



Quarterly Economic and Financial Developments Report

June 2018

Research Department



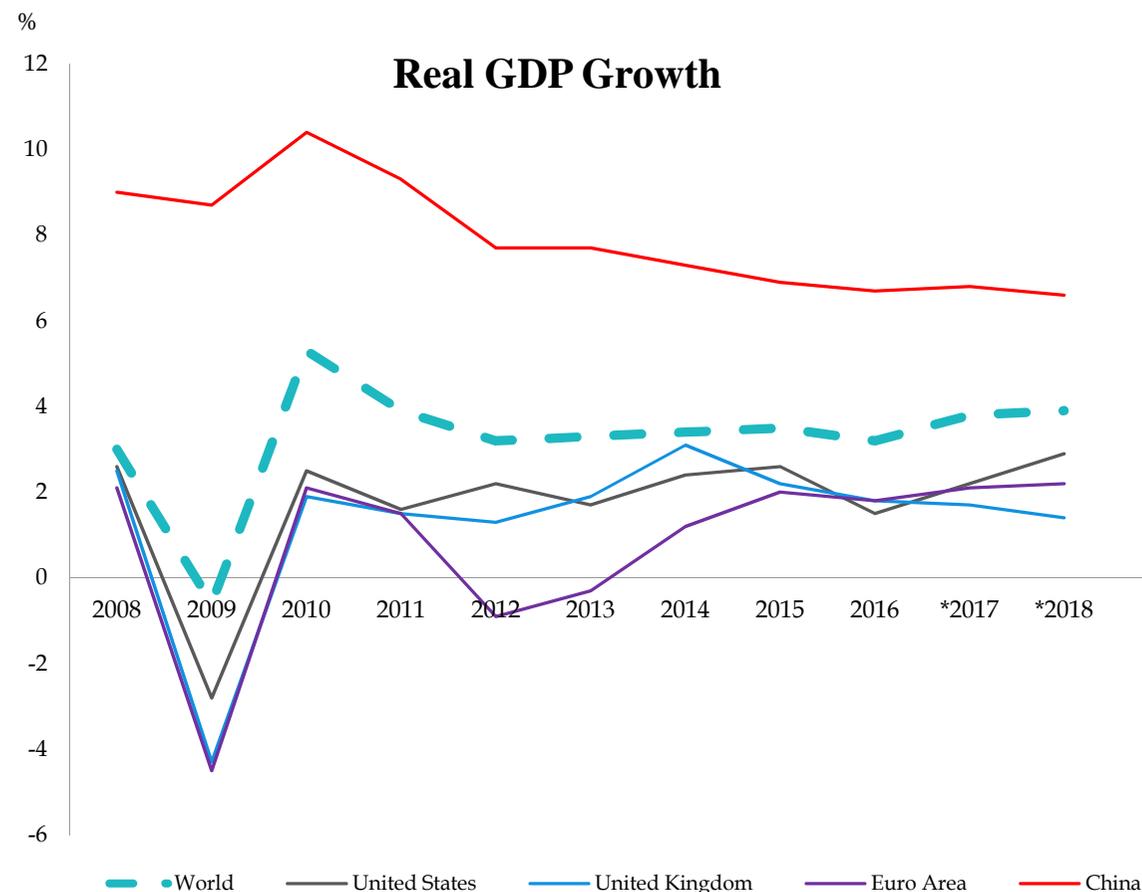
Global Economic Forecasts

In its July 2018 update, the IMF maintained its forecast for global growth in 2018 at 3.9%, a slight increase over 2017's 3.7% expansion.

2018 GDP projection changes from April 2018 forecasts are as follows:

- The Euro Area (-20 basis points to 2.2%)
- The U.K. (-20 basis points to 1.4%)

Projections for the United States, China, and Canada remained stable at 2.9%, 6.6% and 2.1%, respectively.



Domestic Economic Developments

Real Sector

- Domestic economy maintained its modest growth rate in June and over the first half of 2018.
- Tourism continued its upward momentum over the first half of 2018.
- The construction sector remained fueled by ongoing foreign investment projects.
- Inflation rose over the year to March, underpinned by steady increases in global oil prices.

Fiscal Sector

- During the eleven months of the FY2017/2018:
The deficit declined by 29.2% to approx. \$211.9 million
- Capital spending-led decline in total expenditure
 - Gains in total revenue and grants

Monetary Sector

Both bank liquidity and external reserves rose significantly over the six-month period, as deposit growth contrasted with a reduction in credit. Gov't. external loan financing and net foreign exchange inflows from tourism sector activity fueled the deposit gains.



