

Quarterly Economic and Financial Developments Report

December 2017

Prepared by the
Research Department

Overview of Domestic Economic Developments

REAL SECTOR

- **OUTPUT:** In 2017, domestic output was largely supported by:
 - Construction activity associated with on-going foreign investment projects and to a lesser extent hurricane rebuilding work
 - However tourism sector output in this sector remained weak
- **PRICES:** Reflecting higher energy costs, consumer prices rose by 1.29%, in the 12 months to September
- **EMPLOYMENT:** The All Bahamas unemployment rate rose slightly over the May 2017 survey, to 10.1% in November 2017, but remained lower than 2016 rates.

FISCAL SECTOR

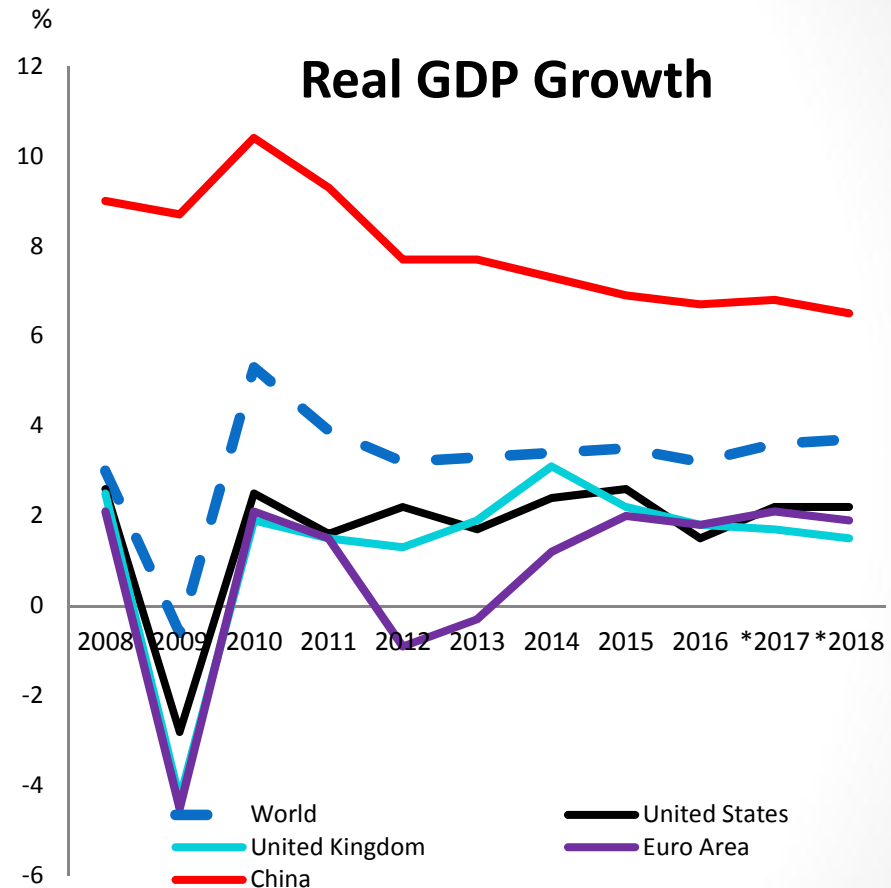
- During the first five months of FY2017/18, the fiscal deficit narrowed by 33.8% relative to the same period of FY2016/17.

MONETARY SECTOR

- **Liquidity & External Reserves:** In 2017, growth in banking sector liquidity & foreign reserves were predominately due to the Government's external borrowing and a few one-off inflows.
- **Private Sector Credit:** Contracted during year, largely on account of the non-performing asset sale transaction with Bahamas Resolve.

Global Economic Forecasts

- In its January 2018 update, the IMF raised its forecast for global growth in 2017 from 10 basis points to 3.7%
 - Due to unexpected gains in Europe and Asia
- Global growth estimate for 2018, raised 20 basis points to 3.9%
 - Strengthening global financial conditions and consumer sentiment
 - U.S. tax policy changes
- 2018 GDP projections are as follows:
 - The U.S. (+ 40 basis points to 2.7%)
 - China (- 20 basis points to 6.6%)
 - Canada (- 70 basis points to 2.3%)
 - The U.K. (- 20 basis points to 1.5%)
 - The euro area (- 20 basis points to 2.2%)



Source: IMF World Economic Outlook January 2018
*Projection

TOURISM SECTOR

Tourism Sector Performance (Jan. – Dec. 2017)

HOTEL DATA

- Indications are that tourism sector performance was constrained in 2017 due to:
 - Sustained closure of several properties in Grand Bahama (GB), accounting for approx. 1,100 rooms (Over 50% of the island's capacity)

NAD: ALL PASSENGERS

- Data from the Nassau Airport Development Company (NAD) showed that passenger arrivals to the main airport decreased by 0.8%—net of domestic departures—during 2017, compared to a 1.0% gain a year earlier.
- Note: For December 2017, international departures rose by 5.1%, extending December 2016's 4.1% gain

NAD: US vs OTHERS

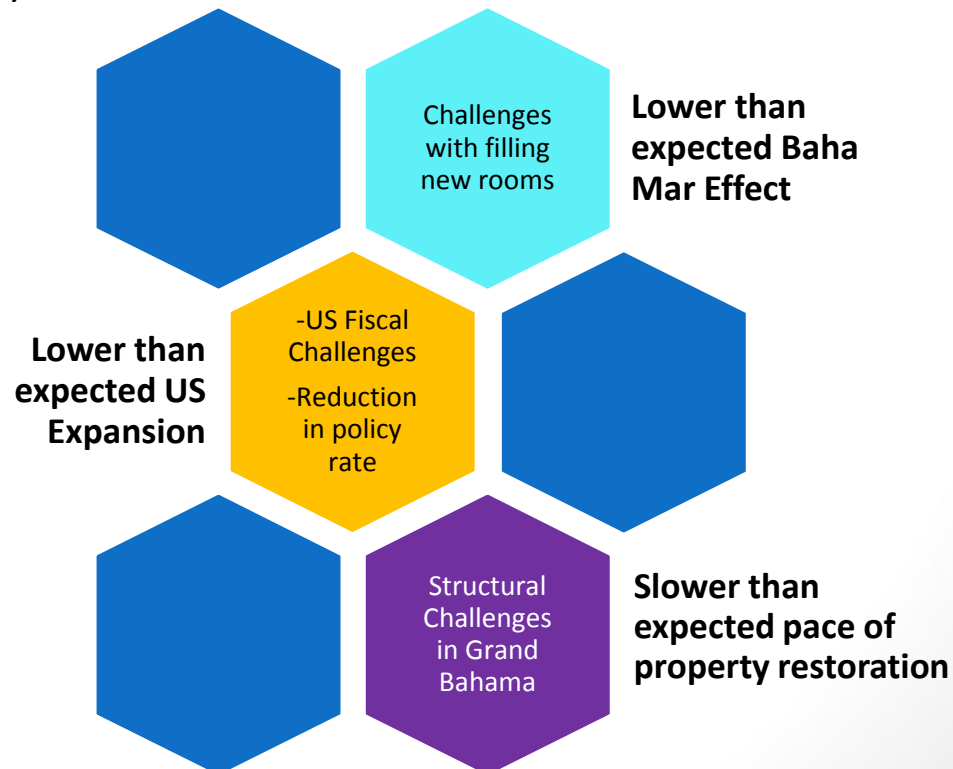
- In 2017, non-US international traffic declined by 1.8% to 0.2 million (contracted by 4.1% in 2016)
- U.S passengers were down by 0.6% to 1.1 million (rose by 1.9% in 2016)
- Note: In December, non-US international traffic advanced by 14.5%, reversing a 4.2% decline in Dec. 2016, and US traffic was higher by 3.4% versus a 5.7% increase a year earlier.

