane Jeanne caused estimated damages to the Dominican Republic amounting to 1.7 percent of GDP while Hurricane Ivan caused total damages in Jamaica estimated at 8 percent of GDP and over 200 percent of GDP in Grenada (U.S. Government, 2004). The U.S. Agency for International Development launched a $100 million hurricane recovery program focused on Haiti and Grenada, with The Bahamas receiving less than $2.5 million.

12. **Staff estimates that the 2004 hurricanes lowered GDP in The Bahamas by close to 1 percent through their adverse impact on tourism**. Post-hurricane repairs were financed by donations (0.1 percent of GDP) and through budget reallocations and although the storms lowered tax revenues by 0.2 percent of GDP,[4] the FY 2004/05 government deficit narrowed to 2½ percent of GDP, slightly better than the budget projection. Foreign insurance payments to The Bahamas amounted to 3.5 percent of GDP, most of which went to the private sector.

13. **Direct damages to private sector property were concentrated in the housing and hotel sectors,** with estimated costs of about 1.3 percent and 0.5 percent of GDP, respectively. Extensive insurance coverage in both sectors helped to minimize financial distress. According to insurance industry analysts (Axco, 2005), 80 percent of the homeowners are insured (including contents), which is often required by banks' mortgage policies.

[4] Most of the tax revenue foregone arises from foregone revenue from tourism related taxes.

Non-Life Insurance Coverage in Selected Caribbean Countries in 2001

	BHS	TT	DR	Barbados	Jamaica
Insurance premiums					
Per capita, in U.S. dollars	616	92	48	484	82
In percentage of GDP	4.0	1.5	2.0	5.2	2.9

Source: Axco 2005, The Bahamas: Non-life Insurance Market Report
BHS: The Bahamas; TT: Trinidad and Tobago; DR: Dominican Republic

The available information suggests that nonlife insurance coverage is broader in The Bahamas than in some of the neighboring islands. Local insurance companies typically rely on overseas reinsurance to avoid the bankruptcy risk (Axco, 2005). An important factor that mitigates risk is the mandatory building code and its enforcement in the main islands of The Bahamas, which follows the South Florida Building Code standards and helps moderate hurricane damage.

14. **Most of the hotels are insured, including for business interruption, with large hotels insured abroad (Axco, 2005)**. However, large increases in insurance premiums and higher deductibles introduced by the international insurance industry since 2001 have exerted pressure on the cost structure of hotels (Tourism and Hospitality Network, 2005 A). In addition, some hotels experienced losses in the 2004 hurricane season as a result of being underinsured or a lack of coverage for wind and flood damages (Tourism and Hospitality Network, 2005 B).

15. **Agriculture and fisheries also experienced substantial damage from the 2004 hurricanes mainly because of business forgone**. As is the case in most of the Caribbean countries, the adverse impact of the hurricanes is larger in social terms than in its contribution to GDP (less than 3 percent of GDP in 2003).

D. Government Response to the Hurricanes

16. **The Bahamian authorities' response to the 2004 hurricanes followed established procedures**. Even before the hurricanes' arrival, the National Emergency Management Agency (NEMA) activated the Humanitarian Supply Management System (SUMA) developed by the Pan-American Health Organization to receive and distribute assistance. The islands of Abaco and Grand Bahama were declared disaster areas by end-September. By mid-September the government had reactivated the Disaster Relief and Recovery Fund (DRRF, set up after Hurricane Floyd in 1999),[5] allowed duty free imports, and implemented an emergency relief loan program (also created in 1999).

[5] The DRRF is a public-private trust to collect donations that cannot be used for the repair of public infrastructure. The donations received are reported to Parliament and DRRF funds are channeled to NEMA that shares a detailed balance sheet of its activities with donors.

17. **Donations were channeled to vulnerable groups**. With donations amounting to 0.14 percent of GDP, NEMA expenditures focused on repairing damages to housing including for indigent or uninsured citizens.

18. **To expedite reconstruction, the government allowed duty free imports of goods and construction materials up to end-March 2005**. The import duty foregone due to the exemptions reached 0.5 percent of GDP. The scope of emergency relief loan program that aimed to repair residential property and support business rehabilitation was modest at US$2 million.

19. **The Inter-American Development Bank is supporting the rehabilitation and reconstruction effort**. In March 2005 the government obtained a loan for US$21 million (0.4 percent of GDP) under the IDB's immediate response facility, which targets transport and education infrastructure rehabilitation.

20. **The authorities are modernizing their policy framework in line with the IDB's guidelines for effective disaster management**. To this end, they have prepared draft legislation to provide better legal and administrative support for the management of hurricanes, including the establishment of emergency shelters, the identification of especially vulnerable areas, the storing of emergency supplies in warehouses, and the appointment of hazard inspectors and shelter managers. A disaster response plan would be prepared and revised annually. However, under the draft legislation, the funding of NEMA, which has six permanent employees, is left open to donations and unspecified budget allocations to be provided by parliament.

21. **A financial strategy to protect against disasters is under discussion in The Bahamas**. The authorities are shifting their focus from emergency relief and disaster response to an ex ante approach based on financial planning. They are considering the introduction of a calamity fund financed by an annual budgetary allocation of about 0.1 percent of GDP. Contributions of this size may be able to cover a large part of the cost of repairing public infrastructure. In both 1999 and 2004, the damage to public infrastructure was estimated at 0.4 percent of GDP,[6] and the record during 1990–2004 suggests that future hurricanes may strike The Bahamas every three years or so. A calamity fund as described above would be consistent with the Fund staff recommendation that governments in countries prone to catastrophes should save enough to cover the expected average annual cost (Rasmussen 2004 and Freeman 2003 B).

22. **Fiscal savings equal to the expected average annual cost of the natural disasters avoid some of the difficulties associated with natural hazard insurance**. The market for catastrophe risk insurance is known to have high volatility because, in the wake of catastrophes, insurers re-examine the extent of their exposure in catastrophe prone areas, and

[6] See IDB 2000 B for the 1999 cost estimate of Hurricane Floyd.

may make large adjustments to insurance premia and to the availability of insurance (Pollner, 2001). During the period 1970–99, catastrophic insurance premia amounted to 1.5 percent of GDP, while the total (insured and uninsured) losses averaged only 0.5 percent of GDP (Auffret, 2003).[7] Capital market-based catastrophe bonds are also not perceived as a first best option due to the high transaction costs involved. In addition, with support from the Food and Agricultural Organization (FAO) the government is considering the introduction of a specialized insurance scheme for the agriculture and fisheries sector.

23. **The government is also considering the introduction of a Disaster Assistance Fund**. Administered by the National Insurance Board, the fund would provide a lump sum payment to current pension contributors who have suffered damage to personal property in an area designated as a disaster area by the government. The payment would be at the most one-fourth of the average annual salary of public servants. The scheme would be funded entirely by employees through a fairly modest new contribution rate, and damage assessments would be conducted by a still unidentified agency.

E. Conclusions

24. **The 2004 hurricanes had a significant adverse impact on The Bahamas, concentrated in Grand Bahama**. However, damage inflicted by the hurricanes was in the middle range of damages caused by hurricanes elsewhere in the Caribbean. In the public sector most of the damage was to uninsured infrastructure in the transportation, education, and health sectors.

25. **Private markets provide broadly adequate financial protection through insurance to the corporate and housing sectors**. Widespread insurance coverage avoided severe financial distress to residential households and to the hotel industry. In addition, building codes in the main islands mitigated the damage to private property. However, low-income households and the agriculture and fisheries sector remain highly vulnerable to natural disasters.

26. **The authorities are modernizing the framework to manage disaster risk**. The draft legislation to review annually the disaster response plan, establish shelters, identify specially vulnerable areas and appoint hazard inspectors and shelter managers will reduce the human and material cost of future hurricanes. A calamity fund could provide resources to finance future reconstruction needs and create better incentives for stronger public property management. There may also be a case for establishing a specialized agriculture and fisheries insurance scheme for social reasons, but care would be needed to ensure that such a scheme is adequately and transparently funded. However, the arguments for a Disaster Assistance Fund seem less strong, and such a system could be subject to abuse and cross-subsidies, or could imply a large implicit contingent liability to the government.

---

[7] The study reports the experience of Barbados, Dominican Republic, Jamaica and Trinidad and Tobago.

Table II.1. Worldwide Incidence of Natural Disasters, 1970–2004 1/

	All Recorded Disasters					Estimates of Persons Affected			Estimates of Damage		
	Number of Events	Number of Events Divided by Land Area		Number of Events Divided by Average Population		Number of Events	Cumulative Affected in Percent of Annual Population 2/		Number of Events	Cumulative Damage in Percent of Annual GDP 3/	
		Index	Rank	Index	Rank		Total	Rank		Total	Rank
All countries (153)	7,338	100	77	100	77	6,429	65	77	2,193	23	77
Advanced economies (25)	1,699	197	70	46	89	1,287	6	123	837	3	103
Latin America and the Caribbean (32)	1,212	206	56	211	45	1,099	60	66	293	43	52
Latin America (17)	1,021	13	85	43	66	947	48	70	231	31	57
Central America (6)	238	31	40	70	41	219	65	57	52	66	36
Caribbean (15)	191	425	24	402	22	152	74	60	62	57	46
ECCU (6)	48	850	6	807	5	35	95	48	19	117	18
Antigua and Barbuda	7	772	5	840	5	6	248	8	2	22	35
Dominica	9	582	10	1,001	3	7	125	29	4	118	8
Grenada	5	714	8	416	8	3	60	57	3	23	34
St. Kitts and Nevis	7	944	3	1,313	2	4	33	70	4	132	7
St. Lucia	9	716	7	467	7	6	64	55	3	372	1
St. Vincent and Grenadines	11	1,369	2	804	6	9	42	69	3	35	23
Other Caribbean (9)	143	142	36	132	34	117	59	69	43	17	65
Bahamas	**7**	**34**	**35**	**195**	**20**	**4**	**4**	**113**	**2**	**13**	**48**
Barbados	7	790	4	216	18	6	3	118	3	7	67
Belize	10	21	44	400	10	7	131	26	7	48	21
Dominican Republic	31	31	37	33	63	28	63	56	5	17	41
Guyana	7	2	126	77	36	5	130	27	2	4	78
Haiti	45	79	23	52	46	40	90	45	5	10	60
Jamaica	25	112	19	83	32	18	88	47	14	52	17
Netherlands Antilles	2	121	17	79	35	1	20	81	1	1	128
Trinidad and Tobago	9	85	20	56	43	8	5	105	4	1	125
Other	4,427	39	86	77	84	4,043	81	69	1,063	22	79

Sources: Centre for Research on the Epidemiology of Disasters (CRED), Emergency Disasters Database for data on disasters (EM-DAT); IMF, World Economic Outlook for GDP and population data; World Bank, World Development Indicators for land area data.

1/ Sample composed of 153 countries after eliminating countries with no natural disaster for which a cost estimate is available. Country groupings are unweighted averages. Indices are based on the average for all countries.

2/ Calculated as the number of persons affected (including deaths) divided by each country's population for the year of the disaster, and then added over all years by country.

3/ Cumulative damage is calculated as the sum over the period of the annual ratio of the damage reported in the EM-DAT database for a given year divided by the year's GDP.

Table II.2. Natural Disasters in The Bahamas

Year	Month		Wind force		Name
1926	July	Hurricane			
1929	September	Hurricane			
1935	September	Hurricane			
1945	September	Hurricane			
1963	October	Hurricane			Flora
1965	September	Hurricane			Betsy
1966	October	Hurricane			Inez
1966	September	Hurricane			Inez
1988	June	Flood			
1990	July	Tropical storm	113	kph	Arthur
1992	August	Hurricane	241	kph	Andrew
1999	September	Hurricane	250	kph	Floyd
2001	November	Hurricane		kph	Michelle
2004	September	Hurricane	240	kph	Frances
2004	September	Hurricane	160	kph	Jeanne

Source: EM-DAT database.

Table II.3. Key Elements of Risk Management

Pre-Disaster Phase				Post-Disaster Phase	
Risk identification	**Mitigation**	**Risk transfer**	**Preparedness**	**Emergency Response**	**Rehabilitation and reconstruction**
1. Hazard assessment (frequency, magnitude, and location)	1. Physical and engineering mitigation works	1. Insurance and reinsurance of public infrastructure and private assets	1. Early warning and communication systems	1. Humanitarian assistance	1. Rehabilitation and reconstruction of damaged infrastructure
2. Vulnerability assessment (population and assets exposed)	2. Land-use planning and building codes	2. Financial market instruments (catastrophe bonds and weather-indexed hedge funds)	2. Contingency planning (utility companies and public services)	2. Clean-up, temporary repairs, and restoration of services	2. Macroeconomic and budget management (stabilization and protection of social expenditures)
3. Risk assessment (a function of hazard and vulnerability)	3. Economic incentives for pro-mitigation behavior	3. Privatization of public services with safety regulation (energy, water, and transportation)	3. Networks of emergency responders (local and national)	3. Damage assessment	3. Revitalization for affected sectors (exports, tourism, and agriculture)
4. Hazard monitoring and forecasting (mapping, and scenario building)	4. Education, training and awareness about risks and prevention	4. Calamity Funds (national or local level)	4. Shelter facilities and evacuation plans	4. Mobilization of recovery resources (public, multilateral, and insurance)	4. Incorporation of disaster mitigation components in reconstruction activities

Source: Inter-American Development Bank, 2000, "Facing the Challenge of Natural Disasters in Latin America and the Caribbean. An IDB Action Plan."

Table II.4. The Bahamas: Summary of Damage and Losses Caused by Hurricanes France and Jeanne

(As percentage of GDP)

	Direct damage	Indirect losses	Total	External component 1/
Total	**4.0**	**2.7**	**6.7**	**3.7**
Private sector	2.0	2.0	4.0	2.4
Agriculture	0.2	0.6	0.8	0.3
Housing	1.3	0.0	1.3	0.5
Tourism	0.5	1.4	1.9	1.5
Public infrastructure	1.3	0.2	1.5	0.8
Transport	0.8	0.1	0.8	0.5
Education	0.4	0	0.4	0.2
Health	0.1	0	0.1	0.1
Public buildings	0.1	0	0.1	0.1
Water and sewage	0	0	0.1	0
Insured public infrastructure	0.7	0.1	0.8	0.5
Telecommunications	0.6	0	0.6	0.4
Electricity	0	0.1	0.2	0
Other				
Emergency relief		0	0	0
Clean up and waste disposal		0.4	0.4	0.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), 2004, "Hurricanes Frances and Jeanne in 2004: Their Impact in the Commonwealth of The Bahamas."

1/ Estimated impact on the balance of payments.

References

Auffret, P., 2003, "Catastrophe Insurance Market in the Caribbean Region: Market Failures and Recommendations for Public Sector Interventions," World Bank Policy Research Working Paper No. 2963, January.

Axco, 2005, "Insurance Market Report: The Bahamas Nonlife," mimeo.

Cashin, P. and Pawel Dyczewski, 2005, "Government Responses to Natural Disasters in the Caribbean," mimeo, International Monetary Fund.

Centre for Research on the Epidemiology of Disasters (CRED), 2005, "EM-DAT: The OFA/CRED International Disaster Database." Available via the Internet: http://www.em-dat.net.

Gurenko, Eugene and Rodney Lester, 2004, "Rapid Onset Natural Disasters. The Role of Financing in Effective Risk Management," The World Bank Policy Research Working Paper No. 3278.

Economic Commission for Latin America and the Caribbean (ECLAC), 2004 "Hurricanes Frances and Jeanne in 2004: Their Impact in the Commonwealth of The Bahamas."

Freeman, P. and Leslie Martin, J. Linnerooth-Bayer, R. Mechler, G. Pflug, and K. Warner, 2003 A, "National Systems for the Comprehensive Management of Disaster Risk and Financial strategies for Natural Disaster Reconstruction," (Washington: Inter-American Development Bank).

Freeman P.K., Michael Keen and Muthukumara Mani, 2003 B, "Dealing with Increased Risk of Natural Disasters: Challenges and Options," International Monetary Fund WP/03/197.

Inter-American Development Bank, 2000, "Facing the Challenge of Natural Disasters in Latin America and the Caribbean. An IDB Action Plan."

Inter-American Development Bank, 2000 B, "The Bahamas. Loan Proposal for an Infrastructure Rehabilitation Project" PR-2506 August.

Inter-American Development Bank- Office of Evaluation and Oversight (OVE) 2004, "Evaluation of the Bank's Policy and Operational Practice Related to Natural and Unexpected Disasters," RE-292, April.

Inter-American Development Bank, 2005, "Emergency Loan for The Bahamas," February.

Kwon, Goohoon, 2005, "The Economics of Disaster Mitigation in the Caribbean," mimeo, International Monetary Fund.

The Bahamas Government, 2000, “The Relief and Recovery Efforts in the Aftermath of Hurricane Floyd. An interim report by the recovery sub-committee,” February.

Pollner, John, 2001, “Managing Catastrophic Disaster Risks Using Alternative Risk Financing and Pooled Insurance Structures,” World Bank Technical Paper No. 495.

Rasmussen, Tobias, 2004, “Macroeconomic Implications of Natural Disasters in the Caribbean.” International Monetary Fund WP/04/224.

Swiss Re, 2005 A, “Hurricane Season 2004: Unusual, but not Unexpected,” Focus report. Available via the Internet: http://www.swissre.com/.

