

Quarterly Economic and Financial Developments Report

September 2019

*Featuring the latest Lending Conditions Survey for
the First Half of 2019*

Research Department



Overview of Domestic Economic Developments

Indications are that the economy maintained its modest growth trajectory during the review period, even though the passage of Hurricane Dorian adversely impacted tourism output in September. Foreign investments provided sustained impetus to the construction sector.

Real Sector

- Tourist arrivals increased during January–September 2019 compared to the same period of 2018.
- Airport departures rose by 15% during the nine months of the year.
- Increased construction sector output remained fueled by ongoing foreign investment projects.
- The annual inflation rate through July 2019 rose by 1.5 percentage points to 3.1%, reflecting the continued effects of the VAT rate hike.

Fiscal Sector

- During the 2018/2019 fiscal year, the Government's deficit was almost halved to \$222.4 million, underpinned by revenue growth, which outstripped expenditure increases.

Monetary Sector

- Over the nine months to September, bank liquidity expanded robustly, attributed to foreign currency inflows from real sector activities and reinsurance receipts.
- External reserves strengthened by \$351.0 million, vis-à-vis the previous year.

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 with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly part of a resort. The sky is clear and bright.

TOURISM SECTOR

Visitor Arrivals

(January - September)

Official data from the Ministry of Tourism, revealed that total visitor arrivals grew by 10.4% during the nine months to September, outpacing the 8.5% increase over the same period of the prior year.

- Sea arrivals expanded by 10.1%, compared to a 6.1% growth in 2018.
- Air arrivals grew by 11.6%, following a 16.5% growth in 2018.

Specific to September, total visitor arrivals contracted by 12.8%, after a 62.4% growth the same period last year.

- No visitors to Abaco or Freeport.

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2018	2019	2018	2019	2018	2019
Arrivals						
Air	18.8	15.6	3.3	-14.7	12.0	3.3
Sea	-7.1	17.2	9.6	-15.9	28.2	9.9
Total	0.1	16.7	8.9	-15.8	25.4	8.9

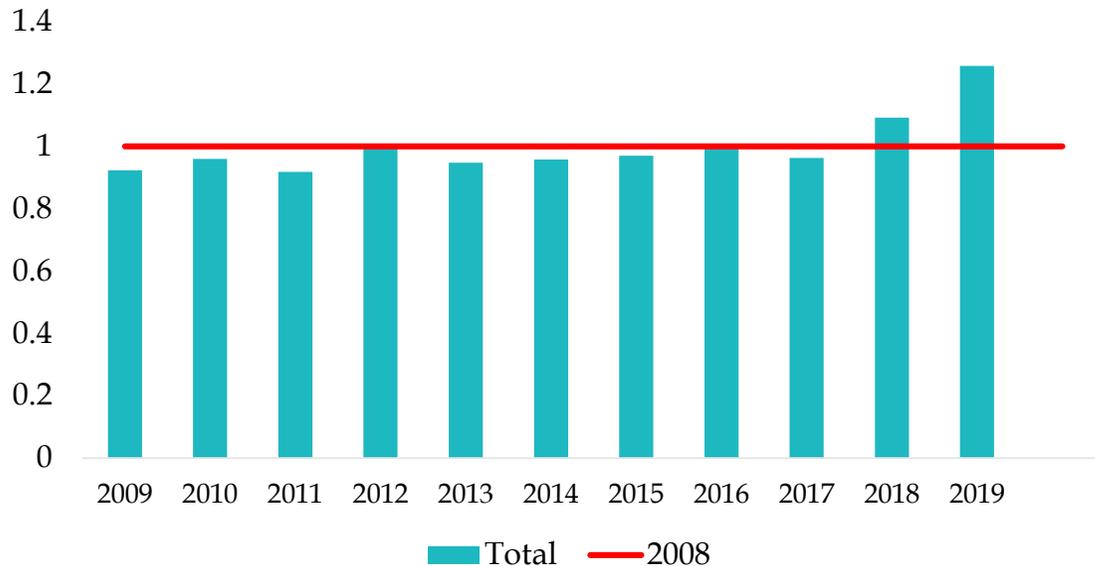
Nassau Airpot (NAD) Visitor Departures

Year-to-date departures expanded by 15.2%, relative to a 13.4% increase a year earlier. U.S. traffic grew by 16.6%; and the non-US segment by 7.0%.

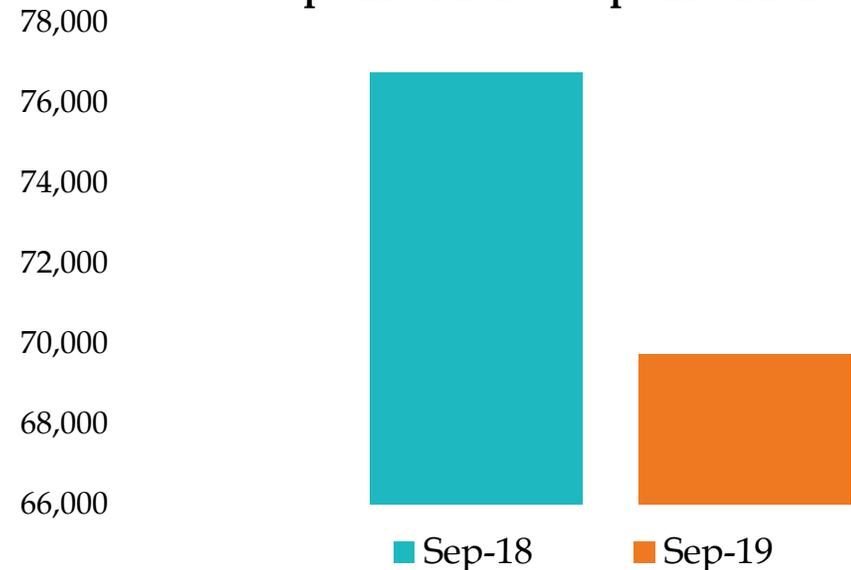
2019 was the strongest showing since 2008's recession.

Given the hurricane, total departures for September 2019 decreased by 9.2%, relative to a 42.3% growth in the prior year.

