

# Quarterly Economic and Financial Developments Report

June 2021

Research Department



# Domestic Economic Developments

Domestic economic activity during the first half of the year, continued to be largely impacted by the ongoing Novel Coronavirus (COVID-19) pandemic. Tourism sector output remained depressed due to ongoing globally imposed travel restrictions, although showing signs of a slow recovery. The reduction in the high value-added air component moderated; however, the contraction in the dominant sea segment extended. Nevertheless, foreign investment-led projects, combined with post hurricane rebuilding works, provided some impetus to the construction sector.

## Real Sector

- Tourist arrivals contracted by 83.6% during January-May 2021, extending the 47.5% reduction in the same period of 2020.
- Nassau airport departures were down 30.4% during the first half of the year.
- Varied-scale FDI projects and hurricane rebuilding efforts supported construction sector output.

## Monetary Sector

- During the first six months of 2021, the growth in bank liquidity quickened to \$202.9 million, for an end balance of \$1.6 billion. Build-up in the deposit base, surpassed domestic credit accretions.
- The expansion in external reserves moderated to \$195.5 million in the first six months of the year.

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-May 2021)

Official data from the Ministry of Tourism revealed that total visitor arrivals declined by 83.6% over the first five months of the year, exceeding the 47.5% reduction in the same period of 2020.

- Air arrivals (indicative of stopovers) fell by 29.8%, moderating from the 57.2% falloff in 2020.
- Sea arrivals reduced by 97.5%, outpacing the 44.3% decline a year earlier.

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2020	2021	2020	2021	2020	2021
<b>Arrivals</b>						
<b>Air</b>	<b>-53.2</b>	<b>-44.7</b>	<b>-74.0</b>	<b>-33.7</b>	<b>-69.0</b>	<b>55.1</b>
<b>Sea</b>	<b>-56.3</b>	<b>-99.0</b>	<b>-58.4</b>	<b>-94.3</b>	<b>-21.3</b>	<b>-96.6</b>
<b>Total</b>	<b>-55.3</b>	<b>-81.1</b>	<b>-60.2</b>	<b>-89.4</b>	<b>-29.0</b>	<b>-85.8</b>

# Global Tourism Sector Update

- According to the United Nations Conference on Trade and Development (UNCTAD), there was loss of between US\$1.7 trillion and US\$2.4 trillion in 2021 in the travel & tourism sector, compared with 2019 levels.
- Further, following the US Centers for Disease Control & Prevention (CDC) issuance of new technical guidance for cruise liners, several vessels have begun to set sail for the first time in 15 months.



# Cruise Ship Sector Update

- Commencing July, Nassau will serve as a home port for the first time, for Royal Caribbean International Cruise Line's "Adventure of the Seas" and for Crystal Cruise Line's "Crystal Serenity Luxury Bahamas Escapes" all-Bahamas cruise.
- Adventure of the Seas will sail to Freeport, Mexico and to the cruise liner's private Bahamian island, 'Perfect Day at CoCo Cay'.
- Crystal Serenity Luxury Bahamas Escapes will call on the following islands: Bimini, Harbour Island, Great Exuma, San Salvador, Long Island, and Spanish Wells.

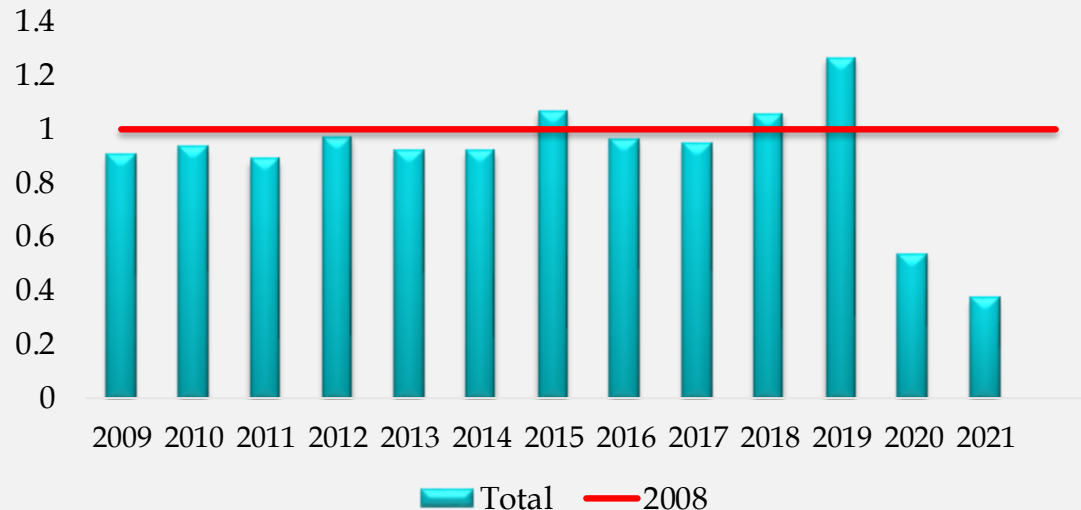


# Nassau Airport (NAD) International Departures January - June

The latest data from NAD showed that the decline in total departures moderated to 30.4% over the first half of the year, from 57.6% in the corresponding period in 2020.

