



Quarterly Economic and Financial Developments Report

December 2016

Prepared by the
Research Department

Note to readers.

In addition to its internal monthly discussions on domestic monetary and credit trends, the Central Bank's Monetary Policy Committee (MPC) undertakes more comprehensive quarterly assessments of economic trends. The assessment considers more in-depth factors relevant to the outlook for the Bahamian economy and risks that could affect the projections. Such analysis provides more context to the policy decisions taken by the Bank.

These slides are being provided for the benefit of the public, in addition to other detailed publications of the Central Bank. Readers are encouraged to subscribe to the [Quarterly Economic Review](#) and the [Quarterly Statistical Digest](#) for more data and analysis. These reports are published on the Central Bank's website, usually at a delay from the MPC reports.

Some survey frequencies vary between the MPC and the quarterly reports. Except for foreign exchange (forex) transactions, the financial sector data in the MPC reports rely on weekly reports provided by domestic banks¹, while the quarterly publications use month-end reported data. Forex transactions in both reports use daily reported activity, which is converted to the Wednesday weekly frequency for MPC analysis. Mid-week data are always reconcilable with the month-end data. Data from non-bank sources have identical reporting periods for MPC and quarterly reports.

Confidential information has been removed from the slides.

¹Always corresponding to periods ending on a Wednesday

Overview of Domestic Economic Developments

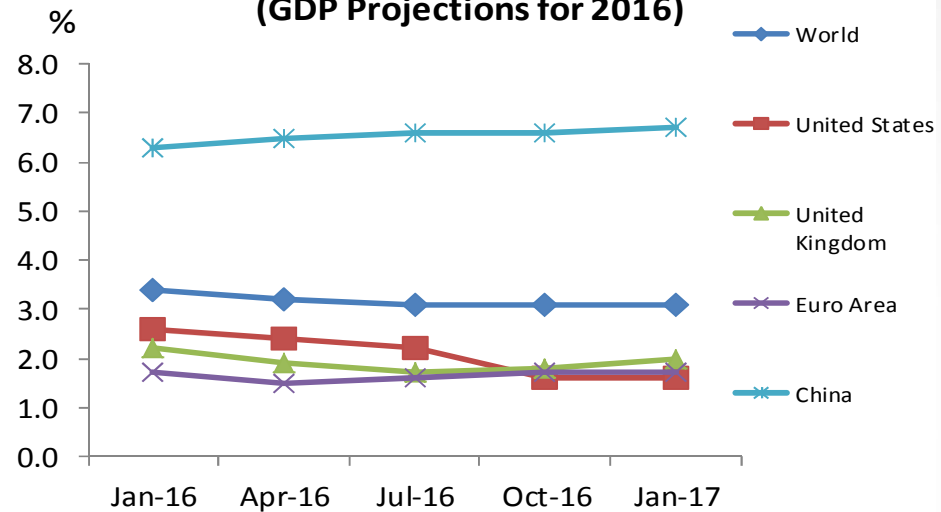
- During the review period, domestic output was largely underpinned by:
 - Construction activity associated with on-going foreign investment projects & post hurricane rebuilding
 - Seasonal/Winter tourists and sports tourism
- The unemployment rate declined to 11.6% in November 2016, from 12.7% in May and 14.8% in November 2015, mostly reflecting an increase in short-term construction-related jobs in the aftermath of Hurricane Matthew.
- Retail Price Index (RPI) data showed that average consumer prices fell marginally by 0.07% in the year to Sep, compared to a 1.64% increase during the same period last year.
- During 2016, banking sector liquidity was buoyed by net foreign currency inflows from real sector activity, Government borrowing as well as Central Bank financing to the Government
- External reserves benefited from Government's external loan, lower global oil prices and a few one-off inflows

Global Economic Forecasts

Global economic growth remained subdued for 2016, against the backdrop of shocks such as BREXIT and rebalancing in China

- Projection for world economic growth has generally remained unchanged at 3.1%
- However, the growth outlook for the U.K. and China were revised upward by 20 and 10 basis points respectively, given their stronger than expected growth trajectory during the latter quarters of the year.
- Forecasted 3.4% global growth in 2017
 - US real GDP expansion projected at 1.9%

IMF WORLD OUTLOOK
(GDP Projections for 2016)



World	3.2	3.1	3.1	3.1
United States	2.4	2.2	1.6	1.6
United Kingdom	1.9	1.7	1.8	2.0
Euro Area	1.5	1.6	1.7	1.7
China	6.5	6.6	6.6	6.7

Source: IMF "World Economic Outlook"

TOURISM SECTOR

Tourism Sector Performance

(Jan. – Dec. 2016)

- Indications are that tourism sector performance firmed slightly during 2016.
- Data from the Nassau Airport Development Company (NAD), showed that passenger traffic rose by 1.0%—net of domestic departures—during the year, compared to a 1.5% gain in 2015.
 - United States passengers increased by 1.9% to 1.1 million (firmed by 1.4% in 2015)
 - International traffic down 4.1% to 0.2 million (rose by 1.8% in 2015)
- Data from the Ministry of Tourism showed that overall arrivals expanded by 2.6% during the 10 months to October to 5.0 million, vis-à-vis a 3.1% contraction recorded during the same period last year.
- The high volume sea component grew by 3.1%, a reversal from a 5.2% falloff in the prior year. In contrast, gains in the high value-added air component slowed by 3.7 percentage points to 0.8%, due largely to a sharp, hurricane-related reduction in arrivals during the month of October.