TOURISM SECTOR

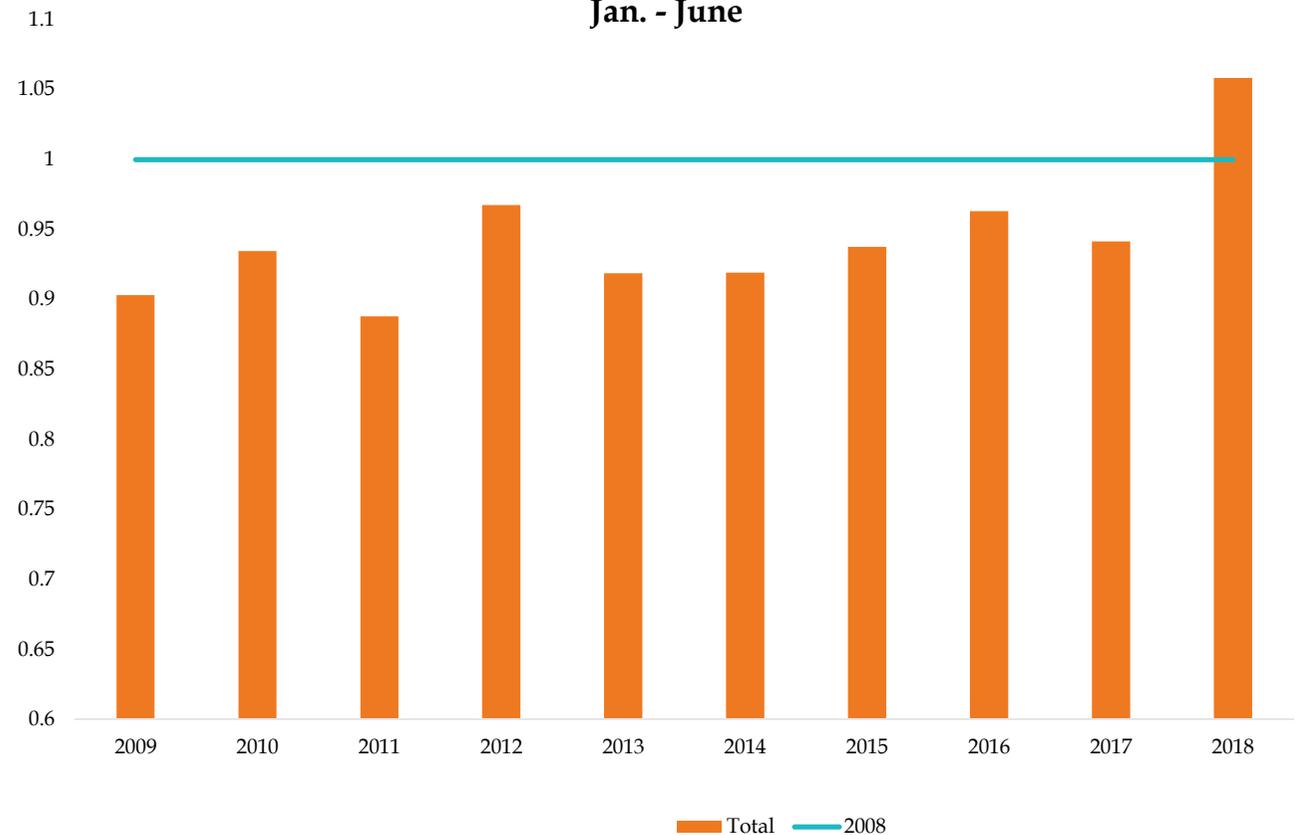
Tourism Sector: Departures

(Jan. - June, 2018)

Data from NAD revealed sustained improvements in international departure traffic during the first half of 2018.

- Total departures strengthened by 12.4%, relative to a 2.2% decline a year earlier.
 - Non-US departures improved by 17.3%, a turnaround from a 0.1% softening in 2017.
 - The U.S. component grew by 11.6%, to reverse a 2.6% decrease in 2017.
 - New routes, including one between Houston, Texas and Nassau are a contributing factor.
- Trends in airport activity showed that departure traffic was the highest its been since 2012, and for the first time exceeded pre recessionary levels.

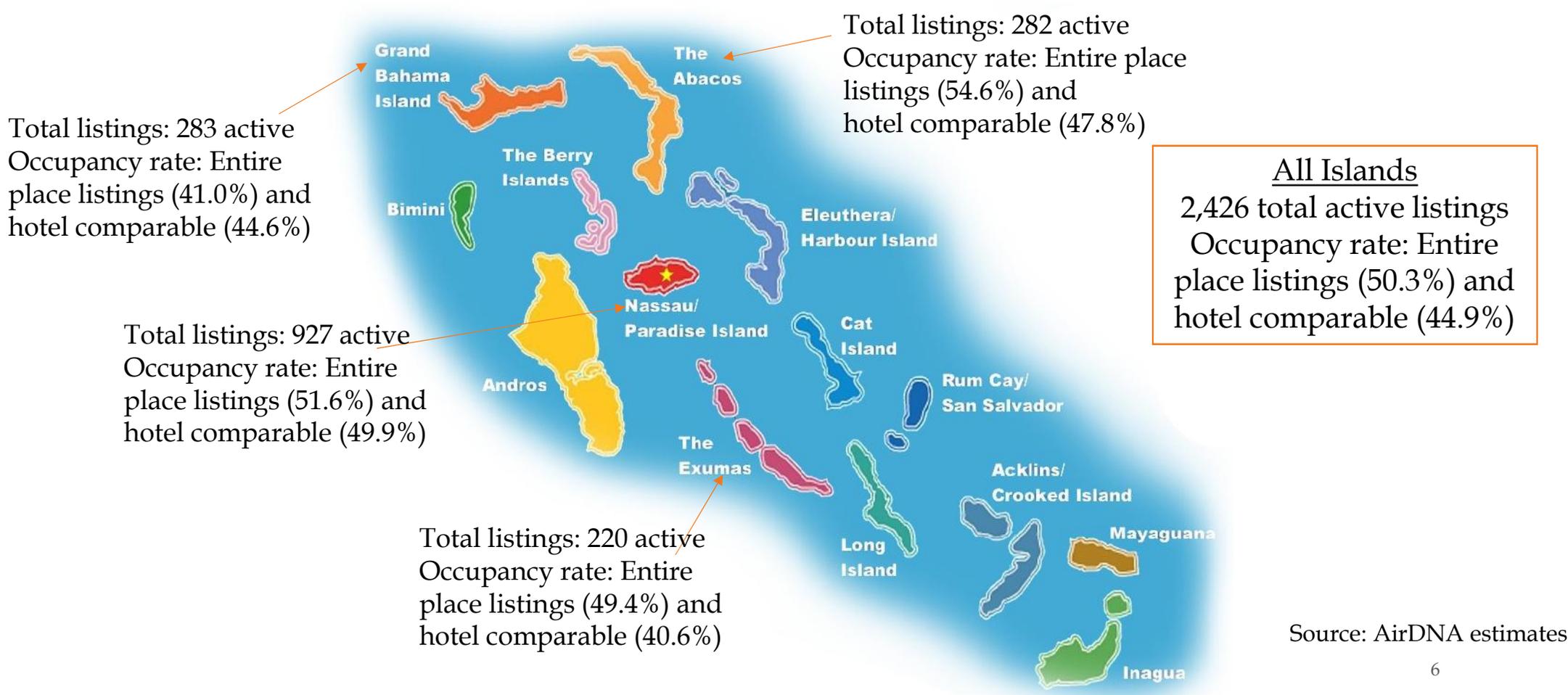
Departures vs. 2008 Recession
Jan. - June



Source: Nassau Airport Development Company (NAD)
All figures are net of domestic departures.

