

# Quarterly Economic and Financial Developments Report

December 2020

Research Department



# Domestic Economic Developments

Preliminary indications are that the domestic economy contracted in 2020, dominated by the Novel Coronavirus (COVID-19) pandemic, as globally imposed travel restrictions adversely impacted tourism output. However, the resumption of foreign investment-led projects and post hurricane rebuilding works, provided impetus to the construction sector.

## Real Sector

- Tourist arrivals contracted by 73.1% during January-November 2020, vis-à-vis a 9.9% growth in the same period of 2019.
- Over 12 months to December, Nassau airport departures fell by 74.2%.
- Varied-scale FDI projects and hurricane rebuilding efforts in the construction sector resumed in May, 2020.
- Consumer price inflation fell by 2.4 percentage points to a mere 0.1% in the twelve months ending November, 2020.

## Monetary Sector

- During 2020, bank liquidity rose by \$264.4 million to \$2.2 billion. Growth in deposits contrasted with the contraction in domestic credit.
- External reserves expanded by \$622.4 million to \$2.4 billion in 2020, largely reflecting Government's external borrowing activities.

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 – November 2020)

Owing largely to the temporary closures of international borders, official data from the Ministry of Tourism revealed that total visitor arrivals declined by 73.1% from January to November; an increase of 9.9% was recorded over the same period a year earlier.

- Air arrivals (indicative of stopover arrivals) fell by 74.5%, a reversal from an 8.2% growth in 2019.
- Sea arrivals declined by 72.6% vis-à-vis a 10.4% growth in the previous year.

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2019	2020	2019	2020	2019	2020
<b>Arrivals</b>						
<b>Air</b>	12.5	-74.3	-24.8	-80.2	-0.1	-74.7
<b>Sea</b>	12.6	-77.3	-20.0	-77.2	17.3	-65.6
<b>Total</b>	<b>12.6</b>	<b>-76.3</b>	<b>-20.5</b>	<b>-77.5</b>	<b>14.8</b>	<b>-66.7</b>

Source: Ministry of Tourism

# Global Tourism Sector Update

- International tourist arrivals fell by 72% in the ten months to October 2020, relative to the same period in 2019.
  - Asia and the Pacific saw an 82% decrease in arrivals;
  - The Middle East recorded a 73% decline in arrivals;
  - Arrivals to Africa contracted by 69% and;
  - Arrivals in both Europe and the Americas declined by 68% each.
- The estimated decrease was equivalent to a loss of US\$1.1 trillion in international tourism receipts, and an estimated economic loss of over US\$2.0 trillion in global GDP.
- Experts expect a rebound in the second half of 2021, but it is estimated that it will take 2.5 to 4 years for international travel to return to 2019 levels.

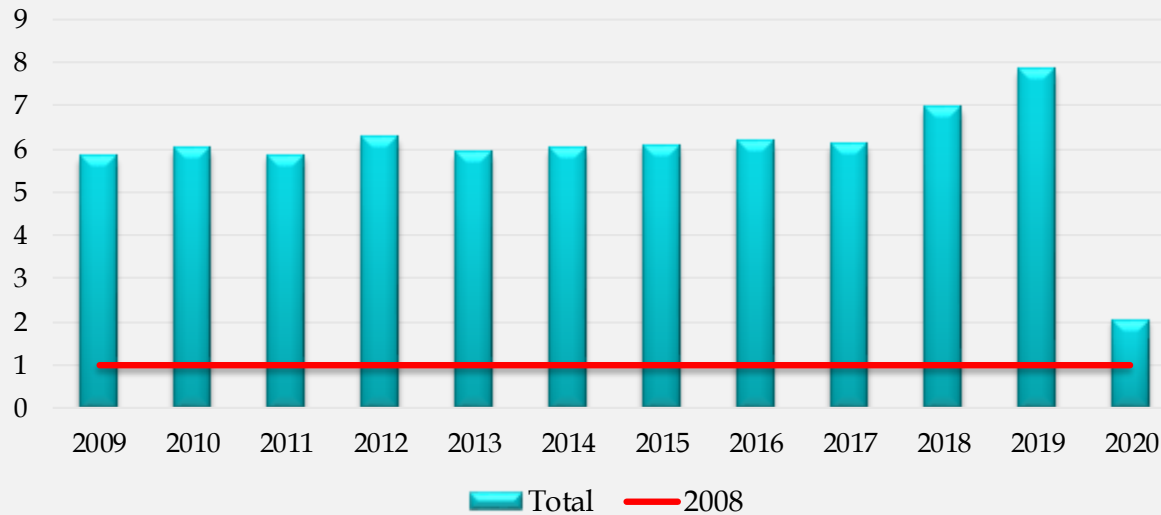


# Nassau Airport (NAD) International Departures January - December 2020

Reflective of the COVID-19 pandemic and containment measures, the latest data from NAD showed that total visitor departures declined by 74.2% in 2020, overturning the 12.8% gain in 2019.

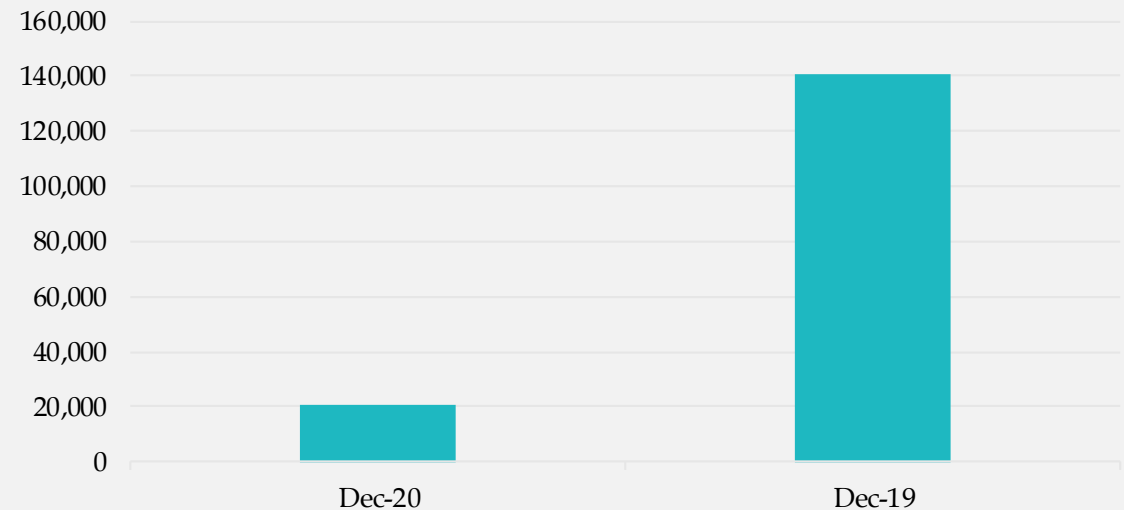
Attributed to the ongoing global travel restrictions, total international departures stood at 21,040 for the month of December, compared to total departures of 140,633 one year earlier.

