

Quarterly Economic and Financial Developments Report

March 2020

Research Department



Domestic Economic Developments

Preliminary indications are that the domestic economy maintained its mild positive performance in the first two of 2020; however, the effects of travel restrictions related to the coronavirus (COVID-19) took an accelerated toll in March, negatively impacting tourism output.

Real Sector

- Tourist arrivals growth moderated to 12.3% during January-February, 2020 from 16.6% in the same period of 2019; air travel, linked to stopover activity contracted by 3.3%.
- Unemployment rate for New Providence fell to 10.7% for the 12-months to November 2019 from 11.0% in November 2018.
- Varied-scale FDI projects and hurricane rebuilding efforts sustained construction sector output.

Monetary Sector

- Bank liquidity grew by \$79.4 million to \$2.0 billion, as the gains in deposits outstripped the increase in domestic credit.
- External reserves strengthened by \$242.4 million to \$2.0 billion, outpacing the growth in the first quarter of the prior year



TOURISM SECTOR

Visitor Arrivals

(January – February 2020)

Official data from the Ministry of Tourism, revealed that total visitor arrivals rose by 12.3% during the two months to February, but was lower than the 16.6% increase over the same period of the prior year.

- Sea arrivals expanded by 16.9%, surpassing the 14.7% growth in 2019; more traffic also diverted, away from the major economic centres to Family Islands, privately developed ports.
- Air arrivals (indicative of stopover business) fell by 3.3%, a reversal from the 23.7% expansion in 2019.

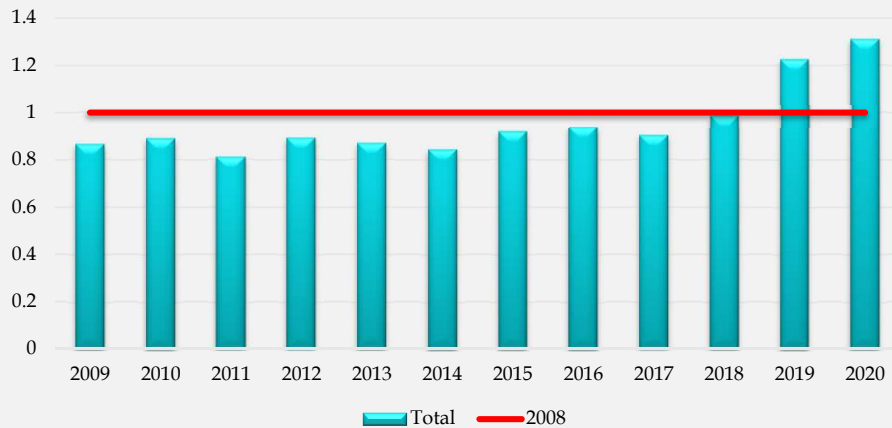
	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2019	2020	2019	2020	2019	2020
Arrivals						
Air	27.8	4.8	8.0	-49.9	12.6	-26.0
Sea	32.4	-12.1	-31.7	-6.5	9.6	69.9
Total	31.0	-7.3	-28.3	-12.2	10.0	57.1

Nassau Airport (NAD) International Departures January - February

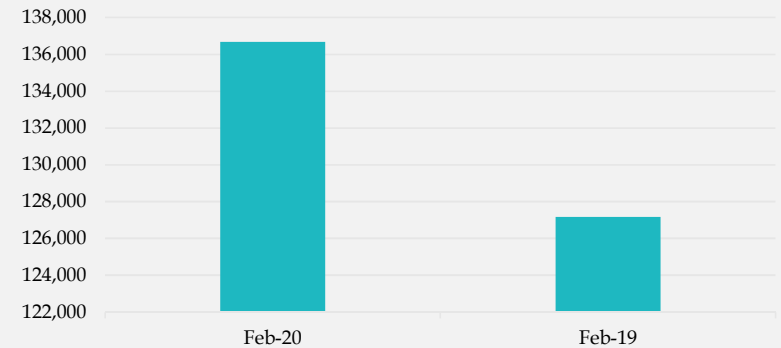
According to NAD, for the first two months of 2020, total visitor departures gains slowed to 6.8%, following the 24.1% rise in 2019. Levels were cumulatively 30.7% higher than during the global recession of 2008. Growth slowed for both US and non-US destined departures.