Airbnb: Snapshot

(June 2018)



Source: AirDNA estimates

Airbnb: Occupancy Rate Trends

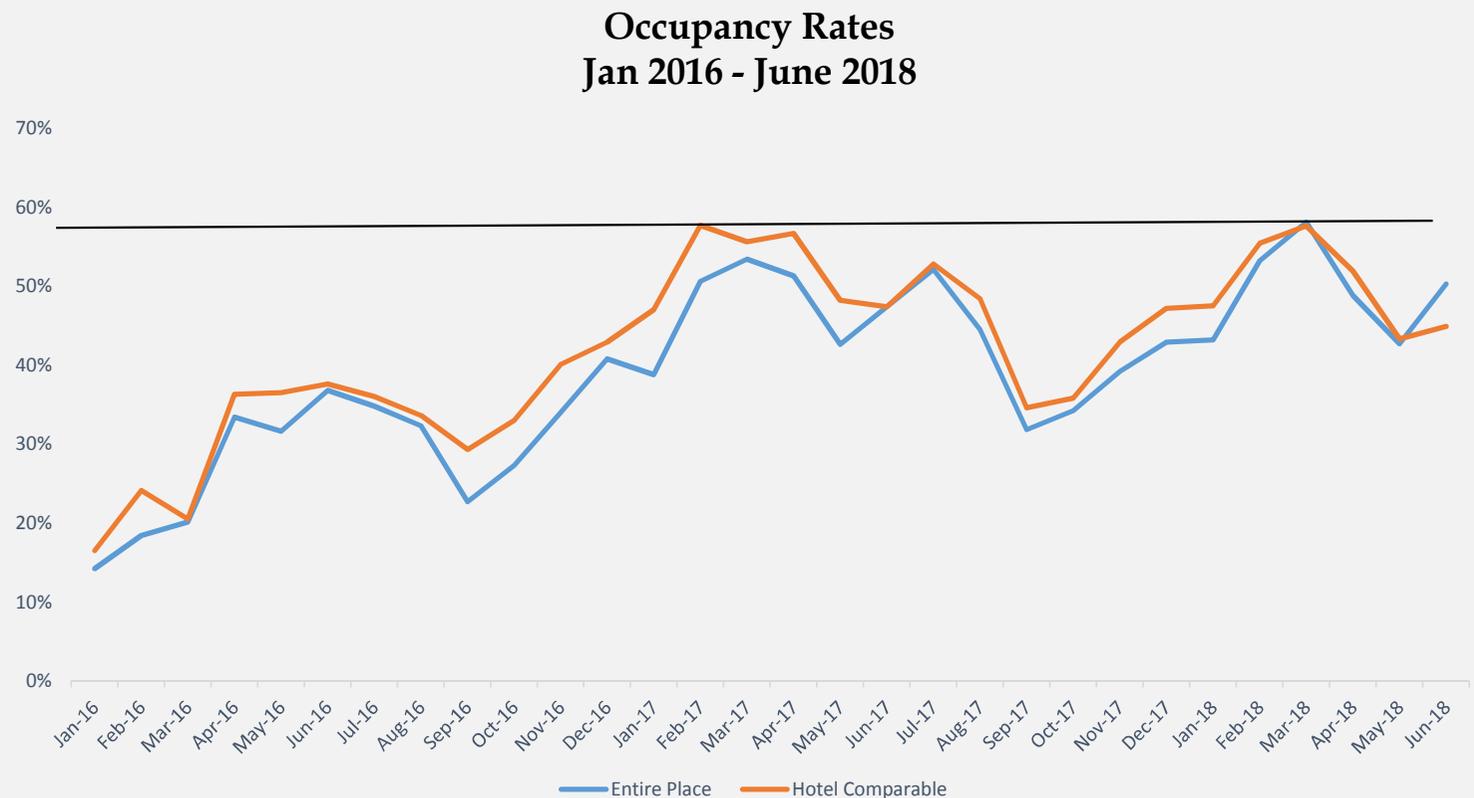
(June 2018)

Entire Place Listings

- Occupancy rate increased to 50.3%, from 47.4% in the previous year.

Hotel Comparable Listings

- Occupancy rate decreased to 44.9% from 47.4% in the previous year.



Source: AirDNA

A photograph of a modern, multi-story building with a light-colored stone or concrete facade. The building has several large windows, some with dark frames and others with metal grilles. A circular emblem is visible on the stone wall. The text "FOREIGN INVESTMENT PROJECTS" is overlaid in the center of the image.

FOREIGN INVESTMENT PROJECTS

Baha Mar - Rosewood

Cable Beach - New Providence



- The Rosewood hotel opened officially on 22nd May, offering 237 rooms, suites and villas.
- Baha Mar now has a staff compliment of 4000+ employees, with Rosewood expected to have added 450 more.

Source: Caribbean Journal 9
Photo Source: The Bahama Journal

Goldwynn Hotel & Residences

West Bay Street – New Providence



- A \$120 million project set on the eastern end of Goodman's Bay Beach.
- Groundbreaking ceremony took place on May 23, 2018
- A five-story boutique hotel development that will feature:
 - 90 rooms,
 - 25 condominium units, and
 - 64 residences.
- Construction is slated to begin in July 2018, and be completed by Dec. 2020.
- Management will conduct a training and apprenticeship programme with the Ministry of Education and BTVI, and will employ 300 people for construction and 175 people upon completion.

Source: The Tribune & The Bahamas Investor
Photo Source: The Nassau Guardian

Oban Energies

Freeport – Grand Bahama



- An initial estimated \$4.0 billion investment project, that plans to provide storage facilities for crude oil, middle and light distillates, specialty vegetable oils and heavy oils.
- The company is expected to sign an amended Heads of Agreement (HOA) with the government soon.
 - The new HOA includes adjustment to environmental clauses, economic terms and restrictive legal conditions.
 - 80% of potential jobs remain reserved for locals.

Source: Eye Witness News 11
Photo Source: Oban Energies

Perfect Day – Royal Caribbean Cruises Ltd.

