

# The Bahamas

## Recent Economic Developments & Outlook

Presentation for  
The Young Presidents Organization

by: Governor John Rolle  
March 13, 2017



# OUTLINE

- **Economic Overview**
- **Global Economic Forecasts**
- **Domestic Developments**
  - ✓ Tourism & Foreign Direct Investment
  - ✓ Inflation
  - ✓ Fiscal Sector
  - ✓ Monetary Sector
- **Economic Outlook**
- **Policy Agenda**



# 2016 Economic Overview

## GDP (Real Sector)

Mild conditions: on-going FDI and hurricane rebuilding support for construction; tourism mildly positive but disrupted by Hurricane Matthew.

## Employment

Lower to 11.6% in November 2016, from 14.9% in 2015; some boost from hurricane rebuilding.

## Inflation

Inflation was negative (-0.35%) in 2016, a turnaround from a 1.78% rise a year earlier, when VAT passthrough was completed.

## Bank Liquidity

Banking sector liquidity was bolstered by net foreign currency inflows from real sector activity and Central Bank financing to Government.

## External Reserves

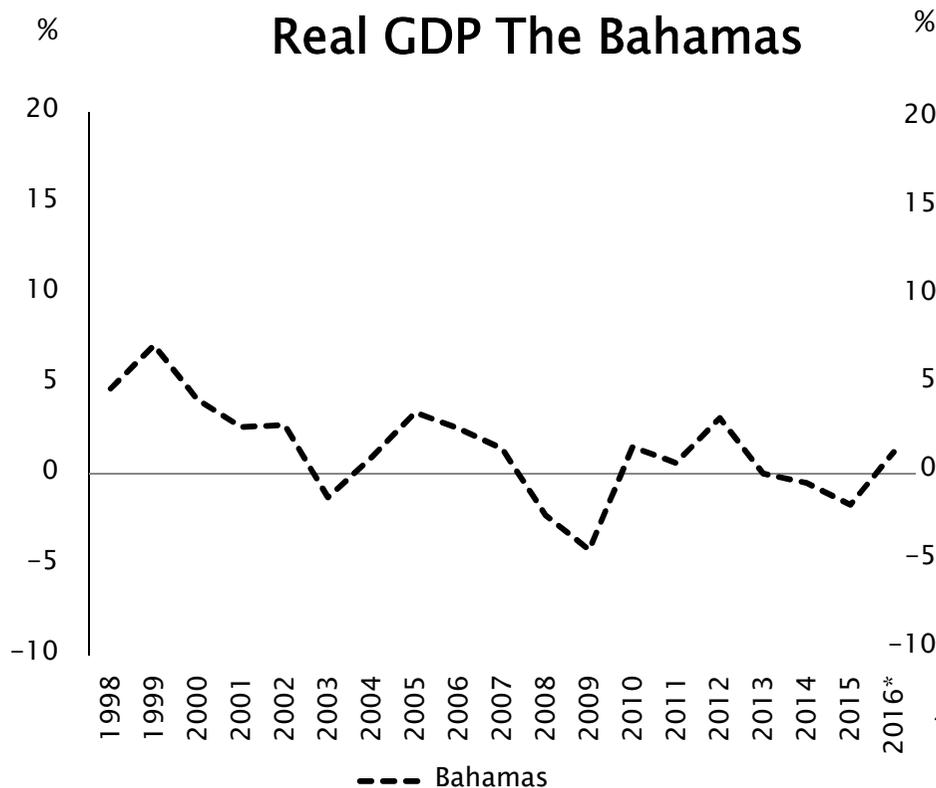
Boosted by net tourism inflows; public sector debt operations; low oil bill; reinsurance inflows.



# Regional GDP Statistics

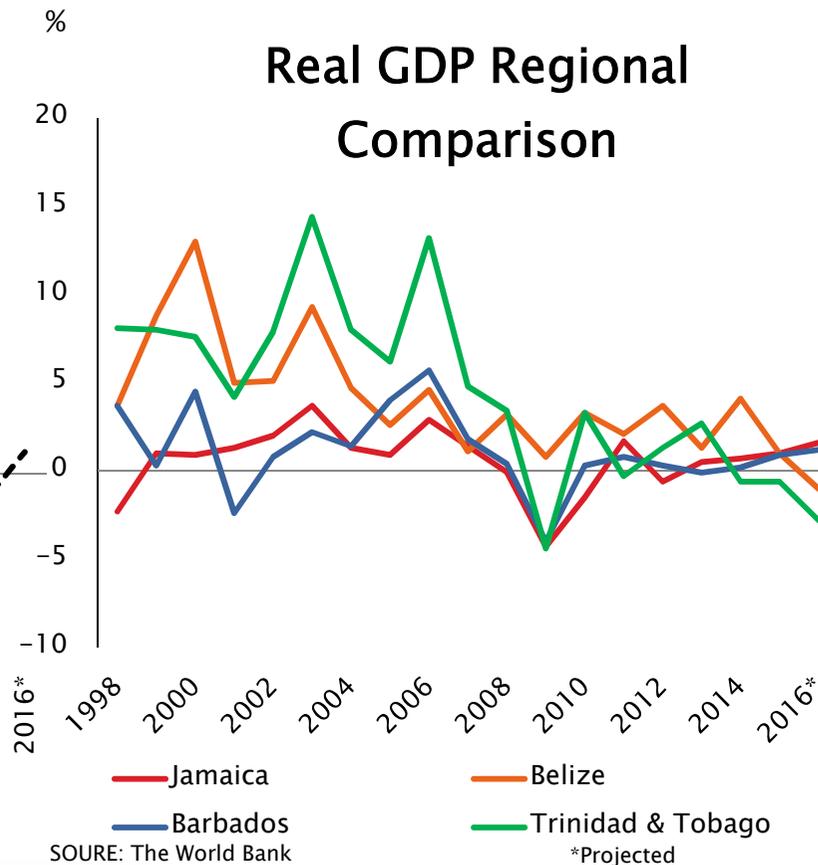
- Regional growth has slowed since the global recession in 2008.
- Bahamas annual gains averaged 2.8% in the 10 years prior; but officially negative on average since then (-0.4%).
- Similar pattern of growth slowing in other Caribbean economies.

## Real GDP The Bahamas



SOURCE: The World Bank  
\*Projected

## Real GDP Regional Comparison



SOURCE: The World Bank

\*Projected



# Global Economic Forecasts

- ❖ BREXIT fallout & rebalancing in China, expected to cause global growth for 2016 to soften to 3.1%.
- ❖ The 2017 forecast shows global growth strengthening to 3.4%.
  - ❖ U.S. expected to improve but UK and Europe soften further.

**Note:** IMF's forecasts will update in April. UK and US might be upgraded.

Table 1

## IMF WORLD OUTLOOK (GDP Projections for 2016)

	2015	2016	2017
World	3.2	3.1	3.4
US	2.6	1.6	2.3
UK	2.2	2.0	1.5
Euro Area	2.0	1.7	1.6
China	6.9	6.7	6.5

Source: IMF "World Economic Outlook" January 2017 update



# Tourism Sector Performance

- ❖ Air arrivals and tourism earnings still recovering towards pre-recession levels.
- ❖ Total arrivals for Jan-Oct 2016, up by 2.6% from 2015.
  - Stopover revenue up by 0.8%.
- Airport data
  - ❖ U.S passengers rose by 1.9% in 2016 (vs +1.4% in 2015); other traffic fell 4.1%, (vs +1.8% in 2015).
  - ❖ Similar patterns revealed in Jan 2017.



