



# Quarterly Economic and Financial Developments Report

September 2016

Prepared by the  
Research Department



# Overview of Domestic Economic Developments

- During the nine-month period, Jan-Sept 2016, domestic economic activity remained mild,
  - Hotel performance indicators were subdued
  - Construction sector output continued to be driven by medium to small-scale foreign investment funded projects, while private sector construction remained tepid.
- Energy costs firmed modestly, due to the uptick in global oil prices during the period; however, overall price inflation remained low
- Monetary developments for the nine-month period featured expansions in both liquidity and external reserves, associated with Government borrowing and real sector activities.

# Impact of Hurricane Matthew Overview

Following the passage of Hurricane Matthew during the first week in October:

- Insured losses to private property are expected to approximate \$400 million; added to public sector damages and uninsured private assets total damages will likely exceed \$600.0 million.
- Initial policy responses to aid the recovery efforts include tax exemptions by Government under an Exigency Order, and the Central Bank's relaxation of debt servicing and equity requirements on hurricane-related lending facilities.



Source: National Oceanic and Atmospheric Association



# TOURISM SECTOR



# Tourism Sector Performance



- Anecdotal data suggests that tourism activity remained relatively soft during the year
  - Data from Nassau Airport Development (NAD) Company's passenger report, shows that visitor departures from the capital (net of domestic traffic) totaled 1.0 mill. over Jan-Sep 2016 (up 2.3% relative to 2015)
  - Commercial banks' net foreign currency purchases from clients, which are influenced by tourism inflows, were down by 25% over the nine-month period to \$176.5 million

# HURRICANE MATTHEW IMPACT ON TOURISM

- A number of hotels were damaged due to the storm (roofing, water infiltration, landscaping)
- **In New Providence:**
  - The majority of properties surveyed immediately after the storm indicated that they were open for business
  - The hotels that were closed due to the storm are expected to reopen within an expedited timeframe.
- **In Grand Bahama:**
  - There was significant loss in room inventory due to damage:
    - Approximately 2 hotels were able to remain open, while the balance were expected to re-open by end-October-December 2016; in time for crucial Winter Tourist season

Source: Bahamas Hotel Association and various newspaper articles



Photo sources: Nassau Guardian

# HURRICANE MATTHEW IMPACT ON TOURISM

- **Family Island Hotels:** most properties sustained minimal damage and were able to resume business.
- Noteworthy:
  - **Andros:** Damages to most hotels were minimal, however the Lighthouse Yacht club had extensive roof damage.
  - **Exuma:** Sandals Emerald Bay required extensive repairs. It is projected to reopen by December 15.

## HURRICANE MATTHEW IMPACT ON TOURISM

- In light of these developments and the closure of all airports within the country during the hurricane:
  - Arrivals are expected to be modestly below trend for the fourth quarter
  - Given the reduced room inventory, tourism receipts are also likely to fall below trend during this period
  - Hotel sector employment has been disrupted, notably in Grand Bahama.





# FORIEGN DIRECT INVESTMENT (FDI)

# HURRICANE MATTHEW IMPACT ON FDI

- Receivers of the **Baha Mar Resort** indicated that there were no signs of delays due to the impact of Hurricane Matthew.
  - Damages to the project were minimal; remobilization was still on schedule.
- The **Sandals Royal Bahamian Resort** in New Providence, was set to reopen on October 14<sup>th</sup> following renovations. Reopening was delayed to October 26<sup>th</sup> 2016
- The **Albany** Resort sustained landscape and vegetation damage; however, there is no notification of impediments to development.
- The **One & Only Ocean Club** closed for further repairs after suffering storm damages. The \$21 million refurbishment previously in progress, is expected to continue.



# EMPLOYMENT



# HURRICANE IMPACT ON EMPLOYMENT INDICATORS



The latest survey by from the Department of Statistics indicated that the unemployment rate was 12.7% end-May 2016.

