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Abstract

This study attempts to understand and analyze the structure of the capital markets in The Bahamas and its linkages to the country's economic growth. With tourism as its number one contributor, The Bahamas have attained over $16,000 GDP per capita which is among the highest in the Caribbean. Financial services sector, a distant second to tourism, branches out to domestic and offshore sectors, where the latter is asset dominant. Other quality of life indicators such as unemployment, education level, value of the Bahamian dollar and inflation are all favorably in line with the level of GDP per capita.

Capital markets in The Bahamas have direct and indirect participation of private individuals, the Government, government corporations, and institutional investors such as pension funds. Bahamas International Securities Exchange (BISX), formed as a private company, is in its infantile stage. This study analyzes data on domestic credit to private sector through commercial banks, other local financial institutions, and the Bahamas Development Bank, stock market capitalization, and public debt market capitalization. The key areas of focus identified for accelerated growth for Bahamian capital markets are international recognition, modernization of government services, foreign ownership, credit reporting system, human resources, regional integration, and public education.

[1] The views expressed in this paper are those of the author and do not necessarily represent The Central Bank of The Bahamas. The paper should be considered as a work in progress. The author would welcome any comments on the written text or on any of the issues raised, many of which have yet to be resolved. The author also would like to thank Kevin Demeritte, Reo Horton, Peggy Winder, and Kevin Armbrister of Research Department for their valuable comments and statistical assistance.

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Section 1: Introduction and Academic Literature

Capital markets play an indispensable role in the development of the Bahamian economy in terms of financing. The main pillar of the economy, tourism, as well as industries such as agriculture and fisheries, manufacturing, distribution, entertainment and catering, transport, and construction benefit from different capital raising options available. Although the bulk of the foreign direct investment is channeled to tourism and related sectors, the accessibility of different sources of funds to other industries is observed to have aided the diversification of the economy. Among the several parties involved in capital markets, we can list the commercial banks, the Government, public corporations, Bahamas Development Bank, and the newly established Bahamas International Securities Exchange.

Previous literature on the capital market developments in the context of financial development and economic growth point out to the close positive relationship between the two based on the idea that financial development improves the efficiency of capital allocation, which implies higher long term economic growth. The most influential work in this area is by McKinnon (1973), which studies the relationship between the financial system and economic development in Argentina, Brazil, Chile, Germany, Indonesia, Korea, and Taiwan in the post WWII period. He concludes that better functioning financial systems support faster growth. The study of King and Levine (1993) also show a strong positive link between financial development and growth and that financial development has predictive power for further growth using cross sectional data from 80 countries during the period 1960-89 and four measures of the level of development: size of financial intermediaries, the degree to which banks versus the central bank allocate credit, ratio of private credit to domestic credit and private credit as a ratio of GDP. Among other studies taking a more microeconomic approach, Demirgüç-Kunt and Maksimovic (1996) argue that firms with access to more developed stock markets grow faster by analyzing industry level growth performance. Khan and Senhadji (2000) use the financial development dataset developed by Beck, Demirgüç-Kunt, and Levine (1999) and the International Financial Statistics of the International Monetary Fund.

They identify four indicators of financial dept: domestic credit to the private sector as a share of GDP, the stock market capitalization as a share of GDP, private and public bond market capitalization as a share of GDP, and stock market capitalization. While Khan and Senhadji (2000) is able to confirm the strong positive and statistically significant relationship between financial dept and growth in their cross section analysis, they conclude that there remains further need to analyze a potential nonlinearity between financial dept and growth, the effects of legal and regulatory reforms that support the development of securities markets, and the interlinkages between domestic and international financial markets.

In this paper, we examine the Bahamian capital markets on a component by component basis using the factors identified in the 2000 Khan and Senhadji study. By examining the trends and structure of these capital markets development indicators, we also hope to identify some of the areas that work well and those that need to be improved or changed in the current system.

Section 2 presents a general overview of the Bahamian economy with discussions of major macroeconomic indicators. Section 3 gives a brief history of capital markets in The Bahamas and introduces the main players and products available in the market. Section 4 examines the role of the Bahamas International Securities Exchange in comparison with other major securities exchanges in the Caribbean region. Section 5 provides a discussion of introduces the major financial dept indicators for the Bahamian economy, stock and bond market capitalization and domestic credit to the private sector Section 6 gives an overview of the main barriers to capital markets development from regulatory and investor perspectives and discusses prospects for a better functioning capital markets in The Bahamas. Section 8 concludes the paper.

Section 2: A General Overview of the Bahamian Economy

It is estimated that real Gross Domestic Product (GDP) of The Bahamas grew from 1997 to 2002 at an average annual rate of 2.63[2] percent (see Graph 1). The Bahamian economy enjoys the benefits of its natural endowments of year-round warm weather, powdery sand beaches, and turquoise waters that attract close to four million tourists a year. With tourism as its number one contributor (approximately 40%) to the total GDP, The Bahamas have attained over $16,000 GDP per capita which is among the highest in the region. The tourism sector of The Bahamas is exposed to general global economic conditions, mainly trends of the economy of the United States from where roughly 80 percent of the visitors arrive.

Number two contributor to the total GDP with approximately 15 percent, the financial services branch out to two sections: domestic and offshore. The domestic side of the financial services includes the banking sector, with over $5.3 billion in total domestic assets attributed to nine clearing banks and sixteen authorized agent trust companies, and the insurance sector where subsidiaries or branches of Canadian and American, as well as Bahamian owned, life insurance companies are represented with approximately $650 million in total domestic assets. On the offshore side of the financial services sector, with an estimated asset base in excess of $289 billion, there are a total of 292 offshore banks and trust companies licensed in The Bahamas of which 46 is euro currency branches of foreign banks and trusts, 130 are Bahamian incorporated, 105 hold restricted and 11 hold non-active licenses.

The remaining 45 percent of the total GDP is due to Government (20%), construction (8%), other (8%), agriculture and fisheries (5%), and manufacturing (4%).

On the employment side, The Bahamas enjoys a relatively low unemployment rate of 9.1 percent compared to some of its English speaking neighbors in the Caribbean such as 15.5 percent in Jamaica, 10.3[3] percent in Barbados, and 10.5[4] percent in Trinidad & Tobago. According to Department of Statistics, Statistical Abstract (1999), 34 percent of the workforce is employed in the community, social, and personal services industry,

[2] 2003 IMF Estimates.
[3] Central Bank of Barbados 2001 Annual Review.
[4] 2001 Data

followed by 16 percent in hotels and restaurants, 13 percent in wholesale and retail, 9 percent each in construction, transport, storage & communication, and finance, insurance, real estate & other business services industries. The agricultural, hunting, forestry & fishing, and manufacturing industries employ 4 percent of the labor force each. The remaining 1 percent of the workforce is employed in mining & quarrying, electricity, gas & water industry.

Chiefly due to its high concentration in the services and low concentration in the manufacturing sectors coupled with unsuitable land for many agricultural activities, the Bahamas imports 50 percent of its GDP mainly from its closest North American neighbors.

The national currency, the Bahamian Dollar, is pegged one to one to the United States Dollar. All foreign exchange transactions are monitored and controlled by The Central Bank of The Bahamas.

Due to the openness of the economy and its close economic linkages with the United States, inflation has been historically relatively stable and parallel to rates prevailing in the United States. In spite of higher energy costs in the last decade, the inflation rate has come sharply down from 5.6 percent in 1992 to 2.2 percent in 2002.