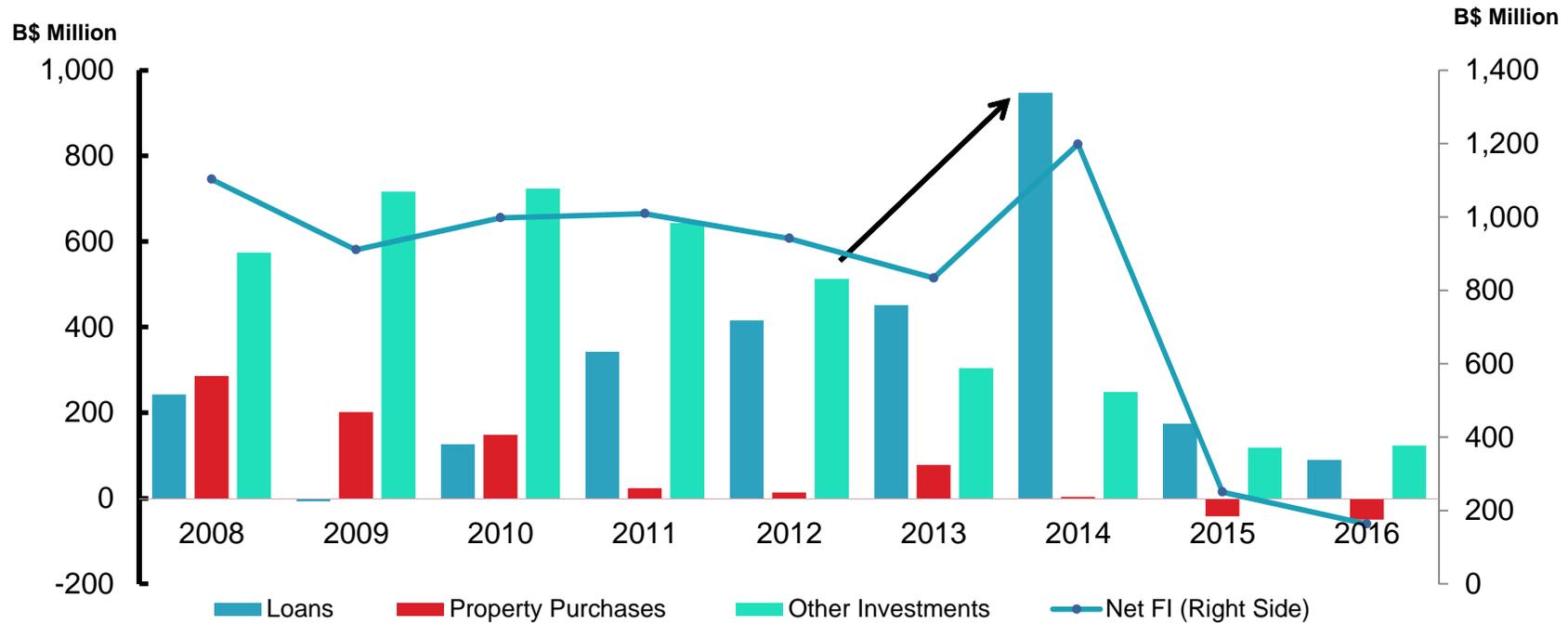
Source: Ministry of Tourism and NAD



# Foreign Investment

... estimated net FDI has contracted and remains low given impact of Baha Mar slowdown.

Data still plagued by incomplete coverage of foreign residential construction.



## Significant FI Projects

- Baha Mar => \$3.5 billion
- Albany => additional \$150 million
- Mediterranean Shipping Company => \$200 million Ocean Cay Development



# Foreign Investments

**Baha Mar is still the headline development.**

**What's new:**

- ❖ On December 2016: announced sale to Chow Tai Fook Enterprise Ltd. (CTFE) .
- ❖ Phased opening to begin in April, 2017; expected to be fully operational by Spring 2018.
- ❖ Baha Mar's internal projections:
  - ❖ Expects to generate extra 315,000 stopover guests
  - ❖ An estimated 5,500 – 7,000 jobs are expected to be created; approx. \$167-\$196 million in annual employee compensation
  - ❖ To-date, \$3.50 billion has been invested in the project; an additional \$700 million is to be invested by China EXIM Bank to complete the resort



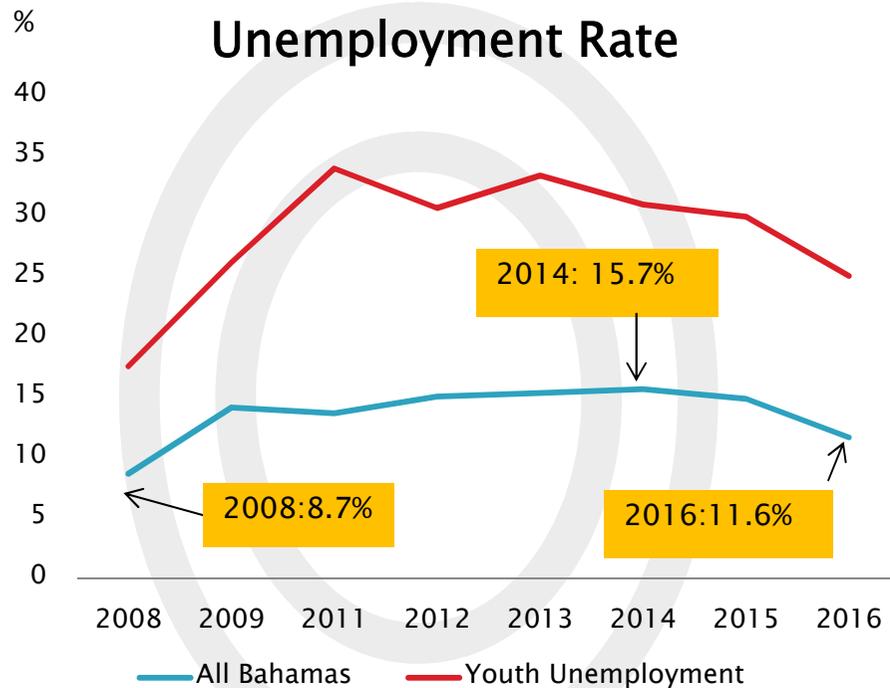
# Other FDI Projects

Project Name	Recent Developments
<b>Children’s Bay Cay and Williams Cay, Exuma</b>	<ul style="list-style-type: none"> <li>• \$200 million ‘eco-friendly ultra luxury resort’</li> <li>• 50-room five-star resort on Children’s Bay Cay; a private resort and golf course on Williams Cay</li> </ul>
<b>Mediterranean Shipping Company (MSC) , Ocean Cay cruise port, hotel &amp; cultural amenities</b>	<ul style="list-style-type: none"> <li>• \$200 million ; ground broken on January 16, 2017</li> <li>• 100 jobs expected in the near-term, &amp; 300 jobs to be filled for resort operations</li> <li>• Over the next 2 years, 1,100 construction jobs projected to be created</li> <li>• Over 220 jobs expected on cruise ships</li> </ul>
<b>Carnival Cruise Port, East Grand Bahama</b>	<ul style="list-style-type: none"> <li>• Still in ‘pipeline’ phase</li> </ul>
<b>Hutchinson Whampoa Phase V, Freeport</b>	<ul style="list-style-type: none"> <li>• \$300 million container port expansion; awaiting start-up</li> </ul>



# Unemployment Developments

1,385 persons were employed as a direct result of Hurricane Matthew.



SOURCE: The Department of Statistics



Unemp. now 11.6% vs 12.7% in May 2016, and 14.9% in Nov 2015.  
NP:12.9%, GB:13.3%, AB:9.1%,  
Bim:4.0%, Exm:8.0% .

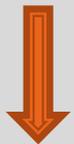
Ages  
15-24



Youth unemp. fell by 5.0 pct. points to 25.1% since 2015. Improved slightly since May 2016.



Jobless rate for women (14.0%) still higher than for men (9.4%); both reduced from 17.0% and 12.7%, respectively in 2015.



