



Quarterly Economic and Financial Developments Report

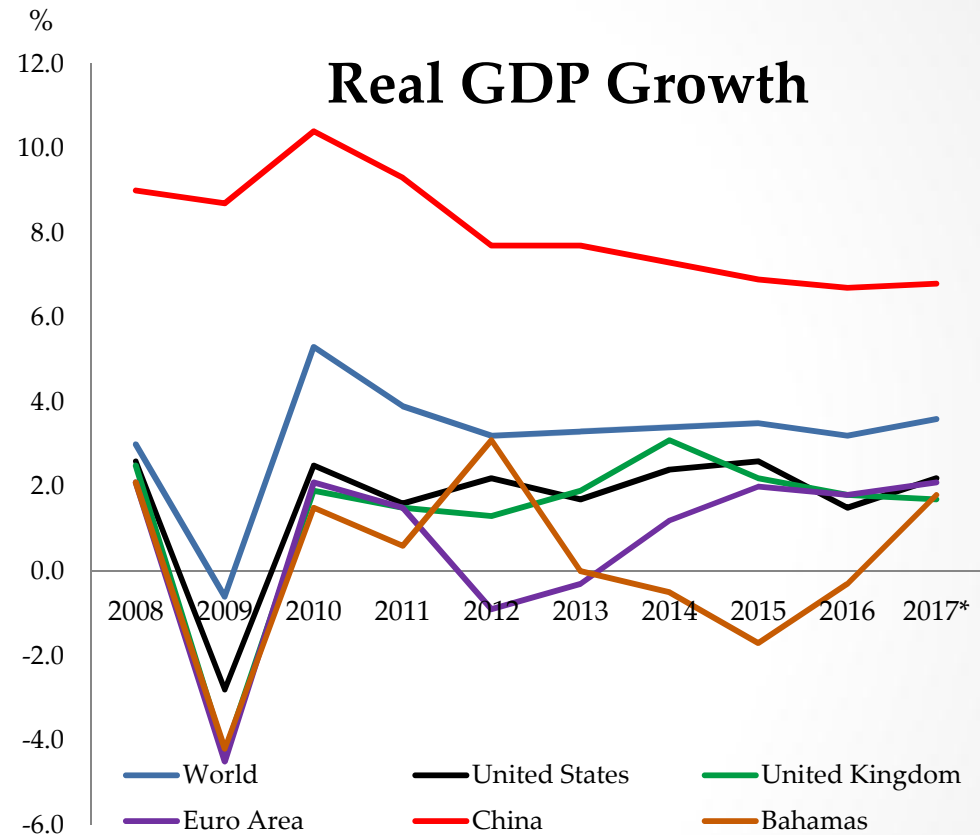
September 2017

Prepared by the
Research Department

Global Economic Forecasts

- In the latest update, the IMF forecasts **3.6% global growth in 2017, up slightly from 3.5% in April**
 - Supported by the recovery in investment, industrial production and trade; &
 - Strengthening business and consumer confidence

- 2017 GDP projections were revised upward for:
 - The Bahamas (by 40 basis points to 1.8%)
 - The euro area (by 40 basis point to 2.1%)
 - Japan (by 30 basis points to 1.5%)
 - China (by 20 basis points to 6.8%)



Source: IMF World Economic Outlook October 2017

*Projection

Overview of Domestic Economic Developments

REAL SECTOR

- **TOURISM:** Output in this sector was constrained due to the passing of Hurricane Irma which caused airport and seaport closures.
- **PRICES:** Inflation increased for the 12 months to August, owing mainly to gains in the housing, water, gas, electricity and other fuels and transport prices.

FISCAL SECTOR

- Final data for the FY2016/17 are not yet available. However, GDP revisions have resulted in lower baseline estimates of the various debt to GDP ratios

