

Quarterly Economic and Financial Developments Report

December 2018

Research Department



Domestic Economic Developments

Indications are that the Bahamian economy maintained its modest growth trajectory in 2018, reflecting mainly the improvement in tourism. Foreign investment inflows provided impetus to the construction sector.

Real Sector

- For 2018 tourist total departures firmed by 13.8%
- The increase in construction sector output remained fueled by ongoing foreign investment projects.
- During the twelve months to September, consumer price inflation firmed by 64 basis points to 1.98%, following the recent VAT rate hike.

Fiscal Sector

- In FY2018/2019, the Government's deficit for the first six months narrowed by 31.4% to \$174.3 million, as revenue growth outstripped expenditure increases.
- Aggregate revenue strengthened by \$129.5 million (14.7%) to \$1,010.3 million, which outpaced the \$50.0 million (4.4%) uptick in expenditure to \$1,184.6 million.

Monetary Sector

- For the full year, liquidity contracted, owing to increased commercial banks financing to the Government, in contrast to a fall in the B\$ deposits base.
- External reserves fell during the year, reflecting increases in both private and public sector demand.

Global Economic Forecasts

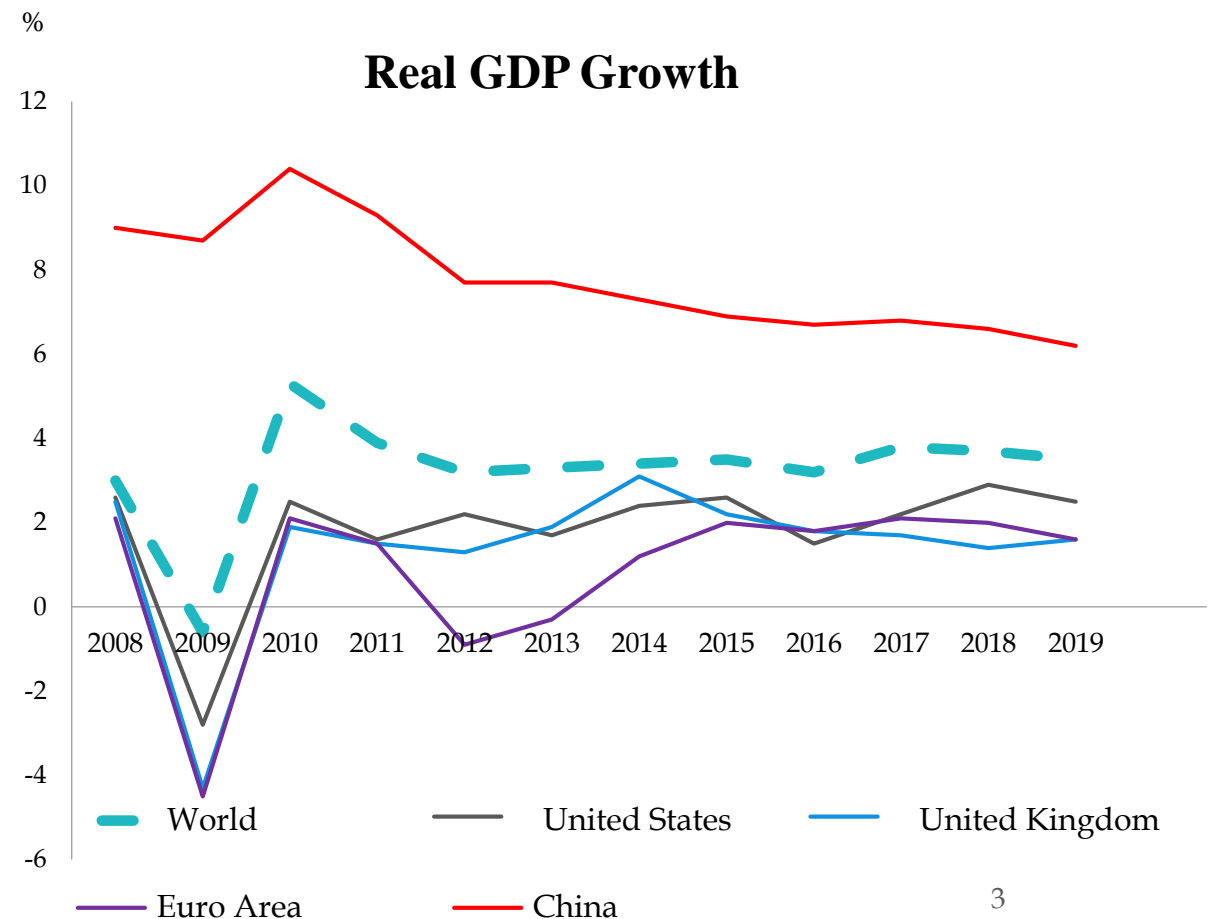
International economic conditions, particularly in the US affect Bahamian tourism performance.

In January 2019, the IMF lowered its global growth forecast for 2019 by 20 basis points to 3.5%, relative to October's update.

The downward revision to the global growth forecast reflects softer momentum in the second half of 2018, in addition to weakened financial market sentiment.

Difference from October 2018 projections:

- The Euro Area (-30 basis points to 1.6%)
- Canada (-10 basis points to 1.9%)
- Projections for The United States, China, and The United Kingdom were unchanged at 2.5%, 6.2%, and 1.5%, respectively.



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. In the foreground, there are several palm trees and some buildings, possibly part of a resort. The sky is clear and bright.

TOURISM SECTOR

International Airport Departures

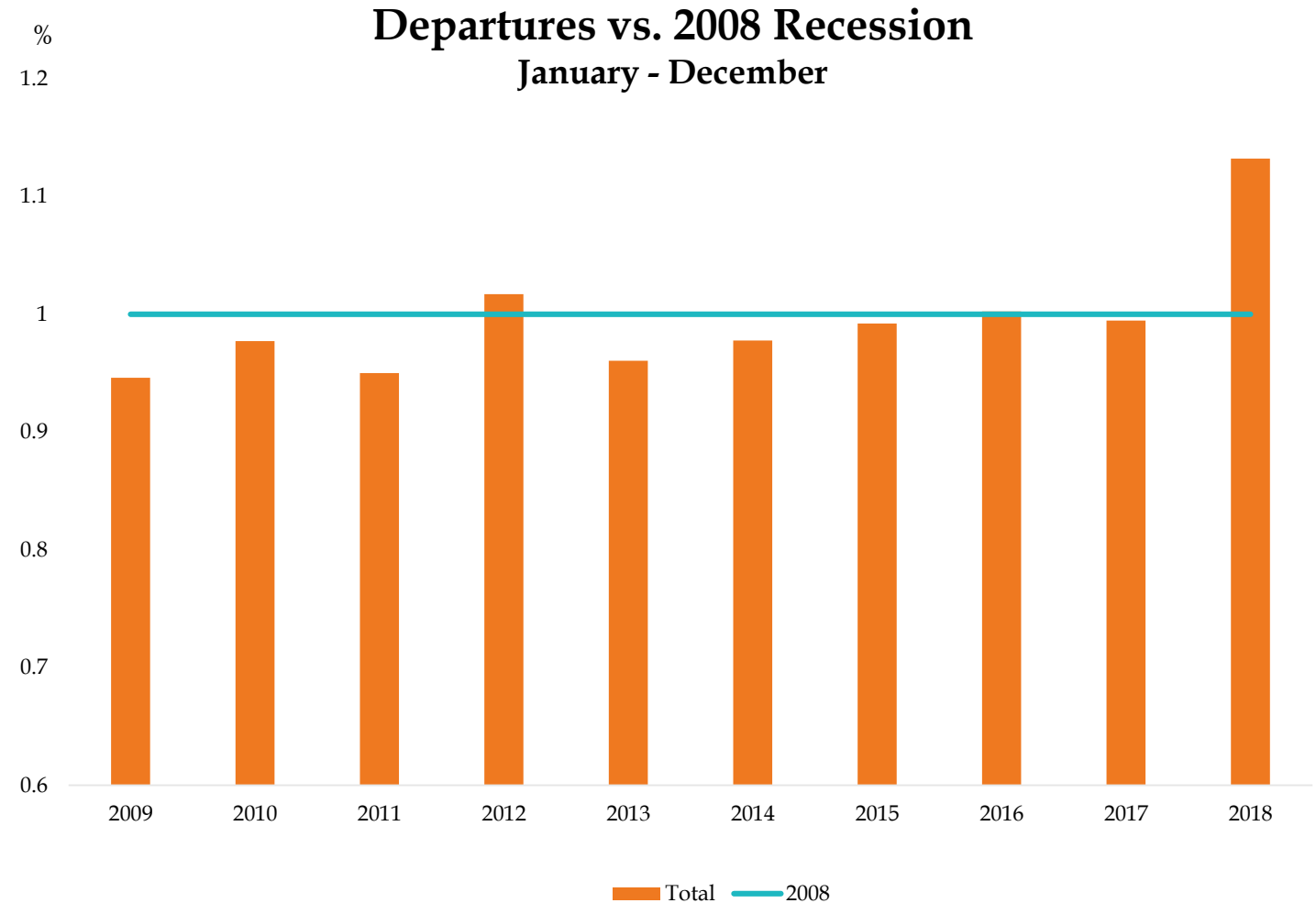
(January - December 2018)