Departures vs. 2008 Recession
January-September



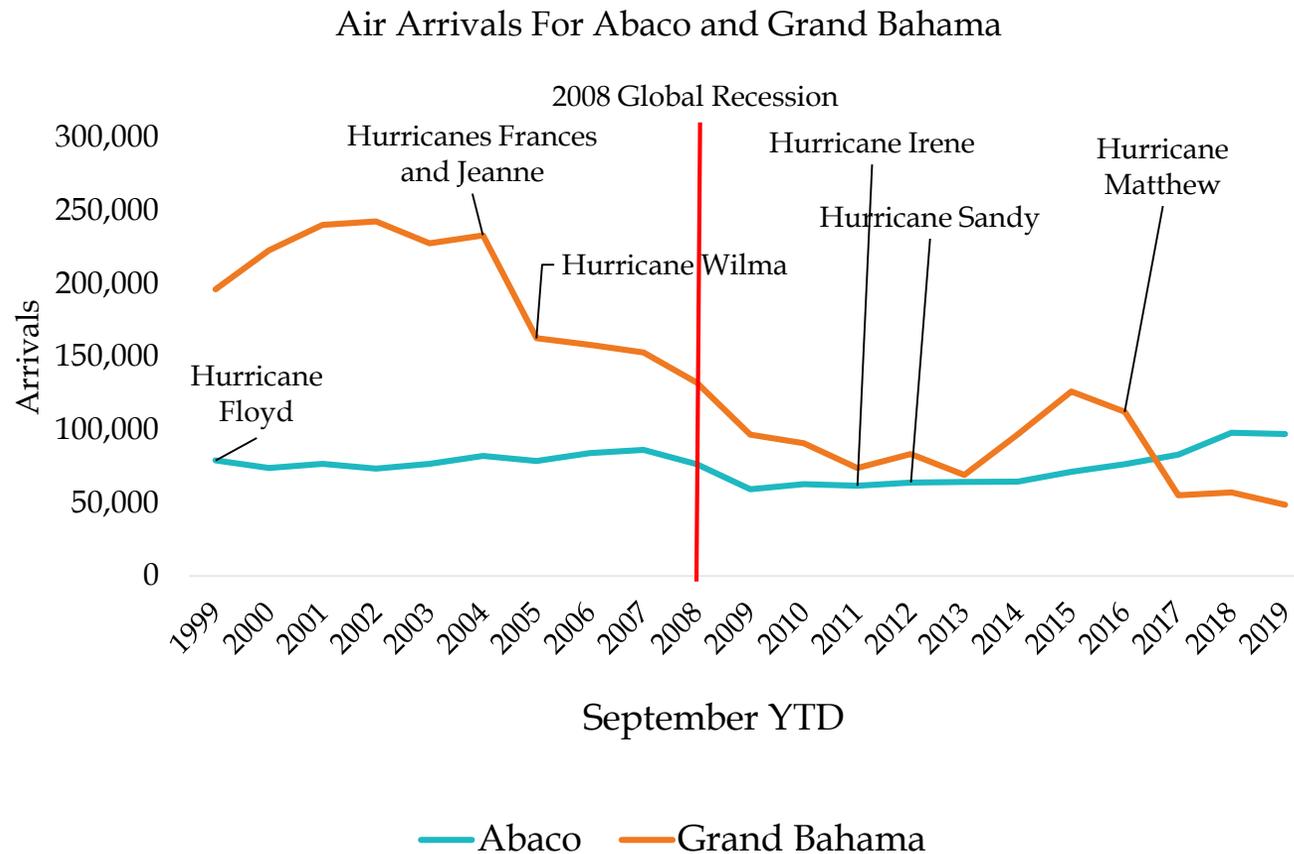
Total Departures
September 2018 v September 2019



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

Air Arrivals Trends following Hurricanes

Abaco and Grand Bahama



In periods following the hurricanes that severely affected the islands, total air arrivals decreased. The cumulative setback has been highest for Grand Bahama.

- The last severe storm to impact Abaco was Hurricane Floyd, with a falloff in air arrivals of 7.0%.
- Grand Bahama experiences:
 - A dramatic decrease in air arrivals following Hurricanes Frances & Jeanne, of 30%.
 - Following Hurricane Wilma air arrivals fell by 3.0%.
 - A reduction also followed Hurricane Sandy due to the detrimental effects of the storm on parts of the North East US, a key market.

Status of Airports in Grand Bahama and Abaco

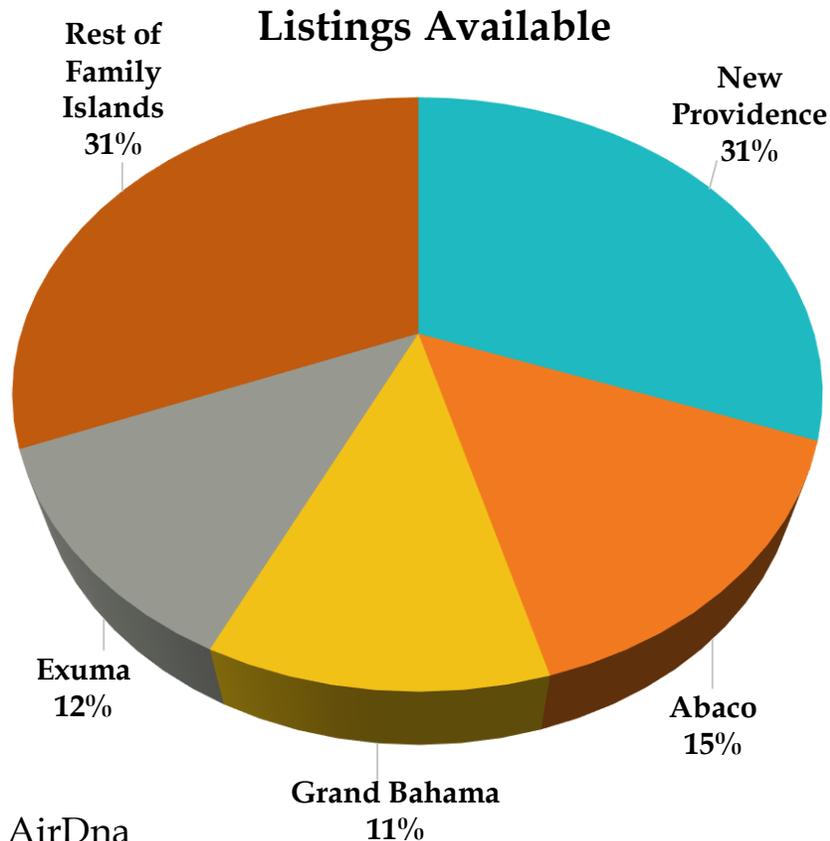
*Facilities are still operating at limited capacity,
highlighting the pause in tourism.*

MAJOR AIRPORT	DAMAGES	STATUS
Sandy Point Airport (Abaco)	<ul style="list-style-type: none">• Flooding• Minor damages to building• No lighting on runway	<ul style="list-style-type: none">• Restricted Operations coordinated by NEMA• Limited flight capacity• Day only flights
Leonard M Thompson International Airport (Abaco)	<ul style="list-style-type: none">• Flooding• Damages to building and roof• No lighting on runway	<ul style="list-style-type: none">• Restricted Operations coordinated by NEMA• Domestic commercial flights only• Day only flights
Treasure Cay International Airport (Abaco)	<ul style="list-style-type: none">• Limited flooding• Minor damages to building• No lighting on runway	<ul style="list-style-type: none">• Restricted Operations coordinated by NEMA• Domestic commercial flights only• Day only flights
Grand Bahama International Airport	<ul style="list-style-type: none">• Flooding (6 ft of water)• Buildings destroyed	<ul style="list-style-type: none">• Restricted Operations coordinated by NEMA• No operational terminals• Domestic commercial flights only• Day only flights

Bahamas Vacation Rental (Airbnb) Market Share by Island (Latest data)

Total listings – 3,968
New Providence, Grand Bahama and Abaco combined account for more than half of all available listings.

Due to a combination of seasonality and Hurricane Dorian, available listings decreased in September 2019 relative to August 2019, by 15.0% for Grand Bahama and by 24.6% for Abaco.



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 with several palm trees scattered along the shore. In the distance, there are some buildings and more palm trees on a small island or peninsula.

FOREIGN INVESTMENT PROJECTS UPDATES

Investment Projects Update

Grand Bahama Cruise Port

Heads of Agreement (HOA) signed with Govt. on September 25, 2019 for a \$100 million cruise port development at Sharp Rock, Freeport by Carnival Grand Bahama Investment Ltd.

- Port will span some 329 acres, with facilities including a lighthouse, fort structure, food and drink pavilions, Spaces for sporting and recreation activities.
- Expected to create 1,000 direct and indirect jobs.

Sources: The Nassau Guardian (Aug.29), The Tribune (Aug. 29) & Nassau Cruise Port website

BahaMar Bay

- HOA signed October 15, 2019 for development of 15.3 acres of land by Baha Mar.
- Project \$300 million investment will include:
 - Renovations to Melia Nassau Beach Resort
 - New beachfront adventure experience
 - Developments to Long Cay
- Expected to be completed in 1-2 years
- Anticipated to create 500 direct and 1,000 indirect jobs.

