Quarterly Economic and Financial Developments Report

March 2023

Featuring the latest Lending Conditions Survey for the Second Half of 2022

Research Department

CENTRAL BANK OF THE BAHAMAS

Domestic Economic Developments

Indications are that the domestic economy's growth momentum, although healthy, moderated during the first quarter of 2023, as recovery from the adverse effects of the Novel Coronavirus (COVID-19) pandemic was nearly complete. Tourism sector output remained buoyant, supported by gains in both the high value-added air segment and sea traffic, given relaxed pandemic restrictions and increased demand for travel in key source markets.

Real Sector

- Tourist arrivals expanded to 2.6 million visitors during January-March 2023, from 1.4 million in the corresponding period of 2022.
- Over the first quarter of 2023, Nassau airport departures rose by 45.4% to 400,064.
- Varied-scale FDI projects and hurricane rebuilding efforts sustained construction sector output.

Monetary Sector

- In the first quarter, growth in bank liquidity moderated, albeit amid a buildup in deposits, in contrast to decrease in domestic credit.
- External reserves growth moderated to $76.9 million in the first quarter from $514.8 million in the comparative 2022 period, which had benefitted from sizeable net public sector borrowing and larger net private inflows.

TOURISM SECTOR

Visitor Arrivals
(January-March 2023)

According to Ministry of Tourism data, total visitor arrivals increased to 2.6 million during the first quarter of 2023, from 1.4 million visitors in the same period of 2022.

- Air arrivals (indicative of stopovers) rose to 0.5 million, vis-à-vis a recovered 0.3 million in the prior year.
- Sea arrivals more than doubled to 2.1 million, from 1.0 million in the comparative 2022 period.

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
Arrivals	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
Air	284.4	42.3	211.9	100.9	103.3	32.6
Sea	13342.0	108.7	2116.8	199.0	7025.9	101.3
Total	**889.7**	**84.1**	**1056.2**	**184.3**	**1365.8**	**93.5**

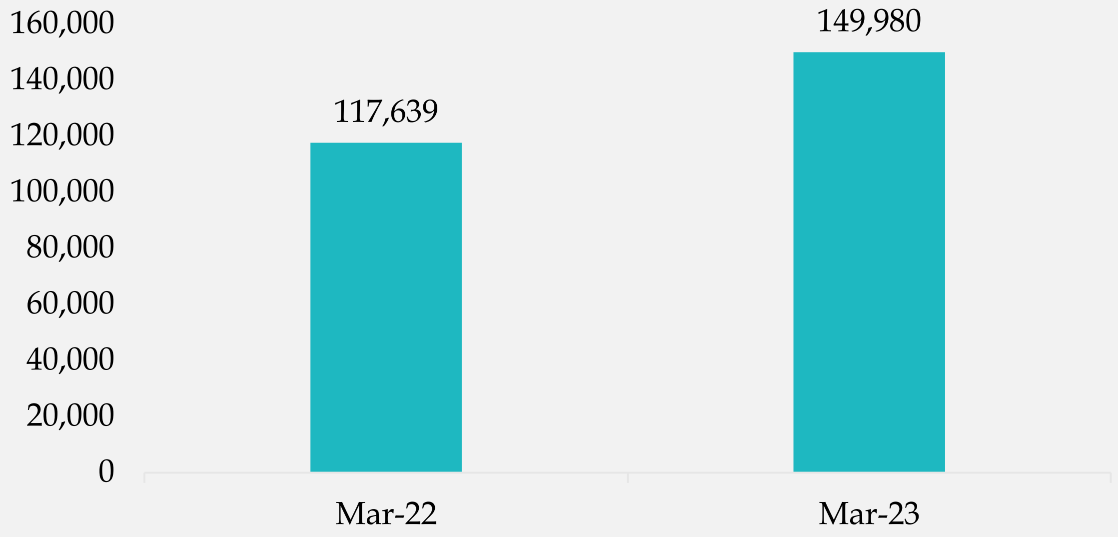
Source: Ministry of Tourism

Nassau Airport Development (NAD) International Departures
January – March 2023

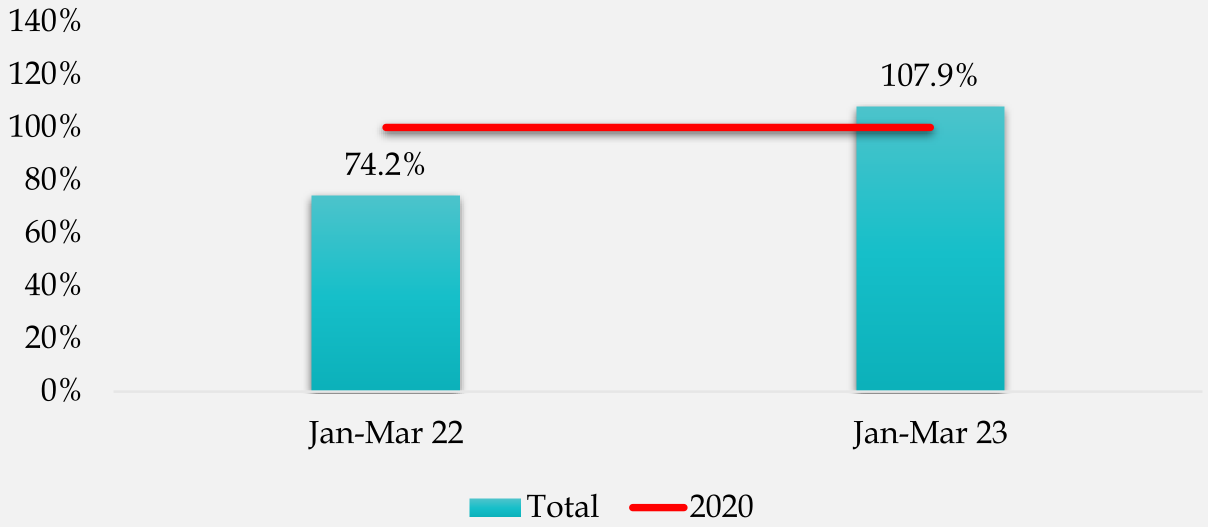
Reflective of the relaxed global travel measures, international departures through Nassau Airport rose to 0.15 million in March, from 0.12 million in the same 2022 period.

In the first quarter of 2023, visitor departures expanded by 45.4% to 0.4 million passengers.

Total Departures
March 2022 vs March 2023



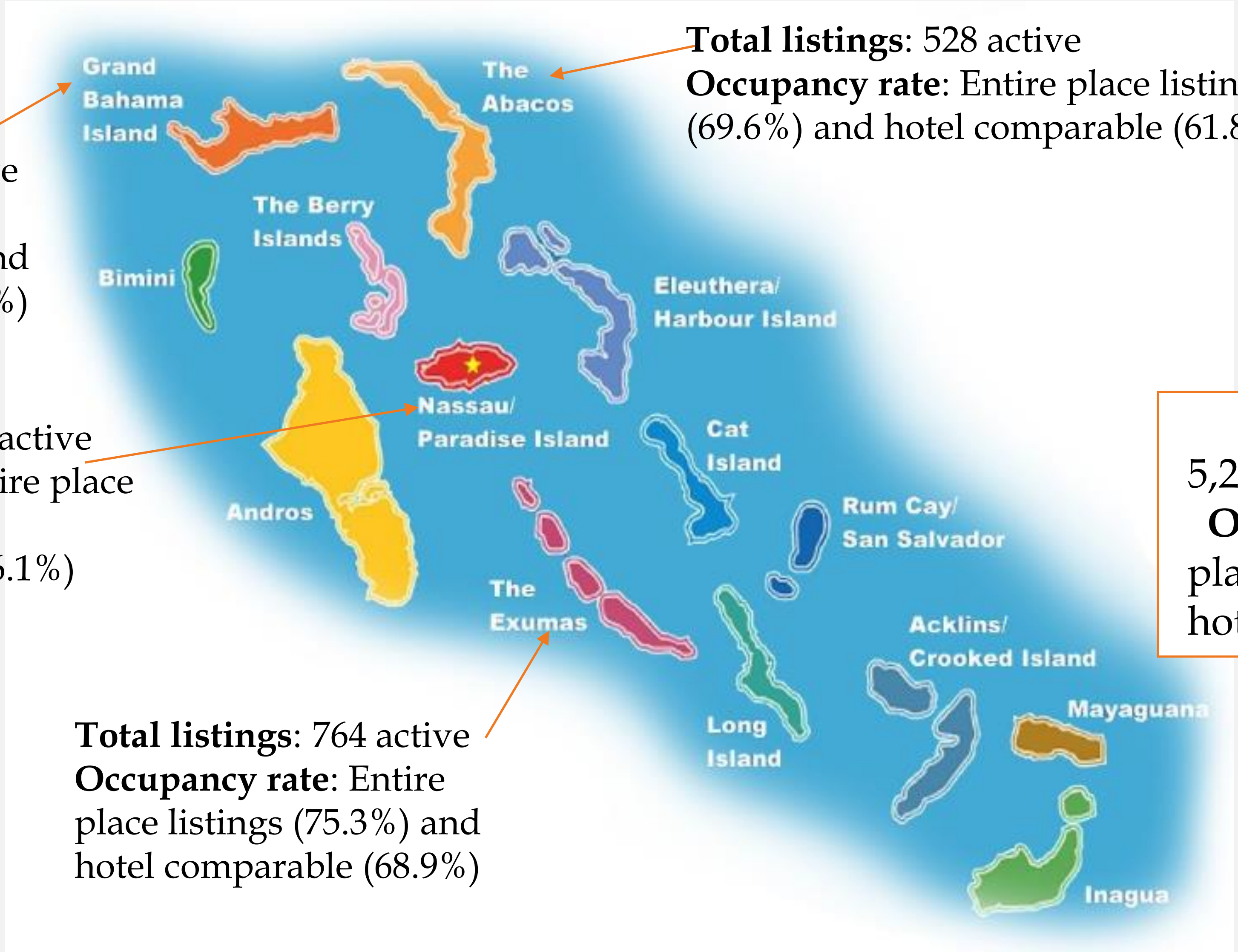
January – March Departures
vs. 2020 Baseline (=100%)