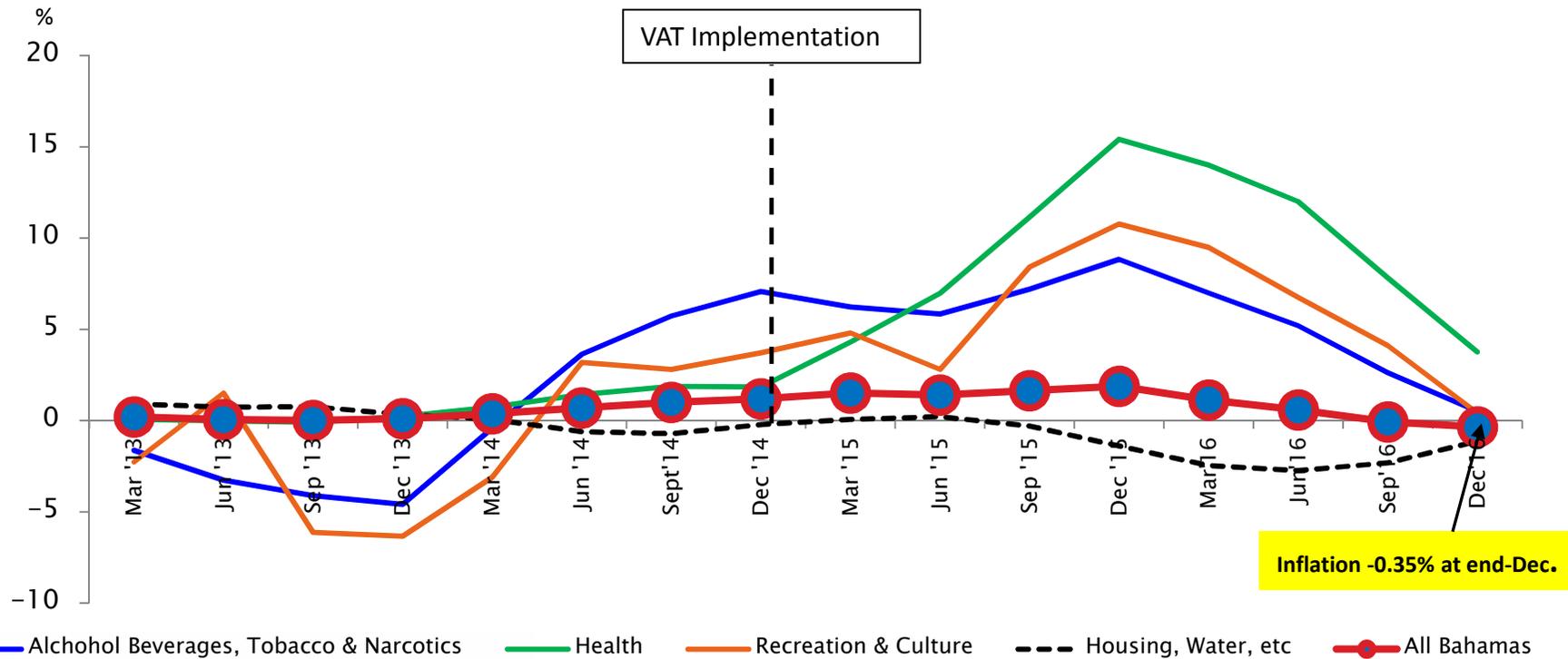
Discouraged workers fell by 15.0% to 2,095. By island: NP (É16%), GB (É18%) AB(É11%).

Source: Department of Statistics



# Inflation

Prices increase have began to normalize lower following the VAT transition. Recent declines for restaurants & hotels and food & non-alcoholic beverages categories; significant deceleration in inflation rates for health, recreation & culture, alcohol beverages, tobacco & narcotics, furnishing, household equipment & routine household maintenance and clothing & footwear.

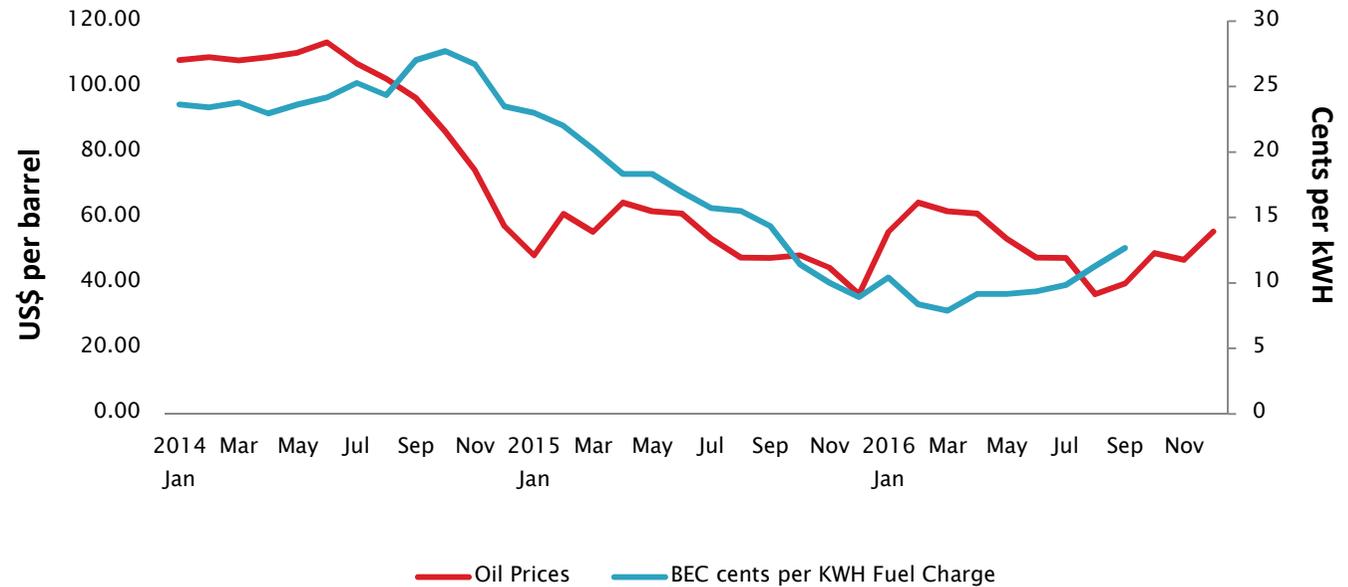


Source: Department of Statistics

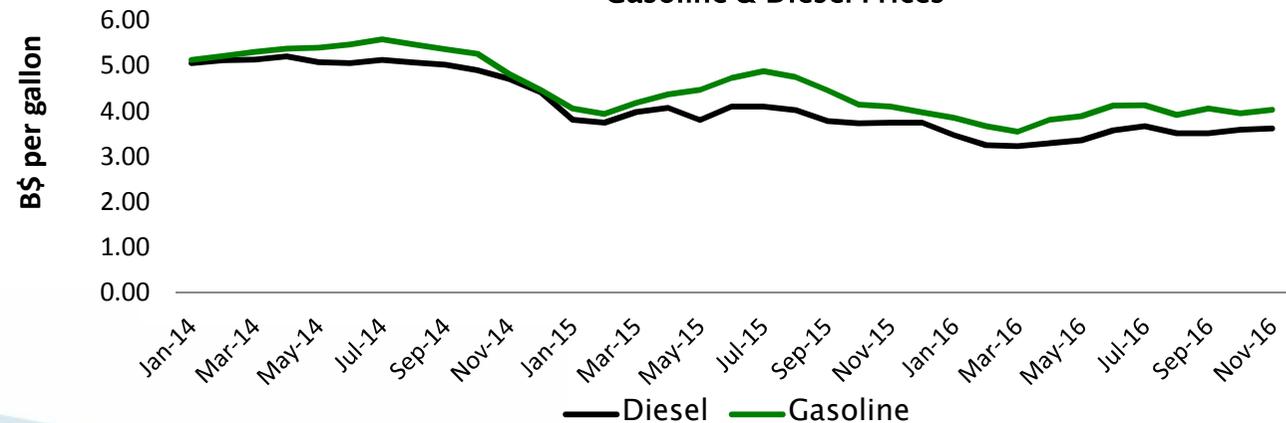
# Implications of Lower Global Oil Prices

- Prices rose slightly in 2016, but remained lower than pre-June 2014 highs.
- BPL's fuel surcharge at 12.67/ KWh at end-Sep: ↑12.1% month on month, but ↓11.7% year-on-year.
- Gasoline and diesel prices have remained fairly stable in 2016.