Coco Cay



- The cruise line acquired the island three decades ago, and is now making it the focal point of its “Perfect Day” programme with a \$200 million renovation.
- The water park will open in the spring of 2019, and the rest of the project should be completed about six months later with 160 Bahamians expected to be employed.
- The revamped version of the island will include:
 - 2 water towers and 13 water slides, including Daredevil’s Peak, that will be the tallest slide in North America
 - A 1,600-foot zip line
 - A 450 feet helium balloon ride
 - The largest freshwater pool in the Caribbean
 - A new VIP zone, Coco Beach Club, which includes Maldives-style cabanas

Source: Fortune

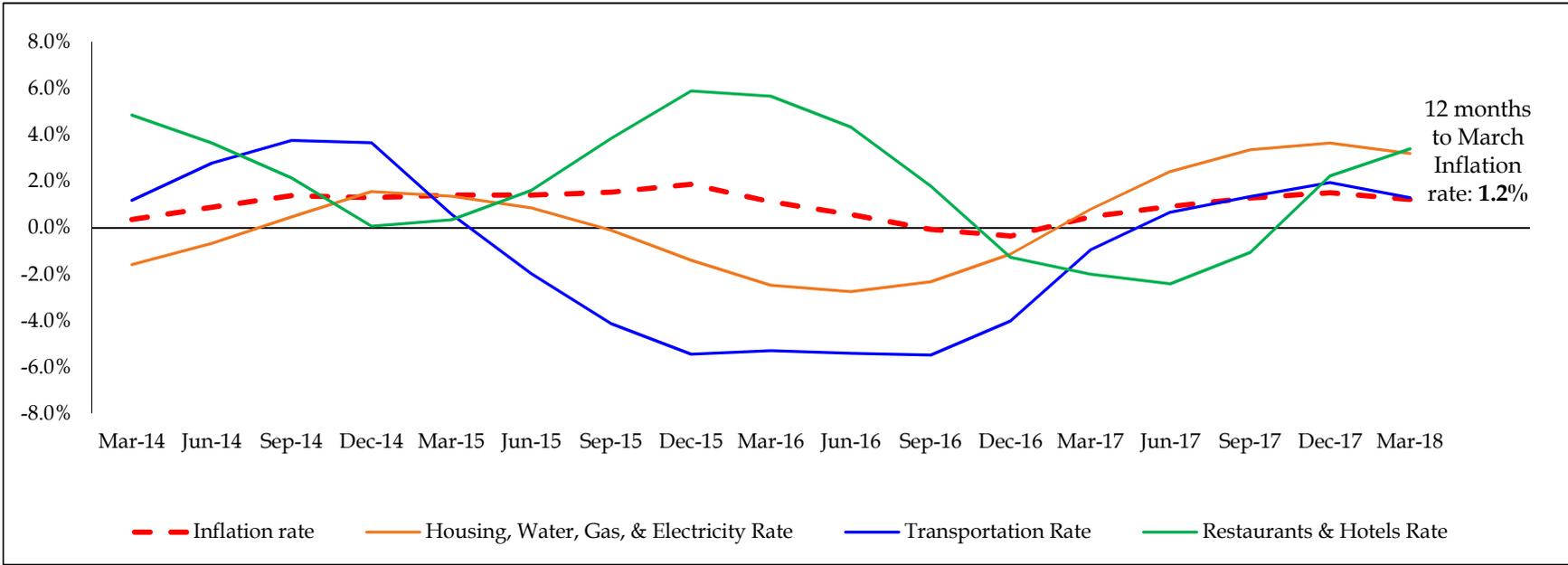
Photo Source: Royal Caribbean



INFLATION

Inflation

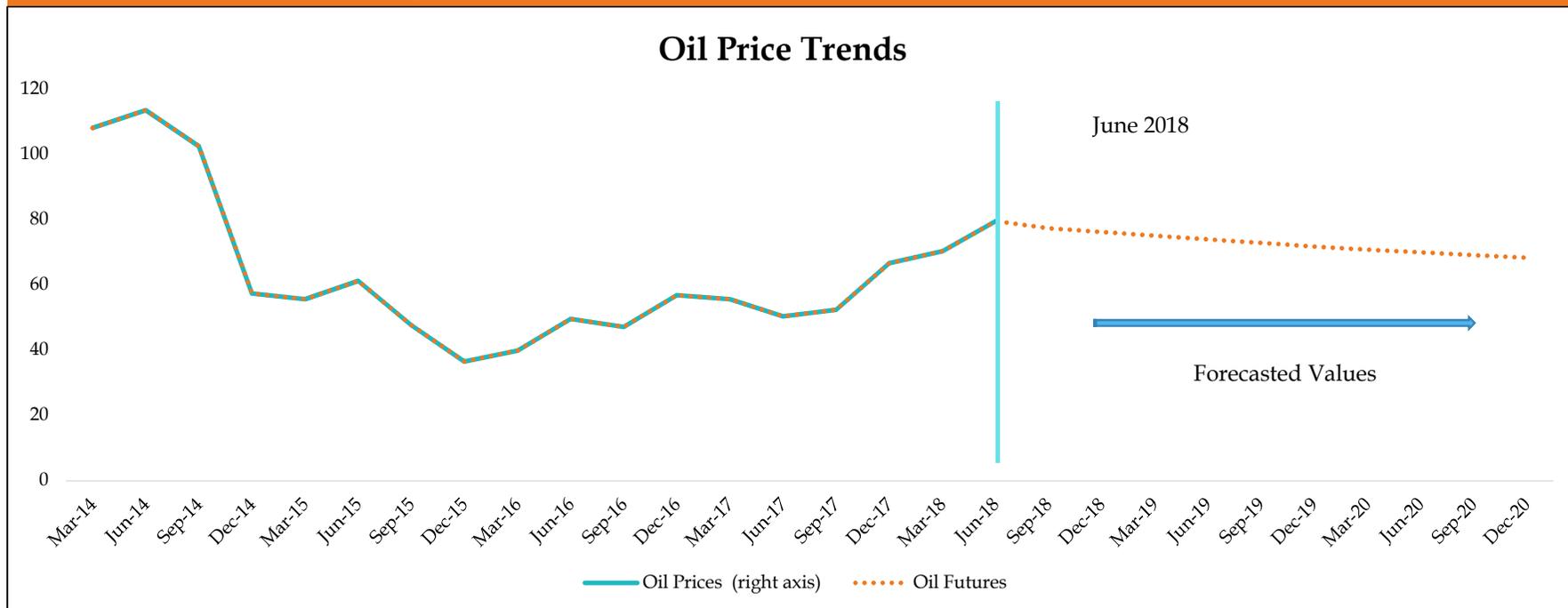
The Retail Price Index rose by 1.2%, from 0.5% in March 2017, due in part to increases in average costs for housing related items (3.2%) and restaurant & hotels (3.4%).