Section 3: Capital Markets in The Bahamas

3.1: The Role of Capital Markets

No different than a market for any other good or service, capital markets in The Bahamas provide a platform to match those looking to raise funds with those seeking to invest. From informal lending schemes to today's sophisticated financial products, capital markets have evolved to fit the needs of both the issuer and the investor. Outdated roles have been abandoned and new intermediaries have emerged over the years to add to the mix of players in the market. The tools used by all parties involved have also received their own share of the evolution mainly brought about by the latest technology. Government, on the other hand, has found itself in a race to modify existing laws and create new ones to keep abreast with the rapid changing dynamics of the market for the protection of all parties.

3.2: Players and Products

There is a wide range of different types of capital markets in the world. Dictated by many factors such as the size of their economy, laws, population, savings habits, natural resources and even wars and natural disasters among many others, capital markets in each country differ in size, efficiency, and structure. Below we discuss the key players and products available in the capital markets of The Bahamas.

3.2.1: Private Individuals and Savings

Investment options available in The Bahamas to its residents vary domestically and are limited by foreign exchange regulations internationally. Real estate, bank deposits, insurance schemes, equity and fixed income securities, pension plans are among the main investment options available domestically.

The first commercial bank opened its doors in 1837 in The Bahamas, and by 2003, the number of commercial banks has risen to nine. Many major world brand names are among those nine which provide domestic and international banking services to the Bahamians and visitors alike.

Graph 2 shows the trend in total deposits by private individuals broken down by type of deposit: fixed, savings, and demand deposits. In general, total deposits by private individuals have been on an uptrend since the beginning of our data (January 1992). While demand deposits have shown a relatively stable level for the last 10.5 years, fixed and savings deposits have contributed the major part in the overall increase of the total deposits by private individuals. In 1992, of the almost $1 billion (33.5% of GDP) total private individual savings, 8.6 percent ($82.6 million) were made up of demand deposits whereas 63.0 percent ($603.6 million) and 28.3 percent ($271.2 million) were due to fixed and savings deposits, respectively. We observe an 8.6 percent growth rate from March to June of 1999 which is a relatively sharp increase compared to the average annual growth rate of 0.6 percent for the period between 1992 and 1999 for the fixed and savings deposits. Since 1999, the average annual growth rate for fixed and savings deposits has come back down to 0.5 percent, close to their 1992-1999 rate. As of month end June 2003, demand, fixed, and savings deposits made up 10.1 percent, 62.1 percent, and 31.0 percent of the total deposits by private individuals of $2.05 billion (40.0% of GDP), respectively.

3.2.2: Government and Public Debt

Government of The Bahamas has been a major player in the capital markets and its development in The Bahamas. According to fiscal year 2003/2004 budget, total government debt is projected to reach $1.8 billion (34.4% of GDP), consisting of $1,390.2 million in bonds and $179.4 million in Treasury bills.

The major government securities markets are in the United States, Japan, and Europe. In the United States, the largest of all, the supply of public debt has reached over $6,006.0 billion although the supply of U.S. treasuries is shrinking and is projected to fall to very low levels by 2010. In Japan, which has the second largest securities market in the world, the national government debt was $5,088.7 billion by the second half of 2002. In Europe, with the introduction of Euro, there are now twelve separate sovereign issuers of euro-denominated government securities with a combined debt of $4,354.8 billion as at year end 2001. On the smaller end of the scale, in the Caribbean region, the Organization of Eastern Caribbean States comprised of eight small island nations, the total public debt stood at $1 billion as at year end 2002. In Jamaica, year-end 2002, the public debt has passed $6.9 billion while, in Barbados, the figure in question approaches $1.3 billion.

In general, there are three main characteristics of government securities and the markets they trade in that distinguish them from private securities:

- Minimal credit risk
- High liquidity and a wide range of maturities
- Well-developed market infrastructure

While all three of these characteristics exist in major developed countries, such as the United States, European Union members, and Japan, many of the developing nations including the Caribbean islands fall in the lower end of the spectrum of advanced government securities markets.

The characteristic that is common to most government debt is minimal credit risk. Although perceptions of credit risk on government debt differ across countries and how they compare to corporate debt, backed by tax revenue, government debt is usually perceived as less risky than corporate debt. In the domestic market, total internal debt is $1.7 billion as of year-end 2002. The Bahamas' total external debt stands at $96.0 million as of same period in question, inclusive of a US$50.0 million bond offering in 1997. Most recent foreign currency bond offering is the US$200.0 million bond offering that took place in summer of 2003.

Bahamas Government issues both short and long term debt that ranges from three months to maturity all the way out to twenty years treasury bonds available in the domestic market. Liquidity of Bahamas Government Registered Stock (BGRS) is facilitated by The Central Bank of The Bahamas which acts as the sole agent to provide clearance and settlement. The Central Bank of The Bahamas also manages a trading platform for the low volume secondary market for government securities.

3.2.3: Government Corporations and Privatization

Faced with the geographic distribution of 700 islands and cays of The Bahamas, the state owned and operated companies in The Bahamas have long served the public mainly, but not limited to, in the utilities sector. Other public corporations include the national flag carrier, the only television station, and an authority that manages the two bridges that connect the New Providence and the Paradise Island. There are eight main government corporations in The Bahamas: Bahamas Electricity Corporation (BEC), Bahamas Telecommunication Corporation (BTC), Water and Sewerage Corporation, Bridge Authority, Bahamas Development Bank (BDB), Bahamasair, Bahamas Mortgage Corporation (BMC), Bahamas Broadcasting Corporation.

The role of public corporations in the capital markets of The Bahamas arises in two main areas. First is the classical question of funding for the operations of the public corporations in question. Five of these eight public corporations are in a monopolistic position in their areas. Namely, the BEC, BTC, Water and Sewerage Corporation, the Bridge Authority, and the Bahamas Broadcasting Corporation face almost no direct local competition. Yet, only the BEC and the Bridge Authority are able to prove themselves profitable over the years. Unable to sustain their operational costs, the government corporations' traditional main source of financing has been internal and external government guaranteed and other loans. Currently, the BMC and the Bridge Authority issue government guaranteed publicly traded bonds. In the case of BMC, which specializes in mortgage lending activities such as loans to individuals to build on own lots and to purchase new and existing homes, and turnkey projects, the Bahamas Mortgage Corporation Act authorizes BMC to issue bonds in denominations of $100,000 up to an amount of $120 million which are guaranteed by the Government and serve as a source of funding for the corporation. With $97.2 million outstanding, BMC bondholders are mainly comprised of the National Insurance Board, commercial banks, and insurance companies. The Bridge Authority, which was established by the Act of Parliament in June 1998 as a continuation of the former Paradise Island Bridge Authority to acquire the existing bridge extending between Paradise Island and Potters Cay, to manage, maintain, and operate the Bridge and its facilities, and to regulate vehicular traffic, has a relatively smaller outstanding debt with $28.0 million which was fully subscribed in a March 1999 public bond offering. Overall, by the end of second quarter 2003, total government guaranteed debt of public corporations has eased steadily to $359.7 million.

Outside the perimeter of traditional notion of channeling savings to public companies in the context of equity markets and to debt financing in the context of bonds markets, another role that the capital markets play is restructuring. This issue is clearer in the case of privatization in The Bahamas where the Government has started to explore options for selling at least a part of its share in some of the state owned corporations. With shifting political regimes and perspectives of fiscal policy, the role of these companies as monopolies or even government corporations is no longer a given. The recent consideration of privatization of BTC (49% of equity) accompanied with potential regulatory changes in the telecommunications industry regarding licensing has opened doors to competition.