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



Source: Nassau Airport Development Company

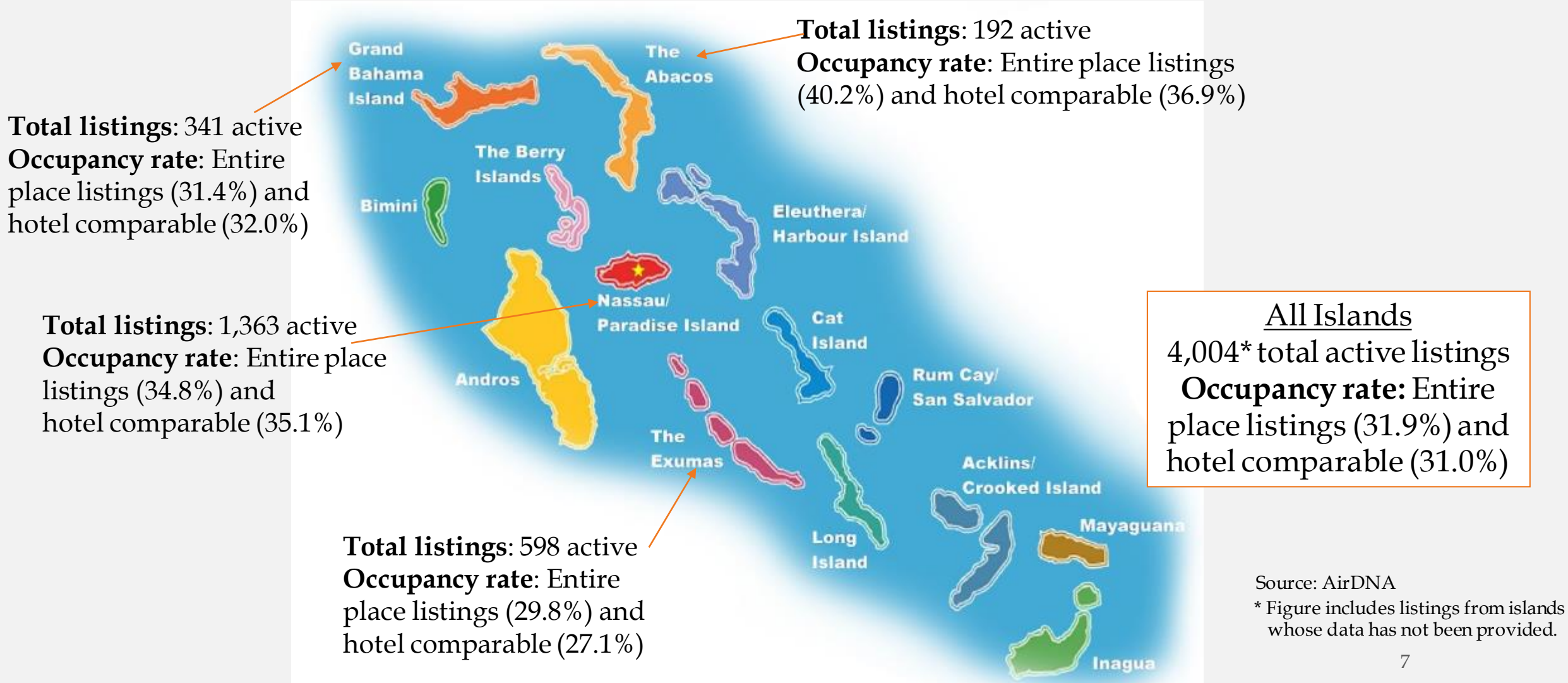
**Total Departures  
December 2020 vs December 2019**



\*All figures are net of domestic departures. 6

# Airbnb: Snapshot of Vacation Rentals

(as at December 2020 vs. 2019)



Source: AirDNA  
 \* Figure includes listings from islands whose data has not been provided.

