

# Quarterly Economic and Financial Developments Report

June 2020

Research Department



# Domestic Economic Developments

Preliminary indications are that the domestic economy contracted during the first half of 2020, dominated by the coronavirus (COVID-19) pandemic, as globally imposed travel restrictions adversely impacted tourism output. However, the partial restart of foreign investment-led projects and post hurricane rebuilding works, provided some stimulus, although limited, to the construction sector.

## Real Sector

- Indications are that tourist arrivals contracted during January-June, 2020 vis-à-vis a 14.1% growth in the same period of 2019; both air and sea traffic grounded to a halt in March related to COVID-19.
- Varied-scale FDI projects and hurricane rebuilding efforts in the construction sector also paused in March, 2020 under the Emergency Powers (COVID-19) Order, 2020. However, during the month of May work was allowed to resume.

## Monetary Sector

- Bank liquidity grew by \$99.8 million to \$2.1 billion, as the expansion in deposits outstripped the rise in domestic credit.
- External reserves increased by \$269.9 million to \$2.0 billion, albeit a moderation from the \$363.9 million growth registered in 2019.

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly part of a resort. The sky is clear and bright.

# TOURISM SECTOR

# Visitor Arrivals

## (January – March 2020 vs. 2019)

As international travel came to a standstill due to the globally imposed travel restrictions in an attempt to curb the spread of COVID-19, official data from the Ministry of Tourism revealed that total visitor arrivals contracted by 14.7% during the three months to March, reversing the 12.3% increase over the same period of the prior year.

- Air arrivals (indicative of stopover business) fell by 28.0%, a reversal from the 17.3% expansion in 2019.
- Sea arrivals declined by 10.5% vis-à-vis the 10.8% growth in 2019.

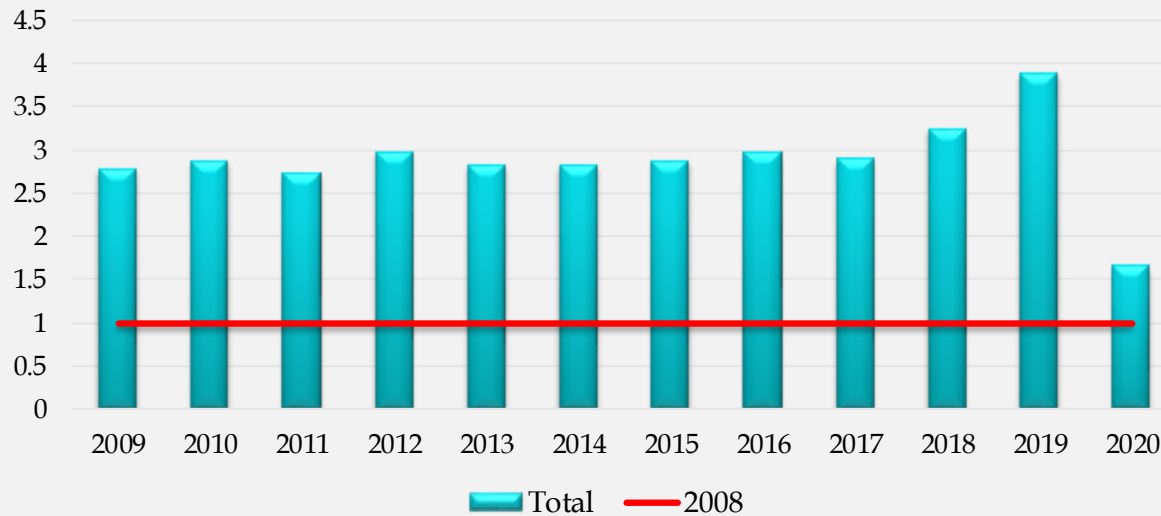
	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2019	2020	2019	2020	2019	2020
<b>Arrivals</b>						
<b>Air</b>	21.8	-22.1	0.6	-58.9	5.8	-45.0
<b>Sea</b>	29.3	-32.4	-21.7	-30.9	-1.9	33.0
<b>Total</b>	<b>27.0</b>	<b>-29.3</b>	<b>-19.5</b>	<b>-34.4</b>	<b>-0.8</b>	<b>21.1</b>

# Nassau Airport (NAD) International Departures (January - June 2020 vs. 2019)

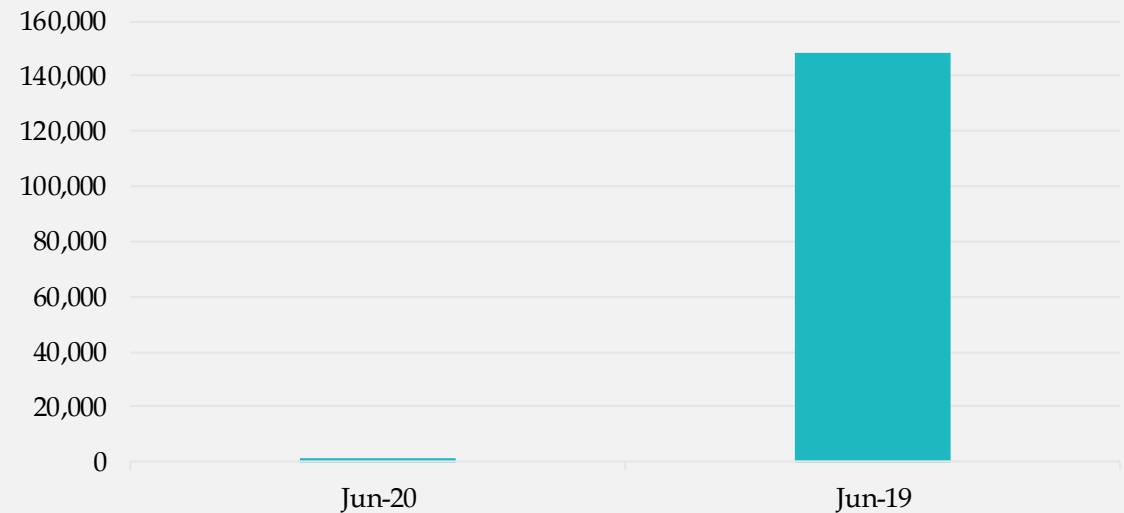
On March 23, 2020 The Bahamas' border officially closed due to the global COVID-19 pandemic. As a result, the most recent data from NAD showed that total visitor departures declined by 49.1% for the first half of 2020, a reversal from a 19.9% rise in 2019. Nevertheless, levels were cumulatively 64.4% higher than during the global recession of 2008.