FOREIGN INVESTMENT

Baha Mar Developments

Overview:

- On December 12, 2016, the Government announced the official sale of Baha Mar to Chow Tai Fook Enterprise Ltd. (CTFE).
- The resort is set to begin phased opening on April 21st, 2017, and is expected to be fully operational by December 2017.
 - First phase includes the casino hotel, the casino, the convention center, and the golf course
- Opening is intended to generate approximately 315,000 additional air passenger guests, accounting for a 19.0% boost in arrivals for 2017.
- The Grand Hyatt agreement has been finalized for the phased opening to commence in April
 - Summer/Fall: other phases set to open
 - December 2017: Grand opening of SLS Hotel

Baha Mar Developments

Employment:

- Baha Mar is projecting to create an estimated 5,500 – 7,000 jobs upon completion
 - 1,500 jobs will be available in the first phase of its opening
 - Hiring has already begun through online portals (e.g. Facebook).
 - Hiring will begin with shift managers and workers such as slot operators, cashiers, cage operators, and certain security posts
 - Expect an additional hirings in following quarters
 - Once the full complement is reached, majority. approx. 95% of employees will be Bahamian

Investment Value:

- To-date, \$3.5 billion has been invested in the project.
- An estimated \$700 million is to be invested (in process) to complete the resort.
 - Approximately \$400 million will relate to construction, labor and materials.
 - CTFE is planning to invest approx. \$200 million in the re-development of Crystal Palace Hotel
 - There will be a \$100 million inflow to fund pre-opening costs for Baha Mar and temporarily support jobs and income as the resort ramps up.

Other Major FDI Projects

Project	Recent Developments
Children’s Bay Cay and Williams Cay, Exuma	<ul style="list-style-type: none"> ❖ \$200 million ‘eco-friendly ultra luxury resort’ ❖ Includes 50-room five-star resort on Children’s Bay Cay and a private resort and 18-hole Tom Fazio golf course on Williams Cay
Mediterranean Shipping Company (MSC)	<ul style="list-style-type: none"> ❖ \$200 million investment ❖ Transformation of Ocean Cay to include cruise port, boutique hotel, marine park and Bahamian cultural and entertainment hub ❖ Broke ground on January 16, 2017 ❖ Predictions are that 100 Bahamian seafarers will be hired this month, with an additional 300 jobs to be filled for operational needs ❖ Over the next 2 years, 1,100 construction jobs will be available ❖ 220 Bahamians will be employed on cruise ships
Hutchinson Whampoa Phase V, Freeport	<ul style="list-style-type: none"> ❖ \$300 million container port expansion