Swiss Re, 2005 B, “ The 40 Most Costly Insurance Losses 1970–2004,” Media Centre, Large Loss Fact files. Available via the Internet: http://www.swissre.com/Internet/pwswpspr.nsf/.

Tourism and Hospitality Network, 2005 A, “Kerzner PI insurance Coverage Grows 71.4 percent.” Available via the Internet: http://www.tourismbahamas.org/ April 4.

Tourism and Hospitality Network, 2005 B, “Hotel Industry Told to Beware Insurance Averaging Clause.” Available via the Internet: http://www.tourismbahamas.org/, May 8.

United States Government, 2004, “United Nations Reports on Hurricane Damage to the Caribbean.” Available via the Internet: http://japan.usembassy.gov/.

III. The Bahamas' Monetary Framework: Objectives, Instruments, and Options for Reform[1]

A. Introduction

1. **The Central Bank of The Bahamas is studying the possibility of a reform of monetary policy instruments**. The central bank (CBB) has long relied on direct credit controls and restrictions on capital flows to manage liquidity, but has become concerned about the microeconomic efficiency of these instruments and is reconsidering its monetary framework. Fund staff has advocated since the early 1990s the adoption of more market-based instruments of monetary policy to enhance the role of price signals in the allocation of financial resources. Direct controls have nevertheless been retained, as the depth of the domestic capital market was—and still is—seen as insufficient to support open market operations.

2. **This paper explores the possible move to market-based instruments of monetary policy in The Bahamas**. Following a description of the CBB's monetary policy objectives and the current monetary framework, the paper (i) examines the performance and drawbacks of the current framework; (ii) discusses the potential benefits of a transition to a market-based mode of monetary control; (iii) examines possible impediments to the development of an efficient money market; and (iv) suggests how market-based instruments could be introduced. The paper's concluding section discusses a possible strategy and near-term steps that would set the stage for a successful transition toward market-based instruments of liquidity management.

B. The Central Bank's Monetary Policy Objectives

3. **The Bahamas dollar has been pegged at par with the U.S. dollar since 1973,[2] and keeping an adequate level of international reserves has also been a key objective**.[3] The Central Bank Act stipulates that the external assets of the central bank shall at no time be less than 50 percent of demand liabilities (the sum of currency in circulation and demand deposits at the central bank, including deposits of public corporations). In practice, the Monetary

---

[1] Prepared by Eric Verreydt (WHD).

[2] The CBB was created in 1974, and continued the longstanding policy of pegging the exchange rate pursued by its predecessor institutions, The Bahamas Monetary Authority and the Commissioner of Currency (a currency board).

[3] The classification of objectives and instruments is taken from the CBD's January 1991 technical assistance report, "The Bahamas: Reform of the Monetary Management System."

Policy Committee (MPC) of the CBB has held international reserves in excess of the statutory minimum.[4]

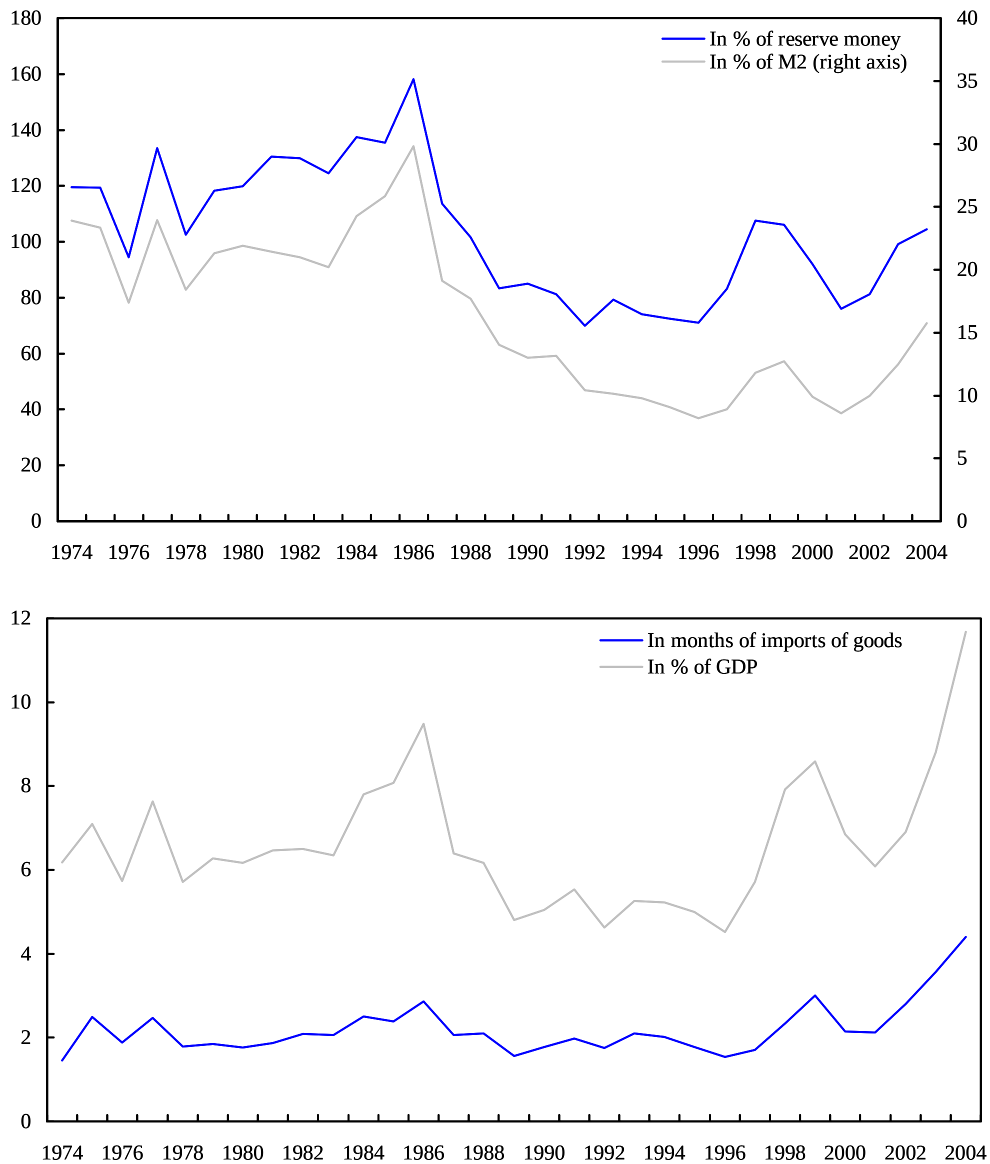
4. **The central bank monitors a variety of indicators to assess the adequacy of reserves**. The MPC approaches the issue of reserve adequacy by monitoring financial indicators, including ratios of net international reserves (NIR) to base money and to M2. Although these ratios in recent years have risen well above the statutory minimum, they currently do not appear excessive, either relative to emerging markets with good market access or in historical perspective (Figures 1 and 2). The CBB also keeps an eye on a real sector indicator (reserves in months of imports), which appears comfortable.[5]

---

[4] Excess international reserves are so-called "usable reserves," i.e., reserves that are in principle available to finance a balance-of-payments deficit. The MPC is the monetary policy decision-making body at the CBB. It is chaired by the governor. Members currently include the deputy governor, head of research, economic advisor, inspector of banks, and the managers of bank supervision, accounting, computers, banking, and exchange controls. The MPC ultimately assesses reserves against what is needed to maintain confidence in the exchange rate peg. Since 2003, reserves have been targeted at 100 percent of base money or more, and at least 14 percent of M2, well in excess of the statutory limit, thus sharply reducing the potential availability of excess reserves to cushion external shocks.

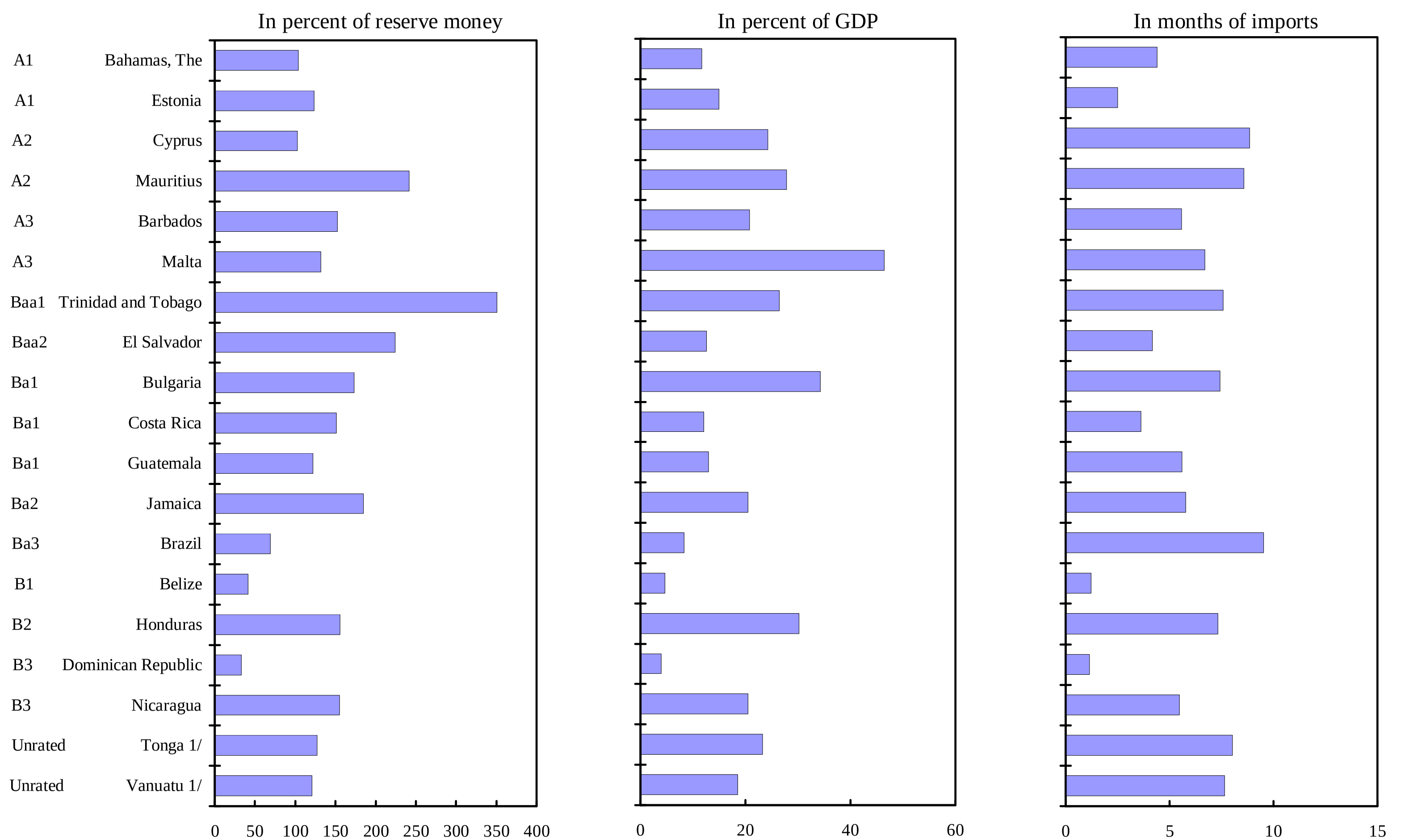
[5] Real sector indicators measure the capacity of reserves to smooth domestic absorption in response to crises. Policymakers, including the MPC, often use a rule of thumb of maintaining reserves equivalent to three months of imports. By another real sector yardstick (NIR-to-GDP ratio), reserves in The Bahamas, though they are relatively low relative to other emerging market economies, reached a historical peak in 2004 (see Figures 1 and 2).

Figure III.1. The Bahamas. Monetary Authorities Foreign Assets, 1974–2004



Source: IMF, International Financial Statistics.

Figure III.2. Cross-Country Comparison of International Reserves, 2004



Source: IMF, International Finance Statistics

1/ Tonga and Vanuatu are not rated by Moody's.

C. The Current Monetary Policy Framework

5. **The MPC retains a large degree of discretion in dealing with unanticipated variations in NIR**. The MPC monitors developments in bank liquidity and credit, money supply and reserve money, and bank soundness indicators, with a view to taking corrective action if, in the MPC's view, losses of international reserves threaten to put pressure on the exchange rate.

6. **Direct credit controls and moral suasion have been the main instruments of monetary policy since the late 1980s, with changes in the discount rate playing a secondary role**. Containing credit growth is seen as instrumental in stemming reserve declines by restraining domestic demand, which is import-intensive owing to the economy's openness. Credit controls have often taken the form of lending limits of a prudential nature; during September 2001–August 2004, they have included a ceiling on bank loans and advances to private and public sector.[6] Moral suasion has been used to support policy implementation, as there are no penalties for noncompliance with the credit ceiling, and capital controls have also at times been used to support credit policy. [7] Changes in the discount rate have been infrequent over the last decade.

7. **The CBB also operates automatic standing facilities.** The CBB operates a rarely used discount window to provide collateralized short-term credit to domestic banks for liquidity purposes. The interest rate (the discount rate) is used by the CBB to signal changes in the stance of monetary policy.[8] The CBB underwrites treasury bills and government bonds if tenders are not fully subscribed. It operates a secondary market window for treasury bills, whereby banks and other investors can sell treasury bills to the CBB at a penalty of 50 basis points, and buy treasury bills from the CBB's portfolio at a penalty of 10 basis points. Similarly, it operates a secondary market window for government bonds.

---

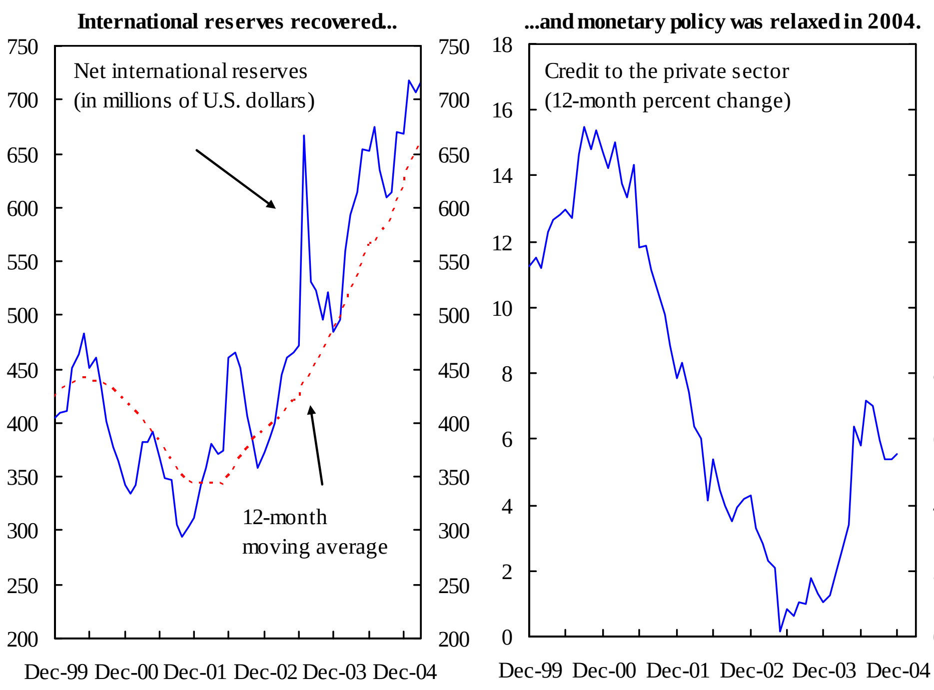
[6] Loans and advances to the public sector were small, as banks hold mainly government bonds. Undisbursed commitments to the private sector as of September 2001 were not affected by the ceiling. The insurance sector (which directly provides mortgages), though not subject to any ceiling, did not disintermediate on a large scale.

[7] The main capital restrictions include a 25 percent premium on outward investment through an Investment Currency Market operated by the CBB; and prohibition for nonresidents to invest in Bahamian securities, except by special approval. A detailed description of instruments, the frequency of their use, and a chronology of monetary policy decisions are given in the Appendix.

[8] Collateral for discount loans have in practice only involved the use of government debt instruments (registered stocks and treasury bills). The amount of any loan given to banks may not exceed 85 percent of the market value of the collateral, and its maturity cannot exceed the lesser of 92 days or the remaining maturity of the collateral.