MONETARY SECTOR

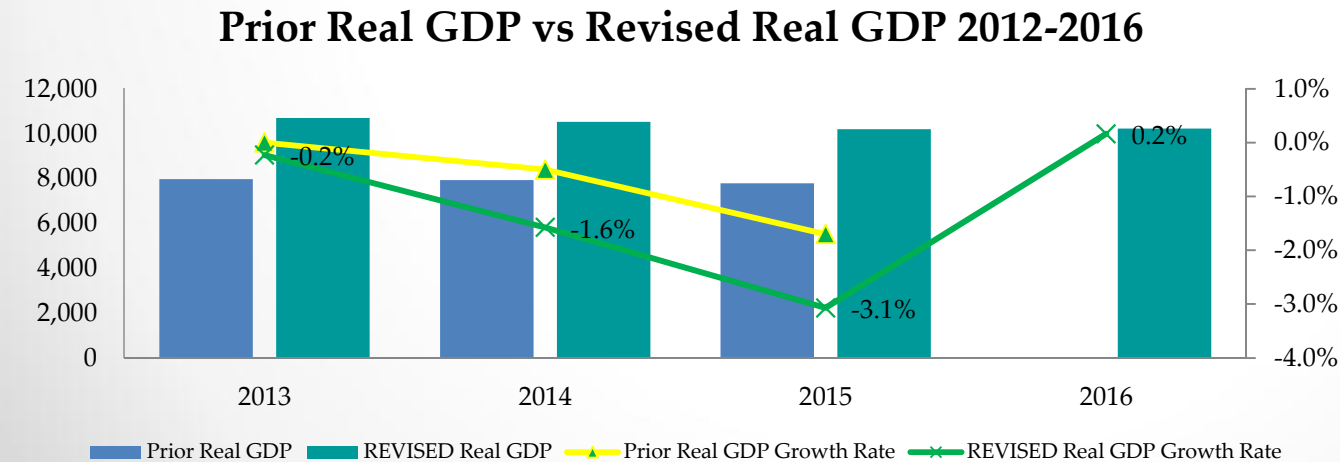
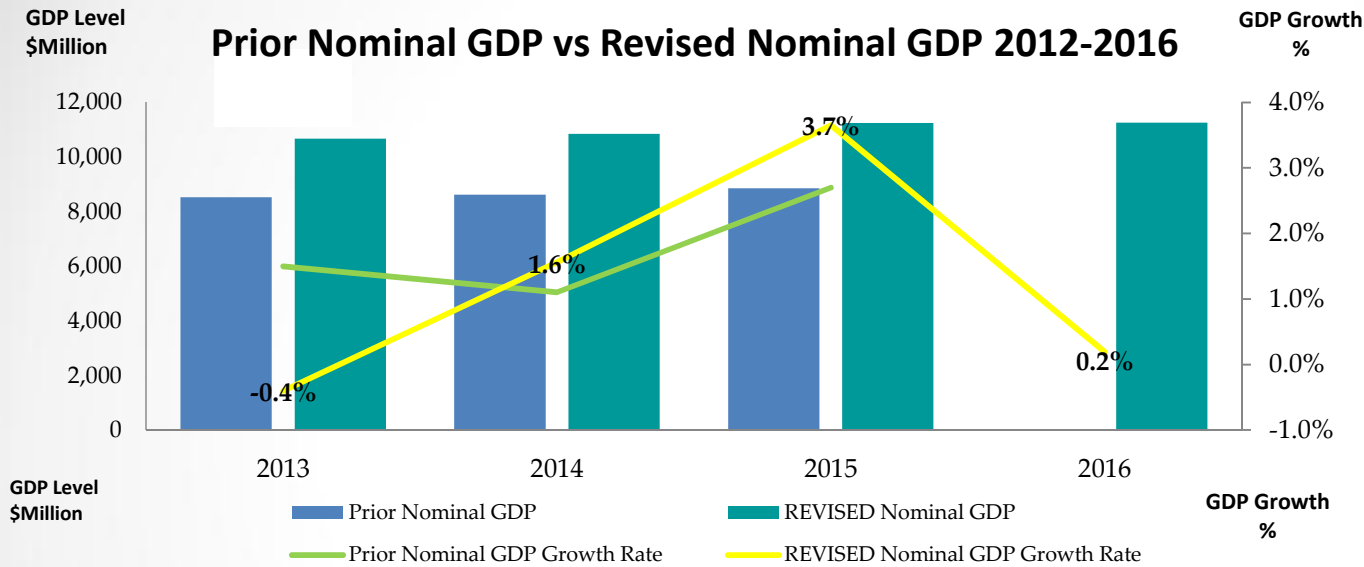
- **Liquidity & External Reserves:** remained elevated, buoyed by net receipts from Government's external borrowing
- **Private Sector Credit:** contracted sharply, reflecting the result of non-performing loan (NPL) purchase transaction with Bahamas Resolve.

GDP REVISIONS

According to the Department of Statistics, various changes were introduced to major data sources for the years 2012 to 2016. Due to these changes, the level of GDP has since been revised upwards. These significant developments include:

- The implementation of the UN's System of National Accounts (SNA) 2008.
- A shift to using the *Double Inflation Methodology* in the constant price series.
- The inclusion of new major or updated data sources, including value added tax (VAT) reports, the 2012 Household Expenditure Survey (HES), the expanded Business Establishment Surveys results and revisions to data series such as the Balance of Payments and Real Sector.
- The implementation of the Supply and Use Tables (SUT) 2012, that detail where the inputs used in production are sourced and where the output from production is disposed of or consumed.

GDP REVISIONS Cont'd



On average, revisions increased nom. GDP level by 19.9% and real GDP level by 25.0%.

In 2016, real GDP grew marginally by 0.2%, supported by:

- gains in construction (24%),
- wholesale/retail trade (7%)
- business & professional services (6%).

On an expenditure basis, household consumption and government consumption contributed significantly to GDP, increasing by 1.9% and 5.2% respectively.

TOURISM SECTOR



Tourism Sector Performance

Indications are that tourism output remained soft during the review period, with Hurricane Irma impacting travel itineraries in the first week of September.

Data from the Nassau Airport Development Company (NAD) showed:

Passenger traffic from the nation's largest airport—net of domestic departures—declined by 22.7% in Sept., relative to a 1.7% rise in the prior year.

- Departures to U.S fell by 23.2%, vis-à-vis a 2.1% increase in 2016.
- Departures to the non-U.S. international sector contracted by 20.5%, compared to a 0.8% reduction a year earlier.