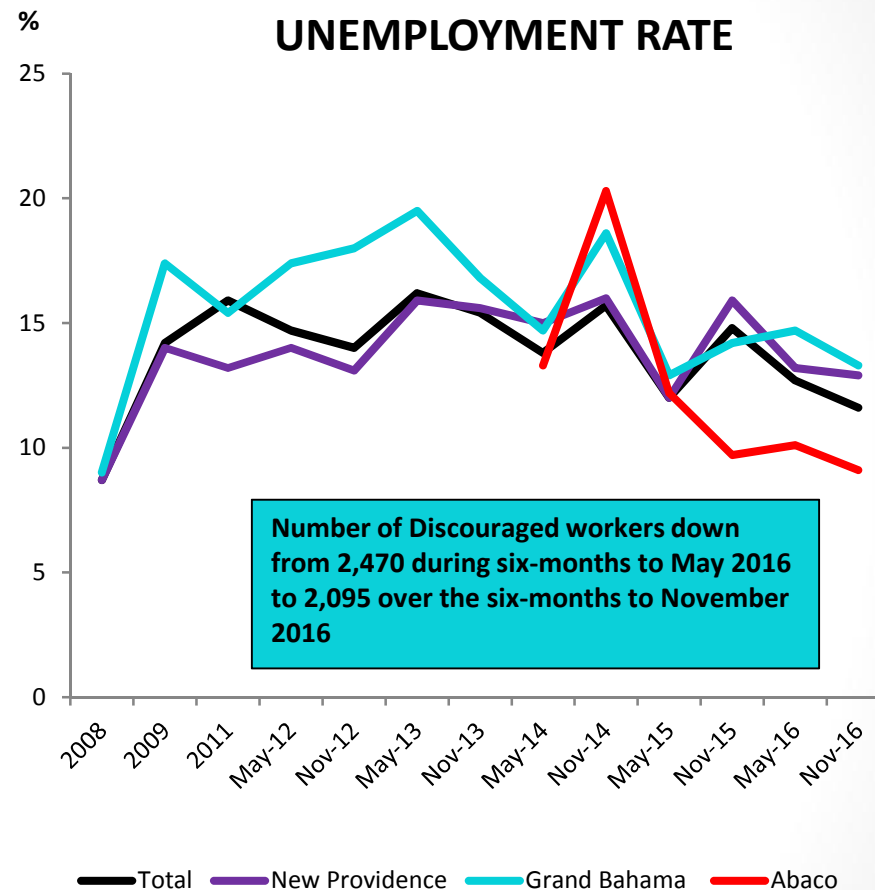
EMPLOYMENT

Unemployment Indicators

- Based on DOS data, the unemployment rate fell by 1.1 percentage points (ppt) to 11.6% at end-Nov, vis-à-vis the prior six-month period.
- When compared to the same period in the previous year, the rate fell by 3.3 ppt*.
- Following the passing of Hurricane Matthew, construction jobs grew by 16.0%.

Over the six months to Nov:

- Due to construction related hiring following Hurricane Matthew:
 - NP rate fell by 0.3 ppt to 12.9%
 - GB rate decreased by 1.4 ppt to 13.3%
 - Abaco rate down by 1.0 ppt to 9.1%
- Number of discouraged workers fell by 15.2% to 2,095.
- Youth Unemployment declined by 0.7 ppt to 25.1%.