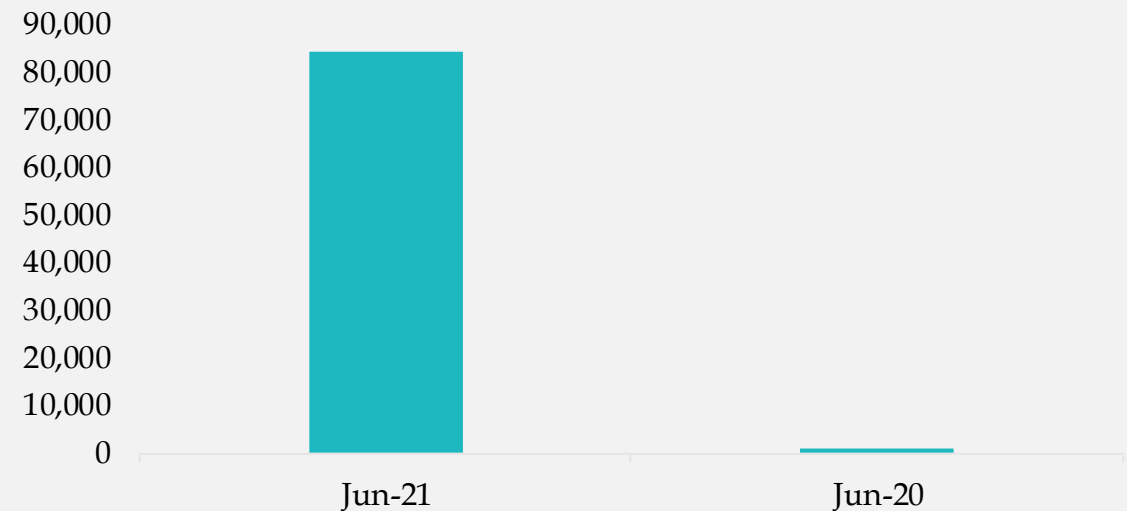
Reflective of the ongoing restrictive global travel measures, total international departures for June 2021 amounted to 84,559 vis-à-vis the 1,006 departures recorded in June 2020.

**Departures vs. 2008 Recession  
January-June 2021**



Source: Nassau Airport Development Company

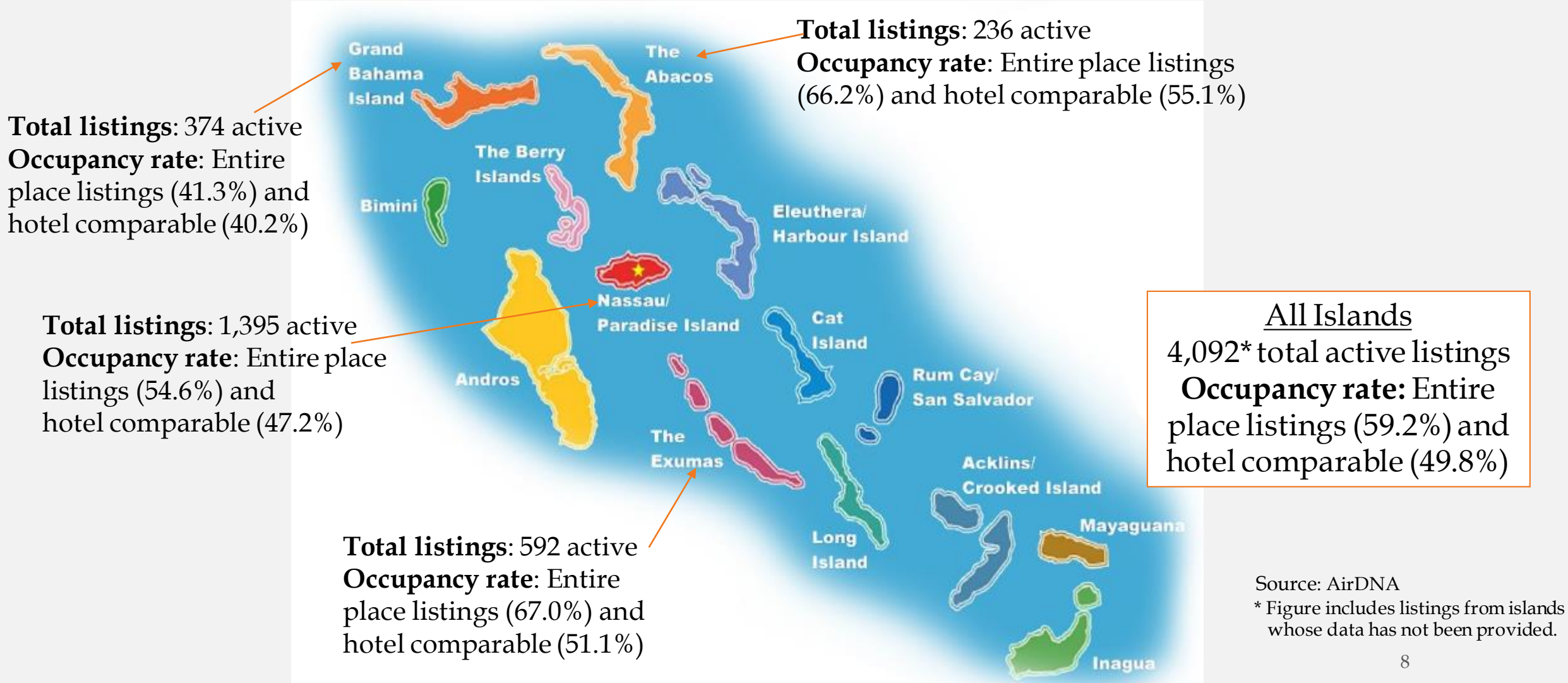
**Total Departures  
June 2021 vs June 2020**



\*All figures are net of domestic departures.

# Airbnb: Snapshot of Vacation Rentals

(as at June 2021)