**In the aftermath of Hurricane Matthew, it is anticipated that for the November survey:**

- Results will be influenced by the large increase in demand for construction workers for building repair activities.
- Skills shortages could surface in the sector given the significant volume of repair activities alongside ongoing investment projects
- Temporary under-employment will however persist in the resort sector in Grand Bahama.



Photo sources: Nassau Guardian

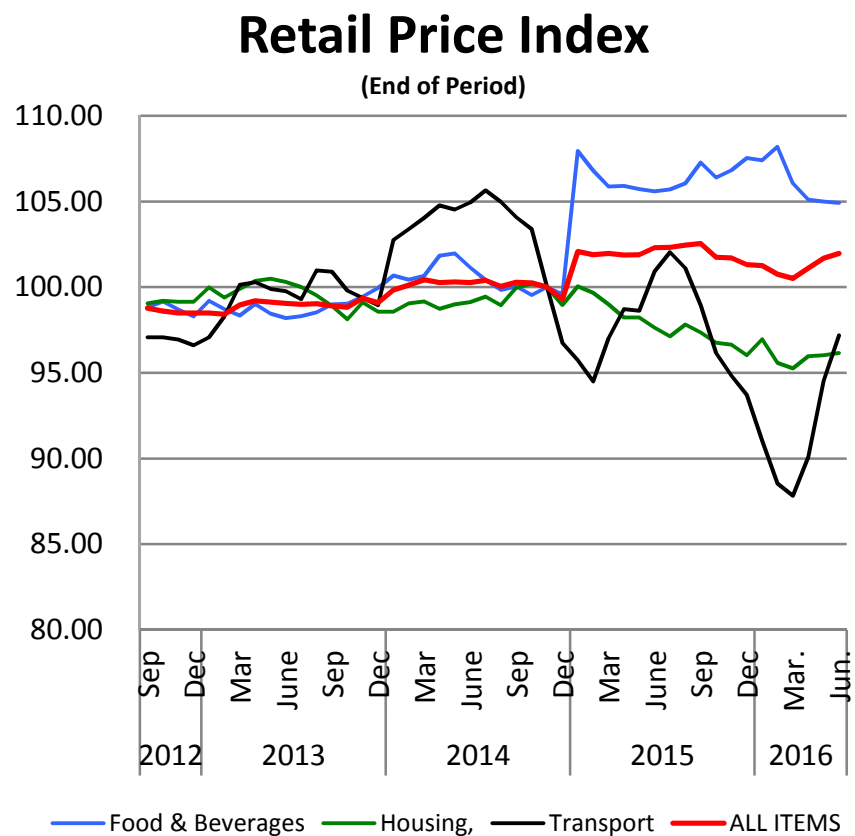
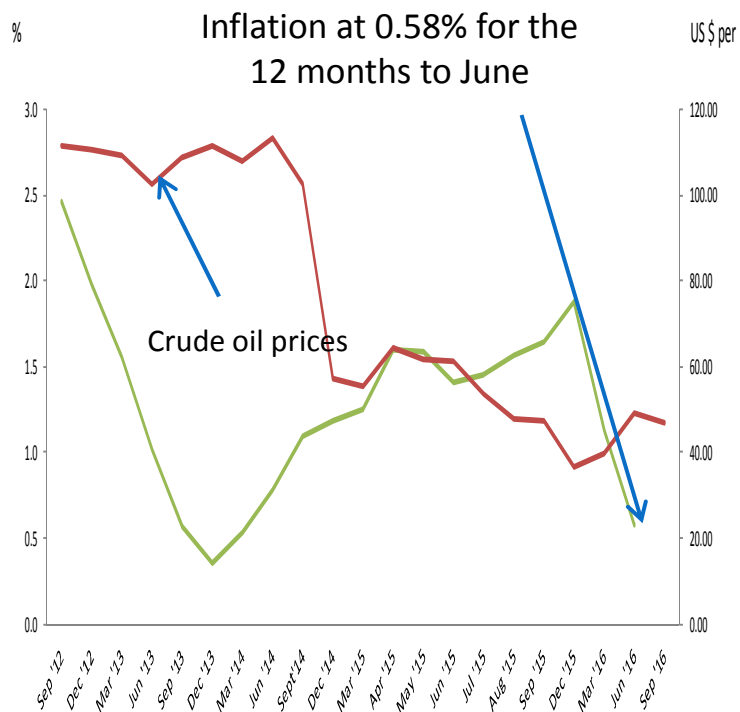


# INFLATION



# Inflation

For the 12 months to June—latest data available—inflation rate fell by 83 basis points to 0.58%, owing to declines in average costs in housing (2.7%) associated easing in energy prices, and an average decline in transportation costs (5.4%).