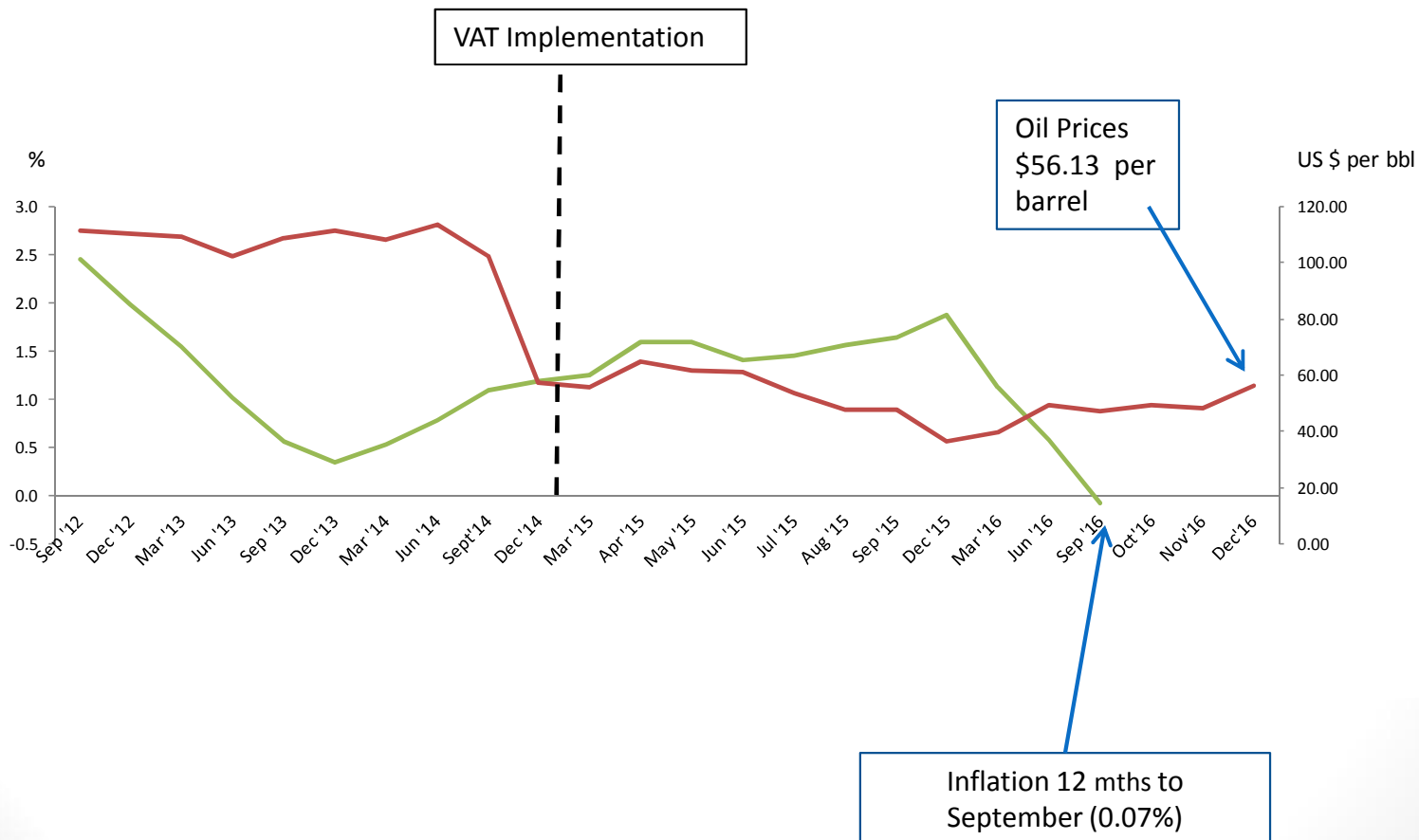
SOURCE: The Central Bank of The Bahamas

*Bimini and Exuma were added to the survey for the first time and registered unemployment rates of 4.0% and 8.0%, respectively, hence these rates are not continuously comparable with prior years .

INFLATION

Inflation

A reduction in the housing, water, gas, electricity and “other” fuels component (33.0% of the index) by 2.32%, supported a decline in the average price level during the 12 months to September 2016.

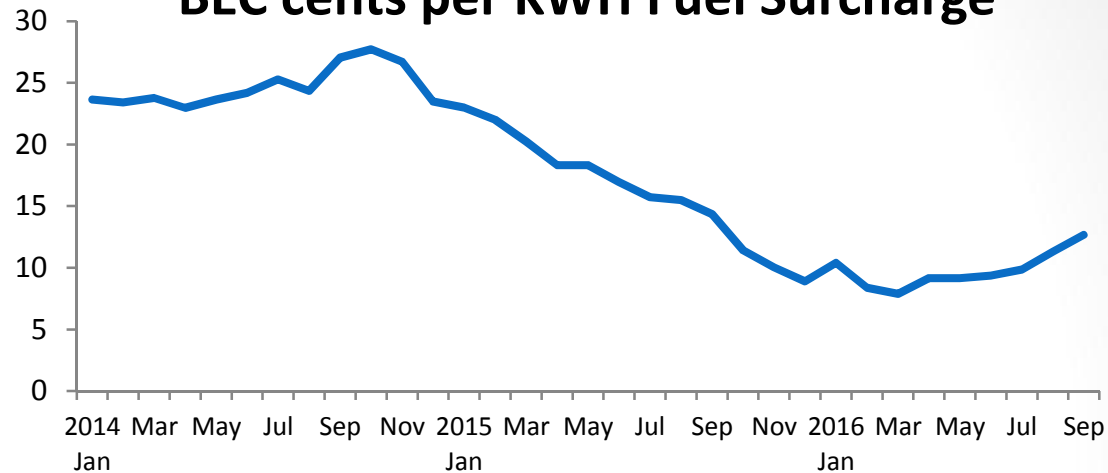


Sources: Department of Statistics and Bloomberg

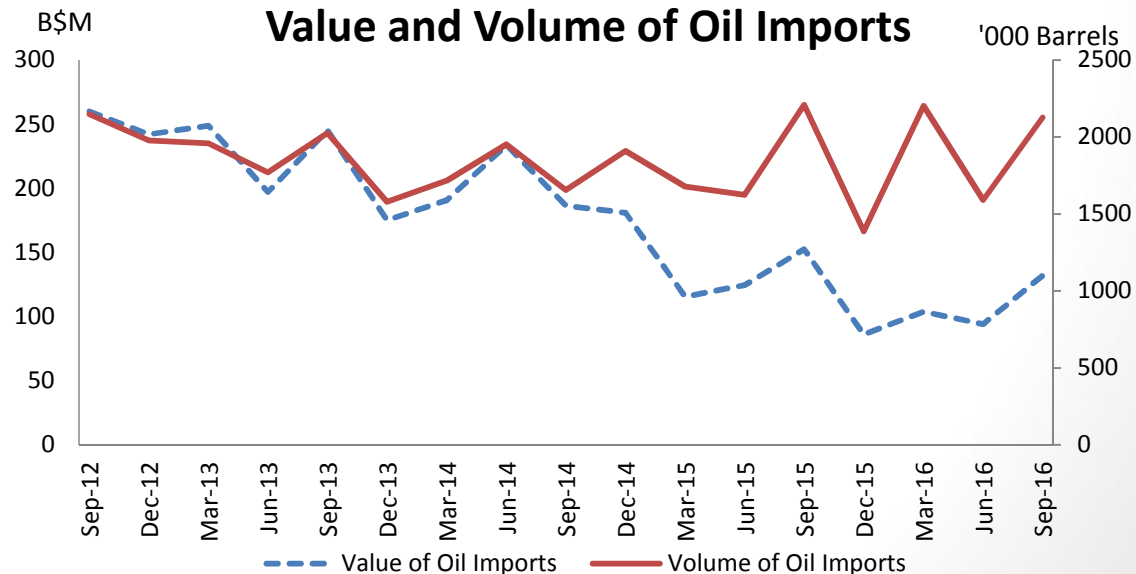
Domestic Oil Prices

- Global oil prices rose slightly in 2016, but remained lower than pre-June 2014 highs. This has resulted in a marginal upward trend in domestic energy costs.
- BPL's (formerly BEC's) fuel surcharge at 12.67 cents per KWh at end-Sep.
 - up 12.1% month on month, but down 11.7% year-on-year
- The recent uptick in oil prices has also contributed to the value and volume of oil imports trending upwards slightly in 2016.

