



# Quarterly Economic and Financial Developments Report

September 2018

Prepared by the  
Research Department



# Domestic Economic Developments

## Real Sector

- Tourism sector continued its upward momentum: over the first 8 months of 2018, total arrivals rose by 5.4% while over 9 months, international air departures—a proxy for stopover visitors—firmed by 13.4%.
- Construction sector output remained fueled by ongoing foreign investment projects.
- Overall inflation firmed during the 12-month period to June 2018, underpinned by steady increases in global oil prices (the recent VAT rate increase is not captured in this period).

## Fiscal Sector

- First eleven months of FY2017/2018:
  - The budget deficit narrowed by 29.2% to approx. \$211.9 million:
  - Capital spending-anchored the reduction in total expenditure
  - Higher tax intake supported the gain in aggregate revenue

## Monetary Sector

- For the first 9 months of the year liquidity contracted, amid an increase in domestic credit, while deposits were unchanged overall.
- External reserves fell over the review period, reflecting gains in both private and public sector demand.

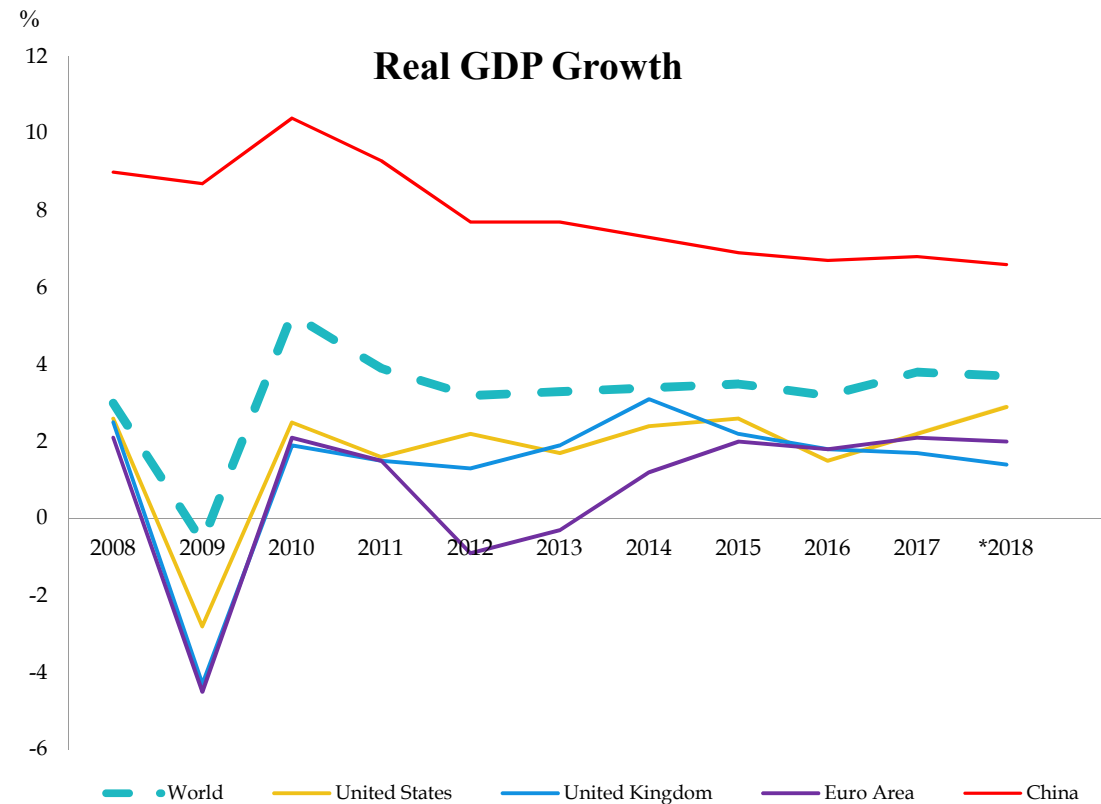
# Global Economic Forecasts

In October 2018, the IMF reduced its global growth forecast for 2018 by 20 basis points to 3.7%, relative to July's update and identical to October 2017's forecast.

The decrease reflected the negative impact of the trade tariff measures imposed by the US on several countries and a less optimistic outlook for some of major emerging markets.

Changes in 2018's projections:

- The Euro Area (-20 basis points to 2.0%)
- No revisions in projections for the United States (2.9%), China (6.6%), the United Kingdom (1.4%) and Canada (2.1%).



Source: The International Monetary Fund



# Tourism Sector: Arrivals

## (January - August 2018)

Official data from the Ministry of Tourism revealed a 5.4% increase in total visitor arrivals over the first 8 months of 2018, a reversal from a 2.8% decline recorded in 2017.

- Air arrivals improved by 15.1%, following a 6.3% decrease in 2017.
- Sea visitors firmed by 2.4%, vis-à-vis a 1.6% contraction a year earlier.

Arrivals	New Providence		Grand Bahama		Family Islands	
	2017	2018	2017	2018	2017	2018
Air	-5.7%	17.2%	-48.1%	2.5%	13.1%	11.5%
Sea	9.3%	-10.6%	-25.7%	9.4%	-5.8%	22.1%
<b>Total</b>	<b>4.6%</b>	<b>-2.8%</b>	<b>-29.1%</b>	<b>8.6%</b>	<b>-3.0%</b>	<b>20.3%</b>

Source: The Bahamas Ministry of Tourism.

# Tourism Sector: Air Departures

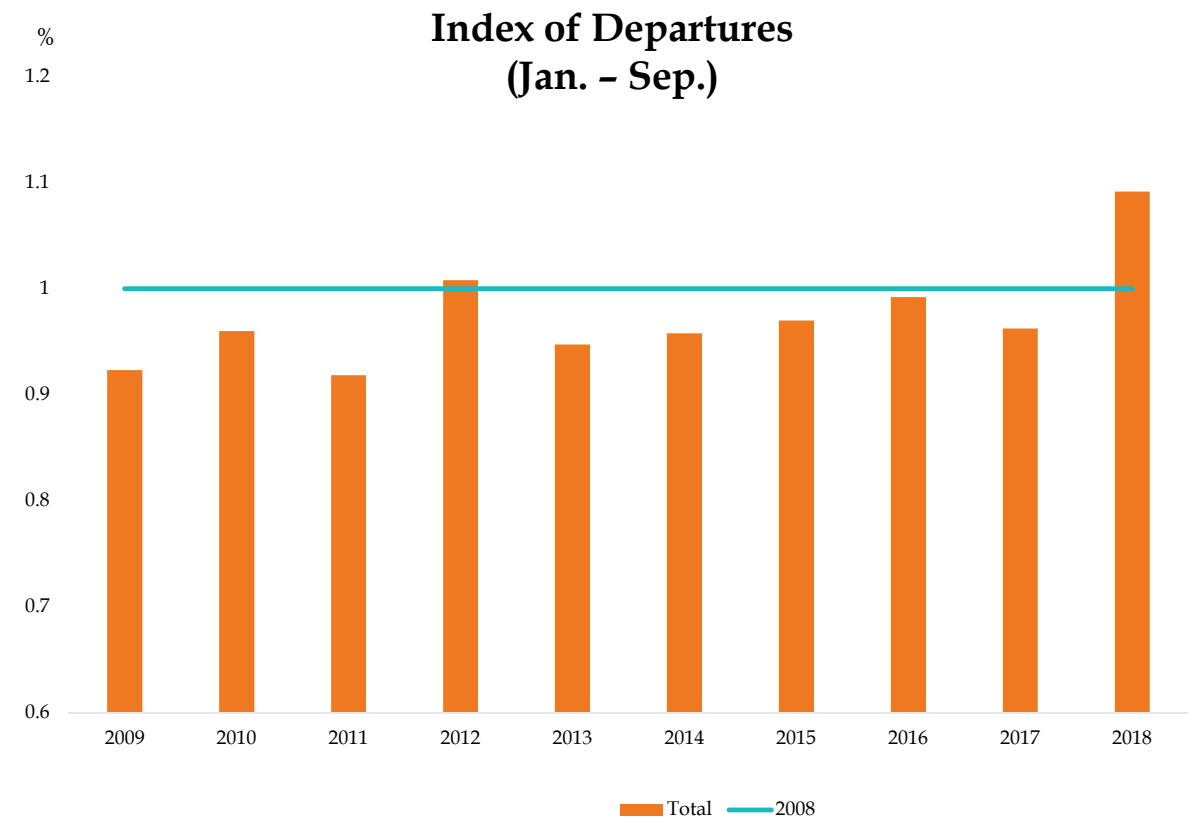
## (January – September 2018)

