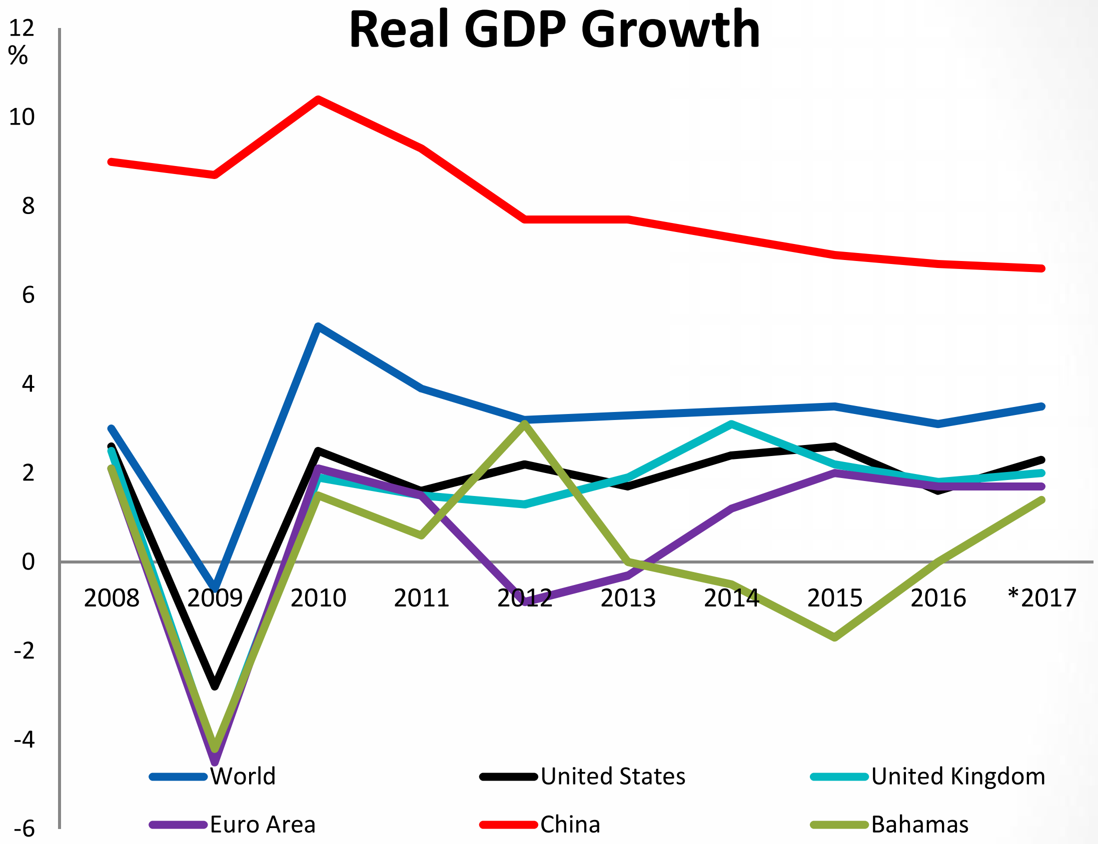
Quarterly Economic and Financial Developments Report

March, 2017

Prepared by the
Research Department

Global Economic Forecasts

- **Since the economic recovery in 2010, countries have struggled to secure strong, long lasting growth.**
- **In the latest update, the IMF forecasts 3.5% global growth in 2017, up from 3.1% in 2016**
  - Supported by recovery in investment, manufacturing, and trade.
  - Increased global demand
  - Financial market stability
- **US real GDP expansion projected at 2.3%**



Source: IMF World Economic Outlook April 2017
*Projection

Overview of Domestic Economic Developments

REAL SECTOR	**CONSTRUCTION:** Output led by foreign investment projects and hurricane rebuilding. **TOURISM:** Output remains mild. NAD airport traffic down over the three-month period. **PRICES:** Remain stable. Prices fell marginally (0.4%) in 2016, after a 1.9% gain in 2015. Fuel prices at the pump down slightly M-O-M, but higher Y-O-Y
FISCAL SECTOR	For the first 7 months of FY16/17 the deficit rose, amid increased expenditure and a softening in revenue.
MONETARY SECTOR	**Liquidity:** firmed during the quarter, buoyed by Central Bank financing to Government and net foreign currency inflows; growth was significantly less than in 2016. **Growth in external reserves** slowed relative to last year, when balances benefited from Government's external loan proceeds.

TOURISM SECTOR

Tourism Sector Performance

(Jan. – Mar. 2017)

Indications are that tourism sector performance weakened in the first quarter of 2017.

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

Passenger traffic at Lynden Pindling International Airport contracted by 6.5%—net of domestic departures that—during the three months to March 2017, compared to a 4.0% gain in the prior year.

