

Quarterly Economic and Financial Developments Report

June 2019

Research Department



Domestic Economic Developments

Indications are that the economy maintained its modest growth trajectory during the first six months of 2019, reflecting mainly the improvement in tourism. Foreign investments provided the impetus to the construction sector.

Real Sector

- Tourist arrivals firmed during Jan - May 2019 compared to the same period of 2018.
- Airport departures rose by 19.4% over the first half of the year.
- Increased construction sector output remained fueled by ongoing small to medium scale foreign investment projects.
- The annual inflation rate through March 2019 rose by 1.7 percentage points to 2.9%, reflecting the pass-through effects of the VAT rate hike.

Fiscal Sector

- Over the first nine months of FY2018/19, the Government's deficit was halved to \$129.5 million: revenue growth outstripped expenditure increases.

Monetary Sector

- With contractionary credit trends, bank liquidity rose robustly, supported by net foreign currency inflows from the tourism sector.
- External reserves strengthened by \$365.6 million, more robustly than the previous year's seasonal uptrend.



TOURISM SECTOR

Visitor Arrivals

(January - May)

Official data from the Ministry of Tourism, revealed that total visitor arrivals grew by 13.2% during the five months to May, outpacing the 3.1% increase over the same period of the prior year.

- Air arrivals strengthened by 17.5%, following a 15.0% growth in 2018.
- Sea arrivals rose by 11.8%, overturning a 0.2% falloff in 2018.

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2018	2019	2018	2019	2018	2019
Arrivals						
Air	17.6	21.3	-4.4	-2.4	11.8	9.1
Sea	-11.6	24.3	6.2	-18.1	17.5	5.8
Total	-4.0	23.4	5.0	-16.5	16.5	6.3

Source: Ministry of Tourism

NAD Departures

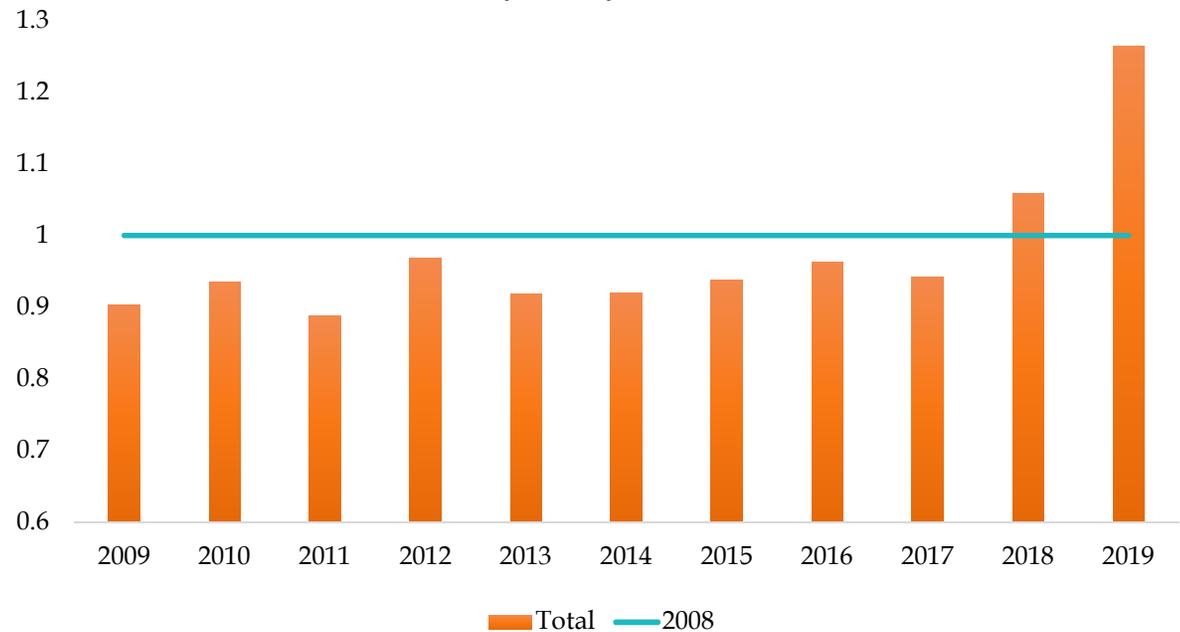
(Jan. - June)

Foreign departures through the Nassau Airport (NAD) expanded by 19.4%, relative to a 12.4% increase a year earlier.

- U.S. departures grew by 21.1%, following a 11.6% rise in 2018.
- The non-US segment gains slowed to 10.0% from 17.2% in 2018.

The first half 2019 was also the strongest showing, in the past decade.

