THE CENTRAL BANK OF THE BAHAMAS

MONETARY AND CREDIT POLICIES IN THE BAHAMAS SINCE 1974

by

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INTRODUCTION

The objectives of monetary policies in developing countries (LDCs) usually relate to money and credit control, price stabilisation and economic growth. Price stability is considered by many as the primary objective of monetary policies in LDCs since they normally experience a higher rate of inflation than developed economies, and monetary policies are supposedly more effective than fiscal policies in the fight against inflation. This argument, of course, presupposes that the source of the inflationary pressure is under the control of the authorities which is normally not the case in LDCs. Monetary policies are also viewed as useful for achieving equilibrium in the balance of payments and stabilising exchange rates in LDCs. On a general level, it is acknowledged that monetary policy could be effective in promoting external balance while fiscal policy should be used to achieve internal balance and full employment (See Mundell, 1960).

While these objectives are generally accepted, the extent to which they can be successfully achieved through the application of monetary policies is problematic for many LDCs, particularly those with small, open economies like the Bahamas. This paper will review the experience of the Bahamas in the use of monetary and credit policies since 1974. The paper is divided into four sections. Section one discusses the objectives of monetary and credit policy. Section two outlines the instruments of monetary and credit control that the Central Bank is empowered to use. Section three reviews monetary and credit developments and policies over the period 1976-1986 and section four concludes with some brief comments on the limitations of monetary policy in the Bahamian context.

I. THE OBJECTIVES OF MONETARY POLICY

The direction of monetary policy in small, open economies is determined, by and large, by external considerations. In the Bahamas, monetary policy decisions are heavily influenced by developments in the United States, the major trading partner. Under a situation of extreme dependence on trade, as is the case in the Bahamas which has an import/GNP ratio of 60%, monetary policy has limited use as a tool for achieving internal stability as inflation is primarily imported (see Francis (4)).

The Central Bank is fully aware of the need to maintain internal as well as external stability, however, the constraints surrounding the extent to which monetary policy can be effectively applied to promote the former and the economy's heavy dependence on trade, forces the Bank to focus mainly on the external balance. The Central Bank, therefore, has for the most part pursued a restrained monetary policy designed to ensure an adequate growth in external reserves so as to maintain confidence in the present exchange rate system.

Ultimately, the success of monetary policies is determined by the ability to control the monetary base, thereby influencing commercial banks' liquidity and their capacity to expand credit. The authorities' ability to control the monetary base in the Bahamas is complicated by various unpredictable and sometimes uncontrollable influences on the "source" and "use" of the base (see Francis (4)). This makes the tasks of conducting monetary policy through manipulating the base almost impossible. Having regard to this therefore, in its application of monetary policy, The Central bank has developed a policy framework that embodies a mix of conventional and unorthodox instruments of monetary and credit control.

II. TOOLS OF MONETARY AND CREDIT CONTROL

Monetary policy in the Bahamas is guided by the need to maintain the external balance. This external objective is achieved largely through a policy of restraint on domestic credit expansion. The Bank attempts to influence credit by managing liquidity rather than by frequently adjusting interest rates. However, while no targets are set for the level of interest rates, The Bank seeks to ensure that rates are kept at a level consistent with the main policy objective of protecting the country's international reserves. During periods of sharply rising interest rates overseas, exchange controls on capital flows help to maintain stable domestic rates while at the same time avoiding undue balance of payments pressures.

To facilitate the conduct of monetary policy, the Central Bank has at its disposal all the traditional instruments of monetary and credit control, namely, variable reserve ratio: variable liquid assets ratio; selective credit control; open market operations, discount rate and moral suasion. The Bank is empowered to vary the statutory reserve ratio between 5% and 20% and to allow different ratios for different classes of commercial banks. The ratio was set at 5% of Bahamian dollar deposit liabilities in July 1974 and has not been changed since. The liquid assets ratio may be varied between 10% and 30%, but has been fixed at 20% of demand deposits at 15% of time and savings deposits, and borrowings since July 1974.

The Bank has opted not to exercise the power of selective credit control, as it is felt that this would only lead to credit rationing and hence, an inefficient allocation of resources. Also, the absence of a well-developed money and capital market severely limits the extent to which open market operations can be effectively used.

Loans and advances are made to commercial banks against the security of government registered stocks at the prevailing discount rate for a period not greater than the maturity date of the security or 93 days, whichever is longer. The amounts of any loans or advances to commercial banks cannot exceed 85% of the market value of the security at the data of its acquisition by the Bank. The discount rate is used to discourage or encourage credit growth by increasing or decreasing the cost of commercial bank borrowing. However, an expansionary policy is adopted only after careful assessment of the balance of payments, since the capacity of the Bank to stimulate the economy through such a policy is sharply restrained by the openness of the economy.

Moral suasion is widely used, and is undoubtedly the most effective tool in a small system like the Bahamas. The Government remains in close contact with bankers with whom he meets formally once a month to review and set new policy guidelines.

In attempting to influence the growth in domestic credit, the Bank also employs a more direct method which focuses on the management of liquidity. This primarily involves the placement or withdrawal of National Insurance Board's deposit in/or from the Banking system to increase/decrease liquidity to accommodate the Bank's monetary policy objectives. During periods of high liquidity, an injection of large amounts of National Insurance funds could push interest rates so low as to put pressure on the balance of payments through increased capital outflows and an expansion in aggregate demand. In such a situation the Board is encouraged to place new or maturing deposits with the Bank at a reasonable rate of return.