Source: Nassau Airport Development Company

*All figures are net of domestic departures.

Airbnb: Snapshot of Vacation Rentals
(as at March 2023)



Total listings: 528 active
Occupancy rate: Entire place listings (69.6%) and hotel comparable (61.8%)

Total listings: 477 active
Occupancy rate: Entire place listings (53.7%) and hotel comparable (53.6%)

Total listings: 1,778 active
Occupancy rate: Entire place listings (69.9%) and hotel comparable (66.1%)

Total listings: 764 active
Occupancy rate: Entire place listings (75.3%) and hotel comparable (68.9%)

<u>All Islands</u>
5,241* total active listings
Occupancy rate: Entire place listings (69.8%) and hotel comparable (65.1%)

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

Airbnb: Vacation Rentals Occupancy Rate Trends
(January – March 2023 vs 2022)

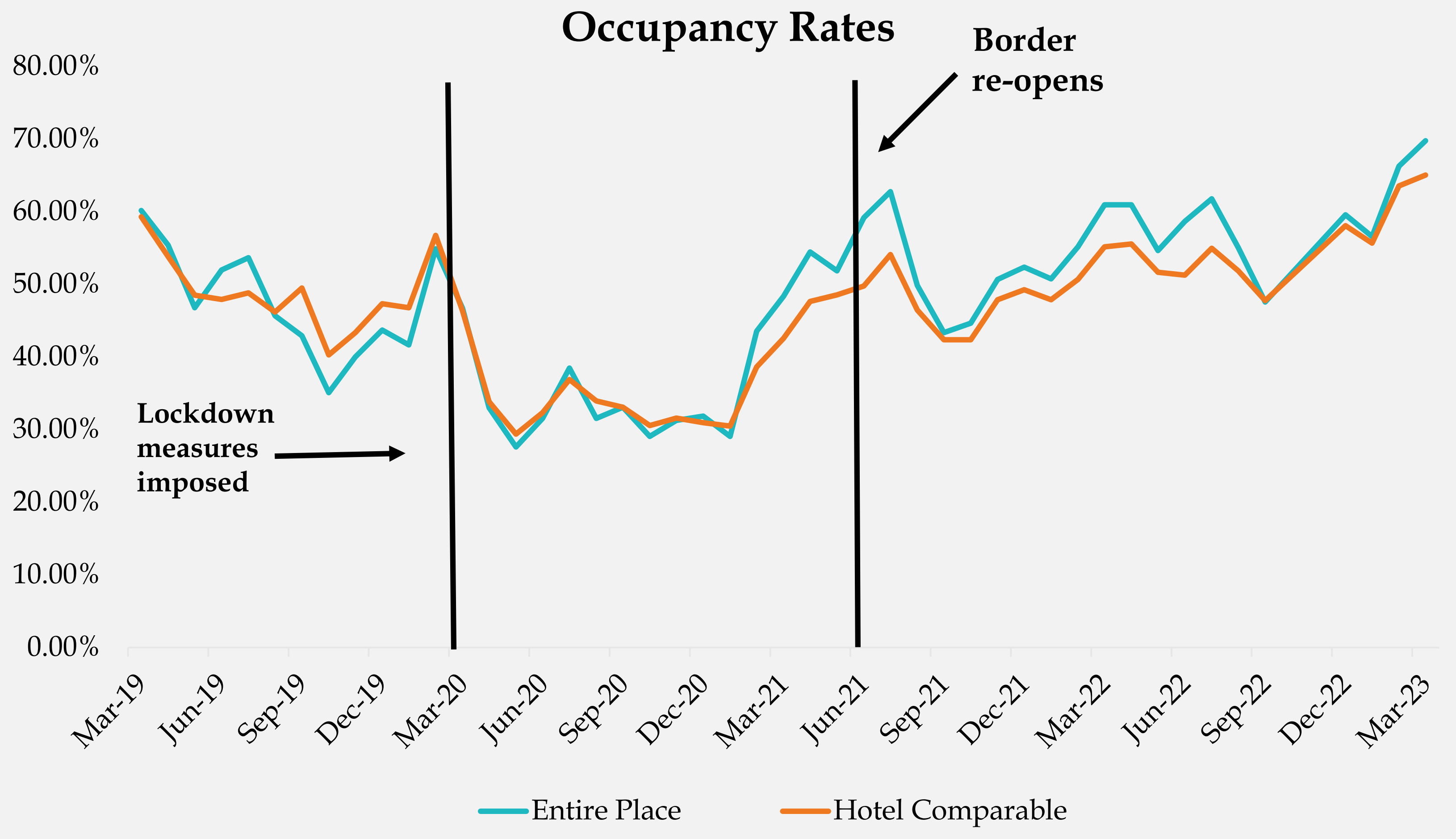
Vacation rental occupancy levels trended upward for the review period.

Entire Place Listings

- The average occupancy rate increased to 69.8%, from 61.0% in the same period of 2022.

Hotel Comparable Listings

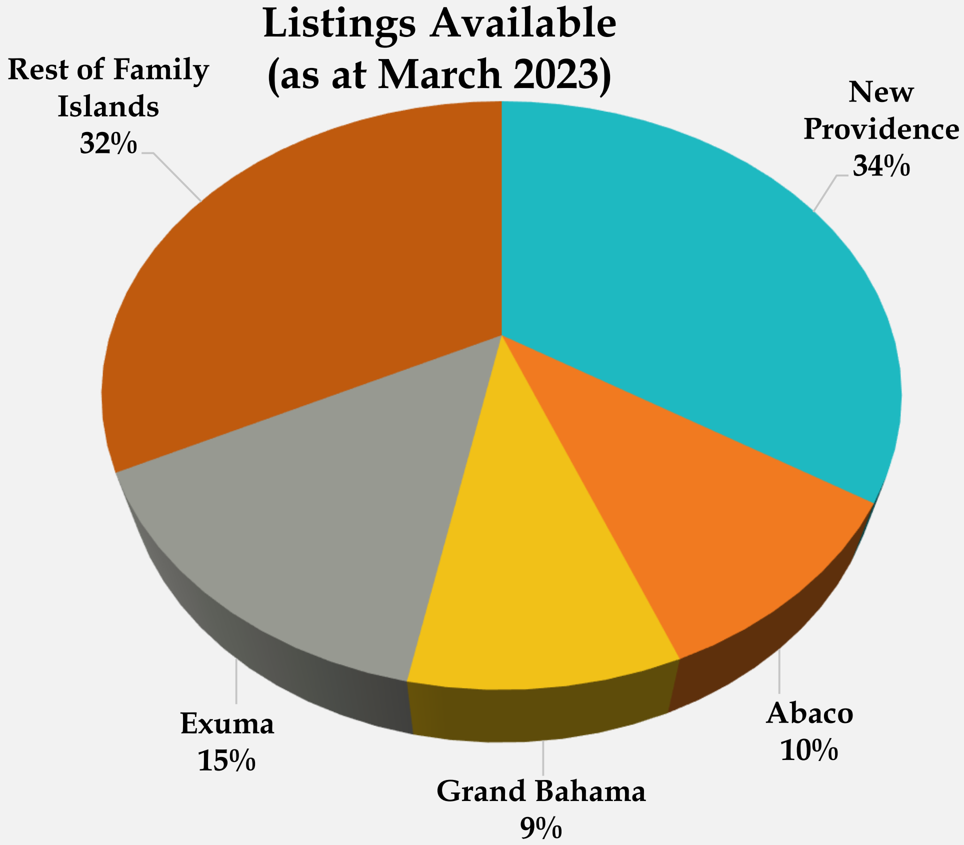
- The average occupancy rate grew to 65.1% from 55.2% in the previous year.