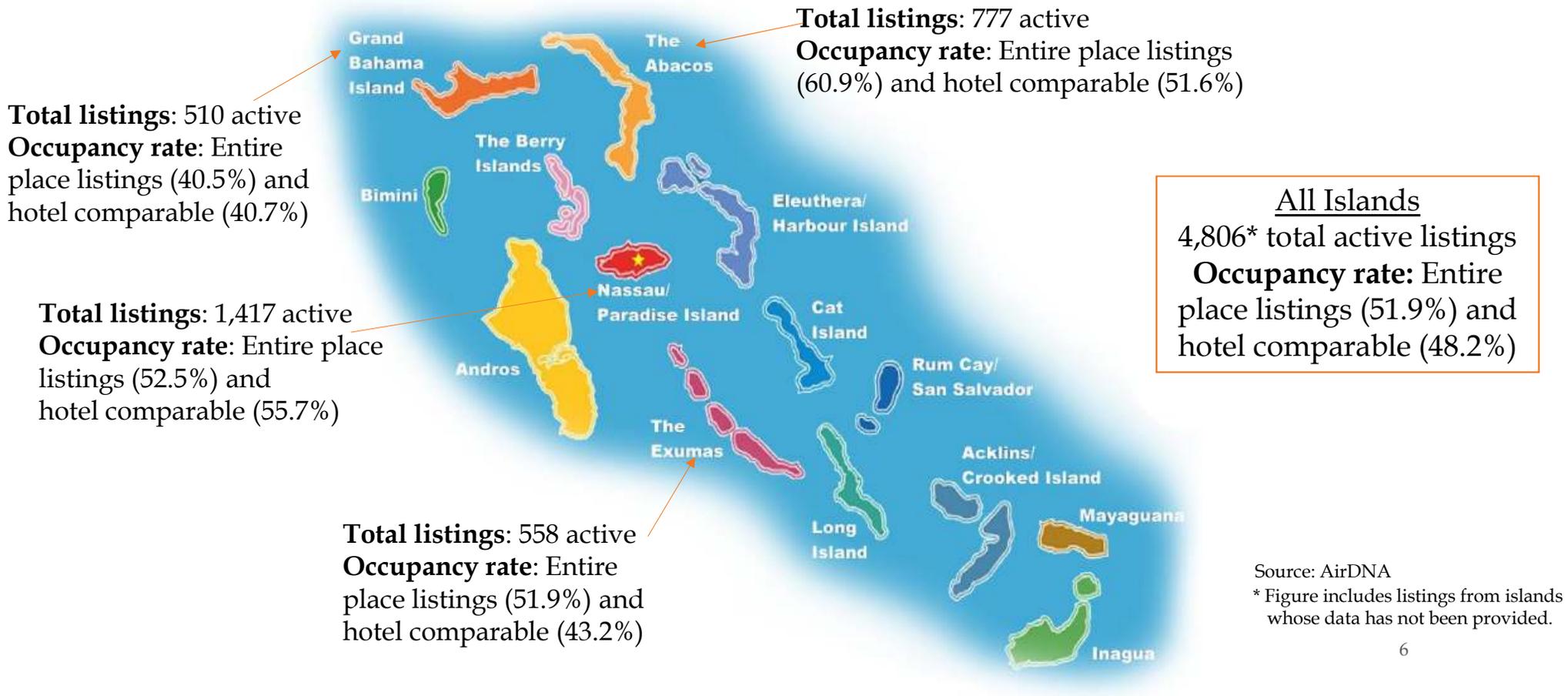
Departures vs. 2008 Recession
Jan. - June



Source: Nassau Airport Development Company
Note: All figures are net of domestic departures.

Airbnb: Snapshot of Vacation Rentals

(as at June 2019)



Airbnb: Occupancy Rate Trends (January-June 2019)

Occupancy levels for vacation rentals during the first half of 2019 trended generally upwards, with the exception of the month of May.

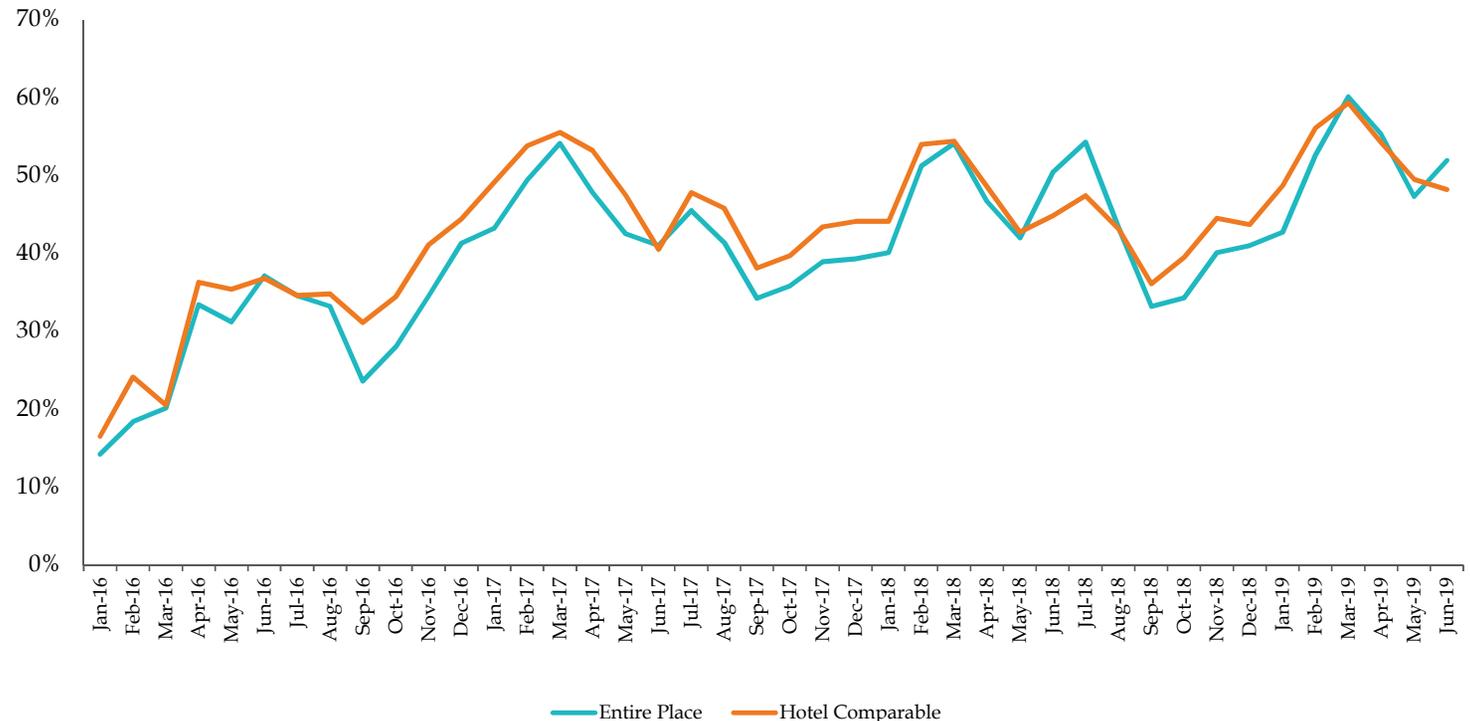
Entire Place Listings

- The average occupancy rate rose to 51.7% from 47.4% in the same period of 2018.

