



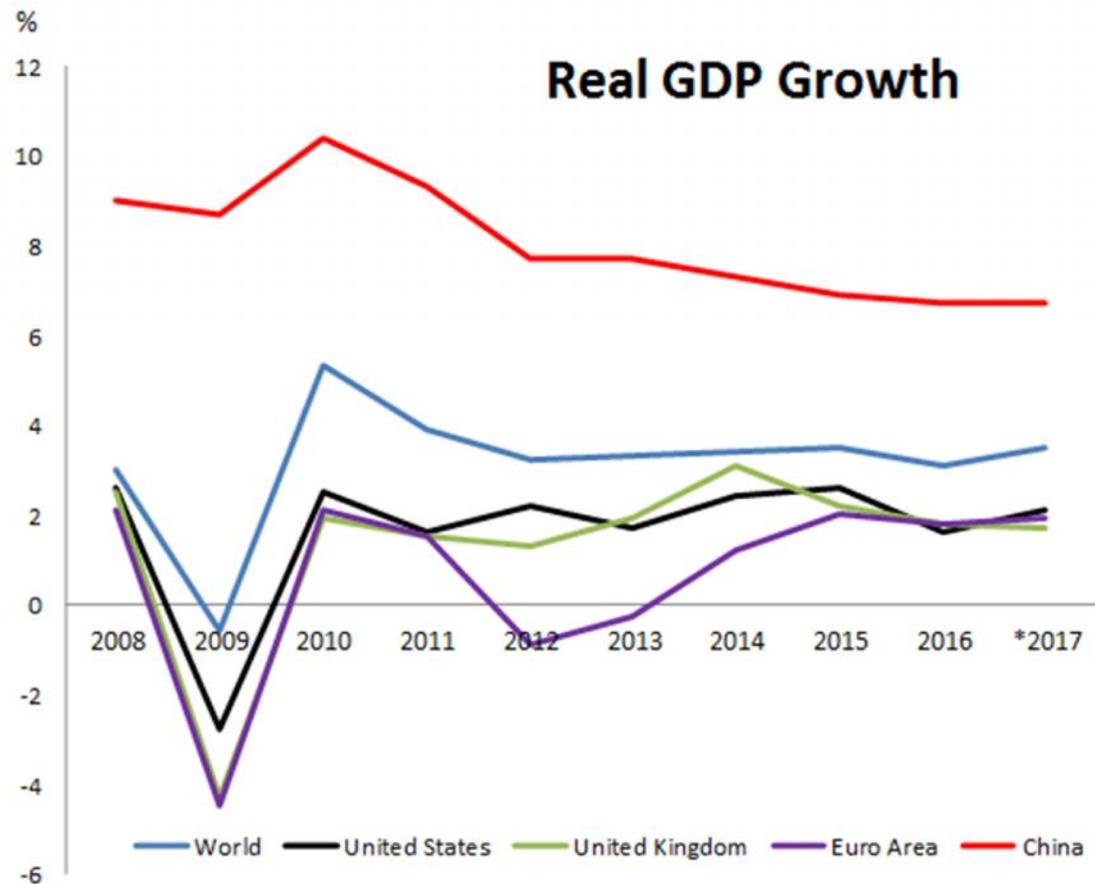
Quarterly Economic and Financial Developments Report

June 2017

Prepared by the
Research Department

Global Economic Forecasts

- Since the economic recovery in 2010, most major economies have been expanding at a modest pace, although a number of challenges to global growth remain present.
- In the latest July update, the IMF forecasts 3.5% global growth in 2017, up from 3.1% in January's report.
 - Supported by recovery in investment, manufacturing, and trade.
 - Increased global demand
 - Financial market stability
- US real GDP expansion is projected to accelerate to 2.1% for 2017, from an estimated 1.6% in the prior year.



Source: IMF World Economic Outlook April 2017
*Projection

Overview of Domestic Economic Developments

REAL SECTOR

CONSTRUCTION: Output led by foreign investment projects.

TOURISM: Output remains subdued, air visitor arrivals in Nassau and GB down sizably for Q1; however, NAD data for Q2 showed some improvement.

PRICES: inflation remained low, despite gains in energy costs during June.

FISCAL SECTOR

For the 10 months FY16/17 the deficit rose, as expenditure gains outpaced the improvement in revenue.

MONETARY SECTOR

Liquidity: remained elevated, further boosted by Central Bank financing to the Government.

External reserves: firmed during the period, reflecting normal reserve accumulation during the winter tourist season.

TOURISM SECTOR

Tourism Sector Performance

(Q1 2017)

The official tourism data showed an overall decline in arrivals for Q1, extending the prior year's falloff:

- Total passenger traffic fell by 2.2% during Q1-2017, after a 0.4% decline in the first quarter of 2016.
 - Air and sea arrivals fell by 9.4% and 0.2%, respectively, following a 2.3% gain in air traffic and a 1.1% decrease in sea passengers, last year.
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- **New Providence: total arrivals up by 7.3%**
Sea visitors up 14.7%, but air arrivals down 9.8%*
 - **Grand Bahama: total arrivals declined by 16.6%**
Sea arrivals down 12.0% and air traffic down 41.2%
 - **Family Islands: total arrivals down 11.0%**
Sea arrivals: down 13.6% and air passengers up 9.4%

*Reflects partly the fact that Easter fell much later in 2017 than in 2016

Tourism Sector Performance

(Q2 2017)

Indications are that the tourism sector's performance improved modestly during the June quarter.