Data from the Nassau Airport Development (NAD) Company showed a strong uptrend in visitor departures by air in 2018.

- Departures improved by 13.8%, relative to a 0.8% decline in 2017.
 - Departing non-US visitors rose by 17.4%, strongly reversing a 1.8% softening in 2017.
 - U.S. destined departures rebounded by 13.2%, from a 0.6% decrease in 2017.

International passenger departures through the Nassau airport were the highest since 2012.

Source: Nassau Airport Development Company
Note: All figures are net of domestic departures.



Visitor Arrivals

(January – September 2018)

Official data from the Ministry of Tourism for the nine months to September revealed that total visitor arrivals improved by 8.5%, relative to a 5.3% reduction in the prior year.

- Air arrivals recovered by 16.5%, following a 8.4% decrease in 2017.
- Sea arrivals rose by 6.1%, vis-à-vis a 4.3% contraction in 2017.

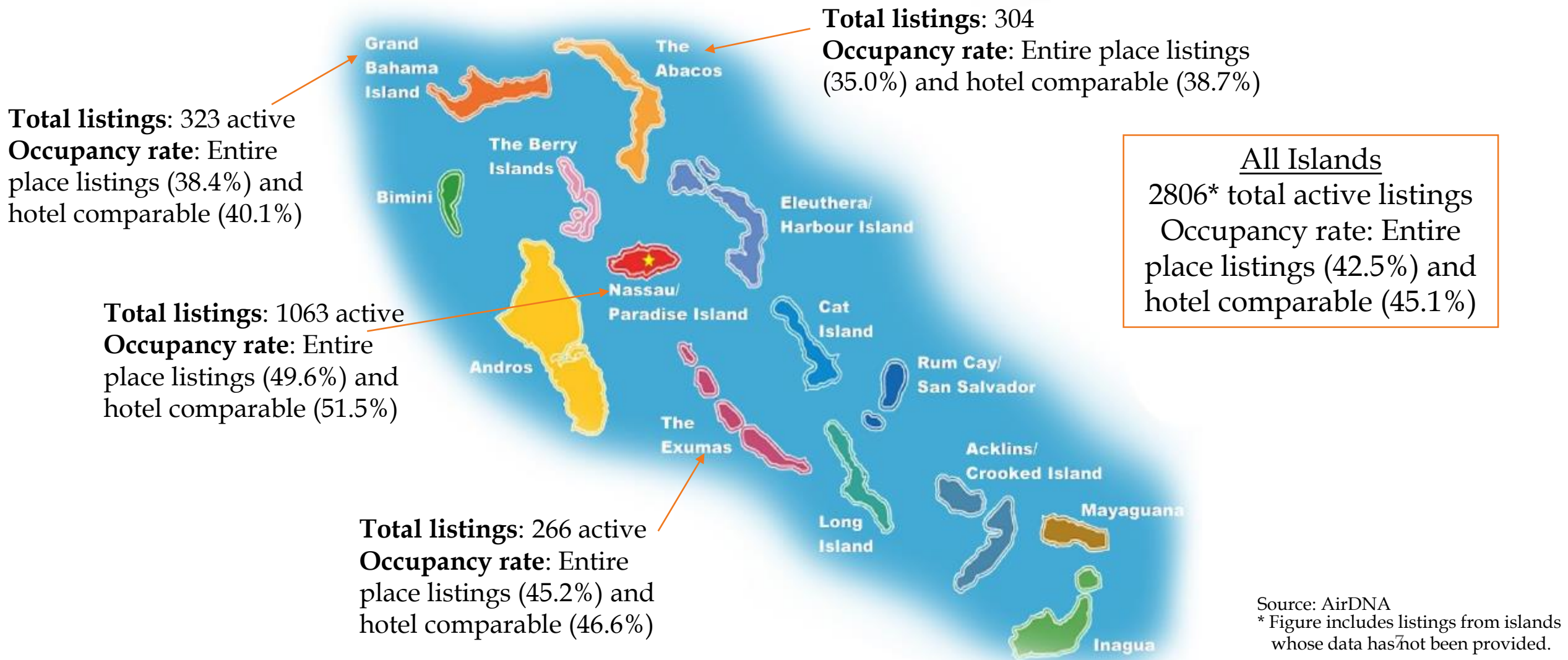
The upturn reflected improvements in both stopover and cruise indicators in Grand Bahama and the Family Islands and, gains in the stopover segment in New Providence.

	New Providence		Grand Bahama		Family Islands	
	2017	2018	2017	2018	2017	2018
Air Arrivals	-7.3%	18.8%	-50.7%	3.3%	10.9%	12.0%
Sea Arrivals	6.7%	-7.1%	-28.6%	9.6%	-8.6%	28.2%
Total Arrivals	2.4%	0.1%	-32.0%	8.9%	-5.8%	25.4%

Airbnb: Snapshot

(as at December 2018)

Strong interest in vacation rentals is an important contributor to the onshore visitor market growth.