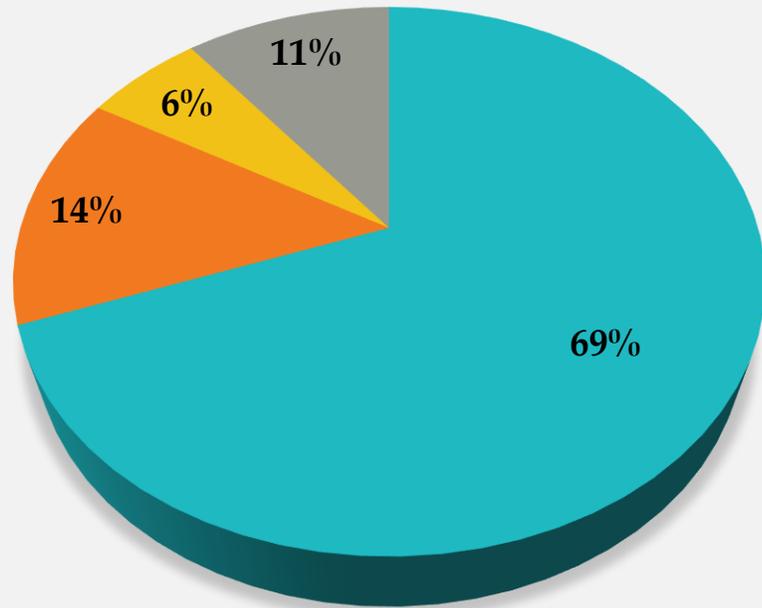


EMPLOYMENT

Labor Market Shares

Labour market shares underscore the extent to which economic disruption in Abaco and Grand Bahama could affect unemployment in the near-term.

Labor Market Share
as at November 2018



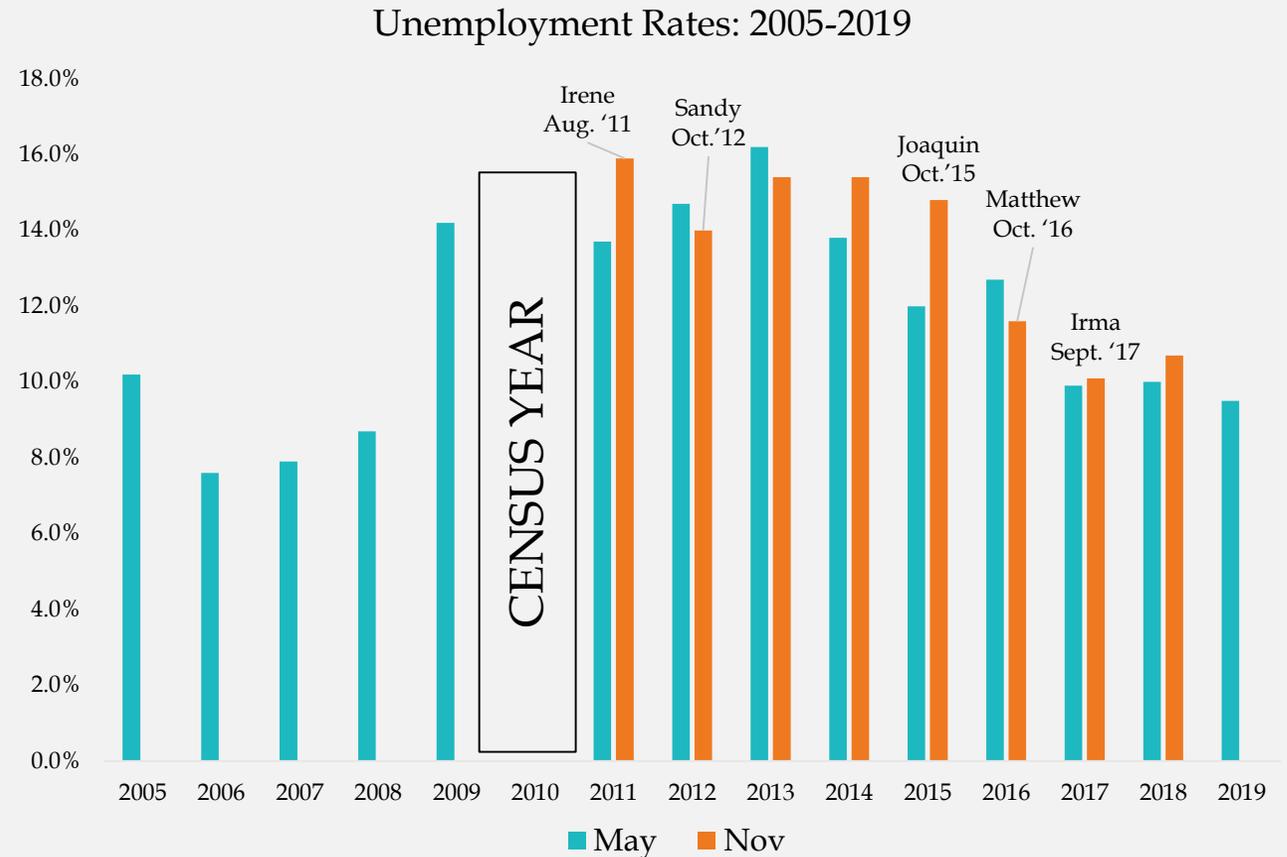
■ New Providence ■ Grand Bahama ■ Abaco ■ Family Islands

- New Providence's labor force accounts for more than two thirds of the surveyed labor force.
- Abaco and Grand Bahama account for 20% of the total Bahamas labor force; the remainder reside in the other Family Islands.
- It is expected that post hurricane Dorian, Abaco and Grand Bahama's employment share will contract.
- **According to a National Insurance Board press release, over 900 persons have already submitted claims for unemployment benefits.**

Unemployment Rates

Association with past hurricane encounters.

- The unemployment rate increased during the November 2011, May 2013 and November 2015 releases, partly associated with the hurricanes that occurred during, or prior to, the survey periods.
- There was no unemployment rate spike following Hurricanes Matthew and Irma.
- This may be on account of the affected islands' small population and the opening of the BahaMar Resort.