Tourism Sector Performance: Outlook

Tourism sector output is expected to improve in 2018:

- The reduction in US taxes, increased disposable income and other policies to improve the US economy should translate into an arrivals boost
- The opening of the remaining phases of Baha Mar in 2018 should increase industry capacity
- Expected re-opening of Our Lucaya should restore Grand Bahama capacity
- Junkanoo Carnival could help stimulate demand for the destination
- Increased airlift via additional lines of travel to The Bahamas, such as the most recently added route from Houston to Nassau by Bahamasair.

Risks to the Tourism Outlook



FOREIGN INVESTMENT

Baha Mar Developments



SLS Lux Hotel

On November 17, 2017, the SLS Lux hotel opened

- Fifth property for SLS brand
- Features 299 rooms and suites
- 12,000 square feet of meeting space
- Five restaurants and bars
- Employs 460 of the resort's approximately 3,000 employees

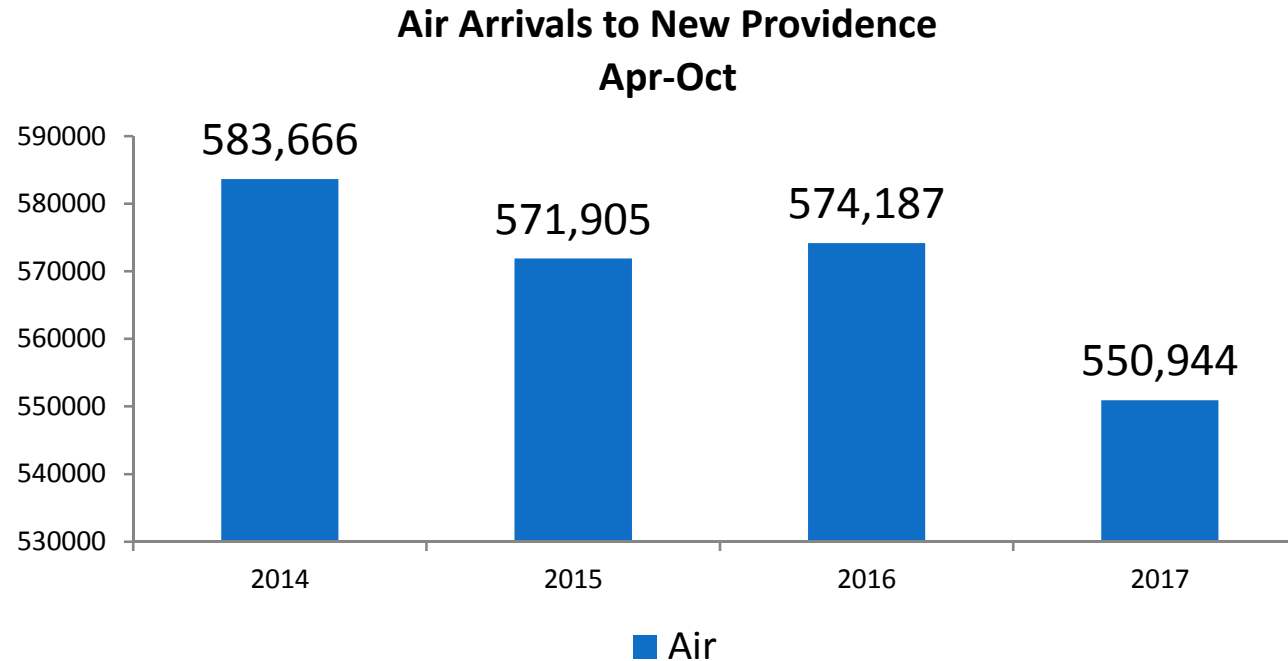
Rosewood Hotel

Rosewood has begun taking reservations starting on June 1st, 2018

- Rosewood has hotels worldwide, including the BVI and Bermuda. Rosewood Baha Mar will be the third in the Caribbean.
- Features 200 rooms, suites and villas
- 30 restaurants and retail spaces
- Potential to employ about 1000 employees of the resort's anticipated total 5,000 employees by end of year 2019.

Tourism Sector Performance continued

Taking the hurricane impact into account, the soft opening of Baha Mar in April 2017, was not associated with any consistent shift in air arrivals trends to the Capital, when compared to the same period in previous year.