The latest data from the Nassau Airport Development Company Ltd. (NAD), showed an increase in departures through the first nine months of 2018.

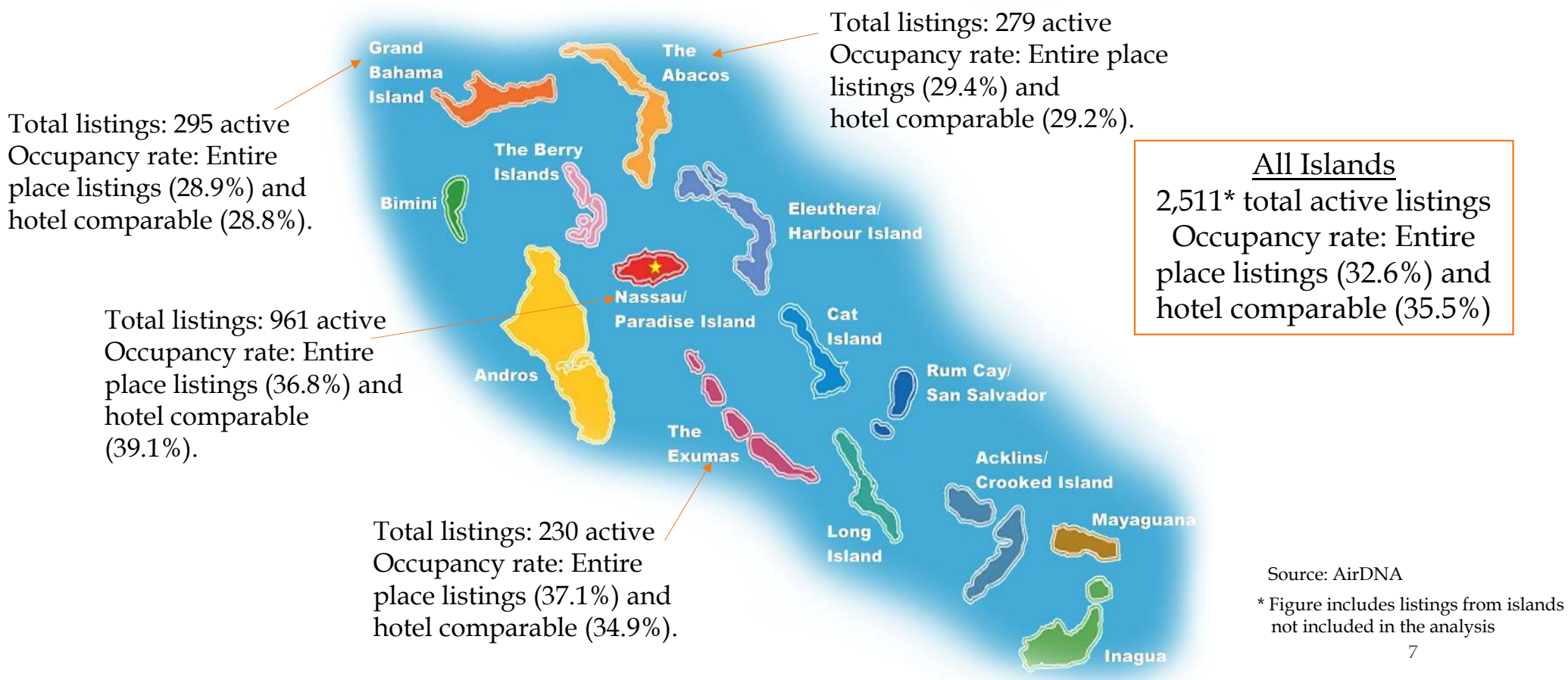
- Total departures rose by 13.4%, relative to a 3.0% decline a year earlier.
  - Non-US departures increased by 17.9%, a turnaround from a 3.2% fall in 2017.
  - U.S. departures rose by 12.7%, vis-a-vis a 3.0% decrease in 2017.

Departure traffic was the highest since 2012.

Source: The Nassau Airport Development Company Ltd.  
Note: All figures are net of domestic departures.



# Airbnb: Snapshot (as at September 2018)



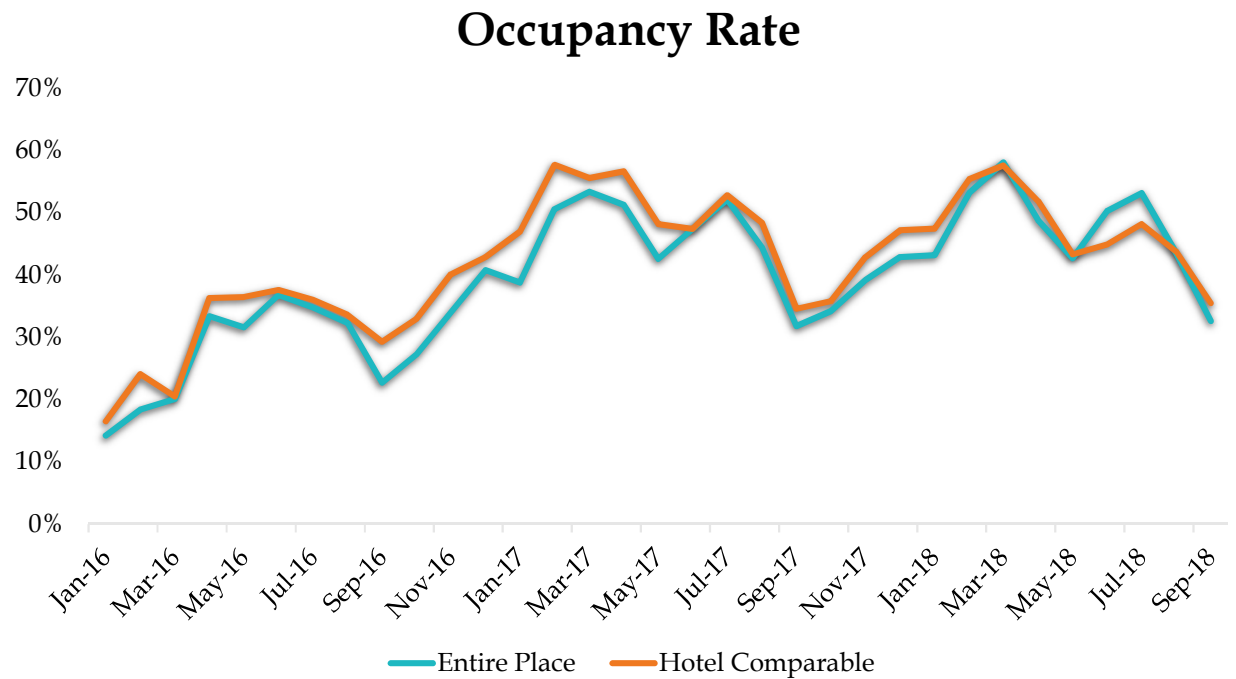
# Airbnb: Occupancy Rate Trends (September 2018)

