



## **Monthly Economic and Financial Developments November 2018**

In an effort to provide the public with more frequent information on its economic surveillance activities, the Central Bank has decided to release monthly reports on economic and financial sector developments in The Bahamas. The Bank monitors these conditions as part of its monetary policy mandate, to assess whether money and credit trends are sustainable relative to levels of external reserves required to protect the value of the Bahamian dollar and, if not, the degree to which credit policies ought to be adjusted. The main data source for this surveillance is financial institutions' daily reports on foreign exchange transactions and weekly balance sheet statements. Therefore, monthly approximations may not coincide with calendar estimates reported in the Central Bank's quarterly reports. The Central Bank will release its "Monthly Economic and Financial Developments" report on the Monday following its monthly Monetary Policy Committee Meeting.

### Future Release Dates:

2019: February 4, March 4, April 1, April 29, June 3, July 1, July 29, September 2, September 30, November 4, December 23



## 1. Domestic Economic Developments

### Overview

Preliminary economic indicators suggest that the modest growth in the Bahamian economy persisted during November, supported by gains in tourism sector output, while foreign investment projects continued to provide the impetus for construction sector activity. In the monetary sector, liquidity narrowed, as the growth in domestic credit overshadowed gains in deposits, while external reserves contracted, reflecting the traditional increase in foreign currency demand during the latter half of the year.

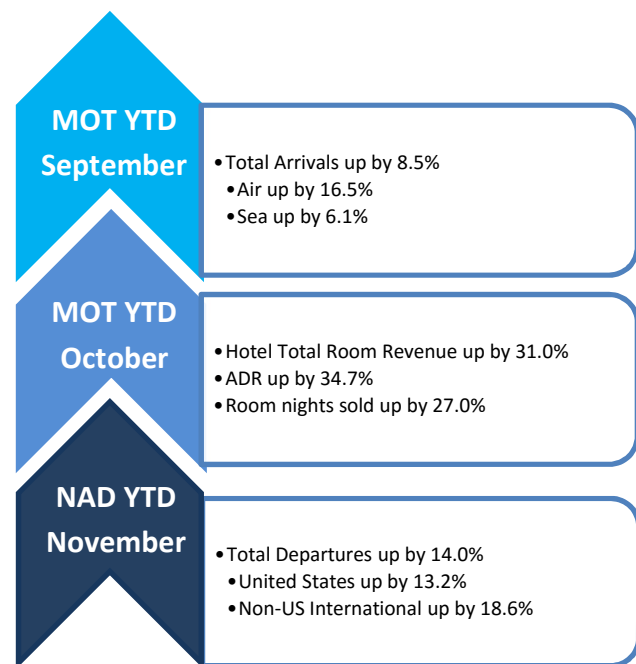
### Real Sector

#### Tourism

The latest tourism indicators show that the sector sustained its upward trajectory, underpinned by improved economic fundamentals in the main source markets, along with a significant increase in high-end room capacity in the capital.

Specifically, the latest official data from the Ministry of Tourism for the month of September—revealed that total visitor arrivals improved by 62.4%, relative to a 34.9% reduction in the prior year, when the passage of Hurricane Irma through the region significantly disrupted travel itineraries. Similar—although more muted—trends were noted over the nine-month period, as the total number of visitors rose by 8.5%, a reversal from a 5.3% decline a year earlier. This outcome was underpinned by growth of 16.5% and 6.1% in the air and sea components, respectively, vis-a-vis contractions of 8.4% and 4.3%, during the same period in 2017.

Chart 1: Tourism Indicators at a Glance



Source: The Ministry of Tourism & Nassau Airport Development Co.

An analysis by major port of entry revealed a strong increase in traffic to the Family Islands, as total arrivals advanced by 25.4%, a reversal from a 5.8% decline in 2017. In particular, the number of air visitors rose by 12.0%, outstripping the 10.8% uptick a year earlier, while the sea component strengthened by 28.2%, to eclipse the 8.6% falloff in the previous year. Further, total arrivals to Grand Bahama firmed by 8.9%, vis-à-vis 2017's 32.0% contraction, as the sea and air components increased by 9.6% and 3.3%, respectively, after declines of 28.6% and 50.7%, during the same period last year. In addition, arrivals to New Providence, edged-up by 0.1%, lower than the 2.4% gain a year earlier, as the dominant sea component

decreased by 7.1%, compared to a 6.7% uptick a year ago; however, air traffic expanded by 18.8%, relative to a 7.3% falloff in 2017.