Hotel Comparable Listings

- The average occupancy rate increased to 52.7% from 48.1% last year.

Occupancy Rates



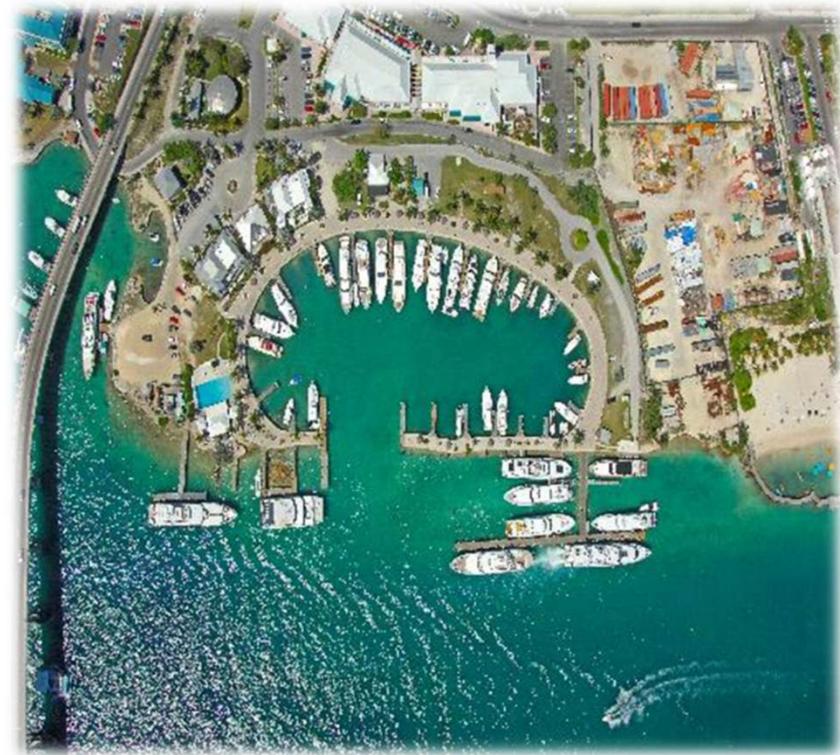
Source: AirDNA



FOREIGN INVESTMENT PROJECTS UPDATE

Hurricane Hole Marina Re-Development

- The cost of the project will be between \$270 million and \$280 million.
- On July 2, the construction of Phase I began. This includes the marina and two buildings, the “Sterling Commons”.
- Phase I is expected to be completed by June 2020; the entire project within 5 years.
- The mixed use facilities that have been confirmed by the developers include:
 - 2 restaurants, a mailbox facility, a dry cleaner, a spa, a hair & nail salon, doctors’ offices, a 5,000ft² supermarket, residential spaces and the largest mega yacht marina in the Caribbean.
 - Creation of 600 jobs are expected: with 500 permanent.
 - Employment to date of 55-60 persons.



Source: The Tribune

Photo Source: cruisemapper.com

Residences GoldWynn

- On May 24, a ground breaking ceremony was held for the proposed condo-hotel residences development on West Bay Street.
- Construction is expected to be completed by December 2020.
- The project is estimated to cost \$120 million.
- 350 local construction jobs are expected to be created.
- 150 permanent jobs are projected to be created once the development becomes operational.



Source: The Nassau Guardian

A Perfect Day at Coco Cay

Royal Caribbean International officially re-opened its private island in the Berry Islands called “A Perfect Day at CocoCay” in May 2019, after a total re-development cost of \$250 million.

The revamped island includes:

- 2 water towers and 13 water slides, including Daredevil’s Peak, 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, the Oasis Lagoon
- A new VIP zone, Coco Beach Club, which includes Maldives-style cabanas



Other Family Island Projects



Cruise Pier - Half Moon Cay

- HAL Properties Limited, the owner of Carnival Corporation, has been approved to expand an existing beach entertainment facility.
- The company plans to construct a cruise pier on Half Moon Cay as well as landside facilities.
- The project is expected to cost \$80 million.



Elbow Cay, Abaco

- Elm Hill Land Holdings Ltd. has been approved to acquire and operate Hotel Bungalows, Vacation Rental Homes and the Marina in Elbow Cay, Abaco at the location of the former '19 acre Elbow Cay Club' for \$35 million.



By The Ocean Ltd - Eleuthera

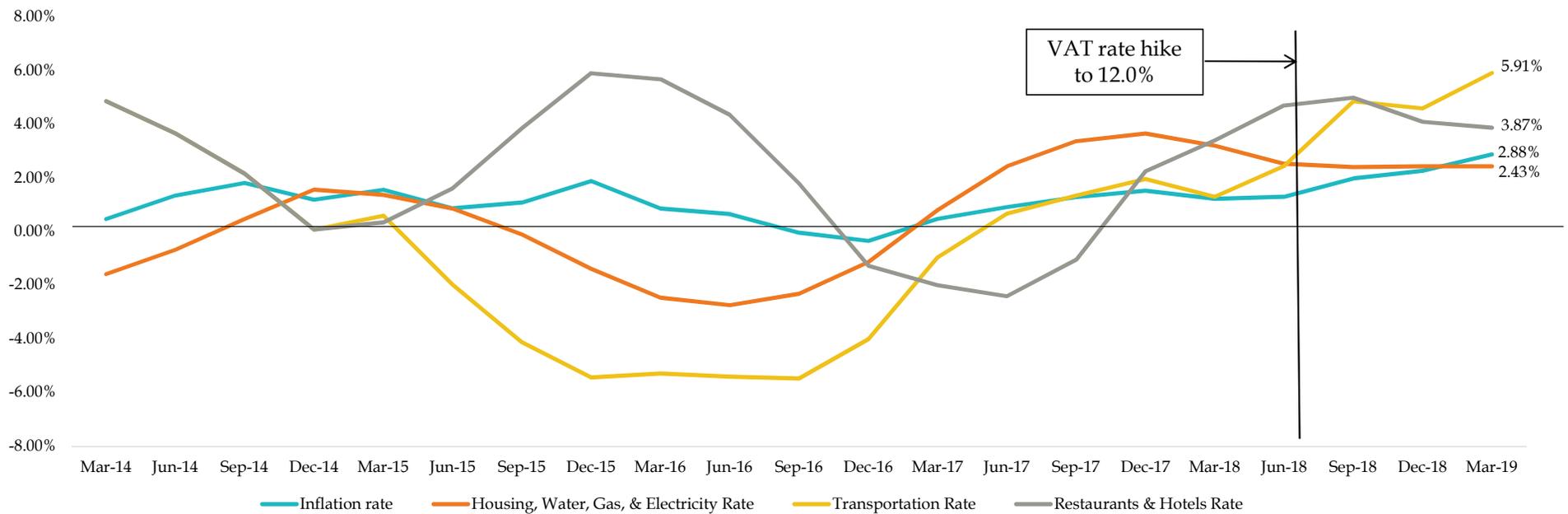
- By the Ocean Ltd. has been granted a permit to acquire 22.6 acres of land in Gregory Town, Eleuthera.
- The company plans to construct several facilities including a lobby, restaurant, spa, a 24-room hotel, 36 villas, a 42-unit condo building and an aquaculture and hydroponics farm.
- The project is expected to cost \$15 million.