D. Performance and Drawbacks of the Current Framework

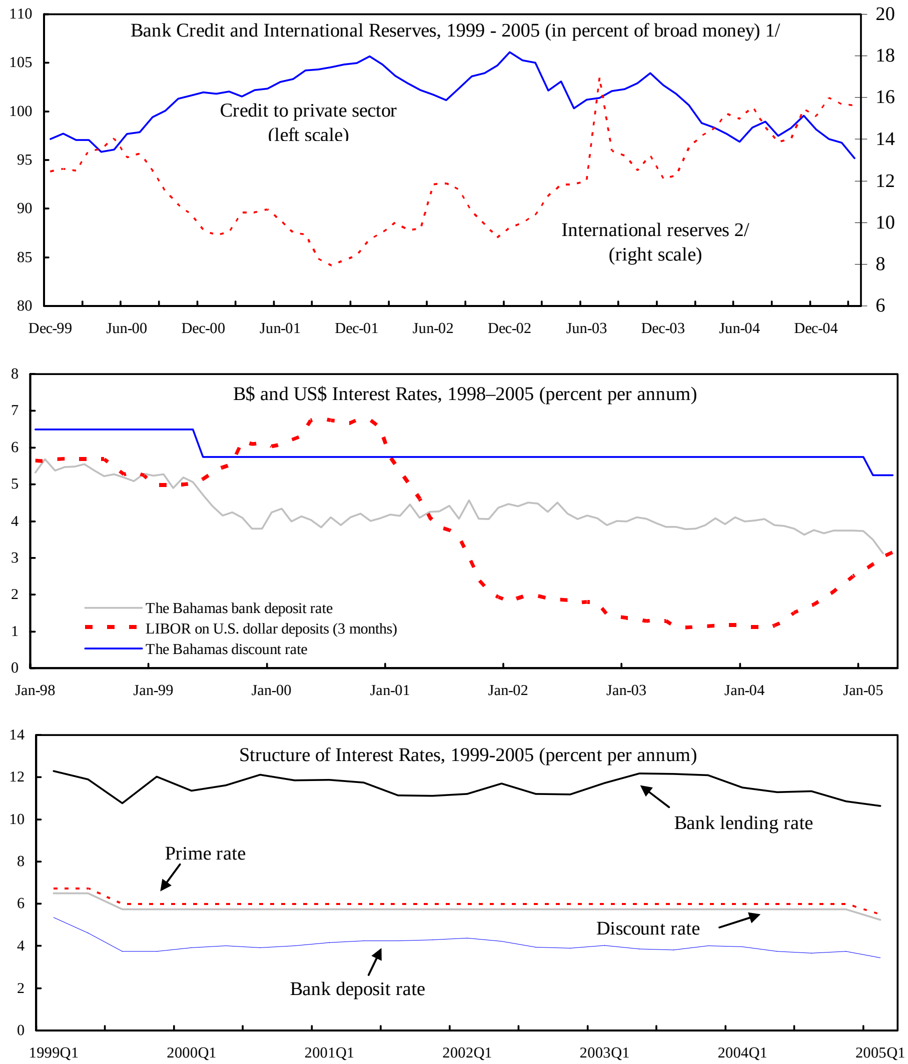
8. **The current framework appears to have worked reasonably well in achieving policy objectives and has allowed some degree of monetary independence**. The September 2001–August 2004 episode of credit controls highlights the framework's features. Until late 2003 the aggregate credit ceiling was not binding due to the gradual disbursement of loan commitments, and because credit demand by businesses was weak owing to depressed economic activity.[9] Aggregate bank credit growth was gradually reduced to near zero by end-2003. Moral suasion was used—successfully through end-2003, according to CBB officials—to correct overshooting by individual banks. However, with the rebound in NIR, banks started to anticipate the removal of credit controls and began expanding credit in early 2004. Throughout the 2001–04 period, domestic interest rates were broadly stable, in contrast to the sharp swings in U.S. rates, highlighting the relative independence of domestic monetary conditions from international monetary developments.



Source: Central Bank of The Bahamas.

[9] The circumstances of individual banks however were not uniform.

Figure III.3. The Bahamas. Monetary Variables and Interest Rates, 1999–2005



Sources: Central Bank of The Bahamas; and IMF, International Finance Statistics.

1/ Broad money in this figure includes deposits of public sector agencies.
2/ Net international reserves of the central bank.

9. **The insulation of domestic interest rates from U.S. rates is largely a consequence of exchange controls, and a seeming absence of price competition among banks**.[10] Even in the face of large excess bank liquidity (paragraph 14 below), bank deposit and lending rates have been remarkably stable. In practice banks post the same prime lending rate, and appear not to compete on the basis of interest rates.[11]

10. **The long-standing reliance on direct instruments of monetary policy may also have reduced interest rate flexibility**. Credit controls have reduced the scope for banks to gain market shares, so the incentives to compete by adjusting lending rates, or seeking to attract deposits, have been diminished.[12]

E. Transition to a More Market-Based Monetary Regulation

11. **The authorities are considering helpful steps to deepen domestic financial markets**. The government is contemplating measures to promote a secondary market for government bonds, to revitalize the Bahamas International Stock Exchange (BISX), and to increase the role of market-based interest rates in signaling the cost of funds. The CBB views the creation of a money market as a component of this reform, and is also proposing a cautious and gradual liberalization of capital controls, to further integrate the country in the region, increase competition in the banking sector, and give citizens broader investment opportunities. A first step may be a reduction in the premium on investment currency[13] (currently at 25 percent for outflows, and 20 percent for inflows), and in the long run possibly its elimination. Other measures may include expanding the listing of foreign securities on the BISX through depositary rights; and allowing cross-listings of Bahamian and foreign companies on principal CARICOM exchanges.

12. **The CBB issues government treasury bills (3- and 6-month maturities) through an auction held on average once a month**. The CBB determines the cut-off rate and the interest rate on treasury bills is typically low; the rate has recently fallen to close to zero

[10] Nine banks operate in the domestic commercial banking sector, of which one is government owned (Bank of the Bahamas); two are locally owned private banks (Commonwealth Bank and British-American Bank); five are subsidiaries of foreign banks (Citibank; Finance Corporation of The Bahamas; First Caribbean International Bank; First Caribbean International Finance Corporation; Scotiabank Bahamas); and one is a branch of Royal Bank of Canada. Eight of these banks are members of the association of clearing banks and with the CBB are at the core of the payment system. In addition there are 11 nonbank financial institutions of smaller size.

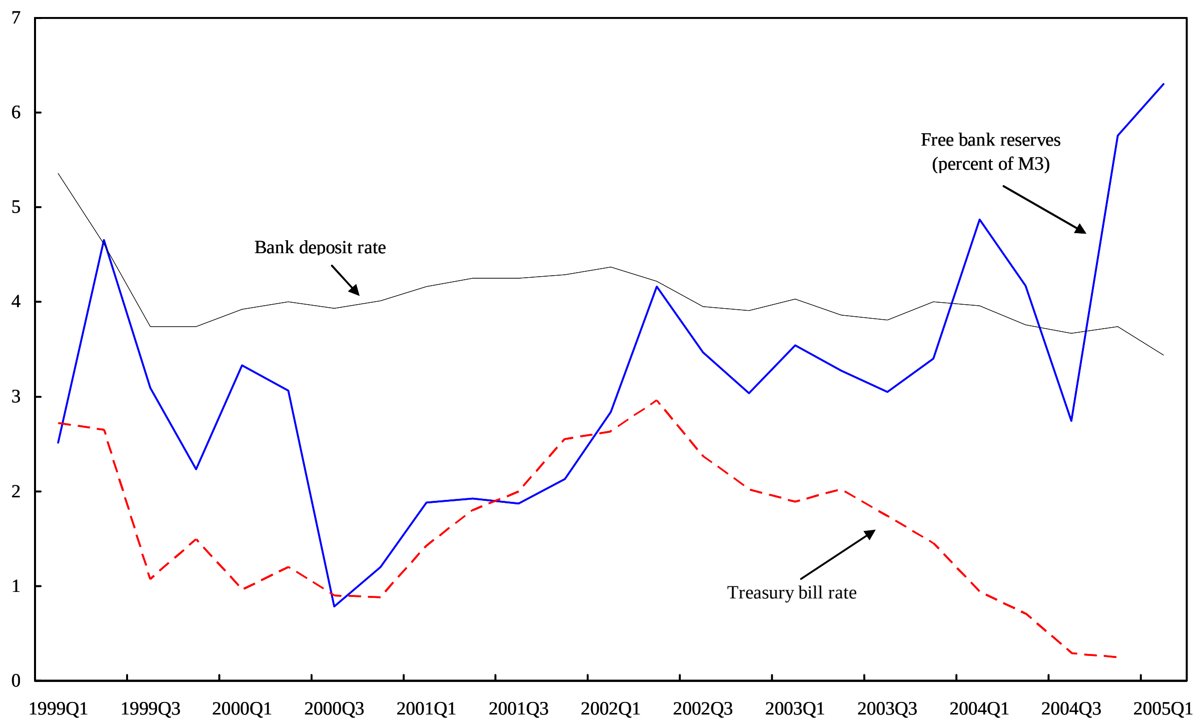
[11] Bank deposit and lending rates are closely linked to the prime rate; the latter has followed signals given by the CBB through changes in the discount rate. However, past experience suggests that competition for resources intensifies sharply during episodes of tight liquidity (1988–94). While there may be elements of rigidity in the financial system, bank supervision reports show onshore banks, including locally-owned banks, to be well managed from a prudential and operational standpoint.

[12] Bank lending rates are all floating rates, including for mortgages.

[13] See footnote 7 for a definition of the premium on investment currency.

owing to high levels of bank liquidity.[14] Government bonds (with maturities up to 25 years) are not auctioned, but issued through the CBB at a pre-set interest rate.[15] There are almost no secondary market transactions in government securities, as holders tend to keep them in their portfolio until maturity. This is in part because government securities are held to meet the Liquid Asset Ratio (LAR) requirement for financial institutions, and because of a lack of alternative investment choices available to the National Insurance Board (NIB) and private pension funds.

Figure III.4. The Bahamas. Interest Rates and Free Bank Reserves, 1999–2005



Source: Central Bank of The Bahamas

[14] The auction is open to the general public, but the demand is nil as the yield is below bank deposit rates.

[15] The majority of these bonds carries a floating rate linked to the prime rate.

13. **Presently, the supply of existing short-term financial instruments is limited, and the majority of domestic currency transactions are intermediated through domestic banks**.[16] There is a legal ceiling on the amount outstanding of treasury bills (25 percent of the fiscal revenue of the three preceding years). The ceiling is currently binding, hence auctions are limited to roll-overs. The CBB's portfolio of government securities is small relative to banks' free reserves (B$76 million at end-March 2005 against B$262 million). Nonbank financial institutions play only a small role in intermediating funds; and the market capitalization of companies traded in the BISX is low (33 percent of GDP in 2004). The single most significant nonbank investor is the NIB, with assets amounting to close to B$1.2 billion, or 20 percent of GDP at end-2004, half of which consists of government bonds.

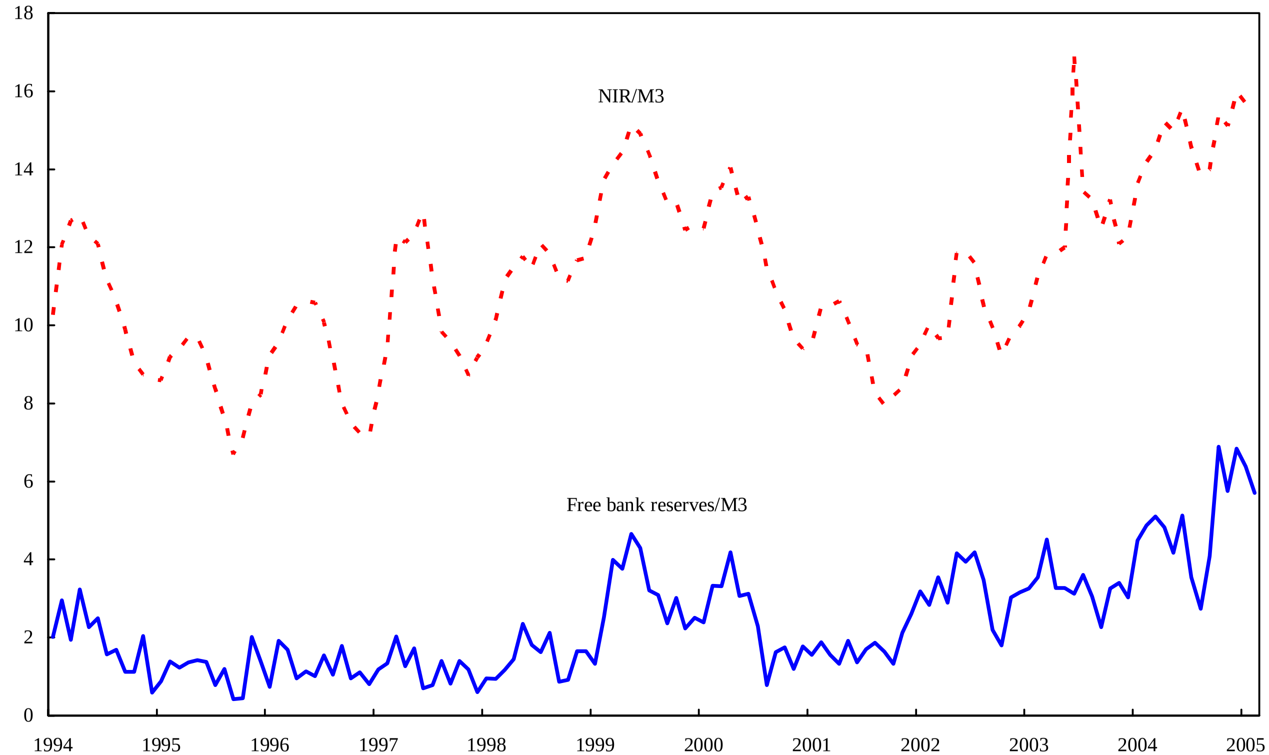
14. **Structural excess bank liquidity and relatively predictable liquidity needs have reduced the scope for interbank transactions**. Excess bank reserves sharply increased during 2004 and early 2005, as strong external inflows outpaced the private sector's capacity to borrow, even after the relaxation of credit controls.[17] In such a setting there is no great need for interbank transactions, as the central bank is structurally on the borrowing side of the market, and banks on the lending side. At the same time, there do not appear to be other institutions with significant short-term liquidity management needs to help foster the development of the money market. This situation appears to be an obstacle to the development of a vibrant money market that would yield market-based short-term interest rates. However, since the discount rate is currently above the interbank rate, the CBB's involvement as a lender of last resort does not appear to have crowded out interbank activities.[18]

[16] Commercial banks' monetary liabilities in domestic currency amounted to close to B$4 billion, or the equivalent of about 70 percent of GDP at end-2004 (about 50 percent of GDP a decade earlier).

[17] Free bank reserves, which are unremunerated, amounted in March 2005 to the equivalent of 37 percent of NIR, or 6 percent of M3. This is about three times the apparent desired level, which in the long run appears to be in the range of 1½–2 percent of M3.

[18] The spread between the interbank rate and the discount rate appears to be small. The rate on fixed-term interbank deposits in March 2005 was 4.25 percent, and the discount rate was 5 percent.

Figure III.5. The Bahamas. NIR and Free Bank Reserves, 1994-2005
(In percent of M3)



Source: Central Bank of The Bahamas.

Table III.1. Inter-Bank Market in The Bahamas
(In millions of Bahamian dollars at end of period)

	1999	2000	2001	2002	2003	2004	2005	
							Jan	Feb
Due to:								
Demand deposits	22.7	29.4	40.9	42.7	37.9	36.3	40.7	35.0
Fixed deposits	51.0	42.9	88.8	96.2	74.4	63.1	75.5	77.6
Total deposits	73.8	72.3	129.7	138.9	112.3	99.4	116.2	112.7
Due from:								
Demand deposits	23.9	24.7	37.6	42.0	43.5	39.2	44.0	42.0
Fixed deposits	50.9	43.9	82.4	97.2	73.1	71.2	80.4	77.4
Total deposits	74.8	68.5	120.0	139.2	116.6	110.4	124.4	119.4
Interbank (net) 1/:	-1.1	3.8	9.7	-0.3	-4.3	-11.0	-8.3	-6.7
Memorandum items :								
Total B$ bank deposits	3,096.1	3,368.2	3,518.6	3,650.5	3,810.6	4,150.1	4,188.6	4,178.5
Interbank deposits, in percent of total B$ bank deposits	2.4	2.0	3.4	3.8	3.1	2.7	3.0	2.9

Source : Central Bank of The Bahamas.

1/ Interbank float.

15. **Looking forward, consideration could be given to either establishing a formal operational target for the supply of reserve money, or for interest rates**. Best practice in relatively shallow financial markets with capital controls is for the central bank to signal its intentions by targeting reserve money.[19] These countries tend to move to targeting interest rates at a later stage when domestic financial markets deepen.[20] This would require the definition of a benchmark interest rate and the establishment of a market-based vehicle, e.g. auctions or open-market type operations, for the CBB to signal its interest rate objective.[21]

F. A Possible Reform Strategy

16. **A transition to more market-based monetary policy instruments is expected to be part of a broader long-term strategy to modernize and open up the financial sector**. The government intends to reform the market for government bonds, revitalize the BISX, and increase the role of market-based interest rates. Consideration is also being given to a gradual relaxation of capital controls to further integrate the country in the region, increase competition in the banking sector, and give citizens broader investment opportunities. While this process would need to proceed in a careful and well-sequenced manner, there seems to be scope for the CBB to begin to introduce market-based policy instruments (Box 1).

17. **In particular, the CBB needs to manage excess bank liquidity and take steps to let market forces allocate financial resources**. The key considerations that may need to guide the selection of a mix of instruments include:

- Unremunerated reserve requirements are a tax on the banking sector, and raising them should remain an option of last resort.
- It would be preferable to select instruments that generate a continuous CBB presence in the money market, as opposed to one-off operations.
- A capacity to forecast market liquidity would need to be developed at the CBB.

---

[19] The choice of auctions techniques is not linked to the choice of operational targets, though volume tenders may be preferable in shallow markets as they help stabilize interest rate expectations. See IMF, Monetary and Financial Systems Department, "Implementation of Monetary Policy at Different Stages of Money Market Development," May 2004.

[20] Andrea Schaechter, "Implementation of Monetary Policy and the Central Bank's Balance Sheet," IMF Working Paper WP/01/149.