Crude Oil Prices and BEC Fuel Charge



Gasoline & Diesel Prices

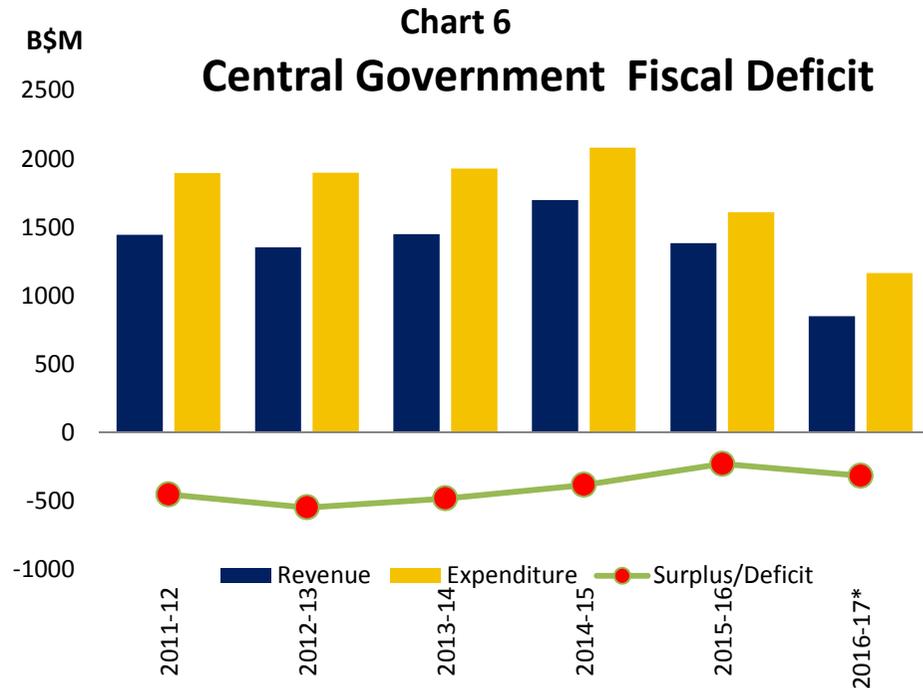


SOURCE: Central Bank of The Bahamas

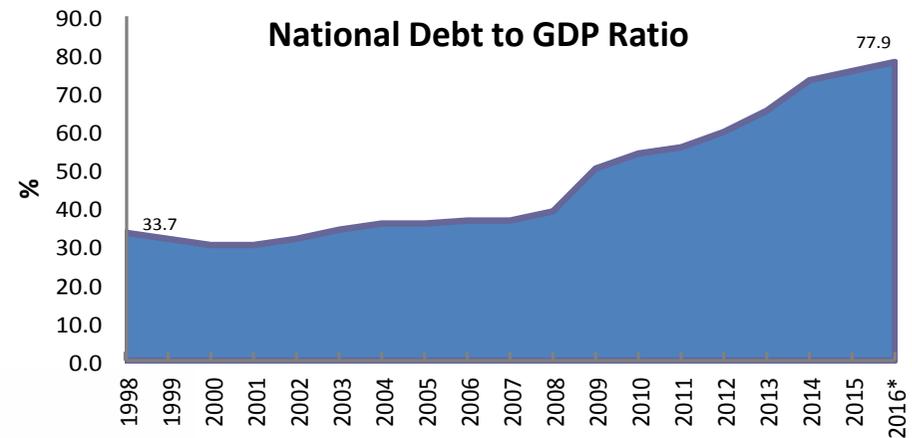


# Fiscal Indicators

- First half FY2016/17: deficit ↑\$192.3 million to \$314.2 million. Reflects hurricane rebuilding efforts and disruptions in revenue collection.
- Total expenditure : ↑\$121.9 million (11.7%)
  - Capital : ↑\$71.7 million (80.2%), vs.. hurricane rebuilding, coastal protection, and road reconstruction & development.
  - Current : ↑\$52.6 million (5.5%), with \$29.9 million (6.5%) increase in transfers (mainly for NHI) .
- Revenue : ↓\$44.4 million (5.0%)
  - Tax rev: ↓\$39.5 million (4.9%) , with VAT ↓\$15.4 million (4.9%).
- Deficit Financing: Domestic loans and bonds.



\* Six months of FY2016/2017

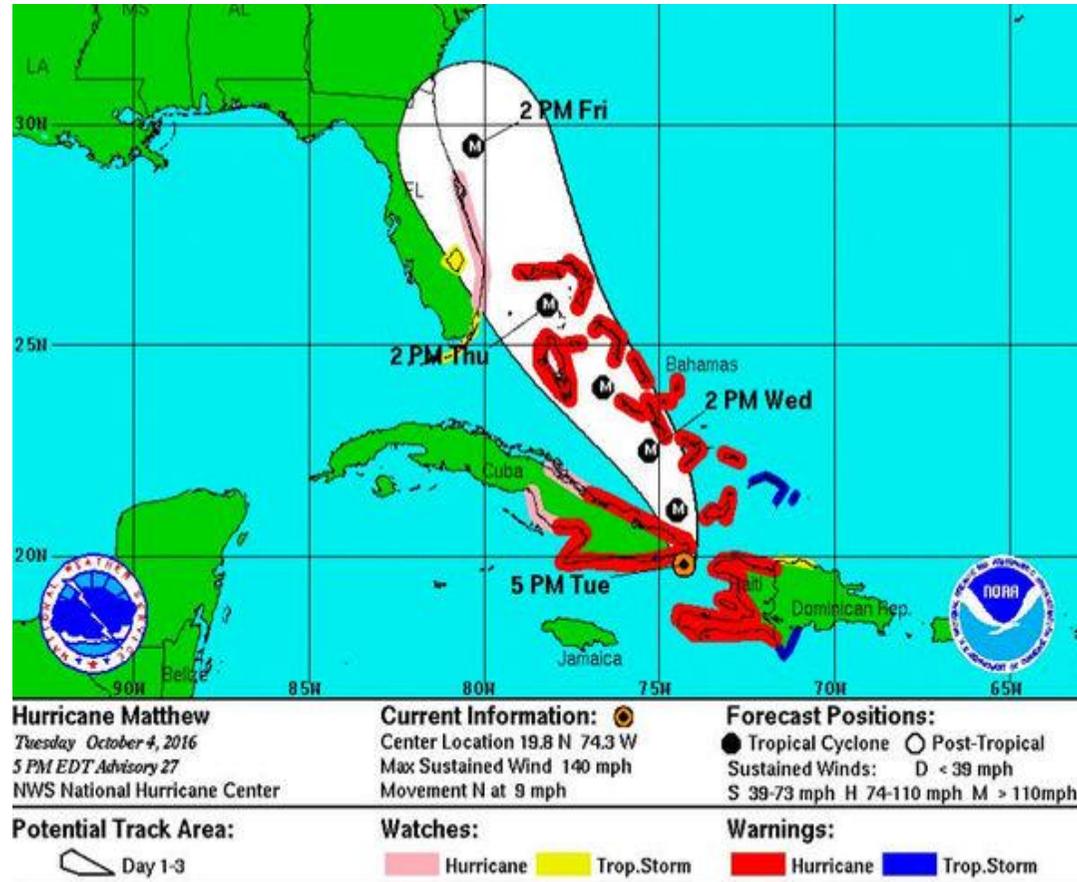


\* forecast



# Hurricane Matthew Impact

- Estimated total losses of at least \$600 million.
  - Private sector insured losses reported approximated \$400 million
  - Public sector costs exceed \$200 million: (infrastructure damages more than triple that of Hurricane Joaquin)
  