Airbnb: Occupancy Rate Trends

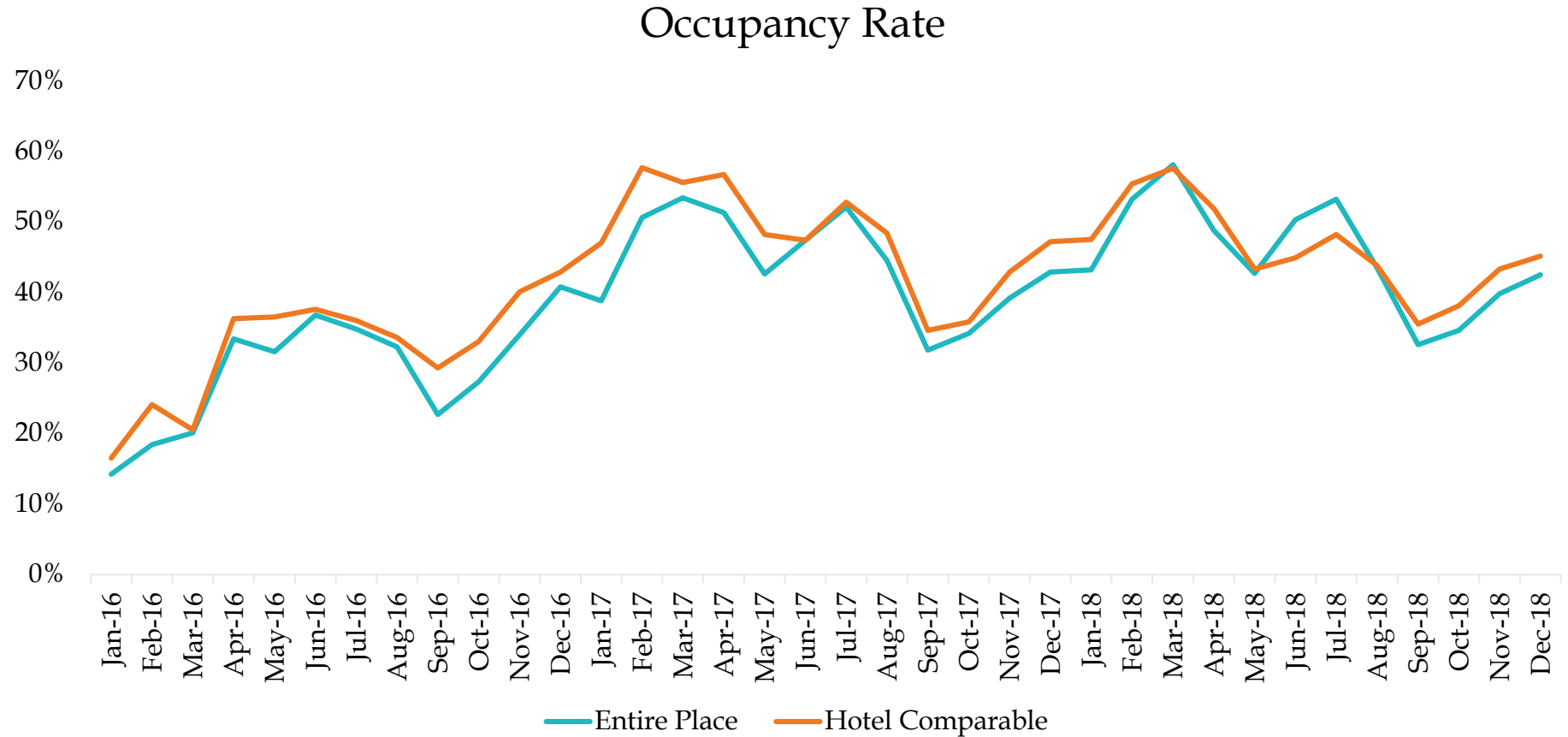
(December 2018)

Entire Place Listings

- Occupancy rate increased to 39.8% from 39.2% in the previous year.

Hotel Comparable Listings

- Occupancy rate rose to 43.3% from 42.9% in the previous year.



Source: AirDNA

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. In the foreground, there are several palm trees and some buildings, possibly part of a resort or development. The sky is clear and bright.

RECENTLY ANNOUNCED FOREIGN INVESTMENT PROJECTS

Sterling Hurricane Hole - update

Paradise Island



- \$250 million project, partially completed and open by June 2020; everything inclusive of Marina completed by 2024
- Retail portion has already attracted interest of prospective tenants
- Will generate about 600 jobs
- Marina will be able to accommodate 200-300 ft. yachts
- Plans to utilize renewable energy sources
- The project broke ground on, January 25, 2019 and has already started hiring professionals

Source: The Tribune and the Nassau Guardian
Photo Source: Tribune

Other Recently Announced Developments

Disney Cruise Line at Lighthouse Point

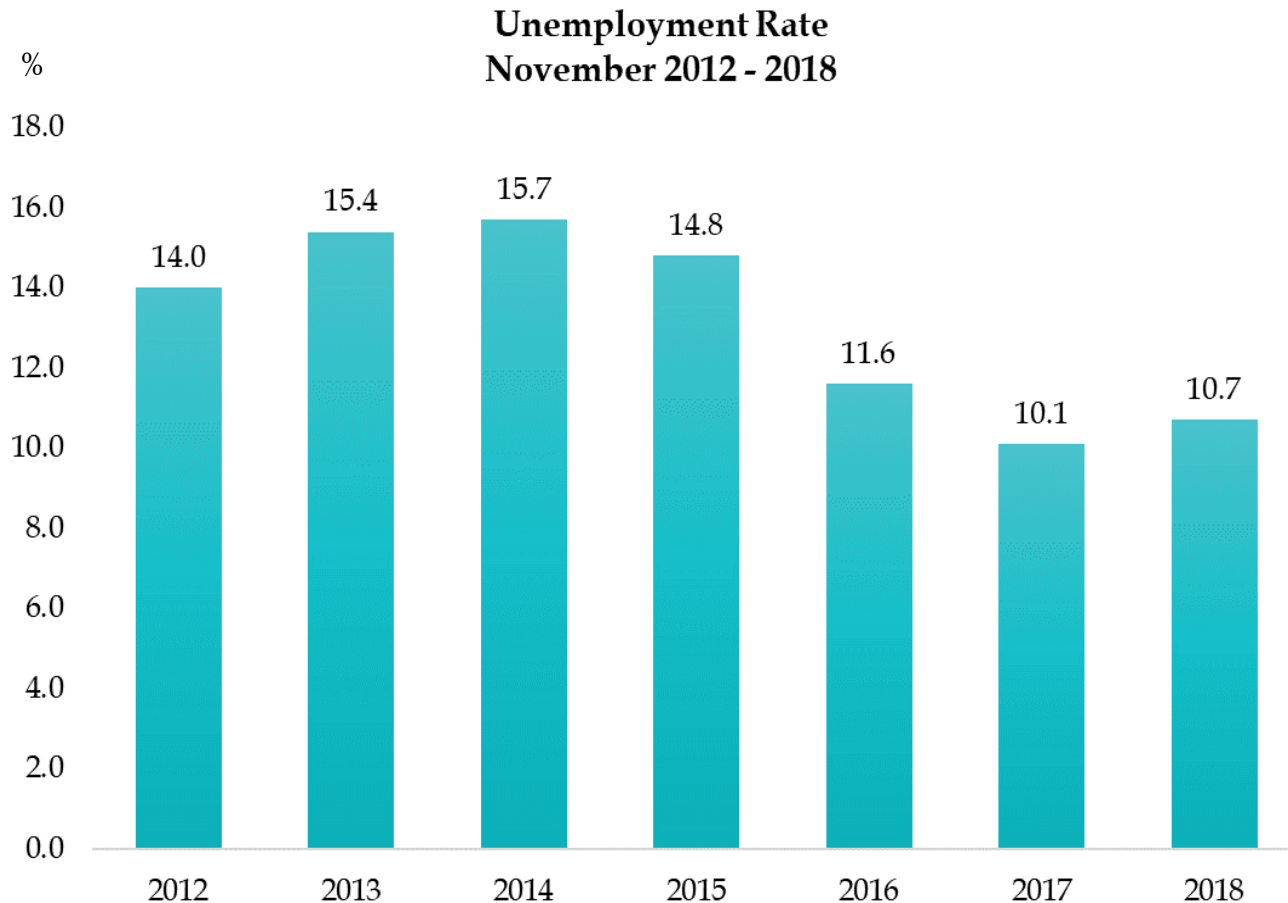
- A \$350-\$400 million investment
- Low density eco-tourism destination that will employ at least 120 persons
- About 20% of the 700 acre property would be developed, while 170 acres of the land would be donated to the Government for conservation and another 100+ acres of salt ponds would remain untouched
- Has potential to bring in 540K - 1 million visitors to Eleuthera annually

Jack's Bay Development, Eleuthera

- A \$400 million investment over 5 years and 4 phases
- To feature an 18-hole golf course, restaurants, golf pro shop, 517 building inventory (bungalows, villas, condos, lots), a helicopter landing pad, club house, Marina and a commercial complex



Labour Force Survey



Source: Department of Statistics

The recent employment gains trailed labour force participation growth.