Easter season was later than in 2016, and was a factor.

- **United States**
  - **U.S returning passengers narrowed by 7.0% (firmed by 5.5% in Q1 2016).**
- **Other International**
  - **Departing traffic down 3.9% (fell by 3.4% in Q1 2016)**

FOREIGN INVESTMENT

Baha Mar Developments

Update:

- Government officially handed over Certificate of Occupancy to CTFE in March 2017.

Soft Opening:

- The resort began its phased opening on April 21, 2017, and is expected to be fully operational by March 2018.
    - First phase includes the casino hotel, the casino, the convention centre, 200 rooms at the Grand Hyatt, 20 restaurants, and the golf course.

- Reservations to public are set to begin on May 29, 2017
- Still to come:
    - Remaining 1,600 rooms at Grand Hyatt
    - 300-room SLS Resort
    - 200-room Rosewood

Baha Mar Developments

Projected Contributions

- Baha Mar has injected an estimated $101.5 million into Bahamian economy so far, through the payment of employees and unsecured creditors.

- Once fully opened, **Baha Mar projects** that the resort will generate:
  - Over $700 million in direct annual economic output
  - $1.1 billion in indirect and induced output
  - Over $45 million in taxes, annually from resort operations and national insurance contributions
  - Approximately 315,000 additional air passenger guests, accounting for a 19.0% boost in arrivals on a full year basis