Source: Department of statistics and Bloomberg

# HURRICANE MATTHEW IMPACT ON INFLATION

- Expect some modest cost pressures due to Hurricane Matthew
  - Increase in overall demand for building supplies (due in part to the impact on the US mainland)
  - Pressures in the local construction sector due to queuing of jobs; and potential skills shortages
- More recent uptick in oil prices, could erode the some of the previous buildup in local energy cost rebates.



# FISCAL SECTOR



# HURRICANE MATTHEW IMPACT ON FISCAL SECTOR

- The Government has estimated the total costs for hurricane relief after Hurricanes Matthew (\$600 million) and Joaquin (\$200 million) to be \$800 million.
- To cover \$150 million of this cost, the government has designed two-tranche borrowing measures:
  - A syndicated loan from commercial banks of approximately \$120 million
  - A public offering bond of \$30 million, which will be opened to non-residents with nexus to The Bahamas
- The funds will be used for reconstruction efforts including:
  - Defraying expenses for restoration of essential utilities
  - Varied social assistance (including home repairs) for displaced vulnerable households
  - Reconstruction of public infrastructure

# HURRICANE MATTHEW: FISCAL SECTOR OUTLOOK



- Deterioration in the fiscal position is expected due to:
  - **Necessary expenditure increases**
  - **Disrupted revenue collections:** due to temporary reduction in business activity and tax concessions on rebuilding activity