## Entire Place Listings

- Occupancy rate increased to 32.6% from 31.8% in the previous year.

## Hotel Comparable Listings

- Occupancy rate firmed to 35.5% from 34.6% in the previous year.



Source: AirDNA





**RECENTLY  
ANNOUNCED  
FOREIGN  
INVESTMENT  
PROJECTS**

# Grande Harbour at Old Bahama Bay Resort

## West End - Grand Bahama



- The \$2.8 billion West End revival project includes:
  - 460 resort-style ultra luxury condos.
  - a 78-slip dockminium to accommodate vessels up to 75 feet.
  - two infinity pools, hot tubs, and a spa.
  - two restaurants and a convention hall with venue space.
  - tennis courts, basketball courts, volleyball courts.
  - the largest fish cleaning station in all of The Bahamas.
  - state-of-the-art gym facilities and a private members-only club.
  - a community hurricane shelter for resort employees, their families and West End residents.
- The project's principal aims is to have 100% Bahamian employment, with 900 construction jobs and 300+ full-time employees.

Source: The Nassau Guardian  
Photo Source: Booking.com

# Disney Cruise Line Island Development Ltd

## Lighthouse Point, South Eleuthera



- On October 19, 2018, the National Economic Council approved Disney Cruise Line's \$350-\$450 million proposal to develop Lighthouse Point into a cruise port.
- Negotiations will now begin on a Heads of Agreement, which will detail the scope of the project, and the obligations of both Disney and the Government.
- The development is expected to create 150 new jobs and 100 construction jobs, as well as an array of entrepreneurial opportunities for residents of Eleuthera and Bahamians in general.
- Disney will also convey approximately 190 acres of the land purchased to the Government for conservation and a national park.

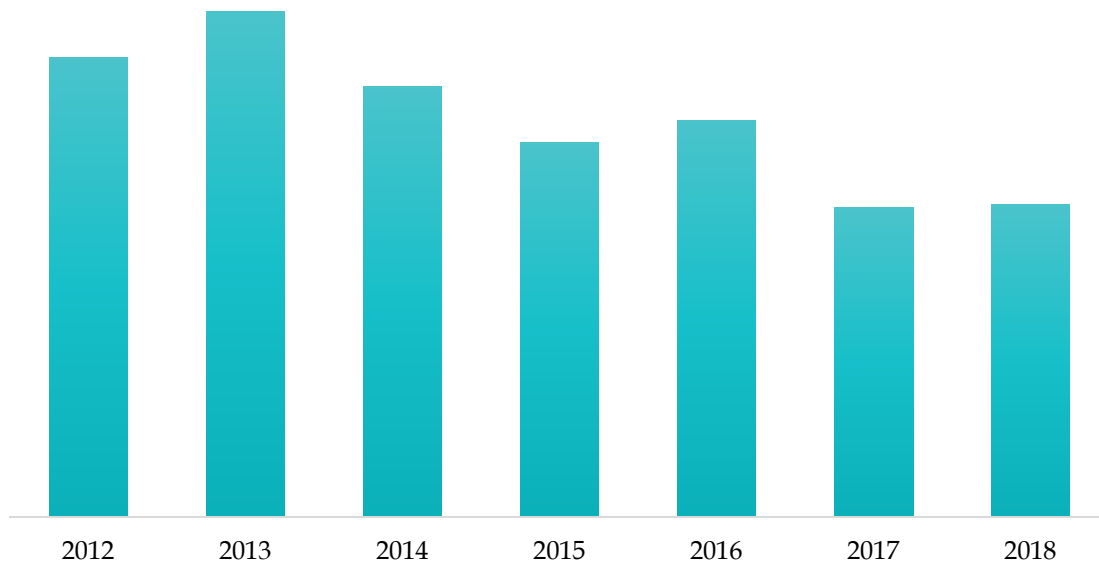
Source: The Nassau Guardian  
Photo Source: The Nassau Guardian