3.2.4: Institutional Investment

Institutional investment mainly covers the activities of private pension funds, cash and investments of the National Insurance Fund, current assets and investments of insurance companies, and deposits and shares placed at credit unions in The Bahamas. There are 131 registered pension plans, majority of which have been established during the 1980s whereas 10 funds, inclusive of the three largest sponsored by public corporations, are in existence since at least 1970. Labor force participation in private pension funds correspond very closely to cyclical employment trends especially in the hotel sector. In that regard the percentage of the employed work force covered by pension schemes varied between 18.3 percent (1997) and 23.3 percent (1995).

According to the a 2001 survey[5] of private pension plans in the country by The Central Bank of The Bahamas, from just over $300 million in 1992, the domestic assets in pension schemes are on course to surpass the $1 billion mark by 2005. The average increase in the share of institutional investment over the Gross Domestic Product between 1998 and 2001 was 4.1% per year. Table 1 shows that at end-2001, accumulated pension fund assets were equivalent to approximately 16.1 percent of GDP ($793.5 million), NIB,

[5] Central Bank of The Bahamas, Quarterly Economic Review, June 2003.

20.2 percent of GDP ($991.5 million), insurance companies, 10.3 percent ($48.7 million), and credit unions, 2.1 percent ($120.4 million). Also in recent years, schemes have become more heavily invested in equities and loans, which currently account for portfolio shares of 14.4 percent and 10.0 percent, as compared to 8.0 percent and 1.8 percent, respectively in 1995. Mutual funds also firmed to 4.6 percent of total investments from approximately 1.0 percent in 1995. Although still the dominant holdings, investments in Bahamas Government Registered Stock (BGRS) and deposits at 25.7 percent and 23.1 percent, respectively, decreased steadily since the mid-1990s. Real estate, investments in employer businesses, and private companies' bonds made up the remaining pension fund assets with 11.4%, which has fallen slightly compared to mid 1990s. Finally, on a sectoral basis, investments in the communication and utilities (35.0%), financial services (24.6%), and hotels and restaurants (20.7%) sectors dominate the portfolio asset structure of pension funds.

3.2.5: Small Business

Small business has been an entrepreneur driven and often disadvantaged child of the Bahamian economy. It mostly contributes to the diversification of the Bahamian economy away from large scale tourism and offshore financial activities. Fishing, transportation services, and agriculture are good examples of small and medium scale enterprise sectors in The Bahamas.

Although The Bahamas has a well developed tourism and financial services sector, financing opportunities available to small and medium scale enterprises have been historically limited. The recorded financing to small business is mostly channeled through the Bahamas Development Bank (BDB), which in turn obtains financing support from the government and multilateral agencies such as Inter-American Development Bank and Caribbean Development Bank project funds. According to most recent data given in the BDB 2000 Annual Report, $9.9 million worth of new loans had been made during year 2000 creating almost 500 new jobs. The 2000 total portfolio of BDB stands at $39.8 million, of which $25.1 million is current, $4.0 million is 31-90 days and $10.7

million is non-performing. During year 2000, 32.0 percent of the total approvals were for projects in New Providence, with the remaining 68.0 percent in the Family Islands. Of $3.2 million approvals in New Providence, service sector received the biggest share with 66.7 percent followed by transportation, fishing, manufacturing, agriculture, and tourism with 14.9 percent, 11.4 percent, 4.0 percent, 2.4 percent, and 0.6 percent respectively. In the Family Islands, there was a more even distribution of approved funds; service sector still got the biggest share with 28.6 percent closely followed by the tourism sector with 27.8 percent. While the transportation and fishing sector approvals were 21.1 and 20.7 percent, respectively, manufacturing and agriculture approvals constituted only 1.0 and 0.8 percent, respectively, of the total approvals in the Family Islands. Chiefly due to quality of loan portfolio, the BDB net loss for year 2000 was $1.4 million, slightly lower 1999 figure of $1.9 million.

In an attempt to introduce competition from commercial banks for small business financing, the Inter-American Development Bank approved a $21 million project in 1993. The project which involved making the funds available to the BDB which in turn would auction the funds to private commercial banks which could provide financing for small business. With this project, the IDB hoped to strengthen the domestic capital markets by creating a structure where alternative sources to credit for the small business would be stimulated. The effort proved to be rather ineffective in the case of The Bahamas. Receiving no bids for the funds from commercial banks, by late 2001, the loan was expired.

This behavior of the commercial banks should not be seen as uncommon as a close look at the corporate structure of many of the small business reveals that they are sole proprietorships. According to an observation made by a Chamber of Commerce commissioned study in 2002, lenders, including commercial banks, rather than focusing on the business risks associated with the loans when making a decision, they center on the credibility, credit worthiness and assets of the individuals behind the loan and treat it as personal. Therefore, many small business loans get classified as personal loans that use personal properties as collateral. This portion of the financing obtained by small business goes incorrectly classified, rather than unrecorded.

Section 4: Bahamas International Securities Exchange and Other Selected Securities Exchanges in the Caribbean

"... to create a state-of-the-art securities exchange for the delivery of innovative and efficient financial services"[6] as its mission statement, the Bahamas International Securities Exchange (BISX) opened its doors in May 2000 in Windermere House in Nassau. With 44 shareholders and a seed capital of $5.5 million, it is registered as a private[7] company under the Securities Industry Act of 1999.

Table 2 illustrates the basic overview of BISX and five other securities exchanges in the Caribbean region, namely Cayman Islands Securities Exchange, Bermuda Stock Exchange, Jamaican Stock Exchange, Eastern Caribbean Stock Exchange, and Trinidad and Tobago Stock Exchange. BISX is the one of the youngest securities exchange in comparison with the exchanges mentioned above. BISX has a market capital of approximately $1.7 billion (34.0% of GDP). The oldest stock exchange in the region is the Jamaican Stock Exchange which was established in 1968 as a private limited company. Currently, it has a total market capital of $5.1 billion. The second oldest securities exchange in the region is Bermuda Stock Exchange which was established in 1971 as a non-profit institution primarily for the domestic equities market. In 1992, with the growth of the offshore sector in Bermuda, it was restructured into a for-profit company and today it is the world's largest offshore, fully electronic securities market offering a full range of listing and trading opportunities for international and domestic issuers of equity, debt, depository receipts, insurance securitization and derivative warrants with a market capitalization in excess of $125 billion. More than 62 percent of securities listed on the Bermuda Stock Exchange are offshore funds. Subsequent to the Bermuda Stock Exchange, the Cayman Islands Stock Exchange has the second largest

[6] Bahamas International Securities Exchange Limited, Private Placement Offering Memorandum, September 1999, page 12.
[7] Companies with more than 50 shareholders are deemed to be "public companies" under the Securities Industry Act (SIA) of 1999. The SIA requires more stringent public reporting and disclosure for such companies than those currently required of private companies.

market capital with $38.2 million followed by Jamaican Stock Exchange, BISX, Eastern Caribbean Stock Exchange, and the Trinidad and Tobago Stock Exchange with $5.1 billion, $1.7 billion, $0.1 billion, and $0.03 billion, respectively. The Cayman Islands Stock Exchange was established in 1997 as a private limited company owned by the Cayman Islands government but it operates as an independent entity. It was originally set up to provide a listing facility for the specialist products of the Cayman Islands: namely offshore mutual funds and specialist debt securities. More recently, the facility has been expanded to include global depositary receipts and derivative warrants. The youngest of all stock exchanges under review, the Eastern Caribbean Stock Exchange, was established by the Eastern Caribbean Central Bank in 2001 and is the first regional securities exchange in the western hemisphere encompassing eight member territories of Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The Trinidad and Tobago Stock Exchange was established in 1981 under the auspices of the Ministry of Finance as a response to government's policy to localize the foreign owned commercial banking and manufacturing sectors of the economy and to get such companies to divest and sell a majority of their shares to nationals.