Photo source: Nassau Guardian

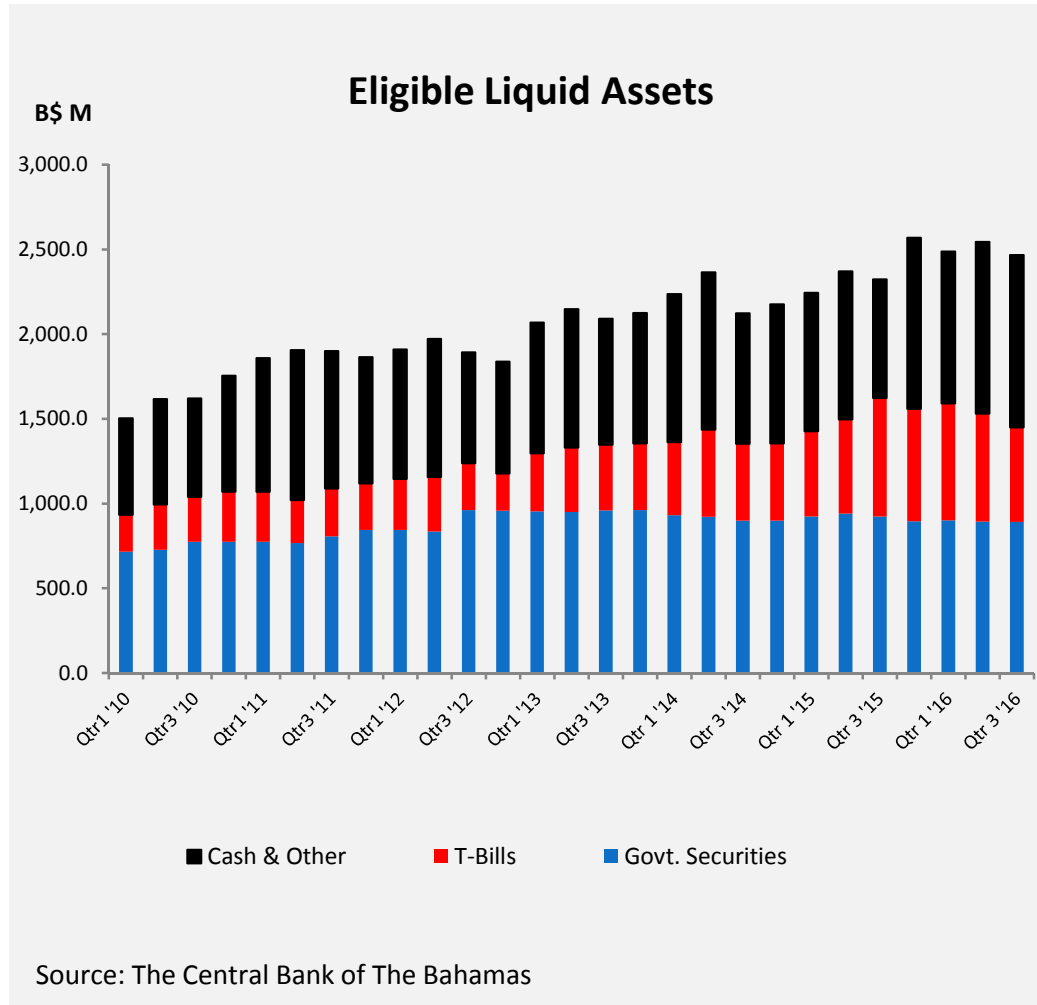
# FINANCIAL SECTOR






# Money & Banking: Liquidity Conditions

Liquidity strengthened in the first nine months of 2016, due to:

- Government's foreign currency borrowing and net foreign currency inflows for real sector activities
- Eligible liquid assets approached \$2.5 billion; and excess liquid assets which nets out the statutory requirement stood at \$1.4 billion, up by \$117.6 mil for the year-to-date.
- In addition, excess reserves (net cash and other) grew by \$257.0 mil. to \$746.4 mil for the year to-date.



# Lending Conditions

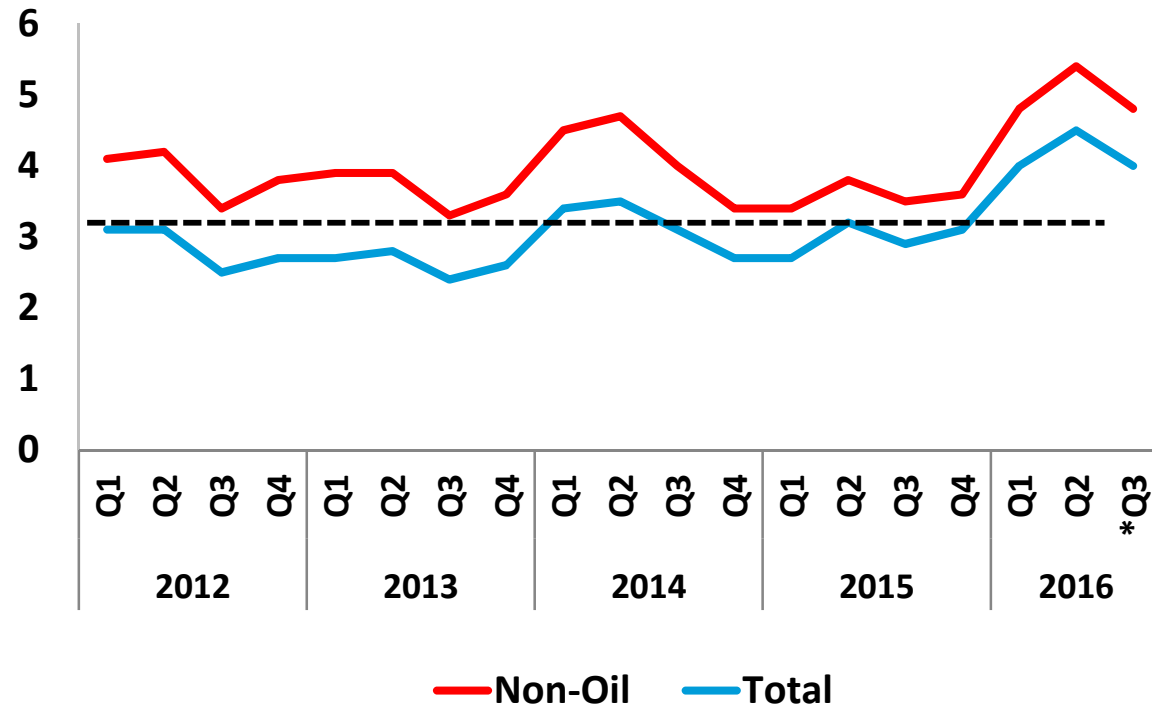
- During the nine months of 2016, total Bahamian dollar credit grew by \$113.5 million, a slowdown from a \$123.6 million expansion last year
- Net claims on the Government rose by \$116.1 million, slightly lower than 2015's \$138.7 million expansion.
- Private sector credit contracted by \$30.4 million, following a \$21.5 million decrease in 2015. The components are shown below:
  - Commercial lending :  \$51.5 million
  - Residential Mortgages:  \$18.3 million
  - Consumer loans:  \$39.3 million
- Credit to public enterprises grew by \$27.9 million, extending the \$6.4 million expansion the year before.