When liquidity is low and the Bank wishes to encourage credit expansion, it advises the Board to place deposits at selected commercial banks, or the Central Bank itself places funds in the system on the Board's behalf. This arrangement provides the Bank with an unconventional but effective tool of credit control.

III. MONETARY AND CREDIT DEVELOPMENTS AND POLICIES, 1976-86.

In the mid-seventies, private sector demand for Bahamian dollar credit showed sluggish growth, reflecting a sharp fall-off in private sector investment. The pick-up in investment in 1977 brought a turnaround in the credit situation, with private sector credit rising by $13.7 million in Bahamian dollars (see Table 1). Although economic activity remained robust in the latter half of the seventies, owing largely to rapid growth in tourism, domestic investment was still fairly slow. In an attempt to stimulate domestic demand, particularly in light of the strong growth in external reserves, the Central Bank agreed to a ½ percentage point reduction in the prime rate in April, 1979 from 9.5% to 9.0%.[1] As seen from Table 1, this move coincided with the rise in Eurodollar rates. During the period 1976-78 (III), Eurodollar rates were persistently lower than rates on Bahamian dollar loans, with the differential getting progressively narrower from year to year. The lower rates on foreign currency loans encouraged the growth of businesses with a high or potentially high foreign exchange earning capacity.[2]

The proportion of foreign currency loans to total loans and advances was relatively stable up to 1978 (II) when it rose to 40.6% from 35.8% in 1976 (IV). The shift in credit from foreign currency to Bahamian dollars started in 1978 (III) and gained momentum in 1979, as the interest rate differential between Eurodollar rates and local rates widened. The impact of the lowering of the prime rate on the distribution of credit outstanding became increasingly evident by 1979 (II), with Bahamian dollar credit advancing by 8.2% to $224.7 million from $20.7 million at end - 1978. Foreign currency credit over the same period declined by 9.8% to $108.2 million. The shift to Bahamian dollar credit intensified further as the interest rate spread increased in the wake of monetary measures taken by the Federal Reserve Board to protect the value of the dollar which fell almost uninterruptedly on the major foreign exchange markets since June, 1979. Residents took advantage of the increased interest rate spread to pay off their foreign liabilities. By end-1979, Bahamian dollar loans and advances were up by 18% over 1978, while foreign currency loans fell by 19%.

The Central bank viewed the widening interest rate diferential as a temporary phenomenon, as it was anticipated that rates abroad would fall. It was also envisaged that the unfavourable impact of credit expansion on the balance of payments would be cushioned by the growth in tourist receipts. Consequently, no action was taken and market forces were allowed to operate freely. However, subsequent developments in the fiscal area caused further squeeze on commercial bank reserves, which were already feeling the pressure from the expansion in Bahamian dollar credit.

In June 1979, the Government floated a $40.0 million Registered Stock issue to finance its capital development expenditure. However, so as not to compete with the private sector for the limited supply of skilled manpower and other resources, the Government delayed the implementation of its projects. Consequently, the proceeds of the stock issue were left on deposit with the Central Bank. This, coupled with the sharp expansion in Bahamian dollar credit, exerted severe pressure on reserve money and commercial bank liquidity (see Table 2), as commercial banks financed much of the expansion in credit by drawing down their excess reserves. Excess reserves dropped to an unprecedented low of $5.6 million (1.5% of Bahamian dollar deposit liabilities) in late November, 1979, thus drastically reducing the banks' ability to create credit at a time when the demand for credit is usually at a seasonal high. The Central Bank sought to deal with this situation in a manner that would have the least disruptive effect on the banking system.

In consultation with the Government, The Central Bank transferred \$6.5 million from the Government's Registered Stock Account at the Bank to those commercial banks that did not qualify for a direct loan owing to a lack of adequate collateral.[3] These deposits were placed at the prime rate, i.e. 9%. The Central Bank also made a direct advance of \$2.0 million to commercial banks against Government securities at 1% above the prime rate, up from the usual ½ percentage point. This was designed to give a direct signal to banks to be more selective in their credit policy. By end-1979, commercial banks excess reserves, as shown in Table 2, stood at \$9.6 million (2.9% of Bahamian dollar deposit liabilities), which was still low by historical standards. Net free reserves, defined as excess reserves less Central Bank advances and Government special deposits, declined to the dangerously low level of \$1.1 million or 0.3% of Bahamian dollar deposit liabilities.

At the end of 1979, several banks were forced to sell treasury bills to the Central Bank to meet their statutory reserve requirements. The impact of the expansion in Bahamian dollar credit and the freezing of Government deposits at The Central Bank on commercial banks liquidity was particularly acute at this time of the year when excess reserves are usually at a seasonal low. The seasonal pattern of excess reserves up to 1979 is shown in Chart I. Commercial banks usually accumulate reserves during the first half of the year as a result of heavy foreign exchange inflows from tourism. The decline in the second half of the year reflects in part a slowdown in tourist activity.