Source: AirDNA

Airbnb: Vacation Rental Market Share by Island (March 2023)

Vacation rental listings increased in all the major markets destination for The Bahamas. Exuma and the remaining Family Islands—excluding New Providence, Grand Bahama and Abaco—accounted for almost half of the available listings during the first quarter of 2023.



Listings for Abaco, Grand Bahama and New Providence rose by 42.0%, 22.6%, and 15.8% respectively, in March, relative to the same period in 2022.

All Available Listings

	Dec 2021	Mar 2022	Dec 2022	Mar 2023
Abaco	297	371	515	528
Grand Bahama	396	389	482	477
New Providence	1532	1536	1811	1778

Source: AirDNA

FOREIGN INVESTMENT PROJECTS

Recent Approvals/Announcements

New Foreign Investment Projects

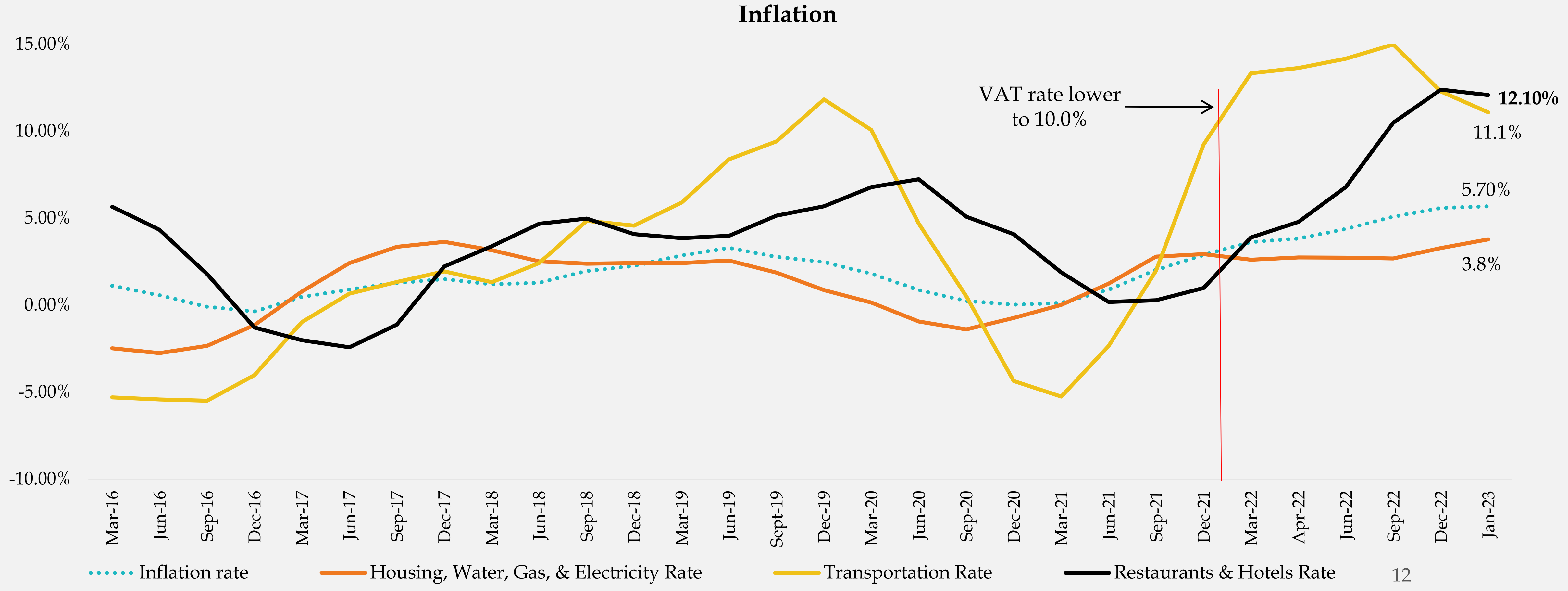
New Providence	Exuma	Cat Island
<u>Gumallamy Bay Development Company Ltd.</u> • Approved to develop a $100.0 million luxury condominium and penthouse development including a beach club and bar, pools, cabanas, a restaurant and café, spa, gym and a tennis and paddleball court. **<u>Royal Caribbean Cruise Ltd & PDI Paradise Ltd.</u>** • Approved to acquire and develop land (13.5 acres) for the establishment of a modern entertainment and recreational facility valued at $100.0 million.	**<u>Cave Cay Ltd.</u>** • Conditional approval granted to develop a luxury boutique resort valued at $130.0 million. It will feature a total of 45 boutique hotels comprising 17 over-the-water units, 23 ocean view units and 5 four-bedroom units. In addition, the development will include 214 residences consisting of 92 villas, 82 cottages and 38 estate homes and feature a 98-slip marina, along with other amenities. The venture will employ and accommodate 150 workers.	**<u>Cat Island Partners Ltd.</u>** • Granted provisional approval for a development comprising 125 single-family residential lots, 11.6 acres of multifamily residential pads, 12 one-two bedroom cabanas, a restaurant, golf course, a beach club, back of house facilities, along with other amenities. The project will cost $90.5 million with additional amenities in Phase II of the development.

Source: Bahamas Investment Authority

INFLATION

Retail Price Index

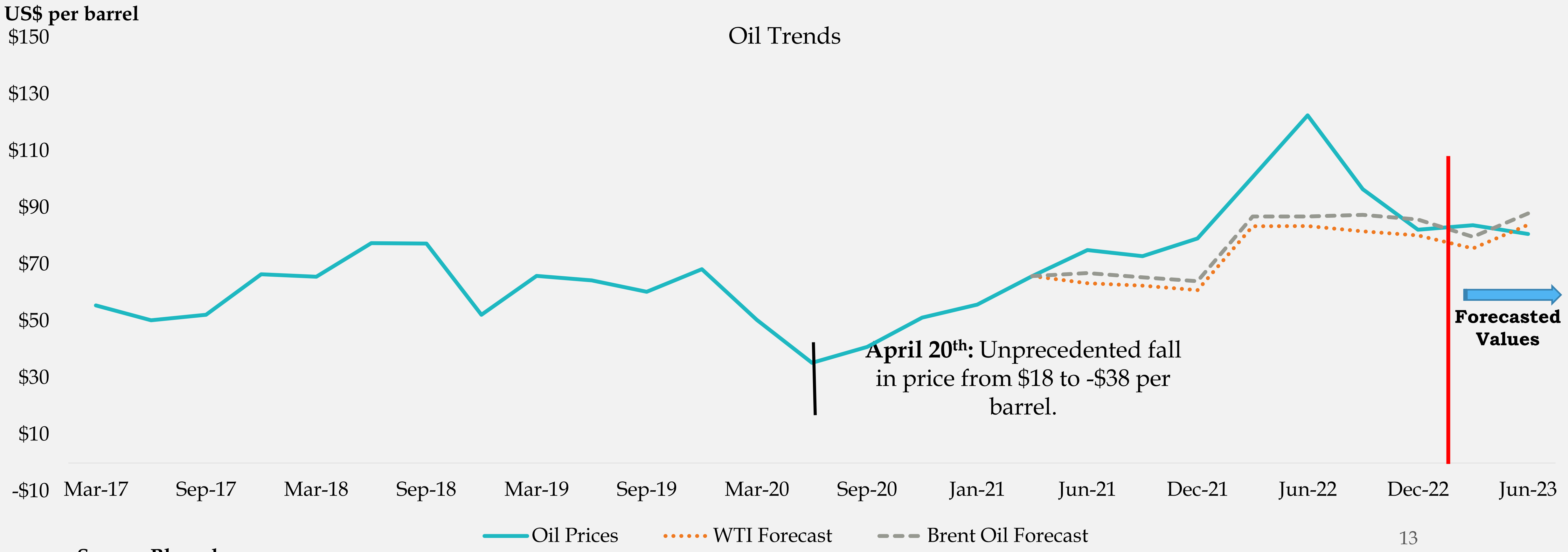
During the twelve months to January, 2023, inflation accelerated to 5.7% from 3.2% in the same period of 2022, led by restaurants and hotels costs, followed by transportation.



Source: Bahamas National Statistical Institute and Central Bank of The Bahamas

Oil Price Trends

From January to March, 2023 the cost of crude oil reduced by 0.7% to $83.89 per barrel. Supply-side, OPEC's crude oil production fell by 86 thousand barrels per day (tb/d) in March, to 28.8 million.