BEC cents per KWH Fuel Surcharge



Value and Volume of Oil Imports

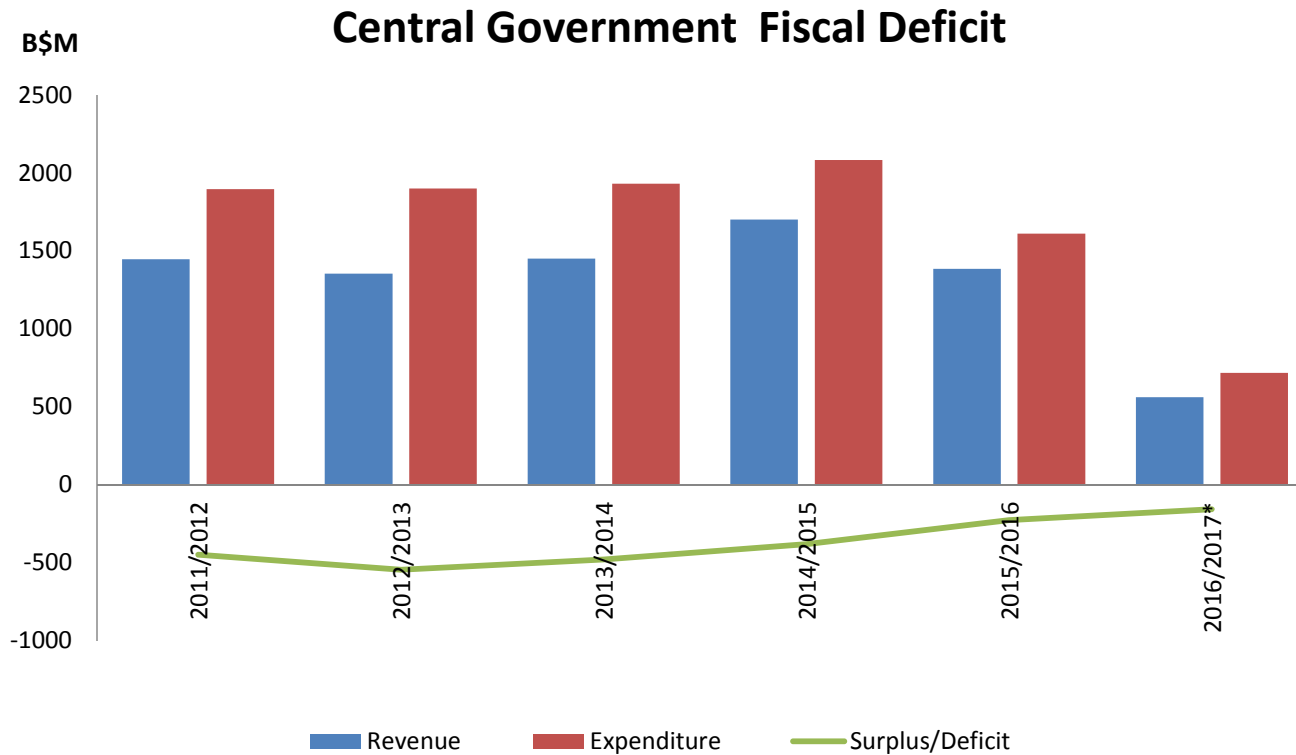


SOURCE: The Central Bank of The Bahamas

FISCAL SECTOR

Fiscal Indicators

Fiscal deficit widened by \$67.7 million (75.3%) to \$157.5 million in first four months of FY2016/17, compared to the previous year; Net VAT receipts totaled \$214.1 million (down 6.7% compared to the prior year)



SOURCE: The Central Bank of The Bahamas

* Four months of FY2016/2017

Sovereign Credit Ratings

...Bahamas' rating has fallen markedly but is still among highest in the Caribbean region.