INFLATION

Retail Price Index

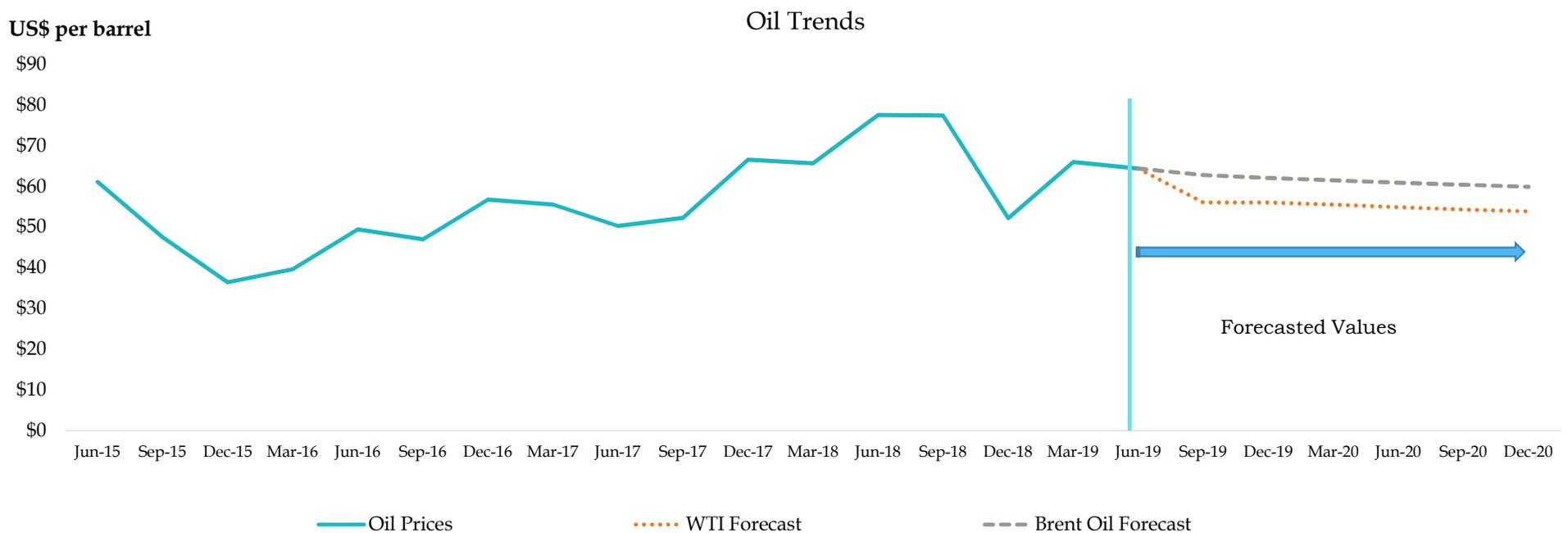
Inflation increased by 1.7 percentage points to 2.9% during the twelve months to March. This mainly reflected the accumulated pass-through effects of the hike in the VAT rate, and higher oil prices in prior periods.



Source: Department of Statistics and Central Bank of The Bahamas

Oil Price Trends

In June 2019, crude oil prices fell by 11.5%, relative to the previous month, to \$64.45 per barrel, reflecting robust global supply. Expectations are that oil prices will either stabilise or decline slightly from current levels.