[21] Open-market-type operations take place on primary financial markets, while open-market operations are conducted on secondary markets.

- Care would be needed to ensure that the CBB is in a position to conduct monetary policy in a manner that does not impose a financial burden on the central bank and inhibits its independence.

18. **On this basis, the CBB would seem to face three policy options for developing market-based policy instruments, each of which presents difficulties.** The MPC would need to carefully evaluate these options, assess the adjustments they require in the operations of the CBB and other market participants, and engage in a dialogue with the finance ministry about their cost implications.

- *Issuing the CBB's own paper for open market-type operations*. The maturity of CBB's paper should be shorter than that of treasury bills and the quasi-fiscal implications of liquidity management operations should be recognized. The experience in other countries indicates that central bank losses resulting from the issuance of central bank paper may be substantial and could eventually entail the need for the government to recapitalize the central bank.

- *Converting treasury bills into a monetary policy tool.* Under this option treasury bills would have two distinct functions—deficit financing and monetary control. To fulfill this dual function a legislative change might be needed to relax the legal ceiling on the amount of outstanding treasury bills.

- *Introducing auctions of short-term central bank deposits (to withdraw liquidity) and repurchase/reverse repurchase agreements of government securities (to withdraw or inject liquidity).* The central bank's portfolio is fairly small, which limits its potential impact. However, consideration could be given to securitizing CBB's advances to the government (advances are limited to 10 percent of revenue of the preceding three years). Securitized advances should be marketable, and the CBB could consider engaging in repurchase agreements with the market using its portfolio of government bonds and securitized advances. The maturities of repos should be shorter than that of the underlying instrument, in part to clearly differentiate government financing from monetary operations. It could also auction short-term deposits.

19. **Consideration would also have to be given to the desired structure of the money market**. The CBB would need to define which counterparties would be most appropriate to foster the development of the money market. Counterparties—i.e., institutions with which the CBB would transact on a regular basis—could include all clearing banks or a restricted set of primary dealers. The CBB should also hold discussions with banks about the reforms of instruments and operations, as banks would need to adjust their internal operations and upgrade manpower skills to participate in an active money market. To foster the development of the money market, the CBB should streamline its standing facilities, which should be solely accessed by counterparts at penalty rates. In particular, the CBB should close its secondary windows for government securities.

Box 1. Malta's Process of Financial Liberalization

Like The Bahamas, Malta's economy is heavily influenced by external developments. Malta is a small island economy with a population of about 400,000 and a GDP per capita of over US$ 14,000. It is highly dependent on a few sectors, in particular tourism. In the early 1990s, its banking sector was very liquid; there was no interbank market and no effective market for government securities and other instruments.

The Central Bank of Malta's (CBM) operates monetary policy under an exchange rate peg. Under the CBM Act, foreign exchange reserves covers at a minimum 60 percent of CBM's liabilities. In the early 1990s, before the start of financial sector reform, the CBM's only monetary policy instruments, in addition to interest rate controls, were liquidity requirements. Capital controls also facilitated maintenance of the peg.

Financial market liberalization preceded capital account liberalization. Financial reforms started in the early 1990s in a favorable economic environment with large levels of international reserves, low inflation, and a low level of public debt. Trading of government stocks and equities commenced on the Malta Stock Exchange in 1992. Capital account liberalization was started in the early 1990s; the approach was very gradual, stretching over more than a decade.

Financial reform was supported by a transition to indirect instruments of monetary policy. The CBM introduced auctions of 14-day time deposits and repurchase agreements with securities to steer short-term interest rates. Its standing facilities created a corridor for the overnight money market rate, with a lower boundary set by the rate on the CBM's overnight deposit facility, and rate on the overnight lending facility setting the upper boundary. In January 2004, the CBM adjusted its operational framework and introduced a narrower but symmetric corridor of 300 basis points around a central intervention rate. These changes were made to increase the efficiency of the monetary transmission mechanism through which changes in overnight interest rates impact market rates.

Box 2. The Bahamas Monetary Policy Instruments

Description	Objectives	Remarks
1. Central Bank Discount Rate Rate applies to borrowing by banks and nonbank financial institutions from the central bank. A surcharge can be applied to discourage frequent or heavy borrowing by banks.	Changes in the discount rate affect market interest rates, since the commercial banks' prime rate is tied to it. Also, changes in this rate are used to signal the central bank's view of the liquidity situation in the banking system, and achieve other objectives such as maintaining a reasonable spread between domestic and US rates, or to reduce debt service on mortgages when warranted by economic conditions.	Changes in the discount rate and corresponding adjustments in the prime rate have been infrequent since 1994. According to the CBB, varying interest rates through the discount rate would be less effective for consumer lending where there is little evidence that local borrowers display interest rate sensitivity.
2. Reserve requirements The reserve requirements, calculated against commercial banks' deposit liabilities, apply in two tranches—statutory reserves and liquid asset ratio (LAR). Statutory reserves comprise vault cash and banks' deposits with the central bank. In addition to statutory reserves, the eligible assets for LAR are the treasury bills and government bonds, bonds issued by the Bahamas Mortgage Corporation, and commercial bank loans for low income housing development.	Changes in reserve requirements affect the liquidity position of commercial banks and their ability to extend credit. The CBB may increase the statutory reserve requirement up to 20 percent, and the LAR to 25 percent, of banks' deposit liabilities. The reserve requirements also serve as a prudential objective, as a back-up for the banks' deposit liabilities.	The CBB has not used changes in the rate of primary required reserves as an active tool of monetary policy. Increases in the secondary reserves ratio were also avoided as they would accentuate the bias for the captive market for government securities. Reserve requirements have not been changed since they were instituted in 1974 and remain fixed at 5 percent for statutory reserves and, for LAR, at 15 percent for demand deposit, and 20 percent for savings and fixed deposits. Penalties are assessed if actual reserves holding fall below requirement.[1/]
3. Capital Controls All outward capital transfers by residents, including purchases of securities and direct investments, require authorization by central bank.[2/]	Used to avoid large and uncontrolled capital movement that could affect the balance of payments and deplete international reserves.	The CBB has forwarded a proposal for the gradual relaxation of some capital restrictions, which is currently being considered by the Government.
4. Selective/prudential controls and moral suasion	Controls have been applied through use of margin, collateral requirements and other prudential limits on private sector loans. In addition, moral suasion is used to indicate to banks that they should restrict credit.	CBB has made frequent use of this instrument. Most recently, between September 2001 and August 2004, the CBB required banks to limit total private sector lending to outstanding balance at that time. Since August 2004 the CBB has been imposing maximum debt service ratio and minimum collateral requirements for personal loans.
5. Other instruments Shifts in public sector bank deposits among commercial banks.	Amounts and timing of the shifts can be managed to affect banks' liquidity position.	Not currently in use. The CBB used the placement of the social system's deposits as a monetary instrument in the late 1980s.
6. Open Market Operations Central bank buys and sells government securities to banks and nonbank institutions.	Objective is to add or reduce liquidity in the financial system (and the economy as a whole) thereby influencing the ability of financial institutions to provide credit to the private sector.	The CBB does not make use of open market operations for liquidity management purposes. Purchases of and sales of treasury bills are carried out in line with government financing objectives.

1/ Current laws authorize the CBB to assess penalty for the nonobservance of reserve requirements at one tenth of 1 percent of the shortage calculated on a daily basis. However, the maximum penalty rate cannot exceed twice the bank rate.

2/Open position in domestic currency asset and liabilities is limited to B$500,000 either way, which requires commercial banks to sell or buy foreign exchange to or from the central bank if actual holdings exceed or fall short of this limit. The open position is calculated on a daily basis and exceptions are generally not granted. The CBB is currently reviewing the open position with the expectation of increasing the limit to B$5,000,000 either way.

Table III.2. The Bahamas: Use of Monetary Policy Instruments, 1981-2005

Period	Direct Limits on Bank Credit	Borrower Equity Requirements	Direct Interest Rate Controls	Changes in Discount Rate	Changes in Reserve Requirements and/or penalties	Changes in Exchange Controls
1981				X 3/	X	
1982				X 3/		
1983				X 3/		
1984						
1985				X		
1986				X		
1987				X		
1988		X 1/	X 2/			
1989		X 1/	X 2/			
1990		X 1/	X 2/		X	
1991		X 1/	X 2/			
1992		X 1/	X 2/	X		
1993			X 2/	X		
1994			X 2/	X		
1995						
1996						
1997						
1998		X				
1999				X		
2000						
2001	X	X				X
2002	X					X
2003	X					
2004	X					
2005		X		X		

Source : Central Bank of The Bahamas, chronology of monetary policy decisions.

1/ The CBB imposed a 35% equity requirement for consumer bank borrowing to restrain private sector credit demand. The effectiveness of this policy was limited by design shortcomings, as providers of in-store financing of consumer durables purchases substituted for direct consumer credit from banks.

2/ Financial sector stability became a concern during 1988-1994, when resources become scarce and banks bid up interest rates to attract deposits. The CBB suppressed such pressures by maintaining a ceiling on deposit interest rates.

3/ Includes surcharges for frequent or heavy borrowing by banks during 1981-83.

References

Bahamas International Stock Exchange, "Steps to be undertaken to ensure the viability of a fully operational Bahamas securities exchange," Report of the Bahamas Stock Exchange Committee.

Central Bank of The Bahamas, "Chronology of Monetary Policy and Related Developments" (published on the CBB's website).

Central Bank of The Bahamas, "Quarterly Economic Review," Vol. 13, n. 4, December 2004.

Central Bank of The Bahamas, "Monetary policy in The Bahamas," 2002.

Central Bank of The Bahamas, "A Targeting Framework for External Reserves," paper prepared for the MPC, December 19, 2003 (unpublished).

Central Bank of The Bahamas, "Annual report and statement of accounts," 2004.

Central Bank of Malta, "Quarterly Review," 2004:2.

IMF, Central Banking Department. "The Bahamas : Reform of the Monetary Management System," January 1991.

IMF, Monetary and Financial Systems Department, "Implementation of Monetary Policy at Different Stages of Money Market Development," May 2004. Main paper and country cases and appendices.

IMF, "The Adoption of Indirect Instruments of Monetary Policy," Occasional Paper 126, June 1995.

Jeanne, Olivier and Romain Ranciere, "The Optimal Level of International Reserves for Emerging Market Countries : Formulas and Applications," IMF, Research Department, May 17,2005 (unpublished).

Schaechter, Andrea "Implementation of Monetary Policy and the Central Bank's Balance Sheet," IMF Working Paper WP/01/149.

World Bank, "Development of the government securities market in The Bahamas," November 2002 (unpublished).

Chronology of Monetary Policy Decisions by Instrument [22]

Absolute limits on outstanding credit

- **September 2001:** In the wake of the September 11 terrorist attacks on the United States and the significant falloff in tourism activity, the Central Bank imposed a freeze on outstanding bank credit to the private sector. Banks were instructed to provide new credit only to the extent of resources provided from ongoing repayments, but were at liberty to determine how such resources would be allocated within their portfolios.

- **August 2004:** Based on the improved outlook for the Bahamian economy, including tourism and foreign investment, which going forward, are expected to provide stronger support for domestic consumption and imports; restrictions on domestic banks' Bahamian dollar lending, in place since 20th September 2001, were lifted.

Borrower equity requirements

- **November 1990:** To relieve pressure on the country's external reserves vis-à-vis the weakened economic environment and unsustainable private sector credit demand, the Central Bank directed commercial banks to insist upon a minimum 35 percent down payment (equity) requirement on consumer loans.

- **January 1993:** Due to improved liquidity conditions, the Central Bank lifted the 35 percent equity requirement on consumer installment credit. The ceiling on deposits was reduced to 6.75 percent and banks' Prime Rate fell by 25 basis points to 7.75 percent.

- **May 1998:** In light of an accelerating trend in consumer credit growth, the Central Bank instructed financial institutions to insist on a 25 percent down payment or equity requirement on new consumer loans.

- **January 1999:** Citing an improved outlook for bank liquidity and external reserves, the Central Bank lifted the 25 percent down payment requirement from new consumer loans.

- **July 2001:** In view of moderating economic activity, and in order to encourage a sustainable outcome for external reserves and bank liquidity, the Central Bank encouraged lending institutions to adopt a more conservative posture toward private

[22] Source: Central Bank of The Bahamas. Selected excerpts from the Chronology published on the CBB's website, classified by type of monetary policy instrument.

sector lending, including more rigorous application of collateral requirements and scrutiny of creditworthiness.

- **August 2004:** To ensure that credit expansion is consistent with economic growth, banks were advised to pay particular attention to borrowers’ credit worthiness, with the immediate adoption of the following guidelines: a) Limit the existing or resulting total debt service ratio (on the aggregate of personal loans, mortgages, rent, and property maintenance) to 40 percent–45 percent of ordinary monthly income. b) Require a minimum equity contribution of 15 percent on all personal loans, with the exception of those secured with mortgage indemnity insurance.

- **September 2004:** In the aftermath of damages caused by Hurricane Frances, and to facilitate access by households and businesses to credit facilities for relief purposes, lending guidelines issued to domestic banks on 9th August 2004 were temporarily relaxed. Banks were advised that (a) the 15 percent equity contribution will not apply on such facilities, and (b) the threshold debt service ratio for the relevant borrowers was increased to 55 percent from the 40 percent–45 percent range.

Direct interest rate controls

- **December 1981:** Amid historically low levels of liquidity, the Central Bank placed deposits totaling $12.0 million with select commercial banks at rates varying between 9 percent and 10 percent. In addition, banks were advised to limit the rate of interest paid on deposits to 10 percent so as to discourage the continuous shifting of deposits between institutions.

- **December 1987:** an interest rate ceiling of 8.0 percent was imposed on all new deposits in order to limit abrupt shifts in deposits between institutions.

- **October 1988:** Citing a need to avoid excessive upward pressures on lending rates amid tight liquidity and the bidding up of deposit rates among banks, the Central Bank maintained an 8.00 percent interest rate ceiling on all new deposits accepted by banks.

- **February 1992:** In light of the trend in international interest rates and the prevailing weakness in the local economy, the Central Bank reduced the ceiling on deposit rates to 7.0 percent..

- **January 1993:** Due to improved liquidity conditions, the Central Bank reduced the ceiling on deposits to 6.75 percent and banks’ Prime Rate fell by 25 basis points to 7.75 percent.

- **May 1993:** As a result of excess liquidity in the system, the Central bank reduced the deposit rate ceiling to 6.25 percent.

- **April 1994:** The Central Bank removed the 6.25 percent interest rate ceiling on deposit liabilities.

Changes in the discount rate

- **November 1980:** To discourage commercial banks from availing themselves of the Bank's accommodation in the wake of strong private sector demand and falling liquidity, the Central Bank imposed a surcharge of 2.0 percent on loans to banks, thus raising the cost of borrowing from the Central Bank to 13.0 percent.

- **November 1981:** The Central Bank lifted the 2 percent surcharge on frequent borrowing by commercial banks.

- **January 1982:** As part of its credit restraint policy, the Central Bank reinstated the 2 percent surcharge on frequent borrowing by commercial banks, which had been lifted in November 1981; while the effective bank rate was increased to 12 percent, the actual rate charged fluctuated between 10 percent and 12 percent.

- **April 1983:** The Bank lowered its discount (bank) rate, the rate at which it lends to banks, to 9 percent from 10 percent. However, the rate for frequent and/or heavy borrowing was kept at 11 percent.

- **May 1985:** In the context of slowing credit growth and rising external reserves and liquidity levels, the Bank decreased its Discount Rate by a full percentage point to 8.5 percent. Commercial banks in turn reduced their prime and savings rates by an equivalent amount, from 11.0 percent to 10.0 percent and 6.0 percent to 5.0 percent, respectively.

- **May 1986:** The Central Bank reduced its Discount Rate from 8.5 percent to 7.5 percent, responding to high levels of liquidity in the local banking system, and consistent with prevailing trends in international interest rates. Commercial banks followed by decreasing their prime lending and savings rates to 9.0 percent and 4.0 percent, respectively.

- **December 1987:** In an effort to discourage commercial banks' use of the Bank's resources, the Discount Rate was increased to 9.00 percent from 7.50 percent.

- **February 1992:** In light of the trend in international interest rates and the prevailing weakness in the local economy, the Bank lowered its Discount Rate to 7.5 percent from 9.0 percent. Commercial banks responded by reducing the Prime Rate to 8.0 percent.

- **May 1993:** As a result of excess liquidity in the system, the Central bank reduced the Discount Rate to 7.0 percent.

- **April 1994:** In an attempt to stimulate the domestic economy, the Central Bank decreased the Discount Rate by 50 basis points to 6.5 percent, and commercial banks lowered their Prime lending rate by the same amount to 6.75 percent.

- **June 1999:** Amid buoyant liquidity conditions and healthy, expanding levels of external reserves, the Central Bank reduced the Discount Rate by 75 basis points to 5.75 percent, in order to encourage reduced lending rates on mortgages and loans to the productive sectors. Commercial banks announced a similar reduction in their Prime lending rate to 6.00 percent, to take effect from July 1999.

- **February 2005:** After considering the persistent level of excess liquidity within the banking system and the outlook for these conditions, which remained buoyant, the Central Bank reduced the Discount Rate by 50 basis points to 5.25 percent, effective February 14 2005. The Bank requested that financial institutions follow suit with a congruent reduction in the Prime Rate from 6.00 percent to 5.50 percent and similar reductions in their lending schedule. Commercial banks announced the reduction in the Prime Rate to 5.50 percent, effective February 15, 2005.