There are sixteen listed companies on BISX. All sixteen of these companies are domestic companies and BISX is yet to list an offshore sector related security such as a closed end hedge fund. As regard, market and sector breakdown of BISX and other major securities exchanges in the Caribbean region, companies operating in the non-banking finance sector constitute the largest number of companies listed on BISX with 29.4 percent, followed by the banking, communications & media, and trading sectors with 23.5 percent, 11.8 percent, and 5.9 percent respectively. The "other" category, with 29.4 percent of the total number of firms listed, consists of firms in the healthcare industry, a property fund, entertainment, and multimedia. There are currently no tourism, manufacturing or conglomerate firms listed on BISX. A closer look at the sectoral and market breakdown in the neighboring Caribbean stock exchanges reveals wide differences. With Cayman Stock Exchange being one extreme with over 600 offshore sector securities listed, Eastern Caribbean Stock Exchange has only two banks listed which are both domestic companies. Bermuda Stock Exchange is the only stock exchange under review that has both domestic and offshore securities listed. The Jamaican Stock Exchange, on the other hand, has a relatively more diverse composition of domestic firms. Currently, similar to the case of the Bahamas where The Central Bank of The Bahamas acts as an agent for government securities, the government securities of Jamaica are also traded at their central bank, Bank of Jamaica, rather than on the Jamaican Stock Exchange. The Trinidad and Tobago Stock Exchange, also with only domestic firms, draws attention with its large number of manufacturing firms listed (30.6%).

Section 5: Financial Development Indicators

Based on the work of Khan and Senhadji (2000), this study identifies proxies for financial development and analyzes data on domestic credit to private sector through commercial banks, other local financial institutions, and the Bahamas Development Bank (BDB), stock market capitalization, and public debt market capitalization.

Among the proxies for financial development, the model uses domestic credit to the private sector, bond market capitalization, and the stock market capitalization as independent variables. Domestic credit to the private sector serves as a measure of financial intermediation. By separating the credit to the public sector from credit to the private sector, we get a better indication of the role of the financial intermediaries and the effects of credit to the private sector. We further break down the total domestic credit to the private sector by type of lending institution and by sector. Domestic credit to the private sector mainly reflects the influence of the banking sector as an indicator of financial development on the economic growth. In order to capture the effects of equity and bond market development, we include the stock and bond market capitalization as an indicator of capital markets development.

Graph 3 shows the trends of the above mentioned variables as a percentage of Gross Domestic Product (GDP). While the shares of domestic credit to the private sector, public bond market and Treasury bill capitalizations have stayed within a relatively narrow band of 100 basis points each, the share of stock market capitalization have drawn an upward trend. Below we examine these datasets closer.

5.1: Domestic Credit to Private Sector

The data set regarding the total domestic credit to private sector covers a period of ten years starting in January 1992 and ending in year-end 2002. Total domestic credit to the private sector, including personal loans, have started out at $1.5 billion (52.4% of GDP) in January 1992 and have reached $3.7 billion (71.1% of GDP) by year-end 2002, reaching a peak of 72.0% of GDP in November and December of 2001. Personal loans constitute the majority of total domestic credit to the private sector gradually increasing from 60 percent in January 1992 to almost 70 percent year-end 2002. In this regard, we have created a separate variable, called total domestic credit to the private sector excluding personal loans, which subtracts the amount of personal loans from the total domestic credit to the private sector figure and only takes into account sector loans (excluding government and public sectors) in an effort to isolate the effects of private sector loans dedicated to personal and public consumption. As previously discussed under small business heading in Section 3, there is one problem associated with excluding all personal loans from total domestic loans for the private sector: although, in theory, personal loans given by commercial banks and other local financial institutions are used for land and building purchases and consumer credit in general, in practice, sole propriety small business loans may fall under personal loans due to their owner using his/her personal credit and assets as collateral to secure a loan for his/her small business. Due to limited categorization[8] of personal loans which provide little or no indication where small business loans might be included, we prefer to leave this item out of our data set when testing our model. With the complete exclusion of all personal loans, this variable, total domestic credit to the private sector excluding personal loans, have shown rather a relatively stable pattern as a share of GDP to that of total domestic credit to the

[8] In addition to land/building purchase loans, consumer credit is broken down to these eleven categories: private cars, taxis and rented cars, commercial vehicles, furnishings & domestic appliances, travel, education, medical, home improvement, consolidation of debt, miscellaneous, and credit cards.

private sector including personal loans. While it starts out at $543.1 million in January 1992 (19.0% of GDP), it has doubled to $1,064.9 million (20.8% of GDP) by year-end 2002. We have, further, broken down domestic credit to private sector in two ways: by type of institution and by type of industry.

In that regard, in this study, there are three types of institutions that provide funding for the private sector. They are:

- Commercial Banks
- Other Local Financial Institutions
- Bahamas Development Bank

Graph 4 shows the breakdown of total domestic credit to the private sector, excluding personal loans, by institution. Commercial banks provide an overwhelming share (78% to 85% for the last ten years under review) of total domestic credit to the private sector excluding personal loans compared to other local financial institutions (OLFIs), and the Bahamas Development Bank (BDB).

The second type of classification made, by type of industry, regardless of source of financial support, categorizes the industries under twelve groups. They are:

- Agriculture, Fisheries, Mining and Quarrying
- Manufacturing
- Distribution
- Tourism, Entertainment and Catering
- Transport
- Construction
- Financial Institutions, Other Professional Financial Services
- Miscellaneous

Table 3 shows the breakdown of total domestic credit to the private sector, excluding personal loans, by sector. In the agriculture, fisheries, mining and quarrying sector, the amount of credit given has gradually increased at an average annual rate of 12.5 percent between 1992 and 1998 and has fallen steadily since 1998 at an average annual rate of 6.5 percent. Graphs 5a and 5b show the share of each sector over the total domestic credit to the private sector and reveals a similar pattern with agriculture, fisheries, mining and quarrying share of the total credit increasing till 1998 and falling thereafter. In the manufacturing sector, we observe a relatively stable rate of increase in the credit amount with 2.8 percent per year and a stable share of total credit of around 5 percent until 1999. Since 1999, manufacturing has steadily lost its share of the total credit and as at year-end 2001; it had 3.7 percent of the total credit given to the private sector. Distribution sector has experienced an average annual rate of 5.9 percent growth in the amount of private sector credit allocated while maintaining an over 2 percent share of the total domestic credit to private sector every year in the last ten years. The biggest contributor to the GDP, tourism, entertainment and catering sector, receives only 9.4 percent (1995) to 6.7 percent (1998) of the total domestic credit to private sector with an average annual growth rate of 6.2 percent for the amount of private sector credit allocated in the last ten years. We observe sharp increases in 1998 and 1999 in the total domestic credit allocated to this sector with 18.1 percent and 21.3 percent compared to the years prior, respectively. Transport sector has maintained its share of 2.0 to 3.2 percent over the total domestic credit to private sector every year over the last ten years. It has experienced an average annual growth rate of 5.4 percent in the total funds allocated with biggest increase in 1994 (16.5%). Between 1996 and 1999, there has been a decline in the total domestic credit to transport sector. Since 1999, this sector has seen a general increase in total credit allocated at a declining rate. Construction sector has become the second largest receiver of total domestic credit to the private sector since 2000. It has received 21.6 percent and 24.0 percent of the total domestic credit to the private sector in years 2000 and 2001, respectively and as of end of second quarter 2002, it has maintained a 24 percent share over the total domestic credit to the private sector. The second largest contributor to the GDP, the financial services sector, has consistently received the largest share of the total domestic credit to the private sector. Although at an annual average declining rate of 3.6 percent over the last ten years, the financial institutions and other financial services sector receives between 33.4 percent (1992) and 23.3 percent (2001) of the total domestic credit to private sector. Miscellaneous includes many industries not included in the other groups such as environmental, healthcare, etc. Its share of the total domestic credit to private sector has been on the rise since 1992, especially in 1999 when it almost doubled from 9.1 percent (1998) to 16.4 percent.