The process of substitution of Bahamian dollar liabilities for U.S. dollar liabilities peaked in the last quarter of 1979 and early 1980, when U.S. interest rates soared. In 1980, the rate differential in favour of Eurodollar rates jumped to 5.1% (see Table 3). Businesses were not only borrowing to prepay their foreign currency debts, but also to build up inventories as the cost of Bahamian dollar credit dropped below the expected rate of inflation. Also, with the rise in the cost of foreign credit, suppliers's credit became increasingly difficult to obtain, thus increasing the demand for Bahamian dollar credit. Commercial banks financed this expansion in Bahamian dollar credit in part by selling government securities to the Central Bank.[4]

As liquidity worsened, the upward pressure on domestic interest rates increased. The treasury bill rate rose late in 1979 and towards the end of the year The Bank increased the discount rate by ½ percentage point to 10% in an attempt to discourage credit expansion. In February 1980, the Bank took more direct measures to curb the rapid expansion in Bahamian dollar credit. Commercial banks' liquid assets position was scrutinized to ensure compliance with the statutory requirements and banks were asked to refrain from selling government securities to the Central Bank. Exchange Control approvals for prepayment of foreign currency loans were terminated and banks were encouraged to reduce loans to importers for financing inventories. Although it was anticipated that these measures would help to reduce the pressure on the foreign exchange reserves, the Bank recognized that unless the local lending and deposits rates were raised to more competitive levels to discourage further shifts in the currency mix of the public's financial assets and liabilities, commercial bank liquidity would continue to deteriorate.

Interest rates in The Bahamas were relatively stable over the period 1976-79 (see Table 4). Savings deposits rates remained on average at around 4.75%, while rates on fixed deposits showed a general decline since early 1976. Being mindful of the adverse impact that an uncompetitive deposite rate could have on commercial bank resources, particularly in light of the significant expansion in Bahamian dollar credit, the Central Bank moved quickly to deal with the situation. In February 1980, The Bank increased the discount rate by one percentage point to 11% and agreed to a two percentage point increase in the prime rate from 9% to 11%. Concurrently, commercial banks were directed to raise the rate of interest on savings deposits by a similiar amount from 4% to 6%. Other deposits and lending rates also moved up.

Reflecting the impact of these policy measures and the significant fall in Eurodollar rates, the liquidity situation improved in mid-1980. However, as shown in Chart 2, the seasonal pattern of reserves accumulation was less striking than in previous years. As Eurodollar rates soared again towards the end of 1980, liquidity tightened and the demand for Bahamian dollar credit continued to grow. Deposit rates came under increasing pressure, and although the prime rate remained unchanged at 11%, the effective lending rates increased, in some cases quite significantly. The Central Bank moved to relieve the pressure on liquidity by making direct advances to banks against the security of Government securities.[5] Those banks which were not eligible to borrow from the Central Bank because of a lack of adequate collateral were forced to borrow on the interbank market.

In an effort to reduce the excessive expansion in credit to the private sector and alleviate the pressure on the balance of payments, the Bank sought to discourage frequent use of its discount facilities by imposing a 2% surcharge on frequent and/or heavy borrowers in November 1980. The persistent pressure on the foreign exchange reserves, particularly towards the end of the year when the demand for foreign exchange is normally at a seasonal high, became a cause for grave concern. It was observed also that commercial banks were selling much less foreign currency to the Central Bank than previously, particularly those banks which were holding most of the foreign currency accounts of residents. While Exchange Control Regulations permit banks to deal among themselves in foreign currency, there is an understanding between the banks and the Central Bank that any foreign balances in excess of the current requirements of the holders of these accounts (mainly the hotels) should be sold to the Central Bank for Bahamian dollars. It was observed, however, that commercial banks were selling excess balances on the interbank market at a rate above par rather than to the Central Bank.

While the Bank did not want to completely withdraw the right given to commercial banks to deal among themselves in the interbank market, it took steps to ensure that they would not abuse this privilege. With this in mind, the Bank sought to limit the amount of interbank foreign currency transaction in excess of US$250,000 to the Central Bank. Further, in order to compete more effectively with commercial banks and increase the inflow of foreign exchange, the Bank agreed to buy U.S. dollar balance from commercial banks at a rate of US$1.0000 = Bah. $1.0000. Further, in order to make it more attractive for banks to purchase foreign exchange from the Central Bank, the selling rate was lowered from US$1.0000 = Bah. $1.0050 to US$1.0000 = Bah. $1.0040.

In 1981, domestic interest rates came under considerable pressure as rates overseas rose sharply and banks bid up rates to attract deposits in the wake of a sharp rise in the demand for credit. The increase in credit in the latter part of the year reflected the impact of seasonal factors coupled with the purchases of several small foreign-owned companies by Bahamians. After averaging 8 - 8½%, interest rates on some fixed deposits rose to as much as 11½%. However, following a 2.7 percentage point rise in the three-month Eurodollar rate, the interest rate differential rose to 5.5% from 5.1% in 1980 in favour of foreign rates (see Table 3). Consequently, the shift from foreign currency credit to Bahamian dollar credit continued with Bahamian dollar credit advancing by 15% and foreign currency dropping by 10%. In an effort to ease the upward pressure on domestic interest rates and stem the rise in Bahamian dollar credit, the Central Bank placed a ceiling of 10% on fixed deposit rates and through moral suasion directed commercial banks to restrict the growth in consumer loans.

There was no fundamental change in The Bank's monetary policy stance during 1982. Commercial banks were encouraged to bring in foreign funds to supplement their domestic resources as Bahamian dollar credit to the private sector continued to grow in the wake of a sharp increase in the interest rate differential in the first half of the year. The banks responded by increasing their net foreign liabilities by $5.4 million. In order to discourage unnecessary capital outflows relating to prepayment of foreign currency loans, the Bank tightened its Exchange Control procedures, and in some instances applications for loan prepayments were refused. As part of its credit restraint policy, The Central Bank reinstated the 2% surcharge that was lifted in November, 1981 on frequent and excess borrowings by commercial banks. The actual rate charged fluctuated between 10% - 12%, depending on the level and frequency of borrowing. While this basic policy was maintained throughout the year, its application was flexible and depended in large measure on the prevailing liquidity situation.