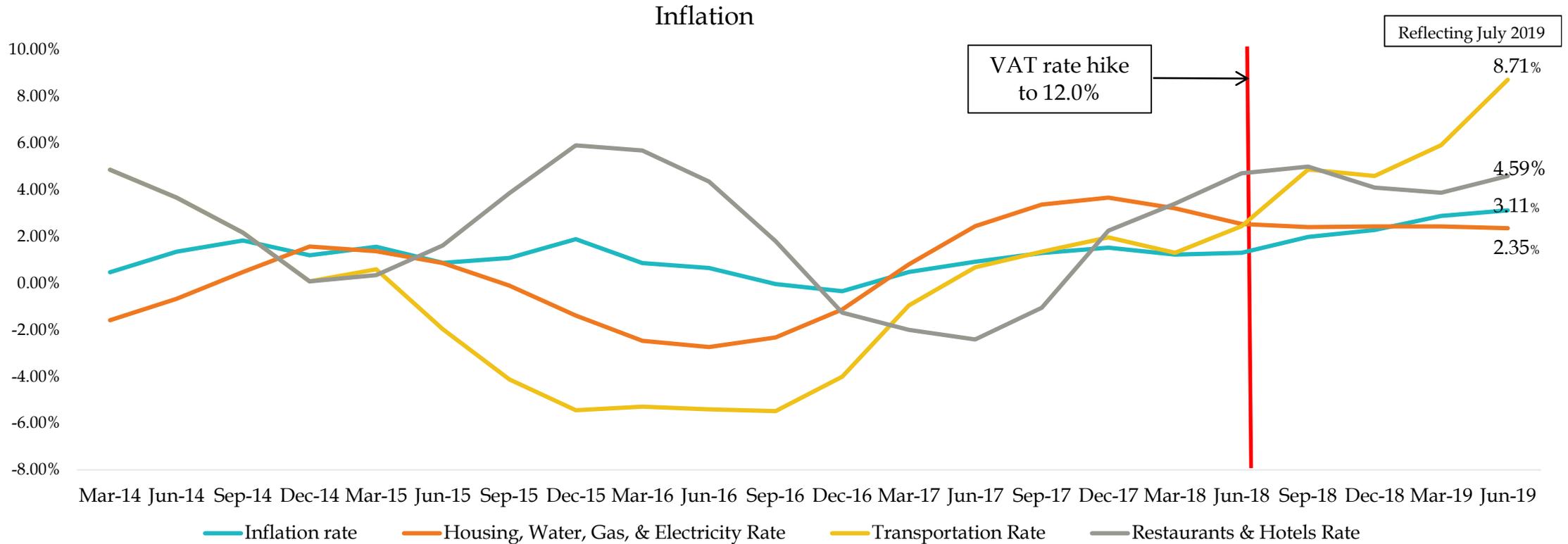




INFLATION

Retail Price Index

Inflation increased by 1.5 percentage points to 3.1% during the twelve months to July 2019. This mainly reflected the accumulated pass-through effects of the hike in the VAT rate, and higher oil prices in prior periods.



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FISCAL SECTOR

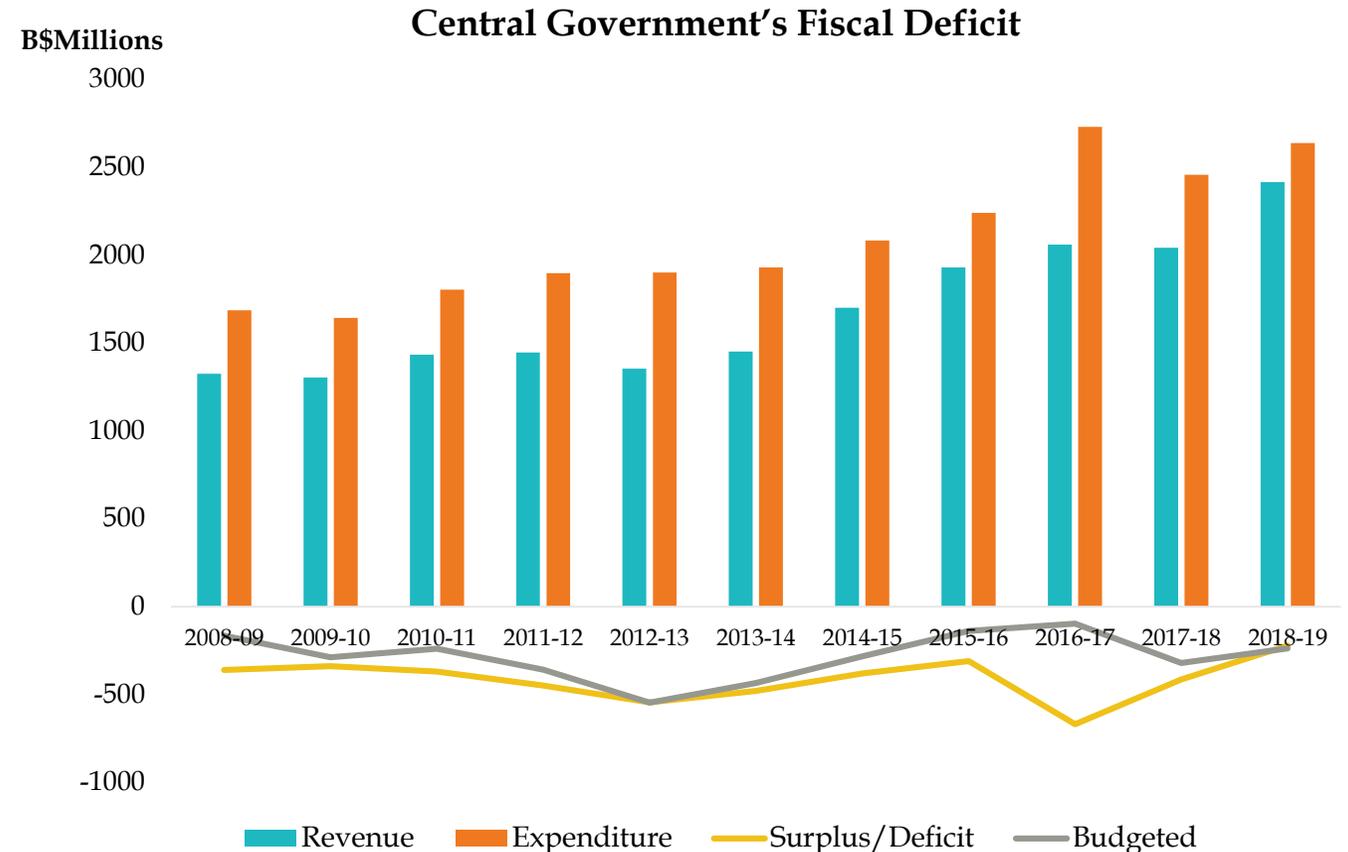
Fiscal Sector

During FY2018/19, the deficit contracted by \$192.5 million (46.4%) to \$222.4 million, relative to the same period in FY2017/18.

- Revenue grew by \$373.6 million (18.3%) to \$2,416.0 million.
 - VAT receipts rose by \$214.3 million (31.5%) to \$894.9 million, reflecting the hike in the rate from 7.5% to 12.0%.
- Expenditure firmed by \$181.1 million (7.4%) to \$2,638.4 million.
 - Recurrent outlays grew by \$232.6 million (10.6%) to \$2,421.2 million; capital spending contracted by \$51.6 million (19.2%) to \$217.2 million.

During the 1st quarter of FY2019/20 the deficit was 1/3 lower at \$41.8 million.

- Revenue grew by 7.6% to \$552.7 million, linked largely to gains in VAT receipts; and spending firmed, by 2.7%, to \$594.5 million.



Summary of Pre and Post-Hurricane Dorian Fiscal Projection

	Revenue	Expenditure	Deficit
PRE HURRICANE	Budgeted revenue for FY2019/2020 pre-hurricane was \$2.63 billion.	Total expenditure budgeted for FY 2019/2020 was \$2.77 billion.	The expected deficit for FY2019/2020 was \$137 million.
POST HURRICANE	<ul style="list-style-type: none"> Reduction of 8.0% in budgeted revenue. Equivalent to a \$215.0 million shortage. Supplemental resources include insurance payout from Caribbean Catastrophic Risk Insurance Fund (CCRIF), use of dormant accounts funds and donations to National Emergency Management Agency (NEMA) from public and private sources. 	<ul style="list-style-type: none"> Budgeted expenditures to increase by \$222.4 million. Initial capital expenditure for rebuilding efforts total some \$6.4 million. \$4.7 million of funds collected by NEMA has been spent on housing for relief workers, volunteers and displaced persons. 	<ul style="list-style-type: none"> Projected deficit will expand by \$436 million. <ul style="list-style-type: none"> ➤ New shortfall expected to surpass \$500 million and approach 4.5% of GDP. Deficit financing to include loans from the domestic financial institutions, IDB, Caribbean Development Bank (CDB), and others.