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

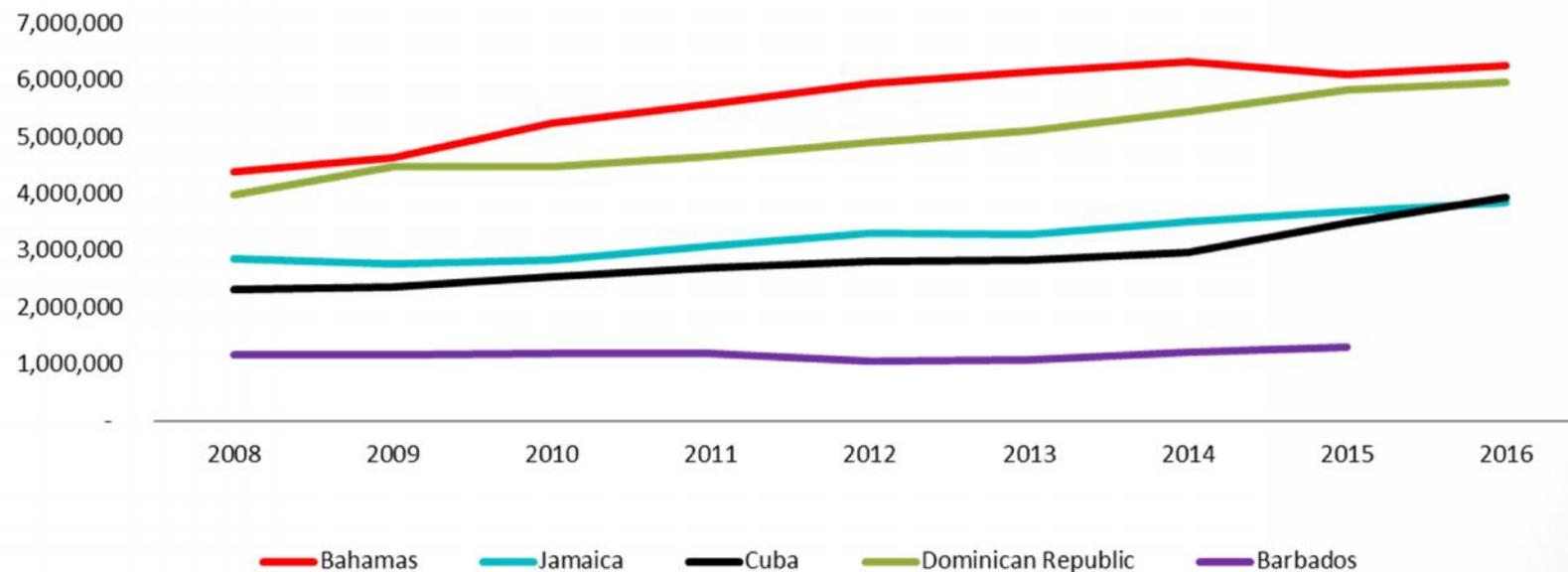
Outbound passenger traffic at the LPIA firmed by 1.9%—net of domestic departures—during the second quarter, compared to a 1.5% gain in the prior year.

- **United States**
 - U.S passengers rose by 1.6% (firmed by 3.3% in Q2-2016).
- **Non-US International**
 - International traffic grew by 4.5% (fell by 9.5% in Q2-2016).

Regional Tourism Trends

- The Bahamas leads in terms of overall volume, due to strong cruise arrivals
- Visitor arrivals to the region showed a modest recovery following the recession in 2008
- Stronger growth secured by Cuba and the D.R. over the recovery period
- Bahamas has shown slight growth, while Barbados has been relatively flat

Total Visitor Arrivals



SOURCE: Regional Tourism Statistics Boards & The World Bank

Trends in Visitor Arrivals

Based on the Chart, for 2016 growth, Cuba showed the most significant gain (13.0%) owing in part to the normalizing of relations between the island-nation and the United States.

Over the last 5 years, the growth rates were strongest for Cuba (8.1%), the Dominican Republic (5.1%) and Jamaica (4.6%), while for the Bahamas the average was 2.4%.

Visitor Arrivals Growth for 2016



*Barbados' change is for the year 2015

**FOREIGN INVESTMENT
&
CONSTRUCTION**

Baha Mar Developments



Update:

- Grand Hyatt resort is said to be operating at more than 50% occupancy as at June 2017
- Over \$75 million in prospects for visitor revenues for group business
- There are currently over 2,100 Bahamians employed at Baha Mar
- Currently 10 restaurants and lounges are open for business