Provisional data from the Bahamas Hotel and Tourism Association and the Ministry of Tourism, indicated that the trends noted over the nine-month period were sustained in the following month. A survey of large hotels showed a 34.0% gain in room revenue during October. This outturn reflected a \$5.43 (3.1%) advance in the average daily room (ADR) rate to \$179.48 and a 30.0% increase in the number of room nights sold, while the average occupancy rate steadied at 45.1%. Similarly, on a year-to-date basis, total room revenue expanded by 31.0%, underpinned by a 27.0% uptick in room nights sold, combined with a \$60.36 (34.7%) increase in the ADR to \$234.41, which overshadowed a slight 40 basis point fall in the average occupancy rate to 61.5%.

Indications are that November was another positive month for the tourism sector. Specifically, the number of passenger departures from the country's largest airport—as reported by the Nassau Airport Development Company Ltd. (NAD)—firmed by 15.7%, outpacing the 4.9% advance recorded a year earlier. In particular, the gains in both non-US international and US traffic quickened, by 11.6 and 10.6 percentage points to 16.8% and 15.5%, respectively. Likewise, over the eleven-month period, total departures strengthened by 14.0%, vis-à-vis a 1.3% reduction in the prior year. In the underlying movements, non-US international passengers rose by 18.6%, a reversal from the year earlier decline of 3.4%, while US passengers increased by 13.2%, contrasting with the 1.0% softening in 2017.

## **2. Domestic Monetary Trends**

### **November 2018 vs. 2017**

#### **Liquidity**

During the review month, broad liquidity contracted by \$51.2 million to \$1,659.5 million, a reversal from a \$96.4 million expansion in the corresponding period of 2017, when Government received net proceeds from its US\$750 million bond issue. Similarly, excess cash reserves—a narrow liquidity measure—declined by \$47.8 million to \$709.3 million, vis-à-vis a \$15.1 million increase a year earlier.

#### **External Reserves**

Led by net public sector demand for foreign currency, external reserves contracted by \$67.7 million to \$1,283.5 million, a turnaround from a \$229.2 million foreign borrowing-related rise a year earlier. In particular, the Central Bank's transactions with the public reversed from a net purchase of \$255.2 million, to a net sale of \$57.2 million. Moreover, the Bank's net sale to commercial banks narrowed by \$16.8 million to \$9.5 million, as they in turn purchased a net of \$7.9 million from their customers, vis-à-vis a net sale of \$23.4 million in the prior year.

#### **Domestic Credit**

##### *Bahamian Dollar Credit*

Bahamian dollar credit grew by \$64.3 million (0.8%), a reversal from a \$213.6 million (2.5%) contraction in 2017. In particular, net claims on the Government expanded by \$65.5 million (2.6%), vis-a-vis a \$201.3 million (8.1%) contraction in the prior period, when Government utilized proceeds from its external bond issue to reduce short-term advances in local currency. In addition, private sector credit firmed slightly by \$2.3 million, compared to a \$12.5 million (0.2%) falloff in 2017. In the underlying developments, the growth in mortgages quickened to \$9.5 million, from \$2.2 million last year, while the declines in commercial and consumer credit narrowed to \$5.2 million and \$2.0 million, from \$9.7 million and \$5.0 million, respectively.

In addition, claims on the rest of the public sector softened by \$3.5 million, compared to a slight \$0.3 million increase in 2017.

### Foreign Currency Credit

Domestic foreign currency credit firmed by \$2.1 million, vis-à-vis a \$33.6 million decline a year earlier. Specifically, net claims on the Government rose by \$4.7 million, contrasting with a \$27.9 million decrease in 2017, when the Government repaid a portion of its foreign currency debt. Similarly, the decline in private sector credit softened to \$1.1 million, from \$5.9 million a year earlier, as the contraction in commercial loans was offset by the growth in mortgages. In contrast, the falloff in credit to the rest of the public sector widened by \$1.0 million to \$1.6 million.

