



# Quarterly Economic and Financial Developments Report

March 2018

Prepared by the  
Research Department

# Overview of Domestic Economic Developments

## REAL SECTOR

- **Indications are that the domestic economy expanded at a modest pace over the first quarter.**
  - **Growth in the tourism sector** reflected sustained global growth, increased activity at Baha Mar, the addition of new airline routes and the early Easter holiday.
  - **Construction sector activity** was supported by foreign investment projects in the capital and the Family Islands.
- **Prices:** Retail price index increased in 2017, owing to gains in the housing, transport and restaurant & hotel prices.

## FISCAL SECTOR

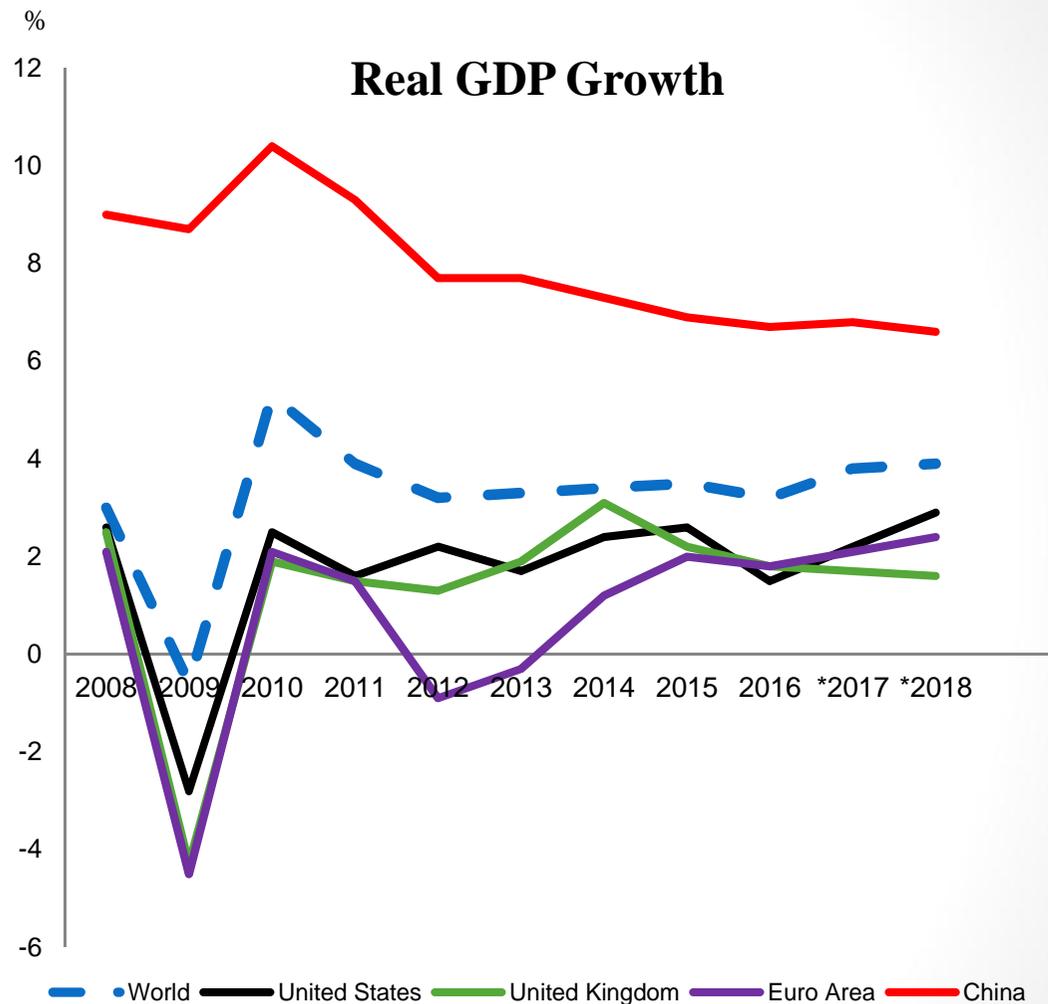
- **The fiscal deficit narrowed** over the first eight months of FY2017/2018, reflecting a capital expenditure-led reduction in spending and an increase in revenue.

## MONETARY SECTOR

- **Bank Liquidity and External Reserves increased**, due largely to net foreign currency inflows from real sector activities and Gov't. borrowing activities.

# Global Economic Context

- In its April 2018 update, the IMF maintained its forecast for global growth in 2018 at 3.9%, a slight increase over 2017's 3.7% expansion
  - Due to gains in global trade and investment
  - Strengthening global financial conditions and consumer sentiment
  - U.S. tax policy changes
- 2018 GDP projection changes from Jan. 2018 forecasts are as follows:
  - The U.S. (+ 20 basis points to 2.9%)
  - The euro area (+20 basis points to 2.2%)
  - The U.K. (+10 basis points to 1.6%)
  - China's growth projections stabilized at 6.6%
  - Canada (- 20 basis points to 2.1%)



Source: IMF World Economic Outlook April 2018  
\*Projection

# TOURISM SECTOR

# Tourism Sector Performance

(Jan. 2018)

Indications are that the tourism sector's performance strengthened in the first quarter of 2018.