5.2: Stock Market Capitalization

The data set regarding the total stock market capitalization covers a period of ten years starting in January 1992 and ending in year-end 2002. Ordinary shares of public companies have traded over-the-counter (OTC) before the establishment of BISX in May 2000. As mentioned earlier, there are sixteen stocks that trade on BISX and four that trade OTC. The pricing data for all stocks before May 2000 and currently OTC stocks are obtained from three major brokers, which also act as transfer agents, whereas pricing data for BISX listed companies are provided by BISX. The pricing information provided by BISX reflects the last price that the security has traded on the last date (or closest date to the last date) of the month whereas OTC pricing information averages at least two bid prices from at least two brokers on the last date of the month. Data regarding the number of total outstanding ordinary shares are obtained from audited company annual reports. Month end market capitalization is, therefore, calculated as product of price and total outstanding ordinary shares as at month end in question. All prices and market capitalizations are in Bahamian dollars.

Graph 6a shows the general trend of total stock market capitalization in The Bahamas in the last ten years. For the period between January 1992 and December 2002, there is a general upward trend in total stock market capitalization in The Bahamas. The share of total stock market capitalization over the GDP has also followed a steady upward trend since early 1990s. Starting with just over \$102.6 million (4% of GDP) in total market capital in 1992, this number has risen steadily over the last ten years to over \$1.7 billion (34% of GDP) by the end of 2002, peaking at \$2.1 billion (41% of GDP) April through

June 2001. One should note that total stock market capitalization, in our case, not only reflects the overall appreciation of ordinary shares of already public (either OTC or BISX listed) companies, but also the addition of values of ordinary shares of newly public companies. In that regard, at the start of our data in January 1992, there were three[9] companies whose ordinary shares traded on the OTC market. By May 1995, this number had risen to eight. As at year-end 2002, there are twenty such companies. The sharp increase in total market capitalization from August to September 1997, for example, is chiefly due to the initial public offering (IPO) of one company which has contributed $330 million to the total market capital. The last IPO added to our list of companies has occurred on May 2001, therefore, the last portion of the graph covering four most recent months solely shows the changes in the values of same group of companies under the effects of events such as September 11th, straw market fire, and Hurricane Michelle of late 2001 as well as general downward economic trend in the global markets.

Graph 6b shows the breakdown of total stock market capitalization by sector. On a sectoral basis, the share of banking sector over the total stock market capitalization has grown from 39 percent to 64 percent whereas the share of retail/distribution sector has severely fallen from first place with 61 percent in January 1992 to third place with 8 percent in August 2002. As at August 2002, industrial, multimedia, and insurance sectors constitute 10, 8, and 7 percent of the total stock market capitalization, respectively.

The share of total stock market capitalization over the GDP has followed a steady upward trend starting out with only 4 percent in January 1992 to 34 percent in August 2002. It has peaked at 41 percent April through June 2001.

5.3: Public Debt Market Capitalization

5.3.1: Long-term

[9] Due to lack of OTC pricing information, we had to exclude the contribution of one of these three companies (a banking institution) to the total market capital until April 1993 which is the date earliest pricing info is available.

The monthly data set regarding the public bond market capitalization covers a period of ten years starting January 1992 to December 2002. It comprises of three main components: the Bahamas Government Registered Stock (BGRS), the Bahamas Mortgage Corporation (BMC) bonds, and the Bridge Authority bonds. The BGRS and the Bridge Authority bond data are obtained from The Central Bank of The Bahamas which acts as the registrar and transfer agent of these issues. Data on the outstanding BMC bond figures are taken from quarterly reports supplied to The Central Bank of The Bahamas from BMC. Graph 7 shows the trend and descriptive statistics of the public bond market capitalization. Starting out at $650.1 million (22.8% of GDP) in January 1992, the total public bond market capitalization follows a general upward trend until mid 1999, after which it is observed to be stabilizing around $1.4 billion (26.9% of GDP in December 2002). The biggest component of the public bond market, the BGRS, has made up between 84 percent (early 1990s) and 91 percent (since second quarter 2001) of the total public bond market capitalization.

5.3.2: Short Term/Money Market

The treasury bills issued by The Bahamas Government with three month maturities make up the short term public debt. From $109 million (3.8% of GDP) in January 1992, the amount of treasury bills outstanding has risen to $179.4 million (3.5% of GDP) in December 2002.

Section 6: Future Prospects for Capital Markets Development in The Bahamas

While, over the years, the Bahamian capital markets have gotten their fair share of the changing financial and regulatory environment both domestically and internationally, several factors which globally play a discouraging role in the development of capital markets have been eliminated or their degree of influence has been diminished. For example, The Bahamas refrains from levying taxes on financial transactions involving the transfer of shares between two entities. In addition, there is no corporate income tax for Bahamian registered domestic companies or companies registered under the

"International Business Company" (IBCs) status. In some countries, the existence of corporate income tax has been observed to be a daunting factor in the exchange listing decision process of a company due to more detailed and frequent disclosure requirements of being listed on an exchange. Therefore, we may assume that the no corporate income tax policy of The Bahamas may encourage firms to list on BISX with proper disclosure and filing. However, as an agent of investor protection, this policy puts additional pressure on the Securities Commission of The Bahamas to supervise the timely collection and the accuracy of required filings with BISX, which is essentially a privately owned company. Currently, the Securities Exchange Act of 1999 requires exchange listed firms to file quarterly financial statements with the Securities Commission of The Bahamas. Also, interest rate ceilings of the 1980s, which limited the credit risk mitigation of the banks when lending have been abandoned since early 1990s.

Recently, extensive studies have been undertaken by the World Bank, Bahamas Chamber of Commerce, and the Bahamas International Securities Exchange (BISX) in collaboration with the Bahamian Government and The Central Bank of The Bahamas to identify the barriers to the development of the capital markets in The Bahamas. Namely, relatively small size of the domestic market, relatively low turnover, degree of marketing, status of Government securities, lack of offshore securities, and the level of institutional investment are among the concerns. Many of these studies point out to the same reoccurring themes that require action taking and cooperation of the public and private sectors.

Therefore, although much effort has been taken by both the public and private sectors towards a more efficient capital market in The Bahamas, several factors still remain to be improved. We may categorize these factors under nine main headings.

1. Trading of Bahamas Government Registered Stock

In recent years, the idea of a possible listing of government securities on BISX has come up. While, presently, there are no indications of formal negotiations between BISX and the Government, the effects of such an action on the functions and goals of the public bond market are worth examining.

Although government securities are absent from many securities exchanges in the regional such as the Eastern Caribbean Stock Exchange, Cayman Securities Exchange, and Bermuda Securities Exchange, in other major securities exchanges such as National Stock Exchange of India and Tokyo Stock Exchange, government securities have been the initial building blocks.

A 1998 World Bank and Caribbean Centre for Monetary Studies (CCMS) study[10] on increasing competitiveness and financial resource management for economic growth in the wider Caribbean points out to several other benefits of the role of well functioning government securities market in the development of a healthy financial sector.