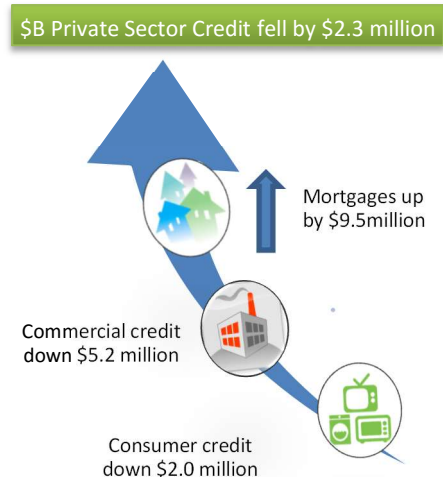
### Credit Quality

Buoyed by healthier economic conditions, banks' credit quality indicators improved during the review period. In particular, total private sector arrears decreased by \$6.4 million (0.8%), to \$802.1 million, and by 13 basis points to 14.1% of total private sector loans. By length of delinquency, total short-term arrears (31 to 90 days), declined by \$13.2 million (4.5%) to \$281.2 million and by 24 basis points to 4.9% of private sector loans. In a partial offset, non-performing loans (NPLs), rose by \$6.9 million (1.3%) to \$520.9 million, and by 11 basis points to 9.1% of total private sector loans.

An analysis by loan category, showed that the decrease in arrears was led by a \$5.7 million (2.5%) contraction in consumer loan delinquencies to \$222.2 million, as both the short and long-term sub-categories decreased by \$5.5 million (6.2%), and by \$0.2 million (0.2%), respectively. In addition, commercial arrears fell by \$4.1 million (4.3%) to \$91.0 million, as short-term delinquencies decreased by \$6.3 million (15.3%), while the NPL segment firmed by \$2.3 million (4.2%). In contrast, the value of mortgage delinquencies rose by \$3.4 million (0.7%) to \$488.9 million, with the \$4.8 million (1.5%) growth in the non-accrual segment, overshadowing the \$1.4 million (0.9%) falloff in short-term arrears.

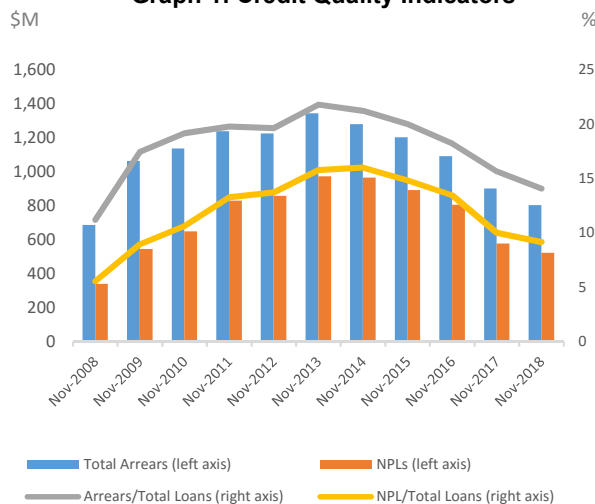
Despite the reduction in arrears, banks increased specific provisions for loan losses by \$23.9 million (7.2%) to \$356.4 million. As a result, the ratio of specific provisions to arrears firmed by 3.3 percentage points to 44.4%. Similarly, the ratio of specific provisions to NPLs expanded by 3.7 percentage points to 68.4%. During the review period, banks' write-offs and recoveries amounted to \$7.9 million and \$1.7 million, respectively.

Chart 2: Private Sector Credit



Source: Central Bank of the Bahamas

Graph 1: Credit Quality Indicators



Source: Central Bank of the Bahamas

In comparison to November 2017, the total arrears rate decreased by 1.6 percentage points, as both the NPL and short-term rates softened by 86 and 70 basis points, respectively. The contraction in the

delinquency indicators was broad-based, as the mortgage, consumer and commercial rates fell by 1.6 percentage points each.

## **Deposits**

The growth in total Bahamian dollar deposits quickened by \$19.9 million to \$54.3 million, mainly reflecting a \$52.1 million expansion in demand balances, vis-à-vis a \$4.2 million decrease in 2017, while savings deposits moved higher by \$19.5 million, outpacing the \$7.5 million increase recorded a year earlier. In contrast, fixed deposits fell by \$17.3 million, a reversal from a \$31.1 million build-up in the prior period.

## **Interest Rates**

With regard to interest rates, the weighted average deposit rate at banks narrowed by 11 basis points to 0.72% during the review month—with the highest rate of 4.50% secured on deposits exceeding 12 months. In contrast, the weighted average loan rate firmed by 90 basis points to 11.83%.

### **3. Domestic Outlook**

The Bahamian economy is expected to maintain its modest growth path over the near-term, buoyed by gains in the tourism sector, as the key source markets continue to improve. In addition, construction sector activity should be supported by several varied-scale foreign investment projects. Against this backdrop, employment conditions are projected to continue to strengthen gradually. Meanwhile, some firming in inflation rates is expected, reflecting the pass-through effects of the hike in the value added tax (VAT) rate.