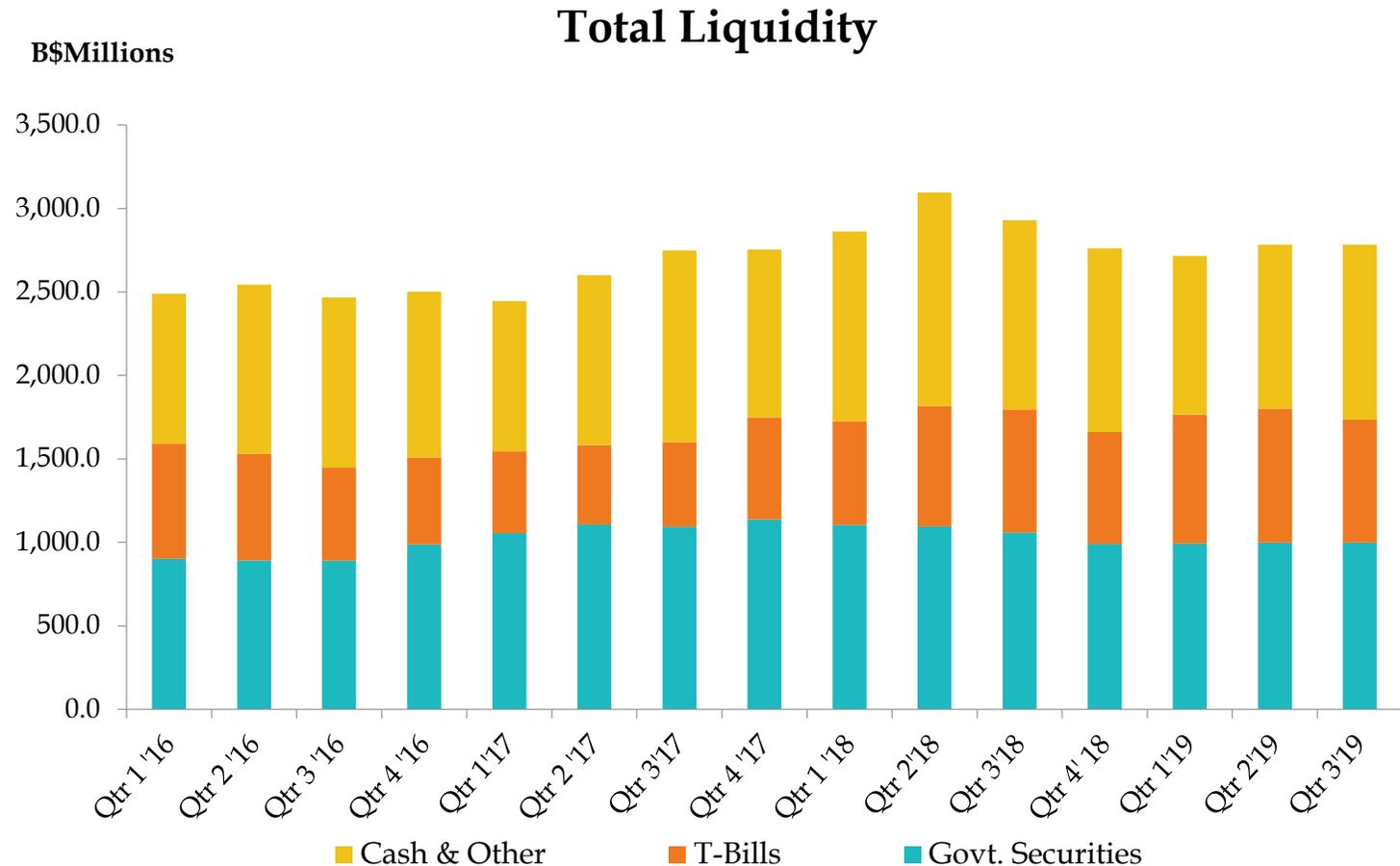
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MONETARY SECTOR

Money and Banking: Liquidity Conditions

During the first nine months of 2019, bank liquidity increased, reflecting growth in B\$ domestic deposits, which outstripped increases in domestic credit.

- Excess liquid assets rose by \$252.9 million to \$1.8 billion, reversing a \$61.1 million falloff in 2018.
- Excess reserves grew by \$223.4 million to \$894.7 million, overturning the \$121.0 million contraction in the prior year.



Lending Conditions

During the first nine months of 2019, total Bahamian dollar domestic credit contracted by \$22.2 million, contrasting with a \$39.1 million growth during the comparable period of 2018.

- Net credit to Government declined by \$15.8 million, relative to a \$114.0 million increase in 2018.
- Credit to public corporations contracted by \$18.0 million, slowing from the \$25.6 million expansion in 2018.
- Private sector credit rebounded, by \$11.6 million, vis-à-vis the prior year's decline of \$100.6 million.
 - ✓ Commercial credit  by \$47.0 million
 - ✓ Consumer credit by  \$32.9 million
 - ✓ Mortgages  by \$2.6 million

Relief Offered to Abaco and Grand Bahama by Commercial Banks

Measures to Assist Affected Borrowers	
Type of Relief/Relaxation	# of Banks
Special Financing on Rebuilding Loans	3
Return of Loan Payments after August 31	1
Repayment over 8 years via salary deduction	1
Temporary Moratorium on Loan Payments	1
Deferral or Extension on Mortgage/Loan/ Credit Card Payments	5
Refinancing of Current Repayment Obligations	2

Bahamian Dollar Credit Quality Indicators

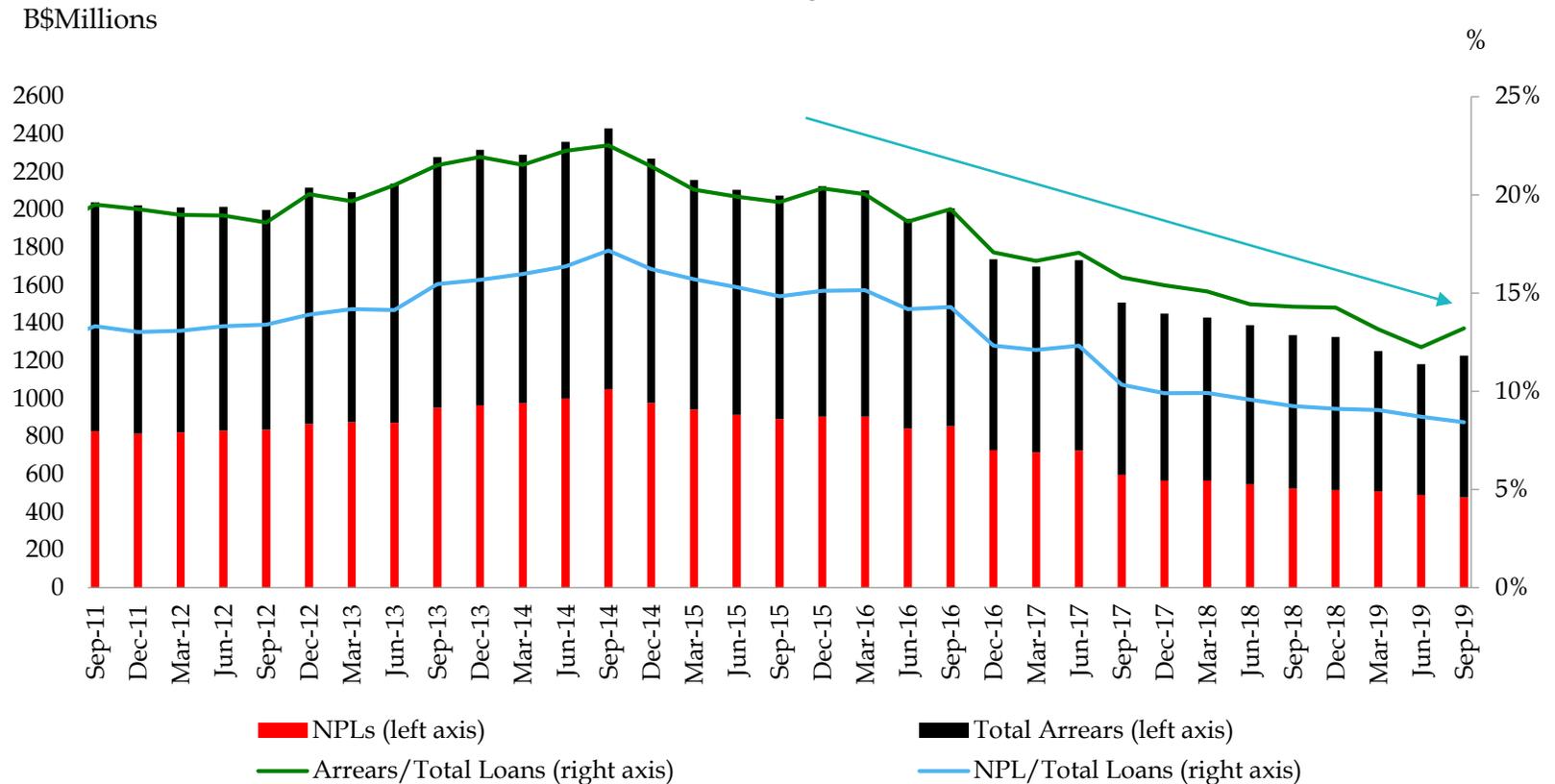
Over the first nine months of 2019, total private sector loan arrears declined by \$60.2 million (7.4%). The ratio of arrears to total loans fell by 1.1 percentage points to 13.2%.