# Airbnb: Occupancy Rate Trends

## (December 2020 vs. 2019)

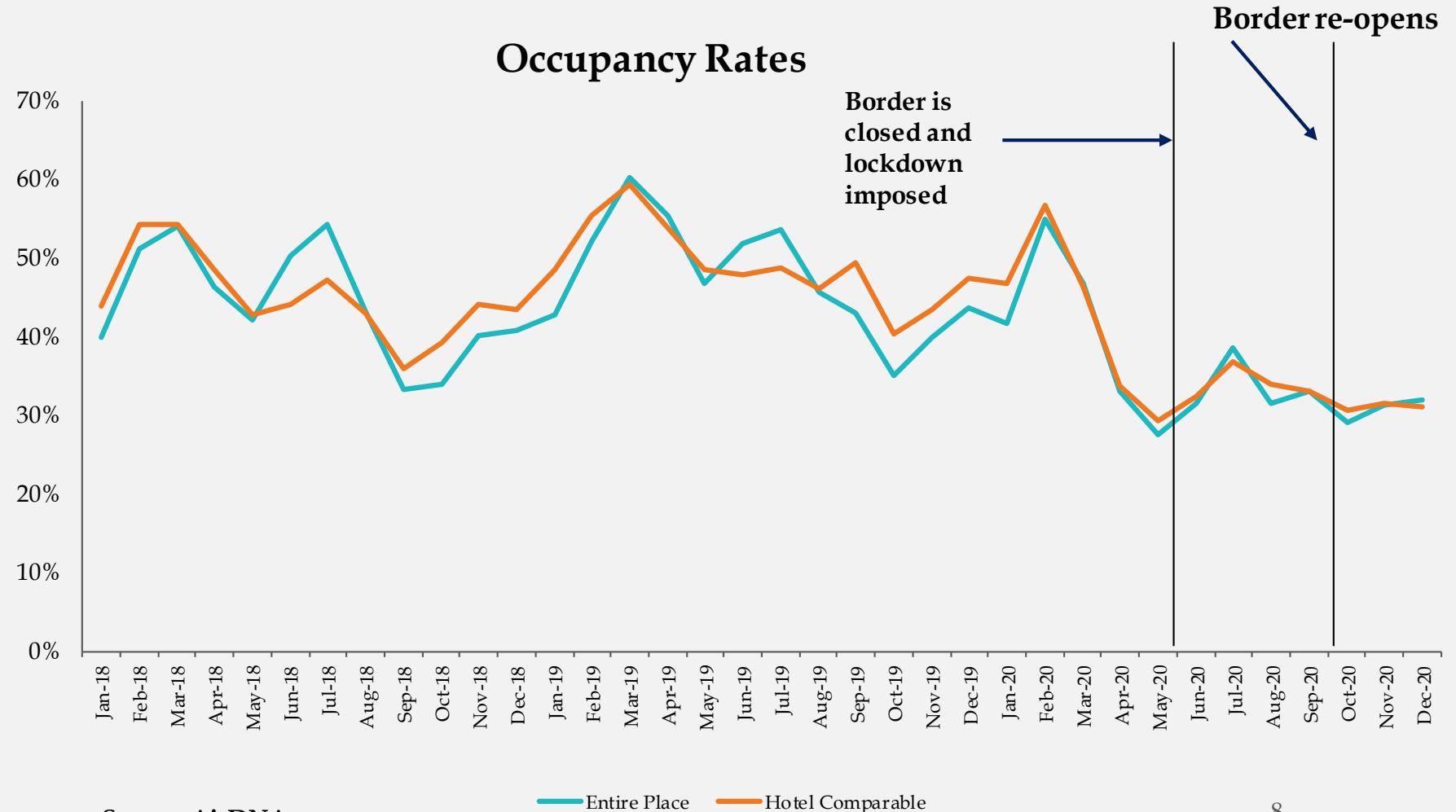
Underpinned by Government's measures to combat the spread of COVID-19, occupancy levels for vacation rentals trended downward, until July, when international borders were re-opened to commercial travel. However, as some measures were re-imposed, rates began to decline again, rebounding in November.

### Entire Place Listings

- The average occupancy rate decreased to 31.9% from 43.7% in the same period of 2019.

### Hotel Comparable Listings

- The average occupancy rate declined to 31.0% from 47.4% in the previous year.

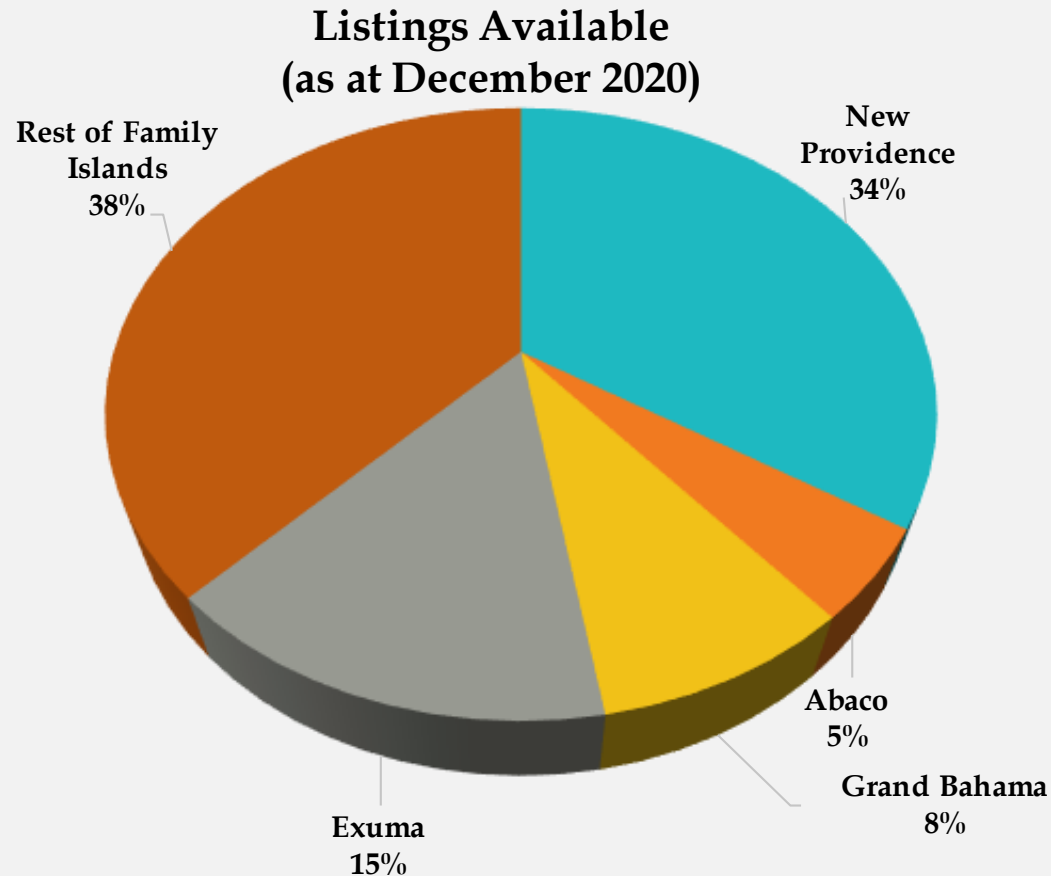


Source: AirDNA



# Airbnb: Market Share by Island (December 2020)

Exuma and the remaining Family Islands, accounted for half of all available listings in 2020, with listings declining for Abaco, Grand Bahama and New Providence.



Listings for Abaco, Grand Bahama and New Providence decreased by 69.2%, 16.2% and 11.5%, respectively, in December, relative to the same period in 2019.