On the fiscal front, the successful implementation of measures to curtail expenditure growth and strengthen revenue administration, will remain crucial to the Government's efforts to improve the deficit and debt indicators over the near term.

In the monetary sector, bank liquidity is likely to remain elevated for an extended period, as banks maintain their cautious lending stance and consumers continue to deleverage. Although further declines in external reserves are projected over the near-term, reserve indicators should remain well above international benchmarks.

### **4. Monetary Policy Implications**

The Bank continues to observe the broadly positive economic trends, namely, the growth in the tourism sector, healthy external reserve levels and stability in the financial sector. In this environment, expectations are that the current monetary policy stance will be maintained over the near-term.

However, downside risks remain prevalent, including the potential impact of a prolonged US/China trade war on the global economy and its spillover effects to the domestic market. In addition, the significant bank liquidity overhang could place added pressure on external reserve balances over the medium-term, if utilised to support excessive consumer credit demand. In light of the latter, the implementation of the credit bureau should address issues relating to information asymmetries on the part of potential lenders, while the Central Bank's efforts to gradually reduce its holdings of Government debt, should lead to a reduction in liquidity.

The Bank will sustain its ongoing monitoring of economic developments, and where prudent, adjust its policy stance to maintain economic and financial stability.

## APPENDIX

### *International Developments*

During the review period, economic conditions within the major economies were largely mixed; although global trade tensions eased slightly, after the US and China agreed on a 90-day period of dialogue, during which no additional tariffs would be implemented. In this environment, all of the major central banks maintained their respective monetary policy stances.

Conditions in the United States were relatively mild during the review period, as the growth in total non-farm payroll employment slowed to 155,000 in November, from 250,000 in the prior month; nonetheless, the unemployment rate remained at 3.7%. Further, led by increased online purchases, retail sales firmed slightly by 0.2%, a slowdown from October's 1.1% expansion. Average consumer prices remained unchanged, as declines in gasoline costs were offset by increases in shelter and automobile prices, compared to a 0.3% gain in October. In external developments, the trade deficit expanded by \$1.5 billion (2.7%) to \$55.5 billion, bolstered by a \$0.6 billion (0.2%) uptick in imports, combined with a \$0.3 billion (0.1%) fall in exports. In this economic climate, the Federal Reserve maintained its key federal funds target rate at a range of 2.0%-2.25%.

Economic indicators in Europe were volatile over the review period, as the region continued to experience the effects of the instability caused by the UK's efforts to exit the EU. In particular, the euro area's industrial production index firmed by 20 basis points in October, reversing the prior month's 60 basis point contraction. However, the UK's total production index fell by 60 basis points, after a flat September, as manufacturing output remained sluggish. With regards to spending, the euro area's retail trade grew by 30 basis points in October, vis-a-vis a 50 basis point decline in the previous month. Meanwhile on the international front, the UK's trade deficit deteriorated by £1.0 billion (41.6%) to £3.3 billion, underpinned by a £1.5 billion (2.8%) rise in imports, which outpaced the £0.5 billion (1.0%) increase in exports. In labour market developments, the unemployment rate steadied in both the euro area and UK at 8.1% and 4.0%, respectively. During November, average consumer prices decreased by 20 basis points in the euro area, a reversal from a 10 basis point increase a month earlier. Against this backdrop, the European Central Bank and the Bank of England left their respective monetary policy stances unchanged.

The major Asian market indicators were also mixed during the review period. In China, growth in industrial production eased from 5.9% to 5.4% in November, while in Japan, industrial production expanded by 2.9% in October, following a 2.5% decline in the prior month. Further, retail sales edged-up by 0.5% in China during November, slightly less than the prior month's 0.6% uptick, and consumer prices narrowed by 0.3%—amid a falloff in food and consumer goods prices—after a 0.2% gain in October. Conversely, Japan's consumer prices rose slightly by 0.2%, owing mainly to increases in transportation and recreational costs, after remaining unchanged in September. In labour developments, the unemployment rate in Japan rose by 10 basis points to 2.4% in October, reversing the previous month's decline of the same magnitude. In light of the softness in economic conditions, both the Bank of Japan and the People's Bank of China maintained their accommodative monetary policy postures.