**Official data from the Ministry of Tourism revealed that in January—the most recent data available—total visitor arrivals firmed by 5.0%, reversing the year earlier 4.7% reduction.**



Air arrivals expanded by 7.0%, a turnaround from a 1.6% decrease last year.



Sea component expanded by 4.6%, vis-à-vis a 5.3% contraction in 2017

# Tourism Sector Performance

(Jan. 2018)

A breakdown of the major markets showed that the most significant gains occurred in the Capital, due in part to the increase in hotel inventory at Baha Mar.

- New Providence
  - January's air arrivals firmed by 7.9%, a turnaround from a 0.6% softening in the prior year.
  - In contrast, the sea component fell by 0.3%, vis-à-vis a 5.5% gain in 2017.
- Grand Bahama
  - January's air arrivals decreased by 18.2%, a slowdown from the 41.9% reduction in the previous year.
  - In a modest offset, the sea segment expanded by 52.4%, overturning the 25.6% decrease last year.
    - Due mainly to the resumption of service by Carnival Cruises and Royal Caribbean International after several years of travelling to other markets.
- Family Islands
  - Air arrivals firmed by 11.8%, following a 23.8% expansion in 2017
  - Sea component weakened by 3.1%, extending the year earlier 12.8% contraction.

# Tourism Sector Performance

## Q1 March

### NAD

Indications are that tourism sector performance was relatively positive during Q1.

### PASSENGER

Data from NAD, showed that passenger departures from LPIA increased by 13.8%—net of domestic departures—during the quarter, compared to a 6.5% fall a year earlier.

### DEPARTURES

U.S passengers were up by 13.2% (narrowed by 7.0% in Q1 2017).

Non-US International traffic rose by 17.1% (contracted by 3.9% in Q1 2017).

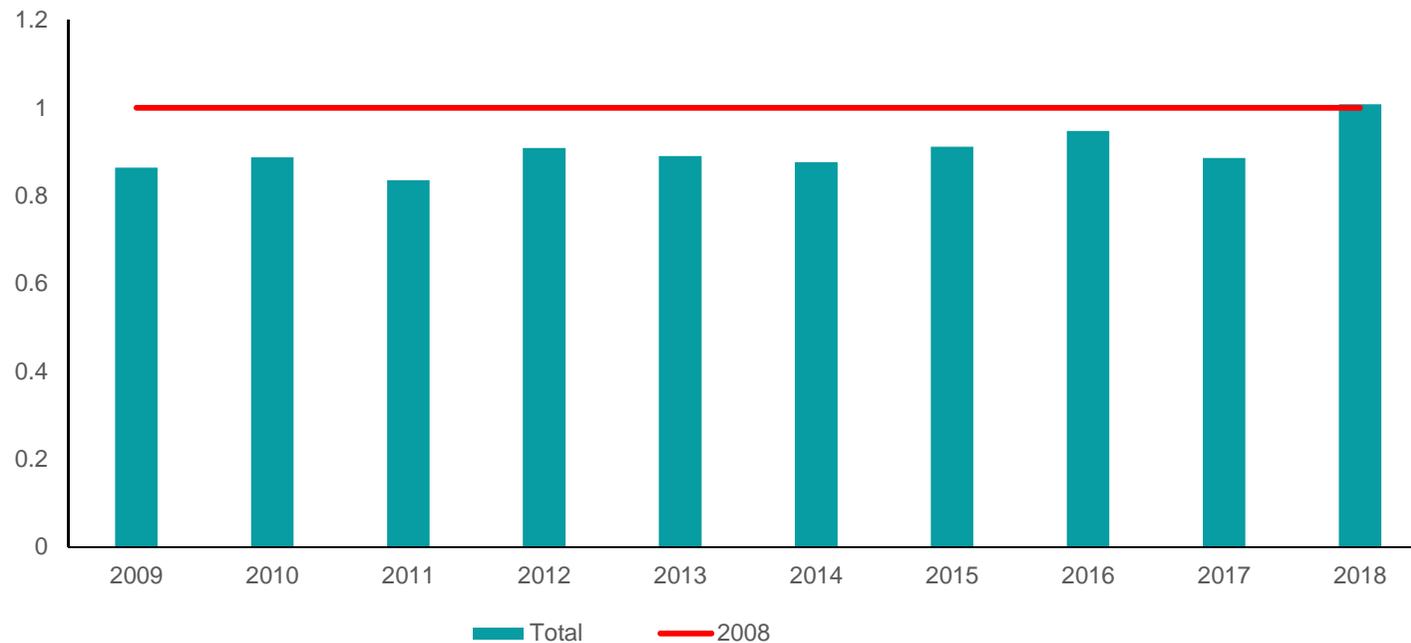


The timing of the Easter Holidays, which fell at end-March, also contributed to the quarter's gains, compared to prior year when it occurred in mid-April.

# Tourism Sector Performance: Current Departures Vs. 2008 Recession

An observation of long-term trends in first quarter, showed that departure traffic from LPIA was the highest it has been since 2008, when the economy entered into a recession.