# Labour Force Survey Results (May 2018)

## Unemployment Rate May 2012 - 2018

%



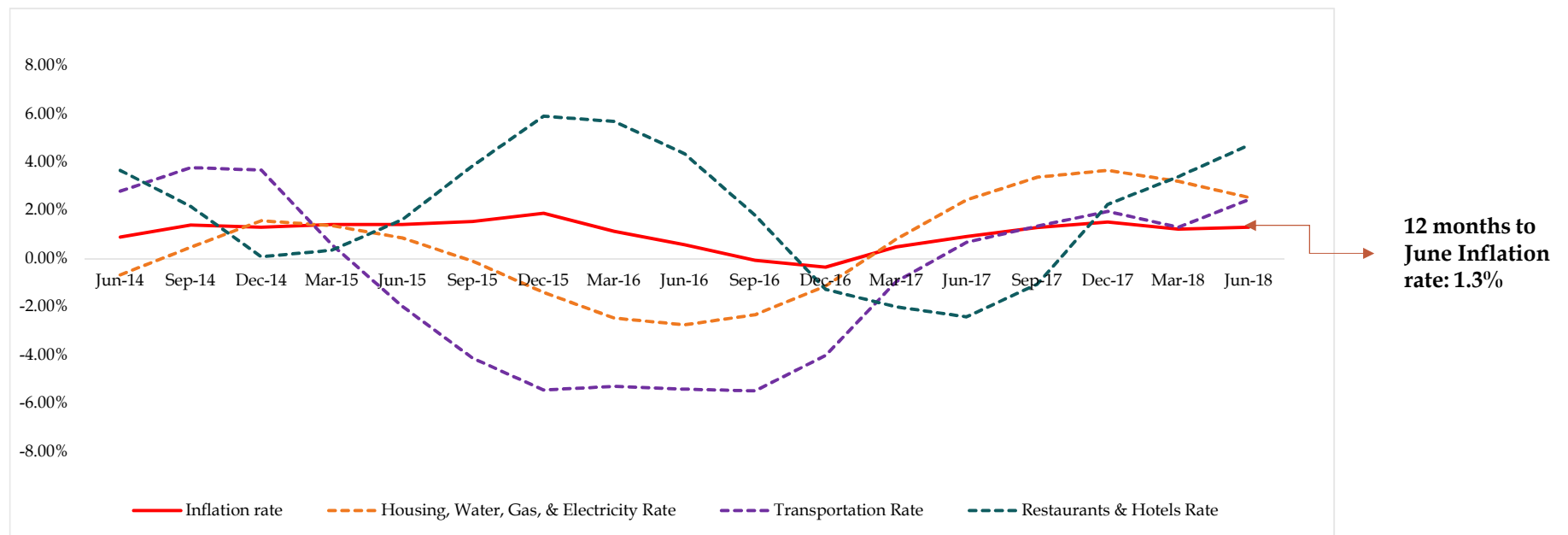
Source: Department of Statistics

- The All Bahamas unemployment rate fell by 10 basis points to 10.0% over the six-month period ending May 2018.
  - However, it firmed by the same magnitude relative to May 2017.
- The total number of employed persons increased by 4.0%, relative to May 2017, and by 2.2% when compared to November 2017.
- A year-on-year analysis of the jobless rate for the primary employment markets revealed:
  - A decline of 40 basis points in New Providence to 10.0%.
  - A steady rate of 12.4% in Grand Bahama.
  - A 2.9 percentage point increase in Abaco to 10.7%.



# Inflation

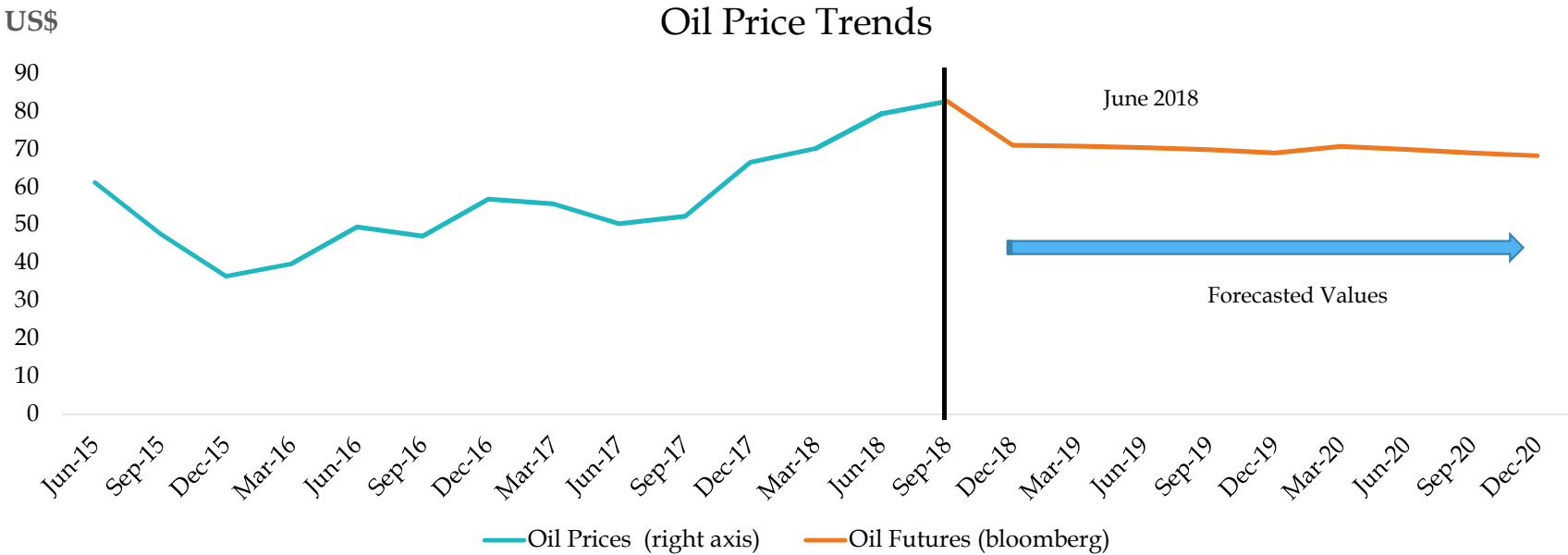
The Retail Price Index (RPI), rose by 1.3% ( up by 0.4 percentage points over June 2017) due mainly to increases in average costs for recreation and culture (4.2%) and restaurant & hotels (7.1%).



Source: Department of Statistics and The Central Bank of The Bahamas

# Oil Price Trends

In September 2018, global oil prices averaged \$82.7 per barrel, which is \$5.30 higher than the previous month. The mean of the forecasts suggest that during the remaining quarter of the year, through 2020, crude oil prices will average \$81.87 per barrel.