Over the review period, crude oil prices fell to their lowest level since October 2017, with costs declining by 22.2% to \$58.71 per barrel, amid a glut in oil supply—particularly from the North American shale gas region. In the precious metals market, the cost of silver fell marginally by 0.5% to \$14.18 per troy ounce, while gold prices rose slightly by 0.6% to \$1,222.50 per troy ounce.

The major stock market indices showed mixed movements during the month of November. In the United States, both the S&P 500 and Dow Jones Industrial Average increased by 1.8% and 1.5%, respectively. In contrast, amid rising trade and political tensions surrounding the ongoing Brexit debates, the major European stock markets weakened, as declines were noted for the UK's FTSE 500 (2.1%), France's CAC40 (1.8%), and Germany's DAX (1.7%). Similarly in Asia, China's SE composite decreased by 0.6%; however, Japan's Nikkei 225 rose by 2.0%.

The US dollar's valuation varied against the major currencies in November, as the dollar appreciated relative to the Canadian dollar, by 1.0% to CAD1.33, the Japanese Yen by 0.5% to ¥113.55, and the British pound, by 0.1% to £0.7839. In contrast, the dollar depreciated versus the Swiss Franc by 0.9% to CHF0.9994, the Chinese Yuan by 0.2% to CNY6.9590, and the euro by 0.1% to €0.8834.

# Recent Monetary and Credit Statistics

(B\$ Millions)

<b>NOVEMBER</b>						
Value		Change		Change YTD		
2017	2018	2017	2018	2017	2018	

## 1.0 LIQUIDITY & FOREIGN ASSETS

1.1 Excess Reserves	919.05	709.29	15.12	-47.82	195.33	-148.26
1.2 Excess Liquid Assets	1,849.10	1,659.46	96.42	-51.17	402.02	-138.81
1.3 External Reserves	1,435.60	1,283.46	229.18	-67.72	533.53	-124.83
1.4 Bank's Net Foreign Assets	-177.21	-111.69	5.34	-7.71	-46.05	59.31
1.5 Usable Reserves	674.11	599.32	230.33	-52.81	430.26	-69.58

## 2.0 DOMESTIC CREDIT

<b>2.1 Private Sector</b>	<b>5,973.55</b>	<b>5,886.62</b>	<b>-18.40</b>	<b>1.24</b>	<b>-179.20</b>	<b>-89.85</b>
a. B\$ Credit	5,751.80	5,660.00	-12.54	2.32	-161.57	-92.06
of which: Consumer Credit	2,203.27	2,123.04	-5.01	-1.95	-44.16	-74.49
Mortgages	2,881.96	2,874.77	2.21	9.51	-78.86	-7.24
Commercial and Other Loans B\$	666.56	662.20	-9.74	-5.23	-38.56	-10.34
b. F/C Credit	221.76	226.62	-5.87	-1.08	-17.63	2.21
of which: Mortgages	61.40	67.52	-5.33	0.29	-6.64	5.32
Commercial and Other Loans F/C	160.36	159.10	-0.54	-1.37	-10.99	-3.11
<b>2.2 Central Government (net)</b>	<b>2,323.12</b>	<b>2,538.87</b>	<b>-229.27</b>	<b>70.20</b>	<b>-215.06</b>	<b>160.86</b>
a. B\$ Loans & Securities	2,567.16	2,732.69	-217.66	62.46	-184.00	123.74
Less Deposits	239.20	193.61	-16.32	-3.00	30.41	-32.53
b. F/C Loans & Securities	0.00	7.00	-25.00	7.00	0.00	7.00
Less Deposits	4.84	7.22	2.92	2.26	0.65	2.41
<b>2.3 Rest of Public Sector</b>	<b>275.08</b>	<b>316.09</b>	<b>-0.32</b>	<b>-5.04</b>	<b>-30.80</b>	<b>45.20</b>
a. B\$ Credit	99.65	126.23	0.27	-3.49	-7.65	26.03
b. F/C Credit	175.43	189.87	-0.59	-1.56	-23.15	19.17
<b>2.4 Total Domestic Credit</b>	<b>8,572.71</b>	<b>8,741.58</b>	<b>-247.20</b>	<b>66.40</b>	<b>-424.29</b>	<b>116.20</b>
a. B\$ Domestic Credit	8,179.41	8,325.31	-213.61	64.30	-383.64	90.23
b. F/C Domestic Credit	393.30	416.27	-33.59	2.10	-40.65	25.97