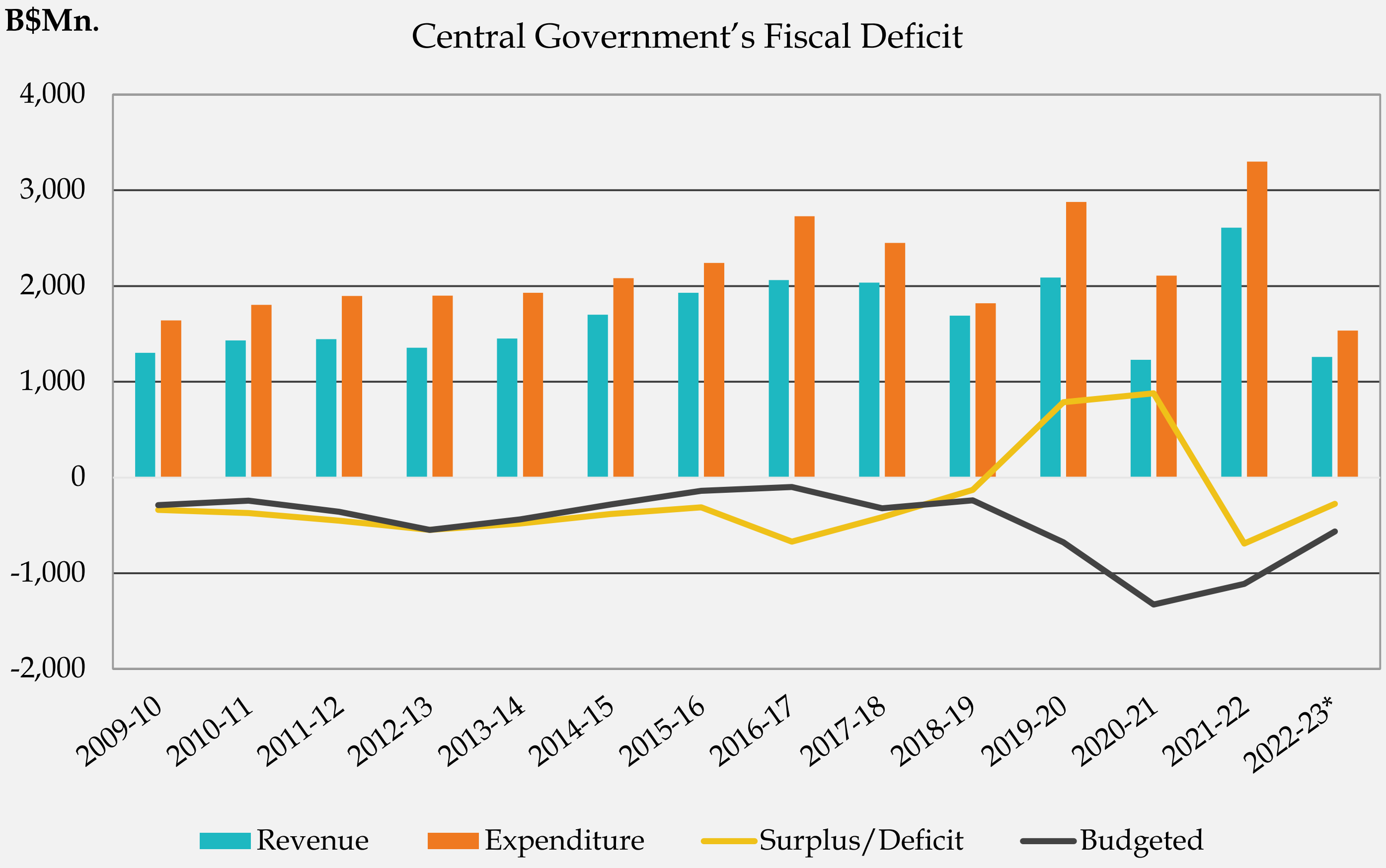
Source: Bloomberg

FISCAL SECTOR

Fiscal Sector
Provisional First Six Months FY2022/2023

During the first six months of FY2022/23, the deficit narrowed to $276.0 million from $281.3 million in the comparable FY2021/22 period, owing to a growth in total revenue, which outpaced the increase in aggregate expenditure.

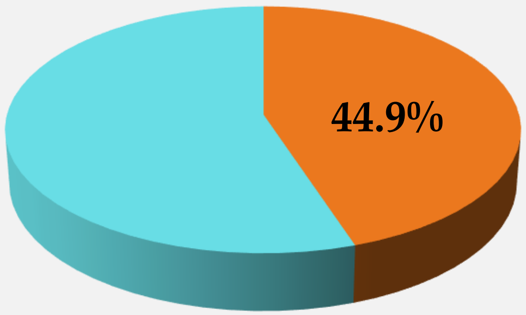
- Revenue expanded by $124.6 million (11.0%) to $1,258.3 million.
    - Specifically, VAT receipts grew by $54.2 million (10.0%), to $598.8 million.
- Expenditure rose by $119.3 million (8.4%) to $1,534.3 million.
    - Recurrent outlays increased by $105.3 million (8.0%) to $1,416.6 million.
    - Likewise, capital spending grew by $14.0 million (13.5%) to $117.7 million.



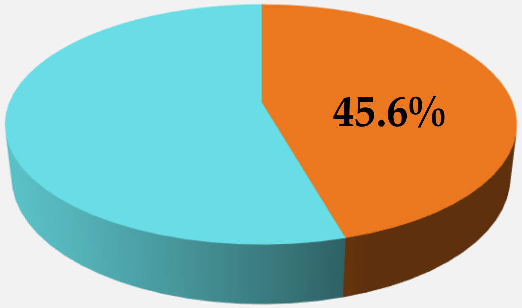
Source: Ministry of Finance
***Data for first half of FY2022/23.**

FY2022/23Budget
Projections vs. First Six Months Actual Outturn

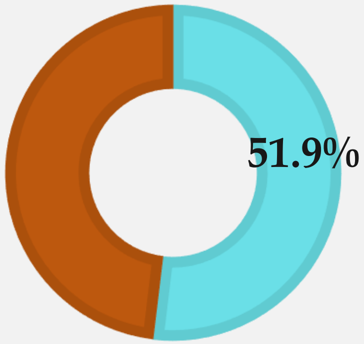
Revenue



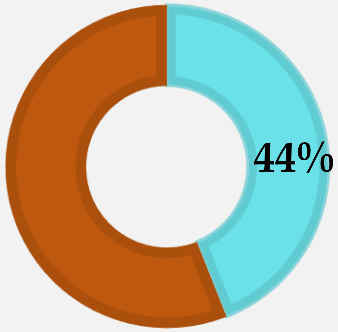
Expenditure



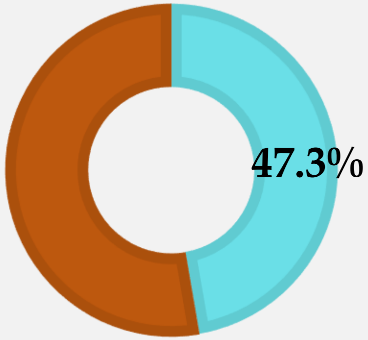
For the first six months of the fiscal year, 2022/23, an average 45.0% of the budget has been utilized for the major categories.