Reflective of the closed border, total international departures for June 2020 stood at 1,006, in comparison to June 2019 when the total was 148,597.

**Departures vs. 2008 Recession  
January-June**



**Total Departures  
June 2020 vs June 2019**

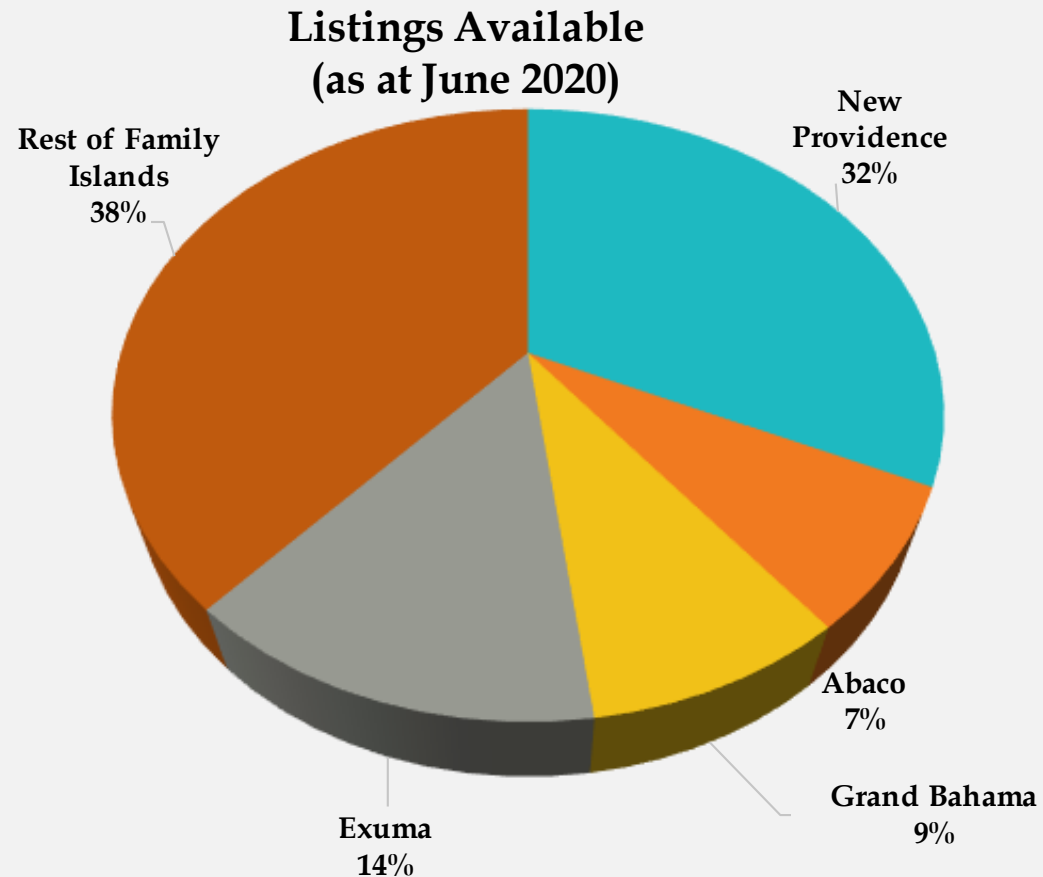


Source: Nassau Airport Development Company

\*All figures are net of domestic departures.

# Airbnb: Market Share by Island (June 2020)

New Providence, Grand Bahama and Abaco accounted for half of all available listings, a smaller share than in 2019.



Listings for Abaco, Grand Bahama and New Providence declined by 64.1%, 33.8% and 9.7%, respectively, in June, relative to the same period in 2019.

All Available Listings				
	Dec 2018	June 2019	Dec 2019	June 2020
<b>Abaco</b>	709	854	624	307
<b>Grand Bahama</b>	453	529	407	350
<b>New Providence</b>	1,426	1,455	1,540	1,305