Over the first eight months of 2017, visitor arrivals fell by 2.8%, reversing the year earlier 4.0% growth:

- Air arrivals: down 6.3%, (up 3.2% last year)
- Sea segment: down 1.6%, (up 4.3% in 2016)

New Providence

- Air arrivals: down 5.7%, (up 3.7% last year)
- Sea arrivals: up 9.3%, (up 11.1% last year)

Grand Bahama (developments reflect reduced capacity)

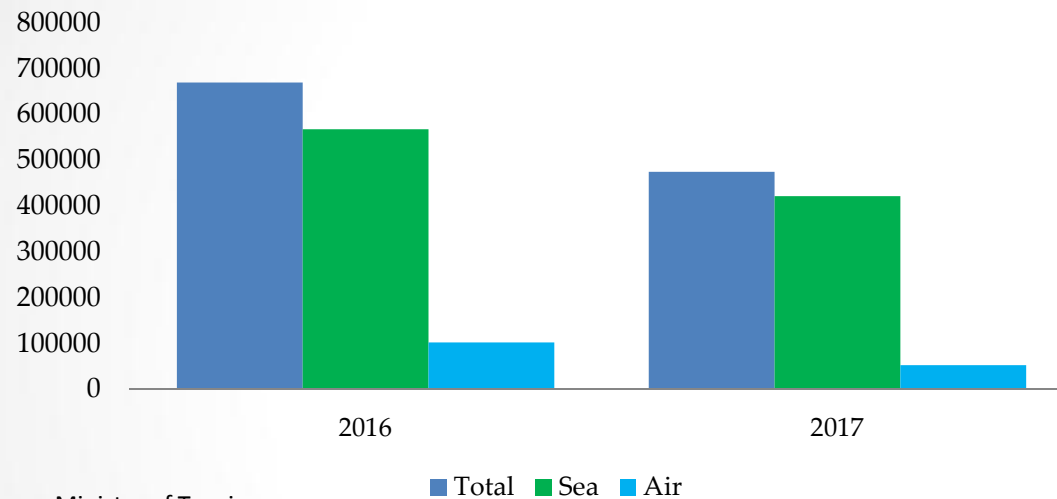
- Air arrivals: down 48.1% (down 12.6% last year)
- Sea arrivals: down 25.7%, (up 0.3% last year)

Family Islands

- Air arrivals strengthened by 13.3%, following the 11.9% growth in 2016
- Sea component weakened by 5.8%, extending the year earlier 2.8% contraction

Grand Bahama Tourism Update

Grand Bahama Arrivals by Type*



Source: Ministry of Tourism

Chart reflects the outturn for the first 8 months of each year



The Government announced on October 18th 2017, that an offer had made to the owners of the Grand Lucayan Resort to purchase the property, in an effort to keep the resort open and to ensure the present jobs are maintained.

- There was a notable decline in arrivals to Grand Bahama during the 8 months of 2017, relative to the same period last year, amid sharp decreases in both air & sea passengers.
- The decline in air arrivals was in part due to the reduced room capacity on the island resulting from hotel closures in the aftermath of the October 2016 hurricane (Matthew).
- In addition, extensive damage was done to key tourism infrastructure such as the market place in Port Lucaya.

FOREIGN INVESTMENT



FDI Projects

Project Name	Recent Developments
The Pointe Development	<ul style="list-style-type: none"> ❖ 200-room Hard Rock restaurant ❖ 143-key condo hotel ❖ Residences, garage, retail & entertainment complex, performing arts centre & marina ❖ Number of workers on-site expected to increase in 2017
Great Exuma Adventure Resort, Exuma	<ul style="list-style-type: none"> ❖ \$70 million capital expenditure (2016-18) ❖ \$300 million capital expenditure (2018-22) ❖ 115-unit condo-hotel ❖ 45-unit bonefish lodge marina, adventure theme park, spa, farm, equestrian centre, restaurant & retail stores ❖ 250 construction jobs ❖ 155 operational jobs following completion
Pharma Chem. Grand Bahama	<ul style="list-style-type: none"> ❖ \$120 million expansion project ❖ Construction of a multi-product manufacturing plant to support Gilead Sciences' expanding product lines ❖ Expected to be completed in 2019 ❖ 100 construction jobs ❖ 130 operational jobs following completion
Oban Energies, Grand Bahama	<ul style="list-style-type: none"> ❖ \$1.5 billion investment ❖ Expected completion in 2021 ❖ Construction of a 20-million barrel capacity, multi-purpose, liquid bulk storage facility ❖ Construction of a 250,000 barrel per day capacity oil refinery

EMPLOYMENT



Unemployment Indicators

- Based on DOS data, the unemployment rate fell by 1.7 ppt to 9.9% at end-May 2017, vis-à-vis the prior six-month period, marking the first time the rate has been below 10.0% following the financial crisis.
- When compared to the same period in 2016, the rate fell by 2.8 percentage points.
- Most job gains occurred in the community, social & personal service, hotel & restaurant, and construction industries.

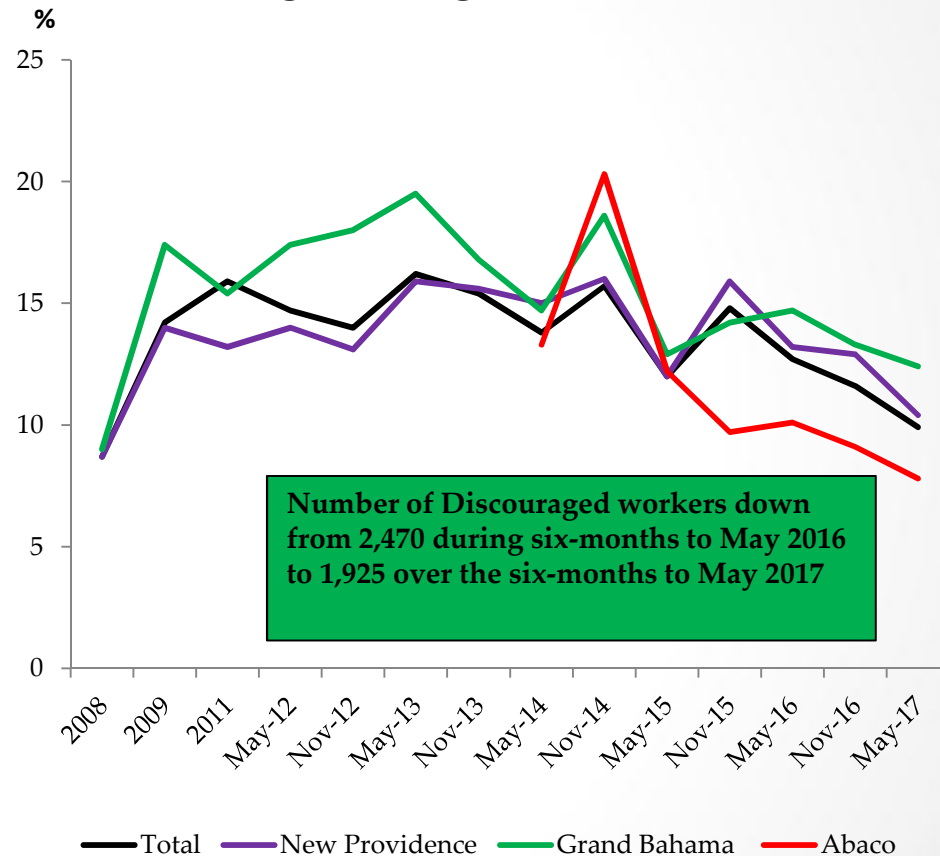
Over the six months to May:

- NP rate fell by 2.8 ppt to 10.4%
- GB rate decreased by 2.3 ppt to 12.4%
- Abaco rate down by 2.3 ppt to 7.8%

No. of discouraged workers fell by 8.8% over November 2016, to 1,925

Youth Unemployment fell by 1.0 ppt to 24.1%

UNEMPLOYMENT RATE



SOURCE: The Central Bank of The Bahamas

INFLATION

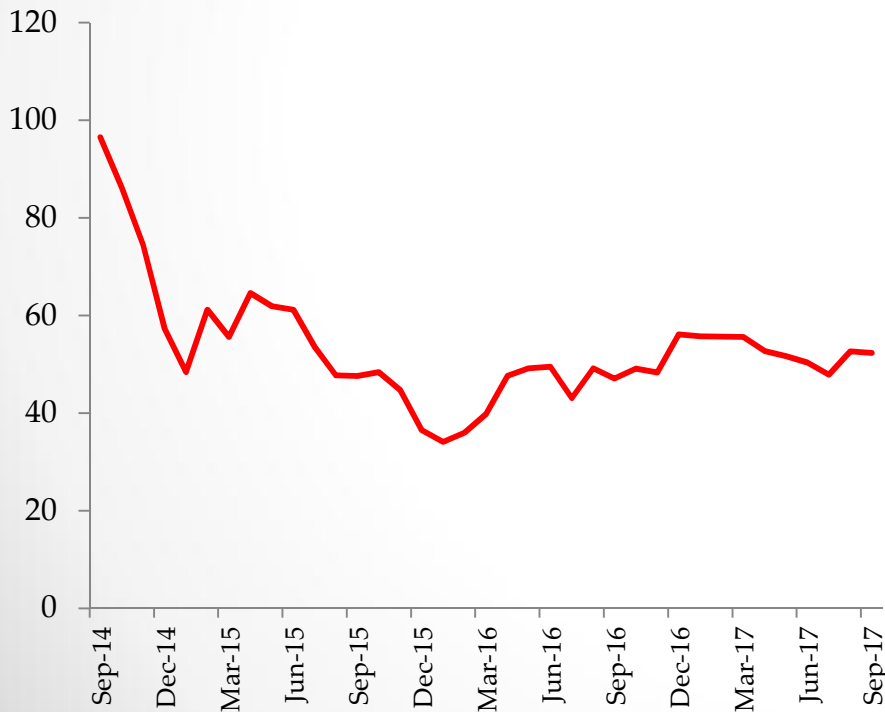


Oil Price Trends

- Oil prices remained relatively low, edging-down slightly in Sept. due to new shale drilling in the U.S.
- According to the Energy Information Administration (EIA), shale oil productivity for Oct. is expected to be 79,000 barrels per day, marking the first forecast below 100,000 barrels in seven months. The revision comes against the backdrop of disruptions in a drilling region in Texas, affected by Hurricane Harvey.