Future Developments

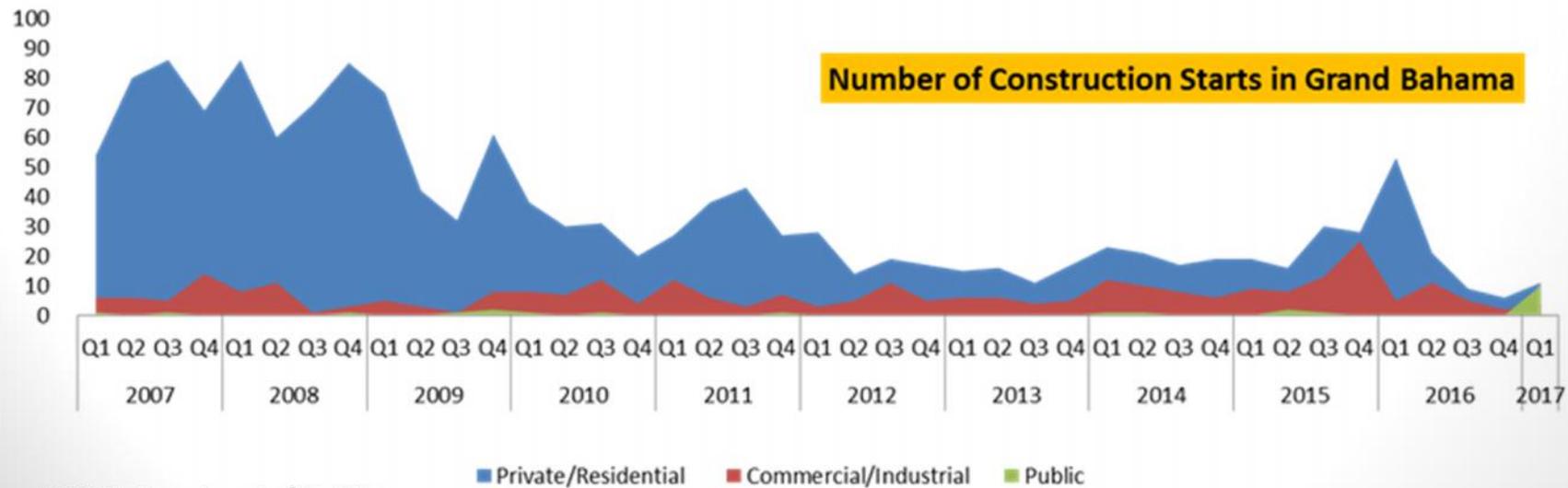
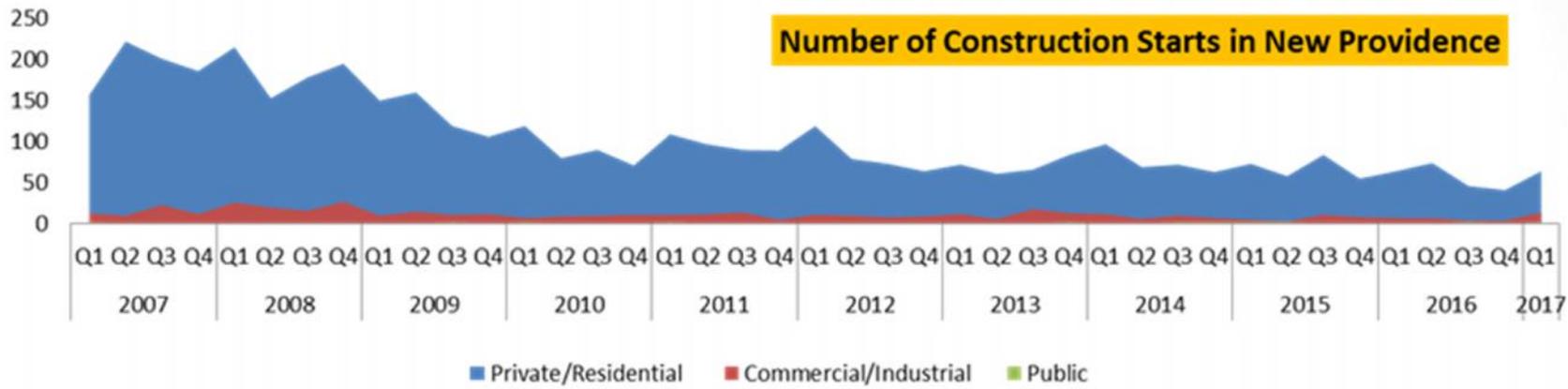
- **SLS Lux**
 - **Expected Open Date: October 2017**
 - Capacity: 299 rooms and 107 residential units
 - All furniture is on-site, new flooring currently being completed
 - Brand currently present in Beverly Hills, South Beach, Las Vegas, New York and other high-end U.S. destinations
- **Rosewood**
 - **Expected Open Date: March 2018**
 - Capacity: 230 rooms
 - Global brand currently present in the U.S., Canada, Europe, Cambodia, Hong Kong, Thailand etc.