# Airbnb: Occupancy Rate Trends

## (January-June 2020 vs. 2019)

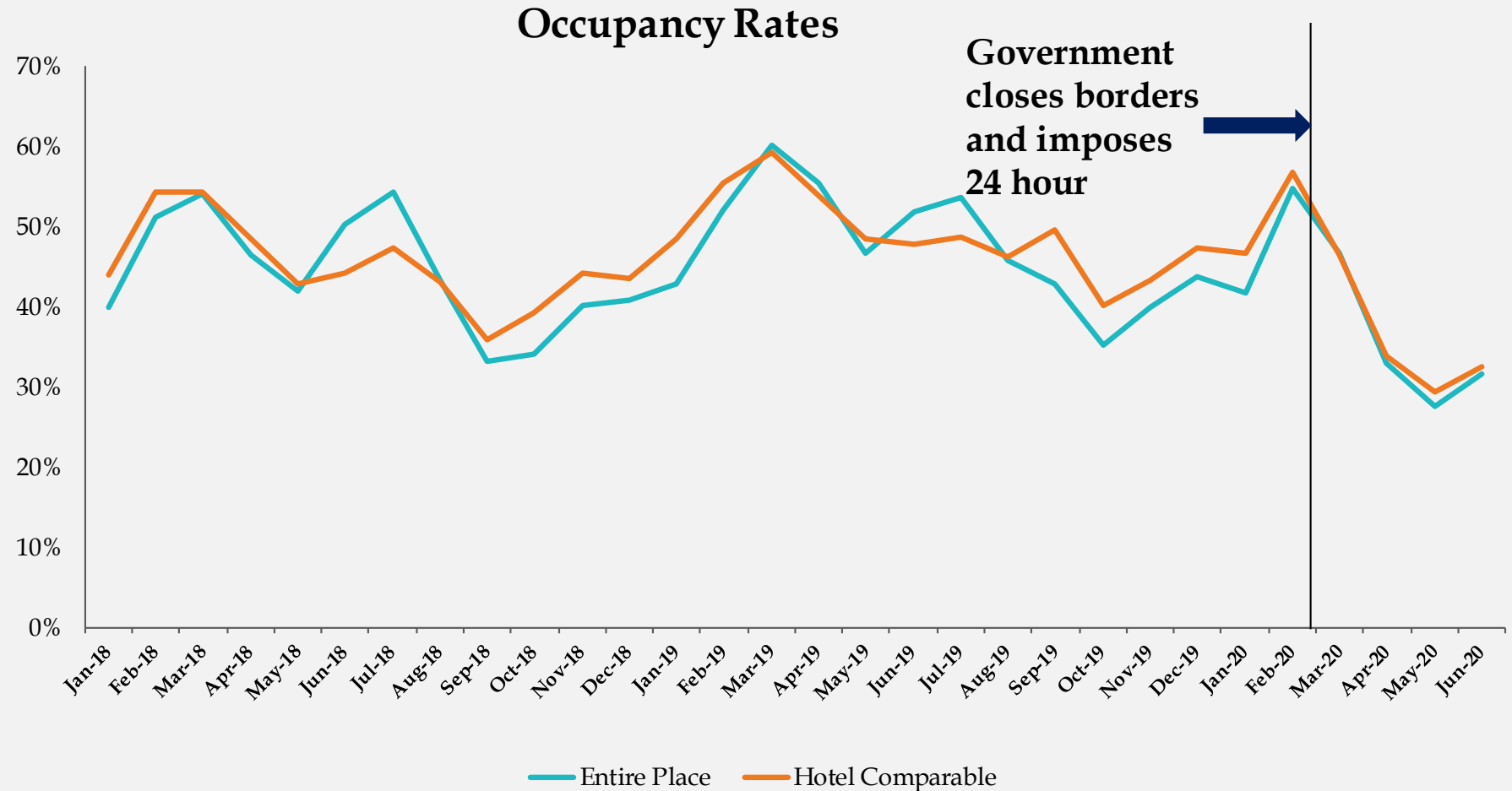
Reflective of the Government's measures to combat the spread of COVID-19, and the subsequent cessation of tourist arrivals, occupancy levels for vacation rentals trended downwards, until June, when the 24-hour lockdown was lifted and tourism sector activity partially resumed.

### Entire Place Listings

- The average occupancy rate decreased to 31.6% from 52.0% in the same period of 2019.

### Hotel Comparable Listings

- The average occupancy rate declined to 32.4% from 47.9% last year.

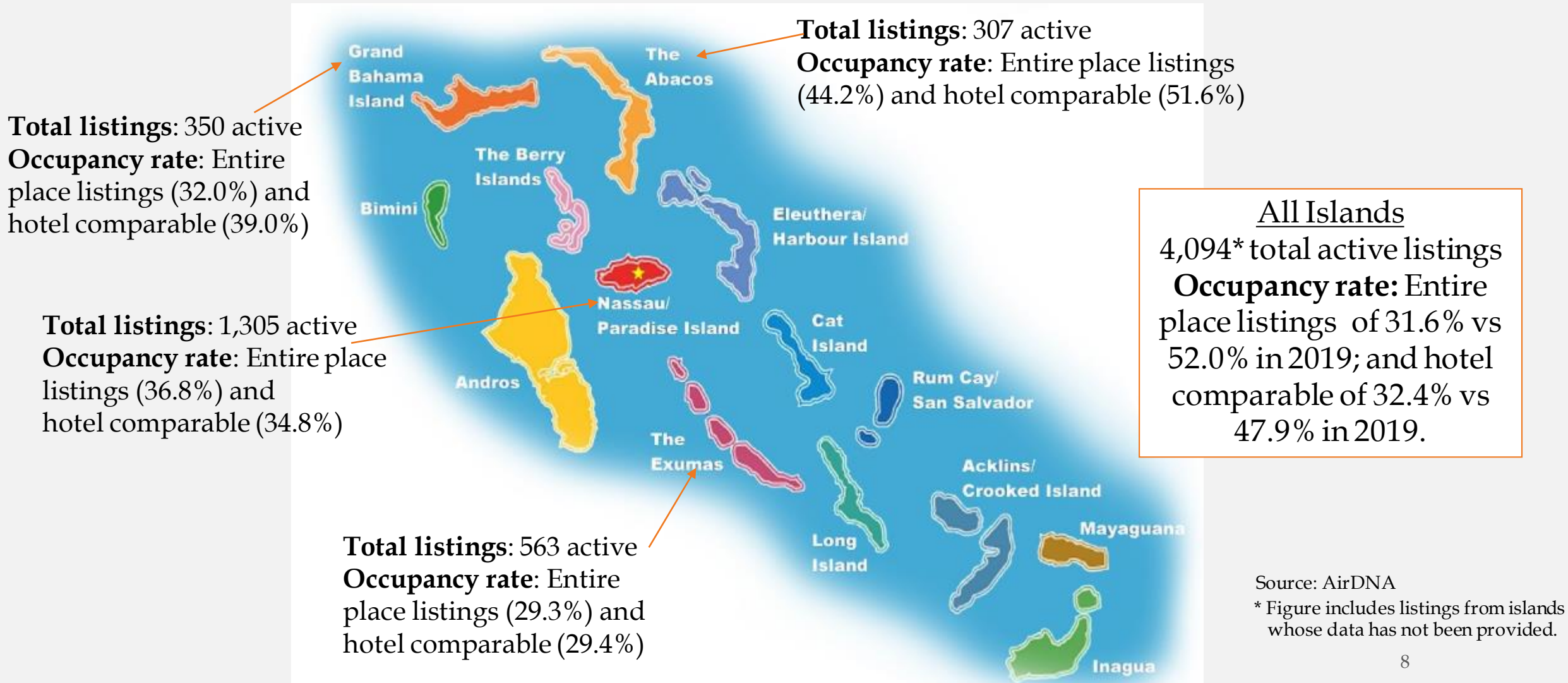


Source: AirDNA

# Airbnb: Snapshot of Vacation Rentals

(as at June 2020 vs. 2019)

Vacation rentals registered significantly lower occupancy rates, alongside the decreased listings.





An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is white and sandy, with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly part of a resort or development. The sky is clear and bright.