All Available Listings				
	Sept 2019	Dec 2019	Sept 2020	Dec 2020
<b>Abaco</b>	695	624	166	192
<b>Grand Bahama</b>	519	407	322	341
<b>New Providence</b>	1,411	1,540	1,192	1,363

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

**Ocean Place Condo & Hotel:** \$31.8 million.

- Construction of condominium and hotel on ocean front property located on West Bay Street.
- Expected to employ:
  - 69 construction workers
  - 9 operational workers

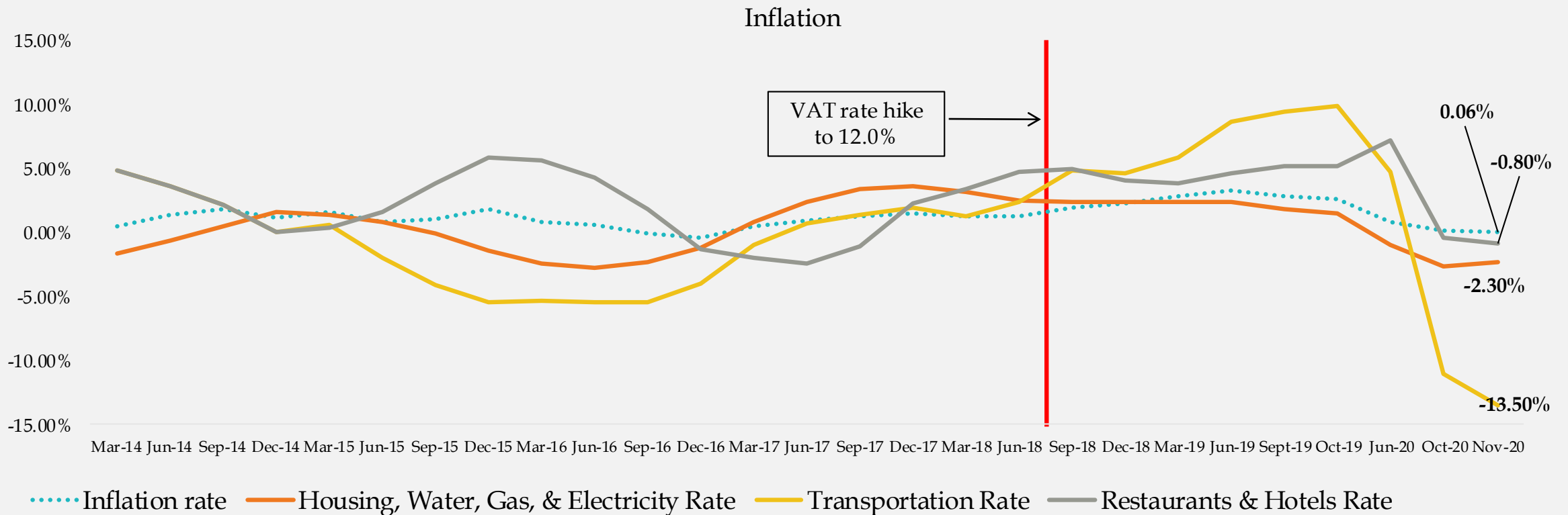




# INFLATION

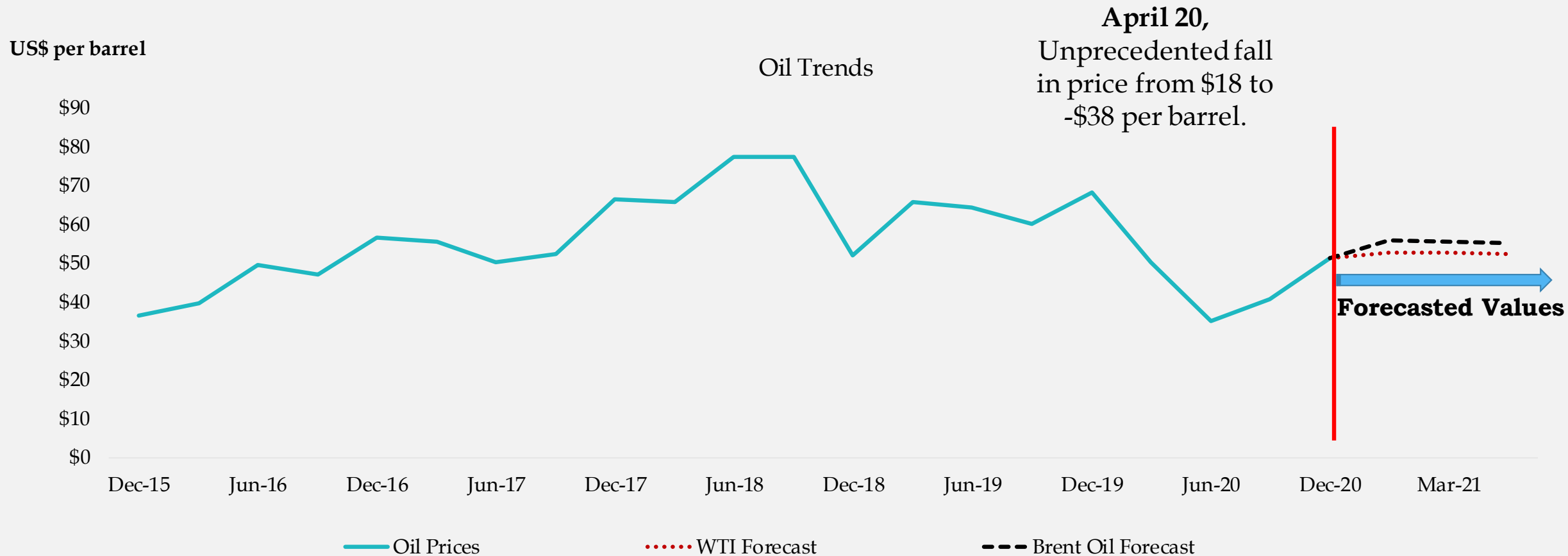
# Retail Price Index

Inflation rate narrowed to just 0.1% during the twelve months to November 2020, from 2.5% a year earlier, reflecting lower prices in most of the major categories.



# Oil Price Trends

Over the January to December period, crude oil prices declined by 25.0%, to \$51.26 per barrel.