With the fall in international interest rates during the second half of the year and the concomitant lowering of the nominal differential between domestic interest rates and rates overseas from 5.5% to 2.1%, the rate of increase in Bahamian dollar credit to the private sector slowed. For the year as a whole, the rate of growth of Bahamian dollar credit to the private sector moderated to 13% from a year-earlier 15% (see Table 3). Although eurodollar rates fell below the Bahamian dollar prime rate, foreign currency credit to the private sector fell. This reflected some uncertainty by the private sector about future trends in U.S. interest rates compared to the relative stability of domestic interest rates. Reflecting an increase in real interest rates, as inflation dropped to 6.1% from 11.1% in 1981, private sector deposits in Bahamian dollars rose by 14.0% as against a year-earlier 11.0% (see Table 5). However, liquidity remained tight owing primarily to a marked rise in demand for credit from the public sector, most of which originated from the non-financial public corporations.

In order to ease liquidity pressures, the Bank continued to sterilize substantial amounts of National Insurance deposits and adopted a very selective approach in placing portions of these deposist with commercial banks, at rates varying between $9\frac{1}{2}$ and 10%.[4] Liquidity showed some improvement by May with the pick-up in tourism. However, commercial banks continued to seek accommodation from The Central Bank as liquidity was generally low during the year. As shown in Table 2 , the level of excess reserves stood at $9.4 million at year-end, down from a year-earlier $10.2 million. However, net free reserves was a negative $10.1 million, up slightly from the previous year. Net free reserves as a percentage of Bahamian dollar deposit liabilities remained at a negative 2.1%.

The main thrust of monetary policy during 1983 remained that of credit restraint. In the wake of an unfavourable trend in net foreign currency purchases, the Central Bank took a decision in April to maintain domestic interest rates at a level that would allow a differential of no more than two (2) percentage points in favour of local rates compared to rates in the United States. Towards mid-year, there was some pressure from the banking system to increase interest rates, as a result of the system's adjustment to a temporary demonetization of some $8 million following the Registered Stock issue in late April. In order to stem this upward pressure and to stimultaneously maintain rates at the present levels generally, the Bank temporarily lowered the discount rate to 9%, but reserved the option to apply a 2% surcharge for frequent and/or heavy borrowers. The use of the surcharge during the latter half of the year was flexible and depended for the most part on liquidity conditions. For the year, as a whole, the interest rate spread moved to 1.4%, in favour of the Bahamas (see Table 3).

With the fall in U.S. interest rates and the consequent shift in the interest rate differential in favour of the Bahamas, the growth in Bahamian dollar credit to the private sector eased to 8.0%, from a year-earlier 13%. The continued decline in foreign currency credit during the year reflected in part the reduction in and completion of a number of large investment projects. The moderate growth in Bahamian dollar credit, coupled with the full repayment of borrowings from the Central Bank, caused the liquidity position of commercial banks to improve considerably. Net free reserves moved to a positive $10.4 million or 2.0% of Bahamian dollar deposit liabilities, a sharp turnaround from a negative position a year-earlier.

The year 1984 saw some significant developments in external reserves, domestic credit and liquidity. International reserves rose sharply by $39.0 million, compared with $10.1 million in the previous year, while growth in domestic credit slowed to 5%, slightly above the rate of inflation. One possible explanation for the slowdown in credit growth may be the reduced demand for trade credit by local firms whose cash flow may have increased as economic activity pick-up. The growth of Bahamian dollar deposits decelerated sharply to 6.0% from 14.4% in 1983 (see Table 5). This was due in part to intense competition from the other local financial institutions whose deposits increased significantly, as they intensified their efforts to attract funds to expand their home mortgage financing.

These developments in external reserves and Bahamian dollar credit caused a further improvement in liquidity. Average excess reserves increased by $8.9 million in 1984 to $20.3 million. After reaching a peak of $31.0 million in May, the absolute level of excess reserves fell to a year-end level of $11.3 million, though up from the $10.4 million and $9.4 million recorded for 1983 and 1982 respectively. In view of the persistently high level of liquidity in the system during most of the year, The Bank continued to demonetize a substantial amount of National Insurance funds. However, as liquidity began to tighten towards the end of the year, commercial banks sought accommodation from The Central Bank. In an effort to restraint excessive credit expansion and hence protect international reserves, The Bank increased the discount rate to 9.5% from 9.0%. Simultaneously, the rate applied to frequent or heavy borrowing was reduced to 10.0% from 11.0%. Through moral suasion, commercial banks were encouraged to lend more to the productive sectors and to limit credit for consumption purposes.

Commercial banks' deposit liabilities to the private sector rose sharply in 1985, owing partly to the growth in tourism and large inflows of foreign funds from other sources. Credit to the private sector (mainly in the form of personal loans and credit to merchants) also expanded but lagged behind deposit growth. These developments caused an increase in excess reserves of commercial banks. However, in spite of the marked rise in excess reserves, banks appeared unwilling to accelerate the pace of credit expansion by lending to small business or other sectors which they view as risky. Instead, they opted to build-up non-interest-bearing balances with the Central Bank. In keeping with the profit motive, commercial banks eagerly sought safe, interest-bearing government securities, hence bidding up prices for the outstanding stock of treasury bills which was subject to a ceiling of $40 million. AS a result of this, the treasury bill rate fell to slightly under 5% in June from 8½% in January 1985.