Total international departures for February 2020 increased by 7.5%, following a 26.4% expansion in 2019.

**Departures vs. 2008 Recession
January-February**



**Total Departures
Feb 2020 vs Feb 2019**



Source: Nassau Airport Development Company

*All figures are net of domestic departures.

Airbnb: Snapshot of Vacation Rentals

(as at March 2020)

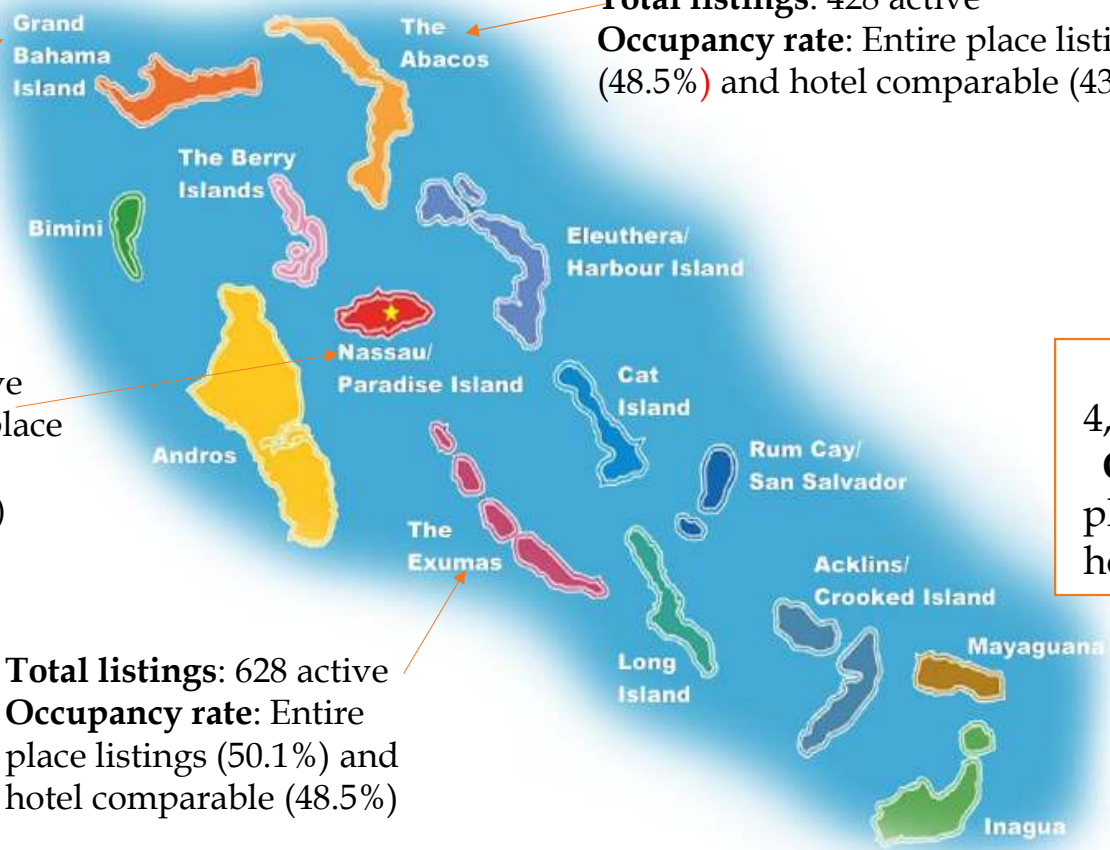
Total listings: 408 active
Occupancy rate: Entire place listings (48.4%) and hotel comparable (49.7%)

Total listings: 1,533 active
Occupancy rate: Entire place listings (49.7%) and hotel comparable (50.8%)

Total listings: 628 active
Occupancy rate: Entire place listings (50.1%) and hotel comparable (48.5%)

Total listings: 428 active
Occupancy rate: Entire place listings (48.5%) and hotel comparable (43.3%)