## 3.0 DEPOSIT BASE

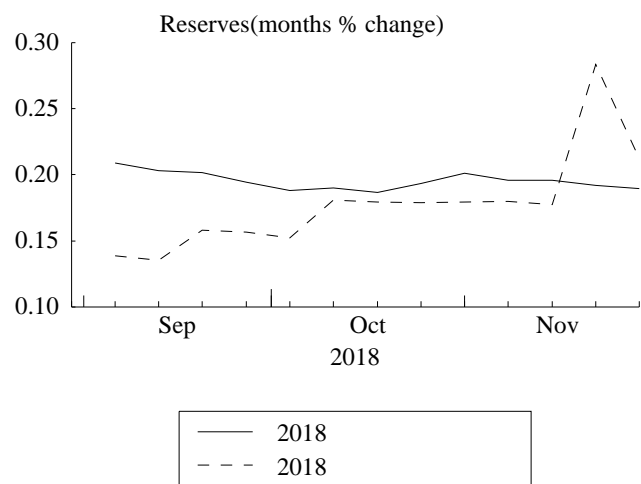
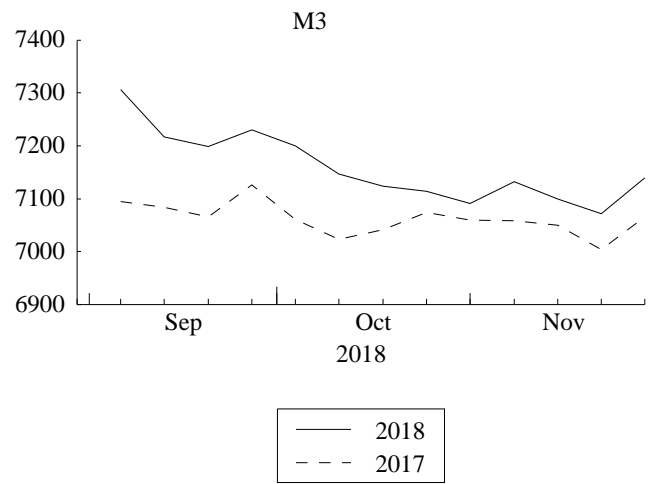
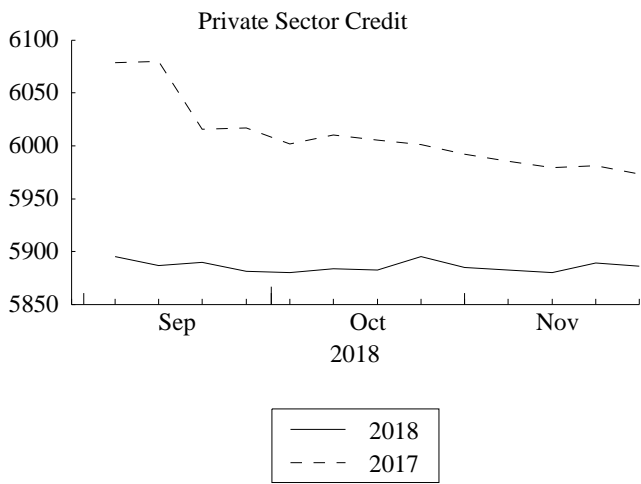
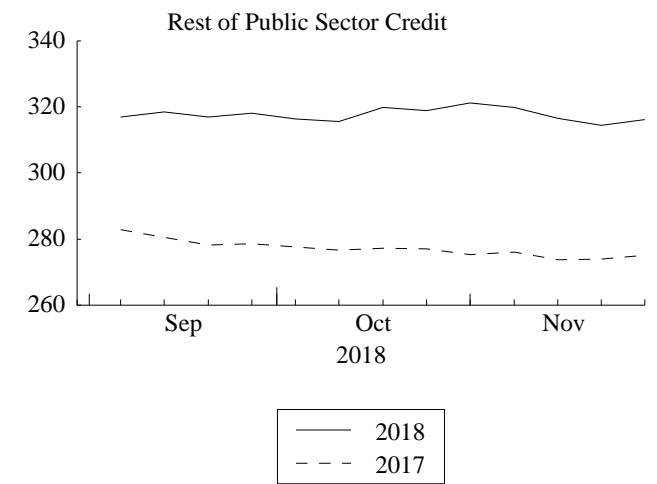
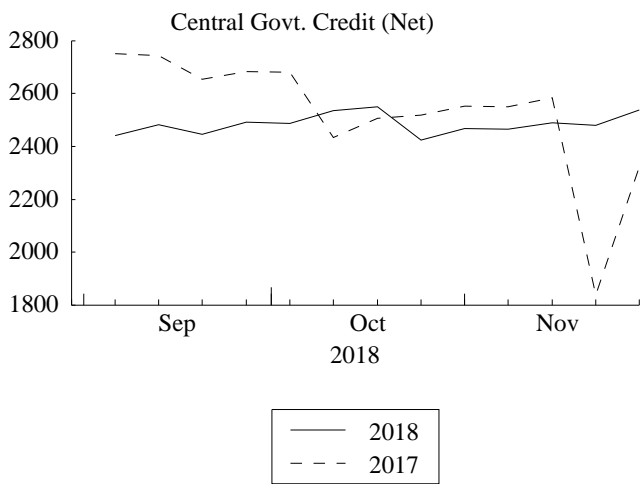
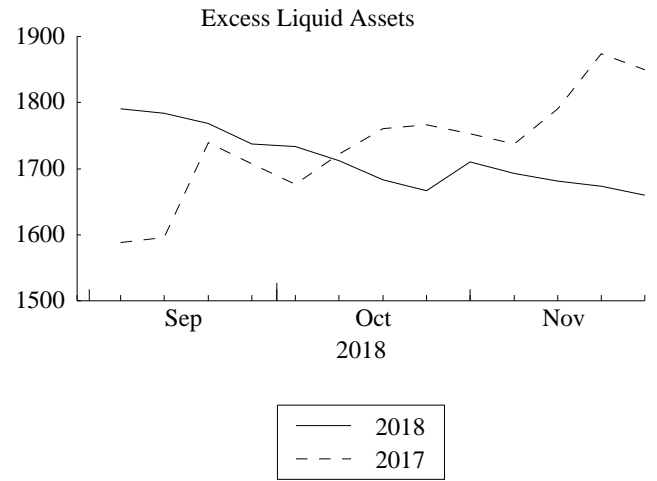
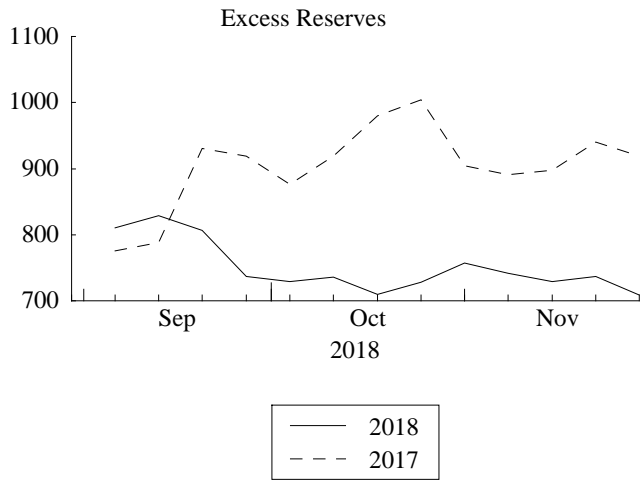
3.1 Demand Deposits	2,357.50	2,474.61	-4.21	52.05	167.99	114.13
a. Central Bank	18.46	69.79	-27.24	17.21	2.70	55.72
b. Banks	2,339.04	2,404.82	23.03	34.84	165.29	58.41
3.2 Savings Deposits	1,365.65	1,426.64	7.51	19.46	72.00	58.97
3.3 Fixed Deposits	2,763.76	2,574.52	31.07	-17.26	-106.70	-168.12
3.4 Total B\$ Deposits	6,486.91	6,475.77	34.37	54.25	133.29	4.98
3.5 F/C Deposits of Residents	298.84	360.00	-34.87	-13.21	-79.62	57.98
<b>3.6 M2</b>	<b>6,767.06</b>	<b>6,779.27</b>	<b>41.09</b>	<b>60.65</b>	<b>119.69</b>	<b>1.47</b>
<b>3.7 External Reserves/M2 (%)</b>	<b>21.21</b>	<b>18.93</b>	<b>3.28</b>	<b>-1.18</b>	<b>7.64</b>	<b>-1.85</b>
<b>3.8 Reserves/Base Money (%)</b>	<b>97.19</b>	<b>99.43</b>	<b>14.29</b>	<b>-1.70</b>	<b>27.05</b>	<b>1.81</b>
<b>3.9 External Reserves/Demand Liabilities (%)</b>	<b>94.26</b>	<b>93.80</b>	<b>15.17</b>	<b>-2.84</b>	<b>25.74</b>	<b>-1.43</b>