# FOREIGN INVESTMENT PROJECTS

# New Foreign Investment Projects

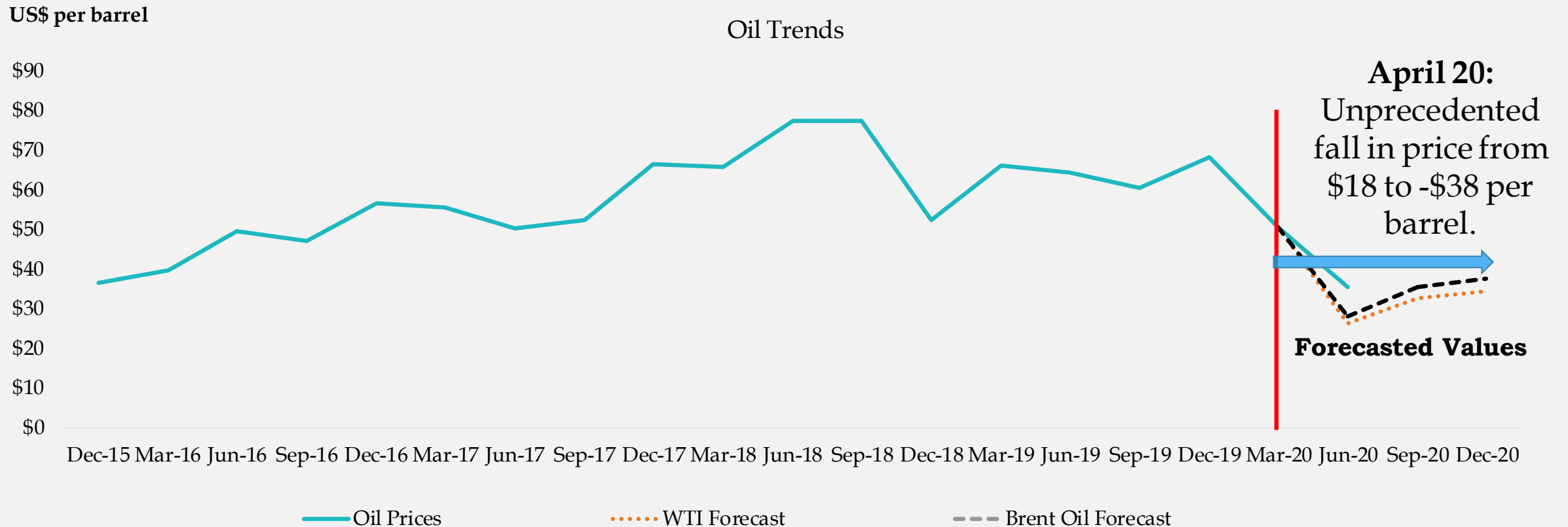
New Providence	Crooked Island	Bimini
<p><b><u>Venetian Village Hotel and Residential Resort:</u></b> \$200.0 million</p> <ul style="list-style-type: none"> <li>• 150 room condo hotel</li> <li>• Restaurants, commercial office space, medical offices</li> <li>• 6000 square feet gaming house</li> </ul> <p>Expected to employ a total of 1,110 persons.</p> <ul style="list-style-type: none"> <li>• 600 in construction</li> <li>• 500 in operational jobs</li> </ul>	<p><b><u>TRLU Hills Ltd.:</u></b> \$250. 0 million</p> <ul style="list-style-type: none"> <li>• A mixed-use real estate project with:           <ul style="list-style-type: none"> <li>• High-end residential units, clubhouse, marina, and restaurant and retail offerings</li> </ul> </li> <li>• An international airport which includes 35 acres of Crown Land valued at \$75k per acre</li> <li>• Expected to employ an additional 250 persons in construction.</li> </ul>	<p><b><u>Balearia Caribbean Limited:</u></b> \$4.0 million to restart the stalled ferry between Alice Town, Bimini and South Florida with operations from the Government Dock</p> <ul style="list-style-type: none"> <li>• Expected to employ a total of 6 persons.           <ul style="list-style-type: none"> <li>• 1 is currently employed</li> <li>• 5 in operations</li> </ul> </li> </ul>



# INFLATION

# Oil Price Trends

- During the first half of 2020, crude oil prices declined by 39.2% to \$35.32 per barrel.
- US oil prices turned negative for the first time in history on April 20, due to over-supplies during the Covid-19 pandemic. Prices began to rebound in May and June, as major oil producers eased output.



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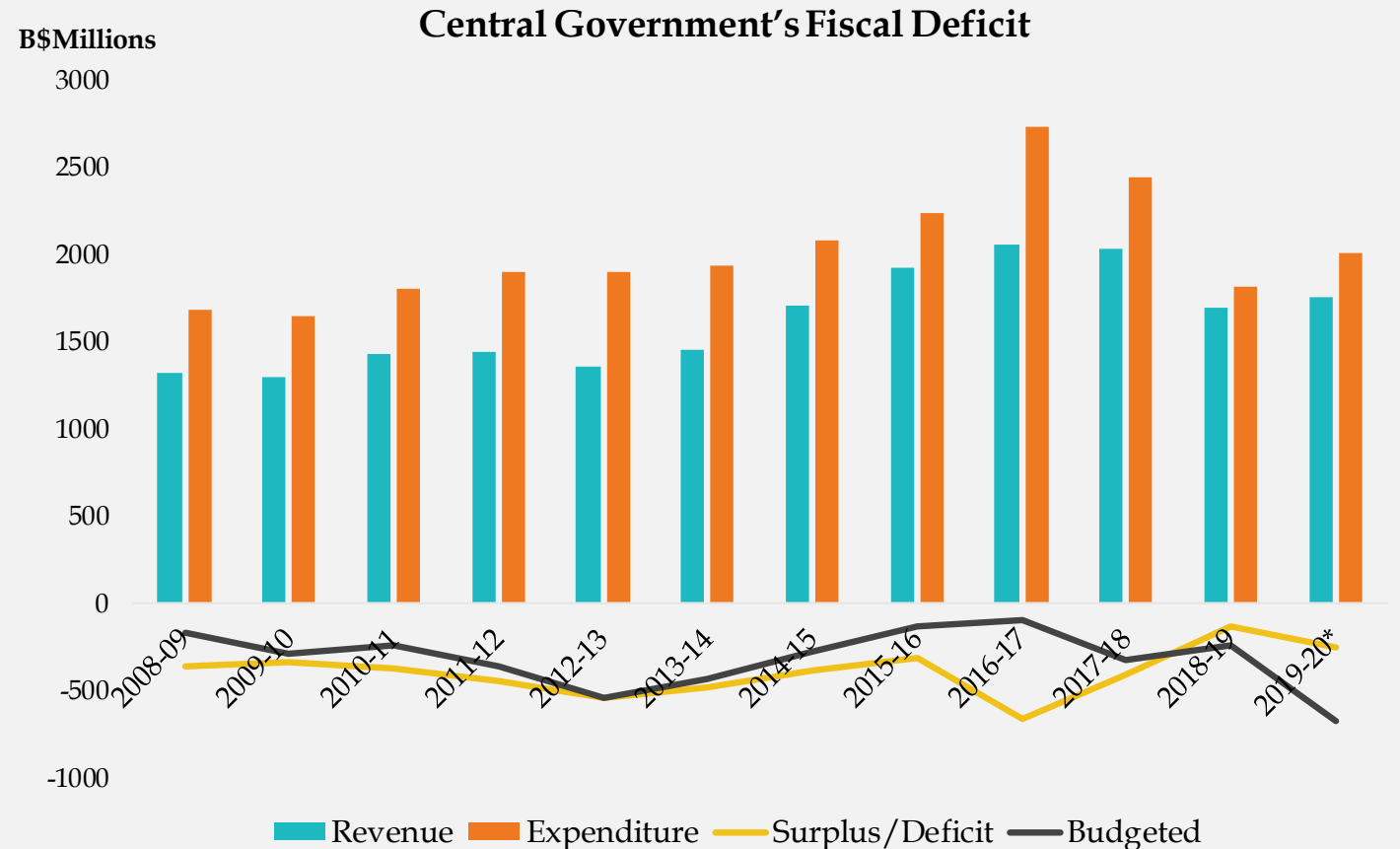
# **FISCAL SECTOR**