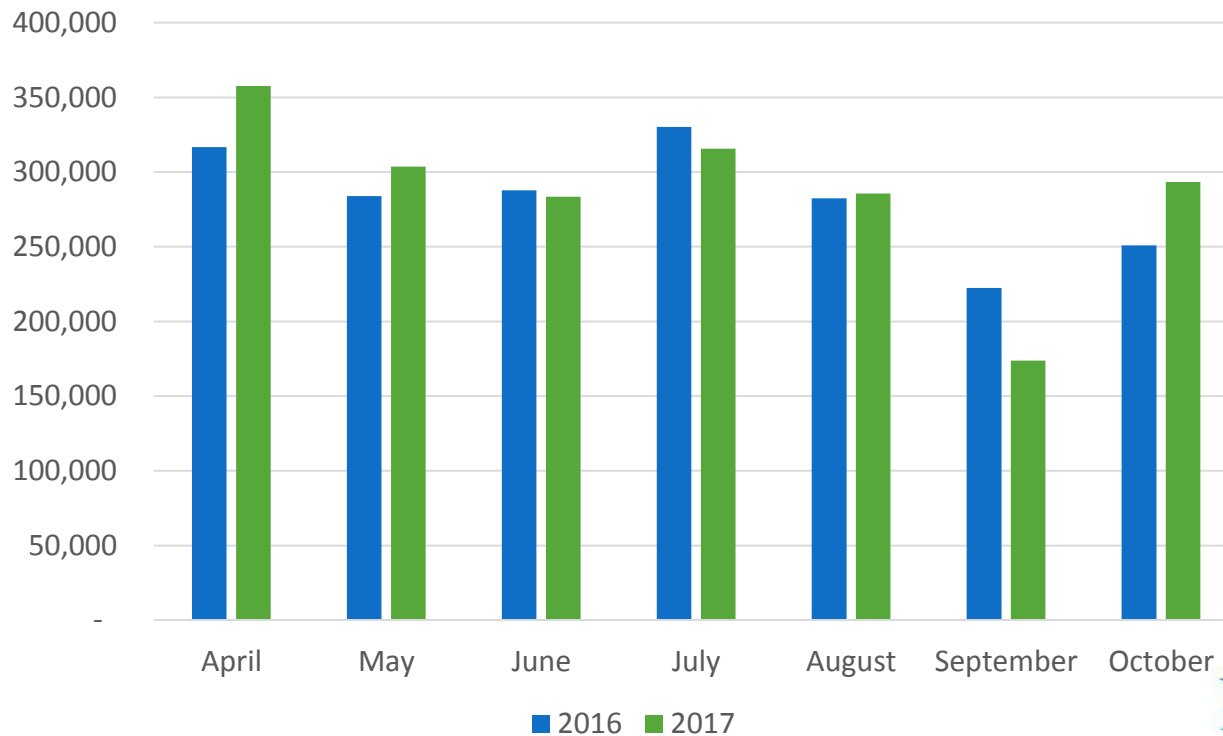


Source: Ministry of Tourism and author's calculations

Baha Mar Developments: Impact

- On a month on month basis, arrivals were improved for April and October
- Performance in most other months where not notably different from the prior year
- September recorded a hurricane-related contraction.

New Providence Arrivals (Apr. – Oct. 2017 vs. 2016)



**BAHA
MAR**
THE BAHAMIAN RIVIERA

Source: Ministry of Tourism

Other FDI Projects

Project Name	Recent Developments
Sterling Hurricane Hole Limited, New Providence	<ul style="list-style-type: none"> ❖ Projected \$194 million in capital expenditure ❖ Land, marina and fuel dock ❖ Project to involve repairs to the existing property and construction of mixed residential properties and commercial facilities
4M Harbour Island Ltd, Harbour Island	<ul style="list-style-type: none"> ❖ \$55 million new building and expansion project ❖ Redevelopment of Harbour Island Marina into a boutique hotel and expanded marina ❖ Hotel will include a waterfront restaurant and bar, a 34-room hotel and 10 villas
High Heat Real Estate, New Providence	<ul style="list-style-type: none"> ❖ \$40 million new real estate project ❖ 50-unit condo development at Love Beach Estates
Vanquish Developments Ltd., Grand Bahama	<ul style="list-style-type: none"> ❖ \$37 million “world class” motor sport, tourism and commercial development ❖ To be constructed on 30 acres of beachfront property ❖ Includes a 70-room hotel, 300 room villas, karting track with educational facilities

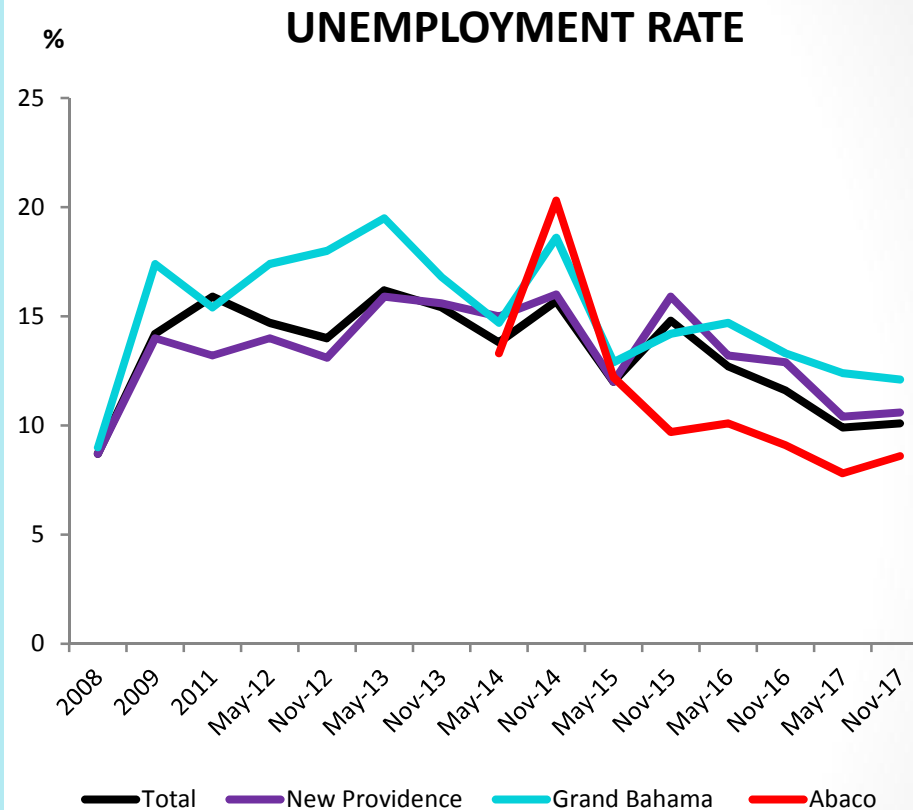
EMPLOYMENT

Unemployment Indicators

- Based on DOS data, unemployment rate firmed slightly (by 0.2 of a percentage point) to 10.1% at end-November 2017, vis-à-vis the prior six-month period
 - When compared to the same period in the previous year, the rate fell by 1.5 percentage points
- Most job gains occurred in transport, storage & communication, and wholesale & retail; while job losses were noted in the Government sector
- The unemployment rates for all of the Islands surveyed remained lower relative to the comparable period of 2016

Over the six months to Nov:

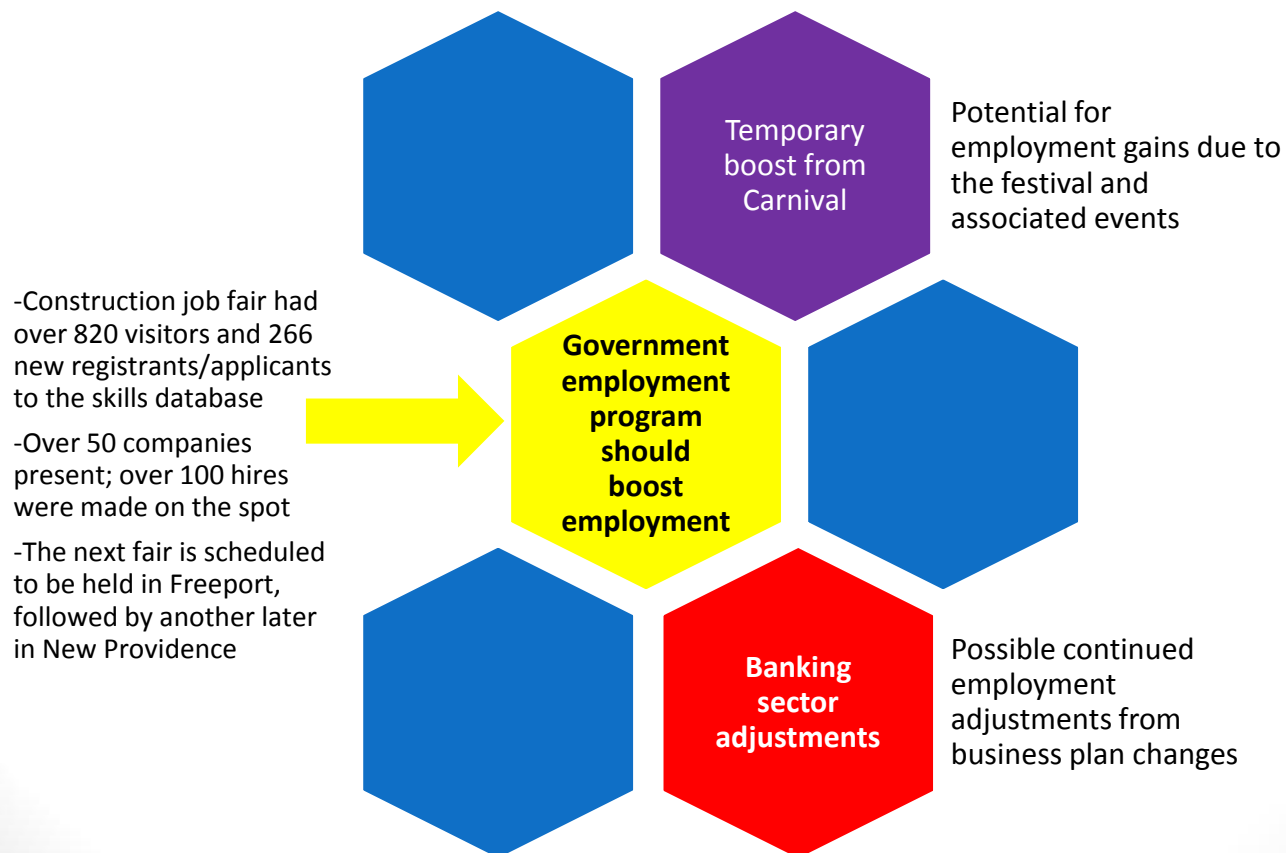
- NP rate rose to 10.6% (from 10.4%)
- Abaco rate increased to 8.6% (from 7.8%)
- GB rate decreased to 12.1% (from 12.4%)
- Youth Unemployment rate fell by 2.0 pp to 22.0%
- The Number of discouraged workers advanced by 5.7% to 2,035 persons



SOURCE: The Central Bank of The Bahamas

Unemployment Outlook

- Conditions in the labour market are expected to improve in 2018.
 - Completion of Baha Mar's phased opening should increase tourism sector employment.
 - Foreign investment-related projects, especially those on the out-islands, should support construction sector employment
 - Work on Our Lucaya should support construction jobs in Grand Bahama, and longer term jobs in the tourism sector once the property is restored
 - Public sector adjustments could moderate these influences.

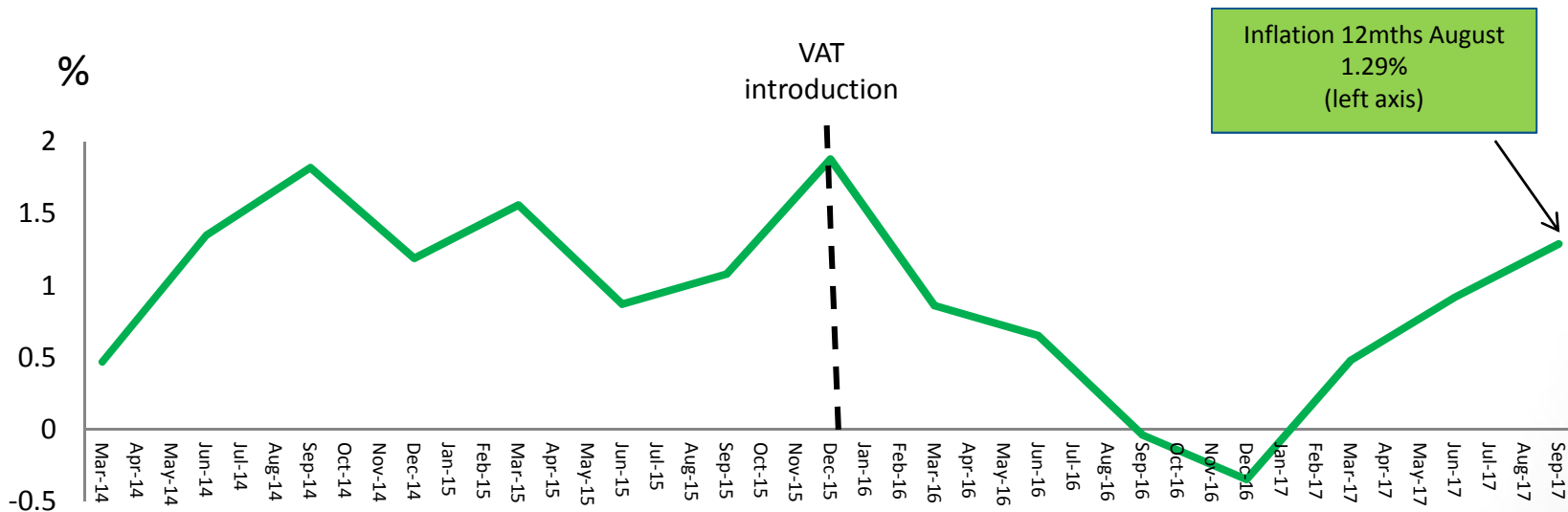


INFLATION

Domestic Prices

Gains in the housing, water, gas, electricity and “other” fuels component (33.0% of the index), by 3.37%, led to a 1.29% increase in consumer prices during the 12 months to September.