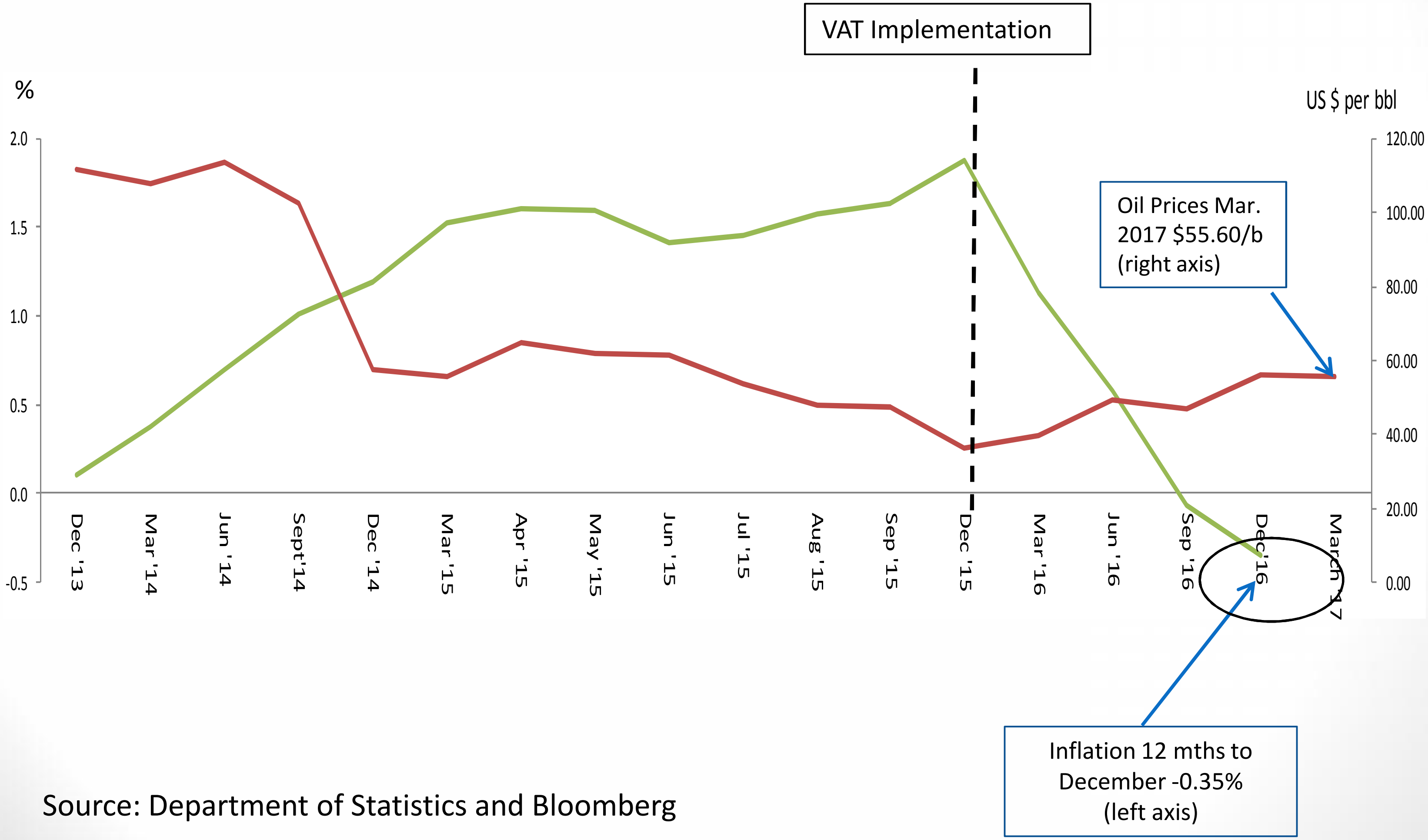
Other Major FDI Projects

Project Name	Recent Developments
The Pointe Development **New Providence**	❖ Ground-breaking for phase II took place on March 11, 2017, inclusive of a 100-room 8-storey condominium, slated to be completed by September 2018.
Carnival Cruise Port **East Grand Bahama**	❖ $200 million investment—over approx. 2 years ❖ Located 2.5 miles west of Stat Oil in East Grand Bahama ❖ Heads of Agreement completed after receiving approval from National Economic Council
Children's Bay Cay and Williams Cay **Exuma**	❖ $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) **Ocean Cay**	❖ Expected $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 ❖ Over the next 2 years, 1,100 construction jobs will be available ❖ 220 Bahamians will be employed on cruise ships

INFLATION

Inflation

Supporting the decline in the price level during 2016 was a reduction in accretions in the average cost of restaurants & hotels and food & non-alcoholic beverages to 1.3% and 0.9% from 5.9% and 5.9%, respectively.



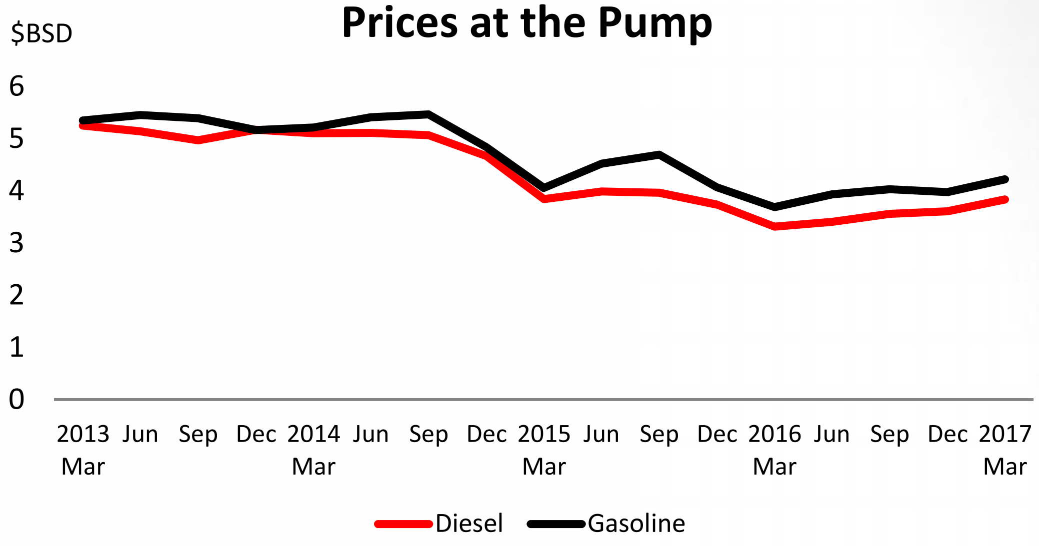
Source: Department of Statistics and Bloomberg

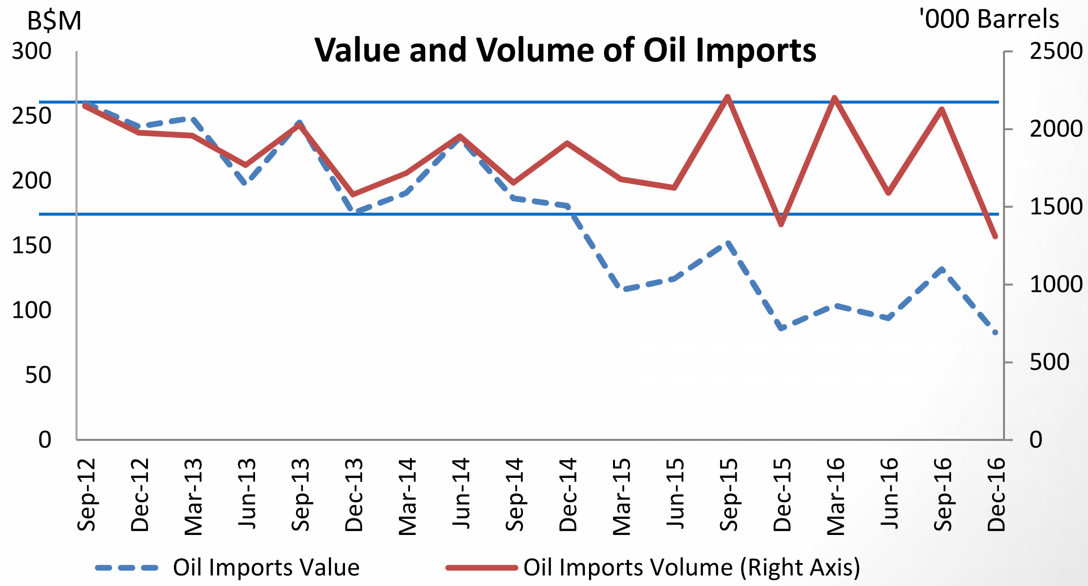
DOMESTIC IMPLICATIONS OF LOWER GLOBAL OIL PRICES