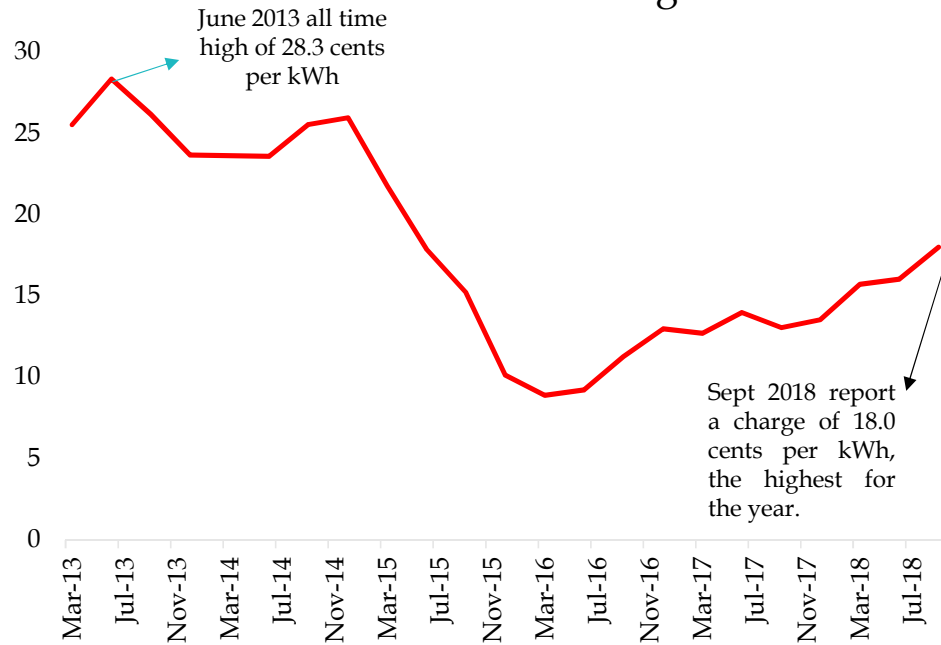
Source: Bloomberg



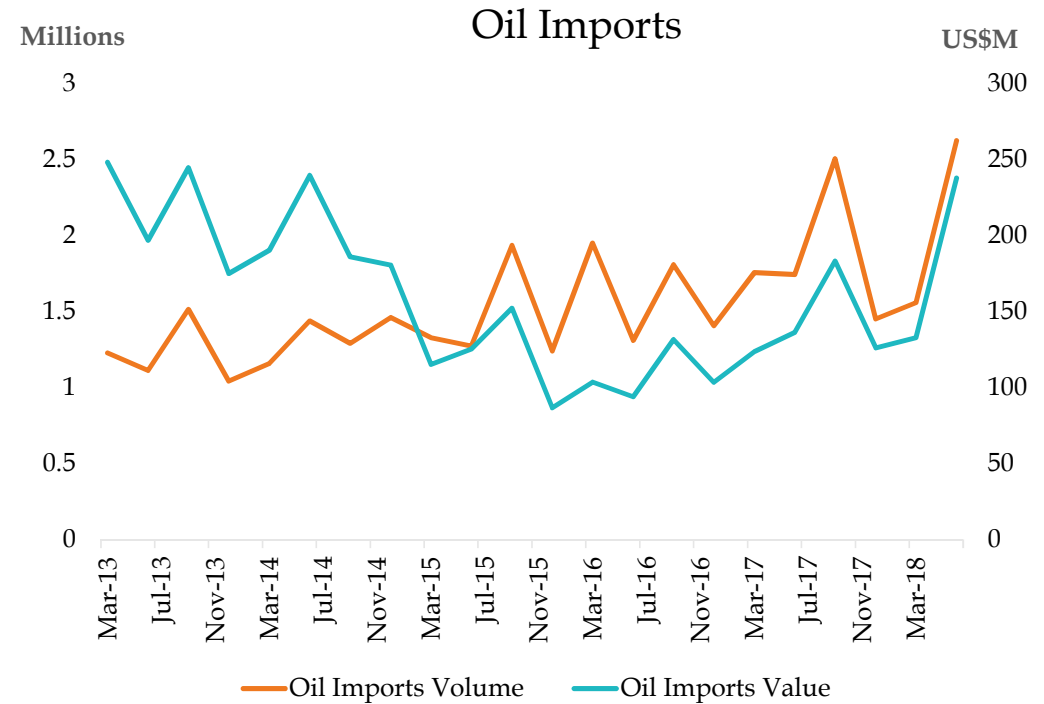
# Oil Imports

BEC's Fuel Charge has been steadily increasing over the year.

### BEC Fuel Charge



Oil prices over the year have increased and are expected to continue to rise again. In combination with the uptick in volumes, this has led to a gain in fuel imports.



Source: Department of Statistics and The Central Bank of The Bahamas



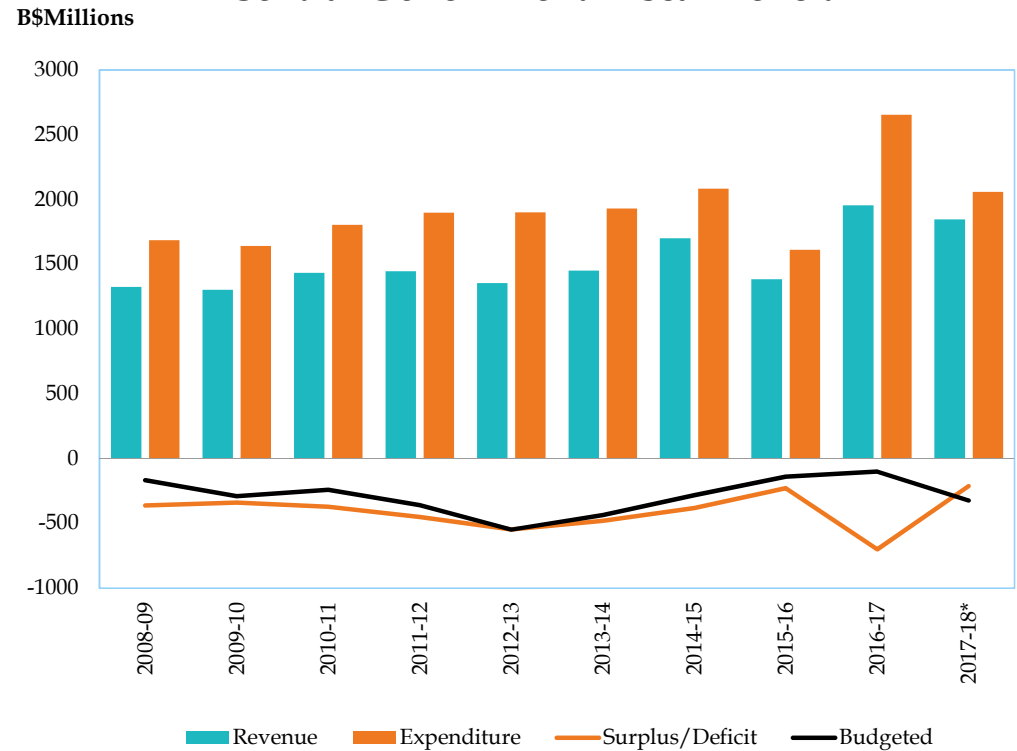
# FISCAL SECTOR

# Fiscal Indicators

During the eleven months of FY2017/18, Government's operations showed a deficit of \$211.9 million, a reduction from the \$299.4 million deficit recorded over the same period of FY2016/17.

- Revenue: grew by \$27.7 million (1.5%) to \$1,846.9 million.
  - VAT receipts rose by \$14.7 million (2.5%) to \$610.7 million.
- Expenditure: down by \$59.8 million (2.8%) to \$2,058.8 million.
  - Capital spending fell by \$120.5 million (43.7%) to \$155.3 million.