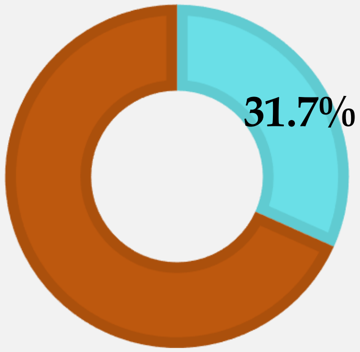
Non Tax Revenue



Tax Revenue



Recurrent Expenditure



Capital Expenditure

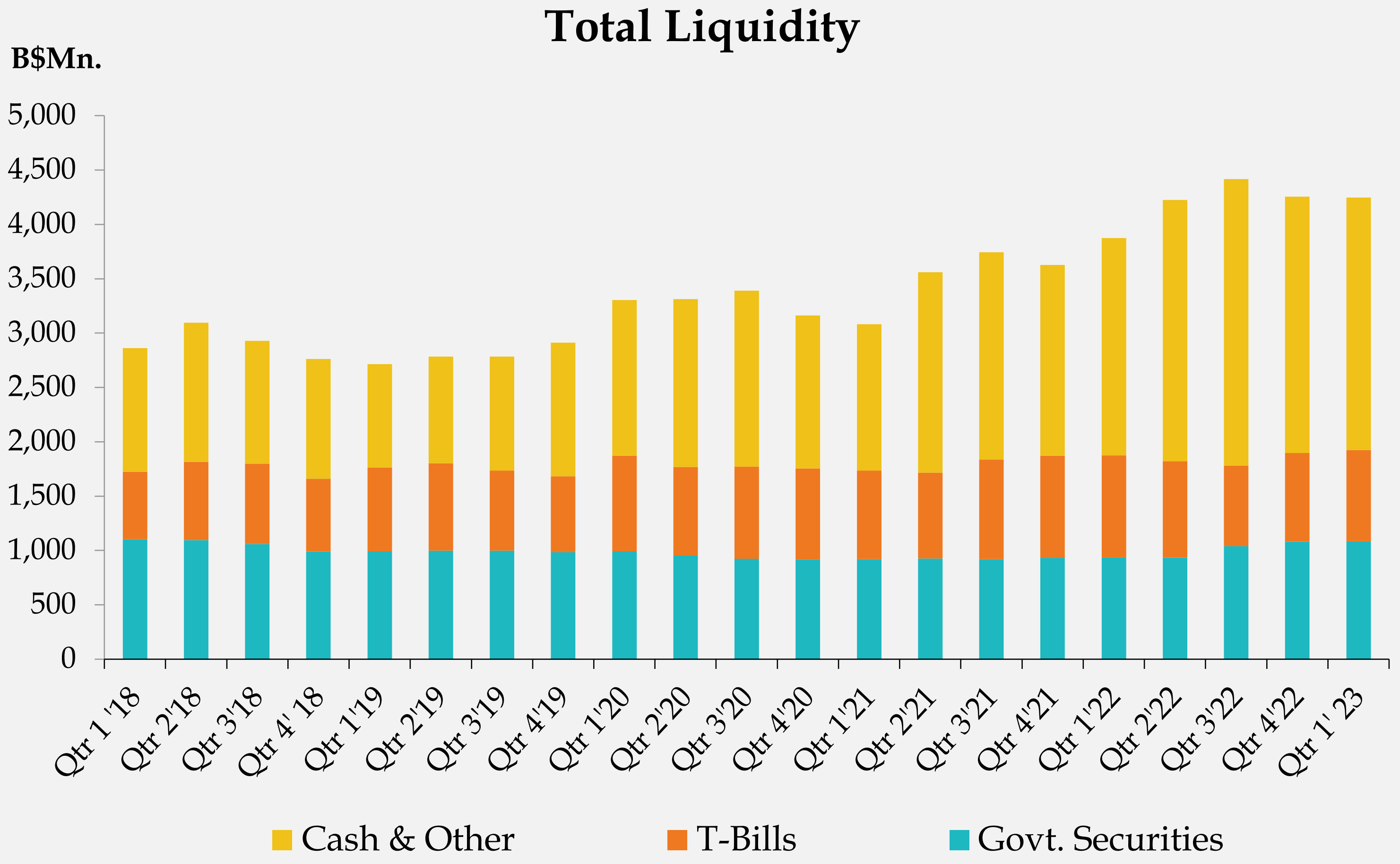
Percentages indicate what proportion of budget has been used during the first six months of FY22/23

MONETARY SECTOR

Money and Banking: Liquidity Conditions
January-March 2023 vs. 2022

During the three months to March, the moderated growth in bank liquidity reflected lessened net foreign currency inflows from real sector activities and public sector external debt operations.

- Excess liquid assets grew by $96.4 million, a slowdown from the $248.4 million accumulation in the previous year.
- Excess reserves rose by $81.6 million, lower than the $265.9 million buildup last year.



Source: Central Bank of The Bahamas

Lending Conditions

January-March 2023 vs. 2022

During the review period, the contraction in total Bahamian dollar credit slowed to $78.4 million, from the $135.8 million in the prior year. Specifically:

- Net claims on the Government decreased at a moderated pace of $69.7 million, vis-à-vis $102.6 million in the same period of the previous year.
- Credit to public corporations reduced by $1.8 million, extending the $0.9 million falloff last year.

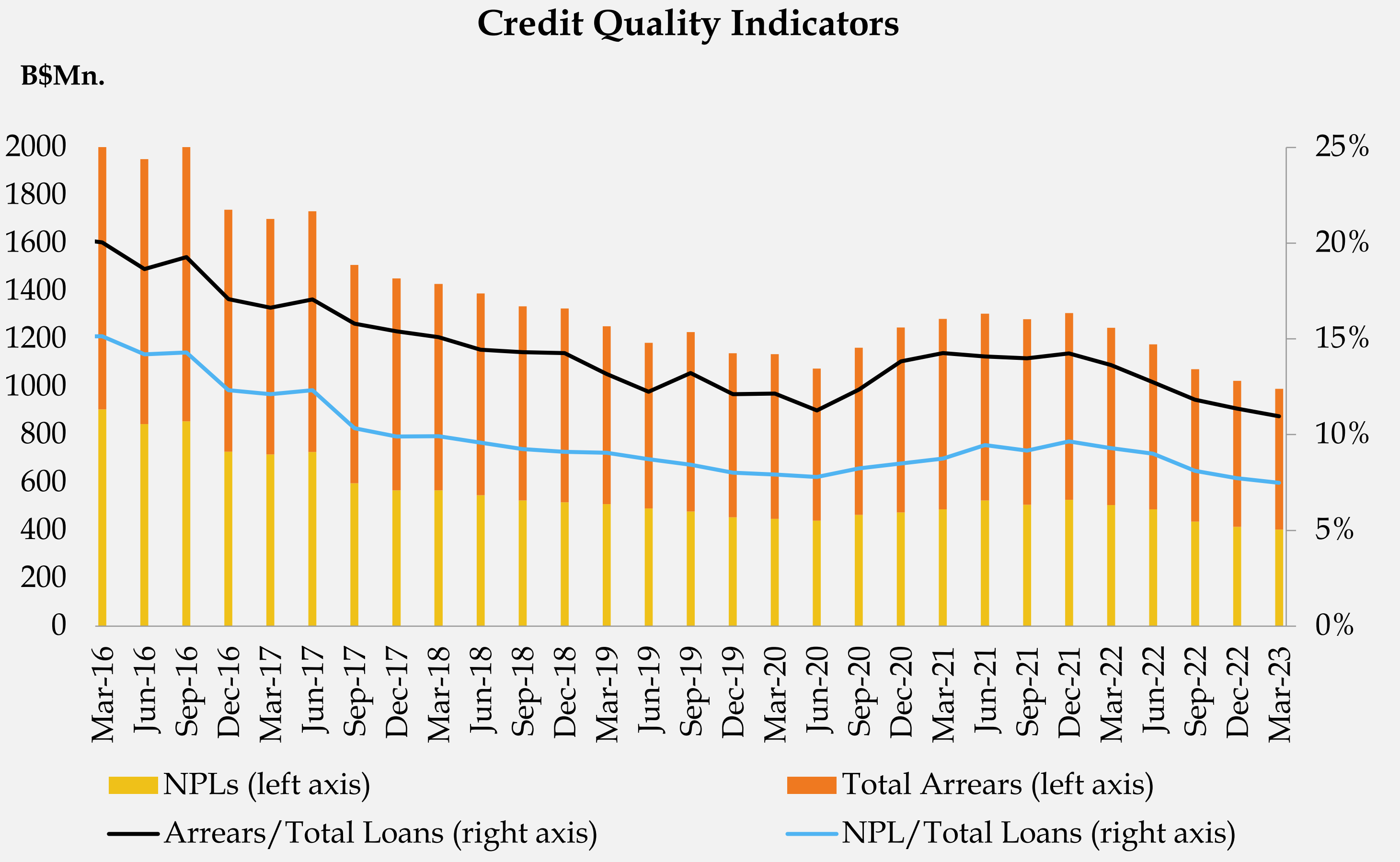
- The reduction in private sector credit slowed to $6.9 million, from $32.4 million in the comparative 2022 period.

- Residential mortgages down by $16.1 million
- Consumer credit reduced by $7.9 million
- Commercial credit moved higher by $17.2 million