Against the background and in an attempt to stimulate domestic demand in view of the strong growth in external reserves, in May 1985 The Central Bank reduced its discount rate to 8½% from 9½%; simultaneously, the commercial banks lowered their prime rate from 11% to 10% and reduced interest rates on bank deposits generally. As domestic rates and rates overseas continued their downward trend in the second half of 1985 and well into 1986 and as credit growth continued to drag and liquidity rise, in April 1986, The Central Bank again moved to promote economic activity by cutting its discount rate by a further one percentage point to 7.5%; in response, commercial banks reduced their prime rate by an equal amount to 9%. These policy measures appear to be having some impact as recent developments show a pick-up in Bahamian dollar credit to the private sector.

IV. CONCLUDING REMARKS

It is widely recognised that monetary policy in its traditional application is of little or no use in small, open economies like the Bahamas. This is so because of several reasons, none the least of which is the narrowness of the money and capital market and the limited array of financial instruments. Further, the seasonal pattern of liquidity makes it difficult to use the statutory reserves ratio as a tool for discouraging or encouraging credit growth. For example, under a situation of rapid credit growth, liquidity and hence, the capacity to expand credit is very low, therefore, there is no need to increase the reserve ratio to discourage credit expansion. The quick response of liquidity to credit growth in the Bahamas is a direct consequence of the economy's heavy dependence on tourism as the major supplier of reserve money and the structural weaknesses in the economy that cause such a strong reliance on imports.

Monetary policy also cannot be effectively use to achieve internal stability in an economy like the Bahamas where domestic prices are primarily externally determined. The Central Bank's basic monetary policy stance over the years has been and continues to be one of credit restraint designed to protect the country's foreign exchange reserves and thereby maintaining confidence in the existing exchange rate regime.

TABLE I Loans and Advances of Commercial Banks 1/

End of Period		Total	Foreign Currency	Bahamian Dollars	Proportion of Foreign Currency Loans %	Interest Rate Spread 2/ %
		(In millions of Bahamian dollars)				
1976 -	IV	270.3	96.7	173.6	35.8	4.2
1977 -	I	264.2	93.9	171.6	35.5	4.4
	II	274.6	97.0	177.6	35.3	3.9
	III	297.5	115.5	182.0	38.8	3.3
	IV	306.6	119.3	187.3	38.9	2.4
1978 -	I	299.1	116.4	182.7	38.9	2.2
	II	319.1	129.5	189.6	40.6	1.7
	III	323.3	127.0	196.3	39.3	0.8
	IV	327.8	120.0	207.7	36.6	-1.6
1979 -	I	325.0	113.2	211.8	34.8	-1.4
	II	332.9	108.2	224.7	32.5	-1.6
	III	347.4	107.2	240.2	30.9	-2.7
	IV	362.1	96.9	265.2	26.8	-5.7
1980 -	I	349.9	72.2	272.7	22.1	-6.1
	II	360.1	73.3	286.8	20.4	-0.2
	III	367.2	72.2	298.1	19.7	-1.1
	IV	395.1	76.2	318.9	19.3	~~-6.1~~ 9.1

SOURCE: Central Bank of the Bahamas and International Financial Statistics

1. Excludes loans and advances to the public sector.

2. Percentage point difference between prime rate on Bahamian dollar loans and 3-month eurodollar interest rate.

TABLE 3. Loans and Advances of Commercial Banks[1]

(B$ Millions)

End of Period	In Foreign Currency	In Bahamian Dollars	T O T A L	Proportion of Foreign Curreny Loans	Interest Rate Spread[2]
1980	~~60.1~~ 76.2	318.9	379.0	19.3	-5.1
1981	69.7	366.9	436.2	16.0	-5.5
1982	63.7	413.5	477.2	13.0	-2.1
1983	58.1	445.4	503.5	11.5	1.4
1984	60.3	467.2	527.5	11.4	0.3
1985	63.8	528.5	592.3	10.8	1.9
1985					
Qtr. I	57.9	473.3	531.2	10.9	-2.0
Qtr. II	56.2	485.0	541.2	10.4	1.7
1986					
Qtr. I	65.4	546.3	609.5	10.7	2.1
Qtr. II	65.5	547.8	613.3	10.7	1.9

1. See notes to Table I
2. See notes to Table I

SOURCE: Central Bank of the Bahamas and International Financial Statistics

TABLE 2 Bahamas: Commercial Banks' Reserve Position 1/

	Total Reserves 2/	Excess Reserves	Net Free Reserves 3/	Excess Reserves	Net Free Reserves 3/
	(In Millions of Bahamian dollars)			(In percent) 4/	
1975	19.2	9.5	9.5	4.9	4.9
1976	20.1	9.2	9.2	4.2	4.2
1977	21.4	9.4	9.4	3.9	3.9
1978	24.1	10.9	10.9	4.1	4.1
1979	25.5	9.6	1.1	2.9	0.3
1980	27.6	8.8	-1.2	2.3	-0.3
1981	30.8	10.2	-8.8	2.4	-2.1
1982 - IV	33.7	9.4	-10.1	2.0	-2.1
1983 - IV	37.4	10.4	10.4	2.0	2.0
1984 - IV	39.9	11.3	11.3	2.0	2.0
1985 - IV	45.6	14.3	14.3	2.3	2.3

Source: Central Bank of The Bahamas.

1/ Averages for the last month of the period.

2/ Currency holdings plus balances with the Central Bank.

3/ Excess reserves minus borrowing from the Central Bank.

4/ Percent of Bahamian dollar deposit liabilities of private sector and public corporations.