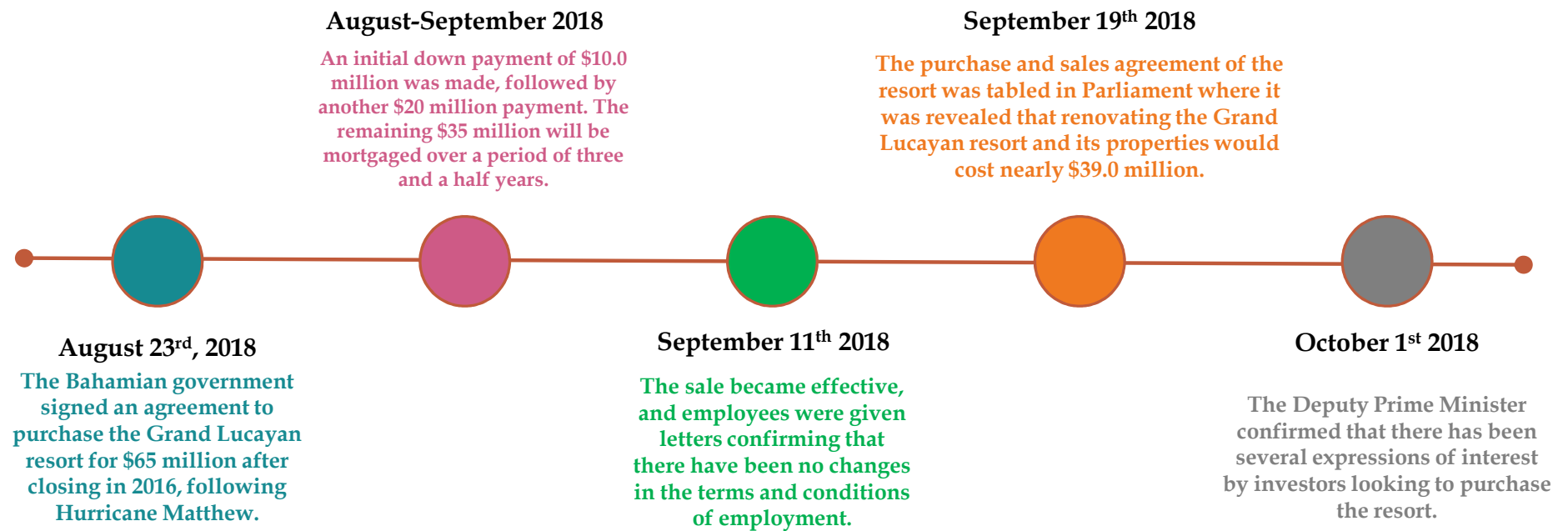
## Central Government Fiscal Deficit



SOURCE: The Central Bank of The Bahamas  
Data for the 11 months of FY 2017/2018.

# Grand Lucayan Resort: Purchase and Developments

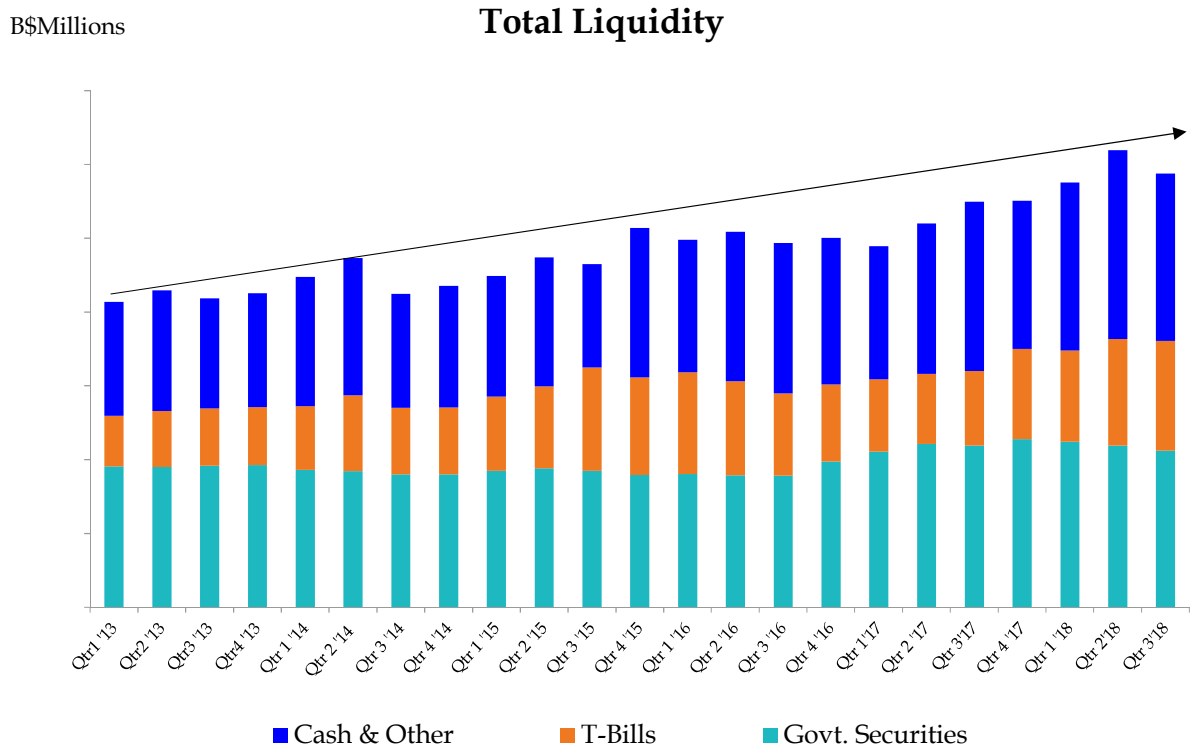
## Grand Bahama





# Money and Banking: Liquidity Conditions

- During the 9-month year-to-date period, excess liquid assets decreased by \$61.1 million to \$1.7 billion, relative to a \$260.3 million expansion in 2017, when Government obtained external loan proceeds.
- Excess reserves (cash and deposits with Central Bank) weakened by \$121.0 million, vis-à-vis a \$195.0 million gain last year.
- The contraction in liquidity was due mainly an increase in commercial bank credit to the Government, a reduction in deposits and an increase in public sector demand for foreign currency (BEC fuel purchase and the purchase of Grand Lucayan.)



Source: The Central Bank of The Bahamas

# Lending Conditions

Over the first three quarters of the year, total domestic Bahamian dollar credit firmed by \$39.1 million, after 2017's \$4.7 million expansion.

- Net claims on the Government rose by \$114.0 million, following a \$145.8 million rise a year earlier.
  - Credit to public corps. increased by \$25.6 million, relative to a \$6.4 million decline in the prior year.
  - In contrast, private sector credit contracted by \$100.6 million, a slowdown from the \$134.7 million decline in 2017.
- 
- ✓ Consumer credit ↓ by \$64.0 million
  - ✓ Commercial credit ↓ by \$22.1 million
  - ✓ Mortgages ↓ by \$14.4 million

# Bank Lending Conditions Survey

## April – June 2018

Provisional results for the first half of 2018, indicate that banks received approximately 16,853 loan applications, down by 12.8% when compared to the same period last year.

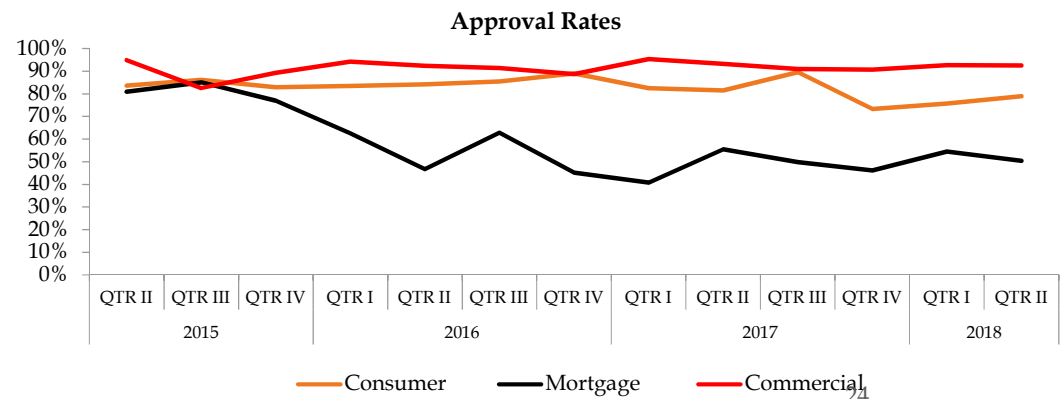
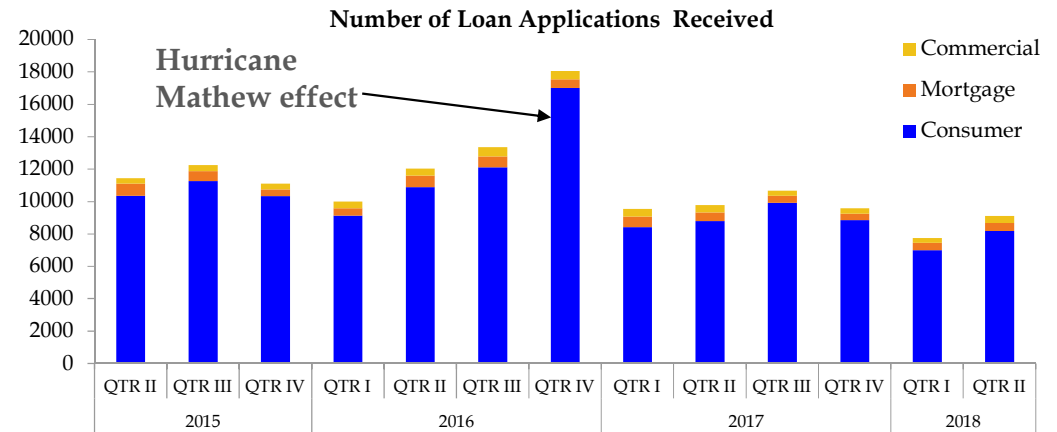
- Largely due to a falloff in the consumer credit segment.