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



# Airbnb: Vacation Rental Occupancy Rate Trends

## (January - June 2021 vs. 2020)

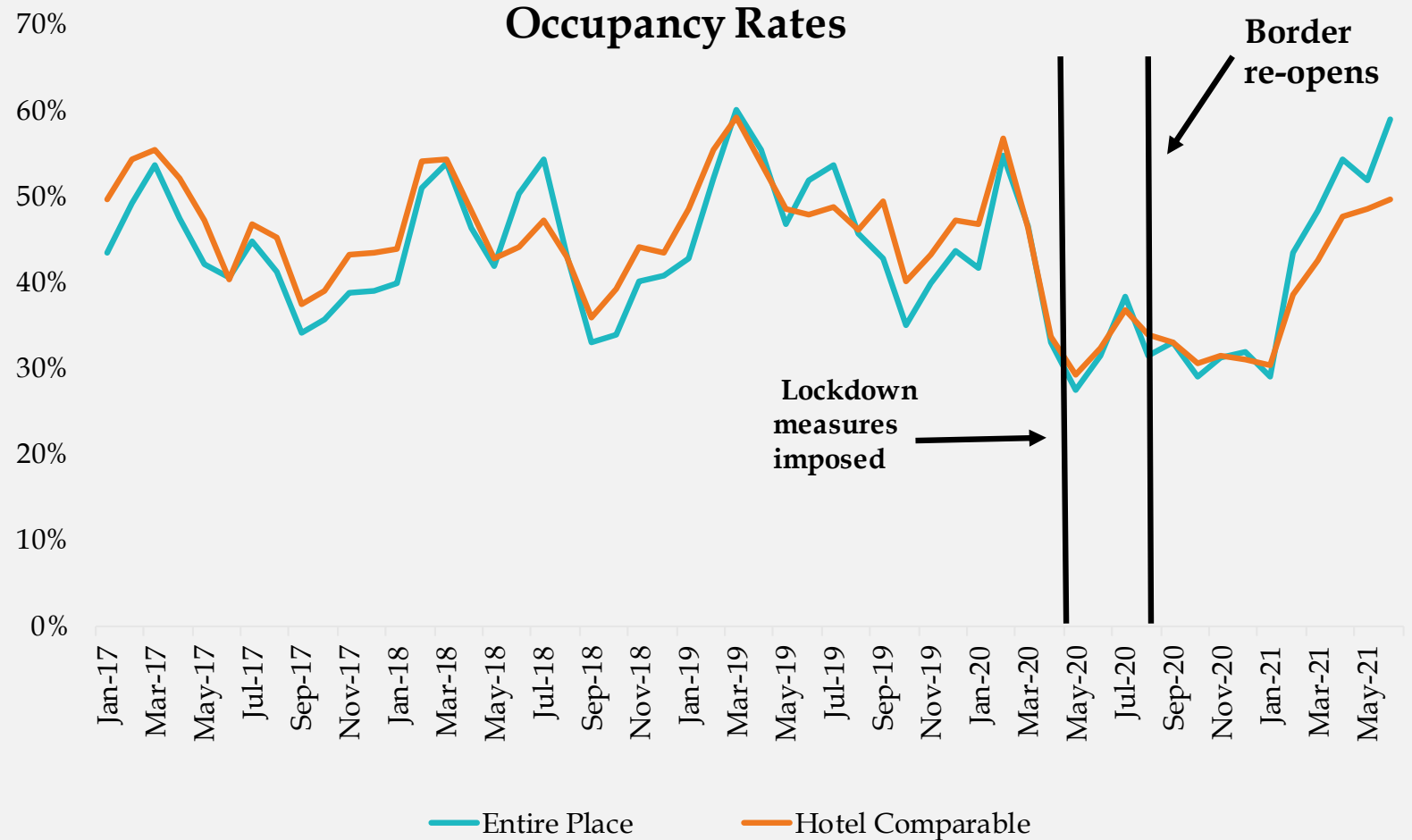
Reflective of relaxed measures by the Government, vacation rental occupancy levels trended upward since the beginning of 2021.

### Entire Place Listings

- The average occupancy rate increased to 59.2%, from 31.6% in the same period of 2020.

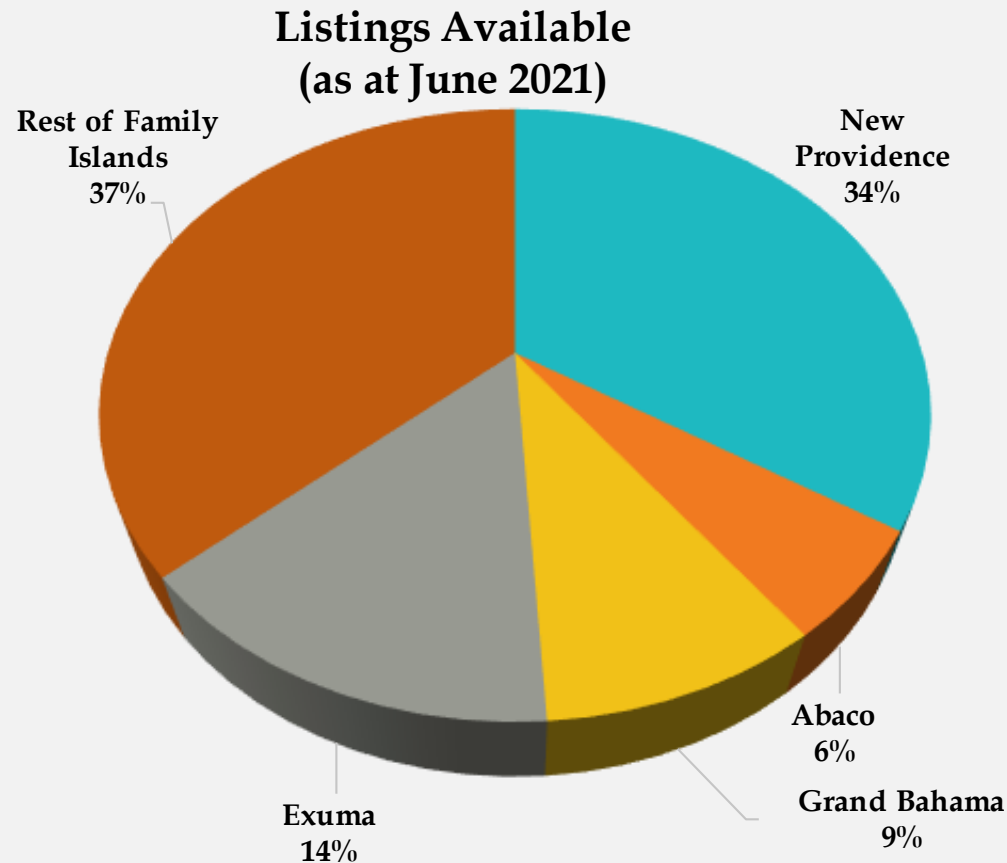
### Hotel Comparable Listings

- The average occupancy rate rose to 49.8% from 32.4% last year.