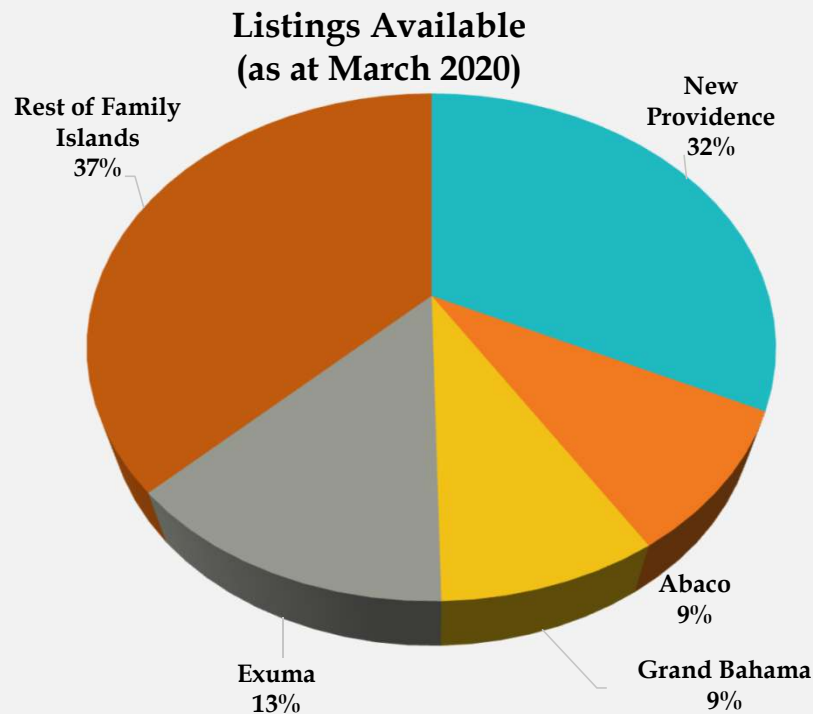
All Islands
 4,773* total active listings
Occupancy rate: Entire place listings (49.9%) and hotel comparable (49.1%)



Source: AirDNA
 * Figure includes listings from islands whose data has not been provided.

Airbnb: Market Share by Island (March 2020)

New Providence, Grand Bahama and Abaco accounted for half of all available listings, a smaller share than in 2019.



Available listings for Abaco decreased by 36.7%, reflecting the effects of Hurricane Dorian.

Listings for New Providence & Grand Bahama declined by 16.0% and 6.8%, respectively, in March, relative to the same period in 2019.

All Available Listings				
	Dec 2018	Mar 2019	Dec 2019	Mar 2020
Abaco	610	676	658	428
Grand Bahama	409	438	473	408
New Providence	1,227	1,322	1,662	1,533



EMPLOYMENT

Employment: New Providence

November 2019 vs 2018

The latest Labour Force Survey excluded Grand Bahama and Abaco, which recorded significant displacement of population, following Hurricane Dorian.

Employment	Unemployment
<ul style="list-style-type: none">• The number of employed persons in New Providence rose by 4.6% for the 12 months to November, 2019, exceeding the 2.5% growth of 2018.• The greatest gain, 9.0%, was in jobs under “community, social and personal services”.	<ul style="list-style-type: none">• The unemployment rate for New Providence fell to 10.7% from 11.0% in the 12 months to November 2019, relative to November, 2018.