- Global oil prices rose slightly in 2016, but remained lower than pre-June 2014 highs. This has resulted in a slight upward trend in domestic energy costs.

- Fuel prices at the pump increased: cost of diesel rose by 15.7% over the quarter to $3.84 per gallon, while gasoline prices firmed by 14.5% to $4.23 per gallon.

- While the volume of imports oscillated within a narrow band during 2016, there was a notable decline in the value of oil imports in the latter part of 2016.





SOURCE: The Central Bank of The Bahamas

FISCAL SECTOR

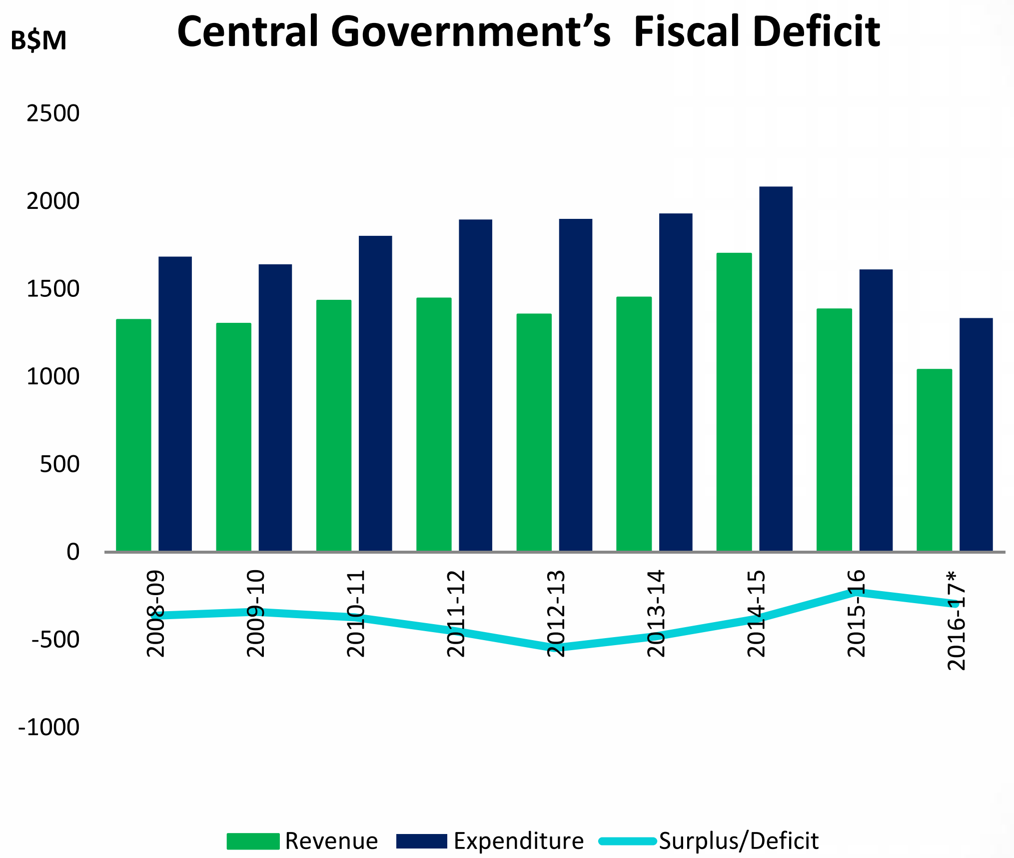
Fiscal Indicators

- Fiscal deficit widened by $86.4 milion (41.4%) to $295.3 million during the first 7 months of FY2016/17, compared to the previous year.

  - Expenditure: Up by $82.7 million (6.6%).

  - Revenue: Down by $3.7 million (0.4%).

    - Net VAT receipts totaled $373.8 million (down 1.5% compared to the prior year).