# Fiscal Sector

## FY2019/20 vs. FY2018/19

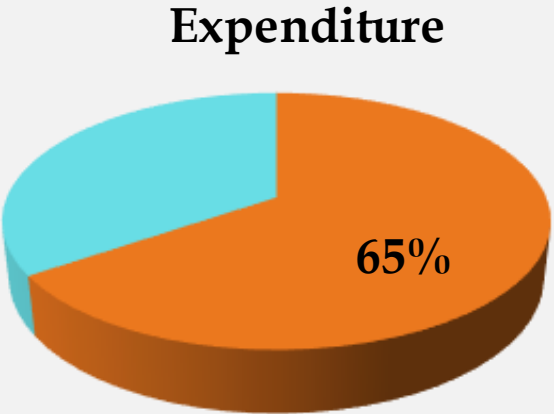
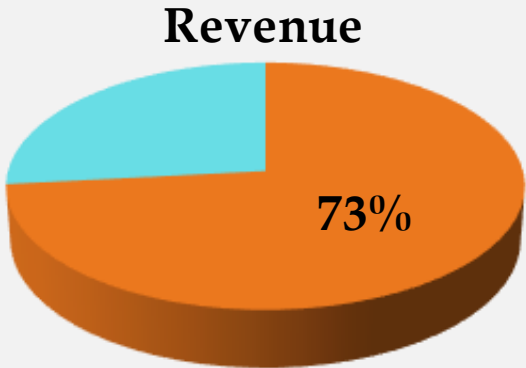
During the third quarter of FY2019/20, the deficit widened to \$251.5 million from \$140.0 million the prior year, due to unplanned spending related to hurricane recovery efforts.

- Revenue grew by \$67.9 million (4.0%) to \$1,757.0 million.
  - VAT receipts rose by \$149.8 million (25.4%) to \$738.7 million.
- Expenditure increased by \$179.4 million (9.8%) to \$2,008.5 million.
  - Recurrent outlays advanced by \$109.2 million (6.4%) to \$1,810.3 million.
  - Capital spending moved higher by \$70.2 million (54.8%) to \$198.3 million.

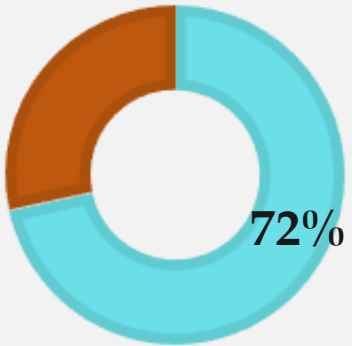


Source: Central Bank of The Bahamas  
 \*Data for the nine months of FY2019-20.

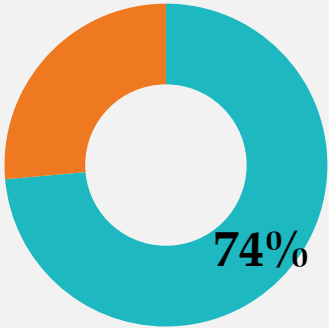
# FY2019/20 Budget Projections vs. 9 Months Actual Outturn



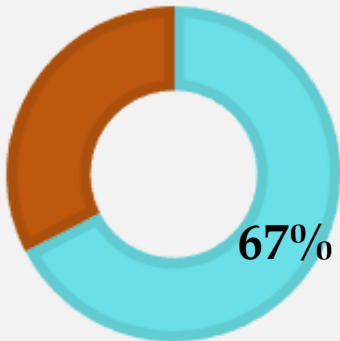
Thus far, more than 50% of the budget has been utilized for all of the categories.



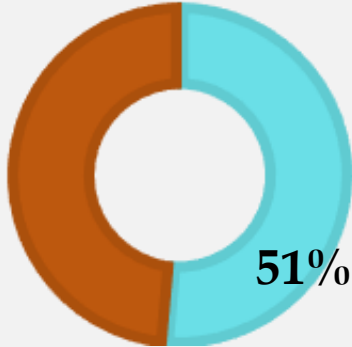
Non Tax Revenue



Tax Revenue



Recurrent Expenditure



Capital Expenditure

Percentages indicate what proportion of budget has been used during the first 9 months of FY19/20

# 2020/2021 Budget: Key Expenditure Measures

## Expenditure for Healthcare Initiatives

- \$20 million for Public Health Sector.
- Increase in funding for National Health Insurance (NHI), by \$18 million.