- Short-term arrears narrowed by \$21.7 million (7.4%), and the related ratio by 38 basis points to 4.8%.
- NPLs decreased by \$38.4 million (7.4%), and the NPL rate by 67 basis points to 8.4%.

Analysis by loan type:

- Mortgage arrears ↓ \$42.7 million.
- Commercial arrears ↓ by \$15.4 million.
- Consumer arrears ↓ \$2.1 million.

Credit Quality Indicators

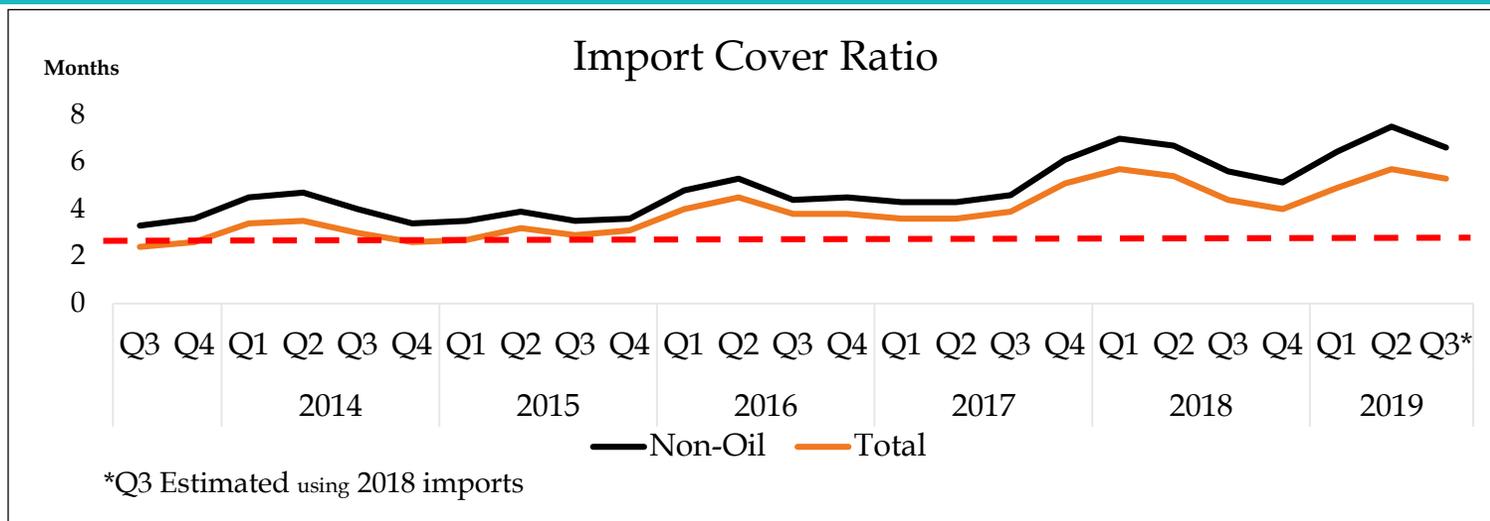


Source: Central Bank of The Bahamas

External Reserves

On a year to date basis, external reserves strengthened by \$360.1 million to \$1.6 billion, reflecting foreign currency inflows from reinsurance receipts and real sector activities; balances decreased by \$91.9 million in 2018.

- At end-September, reserves were equivalent to approximately 5.3 months of last year's total merchandise imports, compared to 4.4 months in 2018 (benchmark 3.0 months).
- External reserves represented 96.3% of Central Bank demand liabilities, compared to 95.1% at the end-September 2018 (benchmark 90% - 100%).



Source: Central Bank of The Bahamas



OUTLOOK

Post-Dorian Outlook



Boost to construction activity and related employment.



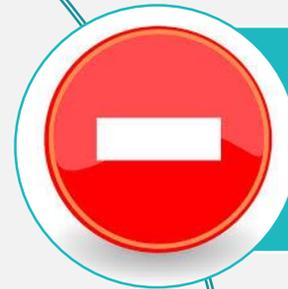
Boost to reserves and financial account from re-insurance inflows.



Boost in economic activity in New Providence due to migration.



Boost to tourism in other islands due to substitution effect.



Increased fiscal pressure due to rebuilding and social assistance spending, combined with some revenue loss.



Increase in current account deficit, amid a rise in import to support rebuilding, as well as some lost tourism inflows.



Job losses related to reduced tourism capacity in Abaco and destroyed businesses.

FEATURE:



**RESULTS FROM BANK LENDING
CONDITIONS SURVEY**

Bank Lending Conditions Overview (January – June 2019)

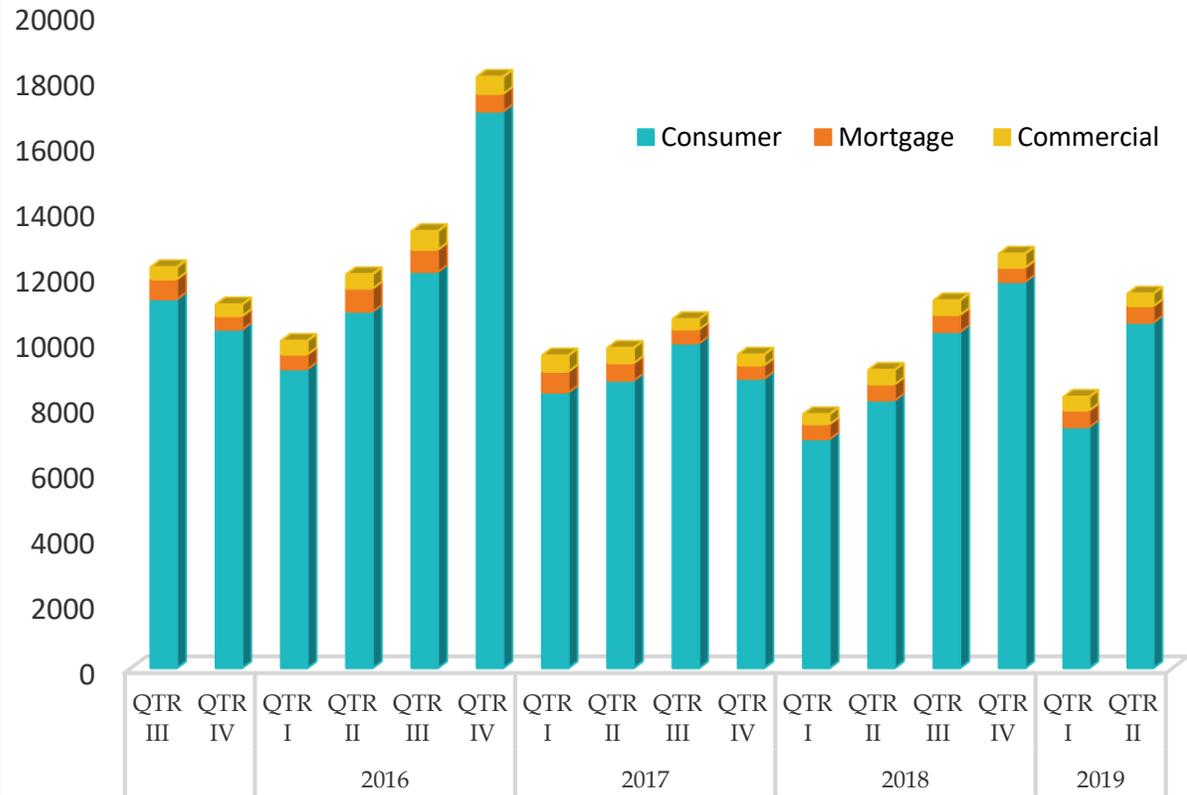
The number of credit applications received and processed by banks during the first half 2019 strengthened when compared to the same period of 2018.