Value		Year to Date		Change	
2017	2018	2017	2018	Month	YTD

## 4.0 FOREIGN EXCHANGE TRANSACTIONS

<b>4.1 Central Bank Net Purchase/(Sale)</b>	<b>228.89</b>	<b>-66.63</b>	<b>512.79</b>	<b>-150.13</b>	<b>-295.52</b>	<b>-662.92</b>
a. Net Purchase/(Sale) from/to Banks	-26.30	-9.47	42.99	130.63	16.83	87.64
i. Sales to Banks	37.00	25.90	357.93	369.10	-11.10	11.18
ii. Purchases from Banks	10.70	16.43	400.91	499.73	5.73	98.82
b. Net Purchase/(Sale) from/to Others	255.19	-57.16	469.80	-280.76	-312.35	-750.56
i. Sales to Others	506.96	78.10	1,112.43	801.01	-428.85	-311.41
ii. Purchases from Others	762.15	20.94	1,582.22	520.25	-741.21	-1,061.97
<b>4.2 Banks Net Purchase/(Sale)</b>	<b>-23.40</b>	<b>7.90</b>	<b>61.70</b>	<b>71.29</b>	<b>31.30</b>	<b>9.59</b>
a. Sales to Customers	354.93	417.13	4,086.24	4,988.25	62.21	902.02
b. Purchases from Customers	331.53	425.03	4,147.93	5,059.54	93.50	911.61
<b>4.3 B\$ Position (change)</b>	<b>-9.79</b>	<b>-13.93</b>				

## SELECTED MONEY AND CREDIT INDICATORS (B\$ Millions)







## Selected International Statistics

<b>C. Selected Currencies (Per United States Dollars)</b>						
<b>Currency</b>	<b>Nov-17</b>	<b>Oct-18</b>	<b>Nov-18</b>	<b>Mthly % Change</b>	<b>YTD % Change</b>	<b>12-Mth % Change</b>
Euro	0.8401	0.8840	0.8834	-0.07	6.05	5.16
Yen	112.54	112.94	113.55	0.54	0.76	0.90
Pound	0.7393	0.7834	0.7839	0.07	6.00	6.04
Canadian \$	1.2897	1.3157	1.3293	1.03	5.73	3.07
Swiss Franc	0.9836	1.0085	0.9994	-0.90	2.59	1.61
Renminbi	6.6048	6.9758	6.9590	-0.24	6.95	5.36

*Source: Bloomberg as of November 30, 2018*

<b>D. Selected Commodity Prices (\$)</b>					
<b>Commodity</b>	<b>November 2017</b>	<b>October 2018</b>	<b>November 2018</b>	<b>Mthly % Change</b>	<b>YTD % Change</b>
Gold / Ounce	1274.94	1214.76	1222.5	0.64	-6.18
Silver / Ounce	16.44	14.25	14.18	-0.47	-16.28
Oil / Barrel	61.29	82.67	58.71	-22.21	11.85

*Source: Bloomberg as of November 30, 2018*

<b>E. Equity Market Valuations – November 30, 2018 (% change)</b>								
	<b>BISX</b>	<b>DJIA</b>	<b>S&amp;P 500</b>	<b>FTSE 100</b>	<b>CAC 40</b>	<b>DAX</b>	<b>Nikkei 225</b>	<b>SE</b>
1 month	1.20	1.52	1.79	-2.07	-1.76	-1.66	1.96	-0.56
3 month	3.29	-1.64	-4.87	-6.08	-7.45	-8.95	-2.25	-5.03
YTD	-1.78	3.31	3.24	-9.20	-5.81	-12.85	-1.82	-21.74
12-month	-2.08	5.22	4.25	-4.73	-6.87	-13.57	-1.65	-21.98

*Sources: Bloomberg and BISX*

<b>F: Short Term Deposit Rates in Selected Currencies (%)</b>			
	<b>USD</b>	<b>GBP</b>	<b>EUR</b>
<b>o/n</b>	2.22	0.71	-0.50
<b>1 Month</b>	2.19	0.77	-0.40
<b>3 Month</b>	2.78	0.85	-0.36
<b>6 Month</b>	2.92	1.01	-0.30
<b>9 Month</b>	2.95	1.15	-0.25
<b>1 year</b>	3.15	1.24	-0.19

*Source: Bloomberg as of November 30, 2018*