USD\$/barrel

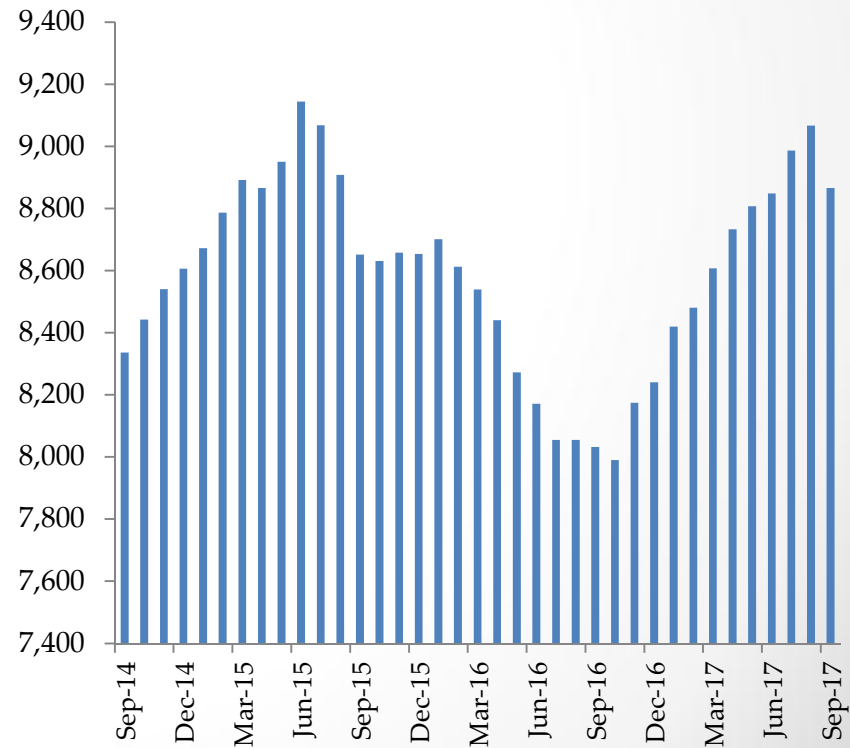
Brent Crude Oil Prices



SOURCE: Bloomberg

000 barrels

U.S. Shale Oil Production

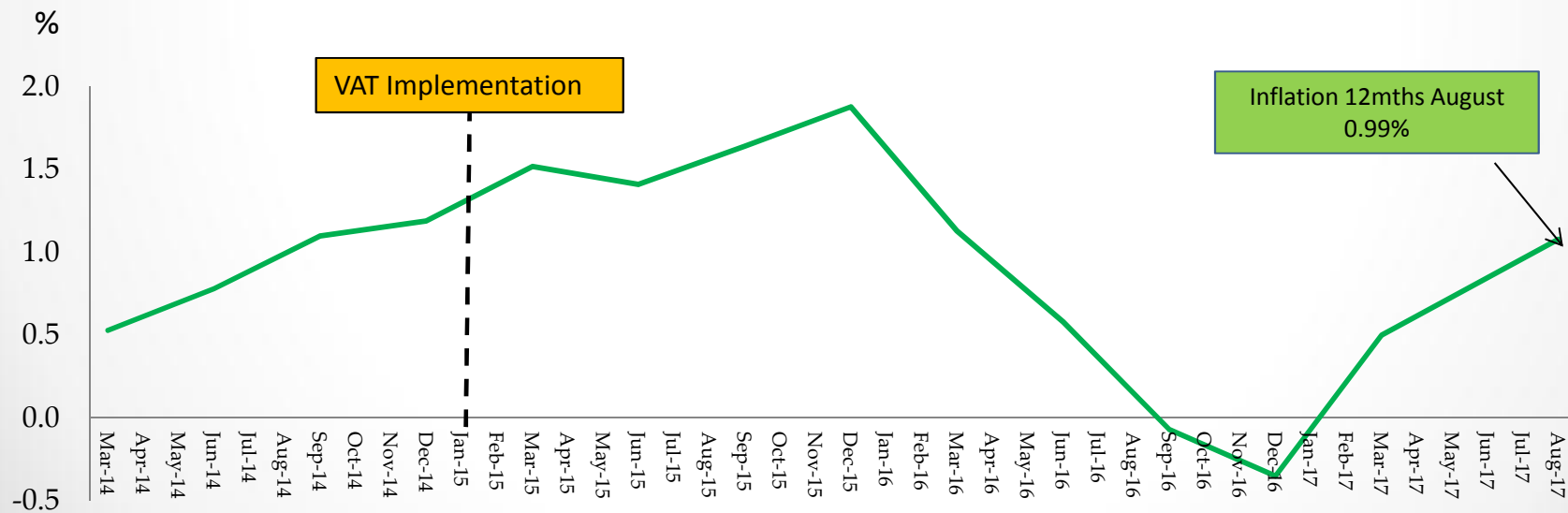


SOURCE: Bloomberg

Domestic Prices

- Inflation edged-up to 0.99% for the 12 months to August, from 0.15% in the comparable period of last year
 - ✓ Gain was due mainly to growth in average prices in housing, water, gas, electricity and other fuels—the most heavily weighted item on the index—and transportation.

Inflation rate



FISCAL SECTOR



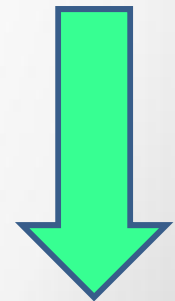
Revised Debt Indicators

National Debt/GDP and Direct Charge/GDP declined on average by 14.7 and 13.1 percentage points, respectively, due to GDP revisions.

Public Sector Debt & Debt Service Indicators

				% of GDP					
	External Debt			Direct Charge			National Debt		
	Old	Revised	Change	Old	Revised	Change	Old	Revised	Change
2012p	12.4	9.7	-2.7	52.4	41.0	-11.4	59.6	46.7	-12.9
2013p	14.0	11.1	-2.9	58.5	46.7	-11.8	65.6	52.4	-13.2
2014p	18.2	14.5	-3.7	64.8	51.5	-13.3	72.9	58.0	-14.9
2015p	18.6	14.6	-4.0	66.8	52.5	-14.3	75.3	59.3	-16.0
2016p	19.6	15.5	-4.1	70.8	56.1	-14.7	78.9	62.6	-16.3

Reduction seen in all debt indicators.