Source: Bloomberg

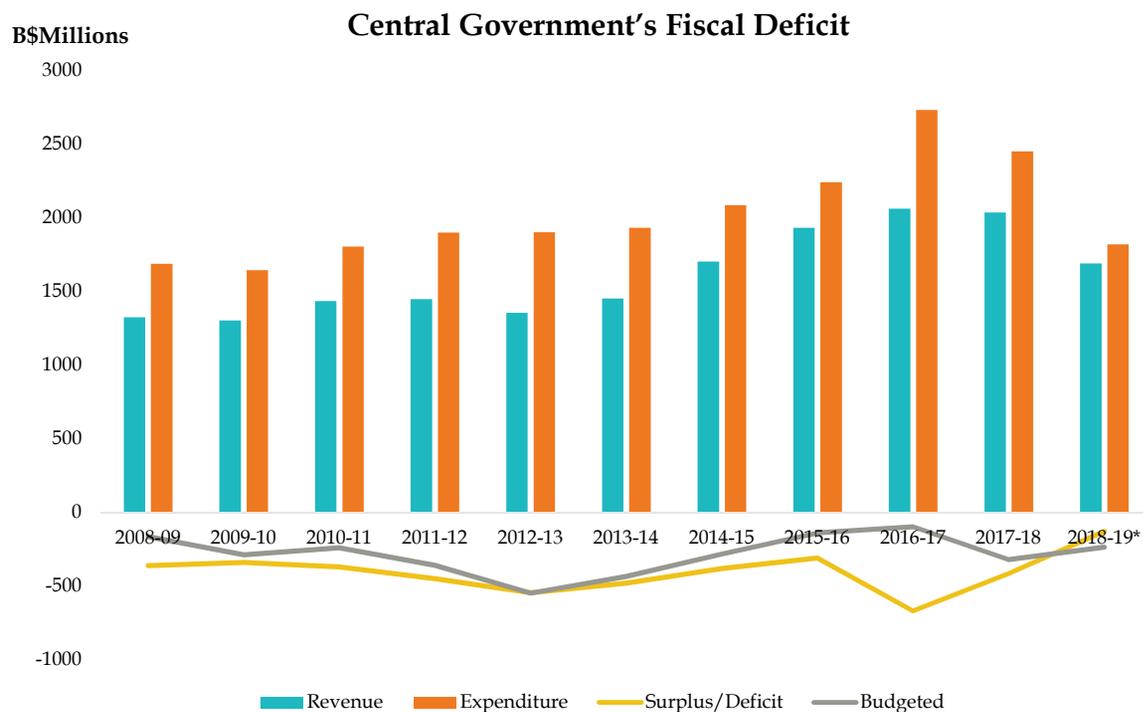


FISCAL SECTOR

Fiscal Sector

During the first nine months of FY2018/19, the deficit contracted by \$132.5 million (50.6%) to \$129.5 million, relative to the same period in FY2017/18.

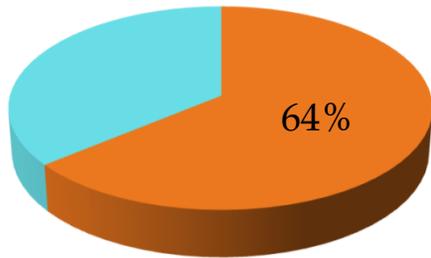
- Revenue grew by \$219.2 million (15.0%) to \$1,689.1 million.
 - VAT receipts rose by \$98.7 million (20.1%) to \$588.9 million, reflecting the hike in the rate from 7.5% to 12.0%.
- Expenditure firmed by \$86.7 million (5.0%) to \$1,818.6 million.
 - Recurrent outlays grew by \$143.5 million (9.3%) to \$1,691.6 million.
 - Capital spending contracted by \$56.8 million (31.0%) to \$126.7 million.



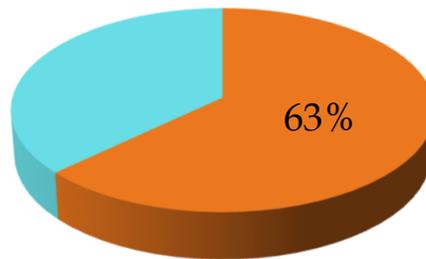
Source: Central Bank of The Bahamas
 *Data for the nine months of FY2018-19.

Budget Projection vs. Actual Outturn

Revenue

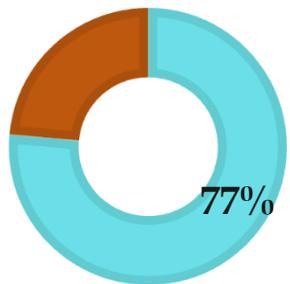


Expenditure

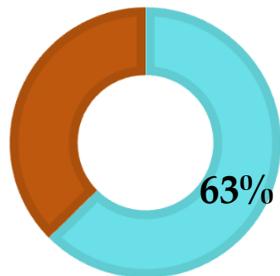


Close to two-thirds of both average budgeted revenue and expenditures have been utilized.

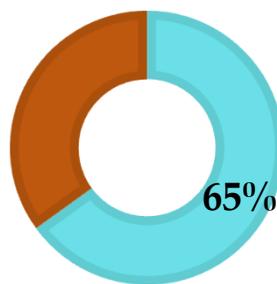
Compared to the previous fiscal year, the year-to-date revenue was higher by 14.9%; and expenditure, by a smaller 5.0%.



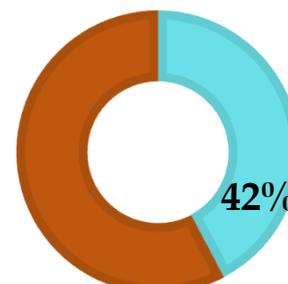
Non Tax Revenue



Tax Revenue



Recurrent Expenditure



Capital Expenditure

Percentages indicate the proportion of the budgeted estimates that has been reached during the first 9 months of FY18/19

2019/2020 Budget: Key Expenditure Measures

Expenditure for Educational Purposes

- \$20 million allocated to pre-school and tertiary education.
- Launch of a \$9.3 million project to enhance the Bahamas Technical and Vocational Institute, with emphasis on upgrading infrastructure.

Environmental Initiatives

- Over \$170 million over the next 8-10 years for solar energy.
- \$17 million dollars for the development of LED smart street lights, inclusive of a \$14.6 million loan from the Caribbean Development Bank.

Expenditure for Handling of Arrears

- The settlement of pending arrears including the BTC legacy Defined Benefit Pension Plan has been stated; \$3.0 million has been provisioned.
- Major infrastructure projects outlined include: road improvement, renewable energy, medical facilities, national security infrastructure and digital infrastructure.