B$ Credit Quality Indicators
January-March 2023 vs. 2022

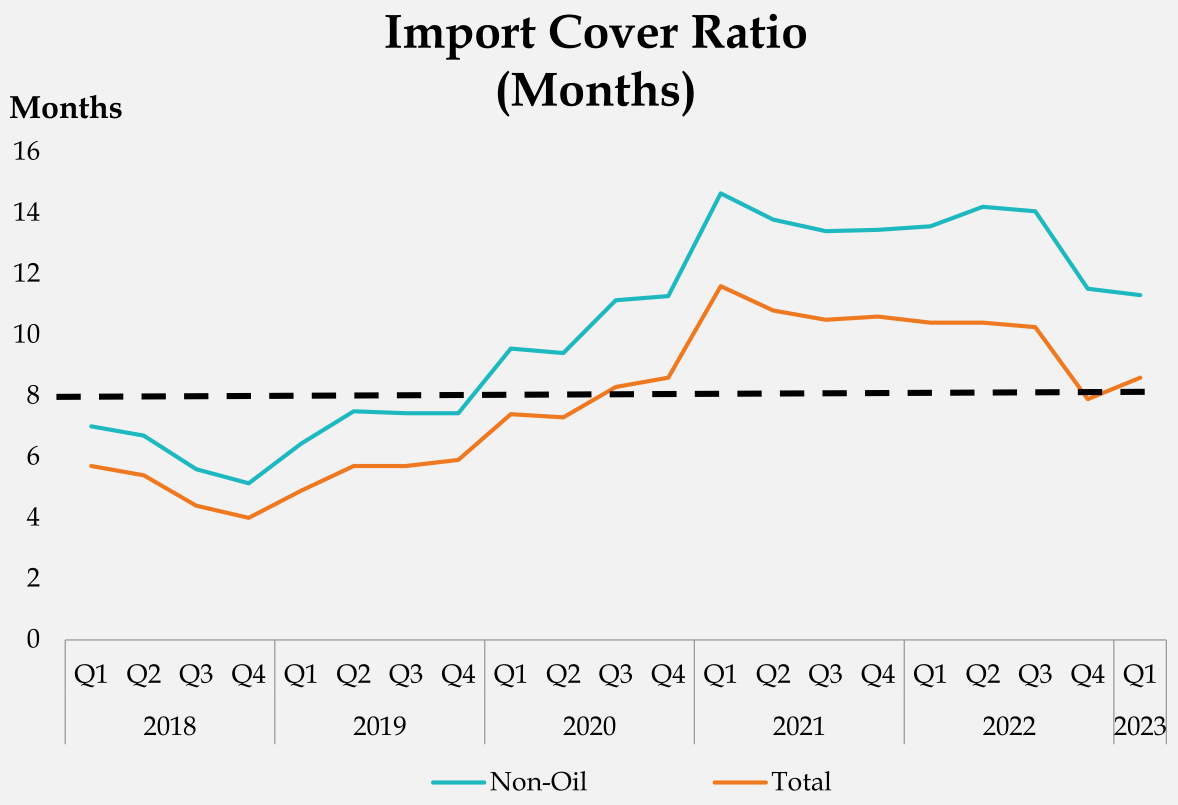
- During the first quarter of 2023, the average arrears rate for private sector credit narrowed to 11.0% from 13.6% in 2022.
  - The short-term arrears rate was 3.5% (4.3% in March 2022).
  - The NPL rate was 7.5% (9.3% in March 2022).

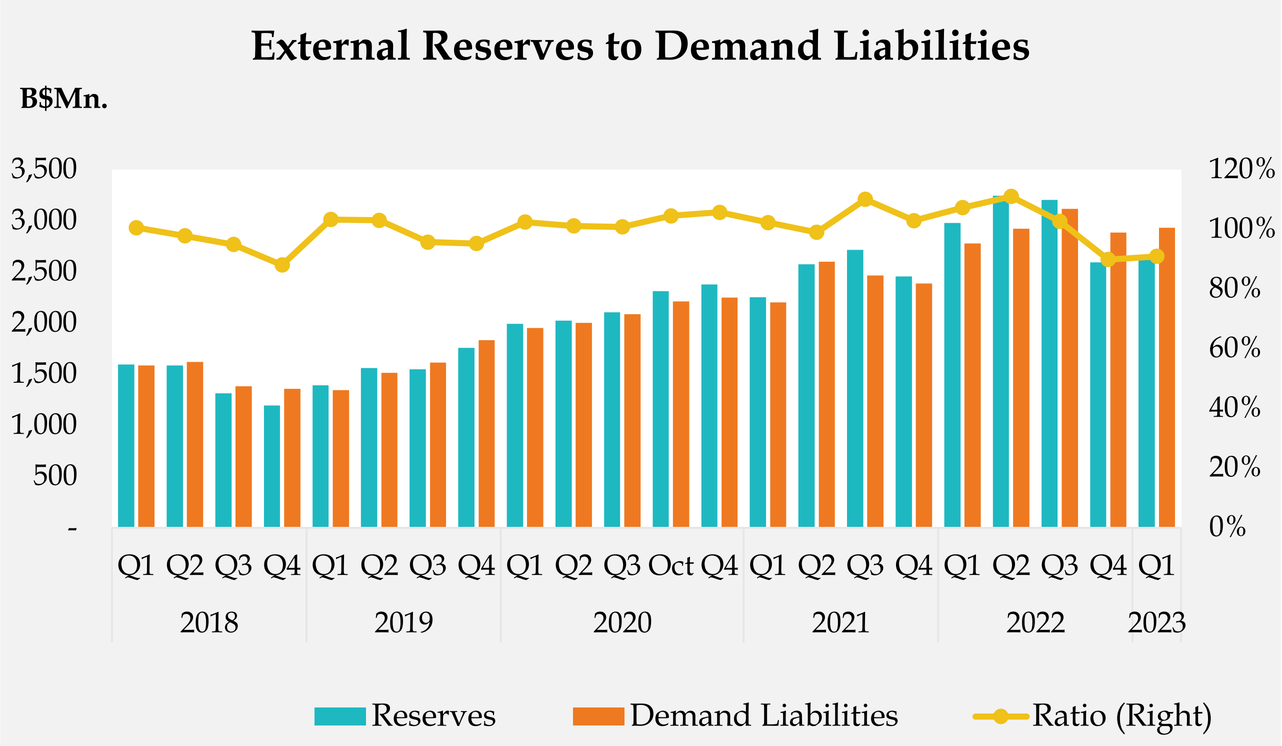
- Arrears rate by loan type:
  - Mortgages : 14.6% vs 16.6% in 2022.
  - Consumer: 8.6% vs 12.1% in 2022.
  - Commercial: 6.1% vs 8.6% in 2022.



Source: Central Bank of The Bahamas

External Reserves
January-March 2023 vs. 2022





Source: Central Bank of The Bahamas

External reserves increased by $76.9 million to $2,671.5 million, albeit much less than the $514.8 million growth reported in the prior year. Net foreign currency inflows through the private sector lessened and the public sector's external debt operations generated a net outflow.

- Balances represented 91.0% of the Central Bank's demand liabilities.
- Equivalent to 8.6 months of the current year's total merchandise imports.

RESULTS FROM THE BANK LENDING CONDITIONS SURVEY

Bank Lending Conditions Overview (July - December 2022)

During the latter half of 2022, bank lending conditions improved. The number of credit applications increased, relative to December 2021, led by demand for consumer credit.

Total Applications

- 16,037 applications were received during the review period, higher than the second half of 2021 by 12.0%.
- The majority of applications were processed in New Providence (83.0%).

Consumer Applications

- Consumer applications increased by 16.5%, year-on-year, representing 92.0% of total loans processed.
- Over the same period in 2021, the approval rate firmed to 83.2%

Mortgage Applications

- Mortgage applications contracted by 22.2%, year on year.
- Relative to the last half of 2021, the approval rate for this category rose by 4.3 percentage points, to 37.9%

Commercial Applications

- Commercial credit requests fell by 14.1% year on year, attributed to reduced demand in New Providence.
- Comparable to the second half of 2021, the approval rate rose by 8.3 percentage points, to 90.6%.