- Protracted shutdown of tourism plant in Grand Bahama.
  - Subsequent reduction in airlift and marketing support
  
- Policy responses
  - Fiscal concessions (exigency orders, and filing extensions)
  - Eased Central Bank credit policy



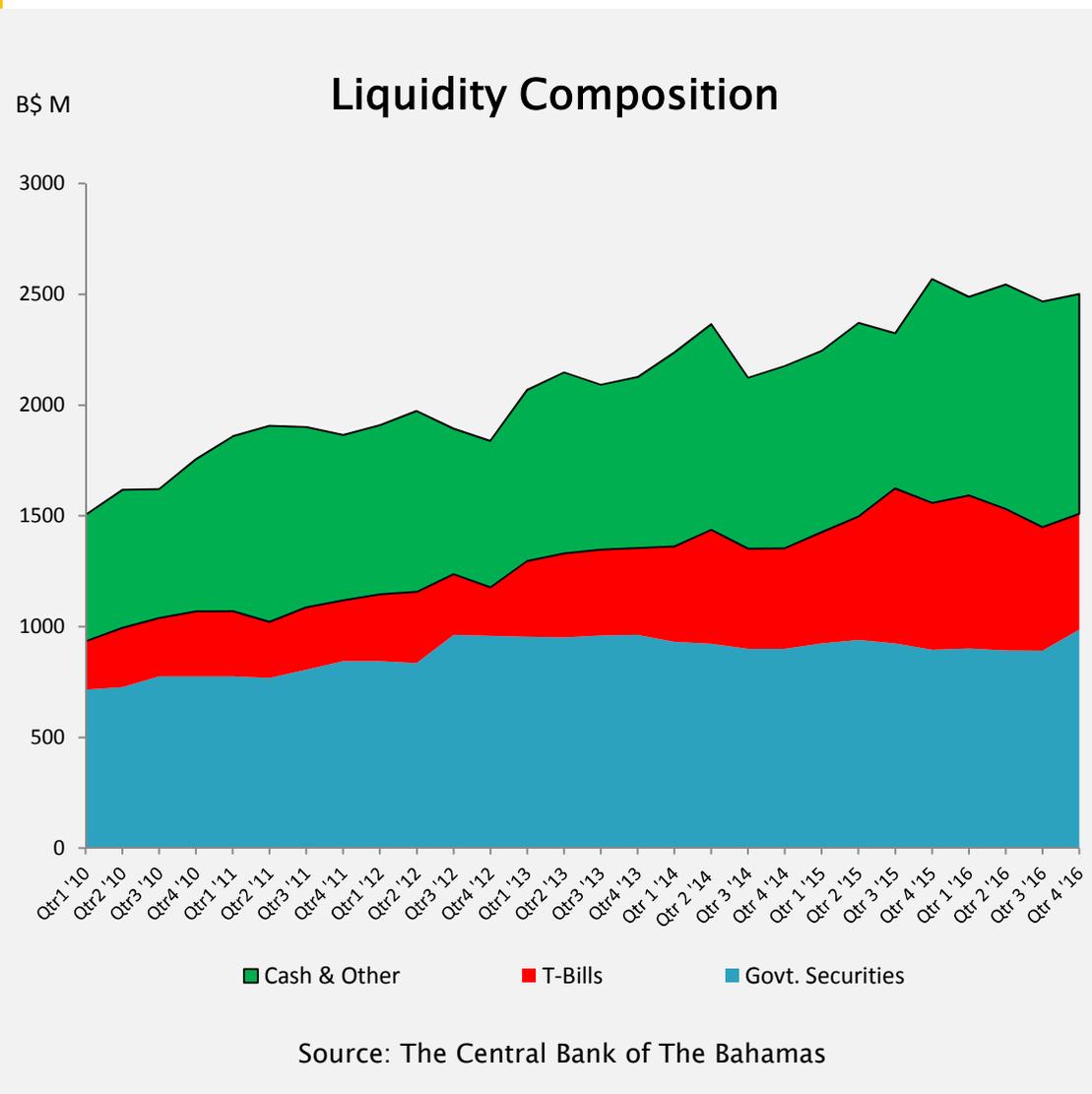
Source: US National Oceanic and Atmospheric Administration



# Money & Banking: Liquidity Conditions

Liquidity continued to increase in 2016, as credit expansion remained below deposit base growth.

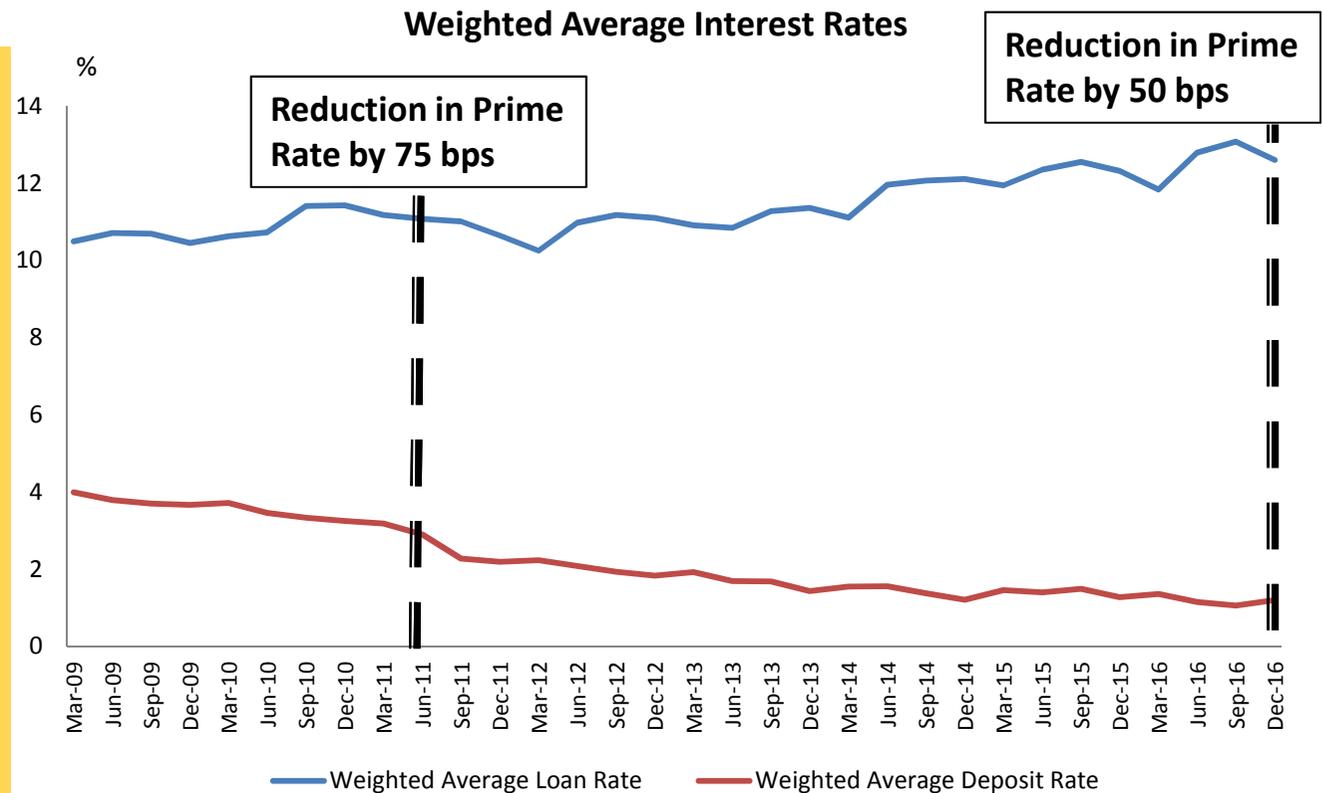
- 2016 supportive inflows: Net public sector debt operations, Central Bank credit to Govt., net tourism & FDI receipts, reinsurance settlements, Baha Mar net settlements
- Excess reserves (cash balances at the Central Bank) ↑\$234.4 mil. to \$723.7 mil
- Excess liquid assets (which includes holdings of Government securities) ↑ \$132.7 mil. to \$1.4 bill. relative to 2015.