## Expenditure to Support Businesses

- \$120 million for tax credit/tax deferral program.
- \$30 million to support small and medium businesses.

## Expenditure for Social Assistance

- \$48 million for unemployment assistance.
- \$17 million for food assistance.
- Temporary increase in the Old Age Pension.



# 2020/2021 Budget: Key Revenue Measures

## Revenue Generating

- Revenue measures are expected to yield an intake of \$1.8 billion, lower than the projected outturn of \$2.6 billion in FY2019/20. Broadly, no significant new measures were introduced, except, of note:
  - Increase in customs storage fees.
  - Introduction of customizable license plates.

## New Tax Relief

- Import duty reduction on fishing materials (45% to 20%), building materials (20%), farming equipment for the purpose of backyard farming (25% to 10%) and green technology.
- Duty reduction on personal protective equipment for healthcare workers.
- VAT "holiday" on back-to-school supplies, clothing and select food items purchased domestically.

## Extended Tax Relief

- Extension of Special Economic Recovery Zone in Grand Bahama and Abaco From January 1, 2021 to June 30, 2021, exemptions will extend only to building materials.
- Expansion of tax free land transfer initiative.

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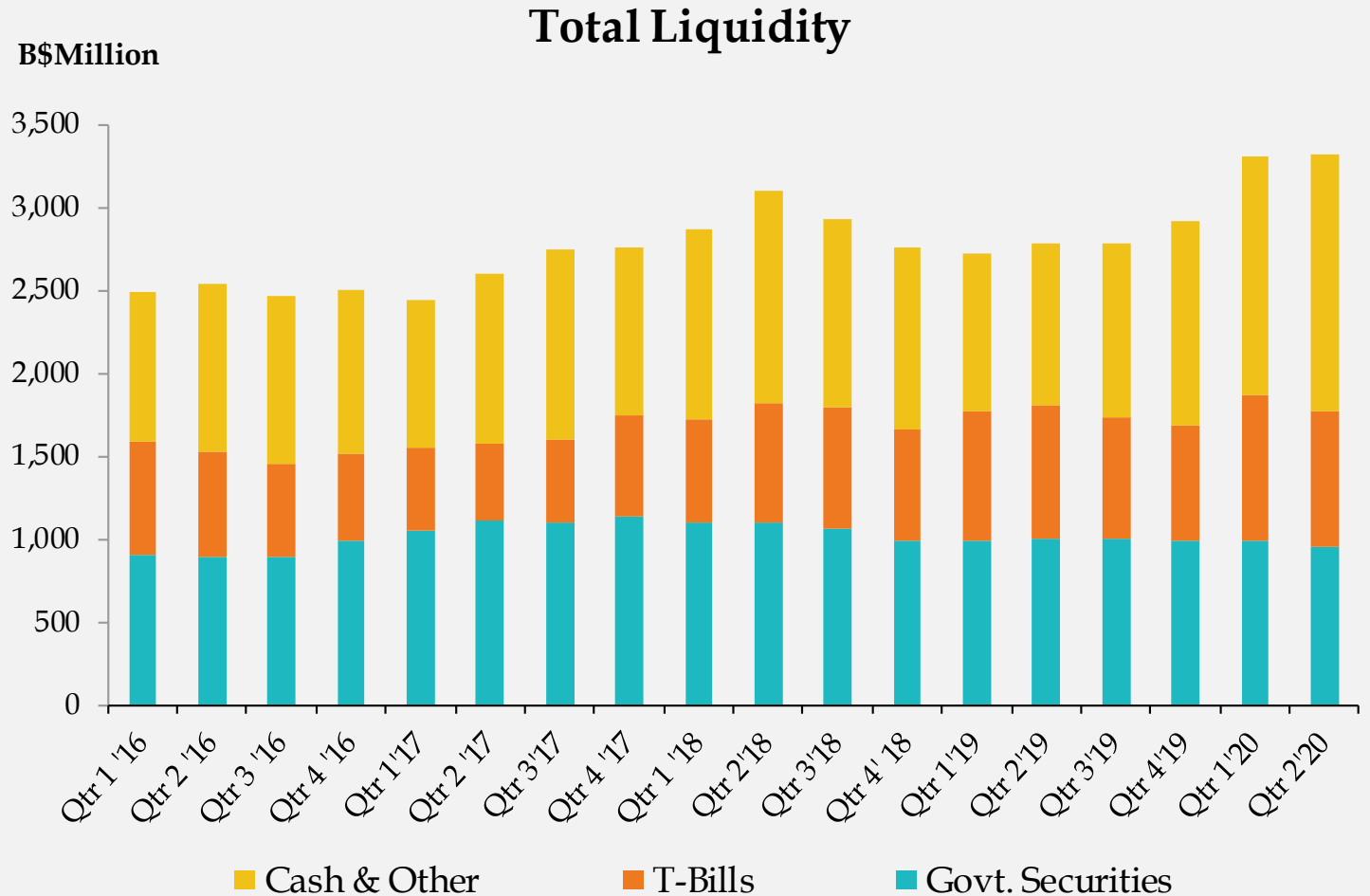
# MONETARY SECTOR

# Money and Banking: Liquidity Conditions

## January-June 2020 vs. 2019

On a half-year basis, growth in liquidity was largely attributed to net foreign currency inflows from re-insurance proceeds.

- Excess liquid assets rose by \$99.8 million, a slowdown from the \$306.0 million growth, a year earlier.
- Excess reserves grew by \$133.1 million, after a \$159.7 million accumulation in 2019.