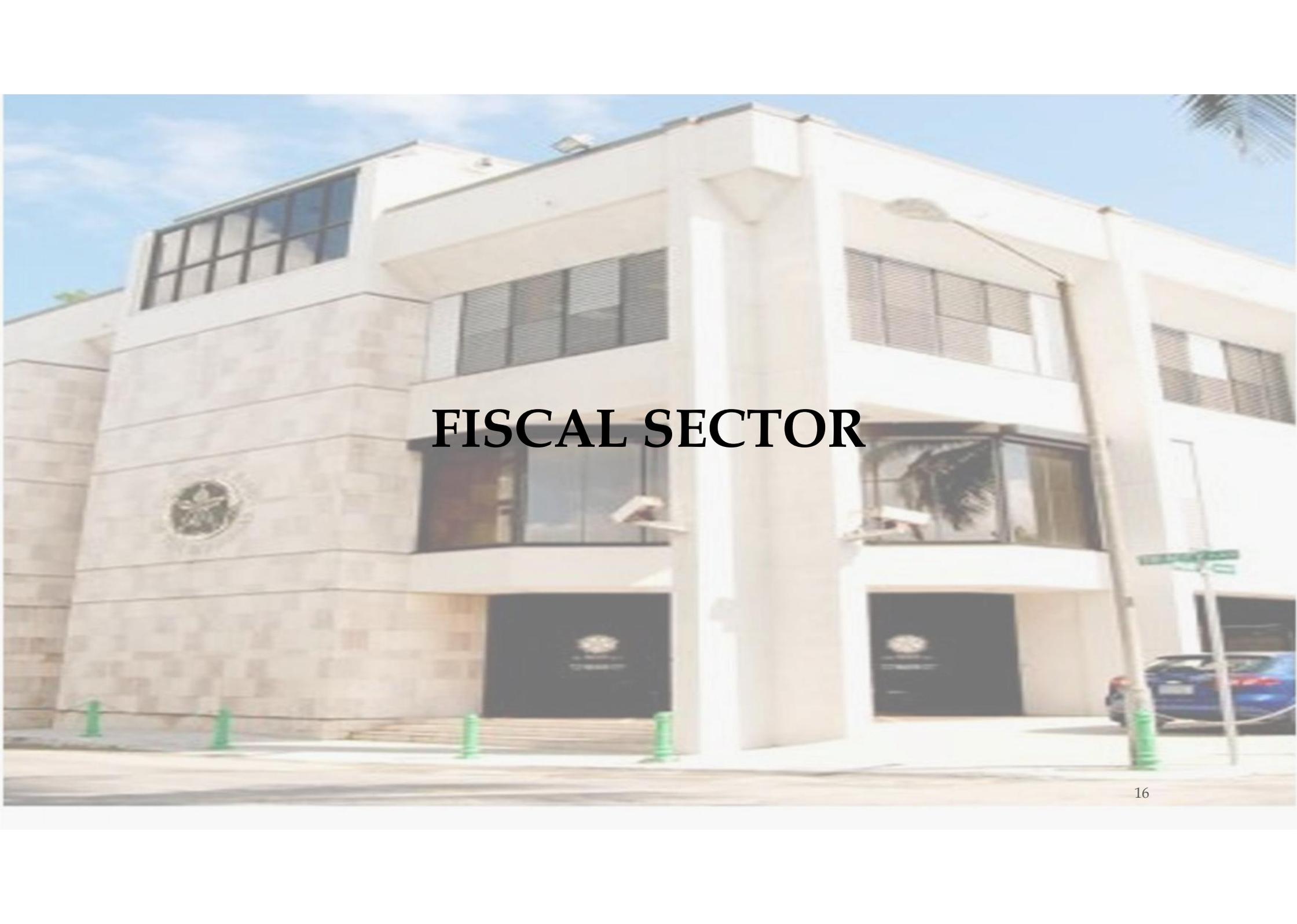
Source: Department of Statistics and The Central Bank of The Bahamas

Oil Price Trends

In June 2018, global oil prices averaged \$74 per barrel, which is \$3 lower than the previous month. Forecasts suggest that during the 2nd half of 2018, worldwide crude oil prices will average \$73 per barrel and \$69 per barrel in 2019. This projected gradual decrease in price is a result of an OPEC meeting on June 22, where members agreed to increase production.