# Money & Credit Trends

Amid expectations of improved growth prospects in the coming year and potential for increased foreign currency inflows, on Dec. 22, the Central Bank reduced the Discount Rate by 50 basis points to 4.00% with the view to:

- position businesses to take more advantage of growth opportunities in the near to medium term.
- provide more support to housing sector investments.



SOURCE: The Central Bank of The Bahamas

... Since 2008, commercial banks' average interest rate spreads have continued to widen.

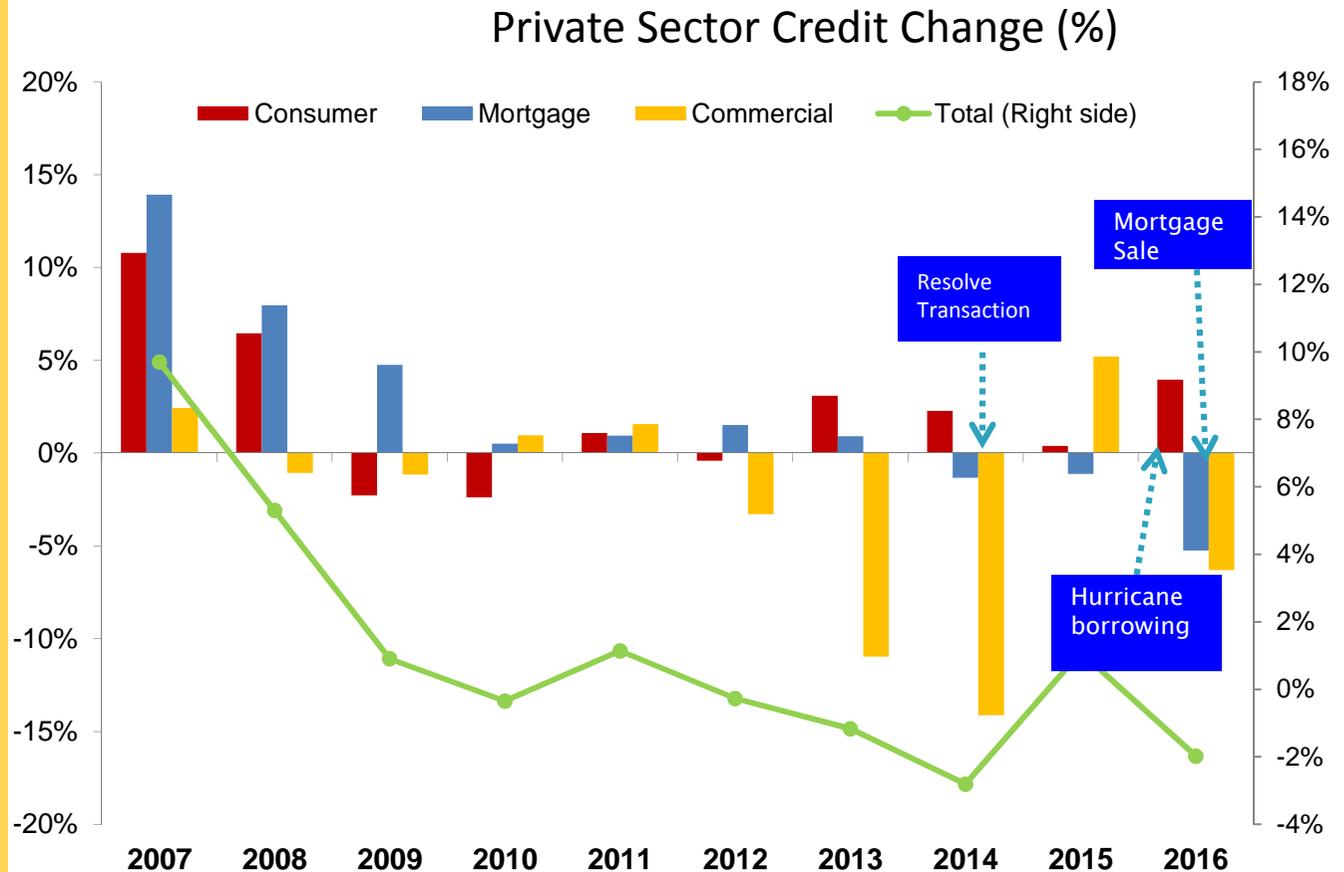


# Domestic Credit

- Growth in B\$ credit accelerated to \$294.5 million from \$103.1 million in 2015.
- Sale of NPLs and loan write-downs led to a \$92.4 million reduction in credit to the private sector.
  - Residential mtgs ↓\$111.9 million
  - Commercial loans ↓\$59.1 million
  - Consumer credit ↑\$78.6 million, supported by the monetary authorities' measures to channel additional credit to hurricane rebuilding activities

**Note:** Net of restructuring, some positive mortgage lending still observed.

*...private sector credit contracted after start of recession, as NPL ratios rose and banks adopted tighter lending standards.*

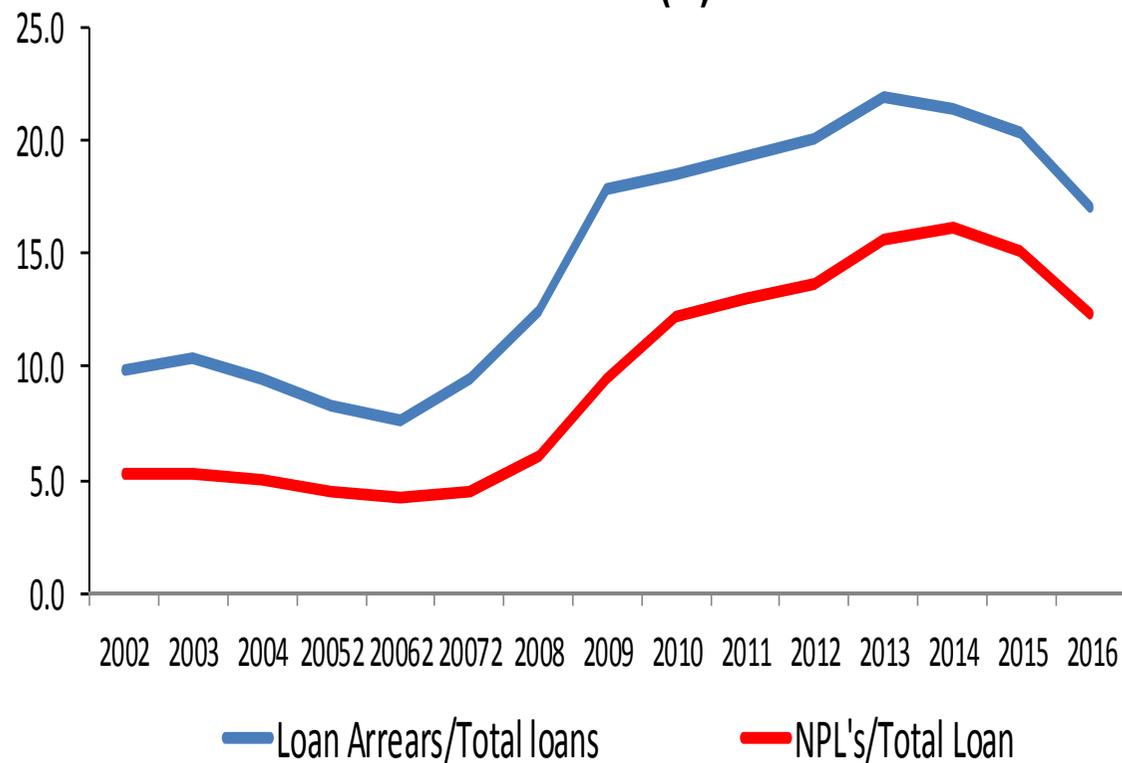


# Domestic Credit Cont'd

Banks' non-accrual loan rates have declined in recent years.