FOREIGN INVESTMENT PROJECTS

New Foreign Investment Projects

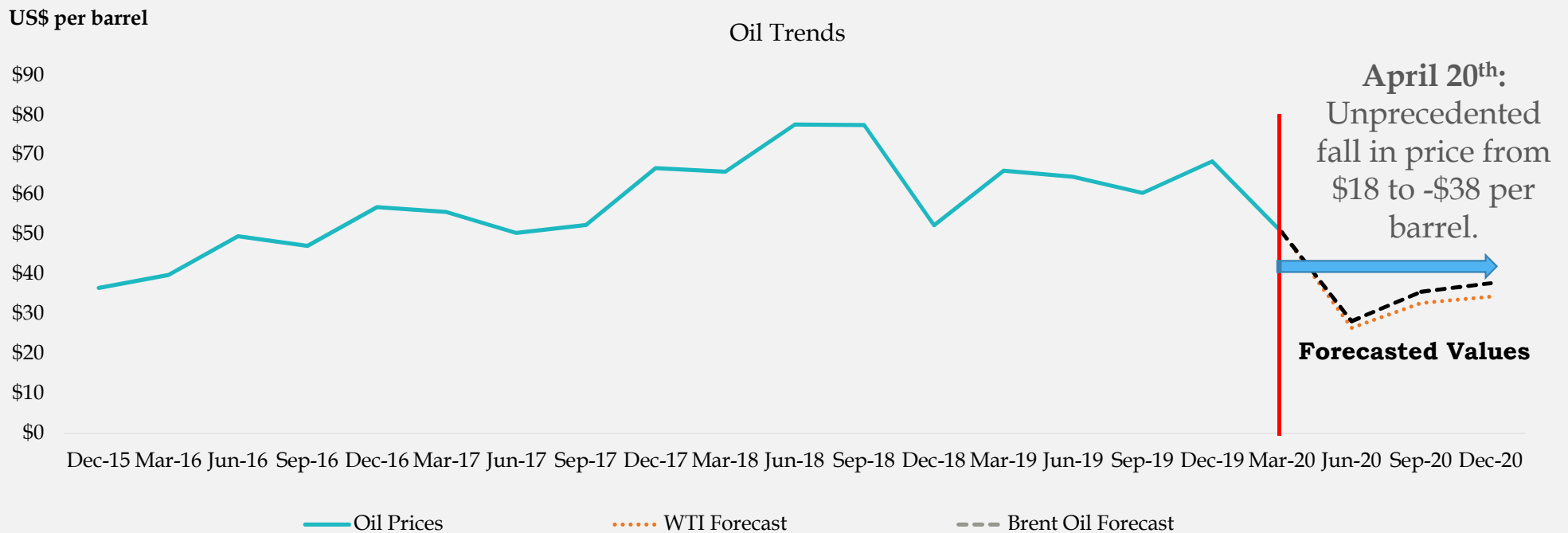
New Providence	Abaco	Exuma
<p><u>South Ocean Resort and Golf Club:</u> \$450.0 million redevelopment over three phases:</p> <ul style="list-style-type: none"> • Six (6) beach front lots • A 250-bedroom condo complex with gym, pool and other amenities • 18-hole championship golf course and club house • Luxury hotel • Retail and commercial spaces <p>Expected to employ a total of 1200 persons.</p> <ul style="list-style-type: none"> • 600 in construction • 600 in operational jobs 	<p><u>Matt Lowe’s Cay and Marina:</u> \$352.2 million investment for development in three phases. Includes the following:</p> <ul style="list-style-type: none"> • Newly constructed restaurants, • Upgrade of 48-slip marina, • Construction of spa, fitness center, meeting and banquet spaces, • 36-room boutique hotel, • Condo-hotel with recreational facilities, and; • Development of 29 single family lots. <p>Expected to employ an additional 3,220 persons.</p> <ul style="list-style-type: none"> • 2,970 in construction • 250 in operational jobs 	<p><u>Exuma Resort Developers Limited:</u> \$22.0 million development of portions of Norman Cay.</p>



INFLATION

Oil Price Trends

- During the first quarter of 2020, crude oil prices declined by 13.3% to \$50.48 per barrel, amid increased supply.
- US oil prices turned negative for the first time in history on April 20, due to oversupplies during the Covid-19 pandemic.