**Quarter 1 Departure Trends  
(Ratio to 2008 Departures)**



# Airbnb Snapshot for The Bahamas

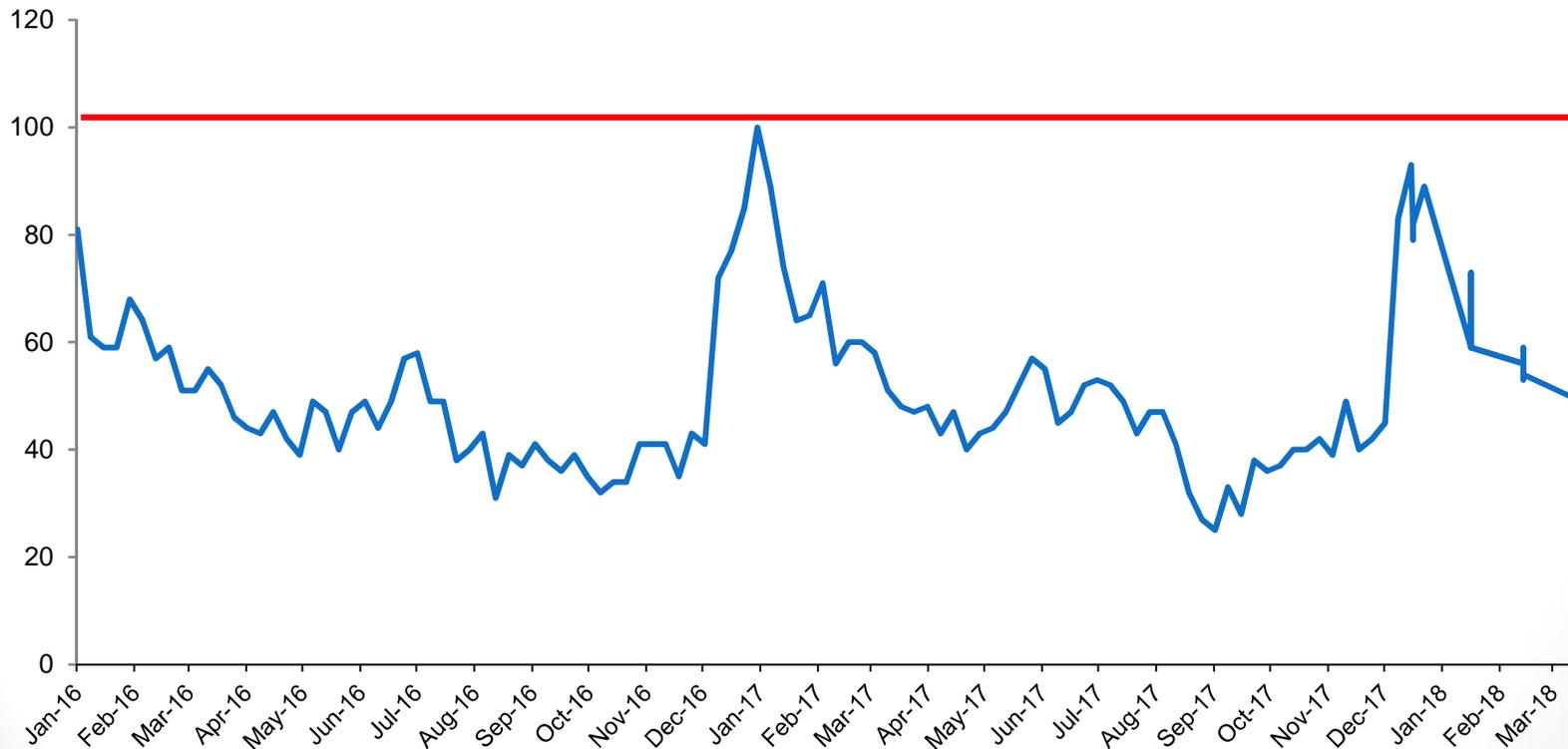
- As at April, there were 845 active rentals
  - Mostly entire homes with 1-2 bedrooms
- Average Daily Rate (ADR): \$194
- Occupancy rate: approximately 67.0%
- 449 Active hosts in Nassau
  - Most hosts are professional, multi-listings hosts (62%), while 38% have single listings



# Internet Search Trends (continued)

- Data suggests that the highest volume of searches occurred during Jan. 2017 and Jan. 2018.
- September/early Autumn is the lowest period for searches.
- Canadians top the list for persons searching for Bahamian vacations, followed by Americans.