Primary and secondary reserve requirements and/or the associated penalties

- **May 1981:** The secondary reserve ratio (liquid asset ratio) was established via a circular issued to all banks, stipulating the manner in which the LAR was to be calculated. The ratio was set at 20 percent against demand deposits, 15 percent against time and savings deposits and 15 percent against fixed deposits and borrowing from commercial banks and Other Local Financial institutions.

- **August 1990:** The Central Bank Act was amended to allow the Bank to impose fines for secondary reserve deficiencies. The permissible penalty, also to be applicable to primary reserve shortfalls, was set at a maximum of twice the prevailing discount rate—to be applied daily—at the time of the deficiency.

- **December 1990:** As a result of amendments passed to the Central Bank Act in August 1990, the Central Bank issued revised Operating Circulars, imposing fines on both banks' secondary and primary reserve deficiencies at an annual rate of one percent of the deficiency.

Exchange controls

- **November 2001:** As a further measure to protecting external reserves and liquidity, on November 30th the Central Bank temporarily increased the net external exposure limit on commercial banks' foreign currency sales to the public to \$5.5 million from \$0.5 million.

- **March 2002**: Given limited usage in the face of the credit tightening measures and more general restraint in private sector consumption, the move that increased commercial banks net external exposure limit was rescinded and the original $0.5 million limit restored.

IV. Recent Developments in Financial Sector Supervision in The Bahamas[1]

A. Bank Supervision

1. **The Bank Supervision Department of the Central Bank of The Bahamas (CBB) is in charge of licensing, regulating and supervising the onshore and offshore Bahamian banking and trust industry**. Its Supervision Unit is responsible for offsite and (since January 2001) onsite inspections, including a program to discontinue "shell" banks.[2] As recommended in the report of the IMF's Module 2 assessment in 2002, a Policy Unit was created in 2002 to develop supervisory policies consistent with international best practices. An update on implementation of the Module 2 assessment report's main recommendations is given in the appendix that follows.

2. **The program to discontinue between "shell banks" is close to completion**. Following the adoption of a physical presence policy in 2001, which set a June 30, 2004 deadline for "shell" banks to either establish a physical presence or having their license revoked, the number of licensees in The Bahamas dropped from 410 at end-2000 to 262 at end-March 2005. The remaining small number of "shell" banks are being monitored closely, and most are expected to establish a physical presence in the near future.

3. **Onsite inspections focus on higher risk-rated banks, and on "know-your-customer" AML/CFT requirements; corporate governance; and loan classification.** A watch list of banks that could pose a threat to depositors or trust holders has been established, and discussions are held with these institutions on actions to address specific problems. Overall, the banking sector—domestic and offshore—is sound. In particular, quarterly reports from domestic banks on loan quality and provisions indicate prudent lending practices and adequate provisioning, which helped domestic banks cope well with the September 2004 hurricanes.

4. **During 2004, the Bank Supervision Department took a number of actions to strengthen prudential regulations and provide guidance to banks and trust companies**. These actions were based on the Basel Core Principles and the Fund's Module 2 assessment. In particular, it issued various guidelines, including : guidelines for assessing capital adequacy, conditions for the central bank's approval of outsourcing of data processing and accounting, and minimum standards for disclosure of financial information to the public in annual audited statements.

---

[1] Prepared by Eric Verreydt (WHD).

[2] The Basel Committee on Banking Supervision defines "shell" banks as banks that have no meaningful physical presence in the country where they are incorporated and licensed, and are not affiliated with a financial services group that is subject to effective consolidated supervision.

B. Other Supervisory Authorities

5. **In addition to the CBB, four agencies perform a regulatory function with respect to the financial sector**. These agencies include: Securities Commission of The Bahamas oversees the securities industry, including mutual funds; the Inspectorate of Financial and Corporate Service Providers (IFCS) oversees business service providers;[3] the Registrar of Insurance regulates the insurance industry; and the Compliance Commission ensures compliance with the AML obligations of enterprises that are not otherwise subject to prudential supervision. While the CBB, the Securities Commission, and the Compliance Commission report to the Minister of Finance, the IFCS and the Registrar of Insurance report to the Minister of Financial Services and Investments. As the portfolio of the latter ministry is primarily directed toward business development and external marketing and promotion, rather than regulation, the Module 2 assessment report recommended grouping all the regulatory functions directly under the Ministry of Finance.

6. **The Module 2 report recommended a review of The Bahamas' complex regulatory structure**. A Financial Services Regulatory Reform Commission, chaired by the Minister of State for Finance, was subsequently appointed to develop a strategy for rationalizing the regulatory system. In addition, pending a reform toward a more unified supervision, a Group of Financial Services Regulators (GFSR), chaired by the central bank governor, is working to ensure greater harmonization of the existing system. In 2004 the GSFR met several times to discuss the supervision of financial conglomerates with activities falling under the competence of several or all regulatory agencies.

7. **Legislation in The Bahamas constrains the transmission of information to foreign regulators**. In particular, foreign regulators need the approval of the Attorney-General to obtain information in criminal cases or civil issues. However, information sharing has been facilitated through Memorandum of Understanding between the central bank and banking supervisors in Panama, Costa Rica and Guatemala, and negotiations are underway with Brazil, Mexico and Ecuador. An arrangement for cross-border information sharing is also in place with the U.S. Securities and Exchange Commission. In addition, the GFSR, with support from the central bank, has worked to ensure that requests from foreign regulators are effectively dealt with, and the GFSR intends to issue guidelines by end-2005 on information sharing between The Bahamas and foreign regulators.

[3] The business service providers offer services for the registration and management of international business companies, and the provision of directors and nominal shareholders for such companies. Banks or trust companies providing these services are regulated by the central bank.

Status of Implementation of Recommendations of the Module 2 Assessment Report [4]

A. General

Recommendation 1. Consolidate the reporting lines for the regulatory authorities under the Ministry of Finance.

Status: In progress. The reconfiguration of ministerial portfolios to address the consolidation of reporting lines is part of the work of the Financial Services Regulatory Reform Commission, which began work in May 2005. This Commission will include a former minister of finance and all current regulators. The Commission's objective is to propose a realignment of the regulatory framework that is consistent with international best practices.

Recommendation 2. Complete the comprehensive review of the regulatory framework to determine the most efficient structure for The Bahamas.

Status: In progress. The Financial Services Regulatory Reform Commission will propose a more appropriate regulatory system, with a view to avoiding duplication of effort and establishing a more unified supervision system.

Recommendation 3. Introduce statutory protection against civil and criminal liability for all staff of, and official appointees to, the regulatory authorities, while performing their duties in good faith.

Status: To be implemented. Statutory protections, where these do not currently exist, are expected to be provided when the legal framework is revised to give effect to the new regulatory regime.

B. Banking

Recommendation 1. Clarify the extent to which the branches and subsidiaries of foreign banks may pass information to their head office and parent bank for consolidated risk management and supervisory purposes.

Status: In progress. To help foreign regulators present their information requests within the framework of Bahamian legislation on information sharing, the GFSR intends to issue guidelines for information sharing arrangements in The Bahamas by end-2005. While in practice the Central Bank has allowed the passage of information to parent banks for the purpose of monitoring large exposures on a consolidated basis, it would be advisable that the guidelines on information sharing clarify the ability of branches and subsidiaries to transfer information to their head office.

[4] The report was published in April 2004.

Recommendation 2. Establish an adequately funded policy unit within the Bank Supervision Department (BSD), which will develop supervisory policies consistent with international best practices.

Status : Implemented in 2002.

C. Securities

Recommendation 1. Narrow the powers of the minister to dismiss members of the Securities Commission so that just cause is the grounds for dismissal.

Status: In progress. This would be included in the forthcoming revision of the Securities Act, for which the IMF is providing technical assistance.

Recommendation 2. Complete the work on the draft mutual funds law and on the amendments to the securities legislation for submission to parliament.

Status:

- **Mutual funds : Implemented.** This was included in the Investment Act passed on December 15, 2003.

- **Securities legislation : In progress.** The Securities Commission commented on MFD's November 2004 preliminary technical assistance report and will start preparatory work on legislation following finalization of the report.

Recommendation 3. Establish a clear policy with respect to the confidentiality declaration required from overseas regulators. *The aim is to permit efficient exchanges of information in line with the practice adopted by the CBB.*

Status: Under finalization. This will be addressed in the forthcoming guidelines for information sharing arrangements in The Bahamas.

D. AML/CFT

Recommendation 1. Ratify all the relevant international conventions.

Status:Implemented. The 1999 UN Convention on Suppression of Terrorism Financing and UN Resolution 1373 have been implemented in The Bahamas by virtue of the passage of the Anti-Terrorism Act 2004. The provisions of the Palermo Convention have been implemented into domestic law by virtue of provisions contained in the Penal Code, the Proceeds of Crime Act, the Dangerous Drugs Act and the Prevention of Bribery Act.

Recommendation 2. Enact legislation to criminalize, and make other provisions in relation to, the financing of terrorism.

Status: Implemented. The Anti-Terrorism Act was passed in December 2004.

Recommendation 3. Rationalize the legal framework with respect to money laundering. *The objective is to reduce the number of highly prescriptive requirements and to permit financial institutions to develop a risk-based approach*.

Status: Implemented. The December 2003 Financial Transactions Reporting Act introduced provisions allowing financial institutions to adopt a risk-based approach to know-your-customer requirements. For example, the Compliance Commission requires nontraditional financial institutions to categorize customers as either high- or low-risk.

Recommendation 4. Reduce the number of exceptions to the principle of requiring financial institutions to identify their customers.

Status: Under finalization. The CBB is in the process of finalizing guidelines on the prevention and detection of money laundering for licensees, consistent with international standards and the risk-based approach. The Compliance Commission has responsibility for AML supervision of the insurance sector and the financial and business service providers sectors under the Financial Transactions Reporting Act.[5] It allows no exceptions, and its constituents are required to keep on file copies of verification information from any source upon which they have relied for verification purposes.

Recommendation 5. Extend the time permitted for financial institutions to undertake the process of customer identification on pre-2000 Bahamian dollar accounts, and consider introducing a risk-based approach to resolving the outstanding accounts.

Status: Implemented. This was covered by the risk-based approach incorporated in the December 2003 Financial Transactions Reporting Act.

Recommendation 6. Revise the provisions relating to the obligation to identify beneficial owners/beneficiaries of corporate entities, trusts, partnerships, etc., to ensure that the legal requirements present no exceptions.

Status: Implemented. In the interest of clarity the 2003 amendments to the Financial Transactions Reporting Regulations included a specific provision which mandates that beneficial owners must also be verified.

---

[5] See footnote 3 for a definition of business service providers.

Recommendation 7. Review the list of countries and institutions that underpin the "eligible introducer" provisions to ensure that they do not weaken the customer identification requirements.[6]

Status: Implemented. This is an ongoing process. There is a list of jurisdictions in the Financial Transactions Reporting Act which are FATF member countries and those jurisdictions de-listed by the FATF in 2001. The authorities are confident that The Bahamas is in step with international best practice in this area.

[6] When customers are introduced by an institution that is deemed to have good customer due diligence in place, the regulations allow the institution acquiring the new customers not to repeat the know-your-customer procedures. The introducing institution is called an "eligible introducer".

Table 1. The Bahamas: Geographic Distribution of Stayover Visitors 1/

	2000	2001	2002	2003	2004
(In percent)					
Stayover visitors by country of residence	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Canada	5.4	5.2	4.5	4.2	4.4
Europe	6.8	6.1	5.3	6.2	5.4
United States	83.8	85.1	86.6	86.4	87.2
Other 1/	4.0	3.6	3.6	3.2	3.1
(Percentage change)					
Stayover arrivals	**-2.1**	**-0.4**	**-1.6**	**-0.2**	**3.4**
Canada	-5.8	-3.8	-14.0	-7.9	8.4
Europe	-16.6	-10.1	-15.4	17.1	-10.3
United States	0.1	1.1	0.2	-0.4	4.3
Other	-11.6	-10.2	-1.8	-11.6	-0.3
(In nights)					
Average length of stay	**5.9**	**5.8**	**5.8**	**5.9**	**6.3**
Canada	7.7	7.6	7.3	8.2	9.0
Europe	9.3	9.6	9.6	9.5	10.3
United States	5.4	5.4	5.4	5.5	5.9
Other	6.9	6.9	7.2	7.9	8.4

Source: Ministry of Tourism.

1/ The other main countries are Argentina, Australia, Brazil, Colombia, Jamaica, Japan, Mexico, and Venezuela.

Table 2. The Bahamas: Value of Construction Starts and Completions 1/

(In millions of Bahamian dollars)

	2000	2001	2002	2003
Construction starts	**193.4**	**177.9**	**275.8**	**256.6**
Residential	162.7	144.7	170.7	211.0
New Providence	105.6	87.9	127.0	148.6
Grand Bahama	57.1	56.8	43.8	62.3
Commercial and industrial	30.5	30.4	100.4	44.8
New Providence	15.8	7.1	67.0	27.4
Grand Bahama	14.8	23.2	33.4	17.4
Government	0.2	2.8	4.6	0.8
Construction completions	**300.0**	**324.0**	**304.8**	**266.0**
Residential	162.6	210.9	220.9	197.9
New Providence	132.1	166.1	173.3	147.4
Grand Bahama	30.4	44.8	47.7	50.5
Commercial and industrial	130.3	103.4	79.1	47.5
New Providence	49.5	32.8	54.2	29.3
Grand Bahama	80.8	70.6	24.9	18.2
Government	7.1	9.7	4.7	20.6

Source: Central Bank of The Bahamas.

1/ The data refer to activity only in New Providence and Grand Bahama.

Table 3. The Bahamas: Generation and Sale of Electricity

		Units Sold			
	Generated	Residential	Commercial and Industrial	Street Lighting	Total Sales
		(In thousands of megawatt hours)			
2000	1,665	665	735	9.8	1,410
2001	1,730	714	778	10.0	1,502
2002	1,826	522	830	11	1,566
2003	1,925	624	860	11	1,657
2004	1,105	665	883	10	1,656
2002					
I	388	103	178	2.7	333
II	457	116	198	2.7	384
III	529	151	243	2.7	469
IV	452	152	211	2.7	380
2003					
I	417	130	178	2.7	346
II	496	154	223	2.7	418
III	550	178	237	2.7	466
IV	462	163	222	2.7	427
2004					
I	418	137	192	2.7	363
II	499	157	220	2.7	412
III	101	208	263	2.7	495
IV	88	164	209	1.4	387
		(Annual percentage change)			
2000	-5.3	-6.1	2.7	-14.8	-1.6
2001	3.9	7.3	5.9	2.3	6.5
2002	5.6	-26.9	6.7	7.0	4.3
2003	5.4	19.7	3.5	-0.6	5.8
2004	-42.6	6.5	2.7	-10.5	0.0
2002					
I	-9.4	55.8	-3.0	-6.0	0.8
II	-8.3	48.8	-0.3	-5.8	-3.0
III	-7.0	46.8	-14.0	-7.0	-7.6
IV	-11.1	4.8	-5.7	-7.2	-5.3
2003					
I	7.6	25.6	-0.1	1.3	3.8
II	8.4	32.7	12.6	-0.5	8.8
III	4.0	17.9	-2.8	-1.6	-0.6
IV	2.2	7.5	5.4	-1.6	12.2
2004					
I	0.2	5.4	7.9	0.2	4.8
II	0.7	1.7	-1.5	1.8	-1.6
III	-81.7	16.9	11.2	2.1	6.3
IV	-81.0	0.8	-6.1	-46.3	-9.2

Source: Central Bank of The Bahamas.

Table 4. The Bahamas: Retail Price Index for New Providence

(October/November 1995=100)

	Food	Clothing and Footwear	Housing	Furniture and Household	Medical Care and Health	Trans-portation	Recreation and Services	Education	Other	All Items
Weight	13.8	5.9	32.8	8.9	4.4	14.8	4.9	5.3	9.2	100.0
(Annual average percentage change)										
2000	1.6	0.7	0.2	2.0	2.3	2.3	-0.9	11.9	-0.4	1.6
2001	2.1	0.5	0.2	2.6	1.7	1.6	3.5	7.7	5.5	2.0
2002	2.0	0.5	0.1	4.9	1.2	0.1	2.5	12.9	2.1	2.2
2003	0.5	-0.1	0.7	3.8	9.8	1.8	9.8	1.1	12.0	3.0
2004	3.0	0.3	-0.1	0.4	6.7	2.0	-3.4	1.6	-0.5	0.9
(Annual percentage change, end of period)										
2002										
I	2.6	1.2	0.2	4.2	0.7	0.6	1.6	17.7	0.1	2.3
II	1.9	0.6	0.0	1.6	0.4	-0.1	-0.3	17.7	0.1	1.6
III	2.4	0.3	0.0	8.2	1.4	-0.2	-0.1	17.7	2.9	2.6
IV	1.0	0.0	0.0	8.4	1.4	0.0	12.3	0.4	3.2	1.9
2003										
I	-0.3	-0.3	0.9	6.6	7.4	0.8	13.5	0.7	14.4	21.5
II	-0.2	-0.2	0.9	6.6	7.3	2.0	11.9	0.7	14.5	3.4
III	0.1	0.0	0.9	-0.1	12.3	2.5	12.0	0.7	9.7	2.7
IV	2.5	0.3	0.9	0.1	12.4	1.8	-2.5	2.4	9.6	2.4
2004										
I	3.0	0.6	0.0	0.2	9.3	2.5	-5.0	2.0	-1.1	-14.1
II	2.8	0.1	0.0	0.5	9.7	1.6	-4.6	2.0	-1.1	0.9
III	3.1	0.1	-0.7	0.5	3.1	1.6	-1.7	2.0	0.0	0.7
IV	3.7	0.5	-0.7	0.3	6.1	3.3	0.5	0.5	0.1	0.5

Source: Central Bank of The Bahamas.