Source: Bloomberg

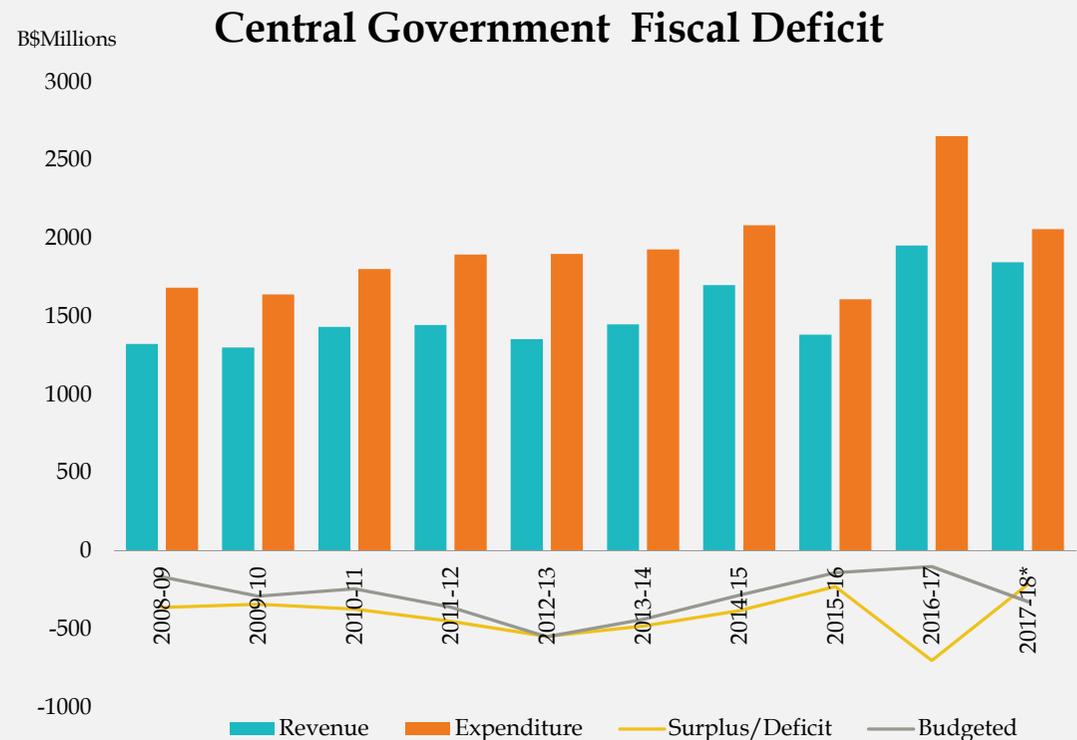


FISCAL SECTOR

Fiscal Indicators

During the eleven months of FY2017/18, Government's operations showed a deficit of \$211.9 million, a 29.2% reduction from the \$299.4 million deficit recorded over the same period of FY2016/17.

- Revenue: up by \$27.7 mil (1.5%) to \$1,846.9 million.
 - VAT receipts rose by \$14.7 million (2.5%) to \$610.7 million.
- Expenditure: down by \$59.8 mil (2.8%) to \$2,058.8 million.
 - Capital spending fell by \$120.5 million (43.7%) to \$155.3 million.



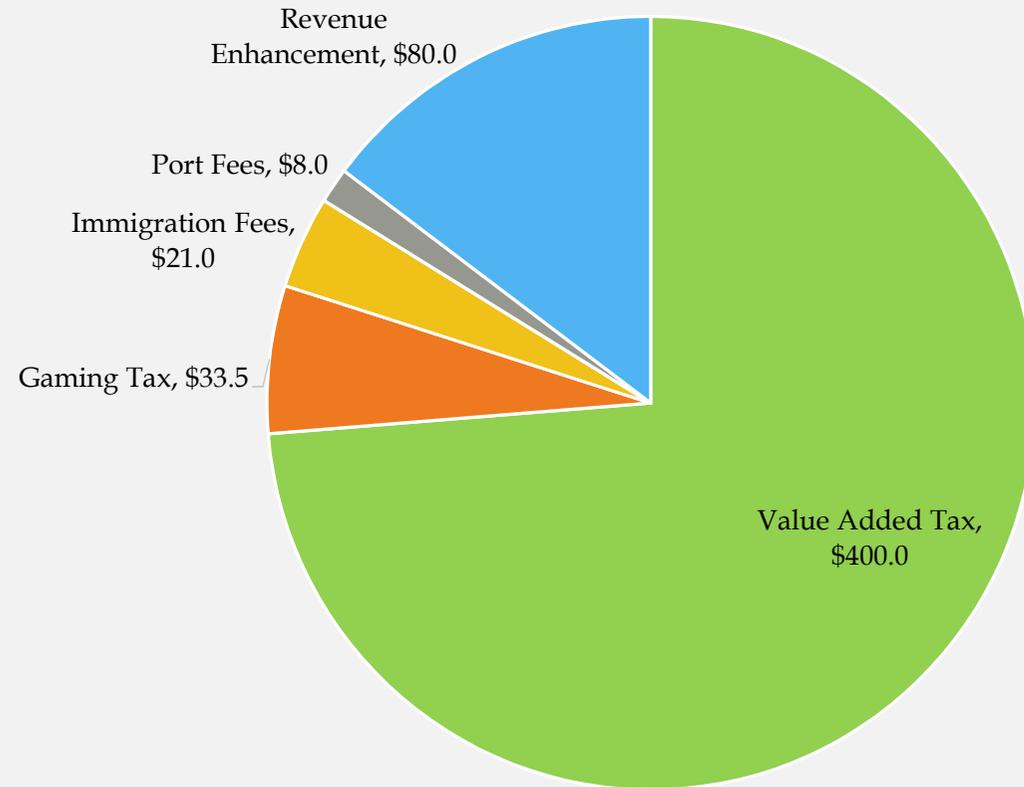
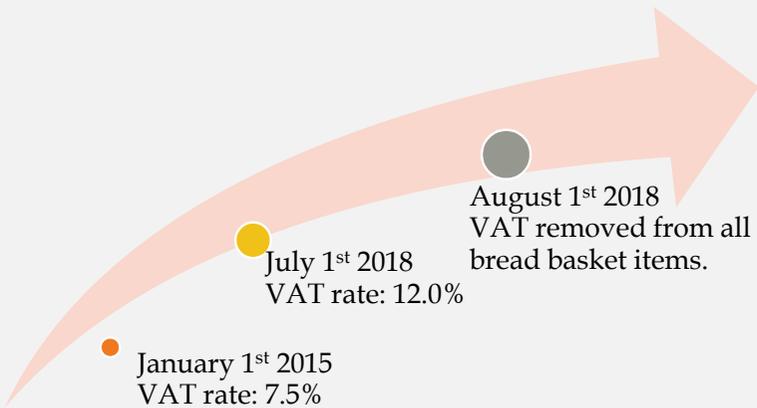
SOURCE: The Central Bank of The Bahamas
Eleven months of FY 2017/2018.

Budget Communication 2018/2019

A Package of Reforms

The VAT rate was increased from 7.5% to 12.0%, effective 1st July.