## Google Search Trends: “Bahamas Vacations” (Worldwide)

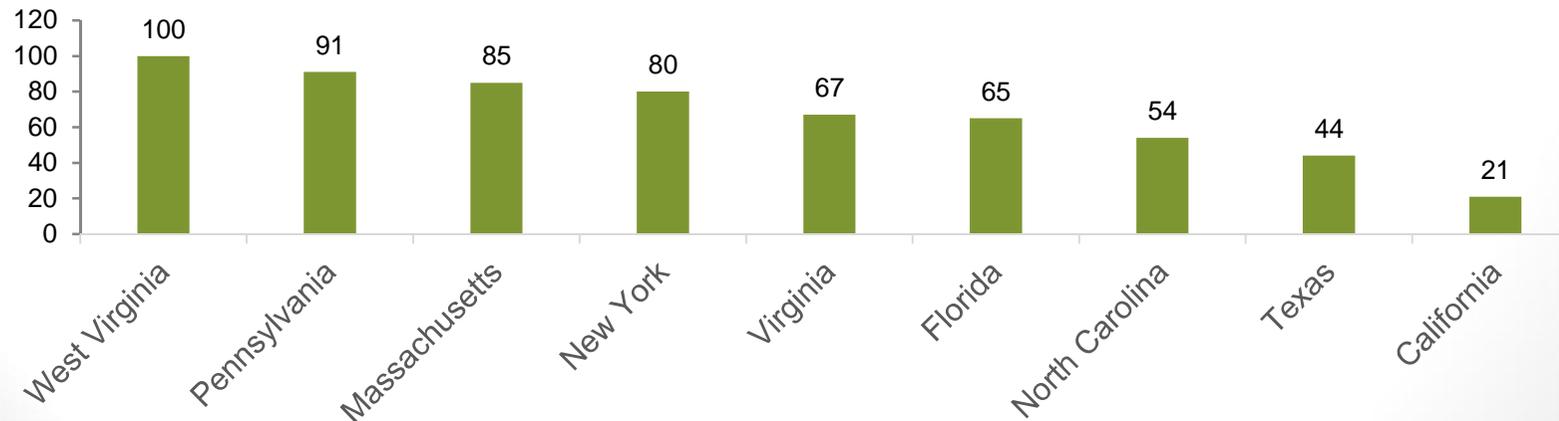


# Internet Search Trends (continued)

## Google Search Trends: “Bahamas Vacations” (USA)



## Top US States for “Bahamas Vacations” Search (Standardized Search Results)



Source: <https://trends.google.com/trends/explore?date=2016-01-01%202018-01-16&geo=US&q=Bahamas%20Vacations>

# FOREIGN INVESTMENT PROJECTS

# New Providence: Baha Mar Development

- **Baha Mar:**
  - Rosewood is expected to open memorial day weekend. (May 26-27)
  - Approx. 350 managerial and supporting staff should be in place by the opening.



Source: Baha Mar

# Grand Bahama: Oban Energies Deal

## Oban Energies Company Profile

- Private company founded in 2006
- The company's line of business includes: performing geophysical, geological, and other exploration services for oil and gas.
- **Commitments to The Bahamas:**
  - \$4.0 billion investment
  - Phase 1: requires \$1.5 billion investment, construction and start-up operations.
  - 80% of jobs reserved for locals.
  - Project to provide storage tankage for crude oil, middle and light distillates, specialty vegetable oils and heavy oils.
  - Launch initial capacity of four million barrels.
  - \$150,000 to an accredited research institute for the area of research.
  - \$100,000 per annum for community projects.