- 2016: NPL rate fell to 12.3% of private sector loans from 15.1% at end-2015 and a peak above 16% during 2014.
- Most of decline in 2016 was attributed to sales of non-performing loans.
- Further loan write-downs were also significant.
- Govt's mortgage relief program made inroads.

## Banks Credit Quality Indicators (%)



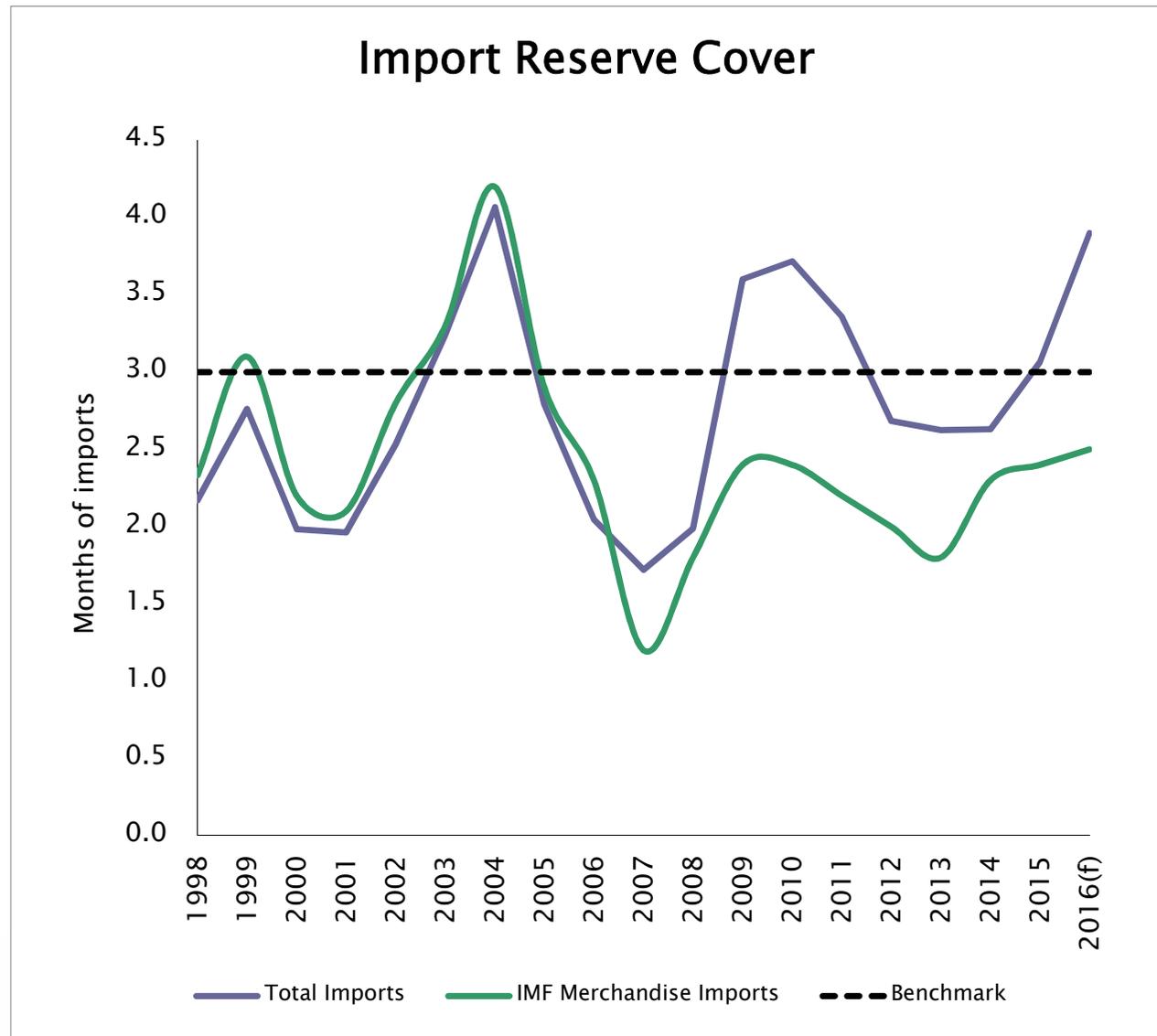
Source: The Central Bank of The Bahamas



# External Reserves

- External reserves ↑\$93.6 mil. to \$902.1 mil. at end-Dec., (2015: ↑\$22.2 mil).
- Factors:** ↑Net receipts from Gov f/c borrowing; ↓sales for fuel purchases; inflows from real sector activities and reinsurance inflows.
- Import coverage:** 3.9 months of current year's merchandise imports, compared to 3.1 months at end-Dec. 2015.

**Note:** IMF's calculates import cover with forecasted or expected imports. CBOB estimation uses present year's data .



# Outlook

Economic conditions expected to strengthen mildly in 2017 and at more accelerated pace in 2018...

## Real Sector

- Tourism to be bolstered by capacity expansion (including Baha Mar) and improvement in key source markets.
- Construction activity expected to be driven by work to complete Baha Mar, other varied-scale FDI projects and on-going hurricane repairs.
- Further employment gains anticipated from tourism and construction sectors.
- Inflationary pressures are anticipated to be well contained, as international oil prices stay low; however, a slight uptick from current levels is anticipated due to OPEC's prod. cut agreement in Nov.



# Outlook

## Fiscal Sector

- Faster consolidation momentum is possible (after Hurricane setback), beyond 2016/17 depending on policy stance taken.
- VAT is expected to continue to positively impact the fiscal position; although, other key revenue sources trail expectations and expenditure pressures are evident from factors such as hurricane recovery efforts and NHI.

## Monetary Sector

- Bank liquidity is expected to remain elevated, despite the modest increase in private sector demand, due to post hurricane fiscal and monetary measures.
- Credit arrears and NPLs are anticipated to continue their downward trajectory, assisted in part by the mortgage relief plan and potentially more restructuring efforts.
- External reserve outlook improved (more so beyond 2017) :
  - ✓ Foreign exchange earning sectors expected to strengthen
  - ✓ Continued low international crude oil prices to limit outflow pressures

Note: Public sector must also maintain prudent mix of local and foreign financing.



# Risks to Outlook

## Upside

- Stronger growth possible with an acceleration in U.S Real GDP expansion, owing to the new U.S. Administration's proposed infrastructure spending and tax cuts.
- Potential for improved performance from strong Baha Mar sales.

## Downside

- Increasing US interest rates may negatively impact U.S economic growth.
- A turn to more “protectionist” trade policies.
- Unexpected credit ratings downgrades, which could weaken domestic confidence and reduce financing flexibility of The Bahamas' public sector.



# Our policy agenda...

# Backdrop to the Policy Agenda

- ▶ Strong fiscal consolidation imperatives
- ▶ Credit rating pressures
- ▶ Low and decreasing potential growth rates
- ▶ NHI introduction
- ▶ A National Development Plan

# National Health Insurance Preparations

## Preparatory costs :

- The Government has budgeted \$100 million for the first phase of implementation
- The primary care phase of NHI is intended to cost \$25 million, plus an additional \$6 million for select catastrophic coverage from April - June

## Economic Impact:

- According to KPMG, NHI is expected to add 2.7% to GDP in 2030, and 4.8% within a generation—based solely on primary care phase
- This expansion in GDP is predicted based on a larger workforce due to reductions in mortality, as well as an increase in productivity which comes as a result of reduced morbidity
- Model predicts a 2.5% rise in overall population with the implementation of NHI by 2030, and 4.3% by 2040

## Sector Specific Impact:

- More flexible workforce, due to reduced 'job lock' - the inability of an individual to freely leave a job for fear of loss of benefits
- Improved child health, which will result in better rates of school attendance
- Higher household savings through lower user fees for healthcare services and rise in household income from higher GDP



# Sovereign Credit Ratings

## S&P December 2016

One notch downgrade from BBB-/A3 to BB+ (sub-investment grade).