# External Reserves

External reserves firmed by \$104.3 million to \$913.2 million at end-September, compared to a \$40.0 million expansion in 2015.

- At end-Sept, external reserves were equivalent to an estimated 4.5 months of total merchandise imports

## Import Reserve Cover Ratio (Months)



SOURCE: The Central Bank of The Bahamas

\*Estimated using 12 month imports up to Q2 2016

# HURRICANE MATTHEW IMPACT ON THE INSURANCE SECTOR\*



- According to Bahamas Insurance Association initial indications are that insured private losses are approximately \$400 million.\*
- Given the nature of the local insurance industry, the total losses will not be absorbed solely by Bahamian insurers; as reinsurance receipts will be significant.
  - It is anticipated that by end-2016, some 50% of the total insured losses (\$200 million) will have been settled by reinsurance inflows.\*
- Vulnerable, uninsured households may be among those relying on the public sector for recovery assistance.

# POLICY MEASURES IN RESPONSE TO HURRICANE MATTHEW

- **Government Measures:**

- Effective October 11<sup>th</sup>, an exigency order allowed specific exemptions on goods imported for rebuilding efforts, i.e. water, tarp, and other “personal items”
- All NEMA-approved donations will be allowed into The Bahamas duty free, VAT free, and with no processing fee
- Government in conjunction with the Bahamas Chamber of Commerce and Employers Confederation has approved a 10% rebate on business license fees as credit against donations to the national recovery efforts. The maximum tax credit possible is \$100,000 for donation of \$1 million or more.

- **Central Bank Measures:**

- The monthly debt service ratio was raised to 55% from the 40% - 45% range on all hurricane related lending facilities.
- The mandatory 15% equity contribution requirement was relaxed on these facilities.
- Administrative monetary penalties were suspended for banks’ relevant quarterly, monthly, weekly and daily reporting obligations until 1<sup>st</sup> November 2016, to allow banks to divert more staffing resources to assist with their clients’ recovery needs.



# Economic Outlook

- The impact of hurricane Matthew has tempered near-term forecasts due to:
  - Short-term disruptions to businesses
  - Overall impact on tourism sector will be muted and short-lived due to the timing outside of the peak winter season, and limited disruptions with the exception of Grand Bahama.
  - An uptick in construction activity is expected as rebuilding continues, along with sustained work on several FDI projects ( and resumption of construction on Baha Mar)
- Employment should be stable to slightly improved due to construction labour demand
- Modest increase in inflation pressures due to resource tightness in the construction sector (of local and US origin), lower discounting on energy prices.

## **Fiscal Sector**

- Increased hurricane-related outlays for recovery assistance and public assets repair will place additional pressure on the deficit; this is occurring alongside some disruption in revenue collection and concessions on rebuilding activities.

**The End**