Table 5. The Bahamas: Summary Operations of the Nonfinancial Public Sector 1/

	2000	2001	2002	2003	Prel. 2004
	(In millions of Bahamian dollars)				
Current revenue	**1,243**	**1,220**	**1,174**	**1,148**	**1,215**
Tax revenue	862	820	799	784	854
Nontax revenue	128	160	144	139	150
Contributions to National Insurance Board (NIB)	114	119	122	122	126
Operational surplus of corporations	139	121	109	102	86
Current expenditure	**952**	**994**	**1,067**	**1,105**	**1,176**
Wages and salaries	453	483	512	537	581
Goods and services	202	228	242	229	237
Interest payments	113	125	124	134	138
Subsidies and transfers	92	66	90	98	104
Other	92	91	100	106	117
Current account balance	**291**	**216**	**103**	**43**	**39**
Central government	120	58	-29	-93	-72
Public corporations	102	90	68	70	58
NIB	70	67	65	66	53
Capital revenue	**0**	**0**	**0**	**0**	**0**
Foreign grants	**0**	**0**	**0**	**0**	**6**
Capital expenditure	**239**	**283**	**219**	**215**	**200**
Overall balance	**52**	**-57**	**-112**	**-172**	**-155**
Financing	**-52**	**57**	**112**	**172**	**155**
External	-2	-29	-39	76	-11
Domestic	-50	86	151	96	166
	(In percent of GDP)				
Current revenue	**24.9**	**23.8**	**21.7**	**20.9**	**21.3**
Current expenditure	**19.0**	**19.4**	**19.8**	**20.1**	**20.6**
Current account balance	**5.8**	**4.2**	**1.9**	**0.8**	**0.7**
Central government	2.4	1.1	-0.5	-1.7	-1.3
Public corporations	2.0	1.8	1.3	1.3	1.0
NIB	1.4	1.3	1.2	1.2	0.9
Capital expenditure	**4.8**	**5.5**	**4.1**	**3.9**	**3.5**
Overall balance	**1.0**	**-1.1**	**-2.1**	**-3.1**	**-2.7**

Sources: Ministry of Finance; public corporations; National Insurance Board; and Fund staff estimates.

1/ Includes BTC, Bahamas Electricity, Water and Sewerage, Bahamasair, and Broadcasting Corporation.

Table 6. The Bahamas: Summary Central Government Operations 1/

	2000	2001	2002	2003	Prel. 2004
	(In millions of Bahamian dollars)				
Current revenue	**918**	**957**	**857**	**902**	**929**
Tax revenue	840	857	772	815	831
Nontax revenue	78	100	85	87	98
Current expenditure	**817**	**846**	**895**	**963**	**994**
Wages and salaries	440	462	485	505	547
Goods and services	192	213	227	257	222
Interest payments	94	90	101	101	113
Subsidies and transfers	91	81	82	100	111
Current account balance	**101**	**111**	**-38**	**-61**	**-65**
Capital revenue	**0**	**0**	**0**	**0**	**0**
Foreign grants	**0**	**0**	**0**	**0**	**0**
Capital expenditure and net lending	**139**	**133**	**131**	**127**	**116**
Fixed capital formation	100	83	101	79	76
Capital transfers and net lending	39	50	30	47	40
Overall balance	**-38**	**-22**	**-169**	**-188**	**-181**
Total financing	**38**	**22**	**169**	**188**	**181**
Foreign financing	18	-5	-15	1	197
Domestic financing	20	26	184	186	-16
	(In percent of GDP)				
Current revenue	**18.9**	**18.9**	**16.3**	**16.5**	**16.6**
Tax revenue	17.3	16.9	14.7	15.0	14.8
Nontax revenue	1.6	2.0	1.6	1.6	1.7
Current expenditure	**16.8**	**16.7**	**17.0**	**17.7**	**17.7**
Wages and salaries	9.1	9.1	9.2	9.3	9.8
Goods and services	4.0	4.2	4.3	4.7	4.0
Interest payments	1.9	1.8	1.9	1.9	2.0
Subsidies and transfers	1.9	1.6	1.5	1.8	2.0
Current account balance	**2.1**	**2.2**	**-0.7**	**-1.1**	**-1.2**
Capital revenue	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Foreign grants	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital expenditure	**2.9**	**2.6**	**2.5**	**2.3**	**2.1**
Capital formation	2.1	1.6	1.9	1.5	1.3
Capital transfers	0.8	1.0	0.6	0.9	0.7
Overall balance	**-0.8**	**-0.4**	**-3.2**	**-3.4**	**-3.2**
Financing	**0.8**	**0.4**	**3.2**	**3.4**	**3.2**
Foreign financing	0.4	-0.1	-0.3	0.0	3.5
Domestic financing	0.4	0.5	3.5	3.4	-0.3

Sources: Ministry of Finance; and Fund staff estimates.

1/ The year corresponds to the fiscal year ending June 30.

Table 7. The Bahamas: Central Government Revenue 1/

	2000	2001	2002	2003	Prel. 2004
	(In millions of Bahamian dollars)				
Total revenue	**918**	**958**	**857**	**862**	**929**
Total current revenue	**918**	**957**	**857**	**862**	**929**
Tax revenue	**840**	**857**	**772**	**775**	**831**
Taxes on international trade	553	539	493	489	519
Import duties	440	415	385	381	409
Stamp duty	100	109	94	96	96
Other	13	14	14	12	13
Tourism taxes	83	85	84	82	94
Departure tax	58	59	61	60	70
Hotel occupancy tax	21	24	21	21	22
Ticket tax	3	2	2	1	2
Miscellaneous taxes	201	202	194	203	216
Company fees	55	55	56	63	58
Motor vehicle tax	16	16	17	16	15
Property tax	32	33	33	37	38
Stamp tax	78	81	72	74	92
Gaming tax	20	17	16	13	14
Other	3	32	1	0	2
Nontax revenue	**78**	**100**	**85**	**87**	**98**
Administrative fees and charges	52	70	60	61	69
Property and service income	26	30	25	25	29
Other	0	0	0	0	0
Capital revenue	**0**	**0**	**0**	**0**	**0**
Foreign grants	**0**	**0**	**0**	**0**	**0**
	(Annual percentage change)				
Total revenue	**14.3**	**4.2**	**-10.5**	**0.6**	**7.8**
Tax revenue	**15.4**	**2.0**	**-9.9**	**0.4**	**7.3**
Taxes on international trade	20.3	-2.6	-8.4	-0.8	6.1
Tourism taxes	20.0	2.2	-0.8	-2.2	14.5
Miscellaneous taxes	0.5	0.5	-4.0	5.1	6.2
Nontax revenue	**3.2**	**28.4**	**-15.8**	**2.6**	**12.3**

Table 7. The Bahamas: Central Government Revenue

	2000	2001	2002	2003	Prel. 2004
	(In percent of total current revenue)				
Total current revenue	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Tax revenue	**91.5**	**89.5**	**90.1**	**89.9**	**89.5**
Taxes on international trade	60.2	56.3	57.6	56.8	55.9
Import duties	47.9	43.4	44.9	44.2	44.1
Stamp duty	10.9	11.4	11.0	11.1	10.4
Other	1.4	1.5	1.7	1.4	1.4
Tourism taxes	9.0	8.9	9.8	9.5	10.1
Departure tax	6.3	6.2	7.2	7.0	7.6
Hotel occupancy tax	2.3	2.5	2.4	2.4	2.4
Ticket tax	0.4	0.2	0.2	0.2	0.2
Miscellaneous taxes	21.8	21.1	22.6	23.6	23.3
Company fees	6.0	5.7	6.5	7.3	6.3
Motor vehicle tax	1.7	1.7	2.0	1.9	1.6
Property tax	3.4	3.5	3.9	4.3	4.1
Stamp tax	8.5	8.4	8.4	8.6	9.9
Gaming tax	2.2	1.8	1.9	1.5	1.5
Nontax revenue	**8.5**	**10.5**	**9.9**	**10.1**	**10.5**
	(In percent of GDP)				
Total revenue	**18.9**	**18.9**	**16.3**	**15.8**	**16.6**
Tax revenue	**17.3**	**16.9**	**14.7**	**14.2**	**14.8**
Taxes on international trade	11.4	10.6	9.4	9.0	9.3
Import duties	9.1	8.2	7.3	7.0	7.3
Stamp duty	2.1	2.2	1.8	1.8	1.7
Other	0.3	0.3	0.3	0.2	0.2
Tourism taxes	1.7	1.7	1.6	1.5	1.7
Departure tax	1.2	1.2	1.2	1.1	1.3
Hotel occupancy tax	0.4	0.5	0.4	0.4	0.4
Ticket tax	0.1	0.0	0.0	0.0	0.0
Miscellaneous taxes	4.1	4.0	3.7	3.7	3.9
Company fees	1.1	1.1	1.1	1.2	1.0
Motor vehicle tax	0.3	0.3	0.3	0.3	0.3
Property tax	0.7	0.7	0.6	0.7	0.7
Stamp tax	1.6	1.6	1.4	1.4	1.6
Gaming tax	0.4	0.3	0.3	0.2	0.2
Nontax revenue	**1.6**	**2.0**	**1.6**	**1.6**	**1.7**
Fees and charges	1.1	1.4	1.1	1.1	1.2
Property income	0.5	0.6	0.5	0.5	0.5

Sources: Central Bank of The Bahamas; Ministry of Finance; and Fund staff estimates.

1/ The year corresponds to the fiscal year ending June 30.

Table 8. The Bahamas: Central Government Expenditure 1/

	2000	2001	2002	2003	Prel. 2004
	(In millions of Bahamian dollars)				
Total expenditure	**956**	**979**	**1,026**	**1,049**	**1,110**
Current expenditure	**817**	**846**	**895**	**923**	**994**
Wages and salaries	440	462	485	505	547
Goods and services	192	213	227	217	222
Interest payments	94	90	101	101	113
External	6	6	7	5	17
Domestic	88	84	94	96	96
Transfers and subsidies	91	81	82	100	111
Public corporations	1	2	1	2	2
Nonfinancial public enterprises	7	10	13	10	12
Households	55	53	57	62	65
Other	28	15	10	27	32
Capital expenditure and net lending	**139**	**133**	**131**	**127**	**116**
Fixed capital formation	100	83	101	79	76
Public works	32	28	53	41	20
Education	19	17	19	13	7
Health	6	11	6	7	3
Defense	11	4	2	2	1
Other	31	23	21	16	13
Capital transfers and net lending	39	50	30	47	40
Bahamasair	16	19	19	23	15
Hotel corporation	0	-1	-8	0	0
Bahamas Electricity Corporation	2	2	0	2	0
Broadcasting corporation	6	7	5	6	8
Water and sewerage corporation	14	11	9	10	10
Bahamas Development Bank	1	1	1	1	1
Other	1	11	5	6	7
	(Annual percentage change)				
Total expenditure	**9.3**	**2.4**	**4.8**	**2.3**	**5.8**
Current expenditure	**9.4**	**3.5**	**5.8**	**3.1**	**7.7**
Wages and salaries	14.5	4.9	5.1	4.0	8.4
Goods and services	8.7	11.2	6.6	-4.7	2.6
Interest payments	-4.7	-3.8	11.4	0.1	12.0
External	-13.0	3.4	8.7	-26.0	243.0
Domestic	-4.1	-4.3	11.6	2.0	-0.3
Transfers and subsidies	4.6	-12.0	1.3	23.0	10.6
Capital expenditure and net lending	**8.7**	**-4.0**	**-1.6**	**-3.5**	**-8.2**
	(In percent of GDP)				
Total expenditure	**19.7**	**19.3**	**19.5**	**19.3**	**19.8**
Current expenditure	**16.8**	**16.7**	**17.0**	**16.9**	**17.7**
Wages and salaries	9.1	9.1	9.2	9.3	9.8
Goods and services	4.0	4.2	4.3	4.0	4.0
Interest payments	1.9	1.8	1.9	1.9	2.0
External	0.1	0.1	0.1	0.1	0.3
Domestic	1.8	1.7	1.8	1.8	1.7
Transfers and subsidies	1.9	1.6	1.5	1.8	2.0
Capital expenditure and net lending	**2.9**	**2.6**	**2.5**	**2.3**	**2.1**
Fixed capital formation	2.1	1.6	1.9	1.5	1.3
Capital transfers and net lending	0.8	1.0	0.6	0.9	0.7

Sources: Ministry of Finance; and Fund staff estimates.

1/ The year corresponds to the fiscal year ending June 30.

Table 9. The Bahamas: Number of Employees in the Central Government

	2000	2001	2002 1/	2003	Prel. 2004
Total	**18,206**	**17,970**	**20,078**	**20,483**	**20,722**
Education	4,607	4,499	5,660	5,626	5,600
Health	4,206	4,424	4,875	4,954	4,992
Police, prisons, and defense 2/	3,638	3,774	3,835	4,028	4,545
Post, aviation, and marine	893	880	627	628	648
Public works	831	791	834	792	780
Customs	518	499	508	533	532
Youth and social services 3/	492	371	318	630	660
Agriculture and fisheries	365	345	401	387	373
Tourism	350	340	339	335	335
Immigration	269	286	336	328	321
Ministry of finance and treasury	258	251	254	271	314
Statistics	76	76	117	114	120
Other	1,703	1,434	1,974	1,857	1,502
(Annual percentage change)					
Total	**1.4**	**-1.3**	**11.7**	**2.0**	**1.2**
Education	5.8	-2.3	25.8	-0.6	-0.5
Health	4.4	5.2	10.2	1.6	0.8
Police, prisons, and defense 2/	-0.8	3.7	1.6	5.0	12.8
Post, aviation, and marine	35.9	-1.5	-28.8	0.2	3.2
Public works	-2.0	-4.8	5.4	-5.0	-1.5
Customs	-2.1	-3.7	1.8	4.9	-0.2
Youth and social services 3/	-4.3	-24.6	-14.3	98.1	4.8
Agriculture and fisheries	24.1	-5.5	16.2	-3.5	-3.6
Tourism	-7.4	-2.9	-0.3	-1.2	0.0
Immigration	-9.4	6.3	17.5	-2.4	-2.1
Ministry of finance and treasury	-0.4	-2.7	1.2	6.7	15.9
Statistics	-5.0	0.0	53.9	-2.6	5.3
Other	-11.6	-15.8	37.7	-5.9	-19.1
(In percent of total)					
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Education	25.3	25.0	28.2	27.5	27.0
Health	23.1	24.6	24.3	24.2	24.1
Police, prisons, and defense 2/	20.0	21.0	19.1	19.7	21.9
Post, aviation, and marine	4.9	4.9	3.1	3.1	3.1
Public works	4.6	4.4	4.2	3.9	3.8
Customs	2.8	2.8	2.5	2.6	2.6
Youth and social services 3/	2.7	2.1	1.6	3.1	3.2
Agriculture and fisheries	2.0	1.9	2.0	1.9	1.8
Tourism	1.9	1.9	1.7	1.6	1.6
Immigration	1.5	1.6	1.7	1.6	1.5
Ministry of finance and treasury	1.4	1.4	1.3	1.3	1.5
Statistics	0.4	0.4	0.6	0.6	0.6
Other	9.4	8.0	9.8	9.1	7.2

Sources: Ministry of Finance; and Fund staff estimates.

1/ Data before 2002 are not comparable due to differences in coverage, including in the Ministries of Education and Health.
2/ Includes the judicial system.
3/ Includes industrial schools.

Table 10. The Bahamas: Operations of the National Insurance Board (NIB)

	2000	2001	2002	2003	Prel. 2004
(In millions of Bahamian dollars)					
Revenue	**178**	**188**	**190**	**195**	**195**
Contributions	114	119	122	122	126
Investment income	59	64	63	68	65
Transfers from central government	5	5	5	5	5
Expenditure	**127**	**141**	**143**	**138**	**152**
Current expenditure	109	120	125	129	143
Wages and salaries	12	13	12	13	17
Benefit payments	89	95	104	106	114
Short term	17	17	17	18	20
Long term	72	77	86	88	94
Retirement	66	72	78	81	85
Other	2	2	2	2	3
Industrial	4	4	6	5	6
Administration	7	12	9	10	12
Capital	18	20	18	9	10
Operating balance	**5**	**-2**	**-3**	**-7**	**-17**
Current account balance	**62**	**62**	**62**	**62**	**62**
Overall balance	**52**	**47**	**47**	**56**	**43**
(In percent of GDP)					
Revenue	**3.6**	**3.7**	**3.5**	**3.5**	**3.4**
Contributions	2.3	2.3	2.2	2.2	2.2
Investment income	1.2	1.3	1.2	1.2	1.1
Transfers from central government	0.1	0.1	0.1	0.1	0.1
Expenditure	**2.5**	**2.7**	**2.6**	**2.5**	**2.7**
Current	2.2	2.3	2.3	2.3	2.5
Wages and salaries	0.2	0.3	0.2	0.2	0.3
Benefit payments	1.8	1.8	1.9	1.9	2.0
Administration	0.1	0.2	0.2	0.2	0.2
Capital	0.4	0.4	0.3	0.2	0.2
Operating balance	**0.1**	**0.0**	**-0.1**	**-0.1**	**-0.3**
Current account balance	**1.2**	**1.2**	**1.1**	**1.1**	**1.1**
Overall balance	**1.0**	**0.9**	**0.9**	**1.0**	**0.7**
(In percent unless otherwise specified)					
Memorandum items:					
Benefits, in percent of contributions	77.8	80.0	85.4	87.0	90.8
Wages and goods and services, in percent of contributions	17.5	21.6	17.5	18.5	22.8
Employment (actual numbers employed)	472	474	470	465	455

Sources: National Insurance Board; and Fund staff estimates.