Other FDI Projects

Project Name	Recent Developments
The Pointe Development	<ul style="list-style-type: none"> ❖ Construction is now stalled as developers await appropriate regulatory approvals to begin phase 2 of project ❖ No time-line has been given for when substantial work will resume
Carnival Cruise Port, East Grand Bahama	<ul style="list-style-type: none"> ❖ \$100 million investment—over approx. 2 years ❖ Located 2.5 miles west of Stat Oil in East Grand Bahama . ❖ Heads of agreement signed in May ❖ 226 acres – includes construction of the channel, docks, water taxi, workboat piers, berthing platforms, seawalls, and a turning basin to accommodate 2 Panamex Ships ❖ Shore Project to include 20-bed hotel, 18-hole miniature golf course, restaurants, food & beverage pavilions, shops, nightclubs, amphitheater, interactive amenities, and other recreational and sporting amenities
Mediterranean Shipping Company (MSC)	<ul style="list-style-type: none"> ❖ \$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 ❖ Predictions are that 100 Bahamian seafarers will be hired, with an additional 300 jobs to be filled for operational needs. ❖ Over the next 2 years, 1,100 construction jobs will be available ❖ 220 Bahamians will be employed on cruise ships full-time
South Ocean Resort	<ul style="list-style-type: none"> ❖ Located adjacent to Albany Development ❖ 383 acres ❖ Sale process has opened again ❖ Bids were accepted beginning in late April

Number of Construction Starts By Island

- The total number of construction starts in The Bahamas decreased for private residences by 36.2% in the first quarter of 2017, vis-à-vis the comparable period of last year.
- The value of construction starts fell for private residences by 17.0% (mainly in Grand Bahama).
- Total completions rose by 11 in number and by \$6.5 million in value.



SOURCE: Department of Statistics

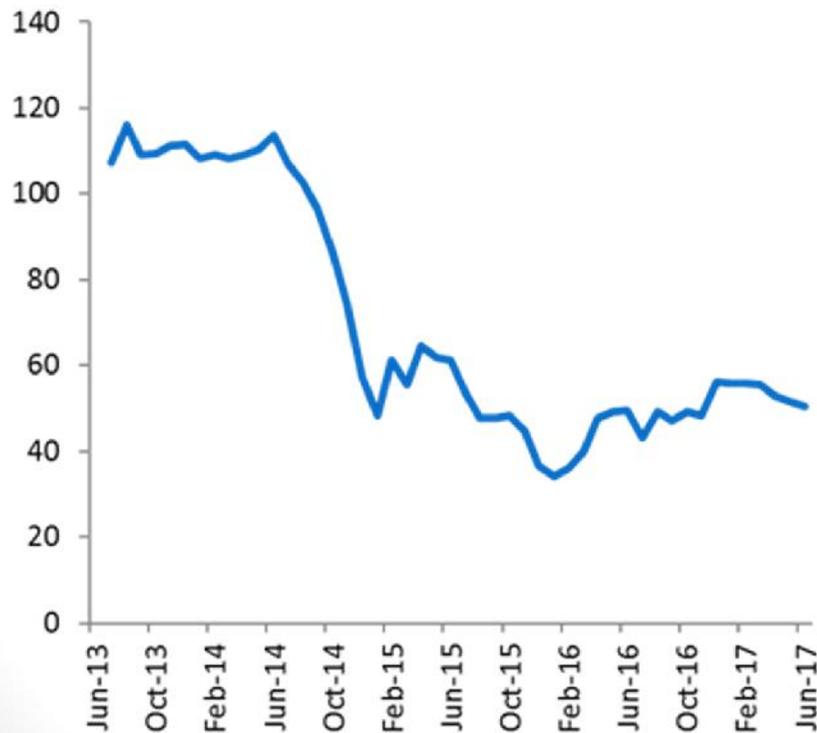
INFLATION

Oil Price Trends

- Oil prices have not increased significantly for the year, despite an agreement by OPEC and Russia in November 2016 to cap production output
- This development is due in part to a rebound in US shale production.
- In addition, several major producers, including Libya and Nigeria, were not part of the agreement and have continued to increase production.