Source: Bloomberg

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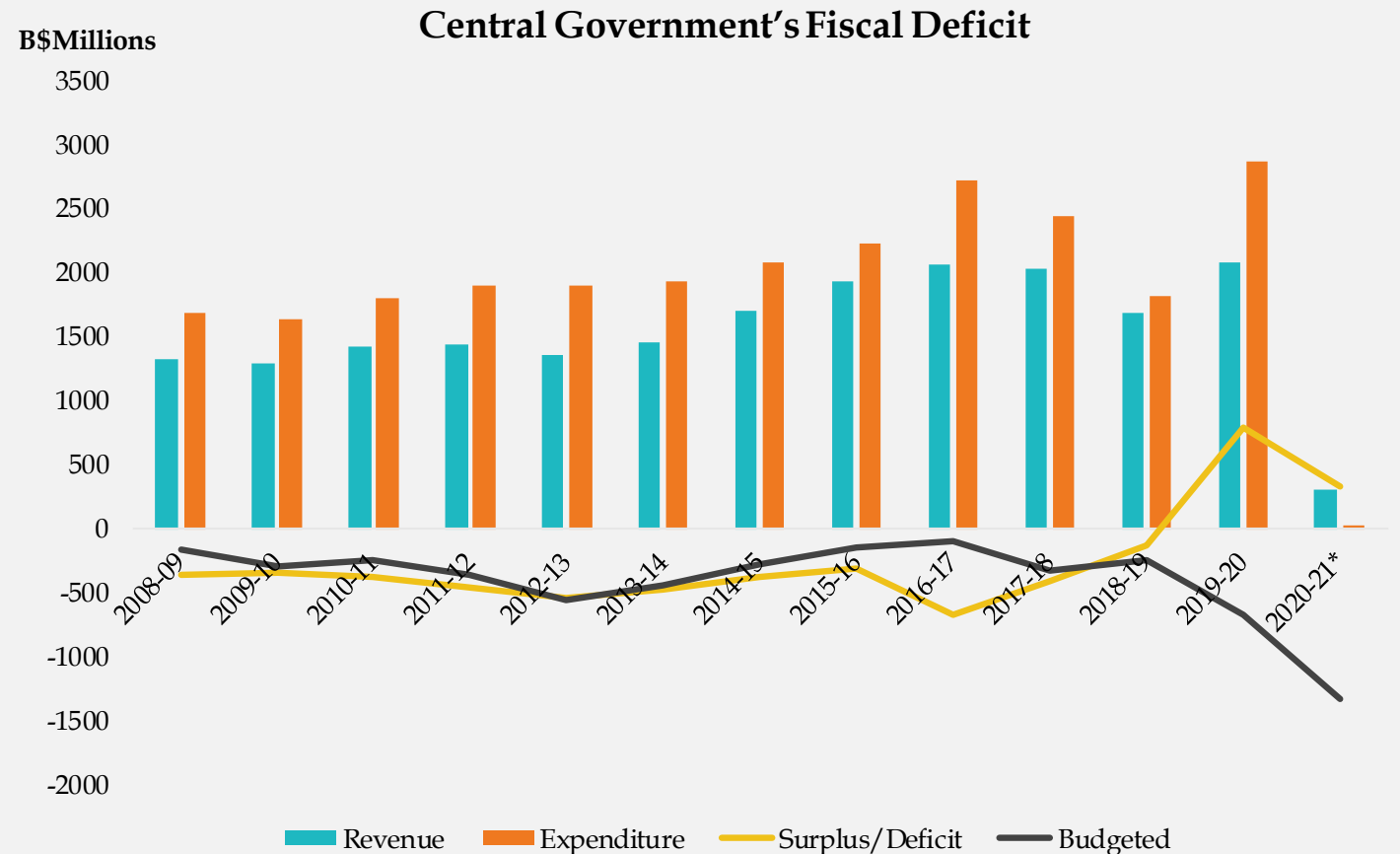
# **FISCAL SECTOR**

# Fiscal Sector

## Provisional Q1 FY2020/21

During the first quarter of FY2020/21, the deficit widened to \$336.3 million from \$48.8 million a year earlier, amid a notably falloff in revenue collections and an increase in welfare spending related to COVID-19 and outlays for hurricane reconstruction works.

- Revenue contracted by \$251.4 million (45.5%) to \$300.9 million.
  - VAT receipts reduced to \$134.7 million (49.4%) from \$266.2 million.
- Expenditure: rose by \$36.2 million (6.0%) to \$637.2 million.
  - Recurrent outlays grew by \$35.1 million (6.4%) to \$579.8 million.
  - Capital spending increased by \$1.1 million (2.0%) to \$57.4 million.