Table 11. The Bahamas: National Insurance Board—Cash and Investments

(In millions of Bahamian dollars)

	2000	2001	2002	2003	Prel. 2004
	(End-of-period stocks)				
Total cash and investments	**968**	**1,055**	**1,123**	**1,190**	**1,251**
Central bank	**3**	**6**	**2**	**18**	**83**
Banking system	**237**	**315**	**301**	**232**	**156**
Bank balances	3	6	6	8	4
Fixed deposits at commercial banks	234	310	295	224	152
Government	**546**	**520**	**574**	**626**	**672**
Treasury bills	16	5	68	131	153
Bonds	530	515	506	494	520
Long-term loans	**143**	**129**	**147**	**210**	**212**
Citibank	0	0	0	5	4
Bank of Bahamas	0	0	17	17	17
Bahamas Mortgage Corporation	101	94	93	114	110
Bahamas Development Bank	11	15	18	21	24
Education Loan Authority	0	0	0	14	21
Nonfinancial public corporations	**30**	**20**	**20**	**39**	**36**
Bahamas Electricity	7	7	6	26	22
Water and Sewerage	5	5	5	5	5
Batelco	10	0	0	0	0
Bahamasair	6	6	6	6	6
Bridge bonds	2	2	2	2	3
Other investments	0	0	0	0	16
Finance leases	32	49	65	71	79
Equity investments	8	15	15	15	15
Investment property	0	21	19	19	18
	(Annual flows)				
Total cash and investments	**67.1**	**87.2**	**67.9**	**67.5**	**60.3**
Central bank	**-7.7**	**3.4**	**-4.2**	**15.3**	**65.7**
Banking system	**61.7**	**78.1**	**-14.1**	**-69.2**	**-76.3**
Bank balances	0.2	2.6	0.2	1.7	-3.7
Fixed deposits at commercial banks	61.5	75.5	-14.3	-70.9	-72.6
Government	**-16.3**	**-26.4**	**54.2**	**51.9**	**46.3**
Treasury bills	-9.0	-10.9	62.7	63.7	21.2
Bonds	-7.3	-15.5	-8.5	-11.8	25.1
Long-term loans	**6.8**	**-13.8**	**18.3**	**63.3**	**1.6**
Citibank	0	0	0	5.0	-1.0
Bank of Bahamas	0	0	17.0	0.0	0.0
Bahamas Mortgage Corporation	-2.3	-7.4	-1.0	21.7	-4.6
Bahamas Development Bank	9.8	3.7	2.7	3.7	2.8
Education Loan Authority	0	0	0	13.5	7.5
Nonfinancial public corporations	-0.7	-10.1	-0.4	19.4	-3.1
Other investments	0.0	0.0	0.0	0.0	15.6
Finance leases	17.3	17.3	16.0	6.2	8.3
Equity investments	5.3	7.3	-0.1	0.0	-0.2
Investment property	0	21.3	-2.2	0.0	-0.7

Source: National Insurance Board.

Table 12. The Bahamas: Operations of Nonfinancial Public Corporations 1/

	2000	2001	2002	2003	Prel. 2004
	(In millions of Bahamian dollars)				
Total revenue	**641**	**648**	**663**	**679**	**710**
Current revenue	601	609	626	642	677
Of which : operating revenue	598	608	624	641	675
Other	3	1	1	1	1
Capital revenue	40	39	37	38	34
Sale of assets	0	0	0	0	0
Transfers from central government	40	39	37	38	34
Foreign grants	0	0	0	0	0
Total expenditure	**628**	**652**	**689**	**700**	**701**
Current expenditure	500	518	558	572	619
Of which : operating expenditure	459	486	515	539	589
Interest payments	22	26	26	27	24
Other	18	6	17	6	6
Capital expenditure	128	133	131	128	82
Operating balance	**139**	**121**	**109**	**102**	**86**
Current account balance	**102**	**90**	**68**	**70**	**58**
Overall balance	**13**	**-4**	**-26**	**-20**	**9**
Statistical discrepancy 2/	32	43	-9	-32	26
Overall balance, adjusted basis	**46**	**39**	**-35**	**-52**	**35**
Total financing	**-46**	**-39**	**35**	**52**	**-35**
External	-11	-29	-18	-121	-7
Domestic	-35	-10	52	173	-28
	(In percent of GDP)				
Total revenue	**12.8**	**12.6**	**12.3**	**12.3**	**12.4**
Current revenue	12.0	11.9	11.6	11.7	11.8
Of which : operating revenue	12.0	11.8	11.6	11.6	11.8
Other	0.1	0.0	0.0	0.0	0.0
Capital revenue	0.8	0.8	0.7	0.7	0.6
Total expenditure	**12.5**	**12.7**	**12.8**	**12.7**	**12.3**
Current expenditure	10.0	10.1	10.3	10.4	10.8
Of which : operating expenditure	9.2	9.5	9.5	9.8	10.3
Interest payments	0.4	0.5	0.5	0.5	0.4
Other	0.4	0.1	0.3	0.1	0.1
Capital expenditure	2.6	2.6	2.4	2.3	1.4
Operating balance	**2.8**	**2.4**	**2.0**	**1.9**	**1.5**
Current account balance	**2.0**	**1.8**	**1.3**	**1.3**	**1.0**
Overall balance	**0.3**	**-0.1**	**-0.5**	**-0.4**	**0.2**
Statistical discrepancy 2/	0.6	0.8	-0.2	-0.6	0.5
Overall balance, adjusted basis	**0.9**	**0.8**	**-0.6**	**-1.0**	**0.6**
Total financing	**-0.9**	**-0.8**	**0.6**	**1.0**	**-0.6**
External	-0.2	-0.6	-0.3	-2.2	-0.1
Domestic	-0.7	-0.2	1.0	3.1	-0.5

Sources: Ministry of Finance; public corporations; National Insurance Board; and Fund staff estimates.

1/ BTC, Bahamas Electricity, Water and Sewerage, Bahamasair, and Broadcasting Corporation.

2/ Difference between deficit measured above the line and debt financing.

Table 13. The Bahamas: Operating Balances of Nonfinancial Public Corporations

	2000	2001	2002	2003	Prel. 2004
(In millions of Bahamian dollars)					
Total operating balance	**139.5**	**121.2**	**109.3**	**102.1**	**86.0**
Bahamas Air Corporation	-12.9	-13.2	-15.2	-12.7	-13.2
Bahamas Telecommunications Company	105.5	99.5	98.4	91.8	70.6
Bahamas Electricity Corporation	54.0	51.3	47.2	43.9	49.5
Bahamas Broadcasting Corporation	-7.8	-8.8	-9.1	-6.3	-6.6
Bahamas Hotel Corporation	3.3	-2.5	-6.6	-6.7	-7.0
Bahamas Water and Sewerage Corporation	-2.6	-5.2	-5.4	-7.9	-7.4
Total overall balance	**13.5**	**-4.3**	**-26.0**	**-20.1**	**8.7**
Bahamas Air Corporation	-1.4	0.8	0.9	0.4	-3.5
Bahamas Telecommunications Company	18.8	15.3	21.0	34.6	43.3
Bahamas Electricity Corporation	6.8	0.6	-17.6	-40.1	-10.7
Bahamas Broadcasting Corporation	-3.6	-5.5	-5.2	-0.1	-1.3
Bahamas Hotel Corporation	-5.2	-4.9	-17.1	-6.6	-6.8
Bahamas Water and Sewerage Corporation	-2.0	-10.6	-7.9	-8.4	-12.2
(In percent of GDP)					
Total operating balance	**2.8**	**2.4**	**2.0**	**1.9**	**1.5**
Bahamas Air Corporation	-0.3	-0.3	-0.3	-0.2	-0.2
Bahamas Telecommunications Company	2.1	1.9	1.8	1.7	1.2
Bahamas Electricity Corporation	1.1	1.0	0.9	0.8	0.9
Bahamas Broadcasting Corporation	-0.2	-0.2	-0.2	-0.1	-0.1
Bahamas Hotel Corporation	0.1	0.0	-0.1	-0.1	-0.1
Bahamas Water and Sewerage Corporation	-0.1	-0.1	-0.1	-0.1	-0.1
Total overall balance	**0.3**	**-0.1**	**-0.5**	**-0.4**	**0.2**
Bahamas Air Corporation	0.0	0.0	0.0	0.0	-0.1
Bahamas Telecommunications Company	0.4	0.3	0.4	0.6	0.8
Bahamas Electricity Corporation	0.1	0.0	-0.3	-0.7	-0.2
Bahamas Broadcasting Corporation	-0.1	-0.1	-0.1	0.0	0.0
Bahamas Hotel Corporation	-0.1	-0.1	-0.3	-0.1	-0.1
Bahamas Water and Sewerage Corporation	0.0	-0.2	-0.1	-0.2	-0.2

Sources: Ministry of Finance; public corporations; and Fund staff estimates.

Table 14. The Bahamas: Summary Accounts of the Financial System

(In millions of Bahamian dollars; end of period)

	2000	2001	2002	2003	2004
Net foreign assets	**-84**	**-235**	**-357**	**-144**	**104**
Central bank	343	312	373	484	668
Commercial banks	-450	-548	-723	-615	-597
Other financial institutions	23	2	-8	-13	33
Net domestic assets	**3,322**	**3,588**	**3,828**	**3,813**	**3,989**
Net credit to nonfinancial public sector	340	413	505	545	560
Net claims on government	509	626	651	507	547
In local currency	487	583	517	504	550
Claims	566	642	597	601	648
Deposits	-78	-59	-80	-97	-97
In foreign currency	22	43	134	2	-3
Net claims on public corporations	-169	-214	-146	39	12
Net credit to financial public sector 1/	-16	-1	0	0	0
Credit to private sector	3,619	3,902	4,070	4,095	4,339
In local currency	3,200	3,450	3,601	3,683	3,958
In foreign currency	418	452	469	411	382
Capital and surplus	-672	-756	-821	-1,130	-1,220
Net unclassified assets	52	30	74	303	310
Liabilities to private sector	**3,238**	**3,354**	**3,470**	**3,669**	**4,093**
Money	761	748	777	846	1,011
Currency	151	154	155	160	177
Demand deposits	609	594	622	686	835
Savings and fixed deposits (local currency)	2,393	2,521	2,604	2,731	2,987
Foreign currency deposits	84	84	89	93	96
(12-month change in terms of liabilities to the private sector at beginning of the period)					
Net foreign assets	-1.1	-4.6	-3.7	6.1	6.8
Net domestic assets	8.6	8.2	7.2	-0.4	4.8
Credit to nonfinancial public sector	-3.1	2.2	2.8	1.2	0.4
Credit to central government	0.4	3.6	0.8	-4.2	1.1
Credit to financial public sector	-0.2	0.5	0.0	0.0	0.0
Credit to private sector	15.4	8.8	5.0	0.7	6.7
Liabilities to private sector	7.5	3.6	3.5	5.7	11.6
Money	1.5	-0.4	0.9	2.0	4.5
Quasi-money	5.9	4.0	2.6	3.8	7.1
(12-month percentage changes)					
Net domestic assets	8.4	8.0	6.7	-0.4	4.6
Credit to private sector	14.7	7.8	4.3	0.6	6.0
Liabilities to private sector	7.5	3.6	3.5	5.7	11.6
Money	6.4	-1.7	3.9	8.8	19.6
Quasi-money	7.8	5.2	3.4	4.8	9.2
Memorandum item:					
Velocity (GDP/M3)	1.5	1.5	1.6	1.5	1.4

Sources: Central Bank of The Bahamas; and Fund staff estimates.

1/ Includes Bahamas Development Bank, Bahamas Mortgage Corporation, and Bahamas Agricultural and Industrial Corporation.

Table 15. The Bahamas: Accounts of the Central Bank

	2000	2001	2002	2003	2004
(In millions of Bahamian dollars)					
Net official foreign assets	**342**	**312**	**373**	**484**	**668**
Balances with banks abroad	119	44	126	184	311
Foreign securities	215	260	238	291	347
Reserve position in the Fund	8	8	8	9	10
Net domestic assets	**31**	**108**	**92**	**15**	**-13**
Net credit to the nonfinancial public sector	106	177	163	91	59
Net claims on government	121	187	173	108	142
Claims	129	190	182	115	150
Treasury bills	66	99	72	0	0
Government bonds	9	34	39	44	79
Loans and advances	54	57	72	71	71
Deposits	-8	-2	-10	-6	-8
Deposits of the National Insurance Board	-3	-6	-2	-18	-83
Net claims on rest of public sector	-12	-4	-8	0	0
Net claims on financial public sector	8	8	8	7	9
Credit to commercial banks	0	0	0	0	0
Official capital and surplus	-98	-94	-98	-97	-98
Net unclassified assets	15	17	20	19	22
Liabilities to commercial banks	**204**	**250**	**292**	**319**	**457**
Notes and coins	64	65	66	80	79
Deposits	140	185	226	239	378
Liabilities to other financial institutions	**5**	**4**	**5**	**6**	**6**
SDR allocation	**13**	**13**	**14**	**15**	**16**
Currency held by the private sector	**151**	**153**	**155**	**160**	**177**
(Annual percentage changes in terms of reserve money)					
Net international reserves (NIR)	-16.5	-8.4	14.9	24.6	37.9
Net domestic assets	12.8	21.1	-3.8	-17.0	-5.9
Net credit to nonfinancial public sector	14.1	19.7	-3.5	-15.9	-6.7
Central government	13.6	18.5	-3.6	-14.3	6.9
Net credit to banks	-0.1	0.0	0.0	0.0	0.0
Liabilities to commercial banks	-4.5	12.6	10.4	5.9	28.5
Liabilities to other financial institutions	0.3	-0.3	0.1	0.2	0.0
Currency held by the private sector	0.8	0.6	0.3	1.2	3.4
(12-month percentage changes)					
Net domestic assets	-289.5	242.5	-14.4	-83.4	-185.6
Net credit to the nonfinancial public sector	98.3	67.3	-8.1	-44.2	-35.4
Central government	72.9	55.2	-7.7	-37.3	30.9
Reserve money	-3.4	12.9	10.8	7.3	31.9
Currency in circulation	2.0	1.4	0.9	3.4	10.3
(In millions of Bahamian dollars unless otherwise indicated)					
Memorandum items:					
Reserve money	361	407	451	484	639
Currency in circulation	215	218	221	240	255
Change in NIR	-62	-30	61	111	184
NIR/reserve money (in percent)	94.9	76.7	82.7	100.0	104.5

Sources: Central Bank of The Bahamas; and Fund staff estimates.

Table 16. The Bahamas: Accounts of the Commercial Banks

(In millions of Bahamian dollars)

	2000	2001	2002	2003	2004
Net foreign assets	**-450**	**-548**	**-723**	**-615**	**-597**
Net claims on central bank	**207**	**249**	**291**	**317**	**456**
Notes and coins	64	65	66	80	79
Balances	144	185	226	238	378
Central bank advances	-1	-1	-1	-1	-1
Net domestic assets	**3,245**	**3,421**	**3,654**	**3,698**	**3,956**
Net claims on government	383	435	475	394	401
Treasury bills	50	64	39	48	27
Other securities	315	314	338	365	389
Loans and advances	89	115	170	75	78
In local currency	67	72	35	69	78
In foreign currency	22	44	135	5	0
Deposits	-71	-58	-72	-94	-93
In local currency	-70	-57	-71	-90	-90
In foreign currency	-1	-1	-1	-3	-3
Rest of the public sector	-129	-11	-15	...	...
Net claims on financial public sector 1/	-33	-201	-79	...	...
Net claims on other financial institutions	-8	-1	16	1	34
Credit to private sector	3,511	3,782	3,926	3,948	4,200
Private capital and surplus	-510	-593	-660	-974	-1,061
Net unclassified assets	29	10	41	277	289
Liabilities to private sector	**3,002**	**3,122**	**3,222**	**3,400**	**3,814**
Demand deposits	670	662	681	755	911
In local currency	601	587	613	674	825
In foreign currency	69	75	68	81	87
Savings deposits	597	606	634	682	784
In local currency	593	604	630	678	779
In foreign currency	4	2	4	4	4
Fixed deposits	1,735	1,853	1,907	1,964	2,120
In local currency	1,724	1,846	1,890	1,955	2,115
In foreign currency	11	7	17	9	5

Source: Central Bank of The Bahamas.

1/ Includes Bahamas Development Bank, Bahamas Mortgage Corporation and Bahamas Agricultural and Industrial Corporation.