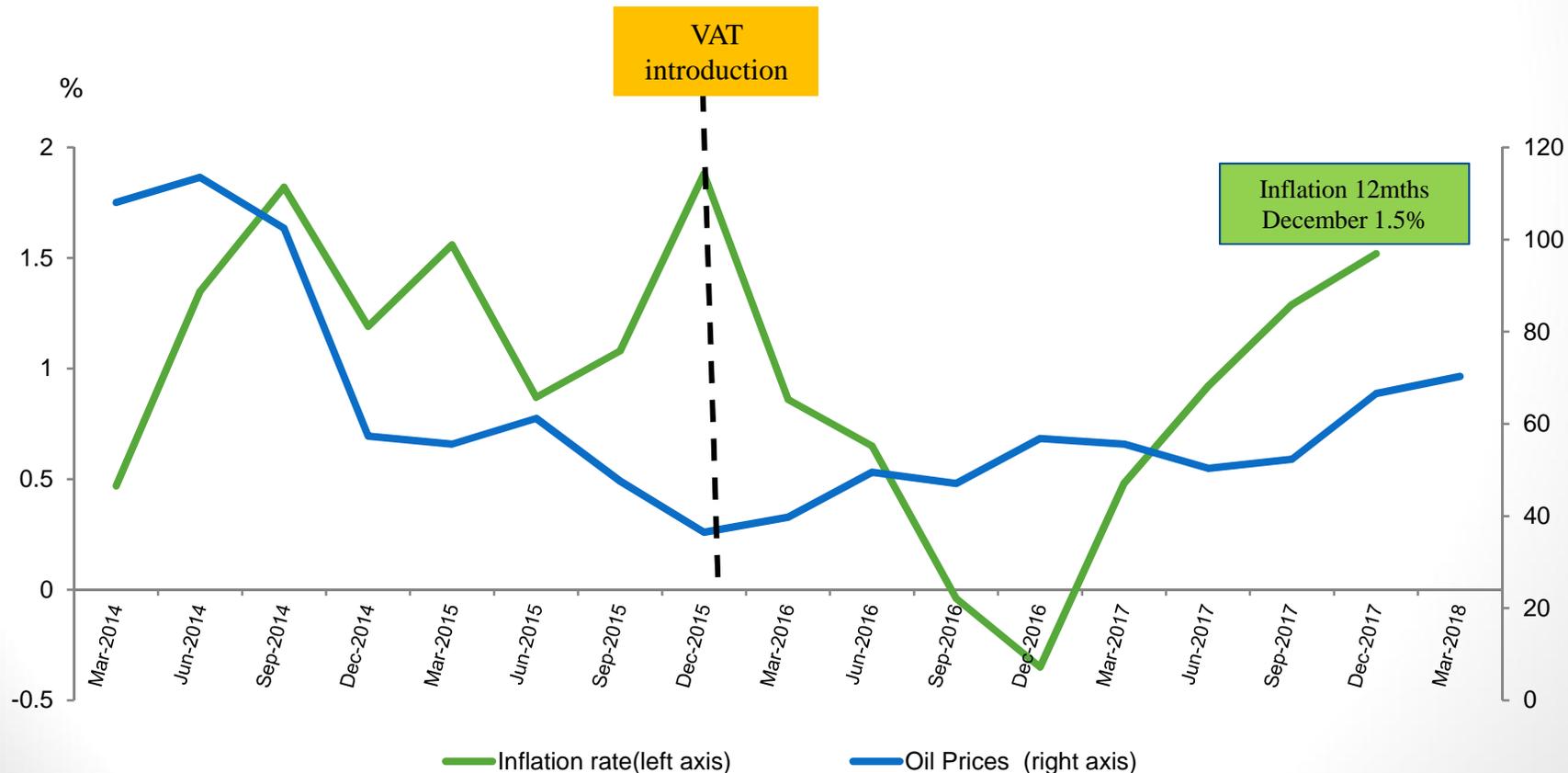
# Other FDI Projects

Project Name	Recent Developments
<b>Sterling Hurricane Hole Limited, New Providence</b>	<ul style="list-style-type: none"> <li>❖ Projected \$250 million development that is expected to provide 600 construction job opportunities beginning in 2019.</li> <li>❖ Marina, residences, retail restaurants, office space and yachting services.</li> <li>❖ Projected to involve repairs to the existing property and construction of mixed residential properties and commercial facilities.</li> </ul>
<b>4M Harbour Island Ltd, Harbour Island</b>	<ul style="list-style-type: none"> <li>❖ \$45 million Harbor island resort and Marina Developments.</li> <li>❖ Redevelopment of Harbor Island Marina into a world-class tourism facility.</li> <li>❖ Hotel will include a waterfront restaurant and bar, 28-guest rooms, 10 villas and a swimming pool.</li> </ul>
<b>The Pointe Development</b>	<ul style="list-style-type: none"> <li>❖ \$250 million six acre development (Margaritaville at the Pointe).</li> <li>❖ Expected phase opening in mid-2019.</li> <li>❖ 150-room Margarita Beach Resort, 150-luxury oceanfront residences, marina, water park, spa and entertainment center.</li> <li>❖ Expectations are that labor will increase in 2018 to 2019.</li> </ul>

# INFLATION

# Domestic Prices

The Retail Price Index rose by 1.5%, compared to a fall of 0.4% in prior year, due mainly to increases in average costs for housing related items, transport, and restaurant & hotels



SOURCE: The Central Bank of The Bahamas

# FISCAL SECTOR

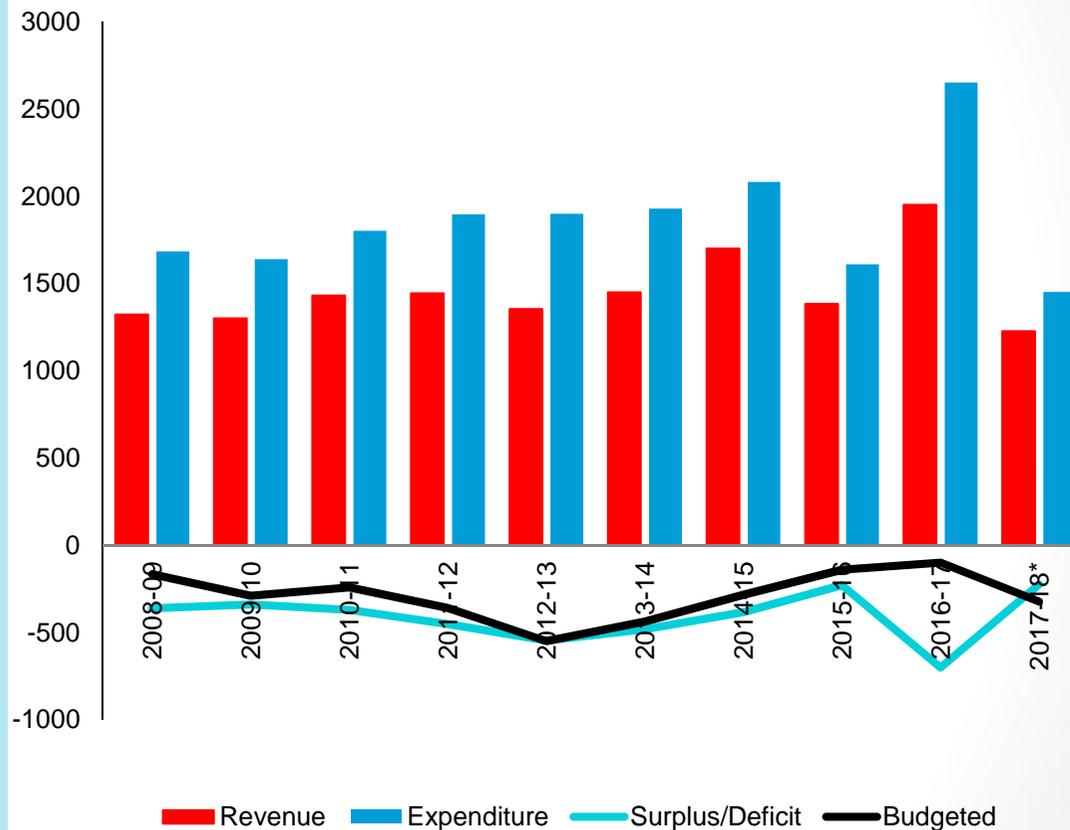
# Fiscal Indicators

- For the first eight months of FY2017/18, Gov't's operations showed a deficit of \$224.7 million, a 27.2% reduction from the \$308.8 million deficit recorded over the same period of FY2016/17.