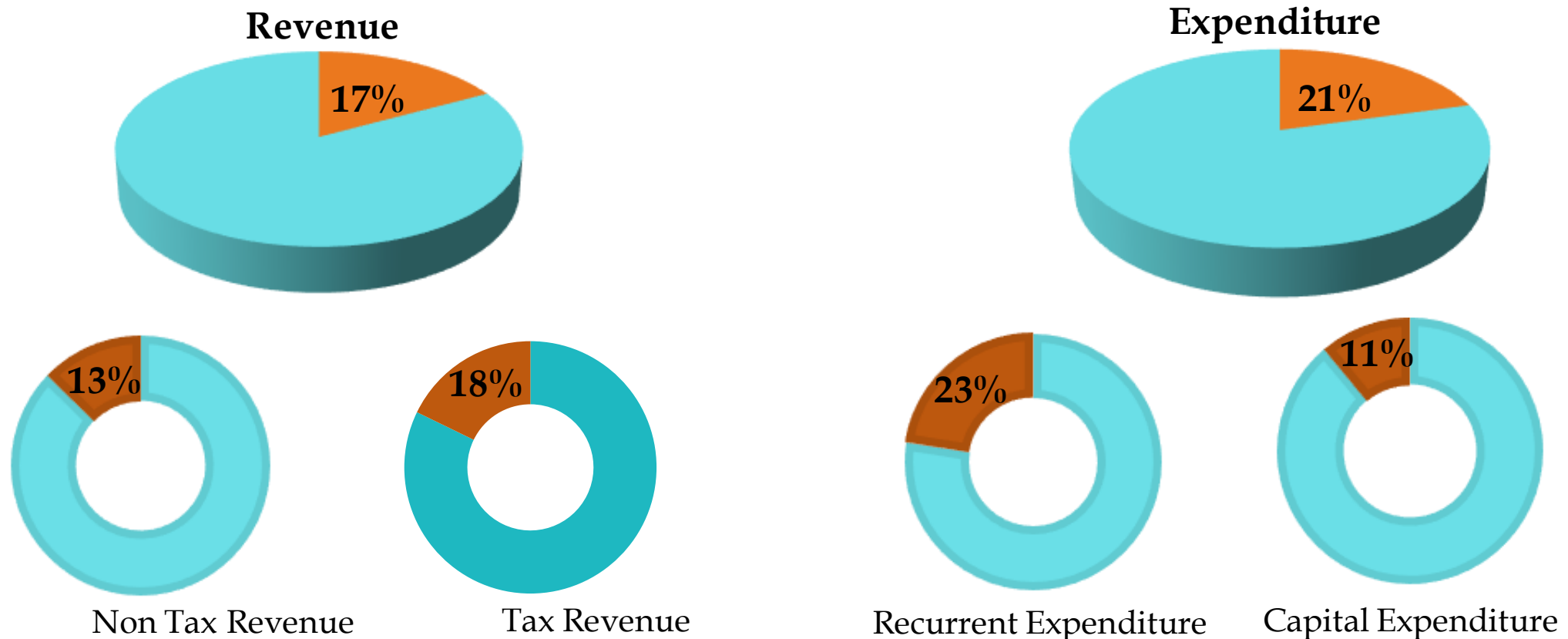


Source: Ministry of Finance  
 \*Data for Q1 2020/21.



# FY 2020/21 Budget Projections vs. Actual Outturn

On average, less than 25% of the budget was utilized for all of the categories, but revenue intake lagged by more spending.



Percentages indicate the proportions of the expenditure budget or revenue forecast that were attained during the first 3 months of FY20/21.

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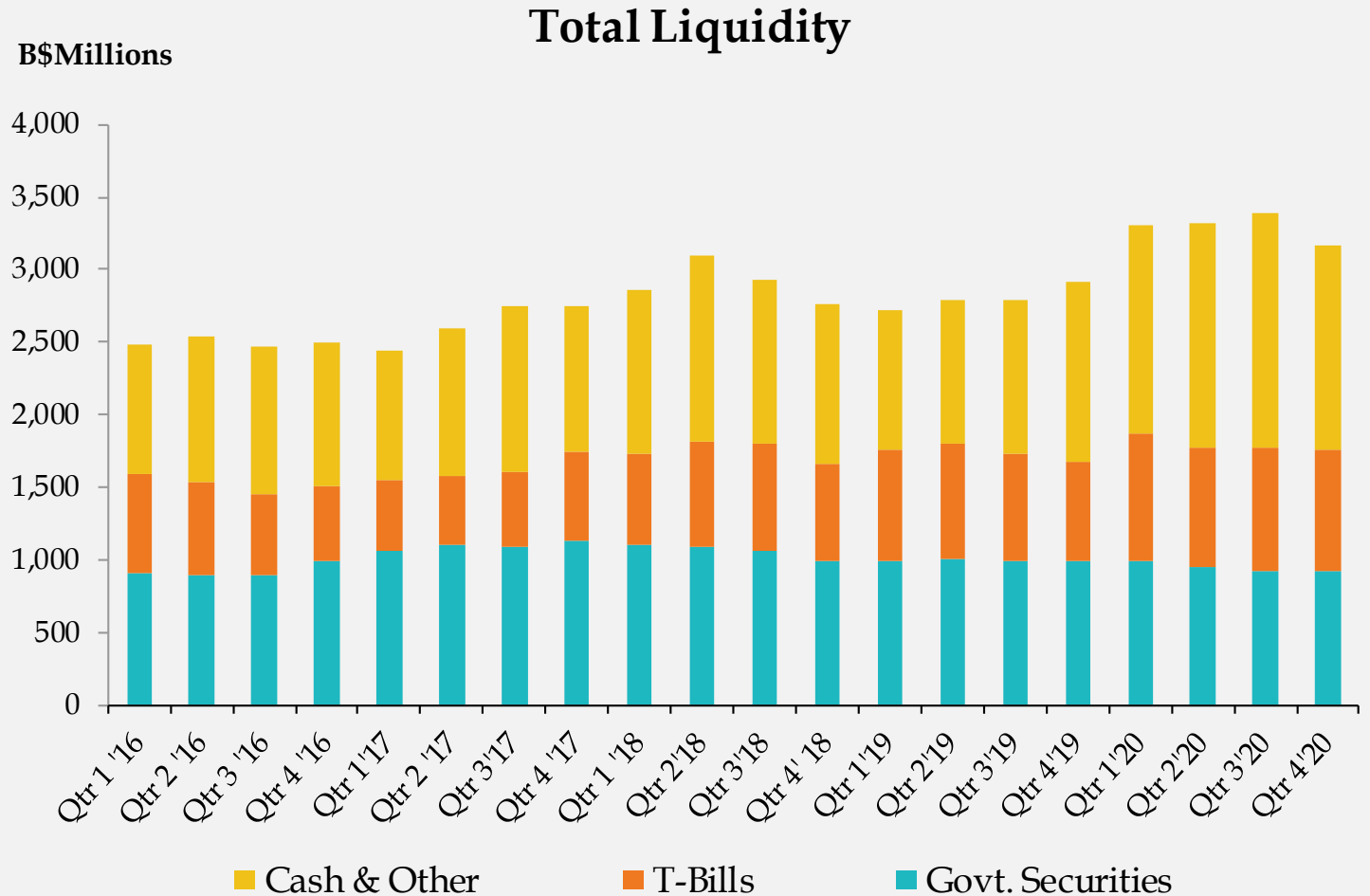
# MONETARY SECTOR

# Money and Banking: Liquidity Conditions

## January-December 2020 vs. 2019

During 2020, growth in liquidity was largely attributed to net foreign currency inflows from Government's external borrowings.