Approximately 19,712 loans were processed (up by 17% over first half of 2018).

- Most applications were submitted and processed in New Providence (82%)
- Consumer loan applications dominated at 91% of total request; 84% were approved.
 - Most loan denials were due to high DSR's, lack of collateral or no down payment.
- Mortgage applications rose in comparison to 2018; 53% of requests were approved.
 - Most applications were for purchases of already built homes.
 - ...but growth in financing request for new construction mortgages was also noted.
- Demand for commercial credit also firmed vis-à-vis the first half of 2018; the approval rate was 86%.

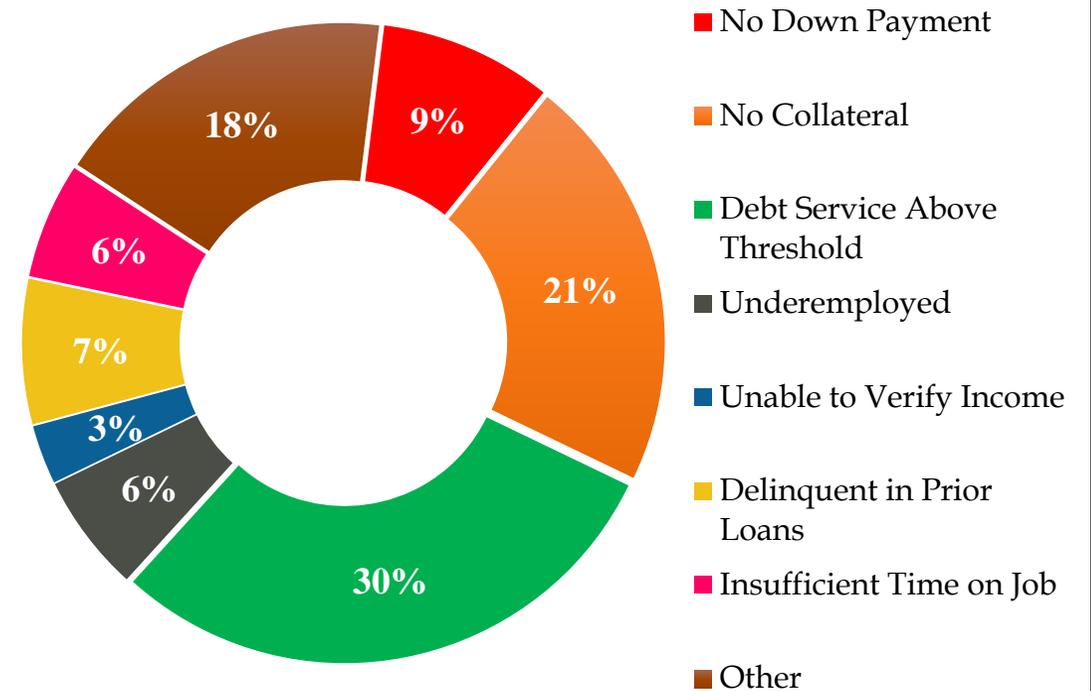
Bank Lending Conditions Overview (January - June 2019)