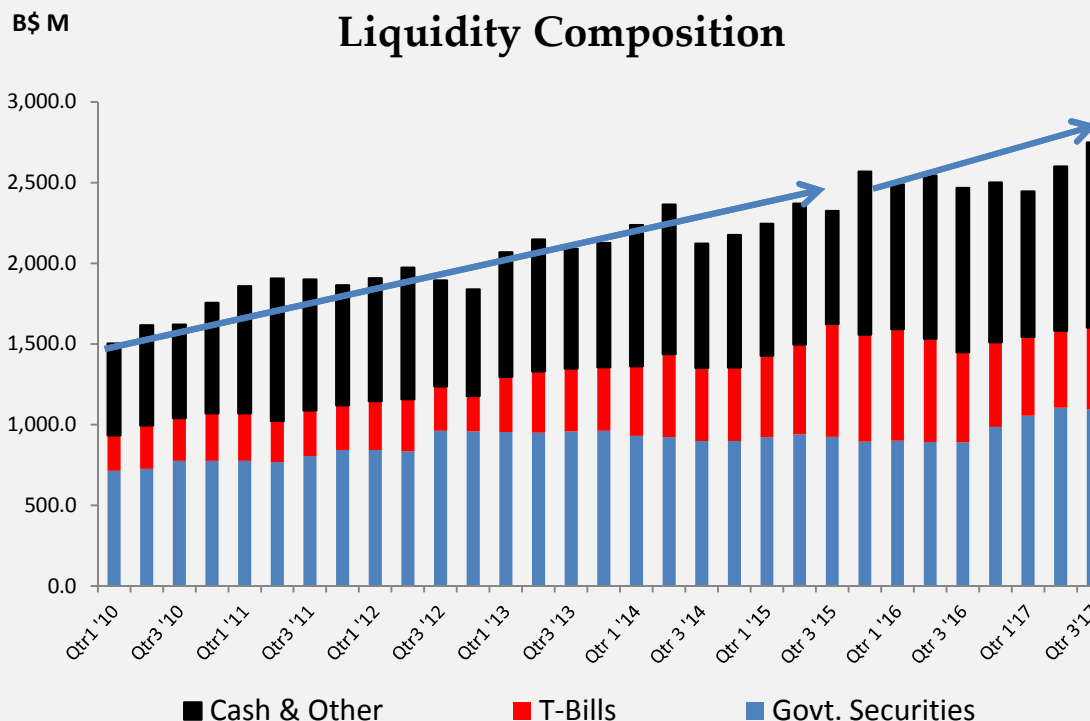
Source: Central Bank of The Bahamas, 2017

MONETARY SECTOR

Money & Banking: Liquidity Conditions

Liquidity growth continued in 2017, supported by Gov't external borrowing and CBOB financing

- By end-Sept., excess liquid assets (vault cash, central bank balances and government securities) stood at \$1.7 billion, a gain of \$260.3 million over the 9-month period, relative to a \$117.6 million upturn in 2016
- In addition, excess reserves (vault cash and balances) grew by \$195.0 million to \$918.7 million, vis-à-vis a \$257.0 million expansion in 2016.