TABLE 4. Selected Interest Rates

(Quarterly average, per cent per annum)

	1	9	7	6	1	9	7	7	1	9	7	8	1	9	7	9
	Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I	Qtr. II	Qtr. III	Qtr. IV	Qtr. I	Qtr. II	Qtr. III	Qtr IV
Deposit Rates																
Savings deposits	4.60	4.60	4.65	4.73	4.74	4.74	4.49	4.74	4.74	4.59	4.50	5.20	4.90	4.50	4.72	4.46
Fixed deposits																
Up to 3 months	7.05	6.89	6.42	6.52	6.60	5.56	5.56	5.69	5.48	5.71	4.95	5.06	5.10	4.87	4.83	4.62
Up to 6 months	7.63	7.03	6.85	7.00	6.96	6.16	6.16	6.11	5.95	5.99	5.60	5.66	5.28	5.48	5.47	5.12
Up to 12 months	7.90	7.40	7.25	7.46	7.21	6.60	6.60	6.26	6.20	6.24	5.88	6.02	6.03	5.89	5.71	5.64
Over 12 months	8.21	7.87	7.62	7.88	7.78	7.01	7.00	6.88	6.73	6.80	6.25	6.79	6.17	6.21	6.28	6.19
Prime rate	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.00	9.00	9.00
Mortgages																
Residential	12.07	12.05	12.20	12.18	12.16	12.14	12.13	12.13	12.13	12.12	12.04	11.86	12.05	11.19	11.80	11.86
Commercial	12.12	12.11	11.11	11.10	11.10	11.11	11.10	11.11	11.71	11.75	11.77	11.83	12.03	11.86	11.64	11.53
Consumer Loans																
Hire-purchase	17.17	17.17	17.17	17.17	17.17	17.17	17.17	17.67	17.67	17.67	17.17	17.17	17.17	16.72	16.72	16.72
Other	16.24	16.20	16.30	16.26	16.30	16.32	16.30	15.82	15.82	15.79	15.79	15.49	15.43	15.04	15.04	15.04
Other Rates																
Treasury Bill Rate	6.60	3.65	4.68	6.85	6.82	3.07	3.77	5.39	4.55	3.28	3.08	2.93	3.03	2.19	2.66	4.14
Central Bk. Rediscount Rate	6.56	4.15	5.18	7.36	7.32	4.20	4.27	5.89	5.05	3.78	3.58	3.43	3.80	2.69	3.16	4.64
Euro-dollar Rate (3 - month)	5.54	5.86	5.68	5.25	5.11	5.56	6.21	7.11	7.28	7.84	8.71	11.08	10.87	10.62	11.66	14.70

SOURCE: Central Bank of The Bahamas and International Financial Statistics

TABLE 5. Accounts of the Commercial Banks

(In millions of Bahamian dollars, at end of year)