# Airbnb: Vacation Rental Market Share by Island (June 2021)

Exuma and the remaining Family Islands, accounted for more than half of all available listings during the six months to June, with listings increasing for New Providence and Grand Bahama, while listings fell in Abaco.



Listings for Grand Bahama and New Providence rose by 6.9% and 6.8%, respectively, in June, relative to the same period in 2020, while listings for Abaco declined by 23.1% in June compared to last year.

All Available Listings				
	Dec 2019	June 2020	Dec 2020	June 2021
<b>Abaco</b>	624	307	192	236
<b>Grand Bahama</b>	407	350	341	374
<b>New Providence</b>	1,540	1,306	1,363	1,395

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 or structures. The sky is clear and bright.

# FOREIGN INVESTMENT PROJECTS

# New Foreign Investment Projects

## New Providence \$31.0 million

### Athol Island Development Company Ltd

- The company received approval-in-principle to develop 57.1 acres on Athol Island into a world class tourism and hospitality destination with the goal of providing a Bahamian experience to cruise ship and other visitors.



Source: Bahamas Investment Authority

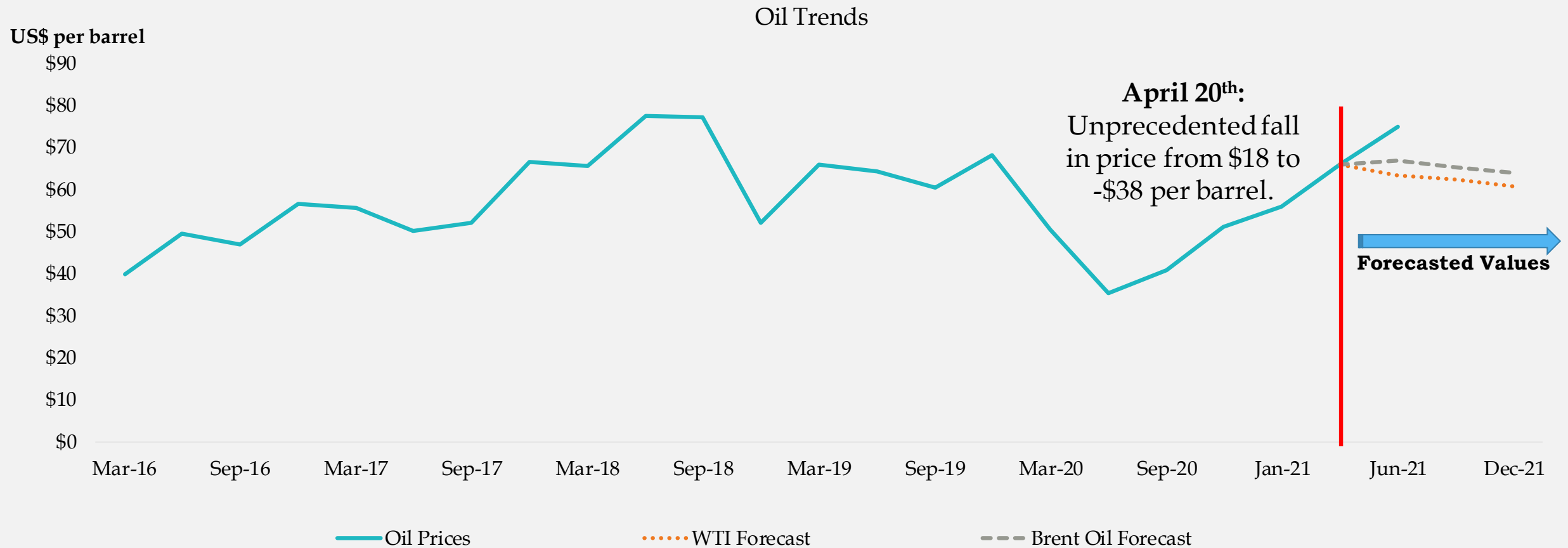
Source: Athol Island – Island in The Bahamas – Thousand Wonders



# INFLATION

# Oil Price Trends

From January to June 2021, crude oil prices increased by 46.5% to \$75.11 per barrel.



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 a resort or a small village. The sky is clear and bright.