The overall approval rate across loan categories was 9.7 percentage points lower at 76.7%, when compared to the second half of 2017, and down by 3.8 percentage points, vis-à-vis the first half of 2017.

Average approval rate by credit type:

- Consumer loans – 77.4%
  - 4.3 percentage points lower than both the July-Dec. 2017 rate, and the first half of 2017.
- Commercial loans – 92.6%
  - 1.7 percentage points higher than the previous review period, and 71 basis points higher than the first half of 2017.
- Mortgages – 52.4%
  - Decline by 3.1 percentage points in comparison to the first half of 2017, but firmed by 4.3 percentage points relative to July-Dec. period.

High debt service ratio continued to be the most reoccurring reason for loan denials.



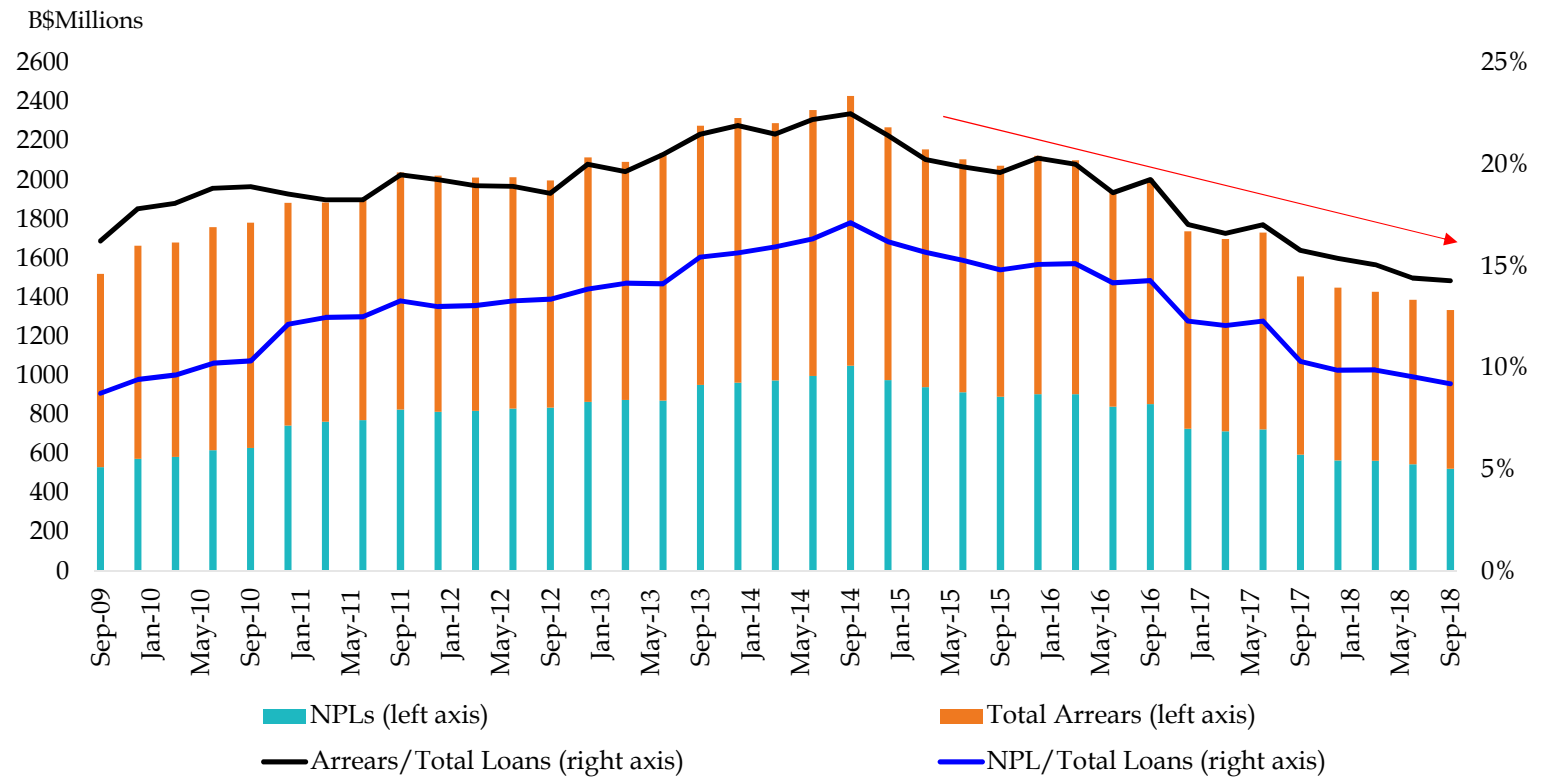
Source: The Central Bank of The Bahamas



# Banks Quarterly Credit Quality Indicators

At end-Sept. 2018, the arrears rate for total private sector credit was 14.3%, vis-à-vis 15.8% last year.

- The average NPL rate stood at 9.2% (10.3% last year).
- Short-term arrears rate was 5.1% (5.5% in 2017).