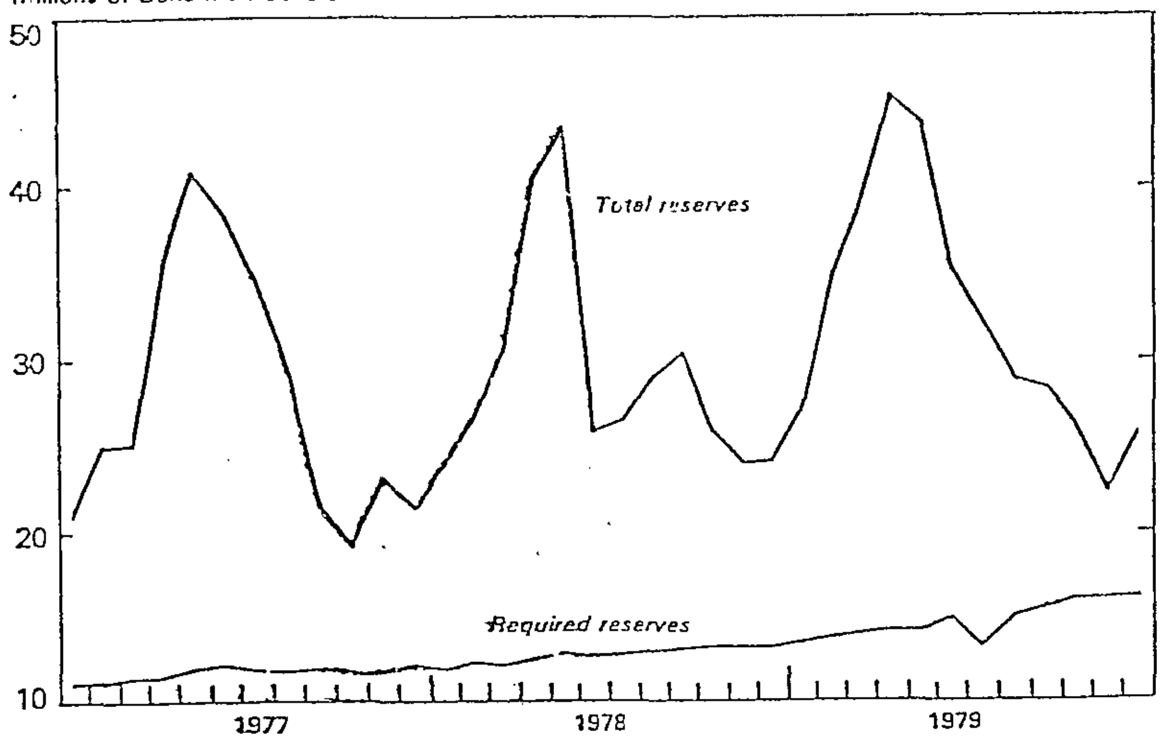
	1980	1981	1982	1983	1984	1985
Net foreign assets	-91.1	-105.6	-111.0	-93.2	-71.8	-97.6
Net claims on Central Bank	26.3	12.7	19.2	41.4	44.6	53.7
Notes and coins		13.2	17.6	15.4	19.2	23.1
Balances		18.6	20.6	26.0	25.4	30.6
Central bank credit 1/		-19.0	-19.0	--	--	--
Net domestic assets	422.8	478.4	523.8	551.8	599.9	641.7
Net claims on Government	54.8	85.1	95.1	117.8	117.7	109.7
Treasury bills		7.9	8.3	12.9	13.9	6.5
Other securities		35.8	32.5	40.3	42.5	52.5
Loans and advances		47.5	60.2	72.8	70.8	63.7
In local currency		7.0	6.1	23.1	28.2	29.1
In foreign currency		40.5	54.1	49.7	42.6	34.6
Less: deposits		-6.1	-5.9	-8.1	-9.5	-13.0
In local currency		-5.1	-5.4	-6.4	-8.3	-12.2
In foreign currency		-1.0	-0.5	-1.7	-1.2	-0.8
Deposits of the National Insurance Board	-13.4	-23.3	-37.5	-35.0	-26.2	-19.8
Net claims on rest of public sector	20.2	3.6	33.2	23.8	0.5	-6.2
Loans and advances		22.3	50.7	33.3	24.9	9.6
In local currency		9.2	30.9	15.9	16.8	5.8
In foreign currency		13.1	19.8	17.4	8.1	3.8
Less: Deposits		-18.7	-17.5	-9.5	-24.4	-15.8
In local currency		-18.2	-16.2	-8.6	-23.8	-15.2
In foreign currency		-0.5	-1.3	-0.9	-0.6	-0.6
Net claims on other financial institutions	1.0	--	-5.2	-6.6	-4.7	-4.8
Credit to private sector	386.7	443.4	484.5	509.7	534.3	592.3
Securities		6.8	7.0	6.2	7.4	0.1
Loans and advances		436.6	477.5	503.4	526.9	592.3
In local currency		366.9	413.8	445.4	467.2	525.8
In foreign currency		69.7	63.7	58.0	59.7	66.4
Private capital and surplus	-38.4	-33.6	-38.7	-44.6	-54.5	-16.7
Net unclassified assets	11.9	3.2	-7.6	-13.3	-7.2	-12.9
Liabilities to private sector	358.0	385.5	431.9	499.9	532.7	597.7
Demand deposits		103.5	112.0	130.0	135.8	145.5
In local currency		96.5	106.0	123.6	126.9	137.8
In foreign currency		7.0	6.0	6.4	8.9	7.7
Savings deposits		100.7	107.9	122.6	140.5	162.5
In local currency		100.5	107.5	122.5	140.5	162.5
In foreign currency		0.2	0.5	0.1	--	--
Fixed deposits		181.3	211.9	247.4	256.5	289.8
In local currency		178.9	208.9	238.8	249.7	283.0
In foreign currency		2.4	3.1	8.5	6.8	6.7

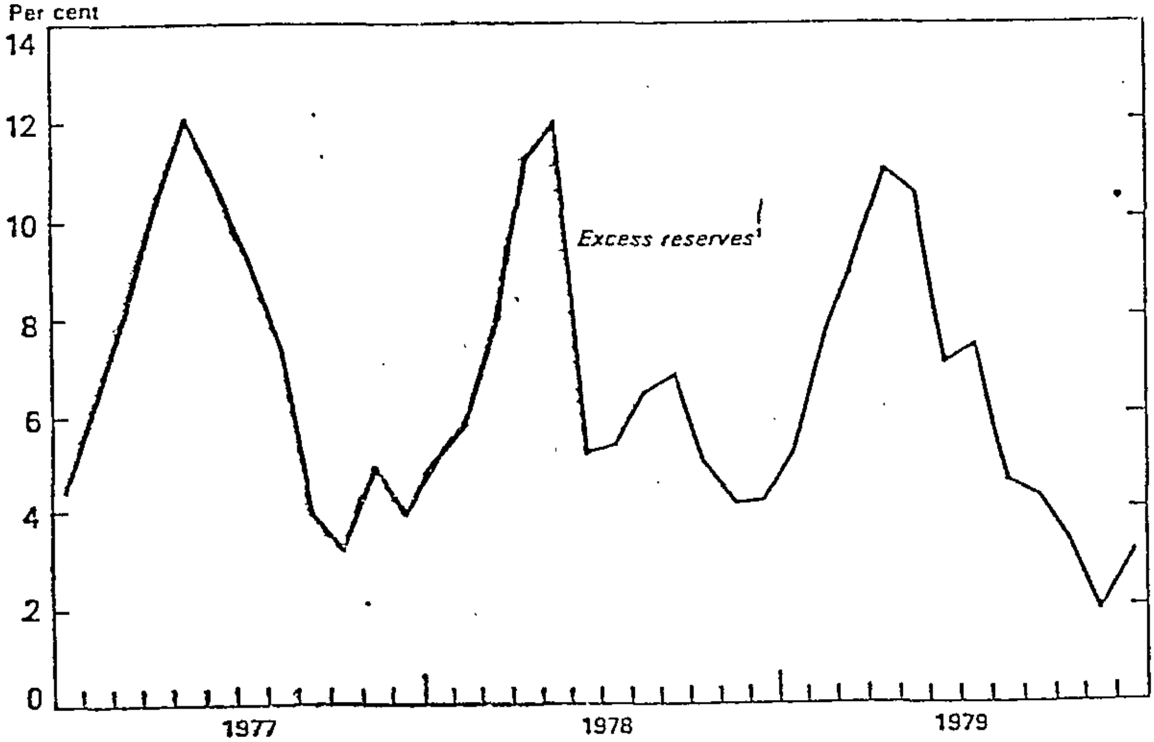
Source: Central Bank of the Bahamas.