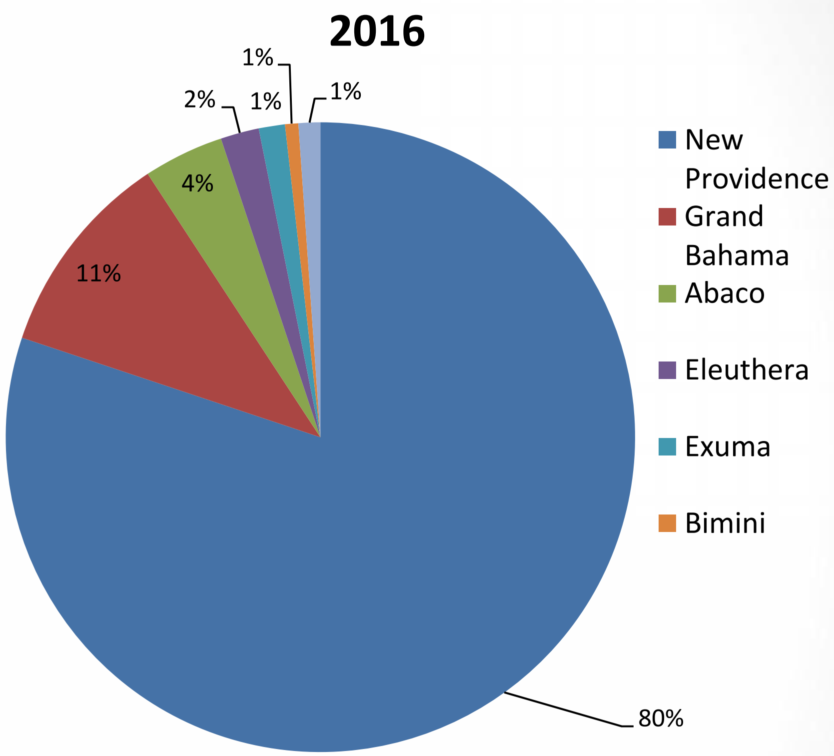
SOURCE: The Central Bank of The

* 7 months of FY2016/2017

Preliminary Data on Inland VAT Collections for 2016

Key Observations:

- Top VAT generating sectors:
  - Accommodation
  - Retail trade
  - Financial services activities
- Major VAT generating islands:
  - New Providence (80.0%)
  - Grand Bahama (11.0%)
  - Abaco (4.0%)
  - The remaining Islands make up the balance



NOTE: Preliminary findings from the Dept. of Inland Revenue, does not include VAT charged by Customs Dept.