Source: Bloomberg

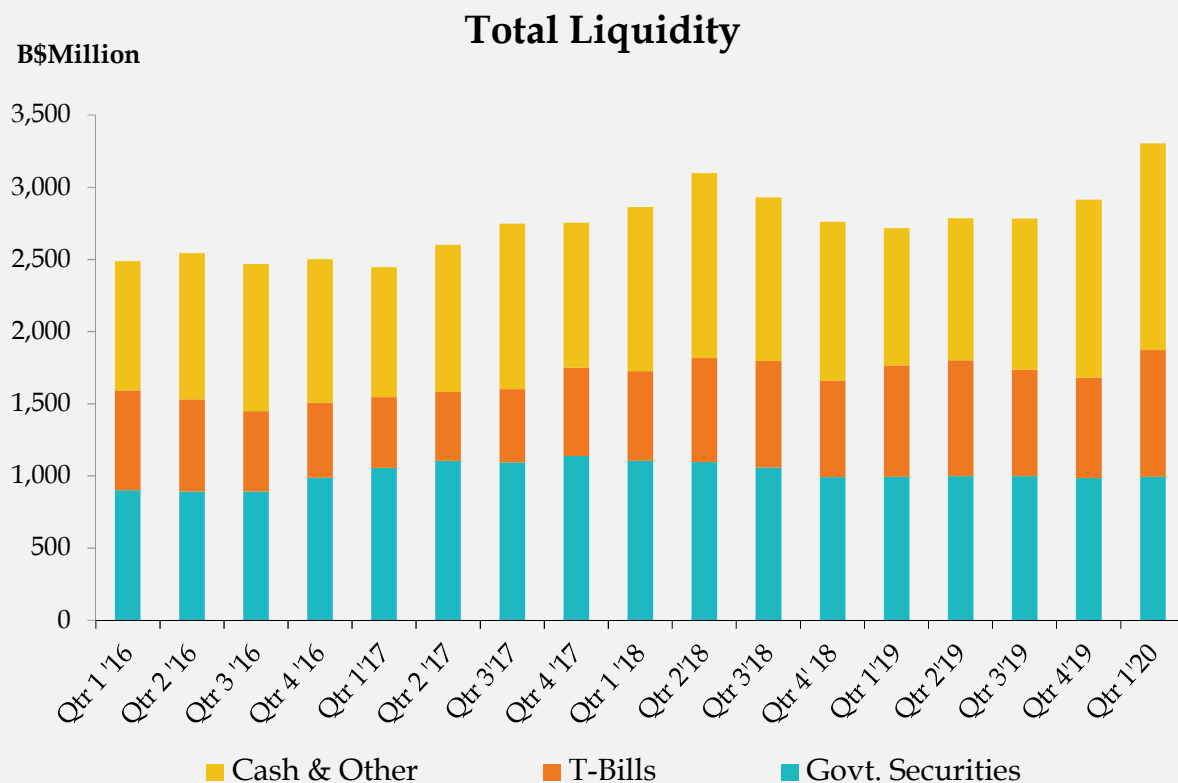


MONETARY SECTOR

Money and Banking: Liquidity Conditions

Over the first three months of the year, bank liquidity increased, as the growth in deposits outpaced the rise in domestic credit.

- Excess liquid assets rose by \$79.4 million to \$2.0 billion, slowing from an \$88.0 million growth in the previous year.
- Excess reserves grew by \$44.7 million outweighing the \$4.8 million growth, in the prior year.



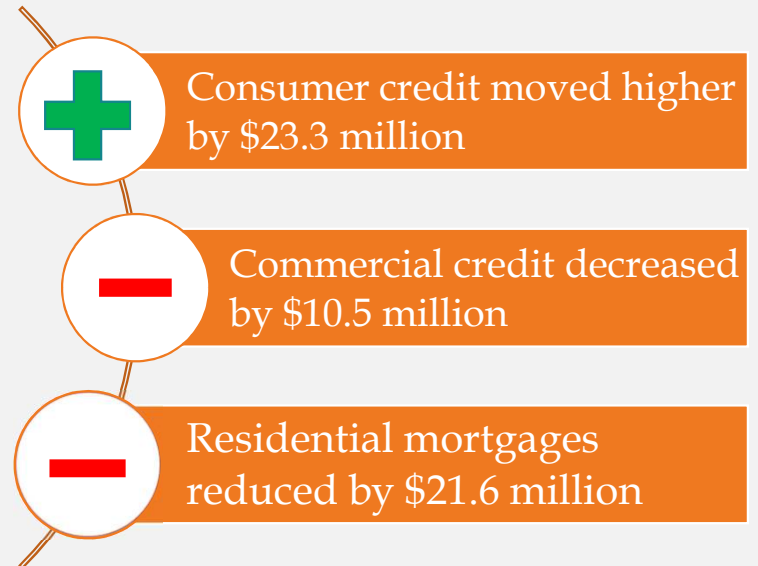
Source: Central Bank of The Bahamas

Lending Conditions

During the first quarter of 2020, the growth in Bahamian dollar domestic credit slowed sharply to \$15.7 million from \$137.8 million in 2019.