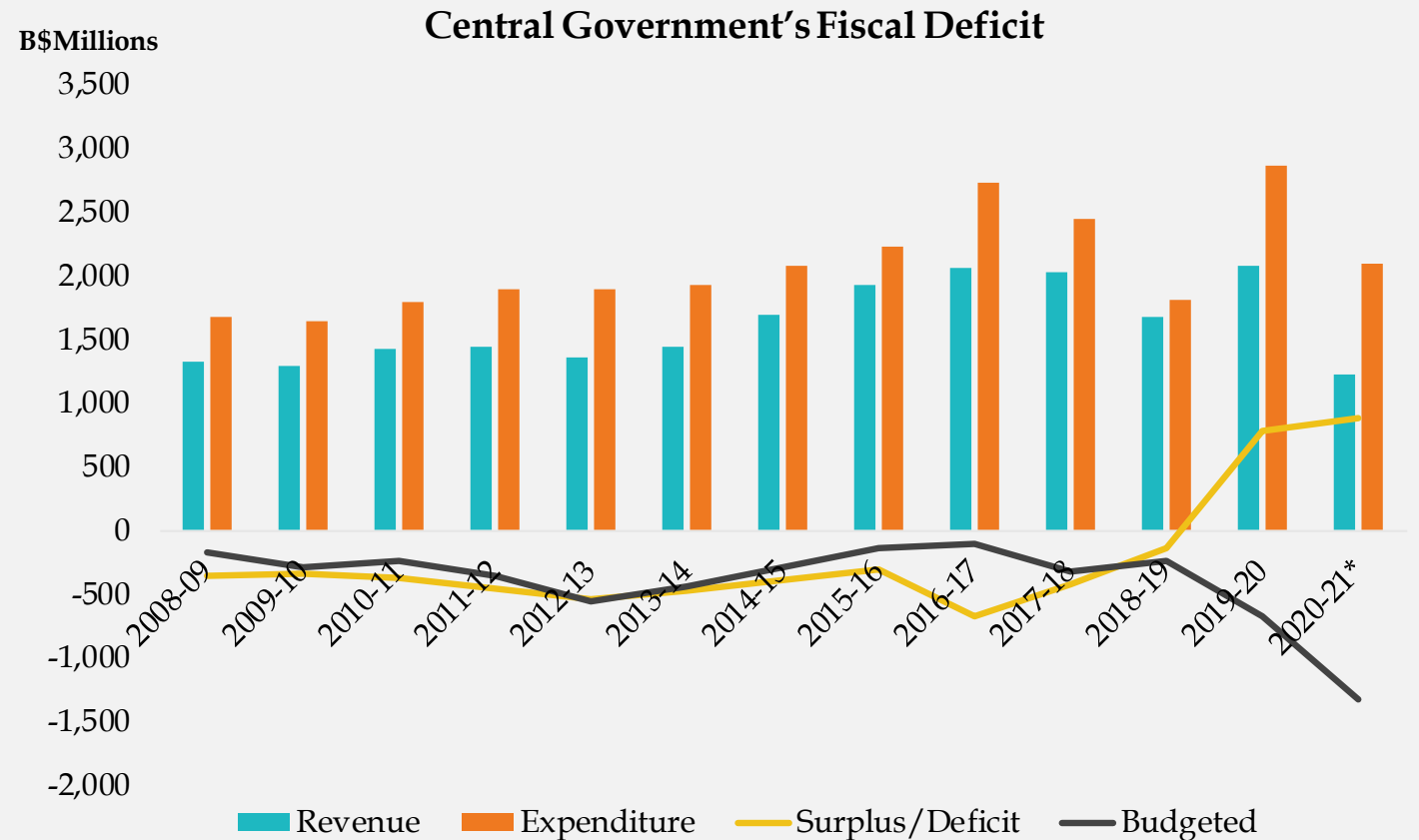
# **FISCAL SECTOR**

# Fiscal Sector

## First Nine Months of FY2020/21

During the first nine months of FY2020/21, the deficit widened to \$878.2 million from \$251.3 million a year earlier, amid a notable falloff in revenue collections and an increase in welfare spending related to COVID-19 and outlays still for hurricane reconstruction works.

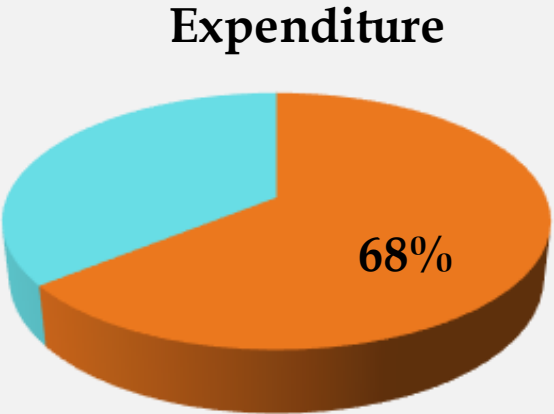
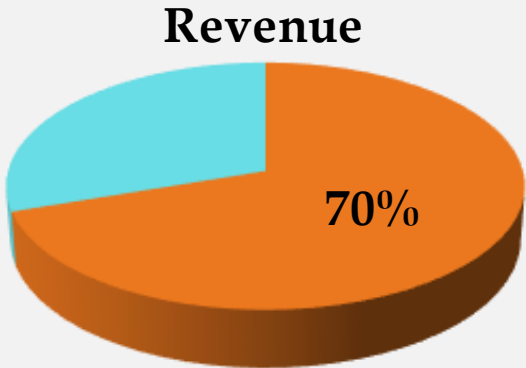
- Revenue contracted by \$527.4 million (30.0%) to \$1,229.8 million.
  - VAT receipts reduced by \$269.1 million (36.4%) to \$469.8 million
- Expenditure rose by \$99.4 million (5.0%) to \$2,107.9 million.
  - Recurrent outlays grew by \$129.6 million (7.2%) to \$1,939.9 million
  - Capital spending decreased by \$30.2 million (15.2%) to \$168.0 million



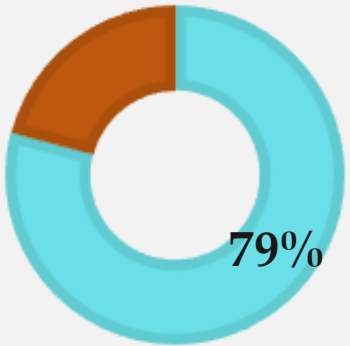
Source: Ministry of Finance  
\*Data for Nine Months of 2020/21.



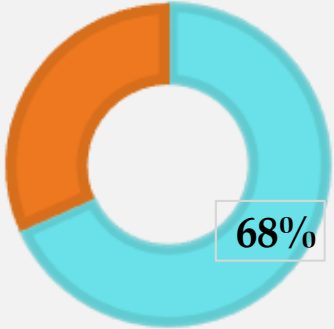
# FY2020/21 Budget Projections vs. 9 Months Actual Outturn



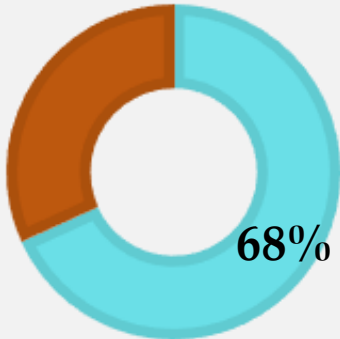
Thus far, more than 50% of the budget has been utilized for all of the categories.