USD\$/barrel

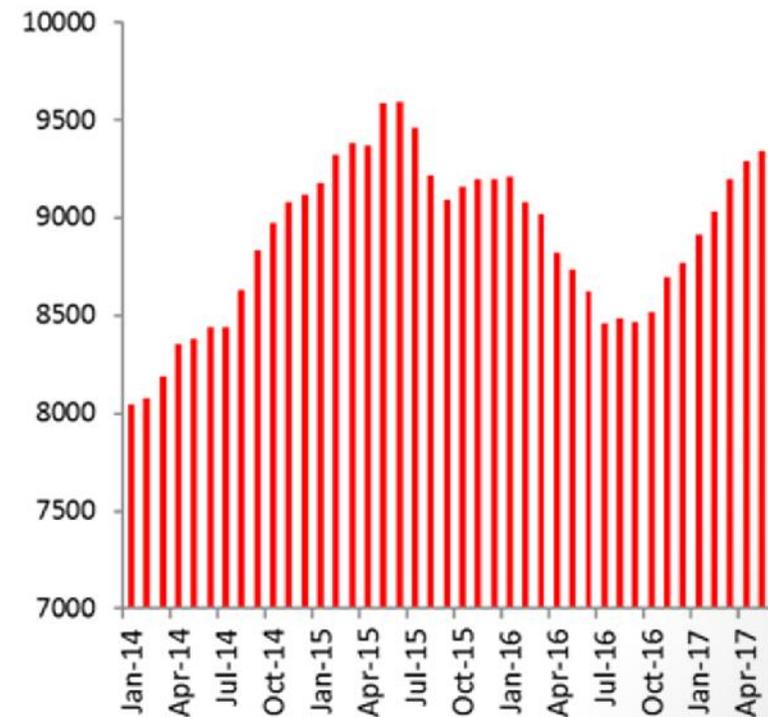
Oil Price



SOURCE: Bloomberg

U.S Shale Oil Production

'000 bpd*

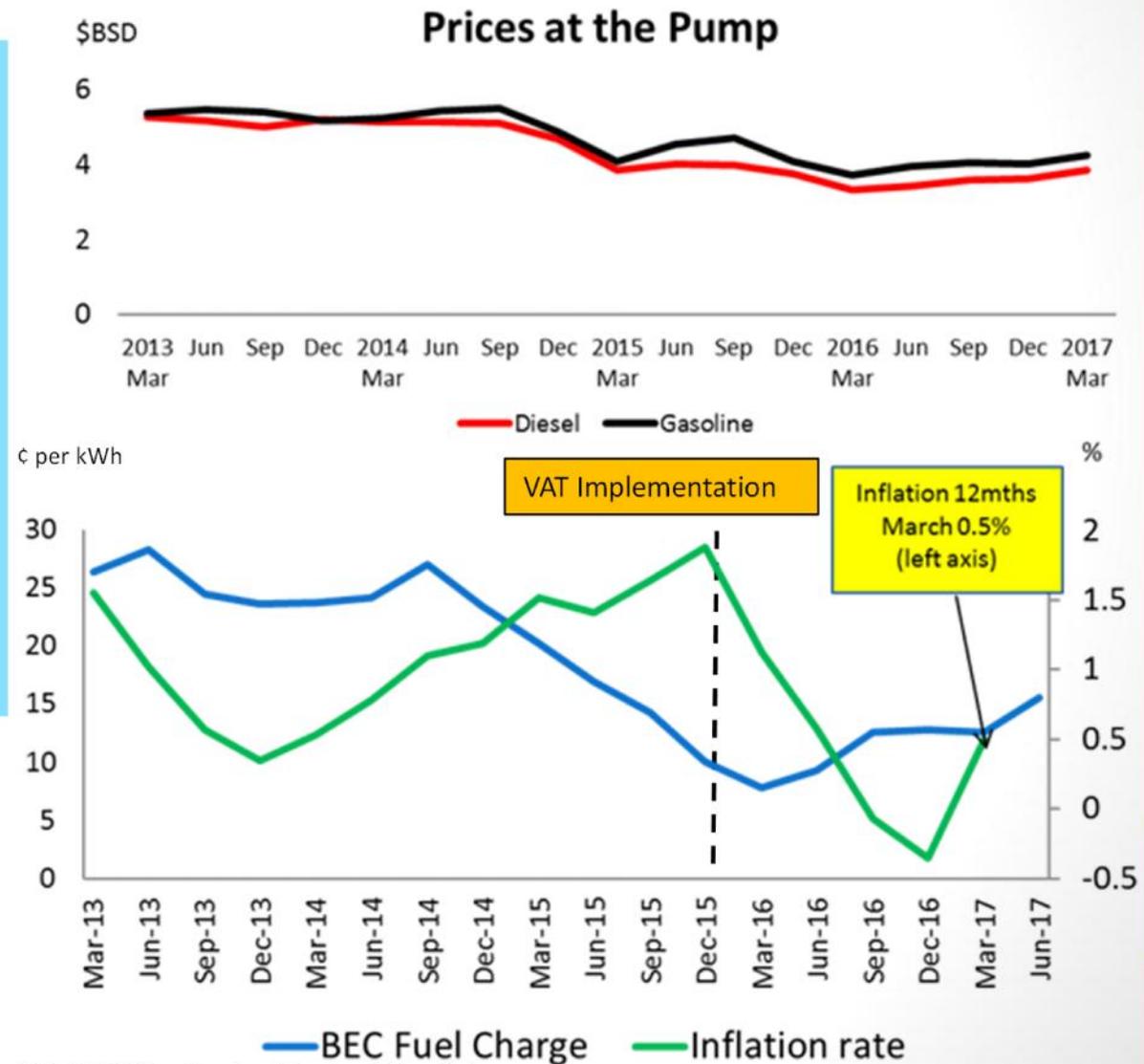


SOURCE: Bloomberg

* Barrels per day

DOMESTIC IMPLICATIONS OF LOWER GLOBAL OIL PRICES

- Global oil prices rose in 2016, but remained lower than pre-June 2014 highs. This has resulted in a slight upward trend in domestic energy costs.
- ✓ The BEC fuel charge at end-June was higher by 23.1% compared to March 2017 and by 66.4% vis-a-vis June 2016.