- Net claims on the Government fell by \$5.9 million, a marked moderation from the \$104.8 million decrease in the prior year.
- Credit to public corporations declined by \$1.0 million in 2020, narrowing from the \$6.0 million reduction in 2019.

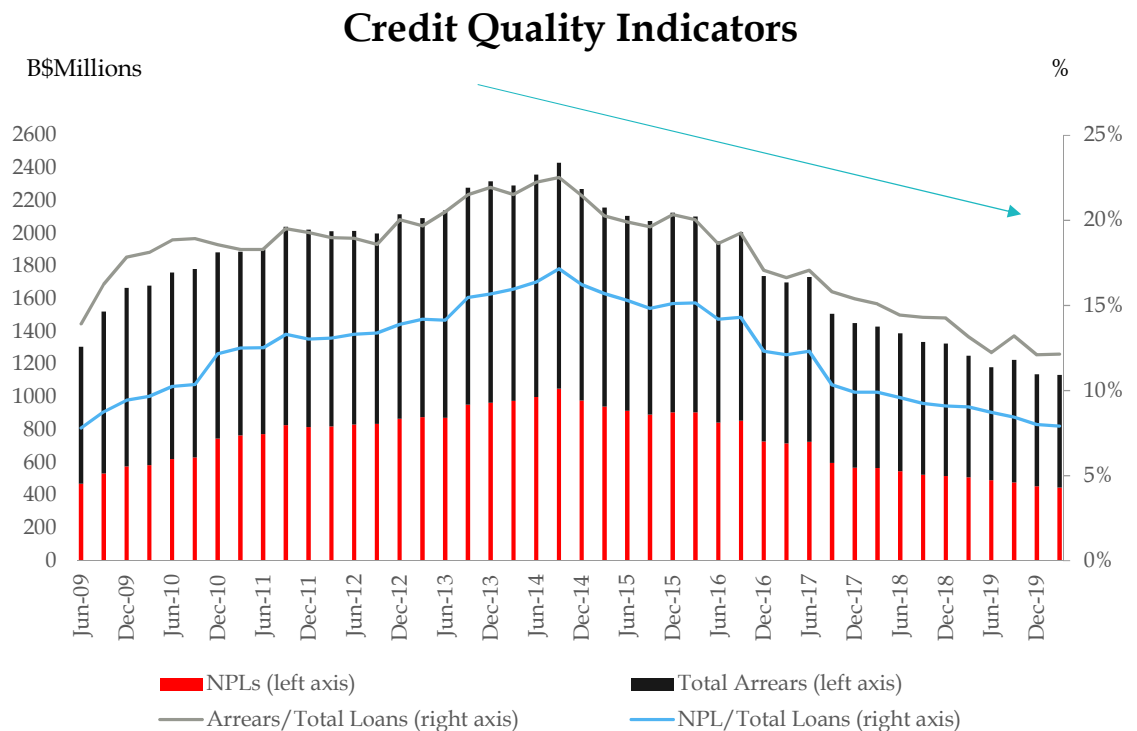
- Private sector credit reduced by \$8.8 million, following the prior year's decline of \$27.0 million.



B\$ Credit Quality Indicators

- During the first quarter of 2020, the arrears rate for private sector credit eased to 12.2% from 13.2% in the prior year.
- The short-term arrears rate was 4.2% (4.1% in March 2019).
- The NPL rate was 7.9% (9.1% last year).