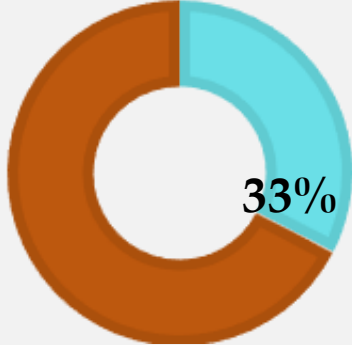
Non-Tax Revenue



Tax Revenue



Recurrent Expenditure



Capital Expenditure

Percentages indicate what proportion of budget has been used during the first 9 months of FY20/21

# 2021/2022 Budget: Key Expenditure Measures

## Expenditure for Healthcare Initiatives & Social Assistance

- \$17.8 million for direct COVID-19 related health spending
- \$20.0 million for social assistance benefits

## Expenditure for Business Support

- \$250.0 million in small business support over the next five years

## Expenditure for Infrastructure Upgrades

- \$100.0 million to improve hospital infrastructure
- \$31.0 million to renewable energy projects
- \$14.5 million to support the digitization of services in the healthcare and education sectors

# 2021/2022 Budget: Key Revenue Measures

## Revenue Generating

- Revenue measures are expected to yield an intake of \$2.2 billion in FY2021/22, a \$588.3 million (35.5%) increase from FY2020/21. Notably new measures are:
  - Introduction of VAT payments from vacation rental marketplaces on rentals and commissions
  - Hike in VAT rate to 12.0% on realty transactions over \$2.0 million.

## New Tax Relief

- Launch of the Employment Incentive Programme
- Removal of duty on small business startup and expansion costs
- Creation of Special Economic Zone to Southern Bahamas
- Elimination of duty on digital transformation hardware, software and services
- Duty removal on personal protective equipment and disinfectants

## Extended Tax Relief

- Extension of Special Economic Recovery Zone in Grand Bahama and Abaco to the end of the year, exemptions will extend only to building materials

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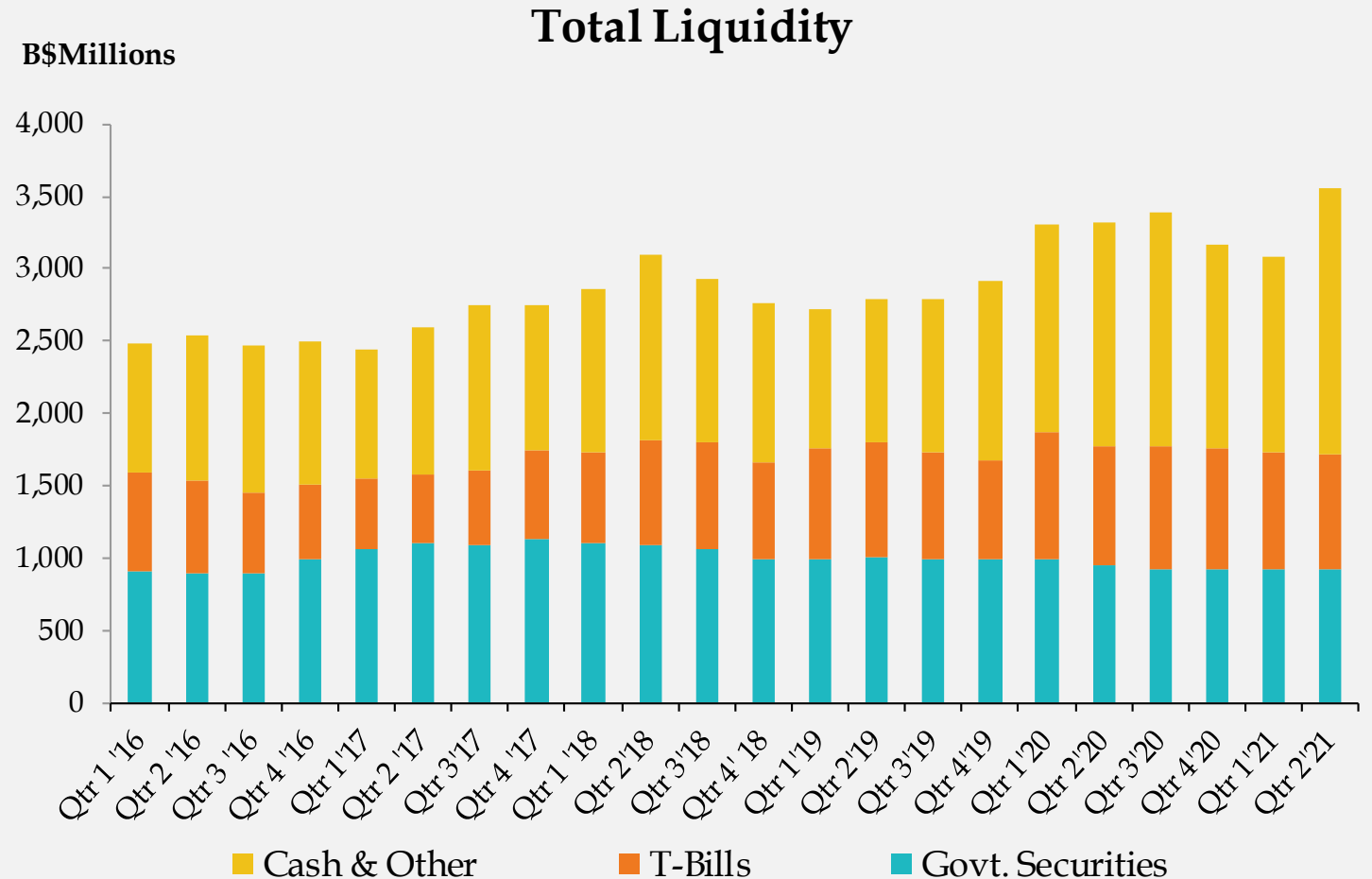
# **MONETARY SECTOR**

# Money and Banking: Liquidity Conditions

## January-June 2021 vs. 2020

During the first six months of the year, the build-up in liquidity was led by net foreign currency inflows from Government's external borrowing activities.

- Excess liquid assets rose by \$133.5 million, extending the \$99.8 million growth in the previous year.
- Excess reserves grew by \$202.9 million, vis-à-vis the \$133.1 million increase recorded a year earlier.