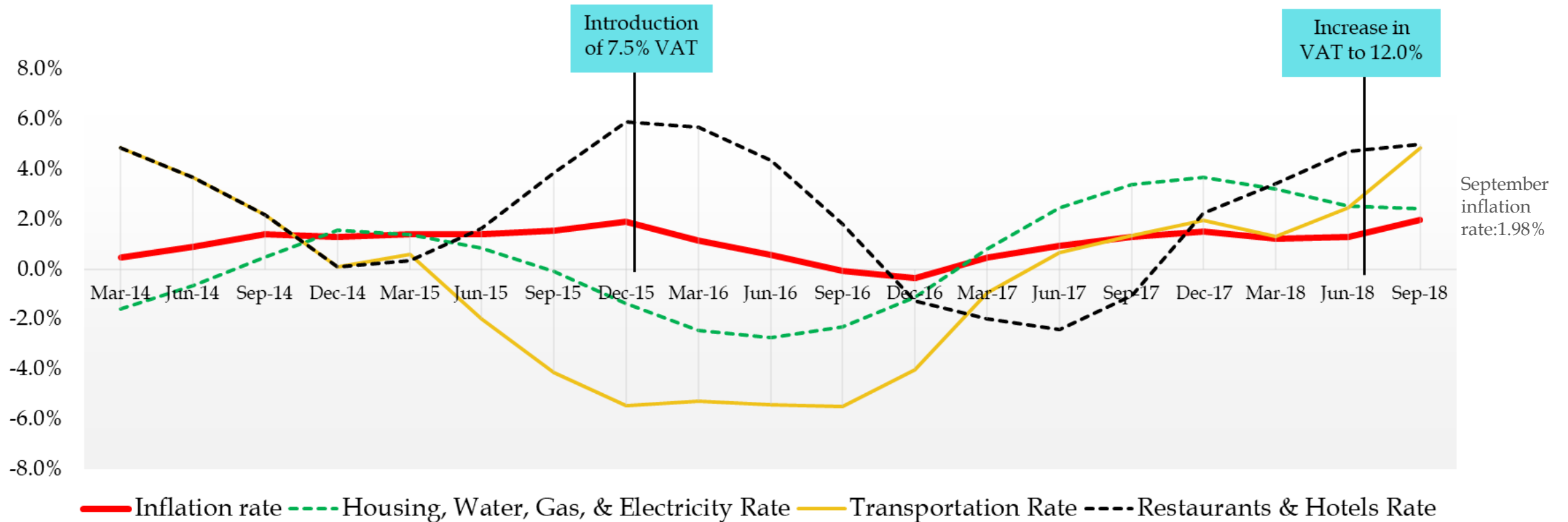
- The total number of employed persons increased by 3.4% when compared to November 2017 (up by 6,830).
- Nonetheless, the unemployment rate rose by 60 basis points vis-à-vis November 2017 to 10.7%, with discourage workers falling by 0.2%.
- A year-on-year analysis of the jobless rate for the primary job markets revealed:
 - An increase of 40 basis points in New Providence to 11.0%.
 - A 20 basis point decline in Grand Bahama to 11.9%.
 - A 90 basis point decrease in Abaco to 7.7%.



INFLATION

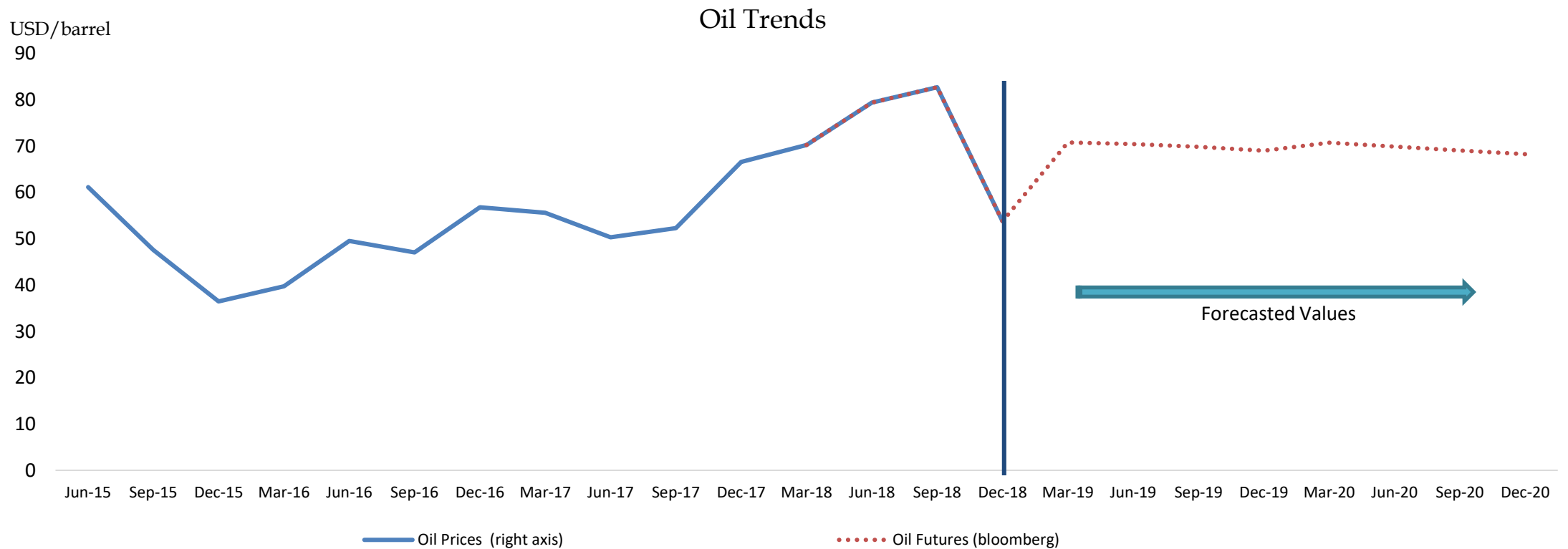
Retail Price Index

Annual retail price inflation rose to 1.98% through September 2018, from 1.34% in 2017, as pass-through from the VAT increase helped pushed average costs higher for restaurant & hotel services (4.99%), recreation & culture (3.86%), and food & non-alcoholic beverages (2.44%).