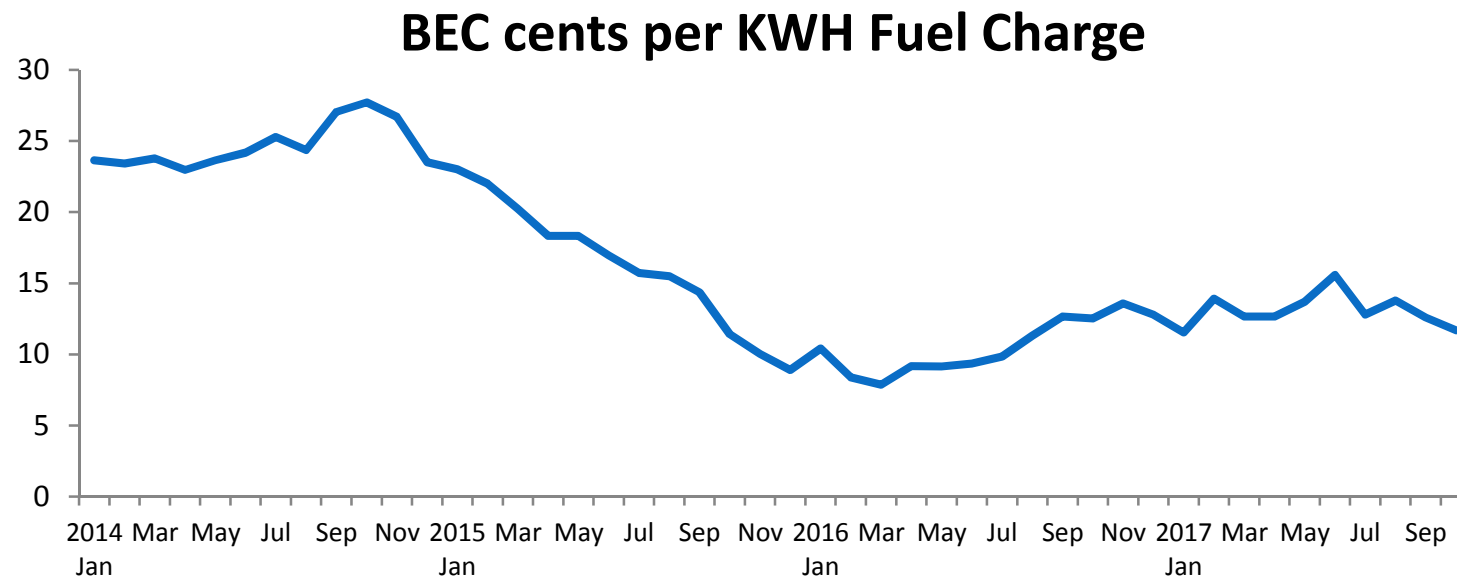
Inflation rate



SOURCE: The Central Bank of The Bahamas

Domestic Prices

- BEC's fuel surcharge is 11.69¢ per KWh at end-October.
 - Down 7.1% month-on-month
 - Annually, lower by 6.6%



INFLATION OUTLOOK

- According to the IMF, global oil prices are expected to be weaker than initially anticipated in 2018.
- Core personal consumer expenditure inflation in the United States is projected to rise slowly, but not beyond the 2% targeted by the US's central bank.
- As a result, domestic consumer price inflation is projected to remain mild in 2018
- However, should global oil prices increase rapidly, it could put upward pressure on inflation.

FISCAL SECTOR

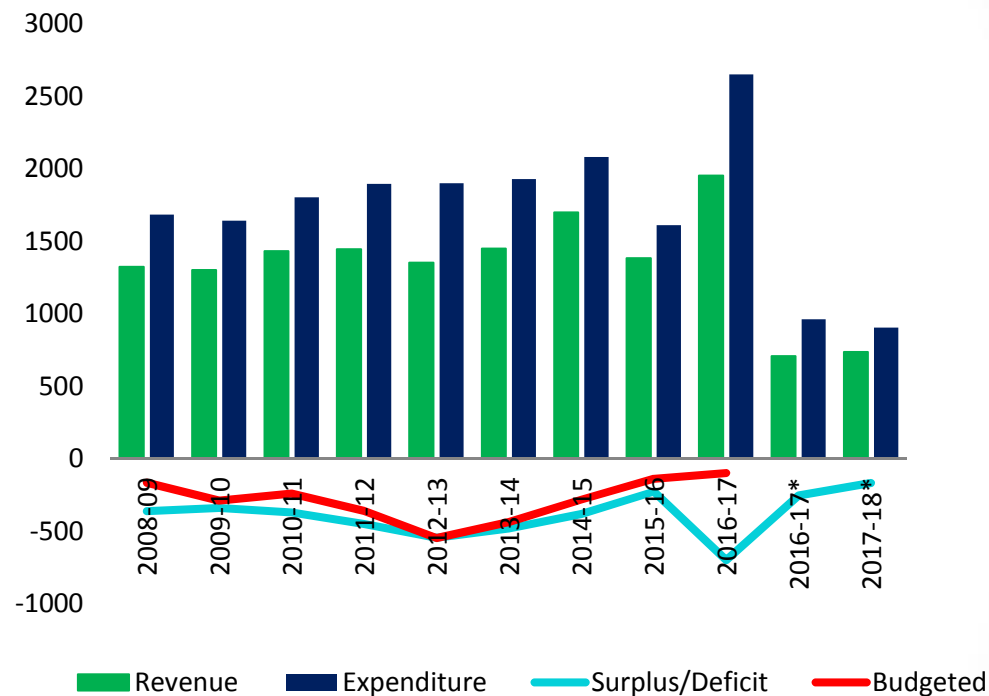
Fiscal Indicators

- For the first five months of FY2017/18, Gov't's operations showed a deficit of \$168.1 million, a 33.8% reduction from the \$253.9 million deficit recorded over the same period of FY2016/17.

- Revenue: up by \$28.9 mil (4.1%) to \$738.0 million
 - ✓ VAT receipts rose by \$15.7 million (6.0%) to \$275.3 million

- Expenditure: down by \$56.9 million (5.9%) to \$906.1 million.