MONETARY SECTOR

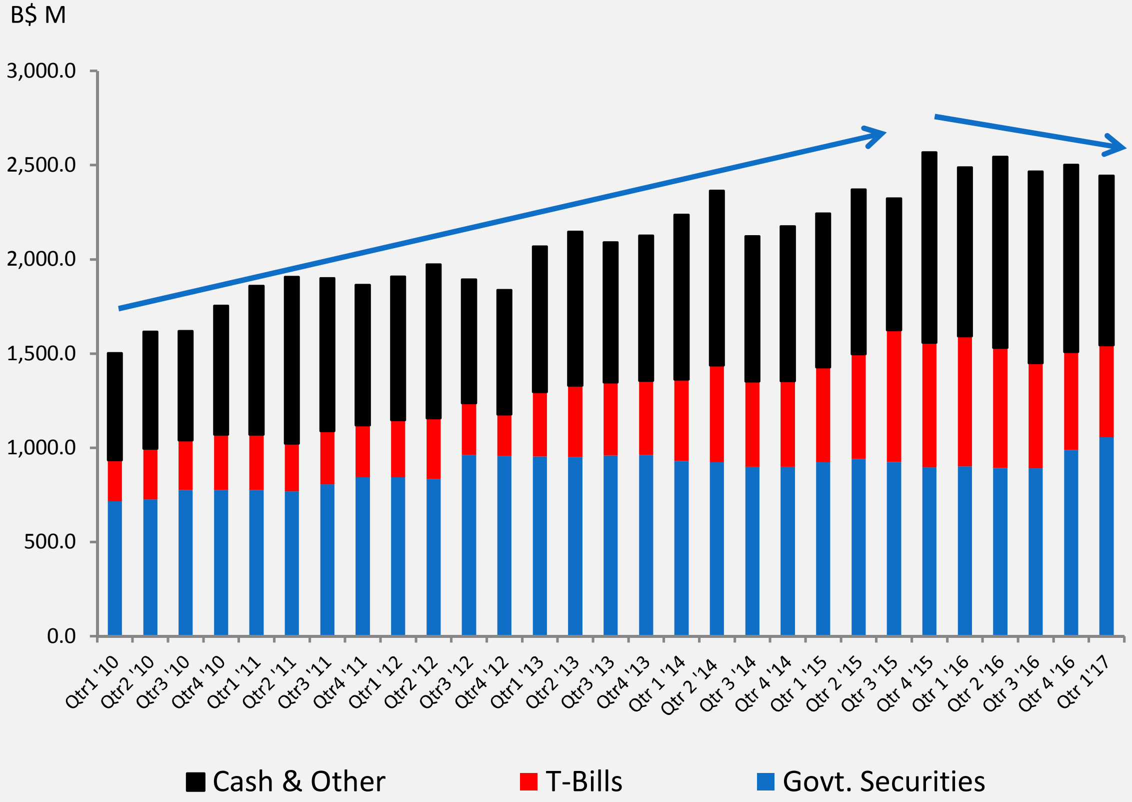
Money & Banking: Liquidity Conditions

Liquidity rose modestly in 2017

- By end-March, excess liquid assets stood at $1.5 billion, a gain of $38.6 million over the three-month period, relative to a $156.0 million upturn in 2016 (external loan boosted 2016 liquidity).

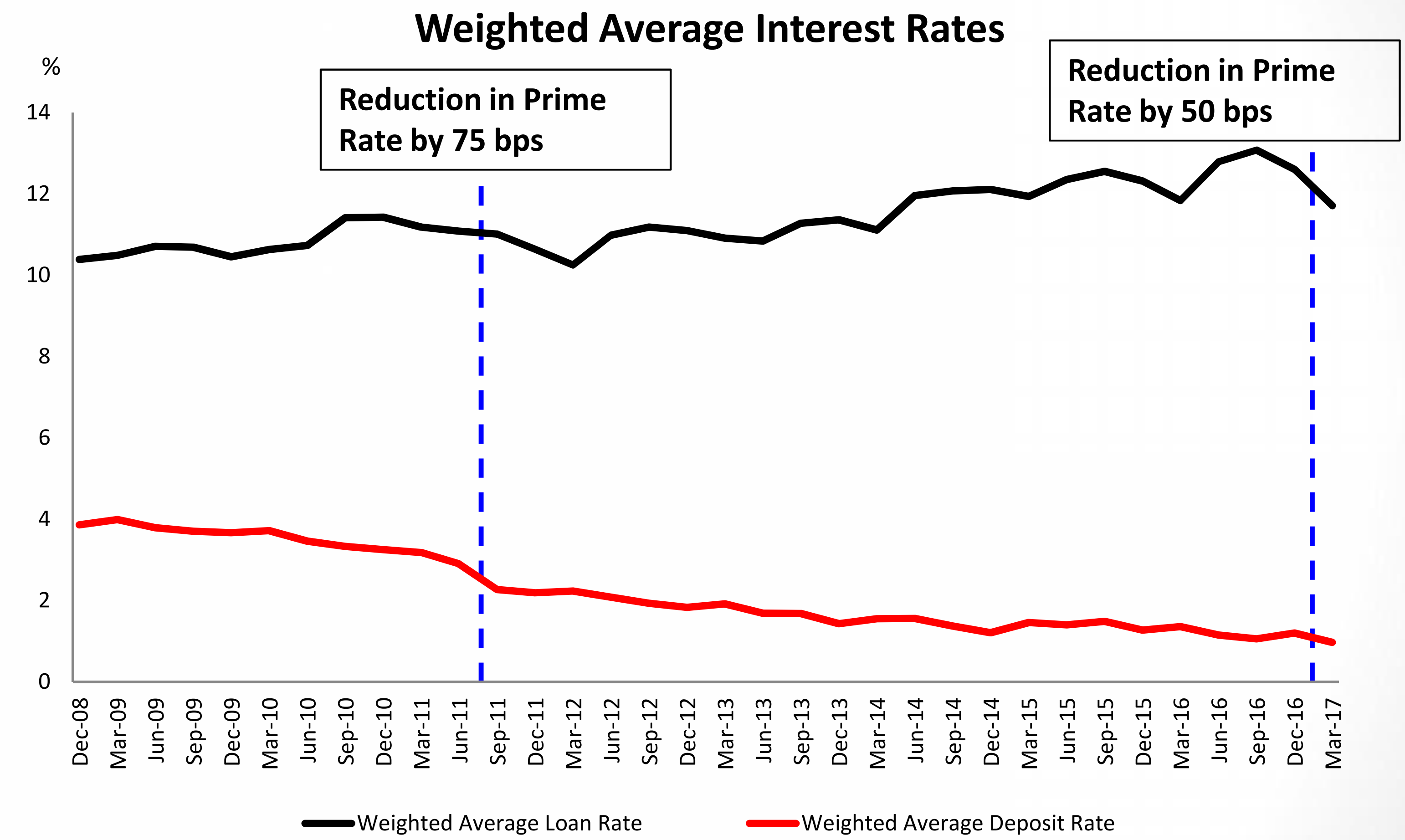
- In addition, excess reserves grew by $10.8 million to $734.6 million, vis-à-vis a $144.5 million expansion in 2016.