Oil Price Trends

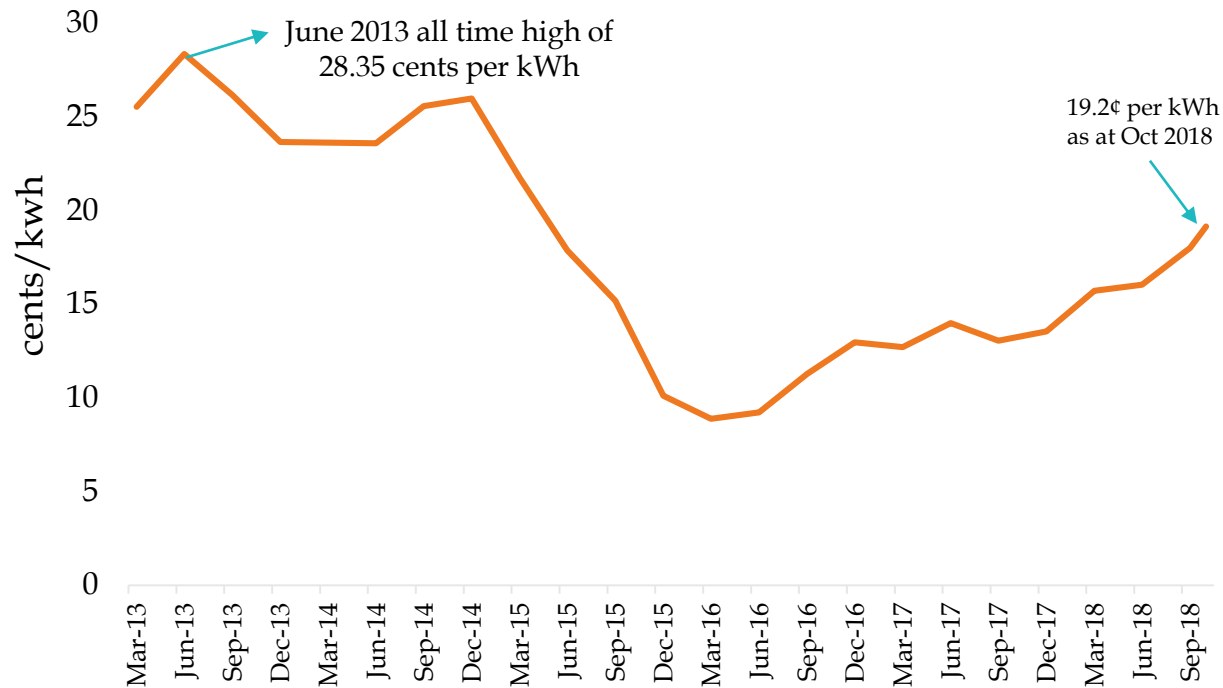
In December 2018, crude oil prices fell by 8.4%, relative to the previous month, to a one year low of \$53.80 per barrel as fear surrounding over supply in the market mounted. The mean of the forecasts suggest that during the first quarter of 2019, crude oil prices could average a higher \$75.37 per barrel.



Oil Imports

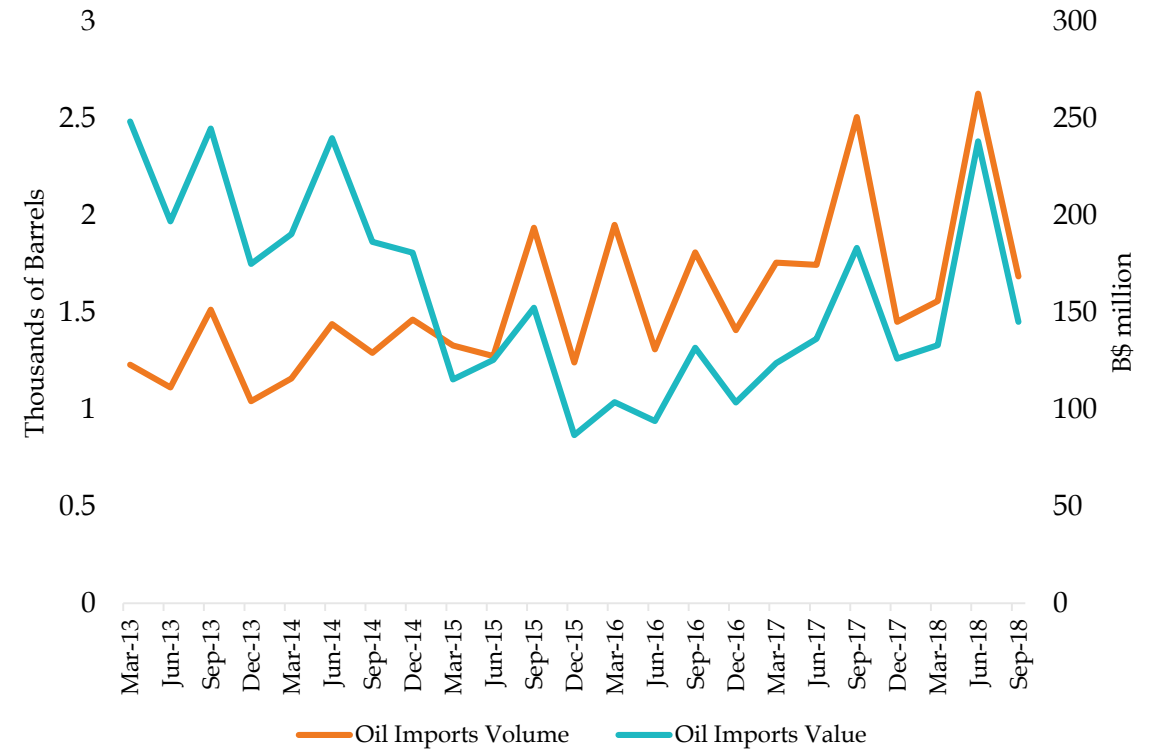
The fuel surcharge in electricity bills has been steadily increasing over the year.

BPL's Fuel Surcharge (cents/kwh)



Oil prices decreased during the third quarter of 2018 and are expected to normalize gradually over the near term.

Oil Imports (Volume and Value)



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FISCAL SECTOR

Fiscal Sector

During the first six months of FY2018/19, the deficit contracted to \$174.3 million, relative to the same period of FY2017/18.