Central Government 's Operations



SOURCE: The Central Bank of The Bahamas

*First 5 months of FY2016-17 and FY2017/18

Fiscal Indicators: Outlook

- Fiscal sector performance will continue to progress with initiatives to enhance revenue collection and curtail expenditure growth.
- Strategic divestiture of state-owned enterprises (SOEs), has the potential to promote long-term fiscal sustainability
 - Based on current estimates, Gov't. transfers to SOEs will total \$109.2 million in FY17/18 (4.0% of total spending)
- Introduction of fiscal rules has the potential to enhance long-term fiscal discipline

Regional Sovereign Debt Ratings

— negative Δ stable + positive

	S & P		Moody's		S&P		Moody's	
	2016		2016		2017		2017	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Bahamas	BB+	Δ	Baa3	Δ	BB+	Δ	Baa3	—
Barbados	B-	—	Caa1	Δ	CCC-	—	Caa3	Δ
Belize	CC	—	Caa2	Δ	B-	Δ	B3	Δ
Jamaica	B	Δ	B3	Δ	B	Δ	B3	Δ
Trinidad & Tobago	A	—	Baa3	—	BBB+	Δ	Ba1	Δ

Standard & Poor's

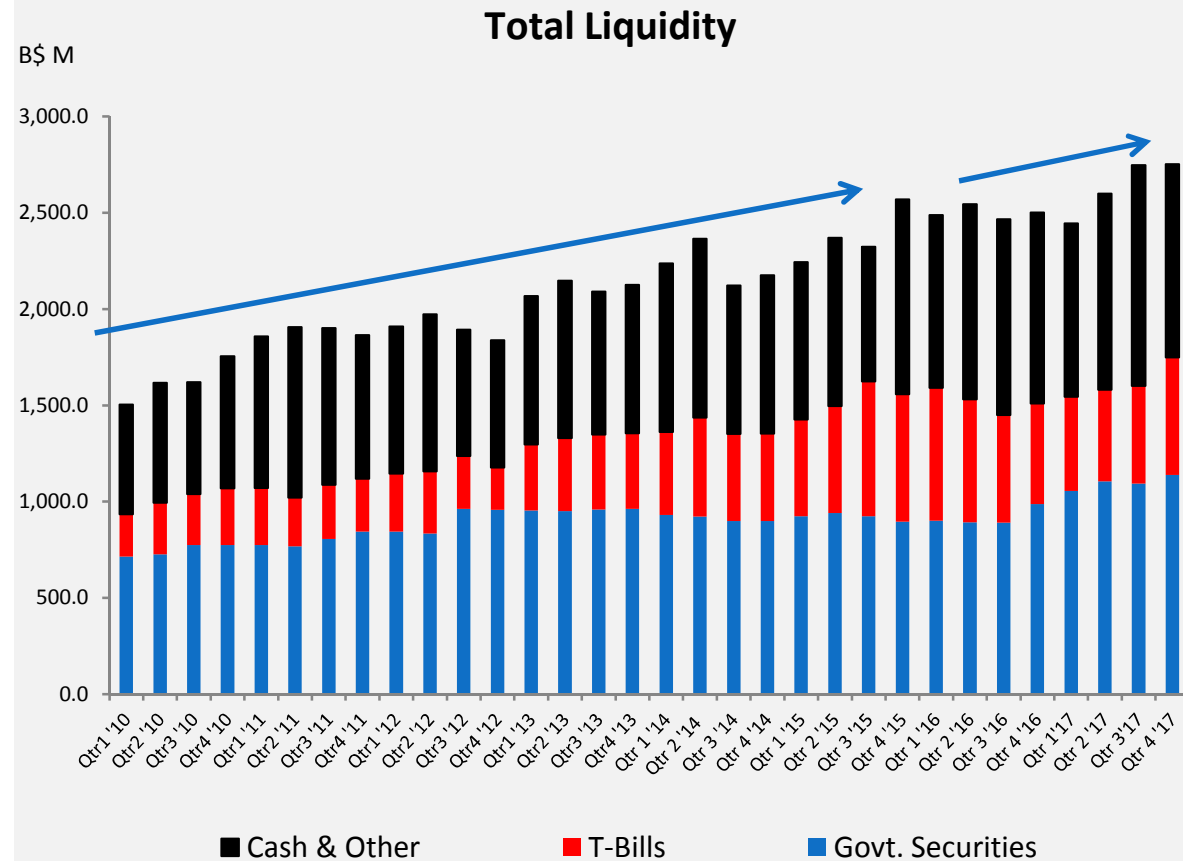
- Affirmed the Bahamas' BB+/B rating on **December 14, 2017**
- Basis for outlook was expectation of fiscal consolidation and higher output growth rate
- Ratings could be lowered in the future if fiscal position does not improve as quickly as expected
- Ratings could be raised in the future if debt growth is curtailed and robust GDP growth occurs.

MONETARY SECTOR

Money & Banking: Liquidity Conditions

Liquidity growth was sustained in 2017, buoyed by Government's external loans

- Excess liquid assets grew by \$351.2 million to \$1.8 billion, relative to a \$132.7 mil. upturn in 2016.
- Excess reserves firmed by \$133.8 million to \$857.6 million, vis-à-vis a \$234.4 million expansion in 2016