Banks' Holdings of Cash and Gov't Debt Securities



Source: The Central Bank of The Bahamas

Money & Credit Trends



SOURCE: The Central Bank of The Bahamas

Lending Conditions

- During the first quarter 2017, total Bahamian dollar domestic credit rose by $14.1 million, vis-à-vis a $48.2 million decline last year.
- Net claims on the Government advanced by $13.1 million, compared to a $29.3 million contraction in 2016.
- Credit to public corps. fell by $1.6 million, after a $0.7 million increase in the prior period.
- Private sector credit firmed slightly by $2.5 million, after a $19.6 million decrease in 2016.

  - mortgages ↓ $13.0 million
  - commercial ↑ $26.6 million
  - consumer ↓ $11.1 million

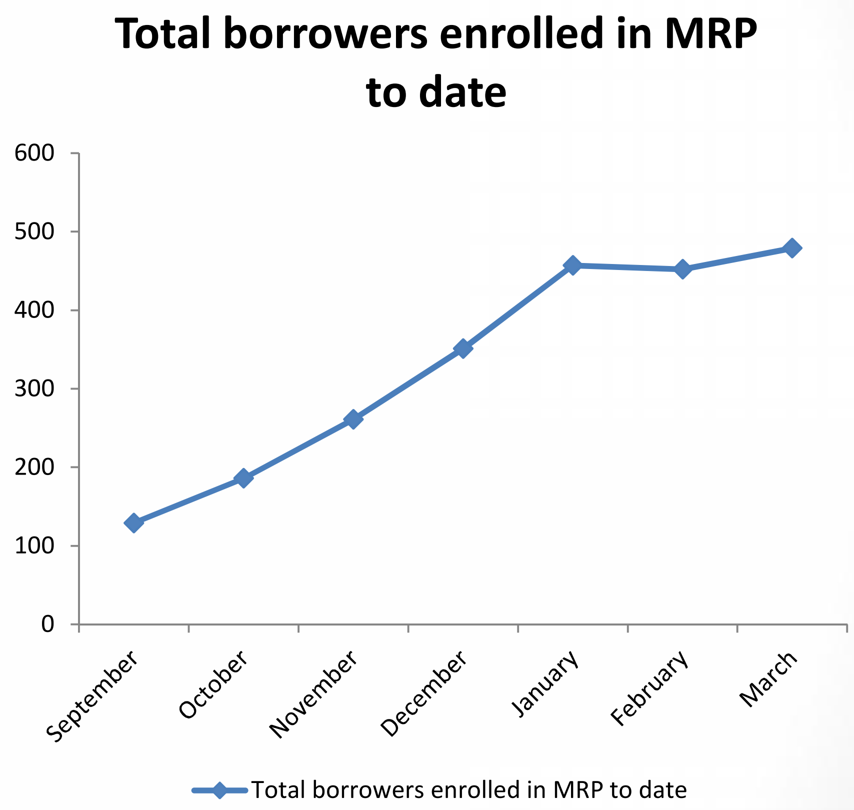
Bahamas Government Mortgage Relief Programme

Update

- Since the inception of the MRP, banks have been active in contacting and enrolling potentially qualified borrowers

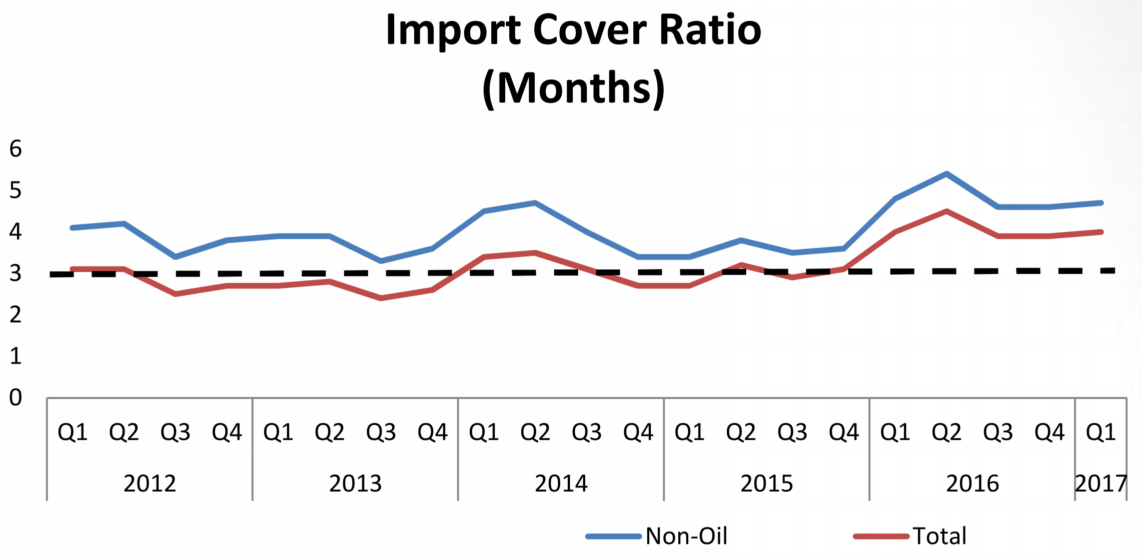
- Ongoing total enrollment in the Relief Programme rose sharply in the first five months of the programme, and has since remained stable.