Loan Applications Received by Loan Type



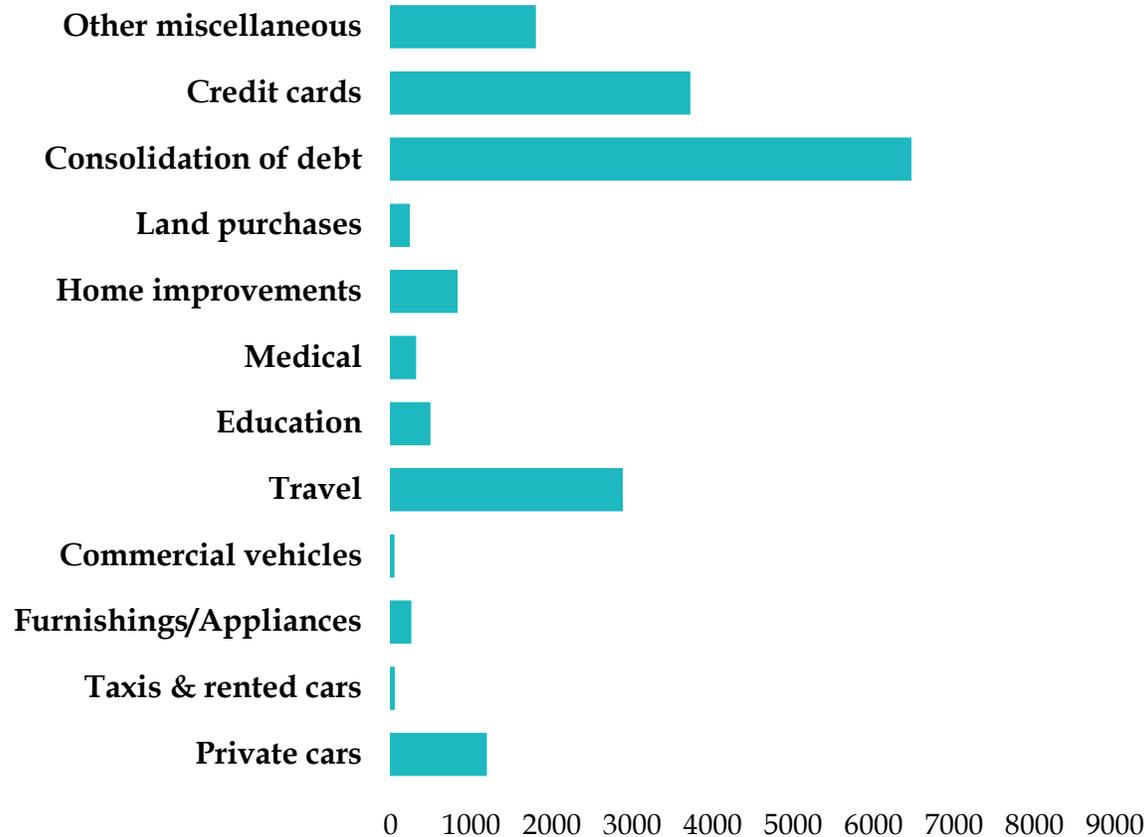
Applications approval rate: 83%

Loan Denial Reasons



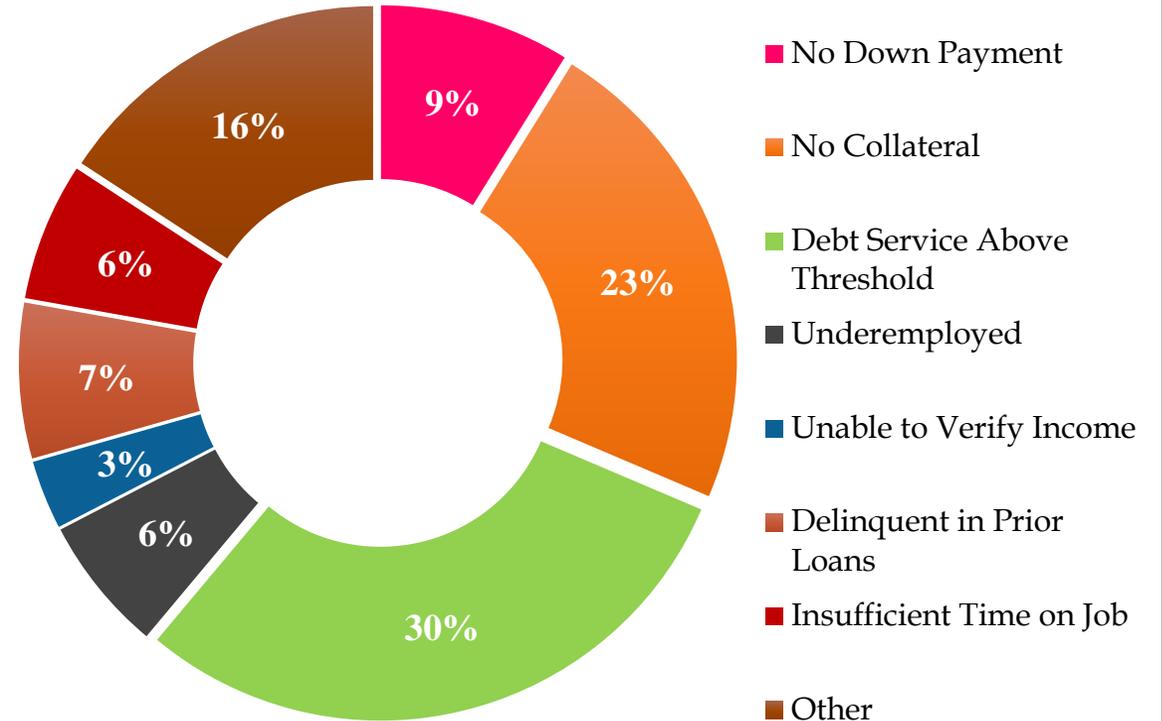
Bank Lending Conditions (Consumer Loan Applications)

Consumer Loan Demand By Category



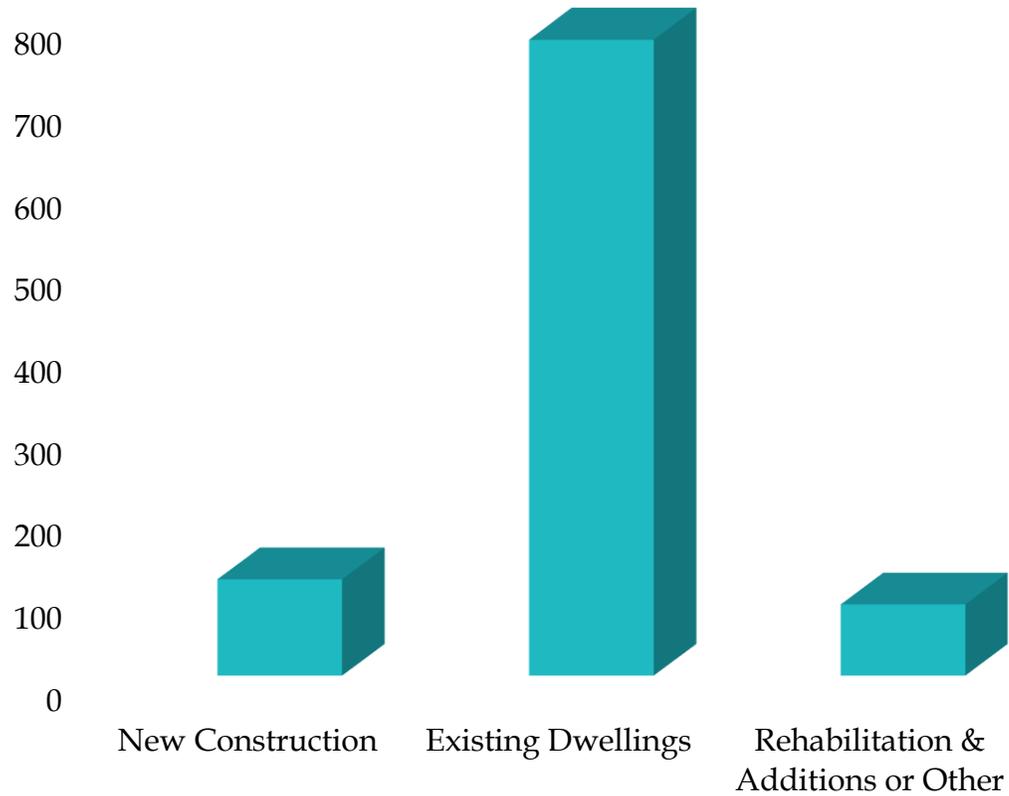
Consumer loans approval rate: 84%

Reasons for Consumer Loan Denial



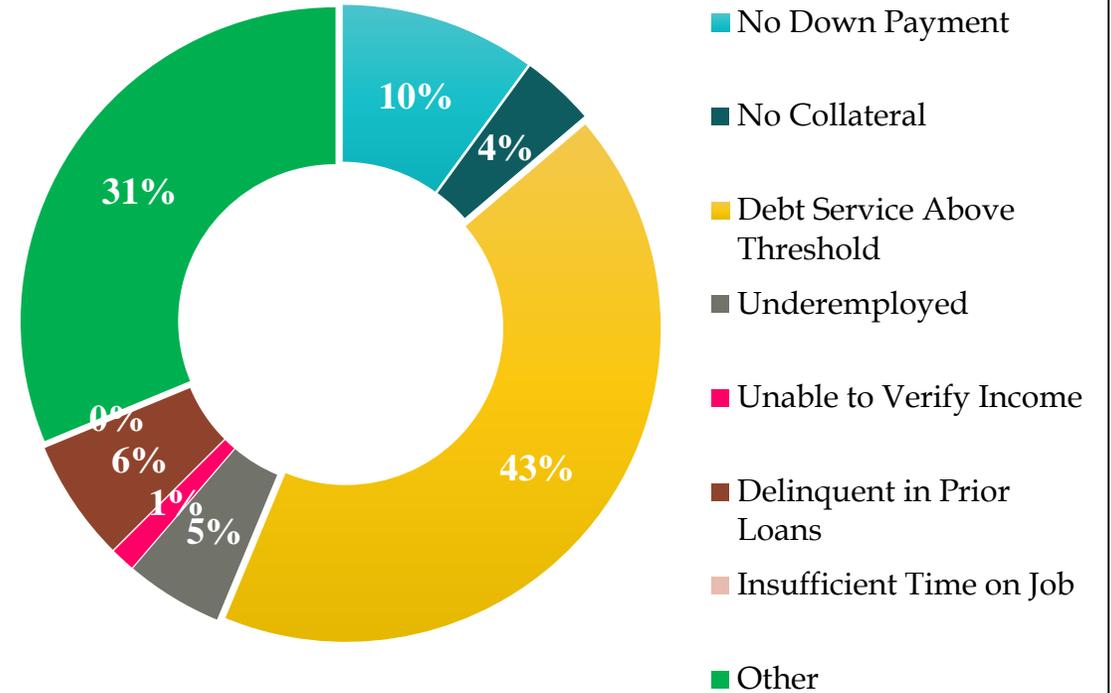
Bank Lending Conditions (Mortgage Applications)

Residential Mortgages Applications



Mortgage applications approval rate: 53%

Reasons for Mortgage Loan Denials



The End