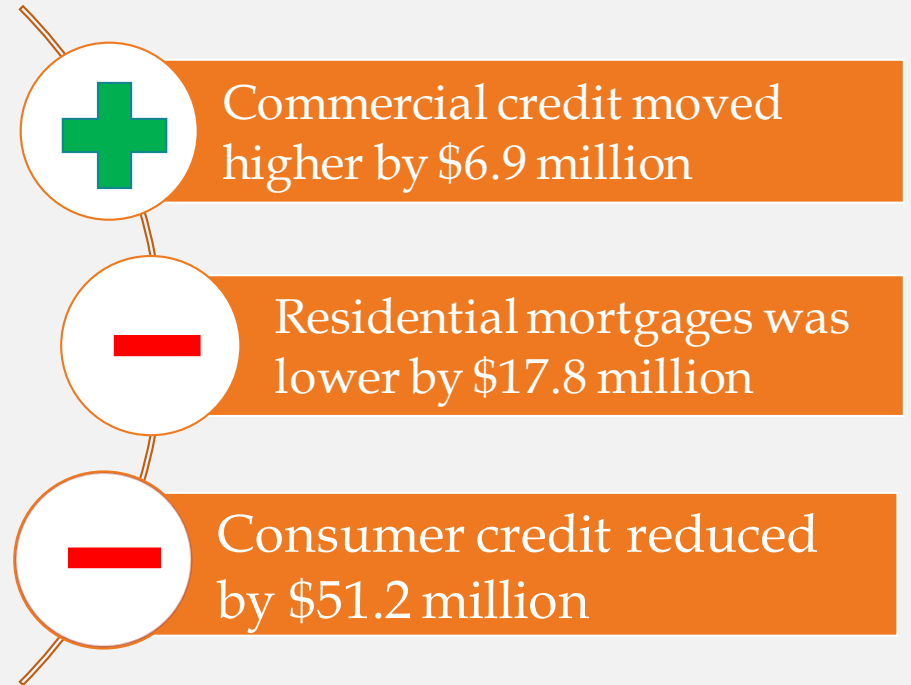
Source: Central Bank of The Bahamas

Note: "Other" is balances with Central Bank 21

# Lending Conditions

## January-June 2021 vs. 2020

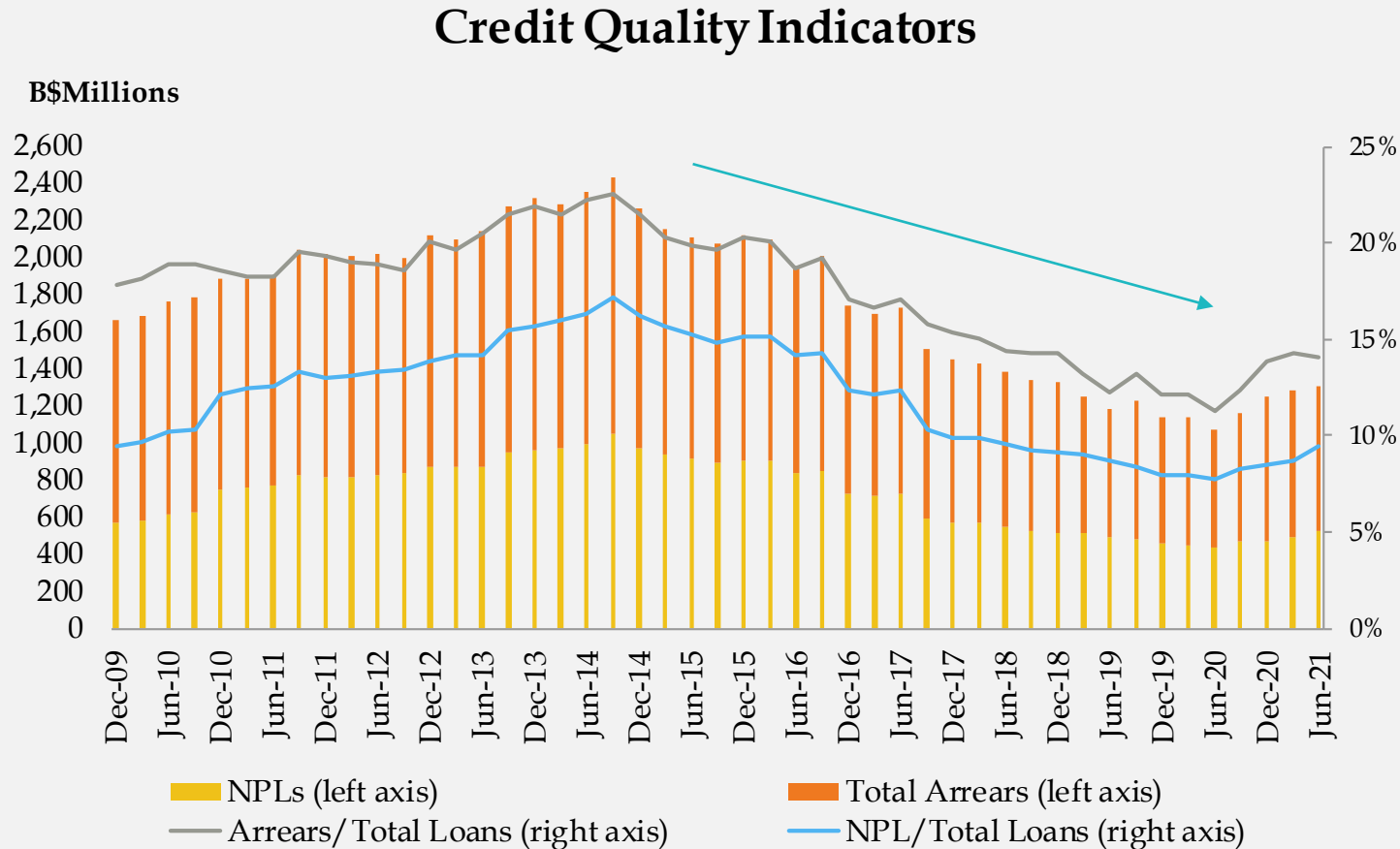
- During the six-months to June, Bahamian dollar domestic credit expanded by \$21.7 million, following a \$51.9 million increase in the preceding year.
  - Net claims on the Government advanced by \$82.1 million, extending the \$78.1 million growth last year.
  - Credit to public corporations grew by \$1.7 million, vis-à-vis a \$1.3 million uptick a year earlier.
- Private sector credit reduced by \$62.1 million, surpassing the \$27.5 million decrease in 2020.