Projected Additional Revenue in B\$Millions



Source: Ministry of Finance

Budget Communication 2018/2019

Targeted Tax Relief

For individuals

- VAT eliminated from
 - breadbasket items
 - prescription/over the counter medication
 - residential electricity bills under \$200/month
 - residential water bills under \$50/month
 - residential property insurance.
- Personal travel exemption for customs duties and VAT increased from \$300 to \$500 per person twice a year.
- Duty concessions eliminated from
 - art supplies upon application
 - whole salmon & frozen fish fillets
 - bread spreads, potato products, tofu and prepared and preserved tomatoes.

For businesses & others:

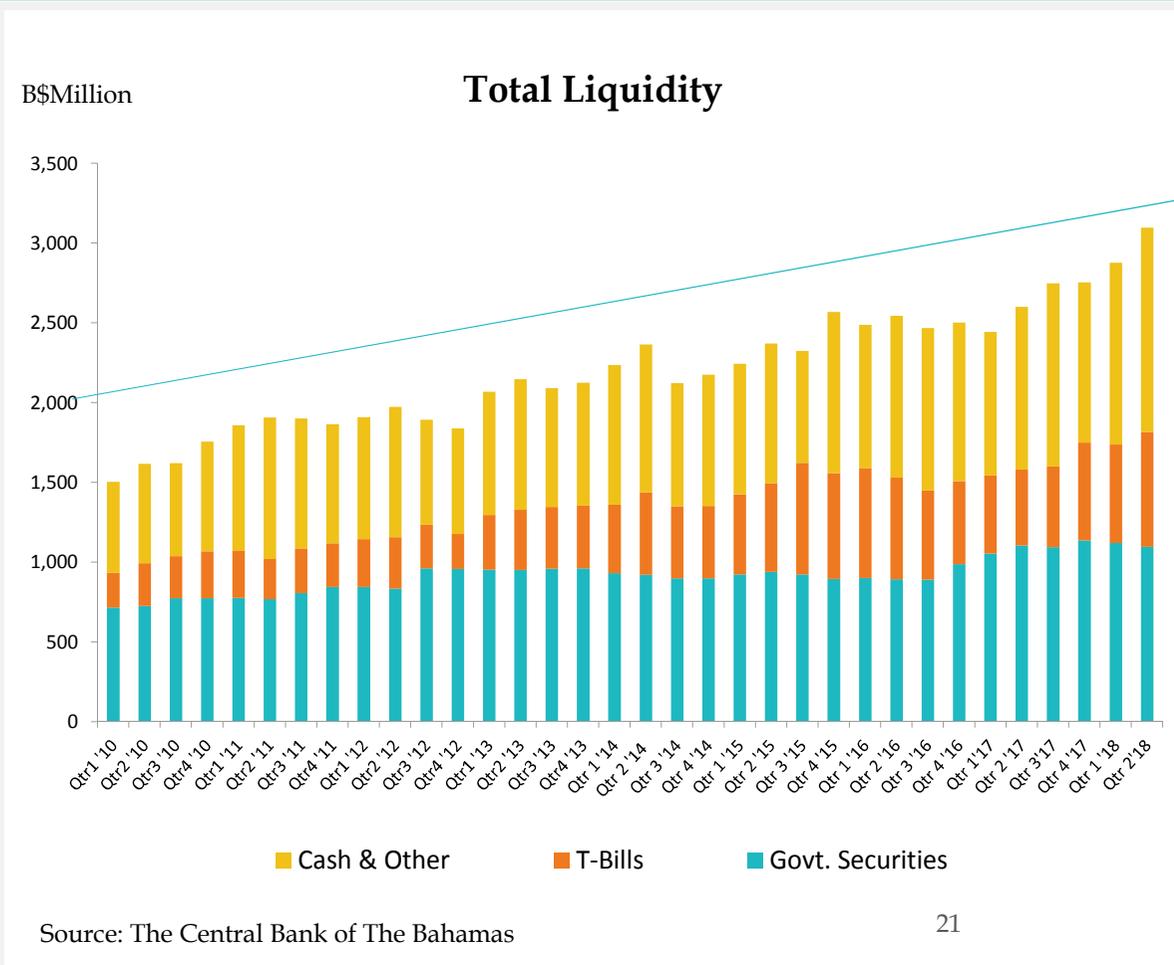
- Business license concessional rate of 0.75% granted to smaller hotels (in line with existing rate for large hotels).
- Business license waiver for schools registered with the Ministry of Education.
- VAT Free fundraising activities held by charitable organizations.
- Duty eliminated for church buses less than 8 years (increased from 3 year-old requirement to make it more affordable and include more churches)
- Duty free entry for goods used in the commercial printing industry.



MONETARY SECTOR

Money and Banking: Liquidity Conditions

- During the first half of the year, excess liquid assets grew by \$188.3 mil. to \$2.0 billion, relative to a \$165.9 mil. upturn in 2017.
- In addition, excess reserves expanded by \$137.9 mil., vis-à-vis a \$127.9 mil. growth last year.
- The expansion in liquidity was due mainly to the Government's external borrowing activities and net foreign currency inflows from the tourism sector, which fueled deposit growth, while credit fell.