Source: Central Bank of The Bahamas

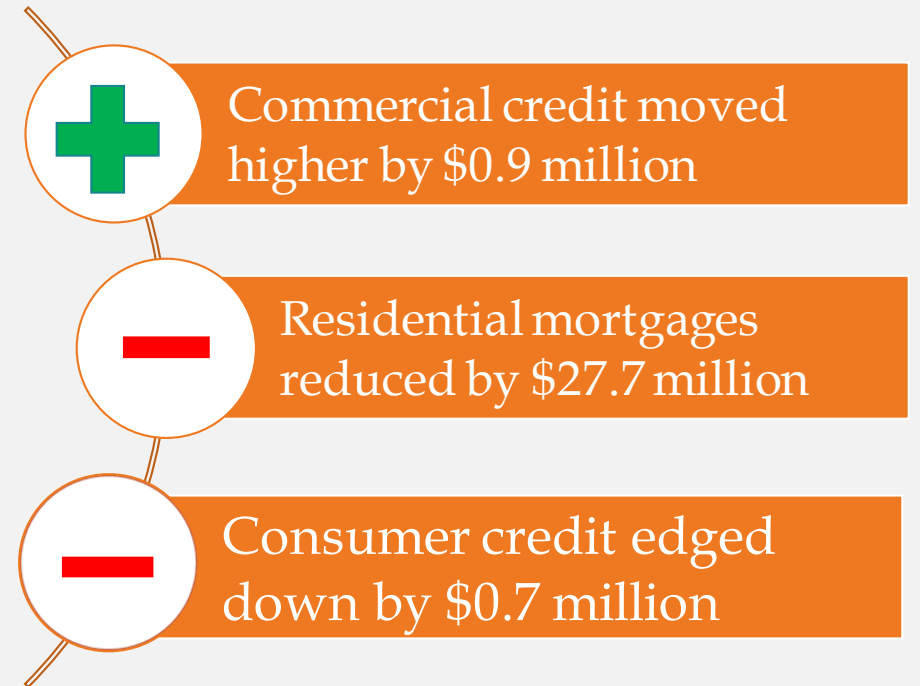
# Lending Conditions

## January-June 2020 vs. 2019

During the first half of 2020, Bahamian dollar domestic credit grew by \$51.9 million, a turnaround from the \$73.6 million decline in 2019.

- Net claims on the Government expanded by \$78.1 million, a reversal from a \$43.4 million reduction in the previous year.
- Credit to public corporations rose by \$1.3 million, contrasting with a \$12.3 million falloff in 2019.

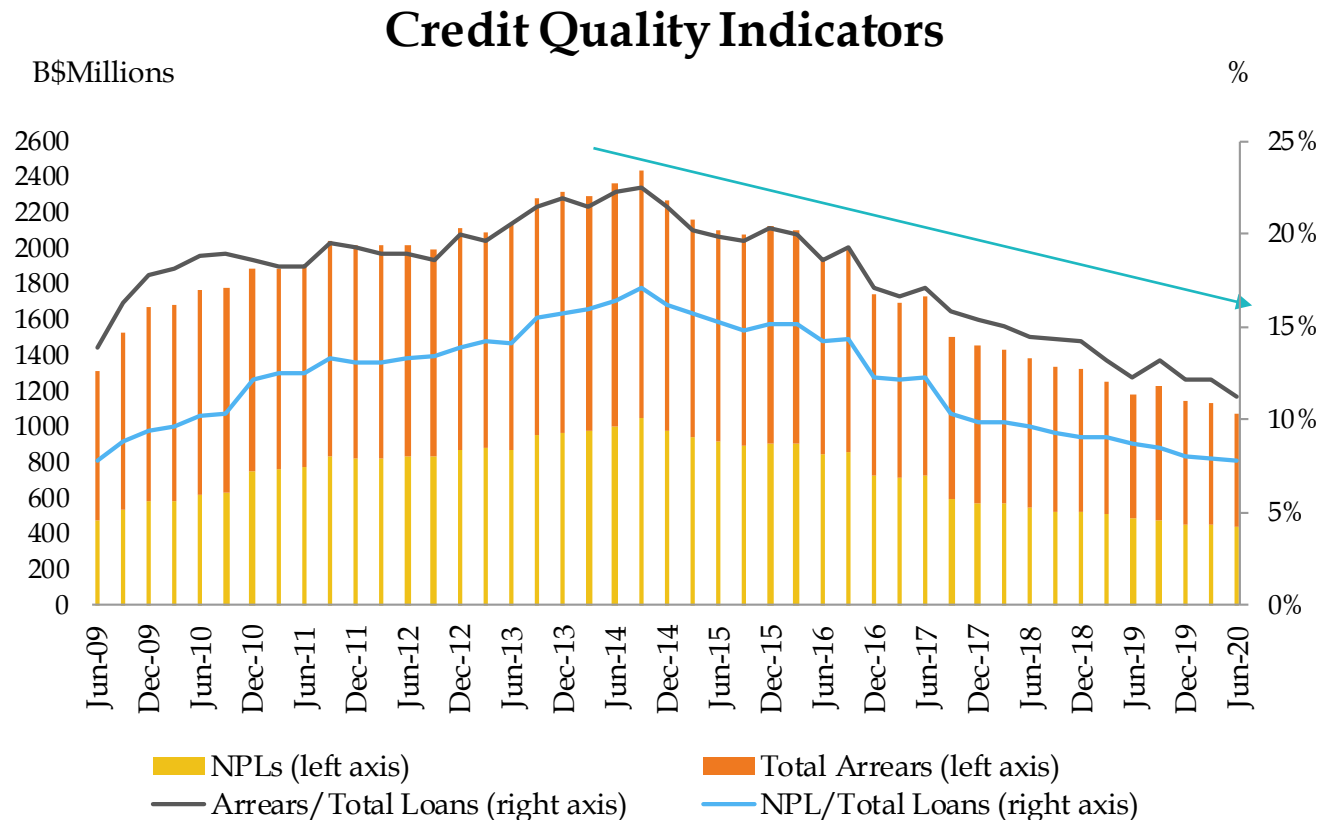
- Private sector credit decreased by \$27.5 million, extending the \$17.9 million decline in the prior year.



# B\$ Credit Quality Indicators

## January-June 2020 vs. 2019

- During the first half of 2020, the arrears rate for private sector credit narrowed to 11.3% from 12.2% in the prior year.
  - The short-term arrears rate was 3.5% (3.5% in June 2019).
  - The NPL rate was 7.8% (8.7% in June 2019).
  