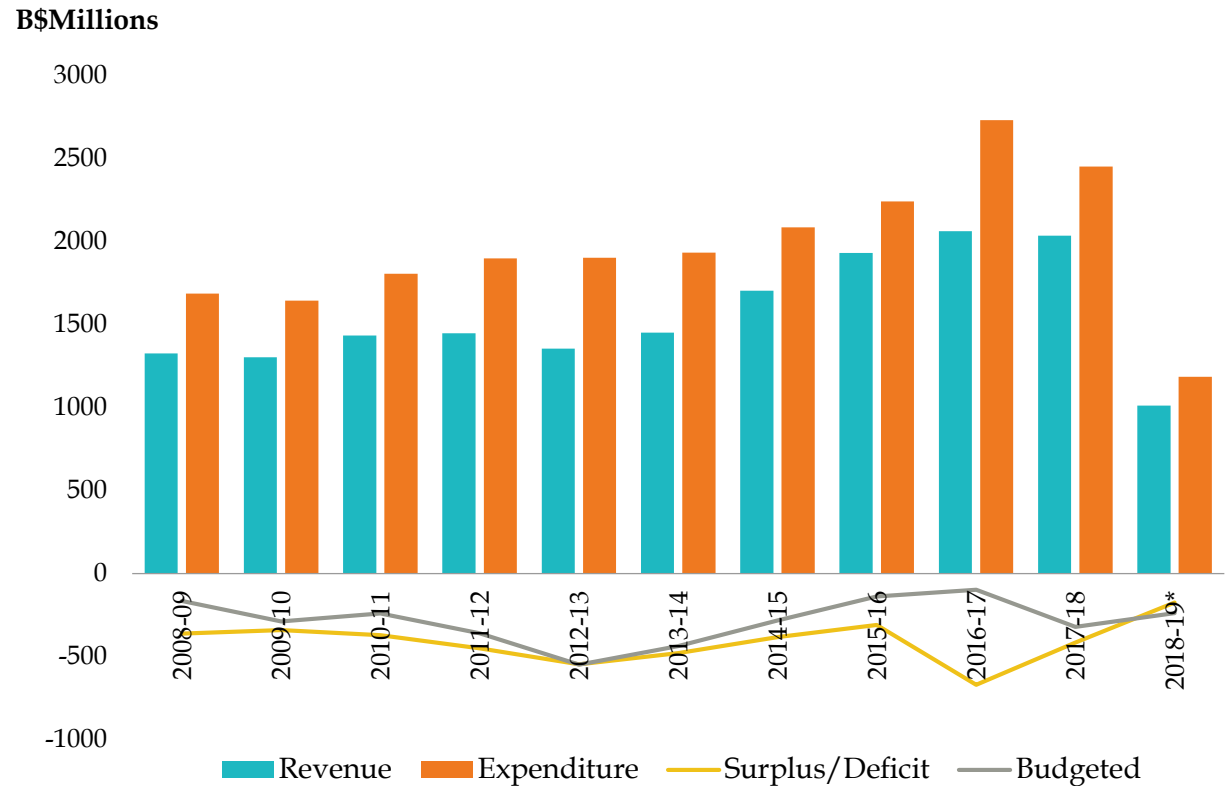
Revenue: grew by \$129.5 million (14.7%) to \$1,010.3 million.

- VAT receipts rose by \$81.2 million (25.5%) to \$399.5 million.

Expenditure: rose by \$50.0 million (4.4%) to \$1,184.6 million.

- Recurrent outlays grew by \$94.0 million (9.4%) to \$1,097.7 million.

Central Government Fiscal Deficit



Source: The Central Bank of The Bahamas
*Data for the first six months of FY2018-19.

Fiscal Responsibility Objectives

Transparency Accountability Responsibility

- Establishment of a Fiscal Responsibility council
- Public Financial Management bill, 2018
 - Provide the legal framework to support the broader introduction of the Integrated Financial Management Information System
- Public Debt Management bill, 2018
 - Governance framework for the prudent management of Government debt activities
- Public Procurement bill, 2018
 - Establish a procurement board

1.8% of GDP

Fiscal balance not to exceed in 2018/2019



1.0% of GDP

Fiscal Balance not to exceed in FY2019/20

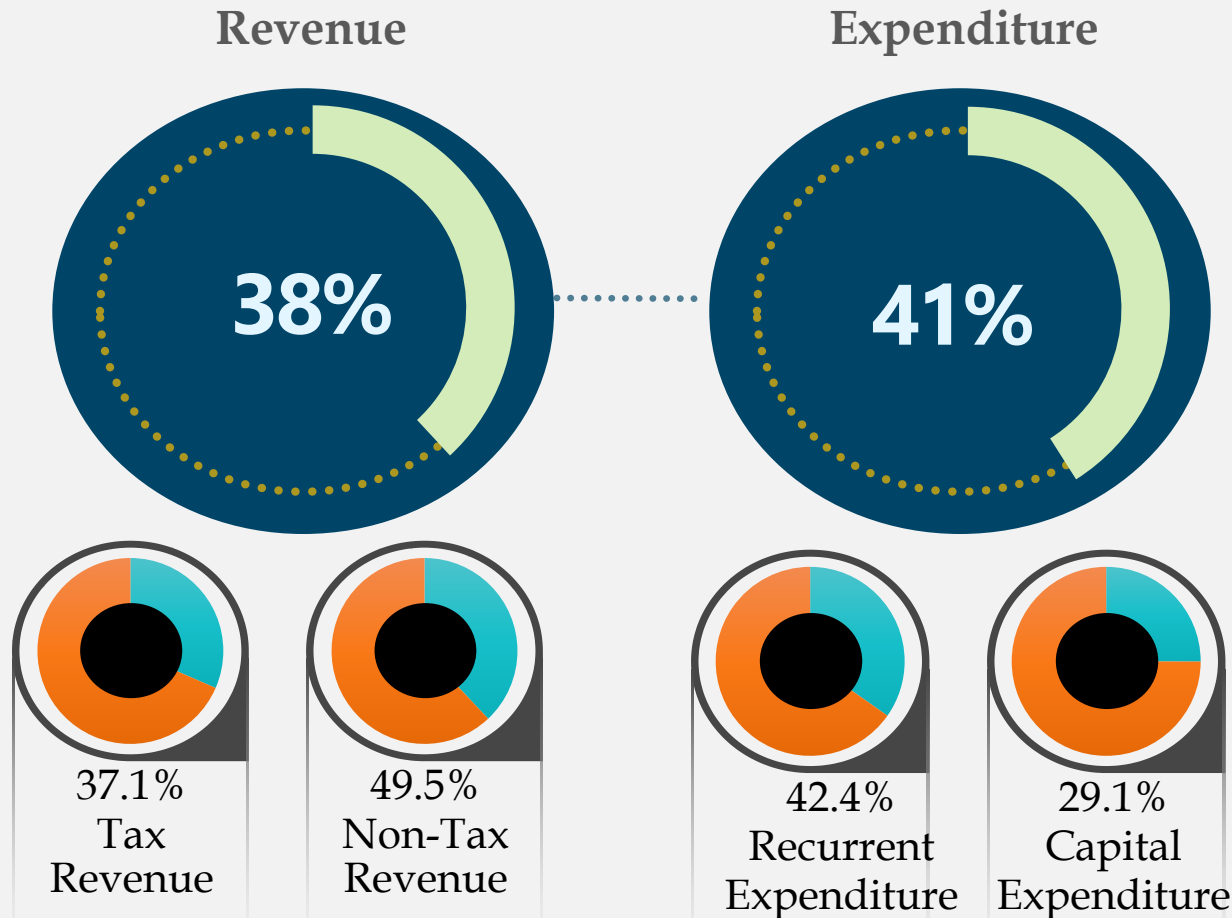
0.5% of GDP

Fiscal balance not to exceed the 0.5% target, from FY2020/21 onwards

50%

Reduction of debt to no more than

First Six Months FY 2018/2019 (Actuals Compared to Total Budget)



- Percentages indicate what portion of the budget has been used thus far (First six months FY18/19).
- Thus far, less than 50.0% of the budget has been utilized for all the categories.
- When compared to the previous fiscal year, revenue is higher by 14.7% and expenditure grew by 4.4%.