- Macroeconomic Stability
- Reduced Financial Repression
- Integration into the International Financial System
- Development of Financial Intermediaries

Raising funds in the free domestic market acts as an substitute and/or compliment to monetization, which has undesirable effects such as inflation, allows the Central Bank to conduct open market operations with the existence of a "good" secondary market when conducting monetary policy as an alternative and/or compliment to direct controls, and serves as an indicator of government fiscal and monetary policy, an essential information for the public confidence on government behavior. If a domestic market for government securities is well functioning, there is less reliance on external borrowing. The higher the government debt in the international markets, the higher the default risk, and higher the default risk, higher the premiums the government has to pay over international rates. The country risk not only affects the government but also the private borrowing from the

[10] World Bank and The Caribbean Centre for Monetary Studies, Wider Caribbean Financial Sector Review: Increasing Competitiveness and Financial Resource Management for Economic Growth, 1998.

foreign markets in terms of increased interest rates for higher country risk. The Bahamas with its credit rating of A1 for long term local currency sovereign debt from Moody's is in a relatively good position compared to its English speaking Caribbean neighbors such as Jamaica with Ba2, Barbados with A3, Trinidad & Tobago with Baa1.

2. International Recognition

The Bahamas has proven itself as a leader in the tourism sector and the offshore business, however, with its first stock exchange in its infantile stage, it has yet to establish itself a reputation for "the place to be listed" that will just keep getting better. There is yet much road to be covered by BISX to get the international recognition for the services it provides. In addition to not being included in various indices prepared by major international financial institutions, it is only recently that the Bahamian financial data are being reported by the major information sources such as Bloomberg. A study commissioned by BISX and The Central Bank of The Bahamas has also found that there is a lack of participation in international marketing such as investment conferences and Bahamas-related overseas road shows. International recognition is certainly a must for BISX to be able to develop its offshore listing business and compete with other stock exchanges in the Caribbean, such as the Cayman Securities Exchange, which specialize and have proven profitable in this area. In addition, BISX does not enjoy the benefits of a designation such as that of the Bermuda Stock Exchange, which is a "designated offshore securities market[11]" under Regulation S of Securities Exchange Commission in the United States.

3. Foreign Ownership

Two Acts passed during the times when The Bahamas was still a British colony, namely the Exchange Control Act of 1952 and the Exchange Control Regulations Act of 1956,

[11] That means that U. S. investors who purchase securities of a company listed on the Bermuda exchange may sell them on that exchange without regard to the minimum holding period and volume limitations that would otherwise apply to restricted securities under U.S. federal securities laws.

give The Central Bank of The Bahamas the right to administer exchange controls. Although there have been some amendments to the articles towards improved efficiency and some moderate easing of the controls, all foreign exchange transactions by Bahamian residents require the proper documentation and approval of The Central Bank of The Bahamas. One of the implications of the exchange control regulations is the limitation of overseas investment choices available to the Bahamian citizens and, parallel to this, the limitations of domestic investment choices to non-Bahamian citizens. More specifically, according to the Exchange Control Regulations Act of 1956, 9(1),

> "Except with the permission of the Controller, a security registered in the Colony shall not be transferred, and a security not so registered shall not be transferred in the Colony, unless, in either case, the following requirements are fulfilled, that is to say-
>
> (a) neither the transferor nor the person, if any, for whom he is a nominee is resident outside the scheduled territories; and
>
> (b) the transferor delivers to the transferee at or before the time of the transfer the prescribed declarations as to his residence and that of the person, if any, for whom he is a nominee; and
>
> (c) neither the transferee not the person, if any, for whom he is to be a nominee is resident outside the scheduled territories;"

In short, the article above, coupled with the "25% investment premium" law, not only discourages the flow of capital outside The Bahamas by Bahamians but also limits the flow of capital towards equity ownership on Bahamian soil by foreigners (including resident foreigners). Potential influx of capital from Bahamian resident foreigners who make up approximately 18.0 percent of the population constitute a considerable amount that might be used to vitalize the trading volume on both BISX listed and over-the-counter securities, which will have a positive effect on a more "accurate" pricing of the securities, as well as meeting additional capital raising needs of listing companies. Even though it is a direct market intervention and discrimination among different kinds of investors in the same market, it might also be suggested that any concerns about foreign ownership can be controlled by imposing restrictions on the percentage of shares that can be owned by a non-Bahamian.

4. Credit Bureau

There is no credit reporting system established in The Bahamas. The lack of a central system which institutions can use to check individual credit histories has been an issue caused by secrecy and confidentiality laws established by Banks and Trust Companies Regulation Act of 2000. Other than affecting everyday transactions, such as a car purchase, mortgage or a credit card application in the case of the consumer, it has also its negative effects on the capital markets of The Bahamas. One example of that is the vulnerability it causes for the companies towards bad debt. Firms in the economy have very limited means of checking credible financial history, mostly in the form of employment letters, proof of ownership of property, bank statements, and word of mouth. There is no doubt with a centralized credit reporting system, the decreased amount of paperwork and time spent to search and process these documents would result in a more efficient manner of processing many financial transactions in the country. The lack of a centralized credit reporting system also limits the introduction of financial investment products, such as receivable backed securities, that can be issued by companies and be listed on BISX or be traded over the counter. The absence of a credit reporting system makes it almost impossible to rate debt which is backed directly by not assets but the credit standing of the debtor.

5. Information Technology

Telecommunications industry in The Bahamas has come a long way since the early 1990s. In addition to basic telephone services, cable television with access to American broadcasting and high speed internet access provided by The Bahamas Telecommunications Corporation (BTC) and Cable Bahamas, are among a few technological benefits enjoyed by many Bahamian residents living on the two major settlements, New Providence & Paradise Island and Grand Bahama. It is not the service or the hardware itself but rather the lack of competition in the communications industry that has acted as a barrier not only to the improvement of customer service but to the development of the capital markets. As a monopoly in both residential/commercial and mobile telephone service, BTC has been able to charge rates that are relatively above what is charged in the United States or in many Caribbean countries. Uncompetitive prices adding to the cost of doing business in The Bahamas is sure to be a deterrent for many domestic and international companies to establish or expand operations.

One of the technological developments in the pipeline is the implementation of a Real Time Gross Settlement (RTGS) system, which will modernize the current manual system of check clearing and create a medium for the development of electronic commerce. In the area of capital markets, it is expected that the implementation of RTGS is a step towards establishing a central depository and achieving delivery-versus-payment and will replace the current practice of writing checks to brokers for the purchase of shares. The RTGS system is scheduled to be operational by April 1st, 2004.

6. Modernization of Government Services

Modernization of government services is an essential part of any initiative that hopes to stimulate both domestic and international economic activity in the country.

7. Human Resources

At the base of every development problem lays the problem of lack of resources. In the case of capital markets development in The Bahamas, the type of resource is not natural, such as precious metals or water or fertile land, but human. According to most recent available data[12], while the Bahamian workforce is blessed with an army of over 135,000 persons, who are English speaking and around twenty percent college educated, there is still a major need for human capital in highly sophisticated and specialized niche markets of the economy. As of 1997, the hotel and restaurant industry, together with wholesale

[12] Statistical Abstract (1999) Bahamas Department of Statistics.

and retail, made up a combined 30 percent (over 38,000 persons) of the total employed persons. The share of community, social & personal services in the labor force was 34 percent or over 43,000 persons. Construction and transport, storage & communication industries came in third with 9 percent (over 11,000 persons) of the labor force each. 8 percent (over 10,000 persons) of the labor force was employed in the finance, insurance, real estate and other business services. Although, unfortunately, the most recent data on Bahamian labor force is more than four years old and further breakdown of the financial sector labor force by specialty is not available, several studies point out to the lack of specialized personnel who can service the needs of specialized financial products such as derivatives and equity warrants. Such resources are a must if The Bahamas is to participate and compete in the offshore securities listing business.