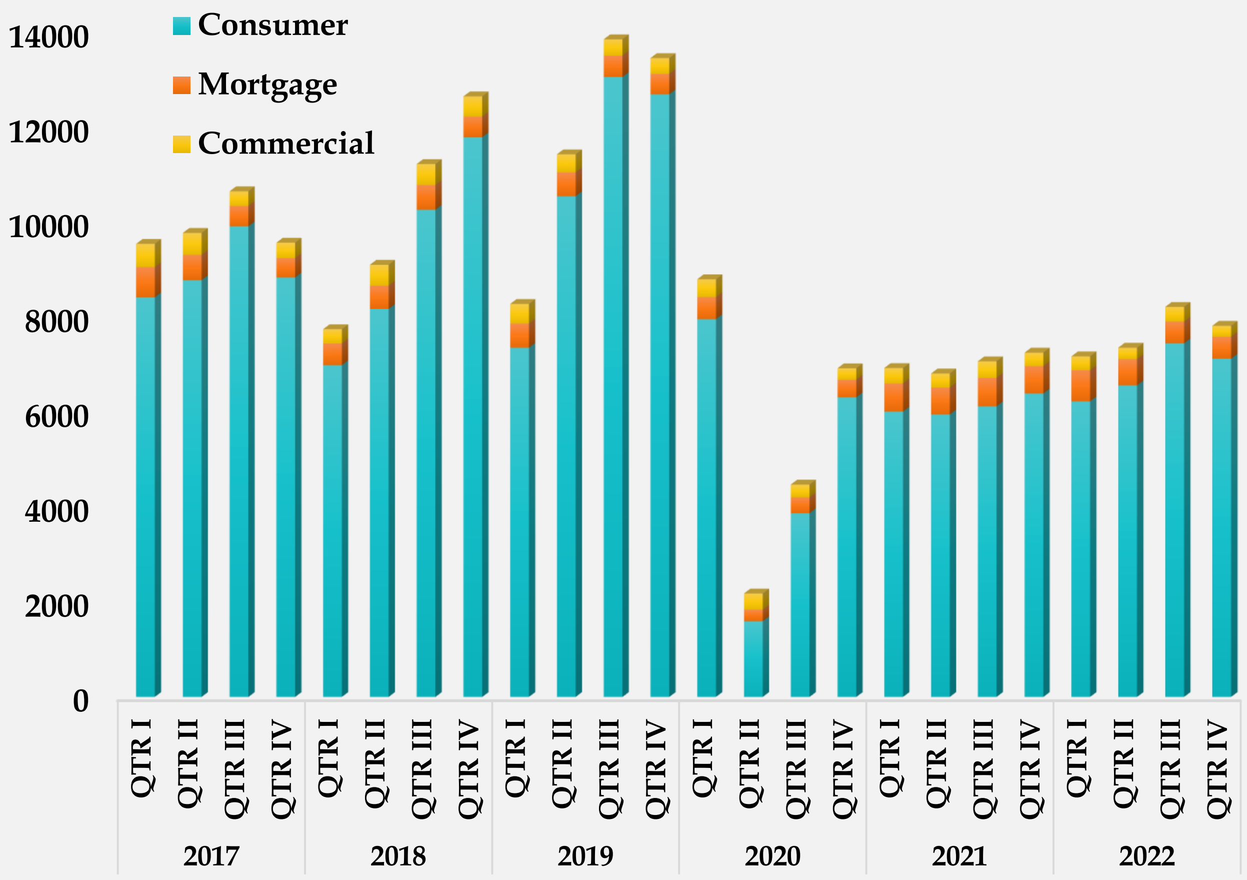
Loan Denials

- Lenders continued to cite high debt service ratio (DSR), delinquency in prior loans, underemployment and no collateral as top reasons for rejections in the review period.

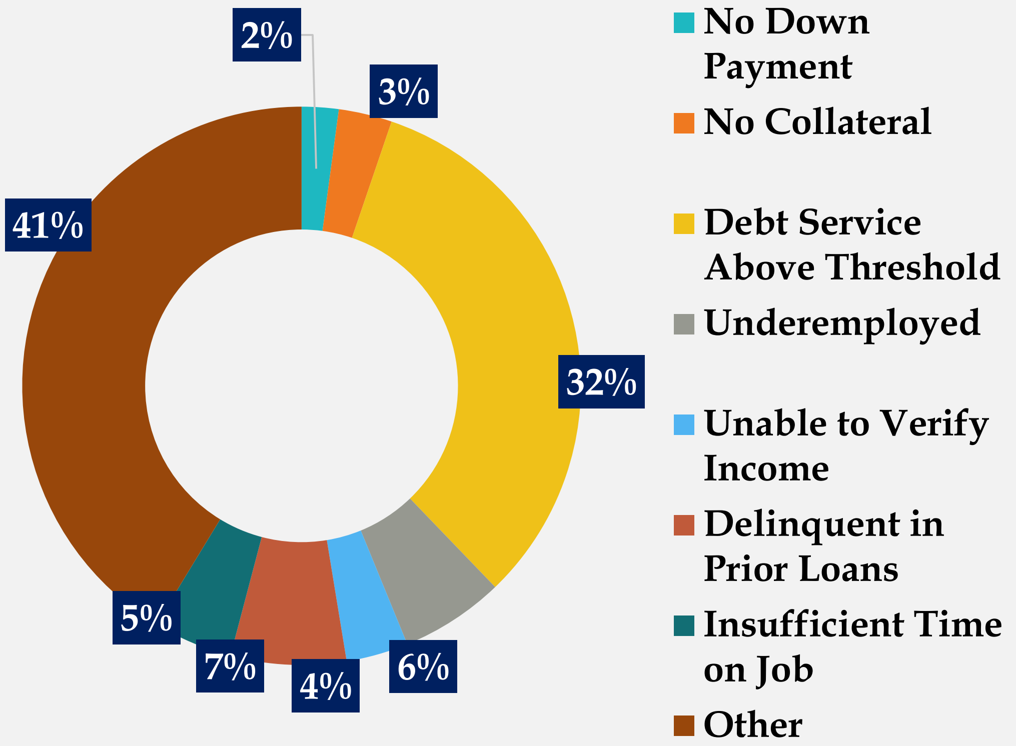
Bank Lending Conditions Overview (July - December 2022)

Total applications denial rate: (11.1%)

Loan Applications Received by Loan Type



Loan Denial Reasons

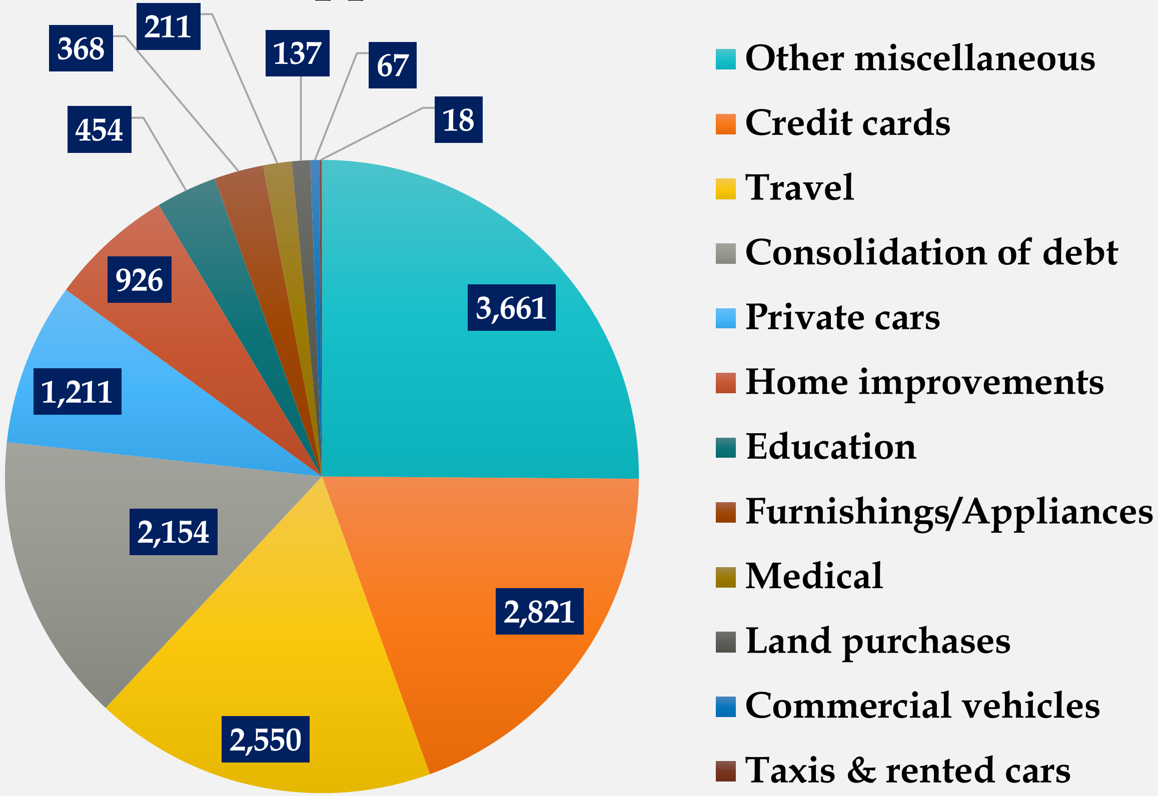


Source: Central Bank of The Bahamas

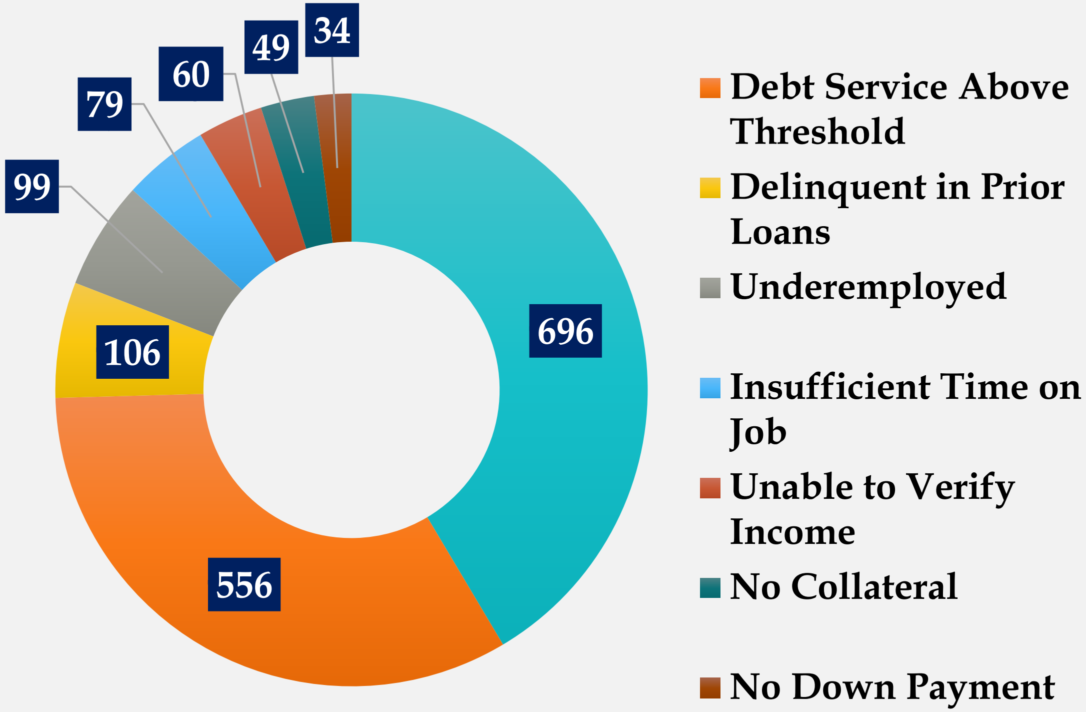
Bank Lending Conditions (Consumer Loan Applications)