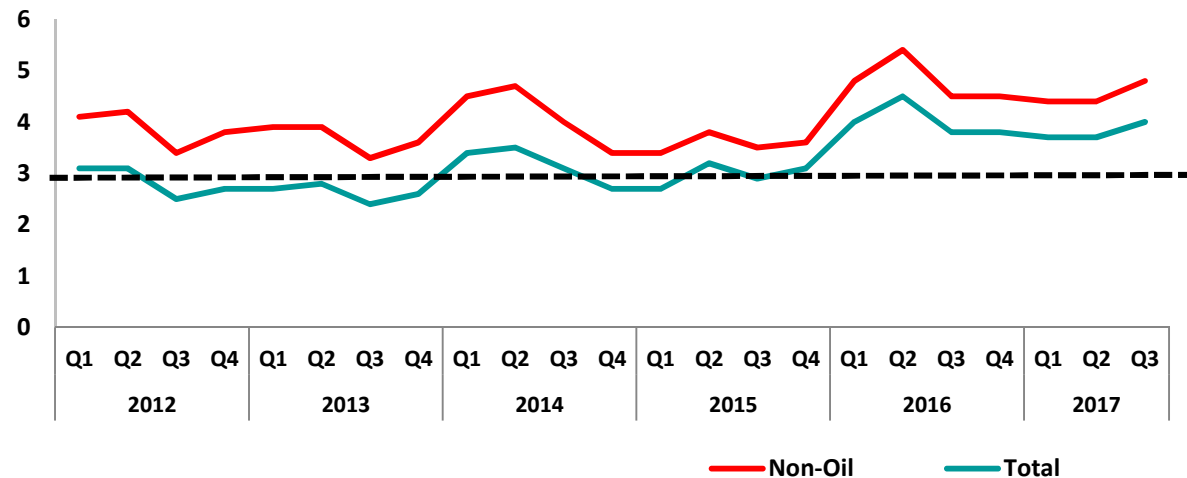


Source: The Central Bank of The Bahamas

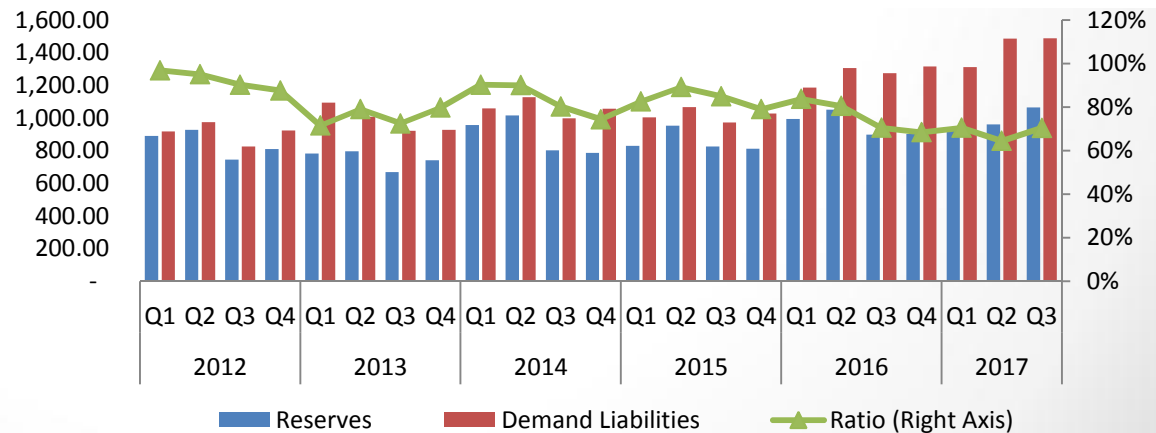
External Reserves

- External reserves firmed by \$162.8 mil. to \$1,064.9 million at end-Sept., (buoyed by Government loans of approximately US \$100 million in Aug. and US \$250 million in Sept.), vis-à-vis the \$104.3 million expansion in 2016
- At end-Sept., reserves were equivalent to an estimated 4.0 months of total merchandise imports, compared to 3.8 months, a year earlier.
- External reserves rep. 70.5% of Demand Liabilities, compared to 70.8% at end-Sept. 2016.

Import Cover Ratio*
(Months)



SOURCE: The Central Bank of The Bahamas
*Q3 calculated using Q2 imports over Q3 reserves



SOURCE: The Central Bank of The Bahamas

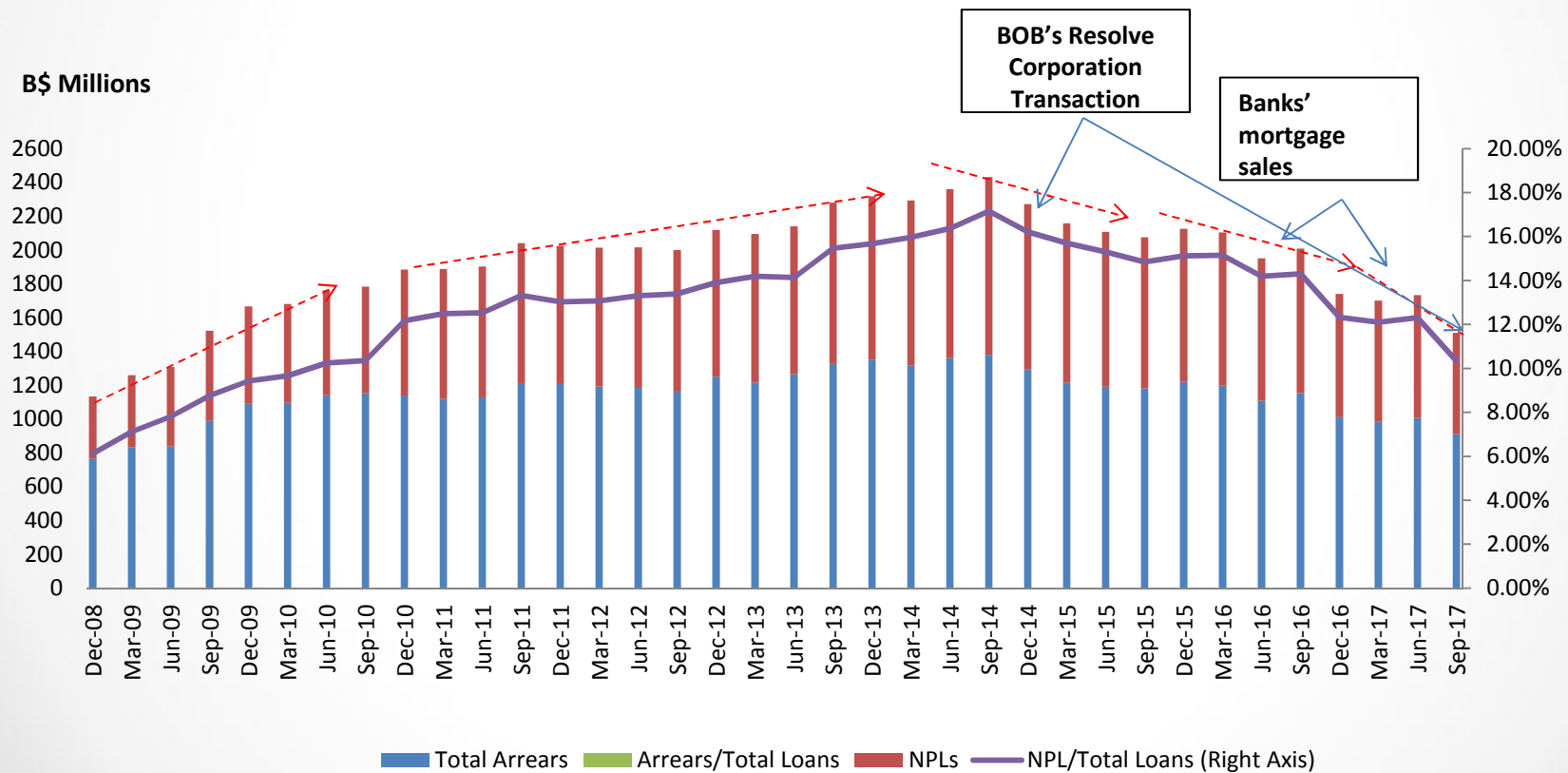
Lending Conditions

- During the first nine months of 2017, total Bahamian dollar domestic credit rose by \$4.7 million, compared to a \$113.5 million expansion last year.
 - Net claims on the Government advanced by \$145.8 million, following the \$116.0 million rise in 2016.
 - Credit to public corps. fell by \$6.4 million, after a \$27.9 million increase in 2016.
 - Private sector credit contracted by \$134.7 million (BOB Resolve transaction), following a \$30.4 million decline in 2016.