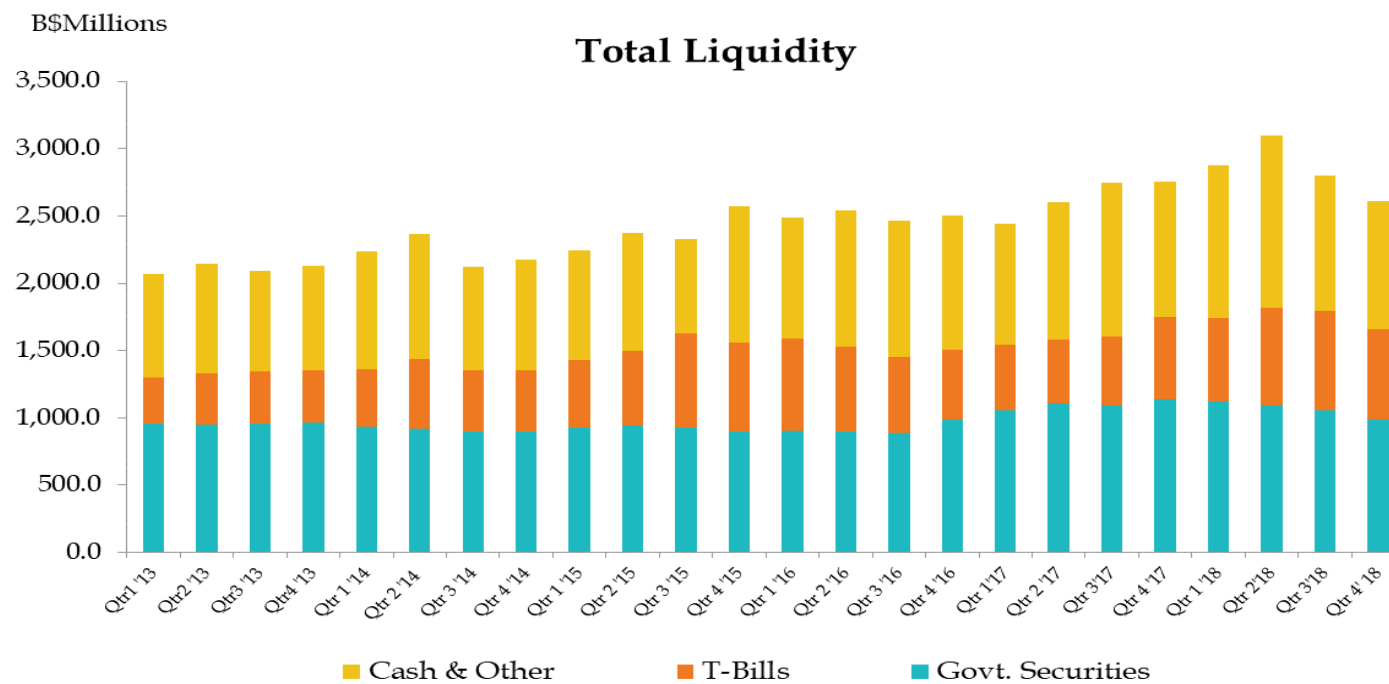
An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly a resort or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

MONETARY SECTOR

Commercial Bank Liquidity

Rebounded commercial bank lending (mainly to Government) in the context of B\$ deposit base reduction led to decline in liquidity in 2018. Trends corresponded to financing of increased net foreign currency outflows for private sector trade payments and public sector debt servicing.

- In 2018, excess liquid assets decreased by \$265.5 million to \$1.5 billion, relative to a \$351.2 million expansion in 2017, when Government obtained external loan proceeds.
- Narrower liquidity (cash and central bank balances) fell by \$186.2 million, vis-à-vis a \$133.8 million growth in 2017.



Source: The Central Bank of The Bahamas

Lending Conditions

Bahamian dollar domestic credit rose by \$68.0 million in 2018, after 2017's \$328.0 million contraction.

- Net claims on the Government recovered by \$143.9 million, following a \$159.6 million reduction a year earlier, when the reliance was external financing.
- Credit to public corps. increased by \$28.1 million, reversing the 2017 decline of \$7.1 million.
- In contrast, private sector credit contracted further by \$104.0 million in 2018, after a \$161.3 million decline in 2017.

✓ Consumer credit ↓ by \$79.6 million

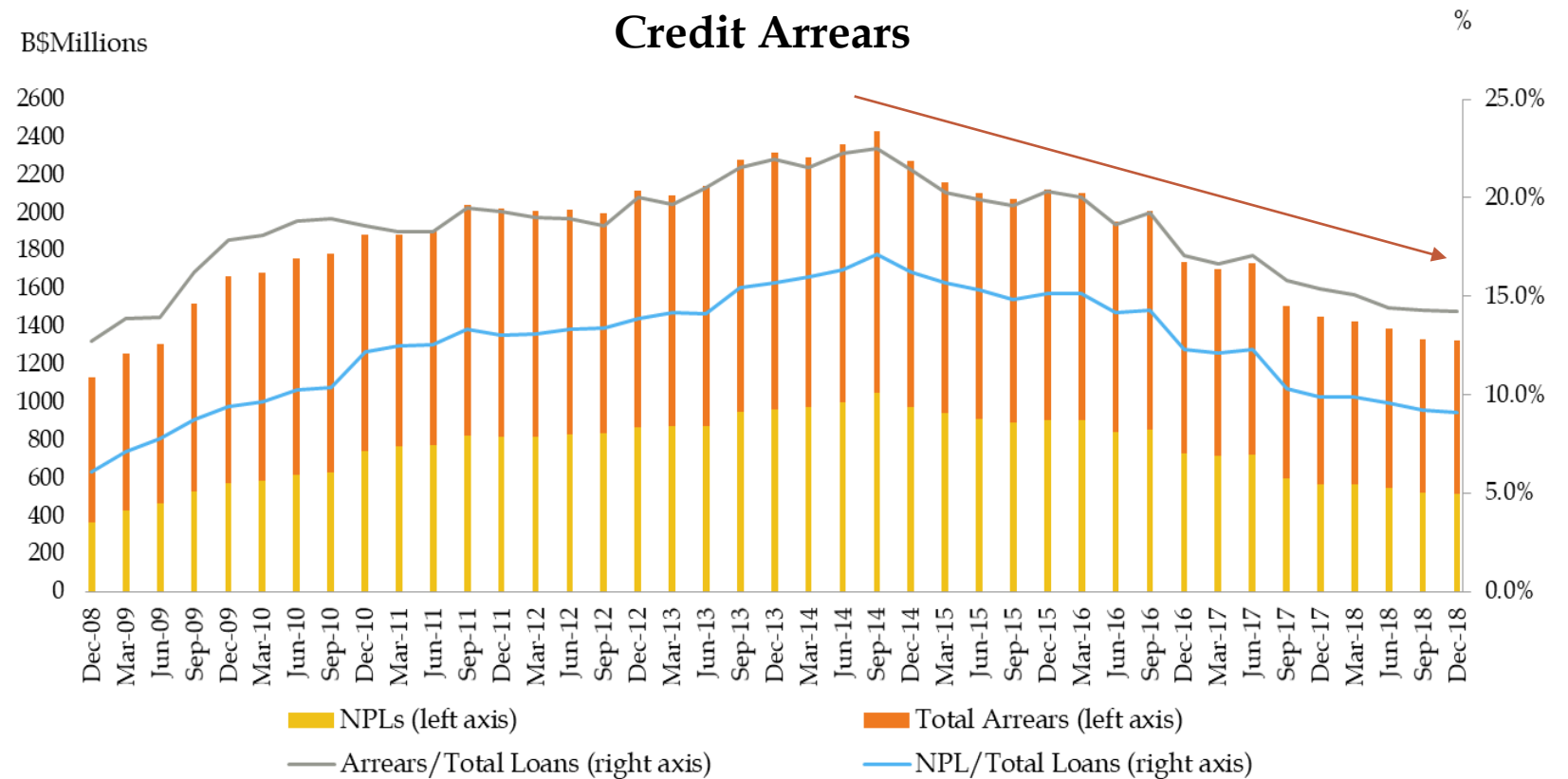
✓ Mortgages ↓ by \$15.1 million

✓ Commercial credit ↓ by \$9.4 million

Credit Quality Indicators

At end-Dec 2018, the arrears rate for total private sector credit was lowered to 14.3% from 15.4% in the previous year.