2019/2020 Budget: Key Revenue Measures

Revenue Generating Measures

- The revenue measures are expected to yield an additional \$215.0 million
 - Enforcement of VAT on vacation rental transactions (e.g. rentals listed on AirBNB, Home Away and VRBO)
 - Revamp of the real property tax system
 - Increase in private cruise permit fees
 - Introduction of “Electronic Single Window” or “Click2clear” at the Customs Department.
 - Full operation of the Revenue Enhancement Unit

Tax Relief Measures

- Increase in threshold for VAT exemption on electricity bills from \$200 to \$300.
- Reduction or elimination of VAT on nearly 20 products (mainly school supplies and select home appliances).
- Reduction in customs duties on various household items

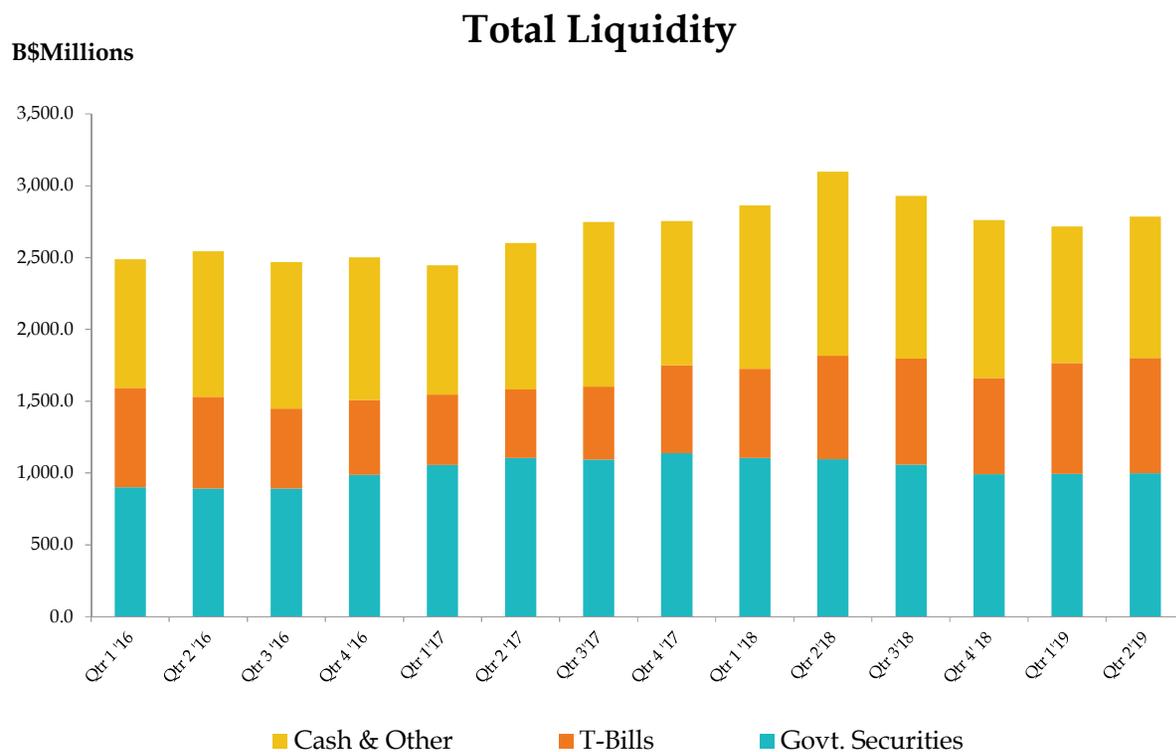


MONETARY SECTOR

Money and Banking: Liquidity Conditions

During the first six months of 2019, bank liquidity increased, reflecting the tourism receipt-led rise in the Bahamian dollar deposit base, while domestic credit levels moderated.

- Excess liquid assets rose by \$305.2 million to \$1.8 billion, outpacing a \$188.3 million gain in 2018.
- Excess reserves grew by \$159.7 million, just extending the \$137.9 million expansion of the prior year.



Source: Central Bank of The Bahamas

Lending Conditions

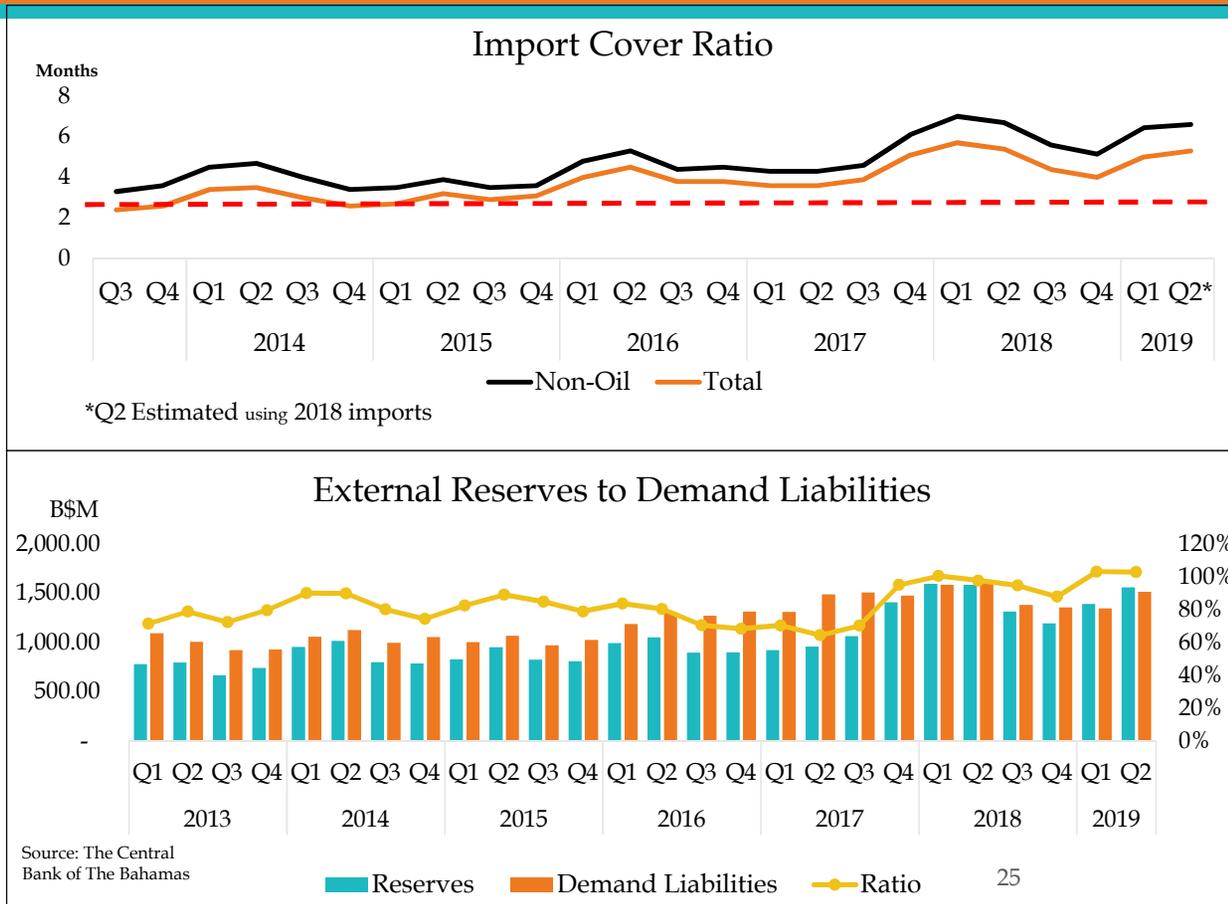
During the first six months of 2019, total Bahamian dollar domestic credit fell by \$72.5 million, compared to a reduction of \$33.8 million during the comparable period of 2018.