- Excess liquid assets grew by \$264.4 million, a slowdown from the \$433.6 million growth in the previous year.
- Excess reserves rose by \$330.0 million, trailing the \$434.9 million expansion recorded a year earlier.



Source: Central Bank of The Bahamas

Note: "Other" is balances with Central Bank 19

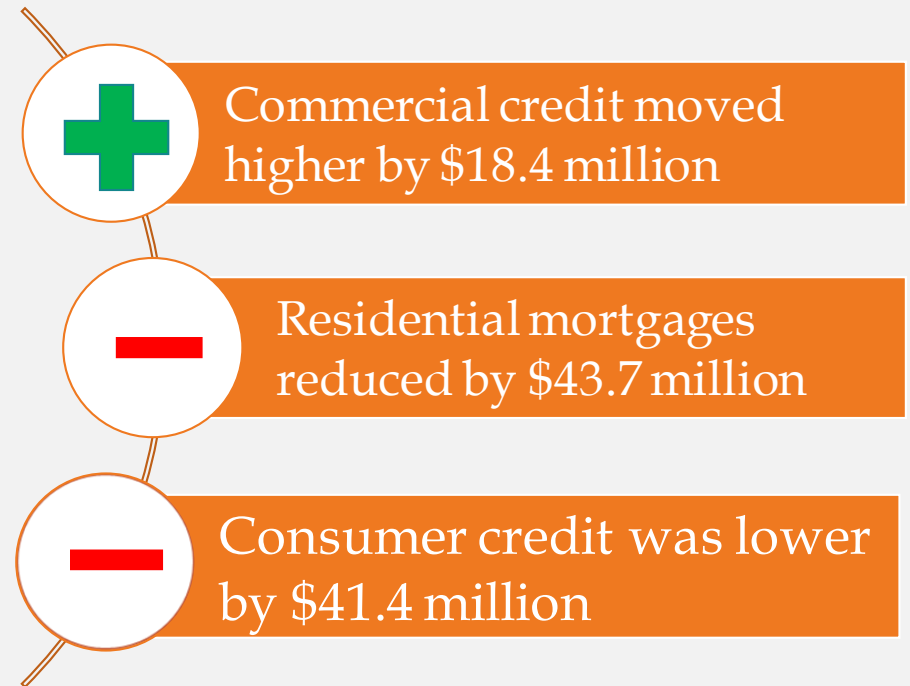
# Lending Conditions

## January-December 2020 vs. 2019

During 2020, Bahamian dollar domestic credit declined by \$275.3 million, a turnaround from an \$18.5 million buildup in 2019.

- Net claims on Government contracted by \$206.3 million, contrasting with a \$28.9 million expansion in the previous year.
- Credit to public corporations fell by \$2.3 million, lower than the \$18.6 million reduction in 2019.

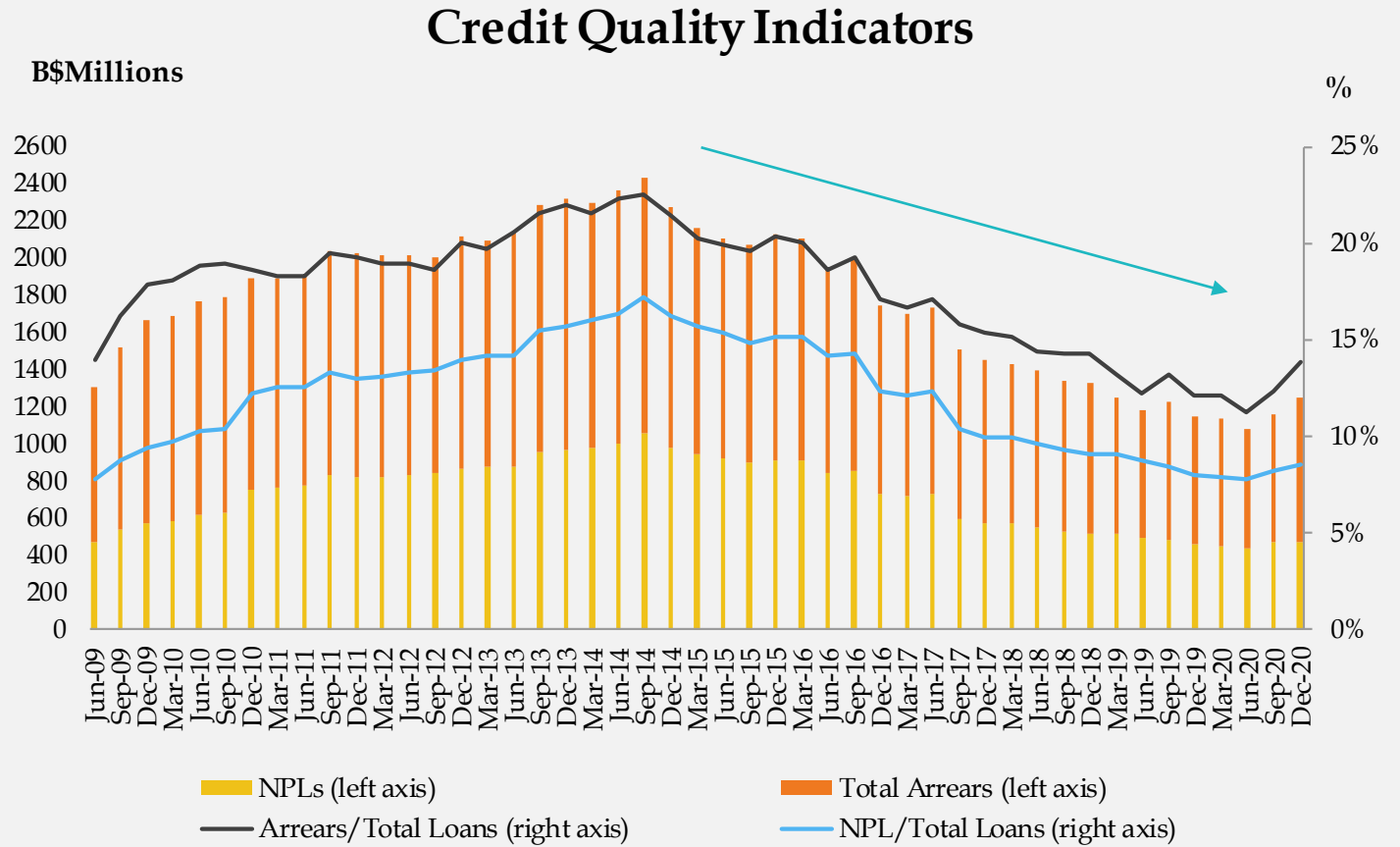
- Private sector credit contracted by \$66.7 million, following an \$8.3 million increase in 2019.