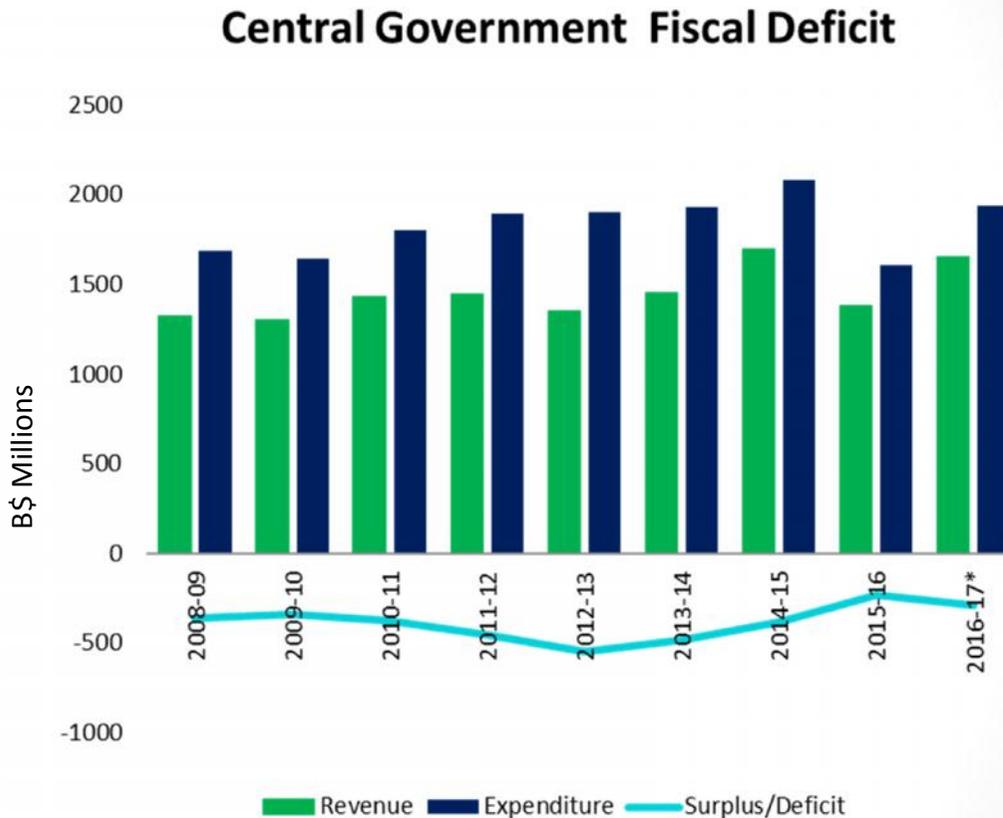


SOURCE: The Central Bank of The Bahamas

FISCAL SECTOR

Fiscal Indicators

- Fiscal deficit widened by \$35.5 mill. (14.3%) to \$284.7 million during the 10 months of FY2016/17, compared to the previous year:
 - **Expenditure:** up by \$93.7 mil (5.1%)
 - **Revenue:** up by \$58.2 mil (3.6%)
 - **VAT receipts:** fell by \$7.9 million (1.4%) to \$542.8 million*



SOURCE: The Central Bank of The Bahamas
* 10months of FY2016/2017

* Significant VAT payments in the first half of FY2015/16, so receipts could potentially be normalising