- Net claims on the Government declined by \$41.6 million, relative to a \$32.1 million increase in the prior year.
- Credit to public corporations contracted by \$12.8 million, extending the \$1.6 million falloff in 2018.
- Private sector credit decreased by \$18.5 million; albeit lower than the prior year's decline of \$64.2 million.
 - ✓ Commercial credit firmed by \$26.7 million
 - ✓ Consumer credit contracted by \$38.6 million
 - ✓ Mortgages fell by \$6.2 million

External Reserves

Over the first half of 2019, external reserves strengthened by \$365.6 million to \$1.6 billion, relative to a \$180.0 million increase in the previous year.

- At end-June, reserves were equivalent to approximately 5.3 months of total merchandise imports, compared to 5.4 months in 2018 (benchmark 3.0 months).
- External reserves represented 103.1% of Demand Liabilities, compared to 97.9% at the end of the second quarter of 2019 (benchmark 90% - 100%).

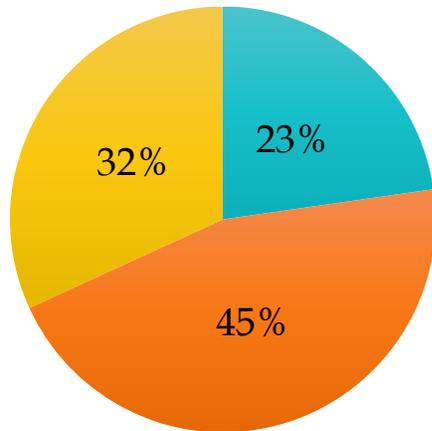


An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip. In the foreground, there are several palm trees and some buildings, possibly a resort or a small town. The sky is clear and bright.

BUSINESS CONDITIONS AND EXPECTATIONS SURVEY

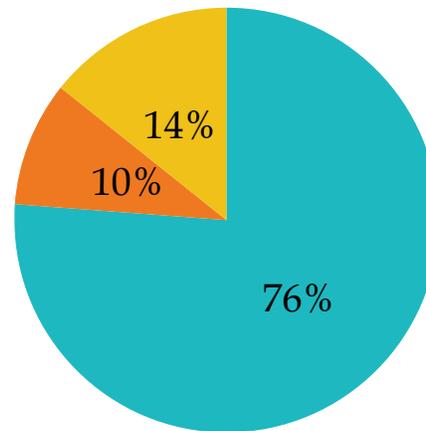
Business Conditions and Expectations Survey (Jan. – June 2019*)