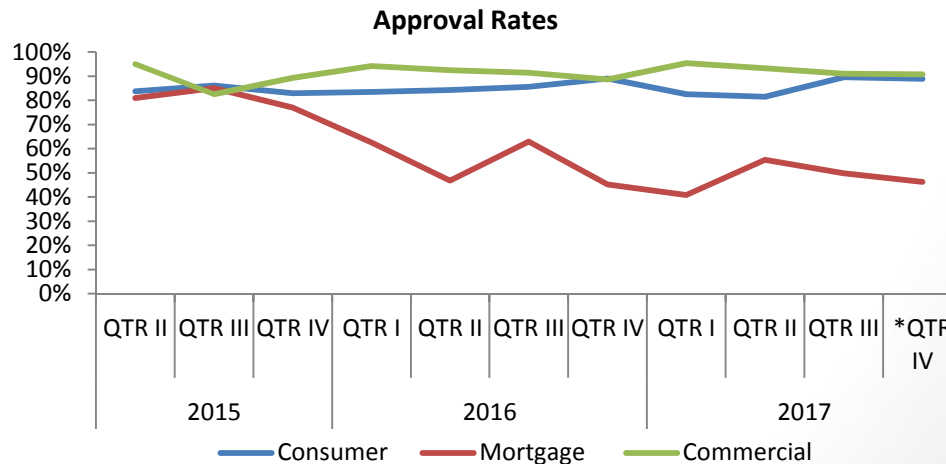
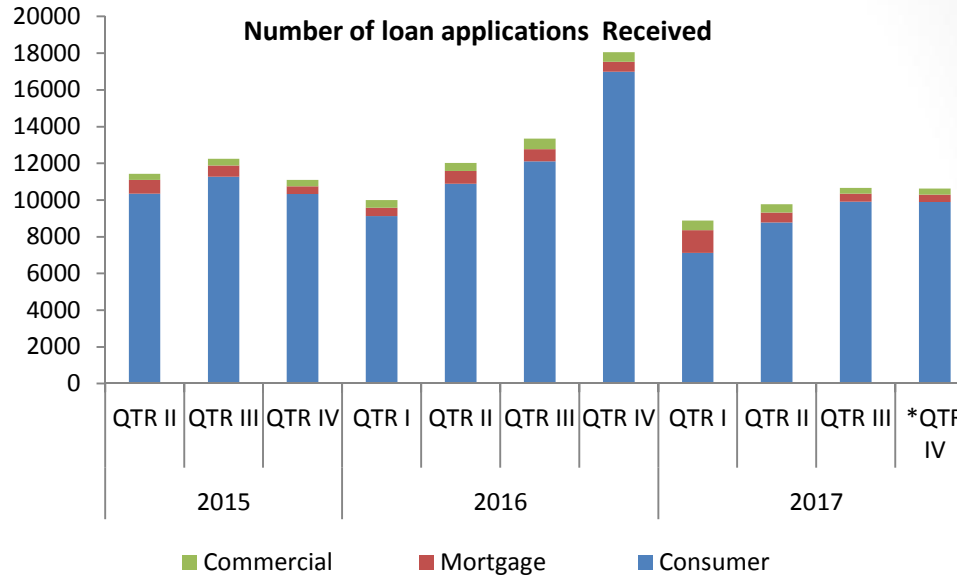
Source: The Central Bank of The Bahamas

Lending Conditions

- For the year, total Bahamian dollar domestic credit contracted by \$328.0 million, compared to a gain of \$294.5 million last year. Refinancing operations in the public sector and the sale of private sector debt influenced the outcomes.
 - Net claims on the Government fell by \$159.6 mil., a turnaround from the \$357.6 million rise in 2016 (proceeds from external bond repaid short-term advances)
 - Credit to public corporations weakened by \$7.1 million, after a \$29.3 million increase in the prior period.
 - Private sector credit contracted by \$161.3 mil, compared to a \$92.4 million decline in 2016, dominated by sales of non-performing mortgages.
 - Mortgages ↓ \$78.8 million
 - Consumer ↓ \$49.9 million
 - Commercial ↓ \$32.6 million

Bank Lending Conditions Survey

- Over the 11 quarters of the survey, applications tend to be lowest in Q1, and strongest in Q3 and Q4—reflecting seasonal developments such as back to school or Christmas shopping.
- Consumer loans remain the dominant category
- In the fourth quarter of 2017:
 - Loan applications across all categories declined relative to the same period of 2016 (related to hurricane Mathew rebuilding)
 - Approval rates remained relatively stable:
 - ✓ 88.9% for consumer loans,
 - ✓ 90.7% for commercial loans
 - ✓ 42.6% mortgages

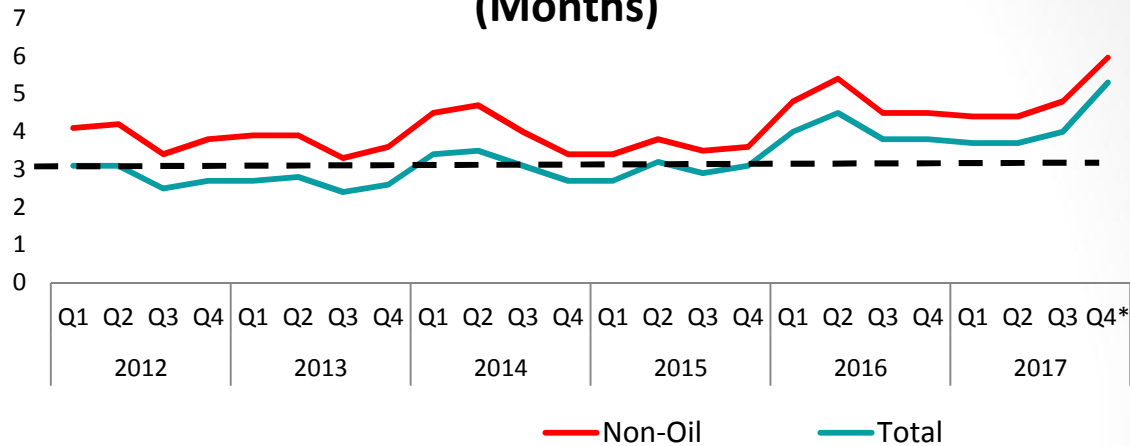


*Provisional

External Reserves

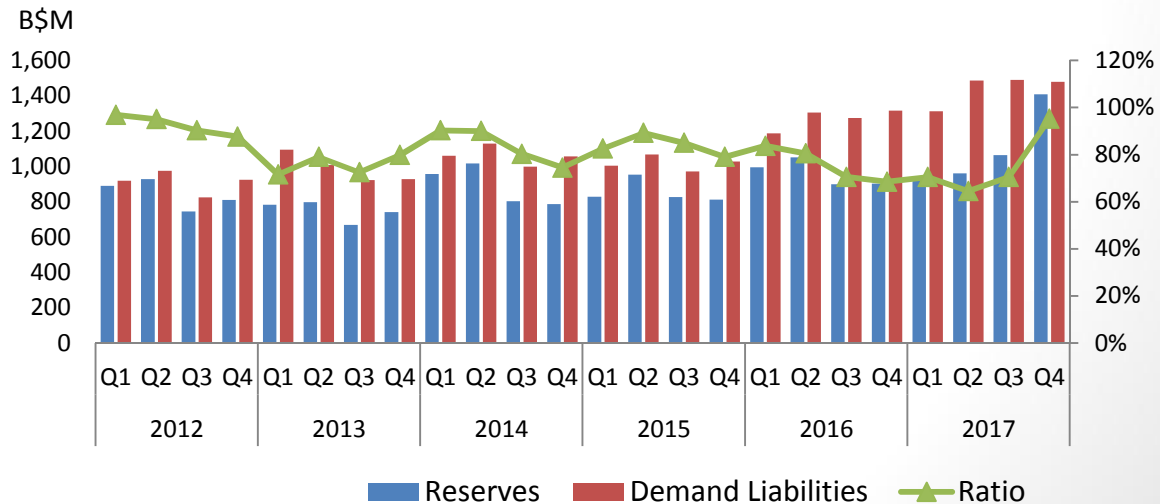
- Following the Government's \$750.0 million debt operations (including \$250 million in new funds), foreign reserves advanced by \$506.2 million to \$1,408.3 million at end-December, extending the \$93.2 million expansion in 2016
- At end-December, reserves were equivalent to an estimated 5.3 months of total merchandise imports, compared to 3.8 months a year earlier, and the 3.0 months benchmark.
- External reserves represented 95.2% of Central Bank's Demand Liabilities, compared to 68.5% at end-December 2016