- Consumer ↓ \$30.5 million
- Mortgages ↓ \$62.8 million
- Commercial ↓ \$41.5 million

Banks' Credit Quality Indicators

- Significant improvement in arrears and NPLs in Aug. and Sept.
- BOB sold \$161.8 million of its NPLs to Bahamas Resolve in two tranches: \$97.0 million in August; \$64.0 million in September. Resolve also liquidated \$50.0 million of its bonds held by BOB to-date.



SOURCE: The Central Bank of The Bahamas

OUTLOOK



Outlook

Real Sector

- Growth is expected to remain mild over the near-term. Tourism sector activity will get some support from the phased opening of the Baha Mar Resort, potential near-term resolution of hotel room capacity related issues in Grand Bahama, and the likely temporary shift in tourists from several regional markets affected by hurricanes.
- FDI projects in the capital and the Family Islands, coupled with hurricane rebuilding efforts in the south-eastern Bahamas, will continue to drive construction sector output.
- Improvements in employment levels remain dependent on the performance of the tourism and construction sectors.
- With the recent decline in international oil prices, inflationary pressures are expected to be well contained over the near-term.

Fiscal Sector

- The Government's fiscal austerity measures are likely to continue to drive the reduction in expenditure; although pressures from hurricane recovery spending could persist in the near-term.
- Revenue strengthening measures could help to mitigate budgetary pressures.

Major Impact on Caribbean Tourism from 2017 Hurricanes

Market	Hotels Affected	Room Capacity
Dominica	27 of the 73 hotel properties in the country were either damaged extensively or destroyed.	467 rooms damaged (51.4% of total room stock).
Cuba	23 hotels affected, mainly in Cayo Coco, Cayo Guillermo, and Varadero (the country's main tourist destination)	5,411 rooms damaged with 374 repaired as at end-Sept. in Varadero. Reports indicate that all hotels in affected area of Cuba expected to be operational by mid-November.
British Virgin Islands	17 hotels damaged across the various territories	So far only one hotel has reopened.
U.S. Virgin Islands	12 hotels damaged across the three Virgin Islands—St. Croix, St. John & St. Thomas.	5 hotels now operational, with the remainder anticipated to be opened by the end of 2018.
Antigua & Barbuda	4 hotels on Antigua damaged, while the remaining 7 were operational soon after the hurricane	All hotel rooms on Barbuda were destroyed (less than 100). For Antigua, close to 2,000 rooms of total stock will be operational in by end-Oct.
Puerto Rico	6 hotels closed until further notice.	30 hotels temporarily closed and should resume taking customers by Nov., 2017

Sources: islands.com and onecaribbean.org

Outlook

Monetary

- Liquidity is expected to remain elevated, reflecting banks conservative lending stance and Gov't external borrowing activities
- Banks are projected to stay well capitalized, thereby mitigating any threats to financial sector stability.
- External reserve outturn will depend heavily on:
 - Performance of foreign exchange earning sectors
 - ❖ By extension, the seasonal hike in foreign currency demand in the latter part of the year
 - International crude oil developments
 - Government's financing activities

Bahamas Forecasts

	Actuals	IMF Forecast (WEO Oct. 17 & Article IV July 17)	
		2016	2017
Indicators	2016	2017	2018
Real GDP (% Change)	0.2%	1.8%	2.5%
Inflation rate	-0.4%	2.4%	2.2%
Deficit/GDP	-5.5%	-5.7%	-3.7%
Current Account Deficit/GDP	-10.5%	-17.8%	-14.0%
Credit to Private Sector (% Change)	-2.0%	-1.0%	0.3%

Risks to the Forecasts

- Significant downside risks to the economy remain, reflecting:
 - Negative effect on US economic growth, as Federal Reserve continues to raise interest rates.
 - Slower than expected growth in the global economy, resulting in lower tourism demand.
 - A surge in oil prices, arising from geopolitical uncertainty (e.g. North Korean standoff) and the adverse impact of storms on restored US oil production. This could also have a negative impact on the current account deficit (foreign exchange outflows) and inflation.
 - Worsening in the Government's fiscal position due to:-
 - A slower than expected recovery in the economy
 - Delayed implementation of expenditure restraint measures
 - Further hurricane-related destruction
 - Impact of any adverse credit ratings adjustment on the cost of Government debt financing

Moody's Sovereign Peer Group Comparison

- On Aug. 25th, Moody's confirmed Bahamas' Baa3 bond rating after an almost two-month review based on:
 - ✓ Prospects for debt stabilisation
 - ✓ Low gov't liquidity risk
 - ✓ Credit metrics which were inline with peers
- Over the past three years, The Bahamas has performed fairly well compared to the other countries in its credit rating peer group, albeit amidst low growth.
- For 2016, compared to other countries in the Baa3 peer group, The Bahamas maintained one of the lowest rates of inflation; however, it also showed the lowest growth rate and the third highest Government debt-to-GDP ratio.

Country	GDP	Inflation	Debt-to-GDP
Bahamas	0.2%	-0.4%	56.1%
Hungary	2.0%	0.4%	74.1%
India	7.1%	4.5%	68.5%
Indonesia	5.0%	6.4%	30.3%*
Kazakhstan	1.1%	14.6%	19.3%*
Romania	4.8%	-1.6%	37.6%
South Africa	0.3%	6.3%	51.7%

Sources: Bahamas Department of Statistics, IMF, and World Bank

*2015

The End