Source: The Central Bank of The Bahamas

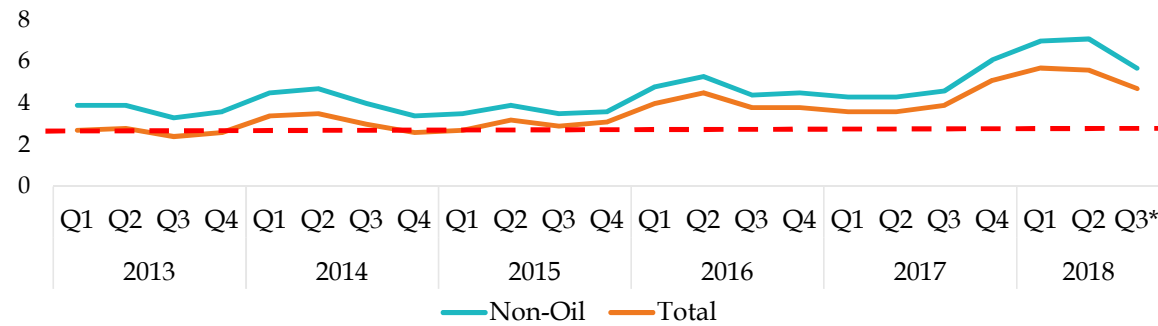
# External Reserves

- External reserves contracted by \$91.9 million to \$1,316.4 million at end-Sept., vis-à-vis a \$162.8 million expansion in 2017 (due to Government's external loan).
- At end-Sept., reserves were equivalent to approx. 5.7 months of total merchandise imports, compared to 4.0 months in 2017 (benchmark 3.0 months).
- External reserves represented 95% of Demand Liabilities, compared to 70.5% at end-Sept. 2017 (benchmark 90% - 100%).

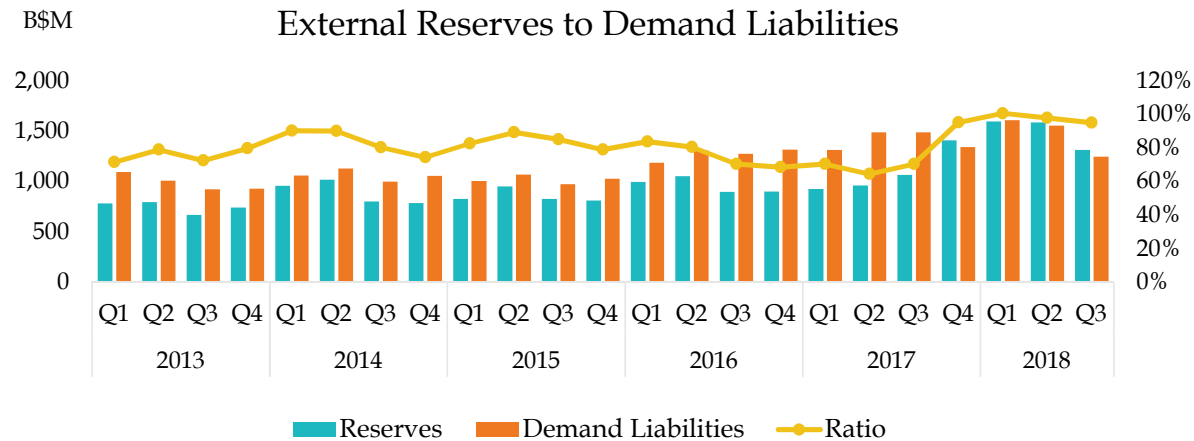
Source: The Central Bank of The Bahamas

\*3<sup>rd</sup> quarter ratio estimated using 3<sup>rd</sup> quarter reserves over 2<sup>nd</sup> quarter imports.

### Import Cover Ratio



### External Reserves to Demand Liabilities





# Real Sector and Fiscal Sector: Outlook

## Real Sector

- The economy is projected to expand at a moderate pace, supported by the uptrend in tourism (amid increased airlift , along with growth in high-end room capacity)
- The construction sector should remain cushioned by ongoing foreign investment projects.
- Further employment growth is expected, with a likely decrease in the unemployment rate
- Domestic inflation should remain low; however, some upward pressure on energy costs could persist due to elevated oil prices, while the pass-through effects from the VAT increase, should manifest in year-over comparisons over the following 12-month period.

## Fiscal Sector

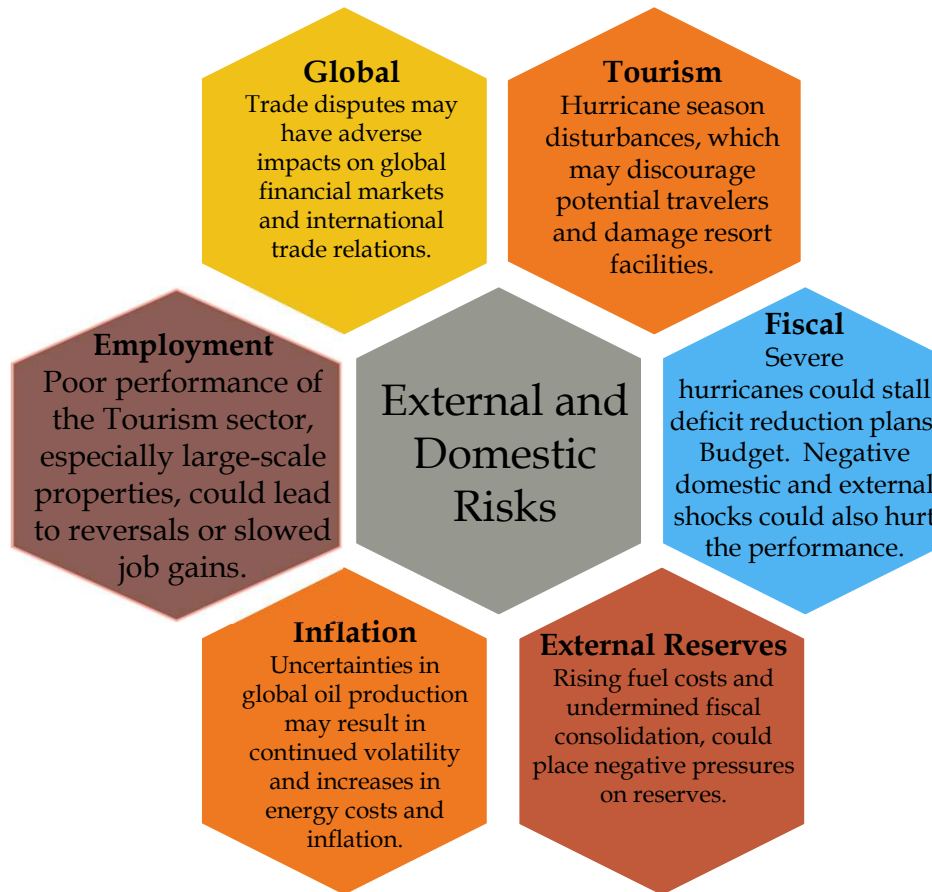
- Government's plan to improve its deficit and debt indicators over the near-term, are contingent on the execution of its strategies to increase revenue administration and curtail expenditure growth.
  - Key inputs to this strategy include the successful implementation of the fiscal responsibility and debt management frameworks.
- The threat of hurricanes remains a possible impediment to this outlook.

# Monetary Sector: Outlook

## Monetary Sector

- Liquidity is expected to remain elevated over the near-term, reflecting both banks' conservative lending practises and borrowers on-going efforts to deleverage.
- Credit arrears and NPLs are anticipated to continue their downward trajectory, amid banks' asset sales, sustained debt restructuring measures, and improving economic circumstances of borrowers.
- Banks are projected to stay highly capitalized, thereby mitigating any threats to financial sector stability. In fact some targeted reduction in capital is prudent over the medium-term.
- External reserve balances are projected to remain above international benchmarks, although further reductions from current levels are anticipated, due to the seasonal increase in foreign currency demand in the latter half of the year.

# Risks To The Outlook



# The End