- Revenue firmed by \$13.3 million (1.1%) to \$1,228.6 million
  - VAT receipts rose by \$13.2 million (3.2%) to \$430.7 million

- Expenditure declined by \$70.8 mil (4.6%) to \$1,453.3 million.

## Central Government's Fiscal Deficit



SOURCE: The Central Bank of The Bahamas

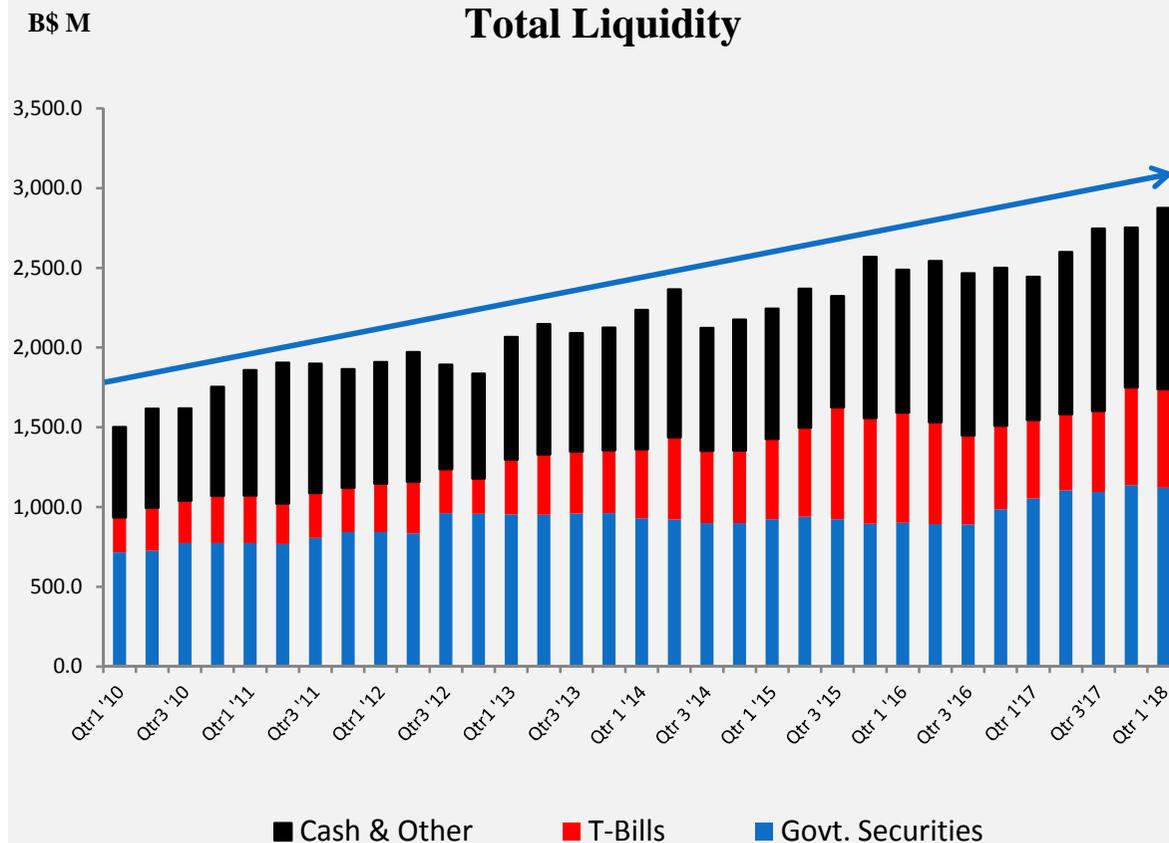
\*First 8 months of FY2017-18

# MONETARY SECTOR

# Money & Banking: Liquidity Conditions

Growth in liquidity reflected net foreign currency inflows from real sector activities and Gov't. external borrowings.

- During the first quarter of 2018, excess liquid assets grew by \$97.0 million to \$1.9 billion, relative to a \$38.6 million upturn in 2017.
- In addition, excess reserves stood at \$968.0 million, registering gains of \$110.5 million, vis-à-vis a \$10.8 million expansion last year.