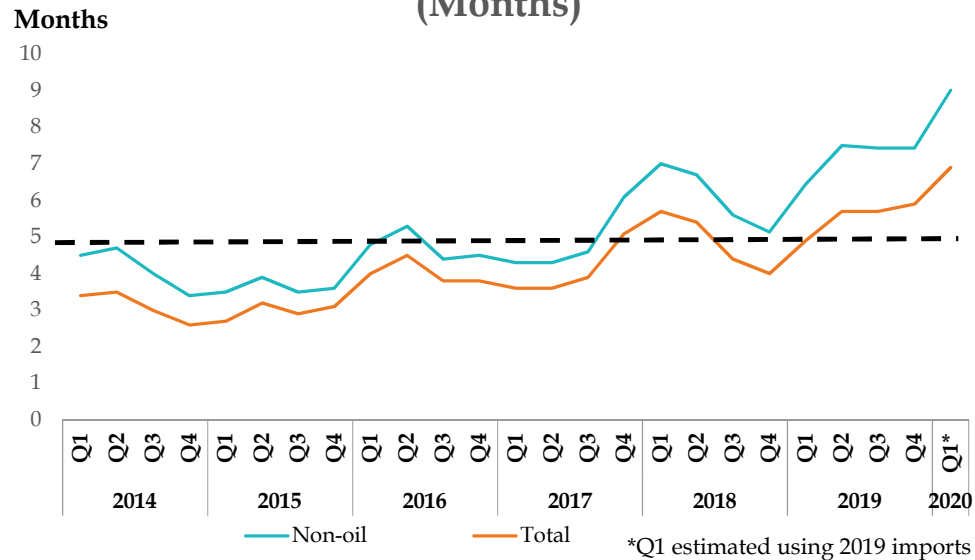
- Analysis by loan type:
 - Mortgage arrears rate was 16.1% (16.9% in 2019)
 - Consumer arrears rate was 8.9% (9.5% in 2019)
 - Commercial arrears rate was 8.4% (10.8% in 2019)



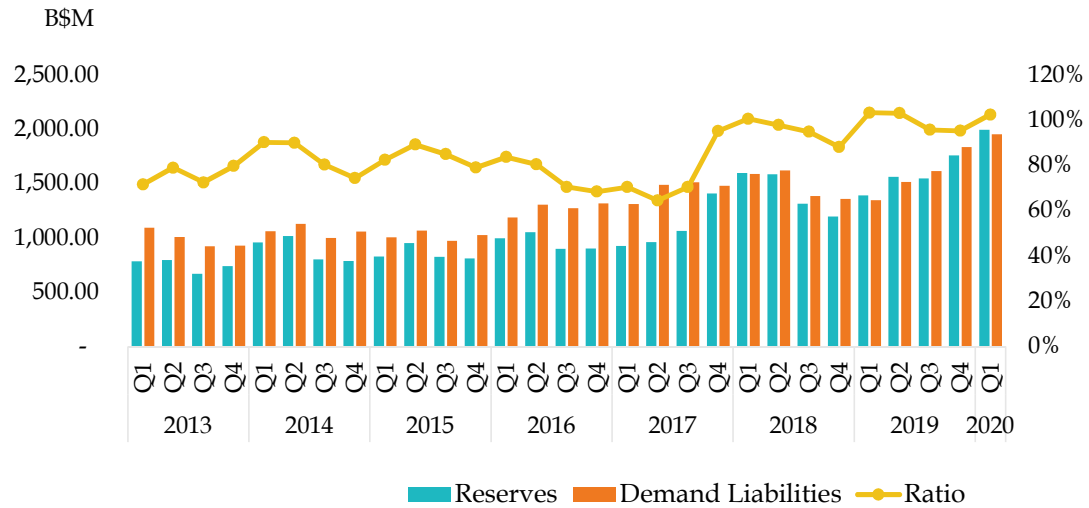
SOURCE: Central Bank of The Bahamas

External Reserves

Import Cover Ratio (Months)



External Reserves to Demand Liabilities



Source: Central Bank of The Bahamas

- External reserves grew by \$242.4 million to \$2.0 billion over the first quarter of the year, outstripping the \$193.0 million growth in the same period last year.
 - External reserves represented 102.0% of Demand Liabilities
 - Reserves were equivalent to 6.9 months of total merchandise imports.