	S & P		Moody's		S&P		Moody's	
	2008		2008		2016		2016	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Bahamas	A-	—	A3	Δ	BB+	Δ	Baa3	Δ
Barbados	A-	—	Baa2	Δ	B-	—	Caa1	Δ
Belize	B	Δ	Caa1	Δ	CC	—	Caa2	Δ
Jamaica	B	—	B1	—	B	Δ	B3	Δ
Trinidad & Tobago	A+	Δ	Baa1	Δ	A	—	Baa3	—

— negative

Δ stable

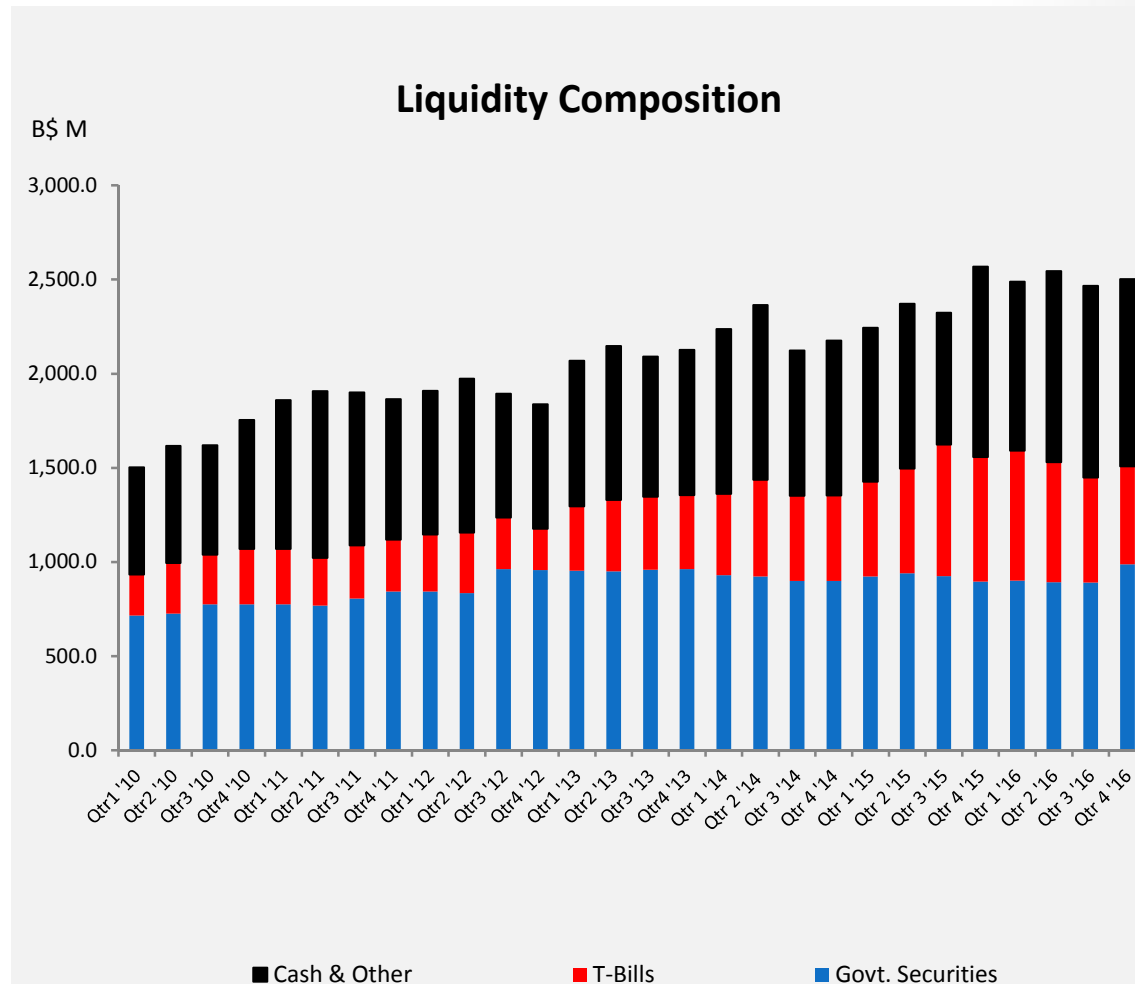
+ positive

MONETARY SECTOR

Money & Banking: Liquidity Conditions

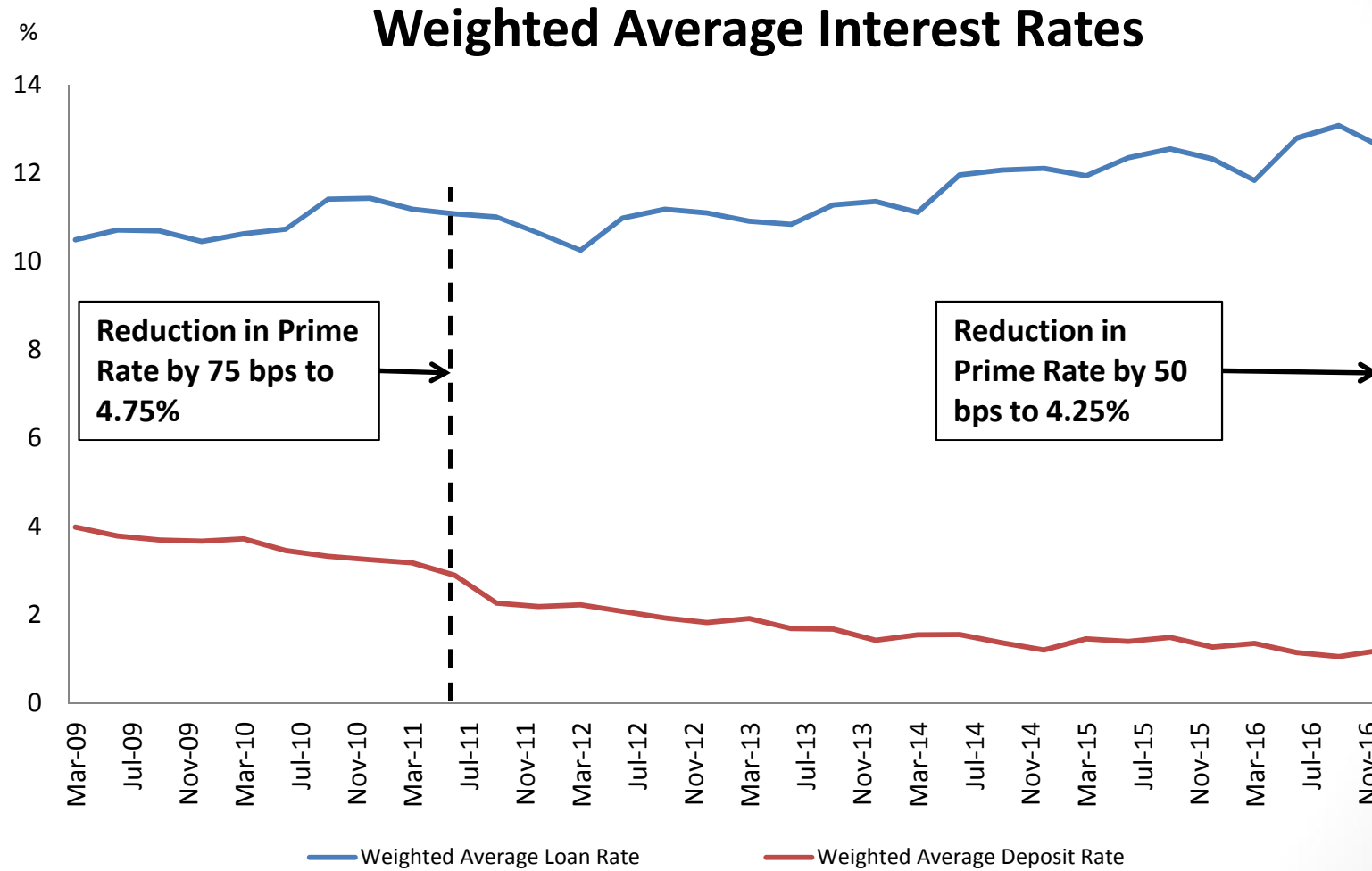
Liquidity strengthened in 2016, due to Govt. foreign currency borrowing, Central Bank credit to the Govt. and net foreign currency inflows from real sector activities.

- By end-December, excess liquid assets (cash, deposits, gov issued or guaranteed securities) firmed by \$132.7 million to \$1.4 billion relative to 2015.
- In addition, excess reserves of cash and deposits at the Central Bank grew by \$234.4 million to \$723.7 million.



Source: The Central Bank of The Bahamas

Money & Credit Trends



SOURCE: The Central Bank of The Bahamas

Lending Conditions

- Over the year, growth in total Bahamian dollar domestic credit accelerated to \$294.5 million, from \$103.1 million last year
- Net claims on the Government advanced by \$357.6 million, compared to the \$146.4 million expansion in 2015.
- Credit to public corps. firmed by \$29.3 million, after a \$19.2 million reduction in prior period.
- Private sector credit (69.1% of the total) lower by \$92.4 million, compared to \$24.1 million decrease in 2015.

➤ mortgages	↓	\$111.9 million*
➤ commercial	↓	\$59.1 million
➤ consumer	↑	\$78.6 million