### S&P Concerns:

- Slower fiscal consolidation pace - after Hurricane Matthew
- Lower than anticipated GDP growth
- Weak external position
- Double-digit unemployment
- High NPLs and high household indebtedness

**Stable Outlook**



## Moody's February 2017

Maintained at Baa3 (investment grade).

### Factors:

- Comparatively high GDP per capita
- Stable and predictable political system
- Comparatively low external debt ratio

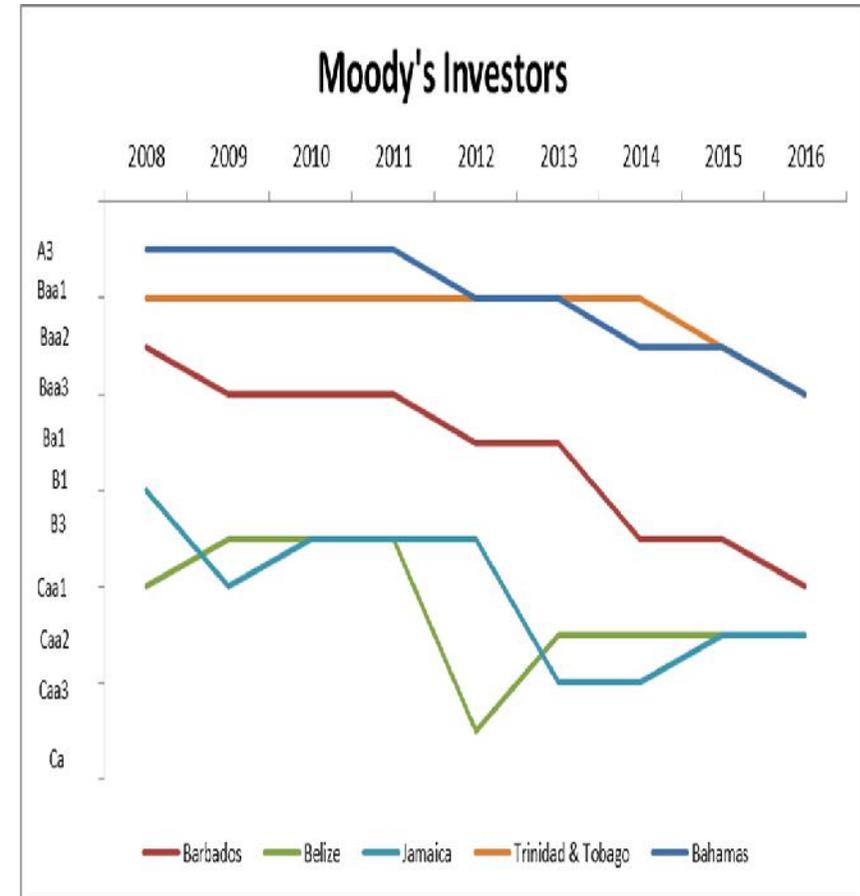
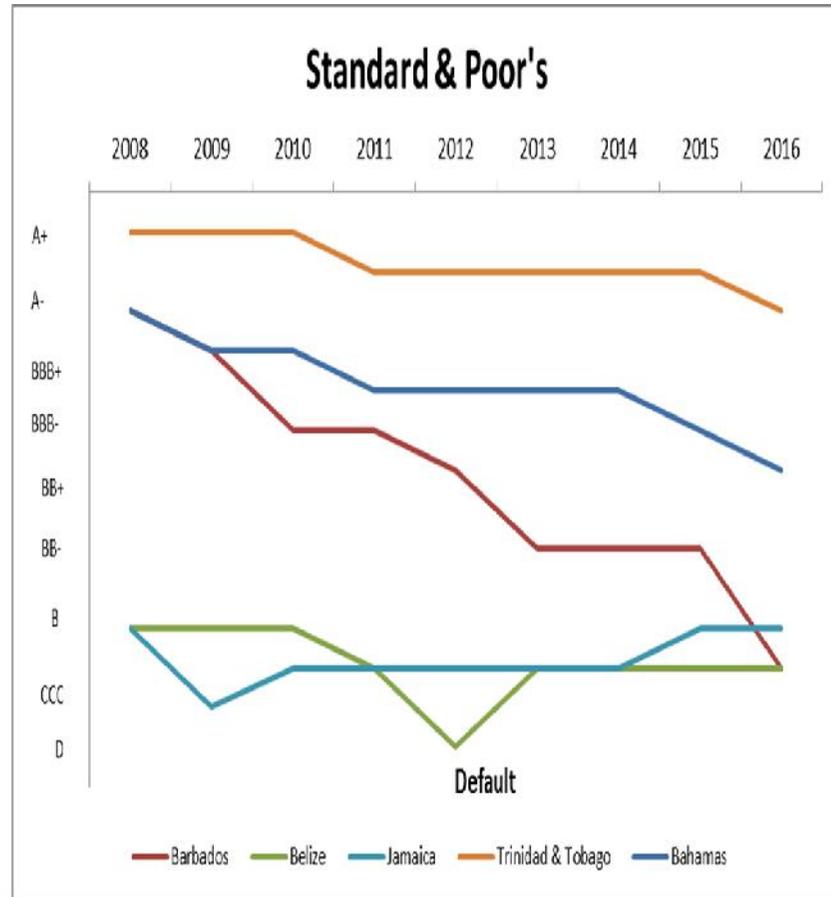
### Moody's Concerns:

- Low fiscal strength relative to peer grouping
- Heavy tourism reliance
- Offshore financial sector uncertainty

**Stable Outlook**

# Sovereign Credit Ratings

... Bahamas is still among highest rated in the region.



# Central Bank's Policy Agenda

## A New Strategic Plan for 2016-2020

### Strategic priorities

- Strengthen policy communications frameworks and enhance stakeholder engagement.
- Enhance framework for policy advice to Gov't.
- Promote increased financial sector resilience (credit quality, correspondent banking, anti-money-laundering (AML), etc.,).
- Actively promote financial inclusion and financial literacy.
- Further strengthen regulatory regime for banks, credit unions, money transmission business and other licensees.
- Pursue accelerated payments system modernisation (new payments services providers).
- Support targeted exchange control liberalisation.



# Central Bank's Policy Agenda

...financial inclusion and payments system modernization

- ❑ Identify reforms to increase the ability for all individuals to obtain bank accounts.
- ❑ Work to improve the framework for anti-money laundering / combating the financing of terrorism (AML/CFT).
- ❑ Promote a continued decline in local cash transactions.
- ❑ Finalize regulations to facilitate licensing of non-bank providers of e-payments solutions.



# Central Bank's Policy Agenda

*...promoting further liberalization of Exchange Controls*

- ❑ Improve the administrative processes.
  - ❑ Relax restrictions on access to external financing in targeted areas:
    - ✓ Permit foreign currency financing for Bahamian owned businesses (locally or externally) from private investors, private financial institutions and multilateral financial institutions like the IADB and the World Bank.
    - ✓ Respect national economic policy on activities reserved exclusively for Bahamians.
    - ✓ Proposed eligible access for ♦ Agriculture & Fisheries ♦ Manufacturing ♦ Transport (Land, Sea and Air) ♦ Tourism ♦ Real Estate for Residential Tourism ♦ Energy & Energy Conservation ♦ Education ♦ Health ♦ Telecoms ♦ ICT ♦ Infrastructure .
- ... activities would either have net positive foreign exchange impact or satisfy critical development goals.



The End