8. Regional Integration

Globalization is nothing new to the Bahamian economy. The Bahamas is a host to more than 100,000 registered international business companies, almost 50 thousand foreign residents (18.4% of total population), and more than four million tourists a year. It imports about fifty percent of its Gross Domestic Product. In addition, in recent years, negotiations have started for membership or broadening of membership in the following organizations.

- Free Trade of The Americas (FTAA)
- World Trade Organization (WTO)
- Caribbean Community and Common Market (CARICOM)

While the Bahamian economy has been relatively open in terms of trade and capital investments, its stock market is rather restricted to a relatively small group of domestic investors. This, in turn, affects the volume of trading and liquidity of listed stocks on BISX. Expanding the parameters of the stock exchange beyond Bahamian borders may have a positive effect on volume and liquidity of BISX listed securities in terms of sheer bigger economies of scale. Although physical trade ties of goods and service are relatively small with the rest of the Caribbean, several comparable stock exchanges do exist in the region and the Bahamas securities exchange may consider a carefully structured integration with these comparable counterparts in the region to multilaterally expand the investor base and benefit from reduction in synergies.

9. PUBLIC EDUCATION

Public education efforts towards a more investment savvy Bahamian population are likely to benefit the country's still developing capital markets. Although National Insurance Fund have been relatively successful in bringing the average Bahamian into the capital markets arena, issues such as the relatively low rate of savings, level of knowledge of investment products and tools may be addressed to a wide range of the population (young/old, low income/affluent) to create a more confident Bahamian investor.

Section 7: Summary and Conclusions

Capital markets are an integral part of any developing or developed country. Their role evolves around different parties and matches those looking for funds with others looking to invest. Private individuals, the Government, government corporations, and private institutions all are participants in the capital markets of The Bahamas. These participants stand on different ends of the market and may take on the role of the investor or the fund raiser at times. As regard the level of funding from different participants with respect to the Gross Domestic Product (GDP), private individual savings have grown parallel to economic expansion of the 1990s and early 2000s. The Government moderately uses the domestic financing channels and similar to private individual savings, public debt have expanded proportionately with GDP growth. On the government corporations' side, many seek funding entirely from the Government or are financed by the Government in part and the National Insurance Board in part. Privatization of certain government corporations, such as the Bahamas Telecommunications Company, is on the agenda. Institutional investment includes private pension funds, the National Insurance Fund, insurance companies, and credit unions. The level of institutional investment is an emerging part of the overall investment in the country and outpaces the growth of the overall economy by an almost 1.4 percent in for the 1998-2001 period.

Bahamas International Securities Exchange (BISX) is a private company founded in May 2000. Of the 16 listed domestic companies, the majority is in the banking sector. Under pressure from the small domestic market and lack of any offshore company listings, BISX currently experiences low turnover, and hence low profitability.

Following the work of Khan and Senhadji (2000), this study identified 4 proxies as financial development indicators which also encompass the capital markets trends in The Bahamas. Three of the proxies used, domestic credit to the private sector, public bond market capitalization, and Treasury bill capitalization as shares of the GDP, showed relatively flat trends over the last ten years of data collected. The last proxy, stock market capitalization as a percentage of the GDP revealed a much different pattern, an upward trend that folded almost eight times in the course of a decade, owing to inclusion of new listings on BISX and increased flow of funds from institutional and private investors, especially in the late 1990s, the same period that correspond to the stock market bubble and rapid economic expansion in the United States.

Finally, the study points out nine recommendations for the improvement of capital markets in The Bahamas: trading of the Bahamas Government Registered Stock, modernization of government services, credit bureau, foreign ownership, international recognition, regional integration, human resource, information technology, and public education. None no less important than the other, these recommended actions taken by the public and private sectors can lead to a better functioning and more protected market with larger and savvier investor base.

NOTES

Section 8: Appendix

Table 1: Institutional Domestic Assets

	1998	2000	2001	1998	2000	2001
	(B$ Million)			(% of GDP)		
Private Pension Funds	628.6	763.3	793.5	15.0	15.5	16.1
National Insurance Fund	746.2	959.4	991.5	17.8	19.5	20.2
Insurance Companies	483.0	593.6	648.7	11.5	12.1	13.2
Credit Unions	87.2	110.9	120.4	2.1	2.3	2.4

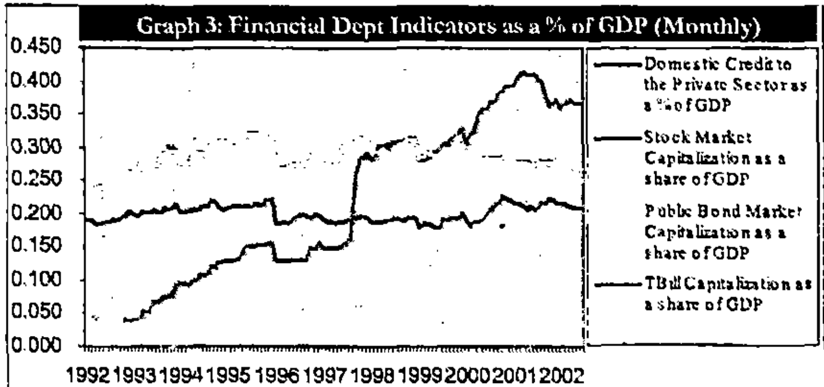
Source: Central Bank of The Bahamas Quarterly Economic Review (June 2003)

Table 2: Stock Exchange Overview

Exchange	Year of Establishment	Market Capitalization	Number of Securities Listed	Mkt. Cap/Capita
BISX	**2000**	**$1.7 bn**	**16**	**$5,574**
BSX	1971	$125.0 bn	290	$1,971,609
CSX	1997	$38.2 bn	700	$1,075,239
ECSE	2001	$0.1 bn	2	$2
JSE	1968	$5.1 bn	39	$1,962
TTSE	1981	$0.03 bn	33	$26

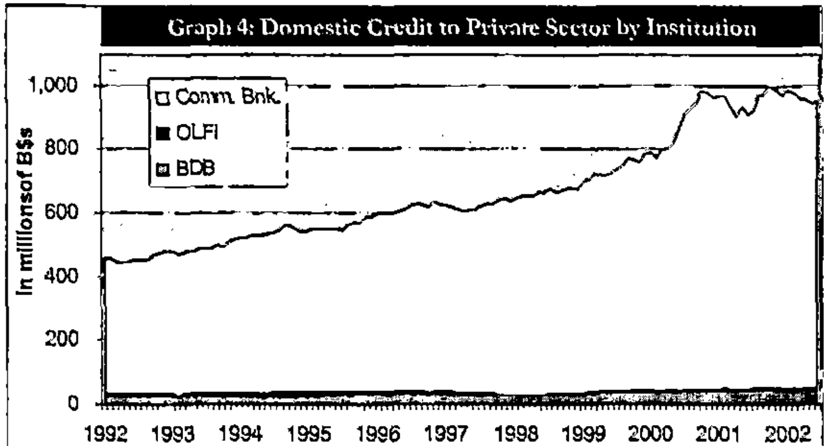
Source: Securities Exchange Websites

Graph 3: Financial Dept Indicators as a % of GDP (Monthly)