Table 17. The Bahamas: Accounts of Other Local Financial Institutions 1/

(In millions of Bahamian dollars)

	2000	2001	2002	2003	2004
Net foreign assets	**23**	**2**	**-8**	**-13**	**33**
Net claims on central bank	**-5**	**4**	**5**	**6**	**6**
Notes and coins	1	0	0	0	0
Balances	-6	4	5	6	6
Net domestic assets	**65**	**73**	**97**	**116**	**63**
Net claims on government	4	3	3	4	4
Deposits of the National Insurance Board	…	0	0	0	0
Net claims on public corporations	-1	0	0	0	0
Rest of the public sector	-2	0	0	0	-1
Net claims on commercial banks	10	2	-13	-3	-48
Credit to private sector	108	120	144	147	140
Mortgages	91	110	134	136	127
Other	28	10	10	10	13
Private capital and surplus	-65	-68	-63	-58	-61
Net unclassified assets	11	16	25	27	29
Liabilities to the private sector	**85**	**78**	**94**	**109**	**102**
Demand deposits	8	8	9	12	10
Saving deposits	3	0	0	0	0
Fixed deposits	74	71	84	97	92

Source: Central Bank of The Bahamas.

1/ Includes savings and loan institutions and finance and trust companies domiciled in The Bahamas.

Table 18. The Bahamas: Loans and Advances of Commercial Banks 1/

	2000	2001	2002	2003	2004
(In millions of Bahamian dollars)					
Total	**3,638**	**3,910**	**4,121**	**4,279**	**4,483**
Foreign currency	474	504	593	669	608
Domestic currency	3,164	3,405	3,528	3,611	3,876
Hotels, restaurants, and night clubs	**269**	**262**	**272**	**253**	**233**
Foreign currency	186	198	206	194	174
Domestic currency	83	64	66	59	60
Trade and commerce	**182**	**226**	**221**	**224**	**206**
Foreign currency	2	4	8	20	38
Domestic currency	180	222	212	204	168
Building, construction, and real estate	**327**	**355**	**329**	**270**	**244**
Foreign currency	78	75	72	31	35
Domestic currency	249	280	258	239	210
Manufacturing and quarrying	**115**	**91**	**85**	**76**	**73**
Foreign currency	49	55	49	44	41
Domestic currency	66	36	37	32	32
Agriculture and fisheries	**16**	**22**	**14**	**25**	**21**
Foreign currency	1	8	0	0	0
Domestic currency	15	14	14	25	21
Personal and other loans	**2,599**	**2,820**	**2,997**	**3,083**	**3,393**
Of which:					
Consumer credit	1,413	1,460	1,458	1,401	1,487
Foreign currency	103	113	134	122	96
Domestic currency	2,495	2,708	2,863	2,961	3,297
Public corporations	**131**	**133**	**203**	**347**	**314**
Foreign currency	55	52	124	257	226
Domestic currency	76	81	79	90	88
(In percent of total loans and advances)					
Loans in foreign currency	13.0	12.9	14.4	15.6	13.6
Loans in local currency	87.0	87.1	85.6	84.4	86.4
Personal loans	71.4	72.1	72.7	72.1	75.7
Of which:					
Consumer credit	38.8	37.3	35.4	32.7	33.2

Source: Central Bank of The Bahamas.

1/ Excluding loans and advances to the government.

Table 19. The Bahamas: Commercial Banks' Reserve Position

	Total Reserves 1/	Required Reserves	Excess Reserves	Net Free Reserves 2/	Total Reserves	Excess Reserves	Net Free Reserves
	(In millions of Bahamian dollars; at end of period)				(In percent) 3/		
2000							
I	251.1	153.9	97.2	96.4	8.2	3.2	3.2
II	283.4	159.5	123.8	123.0	9.1	4.0	3.9
III	224.6	161.4	63.2	62.4	7.1	2.0	2.0
IV	203.8	162.1	41.8	41.0	6.3	1.3	1.3
2001							
I	227.9	165.8	62.1	61.3	6.9	1.9	1.9
II	221.4	169.9	51.5	50.7	6.7	1.6	1.5
III	231.1	170.8	60.3	59.5	6.9	1.8	1.8
IV	229.4	172.2	57.1	56.3	6.8	1.7	1.7
2002							
I	289.7	174.7	115.0	114.2	8.4	3.3	3.3
II	321.9	177.9	144.0	143.2	9.1	4.1	4.1
III	326.5	179.9	146.6	145.8	9.3	4.2	4.1
IV	268.6	179.0	89.7	88.9	7.7	2.6	2.5
2003							
I	309.5	179.5	130.0	129.2	8.8	3.7	3.7
II	308.0	180.3	127.7	126.9	8.7	3.6	3.6
III	319.5	180.0	139.5	138.7	9.0	3.9	3.9
IV	311.4	181.8	129.5	128.7	8.6	3.6	3.6
2004							
I	378.3	187.1	191.2	190.4	10.1	5.1	5.1
II	385.5	195.4	190.1	189.3	10.0	4.9	4.9
III	356.9	199.7	157.2	156.4	9.3	4.1	4.1
IV	472.0	199.7	272.2	271.4	11.9	6.9	6.9

Source: Central Bank of The Bahamas.

1/ Currency holdings plus balances with the central bank.
2/ Excess reserves minus borrowing from the central bank.
3/ Percent of total resident dollar deposit liabilities to private sector and public corporations.

Table 20. The Bahamas: Liquidity Position of Commercial Banks

	2000		2001		2002		2003		2004	
	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Dec.
	(In millions of Bahamian dollars; at end of month)									
Currency holdings	37.6	64.2	37.7	65.2	40.4	66.6	43.2	79.9	63.4	78.7
Net balance with the central bank	221.7	144.0	189.6	184.6	299.8	225.7	265.8	238.0	316.9	378.0
Treasury bills	87.8	49.9	74.6	63.5	106.8	38.8	69.5	47.6	88.9	26.7
Other government securities	307.4	299.3	296.2	303.1	302.7	332.2	347.0	365.2	364.9	389.0
Net balance with other financial institutions	-12.4	-24.0	-17.7	-20.3	-31.2	-18.4	-31.8	-18.7	-13.4	-23.1
Total eligible liquid assets	661.6	553.5	522.2	549.4	630.3	623.4	708.5	737.9	849.7	874.2
Required liquid assets 1/	524.0	522.7	556.2	552.5	580.0	570.1	578.4	595.0	637.6	656.9
Excess liquid assets	137.6	30.8	-33.9	-3.1	50.4	53.3	130.1	142.9	212.1	217.4
	(In percent of Bahamian dollar deposit liabilities)									
Excess liquid assets	4.3	0.9	-1.0	-0.1	1.4	1.5	3.6	3.9	5.4	5.4

Source: Central Bank of The Bahamas.

1/ Sum of 20 percent of demand deposits and 15 percent of time and savings deposits.

Table 21. The Bahamas: Selected Interest Rates 1/

(Period averages, in percent per annum)

	2001				2002				2003				2004			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Commercial bank interest rates																
Deposit rates																
Savings deposits	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.7	2.7	2.7	2.6	2.6	2.8	2.6	2.5	2.5
Fixed deposits																
Up to 3 months	4.1	4.2	4.2	4.2	4.3	4.2	3.9	3.8	4.0	3.8	3.7	3.8	3.8	3.7	3.6	3.6
Up to 6 months	4.4	4.6	4.7	4.8	4.7	4.5	4.1	4.0	4.4	4.0	4.0	4.0	4.1	3.9	3.9	4.0
Up to 12 months	4.7	4.8	4.6	4.8	4.8	4.5	4.2	4.4	4.6	4.3	4.1	4.5	4.4	4.1	4.0	4.2
Over 12 months	4.5	5.0	5.7	4.7	5.3	4.6	4.2	4.4	4.5	4.4	4.7	4.9	4.9	4.2	3.9	4.4
Weighted average rate on deposits	4.2	4.3	4.3	4.3	4.4	4.2	4.0	3.9	4.0	3.9	3.8	4.0	4.0	3.8	3.7	3.7
Lending rates 2/																
Prime lending rate	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Mortgage loan rates 3/																
Residential	8.9	9.1	8.9	8.8	8.9	9.0	8.9	8.9	9.0	9.0	8.9	9.0	8.9	8.9	8.8	8.8
Commercial	8.6	9.2	8.8	8.9	9.1	9.3	8.9	8.9	9.2	10.8	9.2	9.0	8.8	8.9	9.3	9.2
Consumer loans	13.6	13.7	13.4	12.9	12.3	13.8	13.1	13.1	13.9	14.0	13.9	13.5	13.4	13.1	13.0	12.5
Weighted average rate on loans	11.9	11.7	11.1	11.1	11.2	11.7	11.2	11.2	11.7	12.2	12.2	12.1	11.5	11.3	11.3	10.9
Other interest rates																
Treasury-bill rate	1.4	1.8	2.0	2.6	2.6	3.0	2.4	2.0	1.9	2.0	1.7	1.5	0.9	0.7	0.3	0.3
Central bank rediscount rate 4/	1.9	2.3	2.5	3.1	3.1	3.5	2.9	2.5	2.4	2.5	2.2	2.0	1.4	1.2	0.8	0.8
Bank rate 5/	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Memorandum items:																
LIBOR on 3-month U.S. dollar deposits	5.3	4.2	3.5	2.1	1.9	1.9	1.8	1.5	1.3	1.2	1.1	1.2	1.1	1.3	1.8	2.3
U.S. treasury-bill rate	4.9	3.7	3.3	2.0	1.7	1.7	1.6	1.3	1.2	1.1	0.9	0.9	0.9	1.1	1.5	2.0

Sources: Central Bank of The Bahamas; and IMF, International Financial Statistics.

1/ On instruments denominated in Bahamian dollars.

2/ Rates correspond to midpoints of the ranges reported by the central bank.

3/ Offered by other local financial institutions, except for commercial mortgage rates after 1994, which are offered by commercial banks.

4/ The rate at which the central bank discounts treasury bills.

5/ The rate at which the central bank makes advances to commercial banks.

Table 22. The Bahamas: Balance of Payments

(In millions of U.S. dollars)

	2000	2001	2002	2003	Est. 2004
Current account	**-521.2**	**-584.1**	**-341.5**	**-441.0**	**-305.0**
Trade balance	**-1,334.3**	**-1,340.4**	**-1,151.3**	**-1,203.6**	**-1,348.5**
Exports	575.9	423.1	446.2	424.7	469.3
Imports	1,910.2	1,763.5	1,597.5	1,628.3	1,817.8
Services, net	**896.8**	**822.6**	**978.0**	**877.1**	**936.6**
Transportation, net	-188.0	-200.8	-165.3	-175.1	-202.4
Travel, net	1,473.7	1,392.2	1,515.9	1,452.7	1,568.9
Insurance	-73.4	-83.2	-91.2	-104.4	-79.8
Construction services	-101.6	-33.0	-55.2	-37.8	-21.8
Royalty and license fees	-14.2	-13.3	-13.7	-14.6	-18.6
Offshore companies local expenses	89.4	56.4	126.3	106.0	134.0
Other services, net	-259.7	-247.0	-278.1	-292.5	-414.4
Government services	-29.4	-48.6	-60.8	-57.3	-29.3
Income	**-161.6**	**-176.4**	**-210.6**	**-163.3**	**-143.9**
Labor income	-51.1	-48.4	-49.8	-56.3	-63.3
Interest and dividends, net	-110.5	-128.0	-160.8	-107.0	-80.6
Official transactions	17.1	7.7	8.7	5.7	1.0
Central bank investment income	23.9	17.3	16.5	16.4	19.5
Interest on government transactions	-6.9	-9.5	-7.8	-10.7	-18.5
Private transactions	-127.6	-135.7	-169.5	-112.7	-81.6
Commercial banks and trusts	8.8	-11.3	-60.1	-28.7	-24.7
Other private	-136.4	-124.3	-109.4	-84.0	-56.9
Current transfers, net	**78.0**	**110.0**	**42.4**	**48.8**	**250.8**
Government	47.3	45.7	49.0	54.0	59.7
Private	35.8	69.5	1.2	1.2	199.2
Capital account	**420.5**	**243.3**	**380.5**	**231.9**	**311.9**
Capital transfers	-16.4	-21.3	-24.5	-37.4	-47.9
Direct investment	250.3	102.4	152.8	165.1	272.6
Property purchases, net	106.4	38.2	51.2	84.3	91.4
Equity, net	143.9	64.2	101.6	80.7	181.2
Other capital, net	218.7	63.8	103.8	148.4	165.4
Long -term public sector	-2.6	-22.0	-35.1	58.2	-14.0
Government, net	9.1	6.7	-21.5	196.0	-4.4
Nonfinancial public corporations	-11.6	-28.7	-13.5	-137.8	-9.6
Domestic banks	-29.6	120.4	183.6	-102.4	-64.2
Net errors and omissions	**39.2**	**310.6**	**21.8**	**320.0**	**176.8**
Overall balance	**-61.5**	**-30.2**	**60.8**	**110.9**	**183.7**
Change in net international reserves (increase -)	**61.5**	**30.2**	**-60.8**	**-110.9**	**-183.7**

Sources: Central Bank of the Bahamas; and Fund staff estimates.

Table 23. The Bahamas: External Public Debt and Debt Service

	2000	2001	2002	2003	Prel. 2004
	(In millions of U.S. dollars)				
External debt outstanding	**349.7**	**328.0**	**309.5**	**362.4**	**342.6**
Multilateral creditors	246.3	254.2	253.0	117.5	112.6
Official bilateral	21.8	0.0	0.0	0.0	0.0
Commercial creditors	30.0	22.6	15.1	7.7	0.5
Other	51.6	51.2	41.3	237.3	229.4
Debt service	**53.7**	**71.5**	**68.0**	**175.1**	**47.0**
Multilateral creditors	31.2	34.0	33.9	156.0	15.8
Official bilateral	6.1	23.8	0.0	0.0	0.0
Commercial creditors	11.6	9.5	7.9	7.9	7.4
Other	4.8	4.3	26.2	11.2	23.8
Amortization	**29.6**	**47.5**	**52.0**	**154.0**	**25.6**
Multilateral creditors	16.7	17.8	18.5	142.3	10.1
Official bilateral	3.6	21.8	0.0	0.0	0.0
Commercial creditors	8.4	7.4	7.4	7.5	7.2
Other	0.9	0.5	26.1	4.2	8.3
Interest	**24.1**	**24.0**	**16.5**	**21.1**	**21.4**
Multilateral creditors	14.5	16.2	15.3	13.7	5.7
Official bilateral	2.5	1.9	0.0	0.0	0.0
Commercial creditors	3.1	2.1	0.9	0.4	0.1
Other	4.0	3.8	0.2	7.0	15.6
	(In percent of GDP)				
External public debt outstanding	6.9	6.2	5.7	6.5	5.8
Multilateral debt	4.9	4.8	4.6	2.1	1.9
	(In percent of exports and travel receipts)				
Memorandum items:					
Total debt service	2.4	3.5	3.1	8.0	2.0
Debt service to multilaterals	1.4	1.6	1.6	7.1	0.7

Source: Central Bank of The Bahamas.

Table 24. The Bahamas: Real Effective Exchange Rates 1/

	1997	1998	1999	2000	2001	2002	2003	2004
	Index (1990=100)							
Information Notice System	103.7	105.6	108.5	111.4	114.4	114.3	110.1	105.4
Tourism-based rates								
Relative to other Caribbean destinations								
Average 2/	91.8	92.5	90.9	88.2	86.1	88.1	100.5	96.6
Bilateral real rate with respect to:								
Barbados	95.8	98.3	98.0	97.3	96.6	98.6	100.1	99.6
Dominican Republic	85.2	87.9	88.5	85.1	82.0	86.6	113.6	105.3
Jamaica	82.6	79.5	81.3	84.2	85.7	86.0	95.8	90.2
Mexico	94.8	95.5	87.0	79.7	75.5	76.0	83.7	84.3
Relative to tourists' countries of origin								
Average 3/	101.3	101.3	100.7	99.6	99.2	100.0	99.6	97.0
Bilateral with United States	99.9	99.7	98.8	97.1	96.2	96.9	97.6	95.9
	Annual percentage change 4/							
Information Notice System	2.1	1.9	2.7	2.7	2.7	-0.1	-3.7	-4.3
Tourism-based rates								
Relative to other Caribbean destinations								
Average 2/	-6.7	0.7	-1.7	-3.0	-2.4	2.3	14.1	-3.9
Bilateral real rate with respect to:								
Barbados	-6.0	2.6	-0.3	-0.8	-0.7	2.1	1.5	-0.5
Dominican Republic	-2.7	3.2	0.6	-3.9	-3.6	5.6	31.2	-7.3
Jamaica	-12.7	-3.7	2.2	3.6	1.8	0.4	11.4	-5.8
Mexico	-13.3	0.6	-8.9	-8.4	-5.3	0.6	10.1	0.8
Relative to tourists' countries of origin								
Average 3/	-1.6	0.1	-0.6	-1.1	-0.4	0.9	-0.5	-2.6
Bilateral with United States	-1.8	-0.2	-0.9	-1.7	-0.9	0.7	0.7	-1.8

Source: International Monetary Fund.

1/ Relative CPI, adjusted for exchange rate changes.
2/ Weighted by share of 13 competitors in the Caribbean tourism market (Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Mexico, Netherlands Antilles, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago).
3/ Weighted by country of origin of tourists (Argentina, Belgium, Brazil, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, United Kingtom, United States, and Venezuela).
4/ A positive number indicates real appreciation; a negative number indicates real depreciation.