1/ Includes central bank fixed-term deposits with commercial banks.

CHART I

COMMERCIAL BANKS RESERVE POSITION



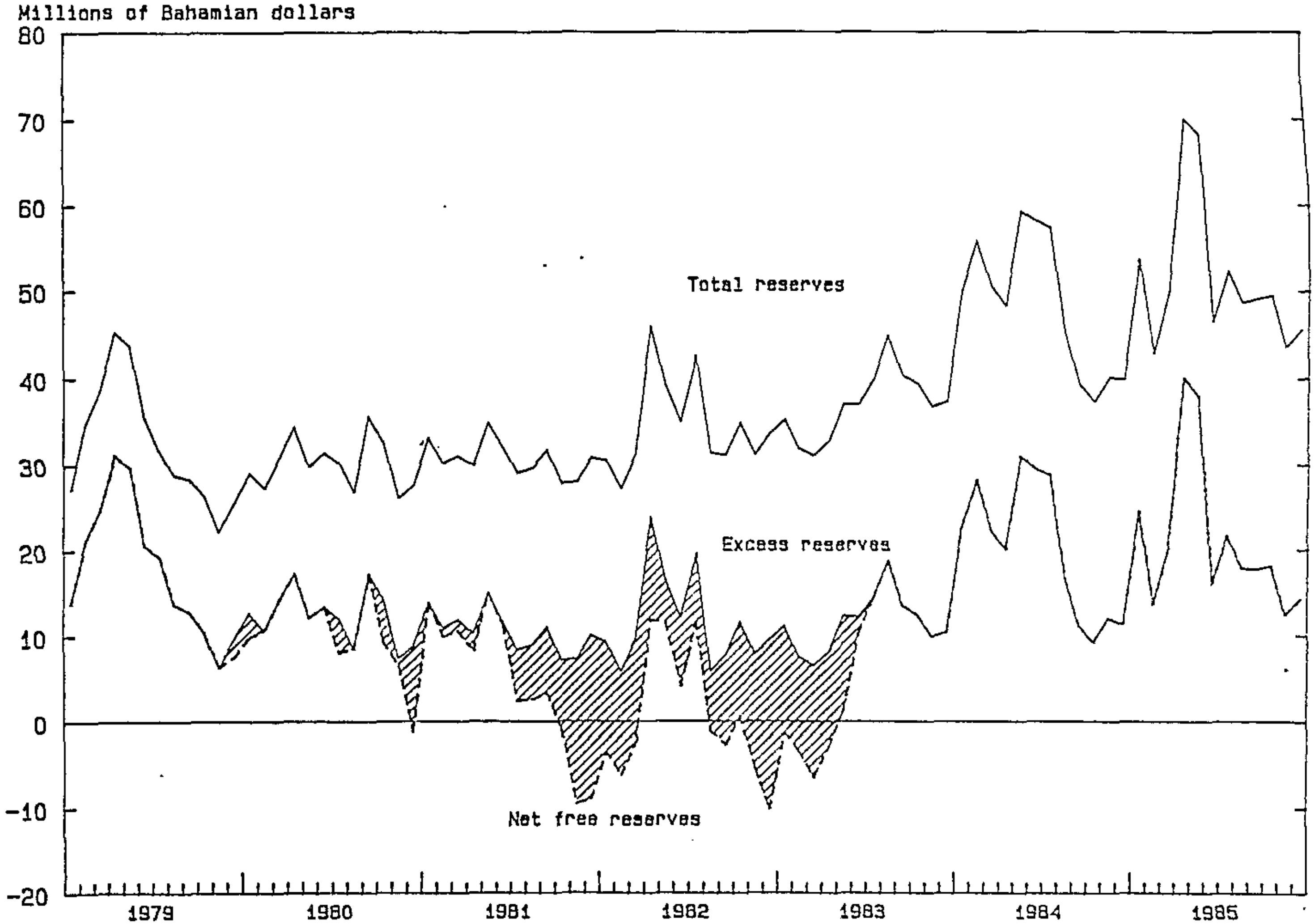


[1]As per cent of Bahamian dollar deposit liabilities

Source: Central Bank of The Bahamas.

CHART 2

COMMERCIAL BANKS' RESERVE POSITION[1]



[1]Shaded area indicates Central Bank credit to the commercial banks.

FOOTNOTES

1. Interest rates in the Bahamas are not subject to formal controls, but any changes in the commercial bank prime rate and savings deposit rate require in practice the concurrence of the Central Bank.

2. Residents are generally not allowed to hold foreign currency accounts and/or obtain foreign currency loans except with the approval of the Central Bank. Approval for holding foreign currency accounts are restricted to commercial purposes only.

3. The Central Bank Act, 1974 limits the amount of loans to a commercial bank to no more than 85% of the market value of government securities at the date of its acquisition by the Bank.

4. The informal policy in practice at this time was to purchase government registerd stocks from commercial banks at par. Since 1982, registered stocks are bought at a discount using the prime rate as the reference rate.

5. By end-1982, National Insurance deposits with commercial banks totalled $11 million.

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