# B\$ Credit Quality Indicators

## January-December 2020 vs. 2019

- During 2020, the average arrears rate for private sector credit rose to 13.8% from 12.1% in 2019.
  - The short-term arrears rate was 5.3% (4.1% in December 2019).
  - The NPL rate was 8.5% (8.0% in December 2019).
  
- Arrears rate by loan type:
  - Mortgages: 18.7% vs 16.1% in 2019.
  - Consumer: 10.6% vs 9.0% in 2019.
  - Commercial: 7.0% vs 7.8% in 2019.

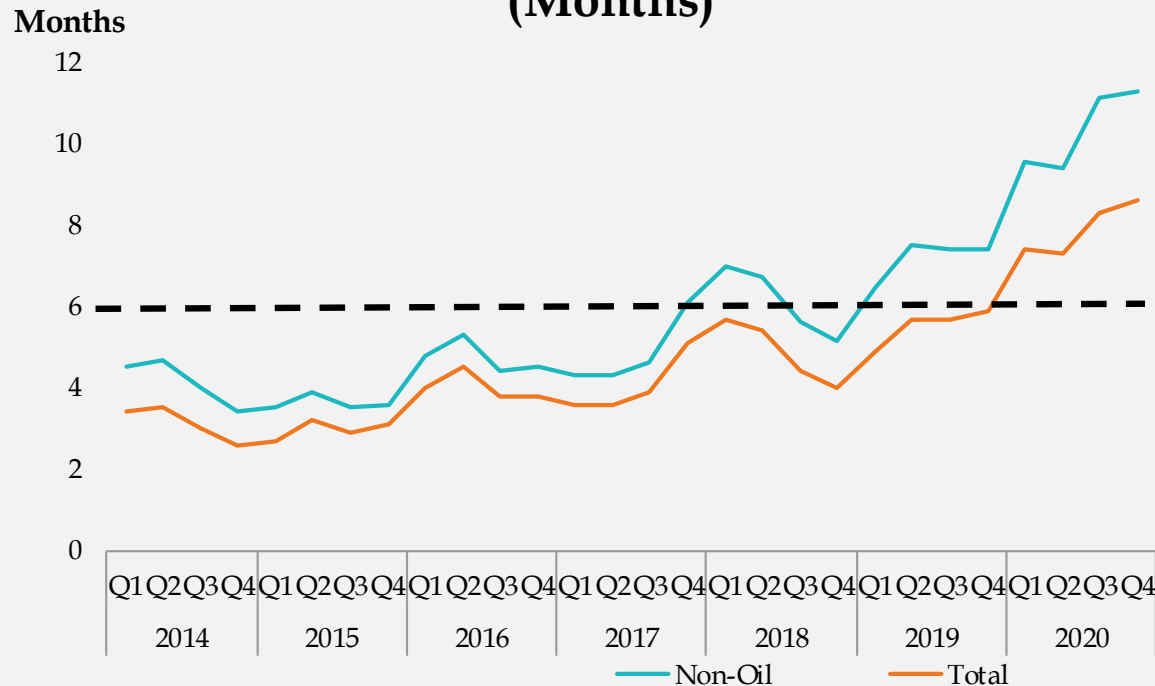


SOURCE: Central Bank of The Bahamas

# External Reserves

## January-December 2020 vs. 2019

### Import Cover Ratio (Months)



### External Reserves to Demand Liabilities



Source: Central Bank of The Bahamas

External reserves expanded by \$622.4 million to \$2.4 billion in 2020. Growth in 2019 was \$559.0 million.

- Balances represented 105.8% of the Central Bank's demand liabilities.
- Equivalent to 8.6 months of the current year's total merchandise imports.



# OUTLOOK

# Real Sector

- The economy is estimated to have contracted in 2020 due to the ongoing fallout from the COVID-19 pandemic and the residual effects from the passage of Hurricane Dorian.
- Only marginal growth is anticipated for 2021, as economic developments continued to be dominated by the COVID-19 pandemic.
- Improvements in tourism sector – more likely to emerge in the second half of 2021 – are contingent on progress on the international health front, the effectiveness and availability of vaccines and the subsequent resumption in global travel.
- The near-term jobless rate is anticipated to increase sharply, with any job gains concentrated in the construction sector and the limited re-engagement of tourism sector employees.
- Inflation is expected to remain subdued, excluding any shocks in global oil prices.



# Anticipated Fiscal Impacts from COVID-19

Estimates of the COVID-19 fiscal impacts remain dependent on the timing of recovery of the tourism sector. The augmented health and social welfare outlay, combined with continued hurricane reconstruction works will offset deficit reduction efforts.

Projected COVID-19 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 National Health Insurance.
  - 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 FY2020/21.

# Monetary Sector and External Reserves



- Banking sector liquidity is expected to remain elevated over the near term.
- In light of the COVID-19 pandemic a drawdown in deposits is anticipated; however, a slight increase in private sector credit is estimated for 2021.



- External reserve balances are projected to remain at robust levels in 2021, above international benchmarks, although a drawdown in balances is anticipated during the year, due to continued net foreign currency inflows through the public sector.
- Balances are expected to remain at satisfactory levels to maintain the Bahamian dollar currency peg.

# Risks to The Outlook

## TOURISM

The ongoing diminished health sector confidence could impede the pace of travel recovery.

## EXTERNAL RESERVES

Increased demand for foreign currency for reconstruction work, and prolonged constrained tourism output could accelerate a drawdown in reserves.

## GLOBAL

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

## INFLATION

Geopolitical tensions, reduction in oil production and food supply disruptions may accelerate prices.

## EMPLOYMENT

Insufficient working capital might force some permanent business closure and some permanent layoffs.

## FISCAL

A prolonged 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