Consumer loans denial rate: (11.5%)

Largest Categories of Consumer Loan Applications Received



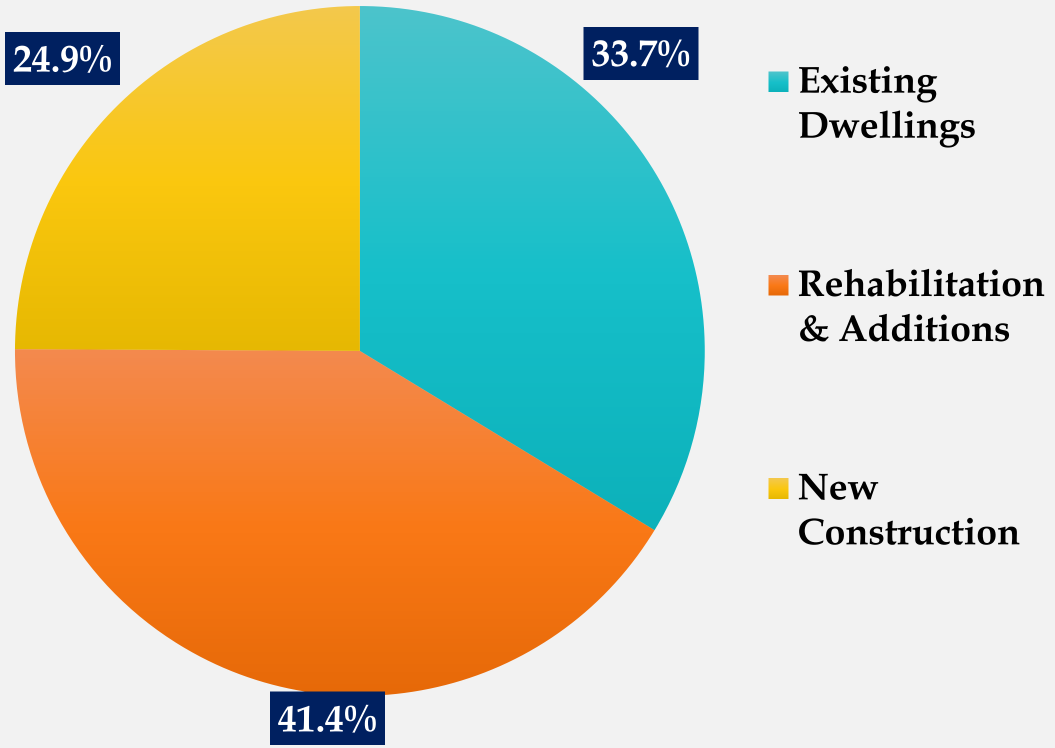
Reasons for Consumer Loan Denials



Source: Central Bank of The Bahamas

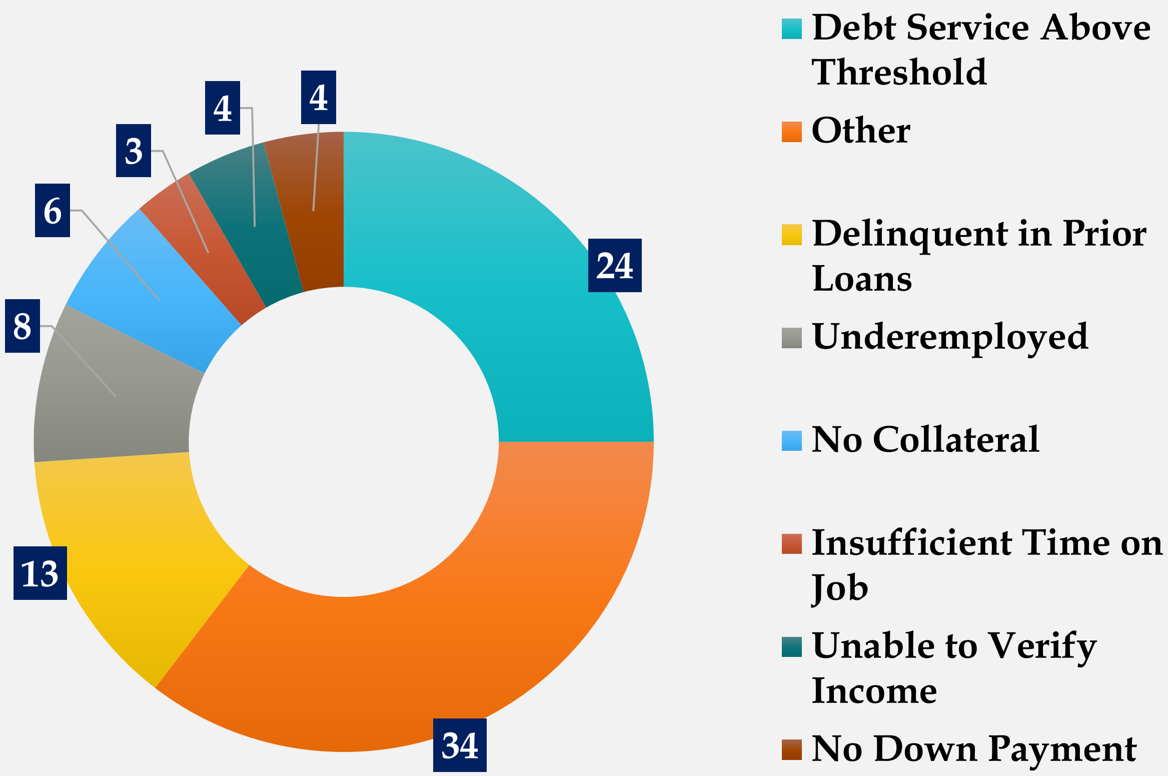
Bank Lending Conditions (Mortgage Applications)

Residential Mortgages Applications



Mortgage applications denial rate: (10.5%)

Reasons for Mortgage Loan Denials



Source: Central Bank of The Bahamas

OUTLOOK

Real Sector

- The domestic economy is expected to expand further during 2023, with some post-pandemic lift still present within the tourism sector. However, the pace of economic recovery is expected to moderate, as indicators return to pre-pandemic levels.

- Ongoing gains in the tourism sector remain contingent upon the continued progress made on the international health front and the continued relaxation of globally imposed travel restrictions.

- The unemployment rate, while declining, is anticipated to remain above pre-COVID-19 levels. Job gains are expected to concentrate predominantly in the construction and tourism sectors.

- Elevated inflationary pressures are expected to persist, amid higher global oil prices, increased costs for other imported goods, and supply chain shortages, related to geopolitical tensions in Eastern Europe.

Fiscal Sector

- The fiscal deficit, although trending downwards, is expected to stay high, with net financing needs staying elevated over the rest of fiscal year 2022/23.

- Projected revenue shortfalls should persist, with expectations that taxable economic activity will improve in line with further tourism recovery.

- Budgetary financing is anticipated to rely on the important use of both domestic and external credit.

Source: Ministry of Finance

Monetary Sector and External Reserves

Banking sector liquidity is expected to remain high over the near-term.

Private sector credit is estimated to increase marginally for 2023 in anticipation of the sustained economic recovery.

External reserve balances are expected to remain buoyant in 2023, remaining well above international benchmarks, supported by anticipated foreign currency inflows from tourism, and other net private sector receipts.

Balances are anticipated to remain at satisfactory levels to sustain the Bahamian dollar currency peg.

Risks to The Outlook

TOURISM

Emerging strains of COVID-19 could potentially derail the progress made on the international health front and disrupt travel sector activity.

GLOBAL

The COVID-19 pandemic and new variants, along with geopolitical tensions could slow the global outlook.

EMPLOYMENT

Insufficient or slowed pace of private investments, could hamper job creation.

EXTERNAL RESERVES

Increased foreign currency demand for rebuilding works and constrained tourism output could accelerate the drawdown in reserves.

INFLATION

Geopolitical tensions, reduction in oil production and food supply disruptions could result in elevated prices.

FISCAL

Diminished access to credit markets could constrain the fiscal capacity to stimulate the economy.

The End

CENTRAL BANK OF THE BAHAMAS