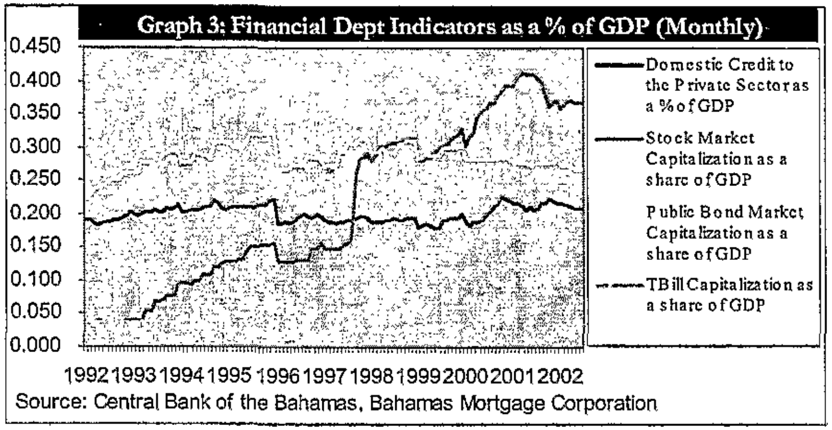


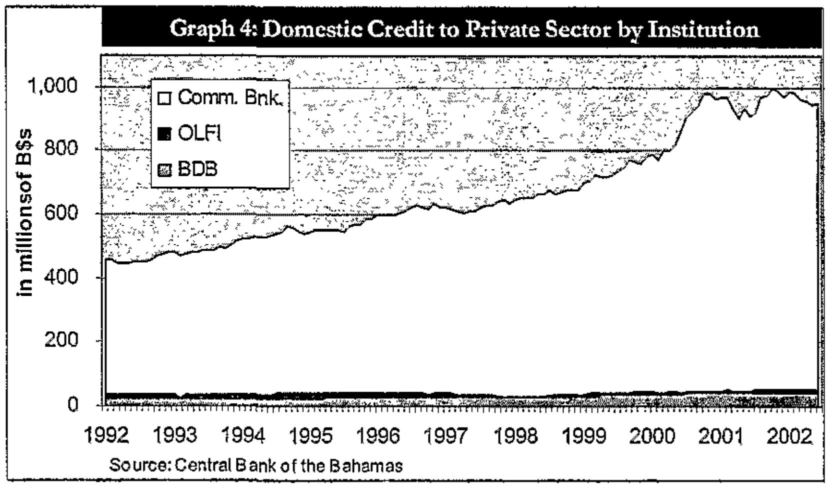
Source: Central Bank of the Bahamas, Bahamas Mortgage Corporation

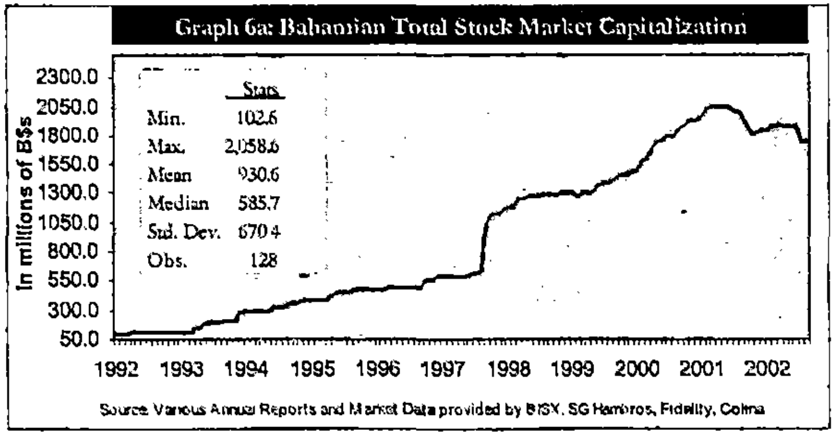
Graph 4: Domestic Credit to Private Sector by Institution

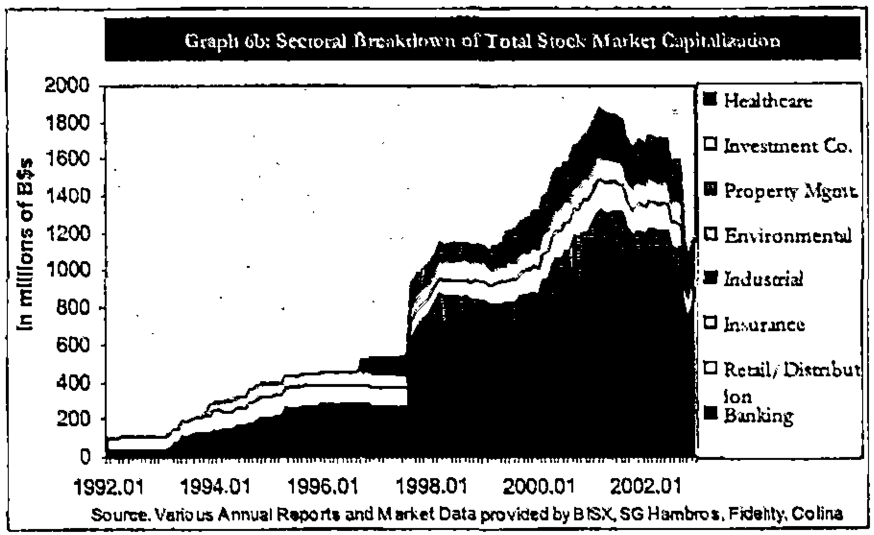


Source: Central Bank of the Bahamas

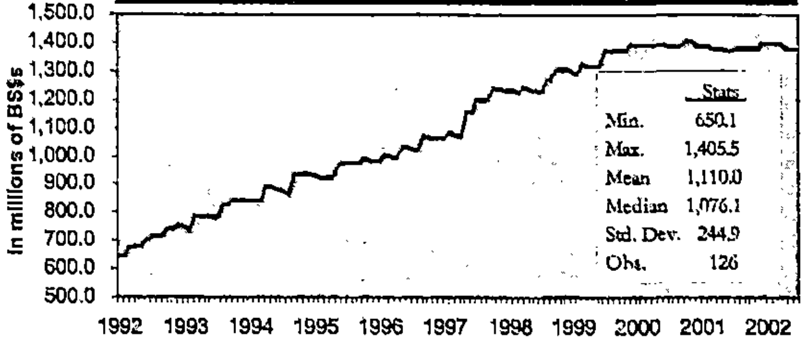

Graph 3: Financial Dept Indicators as a % of GDP (Monthly)
0.450
0.400
0.350
0.300
0.250
0.200
0.150
0.100
0.050
0.000
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
Domestic Credit to the Private Sector as a % of GDP
Stock Market Capitalization as a share of GDP
Public Bond Market Capitalization as a share of GDP
TBill Capitalization as a share of GDP
Source: Central Bank of the Bahamas, Bahamas Mortgage Corporation


Graph 4: Domestic Credit to Private Sector by Institution
1,000
800
600
400
200
0
in millions of B$s
Comm. Bnk.
OLFI
BDB
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
Source: Central Bank of the Bahamas


Graph 6a: Bahamian Total Stock Market Capitalization
Stats
Min. 102.6
Max. 2,058.6
Mean 930.6
Median 585.7
Std. Dev. 670.4
Obs. 128
In millions of B$s
2300.0
2050.0
1800.0
1550.0
1300.0
1050.0
800.0
550.0
300.0
50.0
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
Source: Various Annual Reports and Market Data provided by BISX, SG Hambros, Fidelity, Colina


Graph 6b: Sectoral Breakdown of Total Stock Market Capitalization
In millions of B$s
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1992.01 1994.01 1996.01 1998.01 2000.01 2002.01
Healthcare
Investment Co.
Property Mgmt.
Environmental
Industrial
Insurance
Retail/Distribution
Banking
Source: Various Annual Reports and Market Data provided by BISX, SG Hambros, Fidelity, Colina

Graph 7: Bahamian Public Bond Market Capitalization



Source: Central Bank of the Bahamas, Bahamas Mortgage Corporation

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