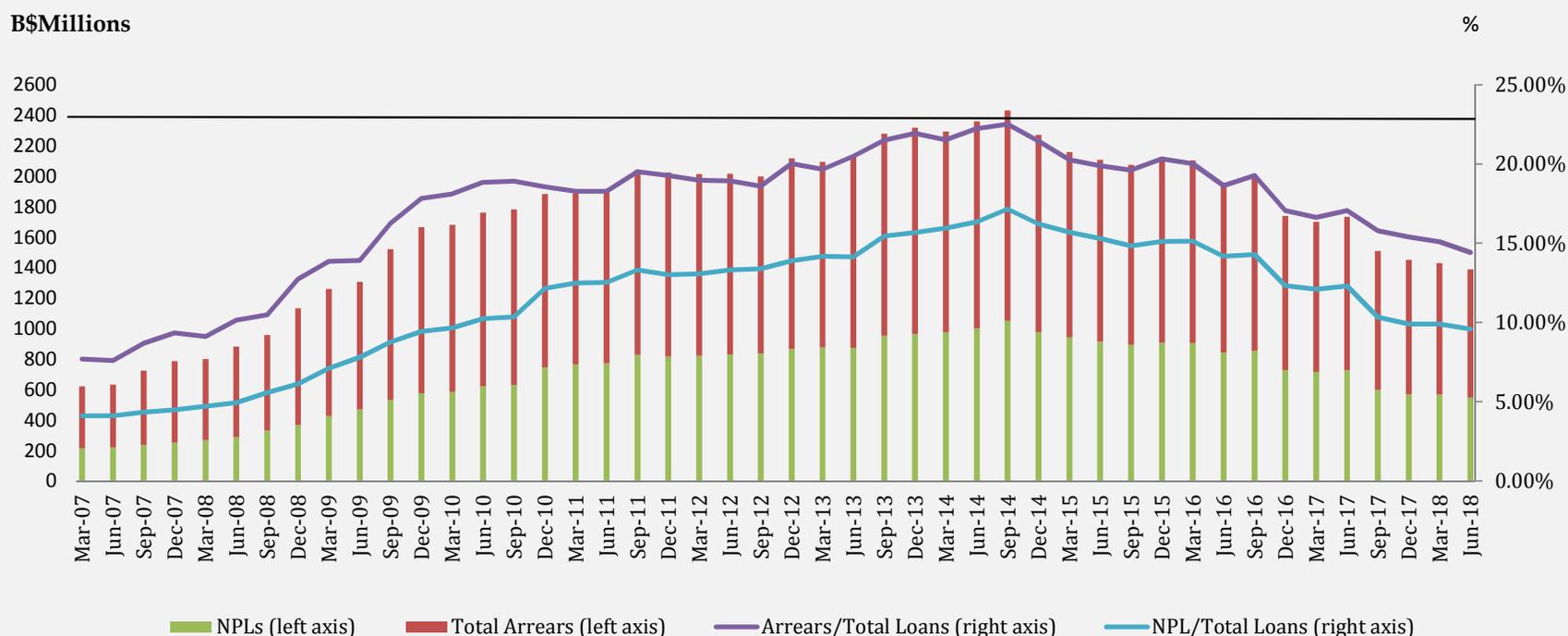
Lending Conditions

Over the first half of the year, total Bahamian dollar domestic credit contracted by \$33.8 mil., in contrast to 2017's \$166.4 mil. expansion.

- Private sector credit fell by \$64.2 mil, a slowdown from the \$16.8 mil. decline in 2017.
 - Mortgages ↓ by \$5.1 million
 - Consumer credit ↓ by \$40.4 million
 - Commercial credit ↓ by \$18.7 million
- Credit to public corps. decreased by \$1.6 mil., relative to a \$3.3 mil. fall in the prior period.
- Net claims on the Government increased by \$32.1 mil., a slowdown from the \$186.5 mil. increase a year earlier.

Credit Quality Indicators

- At end-June 2018, total private credit arrears rate and the NPL sub-component stood at 14.43% and 9.58%, respectively.
- This is higher than the 7.8% and 4.1% recorded at end-June 2007, but significantly below the 22.2% and 16.4% at end-June 2014 (when rates were near their peaks).



Source: The Central Bank of The Bahamas

External Reserves

- External reserves rose by \$179.7 mil. to \$1,588.0 mil. at end-June, outpacing the \$58.9 mil. expansion in 2017.
- At end-June, reserves were equivalent to approx. 7.2 months of current year's total merchandise imports, compared to 3.7 months in 2017 (benchmark 3.0 months).
- Reserves also represented 97.9% of Demand Liabilities (DL), compared to 64.5% at end-June 2017 (benchmark 90% - 100%).

Import Cover Ratio (Months)



Source: The Central Bank of The Bahamas

*2nd quarter import cover ratio estimated using using 2nd quarter 2017 imports.

General Reserves to Demand Liabilities



Source: The Central Bank of The Bahamas



OUTLOOK

Outlook: Real Sector and Fiscal Sector

Real Sector

- Expectations are for modest growth in tourism sector, backed by sustained improvements in several key source markets, greater high-end hotel stock and an increase in airlift.
- Construction activity is poised to be supported by on-going and newly minted FDI projects, and to a lesser extent, the Gov't's initiatives to increase home ownership through the Affordable Housing Program.
- Labour market conditions expected to improve further.
- Over the near-term, the relatively higher global fuel costs, combined with the upward adjustment in the VAT rate on July 1, are likely to lead to modest gains in inflation.

Fiscal Sector

- Efforts to reduce the deficit and improve the debt indicators, will depend heavily on the success of sustained measures to constrain expenditure growth and increase revenues.
 - Enactment of the Fiscal Responsibility Act and accompanying Debt Management legislation, would support this framework.

Outlook: Monetary Sector

Monetary Sector

- Liquidity is expected to remain elevated over the near-term, reflecting both banks' conservative lending practises and their clients on-going efforts to deleverage.
- Arrears and NPLs are anticipated to continue their downward trajectory, amid banks' sales of non-performing assets and sustained debt restructuring measures.
- 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, although further reductions from current levels are expected, due to the seasonal increase in foreign currency demand in the latter half of the year.

Risks to the Outlook



Monetary Policy Comments

- Given the generally positive economic environment and domestic outlook, the Central Bank's existing monetary policy stance remains prudent, as outflows of foreign currency for mainly trade and debt purposes, are balanced by inflows from real sector activities.
- The current policy stance is informed by several economic factors, including the high level of external reserves, ongoing improvements in the tourism sector and relatively weak private sector credit.
- In terms of risks, the high level of liquidity in the banking system could fuel an increase in private sector credit over the long-term, with negative implications for external reserve balances. The Bank is therefore sustaining its focus on liquidity reduction, by further decreasing its holdings of Government debt. The credit bureau framework, now having cleared critical regulatory hurdles, will also instill a more disciplined environment for lending growth over the medium-term.
- In addition, caution must be taken to ensure that the quality of the offerings in the rapidly developing vacation rental segment of the tourism market, is in line with other more established sectors.



The End