Source: The Central Bank of The Bahamas

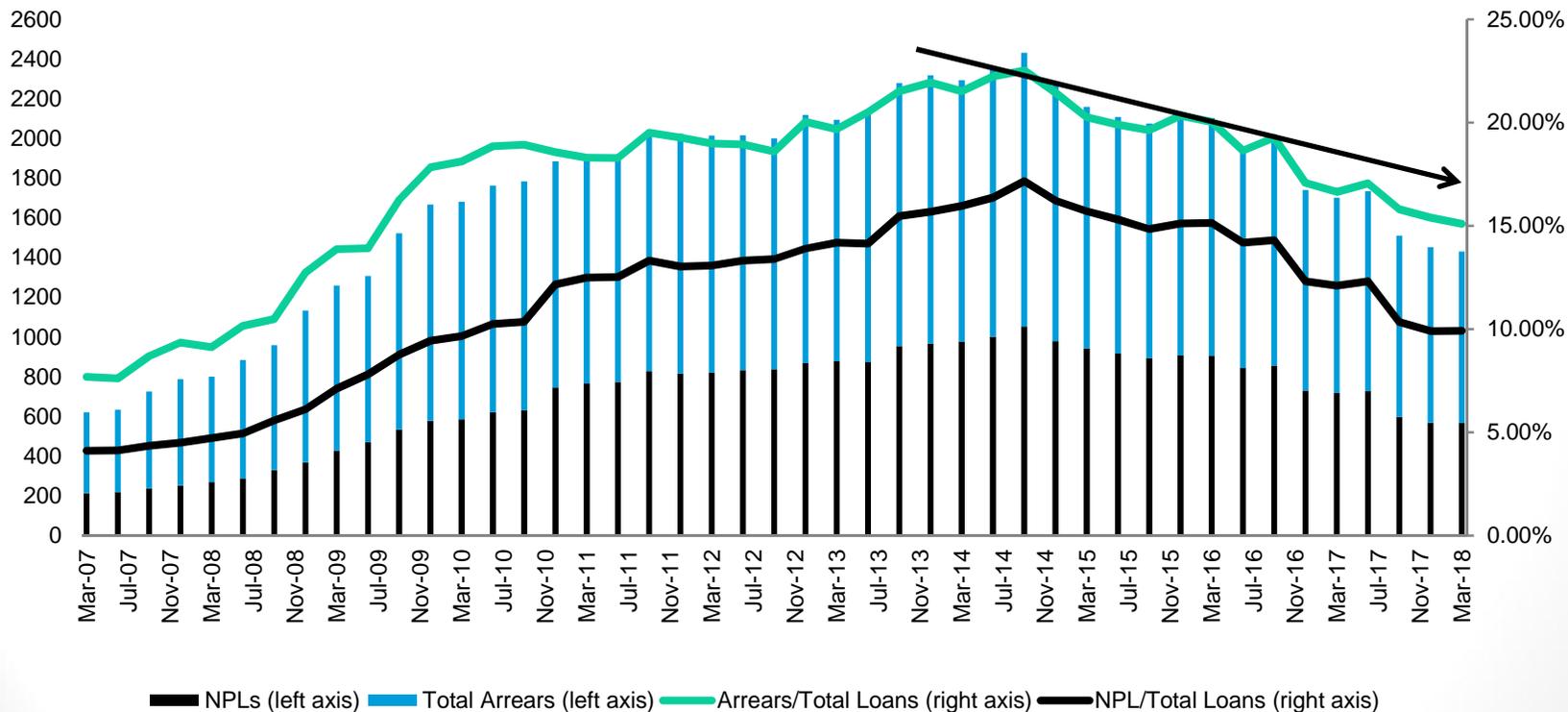
# Lending Conditions

- In Q1, total Bahamian dollar domestic credit contracted by \$91.3 million, in contrast to 2017's \$14.1 million expansion.
  - Net claims on the Government fell by \$37.1 million, a turnaround from the \$13.1 million increase a year earlier.
  - Credit to public corps. decreased by \$0.5 million, relative to a \$1.6 million, fall in the prior period.
  - Private sector credit contracted by \$53.7 million, a reversal from the \$2.5 million increase in 2017.
    - Mortgages ↓ by \$12.3 million
    - Consumer credit ↓ by \$41.4 million
    - Commercial credit ↑ marginally by \$0.02 million

# Credit Quality Indicators

- At end-March 2018, arrears and NPL rates stood at 15.1% and 9.9%, respectively.
- This is higher than the 7.8% and 4.1% recorded in the pre-recessionary period of March 2007, but significantly below the 21.5% and 16.0% at end-March 2014 (when rates were near their peaks).