Central Bank's COVID-19 Measures

The policy responses to COVID-19 have targeted foreign exchange market sustainability, ongoing stability of the financial sector and targeted accommodation/forbearance for negatively impacted borrowers.

- Credit

- A three month deferral of debt service obligations for negatively impacted businesses and households; interest still accrues. Non-punitive regulatory treatment of deferred facilities.

- Foreign exchange markets & financial stability

- i. Suspension of residents' access to foreign exchange for external portfolio investments.
- ii. Suspension of approvals for dividend payments by domestic banks, including repatriation of Bahamian dollar profits abroad.
- iii. Relaxation of ceiling on the long Bahamian Dollar Open Position on commercial banks' foreign exchange transaction to 5.0% of Tier 1 capital—not subject to the secondary limit of \$5.0 million.
- iv. Repatriation of the external investment portfolio of the National Insurance Board.

COVID-19 Credit Relief Measures

- In coordination with the Central Bank, all commercial banks and credit unions have announced at least a three-month deferral on principal and interest payments. Balances continue to accrue interest.
 - Some banks announced 6 months of deferral
- Deferrals are exempted from regulatory classification as restructured loans.
- When recovery prospects emerge, banks have regulatory flexibility to extend new credit to COVID-19 impacted, qualified borrowers, at debt service and leverage thresholds that exceed the current prudential limits.



OUTLOOK

Real Sector

Real Sector

- The combined effects of the COVID-19 pandemic and the passage of Hurricane Dorian are expected to contract the economy by at least 8.0% in 2020.
- Tourism sector output is expected to contract sharply, with zero output in over several months, with a slow rebound tied to the global recovery and public health sector confidence.
- The near-term jobless rate is projected to increase sharply, with any immediate job recoveries concentrated in construction.
- Inflation is expected to remain subdued, amid declining international oil prices.

Anticipated Fiscal Impacts from COVID-19

Estimates of the fiscal impacts remain fluid and dependent on the duration of the shutdown in tourism. The augmented health and social welfare outlay combined with continued hurricane reconstruction efforts will stall deficit reduction efforts.

Projected COVID-19 impacts include the following:

- Sizeable revenue losses from reduction in taxable economic activities, most concentrated in quarter 4 of FY2019/20 and across all four quarters of FY2020/21.
- Additional cashflow reduction from tax deferrals and concessions provided to private sector.
- Increased expenditure pressures associated with
 - Spending on public health services and health infrastructure strengthening
 - Social benefits and assistance, including income replacement schemes
 - Support to public enterprises with increase operating shortfalls
 - Targeted stimulus to private sector, including micro, small and medium-size enterprises
- Significant expansion in the fiscal deficit during both FY2019/20 and FY2020/21.

Monetary Sector and External Reserves

Monetary

- Banking sector liquidity is expected to remain elevated over the near term, as banks retain their conservative lending stance; however, in light of the COVID-19 pandemic a drawdown in deposits, along with a contraction in private sector credit is anticipated.

External Reserves

- External reserve balances are projected to decrease during the year, attributed to a reduction in foreign currency receipts related to tourism activity and a rise in spending on imports for rebuilding efforts. However, external balances are projected to remain above international benchmarks.

Risks to The Outlook

TOURISM

Adverse public relations around damages sustained from Hurricane Dorian, as well as the diminished health sector confidence could discourage travel.

GLOBAL

Geopolitical tensions may continue to weigh down the global outlook.

EMPLOYMENT

Insufficient working capital may force permanent closure of some businesses following the lockdown & travel stoppage, causing some permanent layoff.

EXTERNAL RESERVES

Higher demand for foreign currency for reconstruction work, and a protracted halt in tourism output could accelerate drawdown in reserves.

INFLATION

Geopolitical tensions, reduction in oil production and food supply disruptions may accelerate prices increase.

FISCAL

A more protracted slowdown in the economy from COVID-19 and diminished access to external credit markets could constrain the fiscal capacity to stabilize the economy.

The End