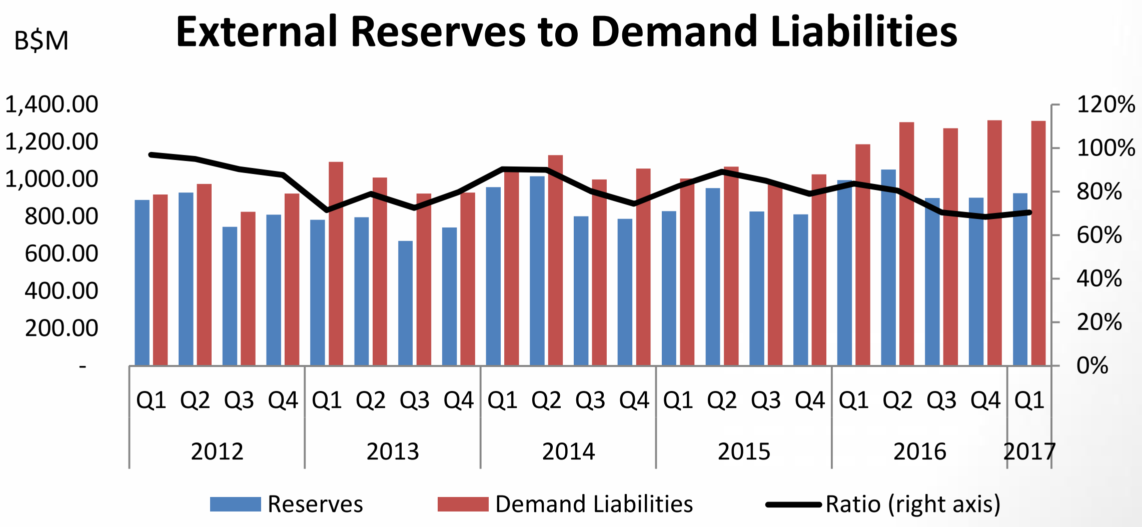
- As at March 2017, of total potential borrowers:
    - Approximately [1,478] or 88.4% of eligible home owners have been contacted
    - [479] homeowners or 28.6% of eligible borrowers have been enrolled in the programme.



External Reserves

- External reserves firmed by $23.5 million to $925.5 million at end-March, a substantial slowdown from the $171.1 million expansion in 2016 (US$100 million Gov. loan).
- At end-March, reserves were equivalent to an estimated 4.0 months of total merchandise imports, unchanged from a year earlier.
- External reserves represented 70.5% of demand liabilities, compared to 83.4% at end Mar. 2016.





SOURCE: The Central Bank of The Bahamas

OUTLOOK

Outlook

The domestic economy is expected to grow at a modest pace over the near-term, with greater acceleration during the following year.

Real Sector

- Modest growth in tourism sector will be supported by the phased opening of the Baha Mar resort, as well as sustained improvement in key source markets.
- FDI projects including Baha Mar, as well as hurricane rebuilding activity, will continue to drive construction sector output.
- Growth in employment levels remains contingent on the performance of tourism and construction sectors.
- Although international oil prices have seen a slight increase recently, inflationary pressures are anticipated to be well contained over the near-term.

Fiscal Sector

- While the performance of VAT is expected to continue to positively impact the fiscal position, expenditure pressures are elevated from the hurricane rebuilding. Medium-term consolidation prospects remain contingent on sustained expenditure controls.

Outlook

Monetary

- Bank liquidity is forecasted to remain elevated over the near-term, although there is expected to be a modest pickup in private sector demand, due to the implemented fiscal and monetary measures.
    - However, this effect could be muted by additional sales of non-performing mortgages
- Arrears and NPLs are anticipated to continue their downward trajectory, assisted in part by the mortgage relief plan and potentially more NPL sales by banks.
- Commercial banks are projected to stay well capitalized, thereby mitigating any threats to financial sector stability.
- External reserves outturn will depend heavily on:
    - Performance of foreign exchange earning sectors, notably the impact of the additional capacity in the hotel sector
    - International crude oil developments
    - Government financing activities

Risks to Forecasts

Upside

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

Downside

- Negative effect on US economic growth as Federal Reserve raises interest rates and potential for disruptions in international trade flows.
- Prolonged period of recovery from Hurricane Matthew.
- Surprise results from European elections, which could negatively affect financial markets

The End