# B\$ Credit Quality Indicators

## January-June 2021 vs. 2020

- During the first half of 2021, the average arrears rate for private sector credit rose to 14.1% from 11.3% in 2020.
  - The short-term arrears rate was 4.6% (3.5% in June 2020).
  - The NPL rate was 9.5% (7.8% in June 2020).
  
- Arrears rate by loan type:
  - Mortgages: 17.5% vs 15.2% in 2020
  - Consumer: 11.7% vs 8.0% in 2020
  - Commercial: 9.7% vs 7.4% in 2020

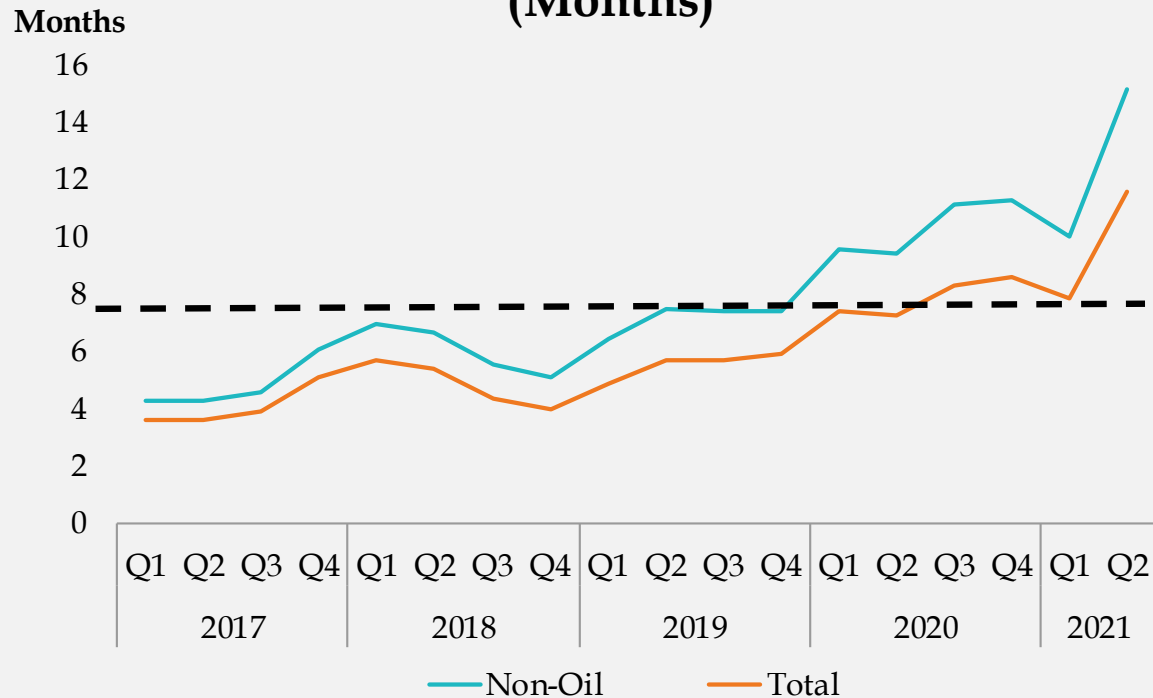


Source: Central Bank of The Bahamas

# External Reserves

## January-June 2021 vs. 2020

### Import Cover Ratio (Months)



### External Reserves to Demand Liabilities



Source: Central Bank of The Bahamas

External reserves advanced by \$195.5 million to \$2.6 billion over the first half of the year. Growth in 2020 was \$270.1 million.

- Balances represented 99.0% of the Central Bank's demand liabilities.
- Equivalent to 11.6 months of the current year's total merchandise imports.





# OUTLOOK

# Real Sector

- The domestic economy is anticipated to register marginal growth in 2021, buttressed by the gradual restart of tourism activity.
- The sustained resumption remains depended on further easing of globally imposed travel restrictions, advancement of international health initiatives; and efficacy, availability, and distribution of vaccines.
- The near-term unemployment rate is expected to remain elevated, with any job gains concentrated predominantly in the construction sector and the re-employment of tourism sector employees.
- Inflation is expected to remain contained, barring any shocks to global oil prices.

# Fiscal Sector

- The fiscal deficit is expected to remain expanded over FY2021/22; with financing needs staying elevated.
- Outlays still associated with the restoration of key infrastructure, following Hurricane Dorian and expanded spending for health and social welfare related to COVID-19, along with subdued revenue collections, are anticipated to weigh heavily on the Government's fiscal outturn.
- Budgetary financing is expected to rely on important use of external credit, but with increased sustainability from domestic credit sources.

# Monetary Sector and External Reserves

## Monetary

- Banking sector liquidity is expected to remain elevated over the near term, as banks sustain their conservative lending stance.
- A marginal increase in private sector credit is expected for 2021.

## External Reserves

- External reserves are projected to remain at healthy levels in 2021, above international benchmarks. But some drawdown in balances is anticipated as foreign currency inflows from tourism stay below capacity, while reconstruction work help drive foreign currency demand.
- Balances are anticipated to remain at satisfactory levels to sustain the Bahamian dollar currency peg.

# Risks to The Outlook

## TOURISM

Impediments to widespread inoculations could hamper the pace of travel recovery.

## EXTERNAL RESERVES

Increased demand for foreign currency for reconstruction work, and protracted constrained tourism output could accelerate the 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 could accelerate prices increases.

## EMPLOYMENT

Insufficient working capital could force some permanent business closures and layoffs.

## FISCAL

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

# The End