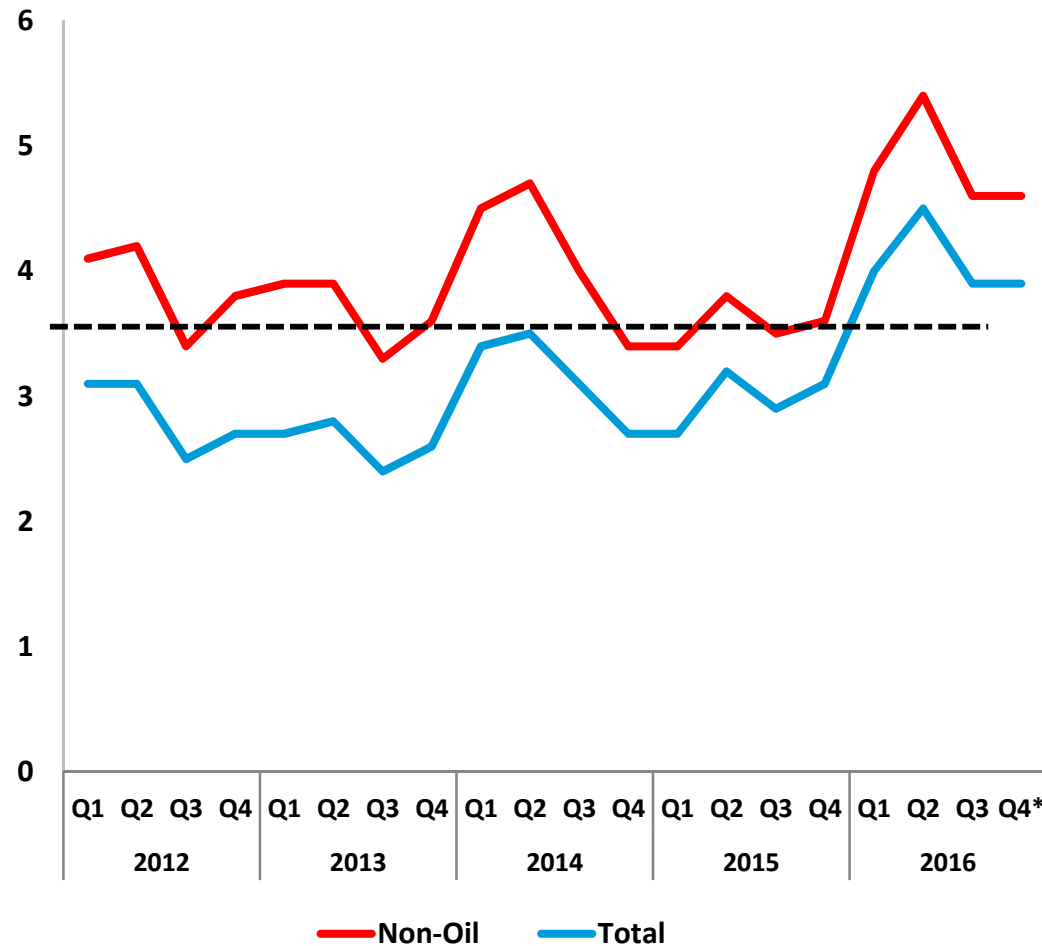
* mainly due to sale of one entity's non-performing mortgages to a non-bank entity

External Reserves

External reserves firmed by \$93.6 million to \$902.1 million at end-Dec., a significant improvement from the \$22.2 million expansion in 2015.

At end-Dec., reserves were equivalent to 3.9 months of total merchandise imports, above the international benchmark of 3.0 months.

Import Cover Ratio
(Months)



SOURCE: The Central Bank of The Bahamas

*Estimated using 3rd quarter imports over 4th quarter reserves.

OUTLOOK

Outlook

Modestly stronger economic performance is expected in 2017.

Real Sector

- Pickup in tourism sector backed by sustained improvement in key source market; phased completion of Baha Mar and other room capacity increases.
- Construction activity is poised to strengthen, reflecting work to complete Baha Mar, other FDI projects and on-going hurricane repairs.
- Further growth in employment, contingent on the performance of tourism and construction sectors.
- Inflationary pressures are anticipated to be contained over the near-term, as international oil prices stay low; however, a slight uptick from current levels is anticipated due to the OPEC agreement in November to curb production.

Fiscal Sector

- Potential for improvement in Government's budget operations will depend heavily on the success of measures to enhance revenue administration and restrain growth in spending,
 - although the impact of post-hurricane outlays will slow the near-term rate of fiscal consolidation.

Outlook

Monetary Sector

- Bank liquidity forecasted to remain elevated over the near-term, despite an expected pickup in private sector credit and spending from the monetary stimulus.
- Credit arrears and NPLs are anticipated to continue their downward trajectory, assisted in part by the results Government's mortgage relief plan, other restructuring efforts, and improvement in employment conditions.
- Banks are projected to stay highly capitalized, thereby mitigating any threats to financial sector stability.
- External reserves are expected to trend at a stable to mildly improved pace given the potential for a further boost in net foreign exchange inflows through the private sector.

Risks To Forecasts

Upside potential in the outlook

- Potential for acceleration in US Real GDP growth in near-term from potential fiscal stimulus and lower tax rates.

Downside risks

- Moderating effect on US economic growth from rising interest rates and shifts in US trade policies.
- Prolonged period of recovery from hurricane damage.
- Increased costs on public sector debt from credit ratings downgrades.

The End