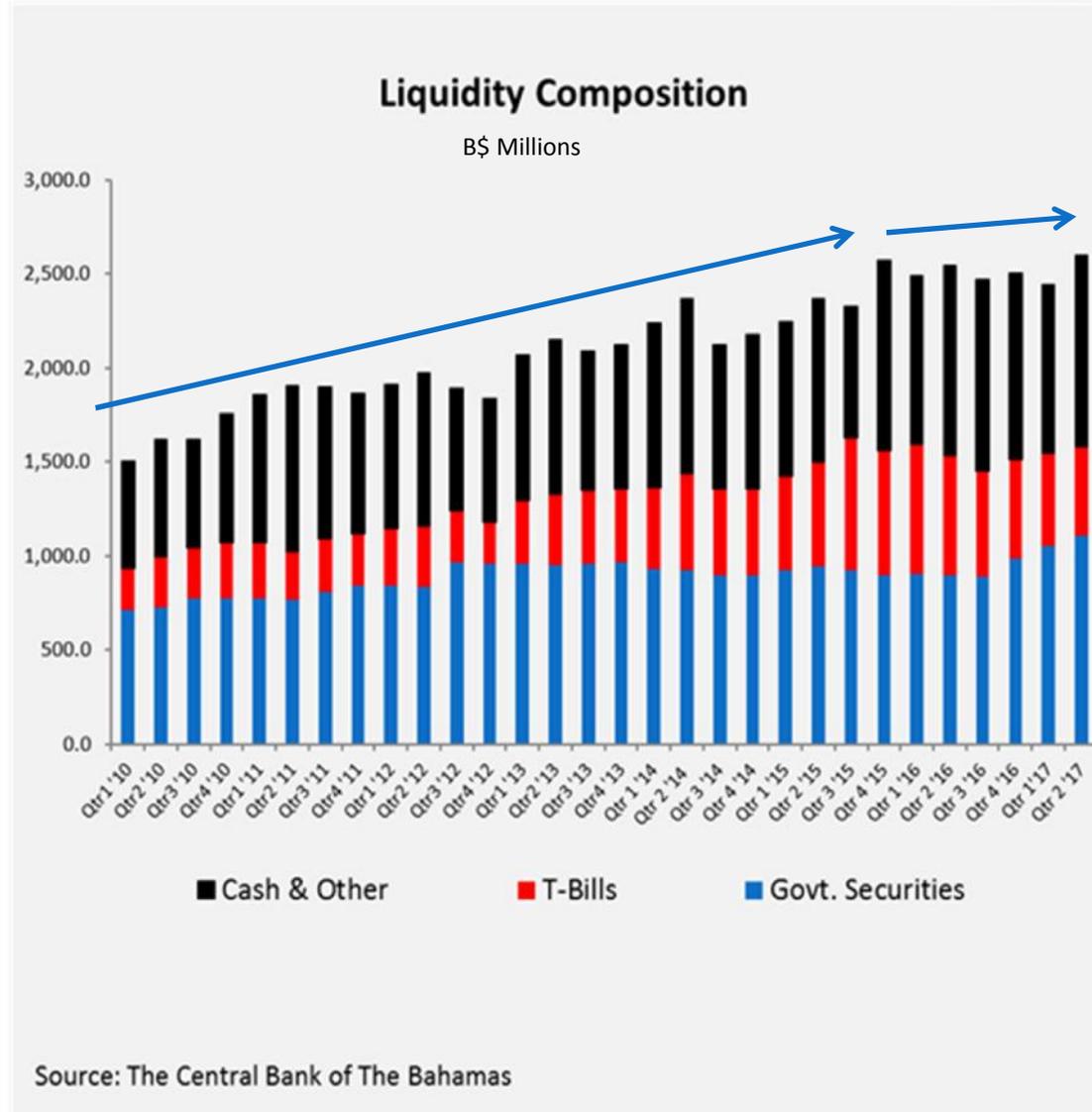
FY2017/2018 Budget Highlights

- On May 31, 2017, the Minister of Finance presented the Government's FY2017/2018 Budget to House of Assembly.
- The predominant themes of the Communication were:
 - ✓ Strengthening fiscal prudence
 - ✓ Supporting the economy
- The plan :
 - ✓ Undertake an in-depth review of expenditure commitments and concessions offered to developers, enhance transparency and accountability, improve tax administration and introduce Fiscal Responsibility legislation.
 - ✓ Reduce or eliminate of several taxes and business-related fees
- With these and other measures, the Government projects a deficit-to-GDP ratio of 3.5% in FY2017/2018, and a debt-to-GDP ratio of 72.7% for FY2017/2018, compared to the projected outturn of 71.5% for FY2016/2017.

MONETARY SECTOR

Money & Banking: Liquidity Conditions

- **Liquidity rose modestly in 2017**
- By end-June, excess liquid assets stood at \$1.6 billion, a gain of \$165.9 million over the 6-month period, relative to a \$195.1 million upturn in 2016.
- In addition, excess reserves grew by \$127.9 million to \$851.6 million, vis-à-vis a \$255.6 million expansion in 2016.



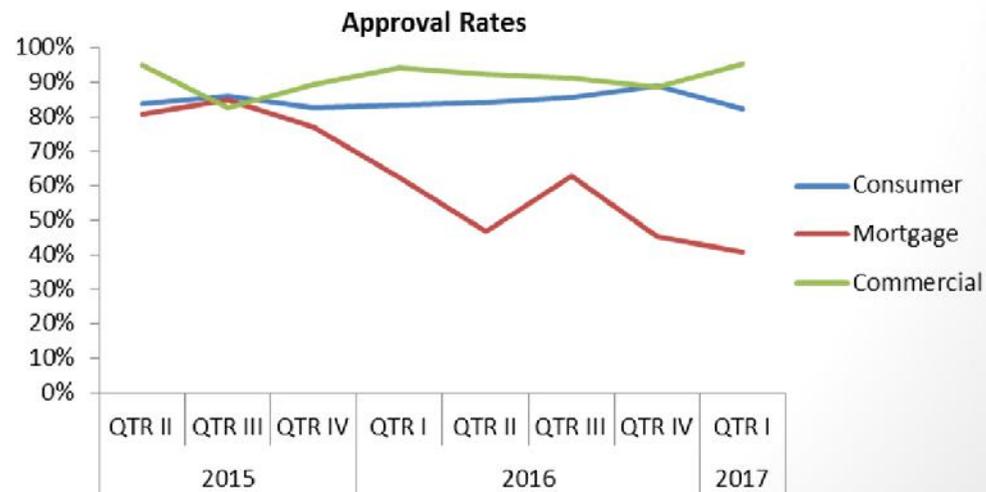
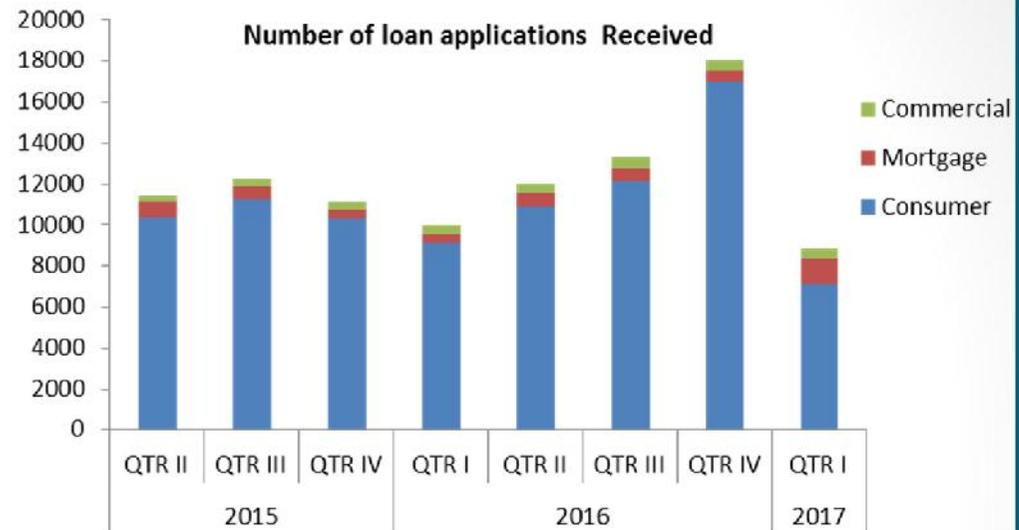
Lending Conditions