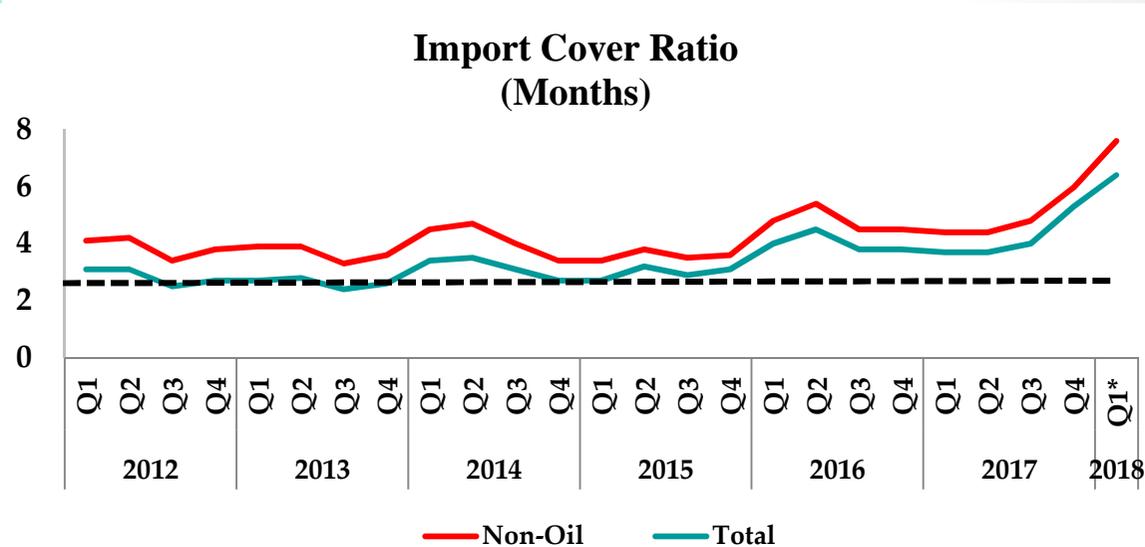
B\$Millions



SOURCE: The Central Bank of The Bahamas

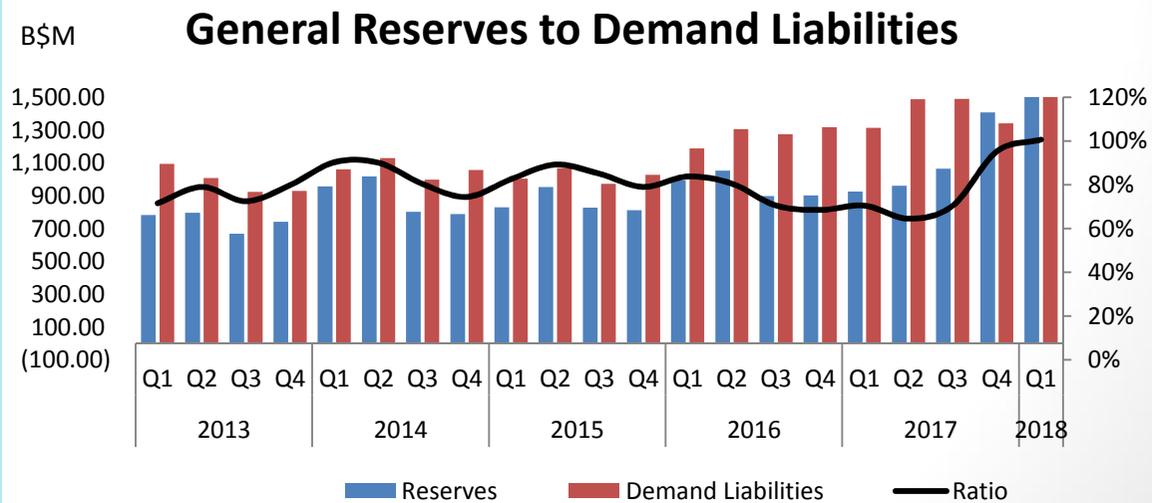
# External Reserves

- Buoyed by tourism sector receipts and Gov't. borrowing:
  - CHF 50 million loan in Jan. 2018.
- External reserves rose by \$189.1 million to \$1,597.4 million at end-March, outpacing the \$23.4 million expansion in 2017.
- At end-March, reserves were equivalent to approx. 6.4 months of total merchandise imports, compared to 3.7 months in 2017 (benchmark 3.0 months).
- Reserves also represented 100.6% of Demand Liabilities (DL), compared to 70.5% at end-March 2017 (benchmark 90% - 100%).



SOURCE: The Central Bank of The Bahamas

\*1<sup>st</sup> quarter ratio estimated using Q1 reserves over 2017 imports.



SOURCE: The Central Bank of The Bahamas

# OUTLOOK

# Outlook

The domestic economy is expected to grow at a modest pace in 2018 of approx. 2.5%<sup>1</sup>.

## Real Sector

- Modest growth in tourism sector, backed by sustained improvement in key source markets and the completion of Baha Mar.
- Construction activity is poised to be supported by on-going FDI projects, and to a lesser extent, Gov't initiatives to increase home ownership.
- Labour market conditions expected to improve further.
- Over the near-term, inflationary pressures should remain subdued; however, the supply-constrained increase in oil prices, will continue to affect domestic fuel costs.

## Fiscal Sector

- Efforts to reduce the deficit and improve the debt indicators, will depend heavily on the success of measures to enhance revenue administration and slow expenditure growth.
  - Adverse shocks, such as a severe hurricanes remain a threat to Gov't finances.

<sup>1</sup> IMF Estimate, April 2018

# Monetary Sector : Outlook

## Monetary Sector

- Liquidity should remain elevated over the near-term, reflecting both banks' conservative lending practises and their clients on-going efforts to deleverage.
- Arrears and NPLs are anticipated to continue their downward trajectory, amid banks' asset sales and sustained debt restructuring measures.
- Banks are projected to stay highly capitalized, thereby mitigating any threats to financial sector stability.
- External reserve outturn will depend heavily on:
  - Performance of foreign exchange earning sectors
  - International crude oil developments
  - Government financing activities

# Risks to the Outlook

## Global

Potential for trade dispute between US and China to become a trade war.

## Tourism Sector

Delays in either the opening of new properties or the sale of existing resorts that are closed.

## US

Potential for central bank interest rate increases to slow economic growth.

## Fiscal

Structural rigidities and external shocks, leading to Bahamas Gov't. being unable to meet deficit targets.

## Inflation

Sustained oil production supply cuts, leading to rapid increases in global oil prices.

## External Reserves

Higher than anticipated demand for foreign exchange in holiday season, leading to significant drawdown in Bahamas' reserves.

**The End**