Import Cover Ratio (Months)



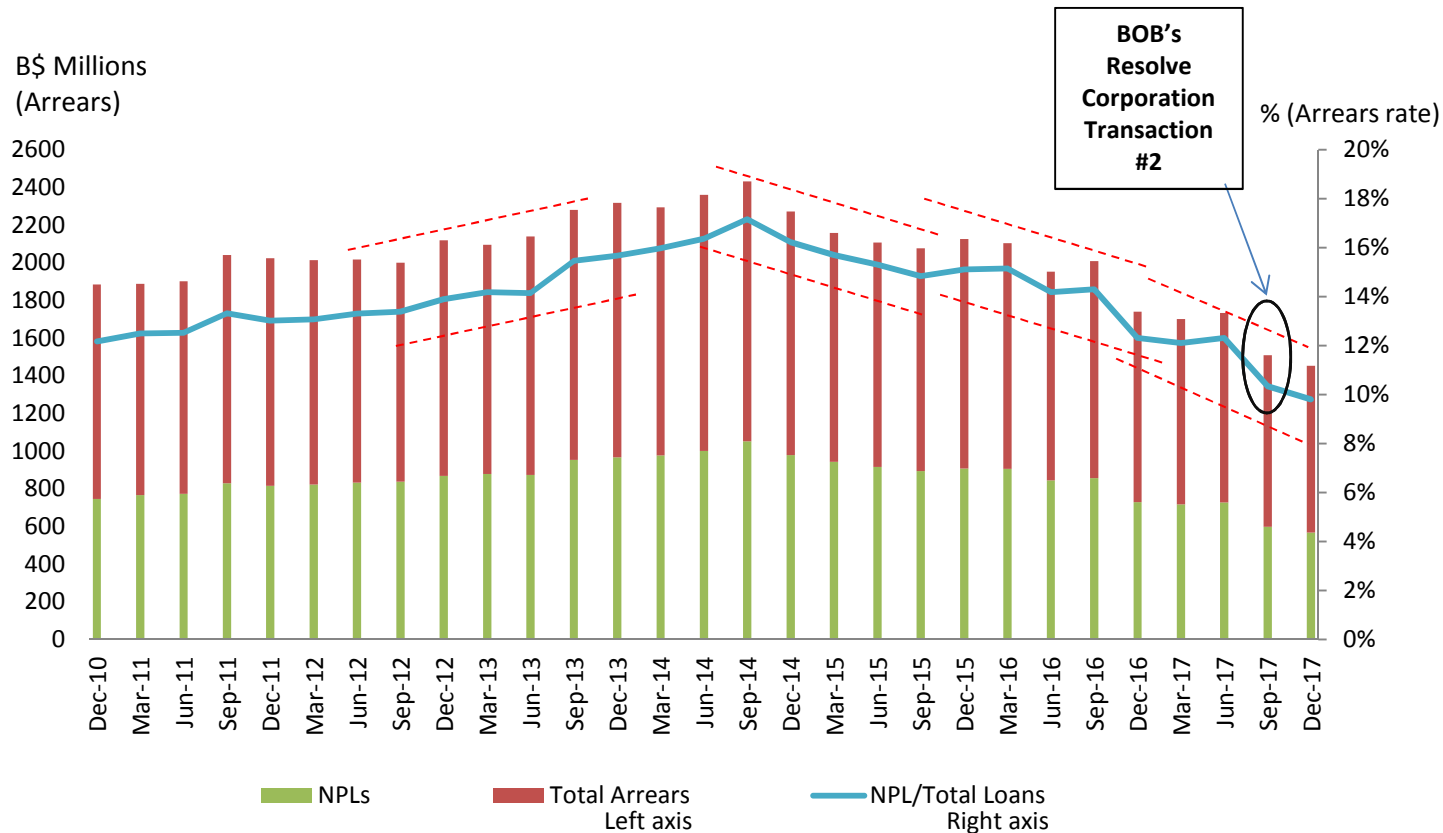
*4th quarter ratio estimated using 4th quarter reserves over 3rd quarter imports.

General Reserves to Demand Liabilities



SOURCE: The Central Bank of The Bahamas

Credit Quality Indicators



SOURCE: The Central Bank of The Bahamas

In 2017, BOB sold approx. \$166.0 mil. of its NPLs to Bahamas Resolve Ltd. between Aug.(Com. Loans \$97.0 mil.) and Sept.(Res. Mortgages \$69.0 mil.)

SUMMARY

Summary

The domestic economy is expected to grow at a modest pace in 2018 of approx. 2.5% (IMF Estimate).

Real Sector

- Modest growth in tourism sector backed by sustained improvement in key source markets and phased completion of Baha Mar, and restoring of Grand Bahama capacity.
- Moderately increased construction activity, reflecting work to complete Baha Mar, other FDI projects and to a lesser extent, domestically financed developments.
- Employment growth linked to tourism and construction sectors
- Contained inflationary pressures as international oil prices stay low.

Fiscal Sector

- Scope for deficit reduction, from commitment to reducing expenditure growth, enhancing tax administration and improving revenue collection. Foreshadowed introduction of a legal framework for fiscal responsibility should strengthen medium-term consolidation prospects.

Summary

Monetary Sector

- Liquidity is forecasted to remain elevated over the near-term. The Central Bank will continue to monitor liquidity and investigate policies to promote a soft landing in terms of easing system liquidity.
- With aggressive restructuring and collections efforts, the stock of non-performing loans is anticipated to continue to decline. There also further prospects for sales of non-performing assets by commercial banks’.
- Commercial banks are projected to stay highly capitalized, thereby mitigating any threats to financial sector stability.
- External reserves outturn will depend heavily on:
 - Performance of foreign exchange earning sectors, where local demand for imports could strengthen faster than net tourist inflows
 - International crude oil developments
 - Government financing activities

The End