- Analysis by loan type:
  - Mortgage arrears rate was 15.2% (16.6% in 2019)
  - Consumer arrears rate was 8.0% (8.9% in 2019)
  - Commercial arrears rate was 7.4% (7.2% in 2019)

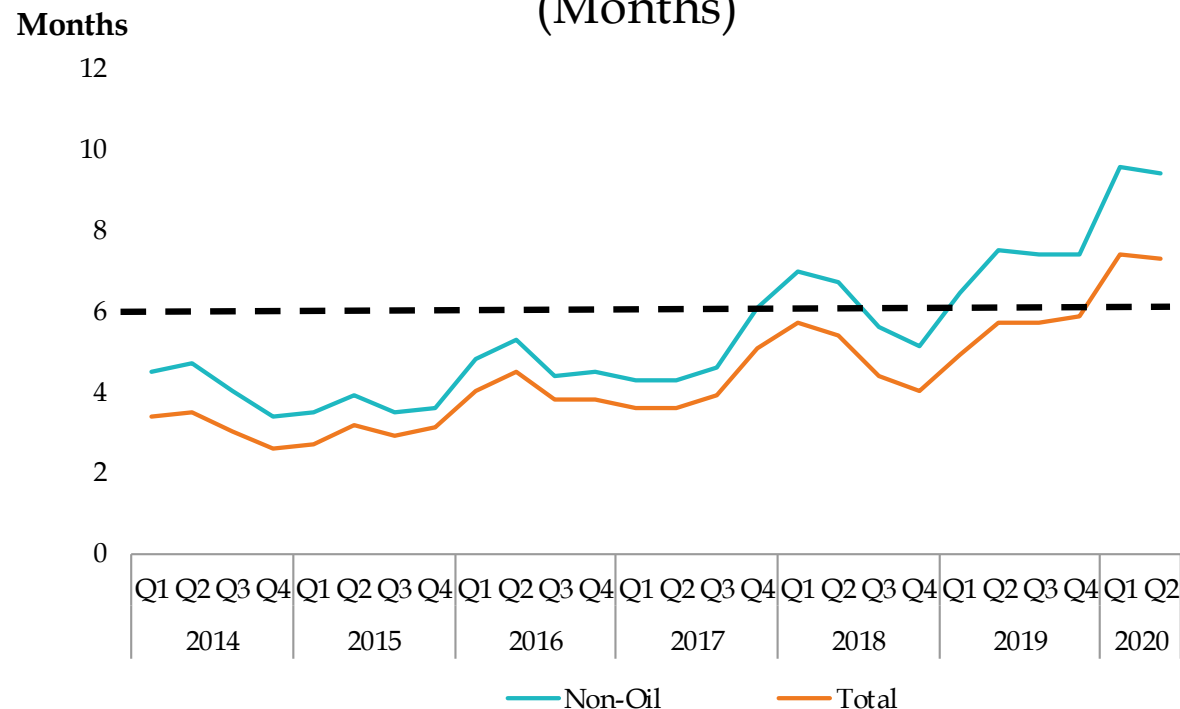


SOURCE: Central Bank of The Bahamas

# External Reserves

## January-June 2020 vs. 2019

### Import Cover Ratio (Months)



### External Reserves to Demand Liabilities



Source: Central Bank of The Bahamas

- External reserves grew by \$269.9 million to \$2.0 billion over the first half of the year, although lower than the \$363.9 million growth in the same period last year.
  - External reserves represented 101.2% of demand liabilities
  - Equivalent to 7.3 months of current year's total merchandise imports.

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# Crediting Rating Developments

# Credit Rating Downgrades

Both Standard and Poor's (S&P) and Moody's Investor Services downgraded the sovereign credit rating of The Bahamas and revised the outlook to negative in April and June of 2020, respectively. The assessments cited the deterioration in the Government's fiscal position, as a result of Hurricane Dorian, combined with the shock of the COVID-19 pandemic.

<b>Rating Agency</b>	<b>Previous Rating</b>	<b>Previous Outlook</b>	<b>Current Rating</b>	<b>Current Outlook</b>
S&P	BB+	Positive	BB	Negative
Moody's	Baa3	Stable	Ba2	Negative





# OUTLOOK

# Real Sector

## Real Sector

- The economy is expected to contract in 2020, due to the combined effects of the COVID-19 pandemic and the passage of Hurricane Dorian.
- Tourism sector output is anticipated to contract sharply, with a slow rebound tied to the global recovery and public health sector confidence.
- The near-term jobless rate is projected to stay markedly elevated, with any job gains concentrated in the construction sector.
- Inflation is expected to remain subdued, barring any shocks to international oil prices.

# Anticipated Fiscal Impacts from COVID-19

Estimates of the fiscal impact remain dependent on the recovery of the tourism sector. The higher outlays for health and social welfare associated with COVID-19, combined with continued hurricane reconstruction works, will offset deficit reduction efforts.

Projected revenue impacts include the following:

- Sizeable revenue losses from reduction in taxable economic activities during FY2020/21.
- Additional cashflow reduction from tax deferrals and concessions provided to the private sector.
- Increased expenditure pressures associated with:
  - Outlays for public health services and funding for NHI
  - Social benefits and unemployment assistance
  - Temporary increase in old age pension
  - Targeted stimulus to private sector, including micro, small and medium-size enterprises
- Significant expansion in the fiscal deficit during both FY2019/20 and FY2020/21.

# Monetary Sector and External Reserves

## Monetary

- Banking sector liquidity is expected to remain high over the near term, as banks maintain their conservative lending stance; however, in light of the COVID-19 pandemic a drawdown in deposits, along with a contraction in private sector credit is anticipated.

## External Reserves

- External reserve balances are projected to decrease considerably during the year, owing in large measure to a decline in foreign currency receipts associated with tourism activity and increased spending on imports for rebuilding efforts. However, external balances are projected to remain at satisfactory levels to maintain the Bahamian dollar currency peg.

# Risks to The Outlook

## **TOURISM**

Continued, diminished health sector confidence could protract the duration of the travel slump.

## **GLOBAL**

COVID-19 pandemic may continue to weigh down the global outlook.

## **EMPLOYMENT**

Insufficient working capital may force permanent closure of some businesses, during the pandemic with permanent layoffs.

## **EXTERNAL RESERVES**

Higher demand for foreign currency for reconstruction work, and a protracted halt in tourism output could accelerate drawdown in reserves.

## **INFLATION**

Geopolitical tensions, reduction in oil production and food supply disruptions might accelerate price increase.

## **FISCAL**

A more protracted slowdown in the economy from COVID-19 and diminished access to external credit markets could constrain the fiscal capacity to stabilize the economy.

# The End