- The NPL rate (arrears over 90 days) fell to 9.1% (9.9% last year)
- The shorter-term arrears rate fell to 5.2% (5.5% in 2017)

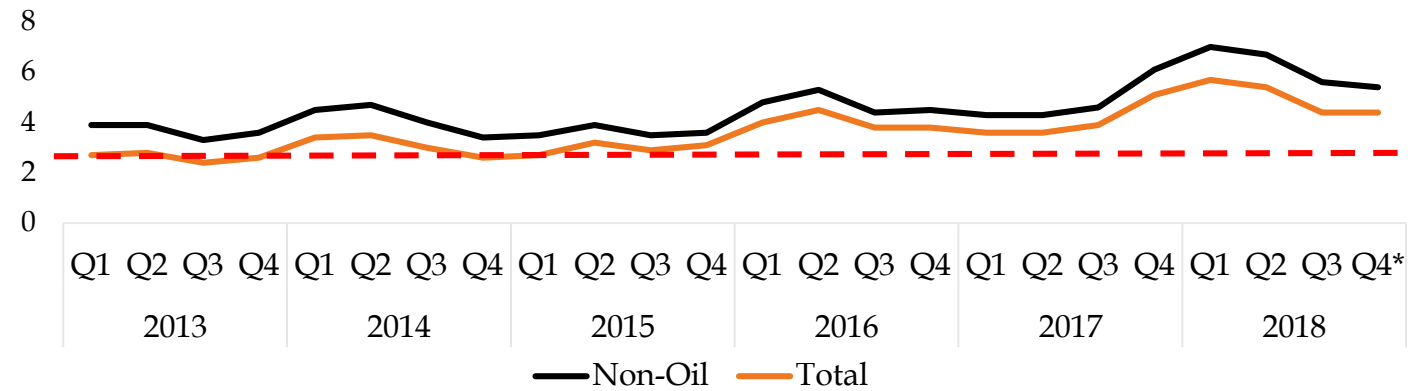


SOURCE: The Central Bank of The Bahamas

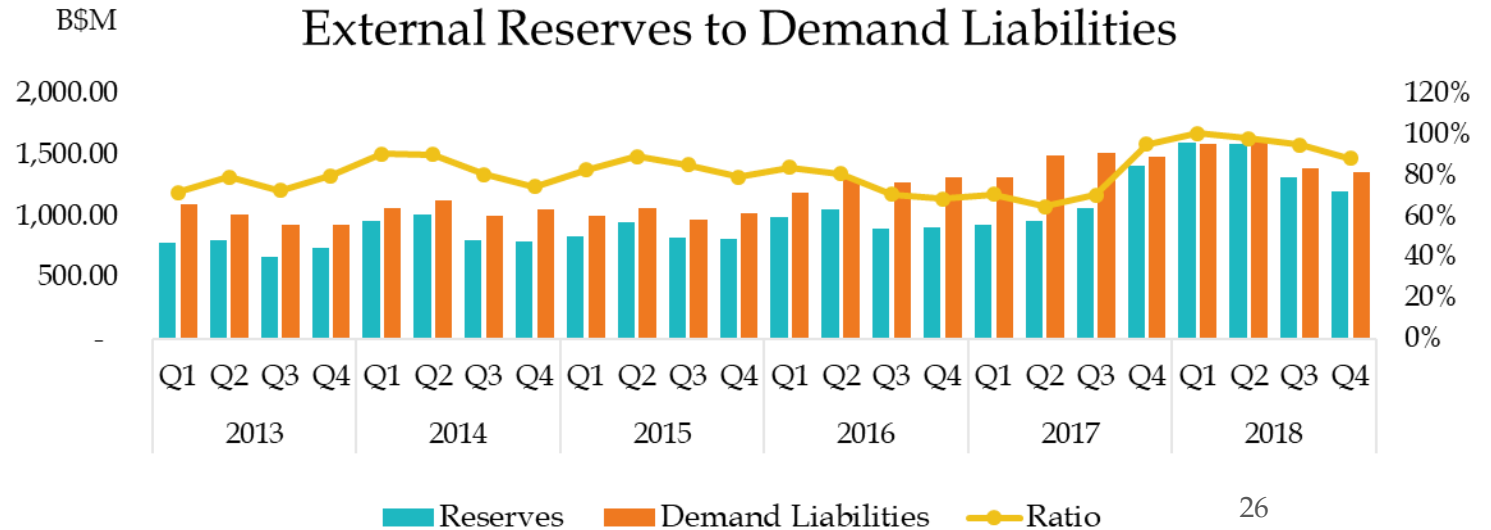
External Reserves

- External reserves contracted by \$210.9 million to \$1,197.4 million at end-2018. Balances, instead, rose by \$506.2 million in 2017 (due to Government's external loan proceeds).
- Year-end reserves were equivalent to approx. 4.4 months of current year's total merchandise imports, compared to 5.1 months in 2017 (Benchmark is 3 months).
- External balances represented 88.1% of Central Bank's demand liabilities, compared to 95.2% at end-2017. (Target is 90% - 100%).

Import Cover Ratio



External Reserves to Demand Liabilities



Note: Latest calculations use balance of payments data for 4th Qtr. 2017, along with external reserves for week ending Dec. 26, 2018 were used.



OUTLOOK

Real Sector and Fiscal Sector

Real Sector

- The Bahamian economy is expected to maintain its modest growth path over the near-term, buoyed by gains in tourism. Construction sector activity should be supported by several varied-scale foreign investment projects.
- Employment conditions are projected to continue to strengthen gradually, but jobless rate reduction will depend on gains that exceed labour force participation growth.
- Inflation indicators are expected to firm over the near-term, as the pass-through effects from value added tax (VAT) increase remain traceable at least through June 2019.

Fiscal Sector

- Successful implementation of measures to curtail expenditure growth and strengthen revenue administration will remain crucial to the Government's efforts to reduce the deficit and improve debt indicators over the medium-term.

Monetary Sector

- Bank liquidity is likely to remain elevated for an extended period, as banks maintain a cautious lending posture and households continue to deleverage from debt.
- Credit arrears, inclusive of non-performing loans (NPLs) are anticipated to continue their downward trajectory, amid sustained resolution and debt restructuring efforts.
- Banks are projected to stay highly capitalized, thereby mitigating any threats to financial sector stability.
- External reserve balances are projected to remain above international benchmarks, and are expected to rise in the near future, reflecting the seasonal increase in tourism related receipts.

Risks To The Outlook

Inflation:

Uncertainties in global oil production could result in continued volatility in energy costs and overall prices.

Global:

Prolonged trade tensions, restart of the U.S. government shutdown, and consistent interest rate hikes may slow global economic growth.

Tourism:

Political tension in key source markets could frustrate visitor arrivals growth.

External Reserves:

Higher demand for foreign exchange due to rising fuel costs and elevated government borrowing could slow or reverse gains.

Employment:

Softness in tourism, especially within large-scale properties, could lead to reversals in job gains.

Fiscal:

The persistent threat of hurricanes , and negative external shocks could slow or stall deficit reduction efforts.

The End