Overall Business Conditions



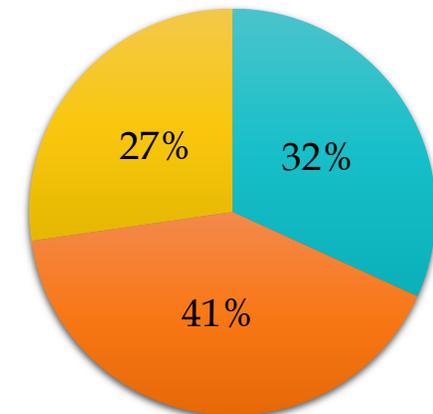
■ Improved ■ No Change ■ Worsen

Inflation



■ Increased ■ No Change ■ Decreased

Domestic Employment Conditions

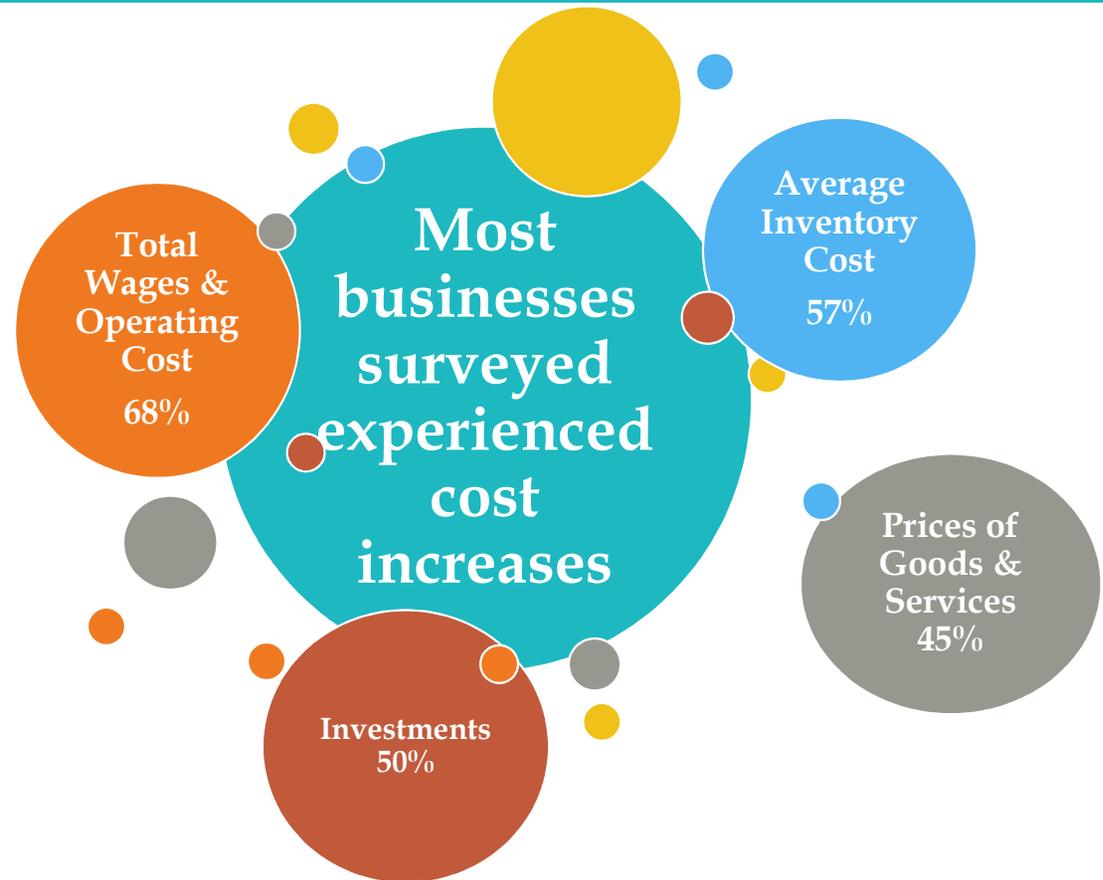


■ Increased ■ No Change ■ Decreased

*Note: Although a cross-section of companies and individuals are surveyed and interviewed, covering most of the sectors of importance to GDP, the results of the survey are not intended to be representative of the entire business population, given the small sample size.

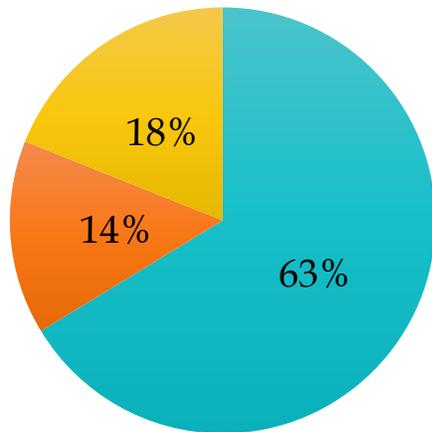
Business' Own Activities & Operations

- Many businesses responded that average cost of inventory, goods and services, wages and investments have increased during the last six months.
- Just over half of respondents (57%), noted a decline in profits, while 24% noted an expansion.
- 68% and 55% respectively, of businesses reported that average weekly hours and the total number of employees remained relatively the same.
- 71% of businesses noted that debts owed to banks and other creditors have remained unchanged.



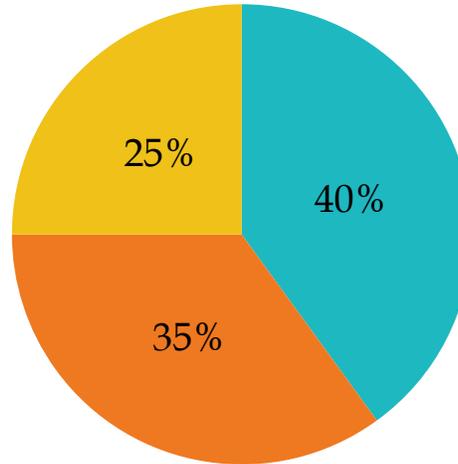
Expectations for the Coming 6 Months

Overall Business Conditions



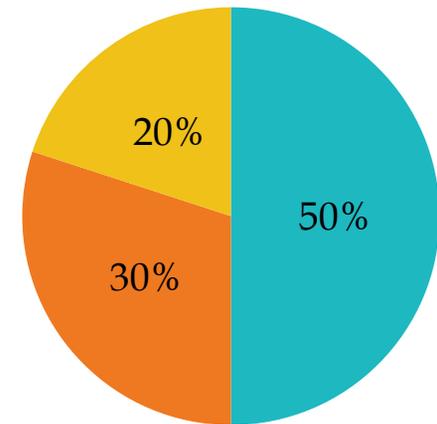
■ Improve ■ No Change ■ Worsen

Increase In Inflation



■ Increase ■ No change ■ Decrease

Domestic Employment Conditions



■ Increase ■ No change ■ Decrease

- Businesses were largely optimistic about the upcoming 6 months; although many expect prices will continue to rise.



OUTLOOK

Real Sector and Fiscal Sector

Real Sector

- Economic conditions in The Bahamas are expected to remain positive over the near-term, reflecting the continued growth in the tourism sector, amid the improvement in the high value-added stopover segment. In addition, construction sector activity should be supported by several varied-scale foreign investment projects.
- In line with these developments, employment conditions are projected to continue to gradually improve.
- Meanwhile, domestic inflation is expected to remain slightly elevated due to the pass-through effects of the hike in the VAT rate and potential gains in oil prices.

Fiscal Sector

- The Government's efforts to improve the deficit and debt indicators, will depend mainly on the successful implementation of measures to curtail expenditure growth and strengthen revenue administration.

Monetary Sector and External Reserves

Monetary

- Banking sector liquidity is expected to remain elevated over the remainder of the year, as banks maintain their conservative lending practices and consumers continue to deleverage.
- Loan arrears and non-performing loans (NPLs) should continue to decline, reflecting ongoing debt restructuring programmes and the improvement in economic conditions.

External Reserves

- External balances are likely to remain at robust levels-well above international benchmarks-although some drawdown in balances is anticipated over the remainder of the year, due to the traditional uptick in foreign currency demand during the final months of the year.

Risks To The Outlook



The End