- During the half-year, total Bahamian dollar domestic credit rose by \$165.1 million, vis-à-vis a \$20.8 million decline last year.
- Net claims on the Government advanced by \$185.2 million, compared to the \$3.5 million marginal rise in 2016.
- Credit to public corps. weakened by \$3.3 million, after a \$30.9 million increase in the prior period.
- Private sector credit contracted by \$16.8 mil, compared to \$55.2 million decline in 2016.

- Consumer ↓ \$26.7 million
- Mortgage ↓ \$13.3 million
- commercial ↑ \$23.2 million

Bank Lending Conditions Survey

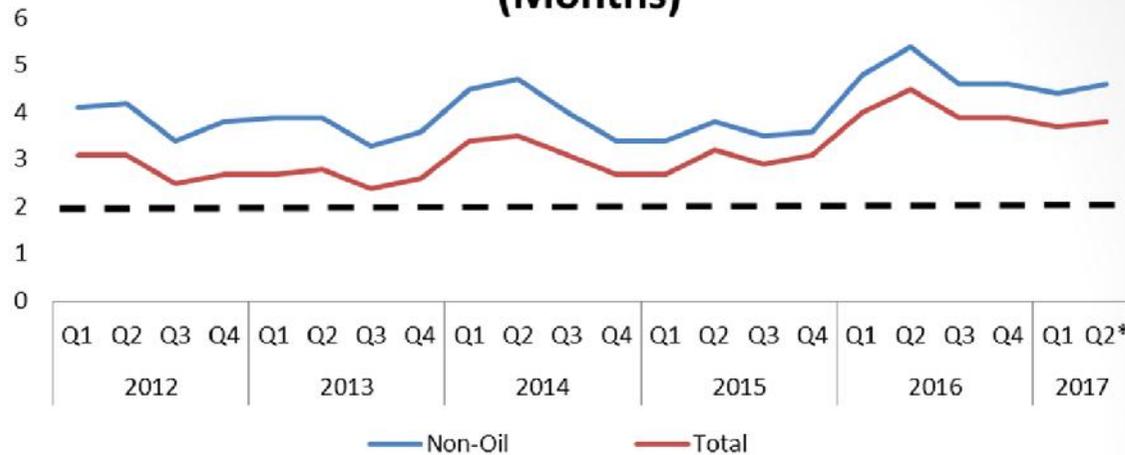
- Over the 8 quarters of the survey, applications tend to be lowest in Q1, and strongest in the Q3 and Q4.
- Notable spike in applications in 4th quarter of 2016-Hurricane related.
 - Strong growth in debt consolidation applications and notable increase in furniture and appliances loans
 - Approval rates of 92% and 87%, respectively
- Consumer loans remain the dominant category.



External Reserves

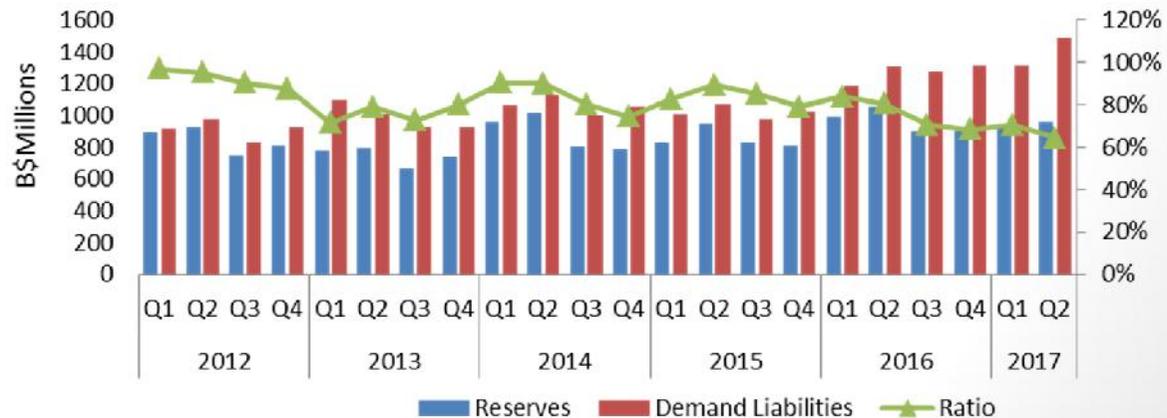
- External reserves firmed by \$58.9 million to \$961.0 million at end-June, a substantial slowdown from the \$244.9 million expansion in 2016 (which included US\$100 million Gov. loan proceeds).
- At end-June, reserves were equivalent to an estimated 3.8 months of current period merchandise imports, compared to 4.5 months a year earlier.
- External reserves rep. 64.5% of demand liabilities, compared to 80.7% at end-June 2016

Import Cover Ratio (Months)



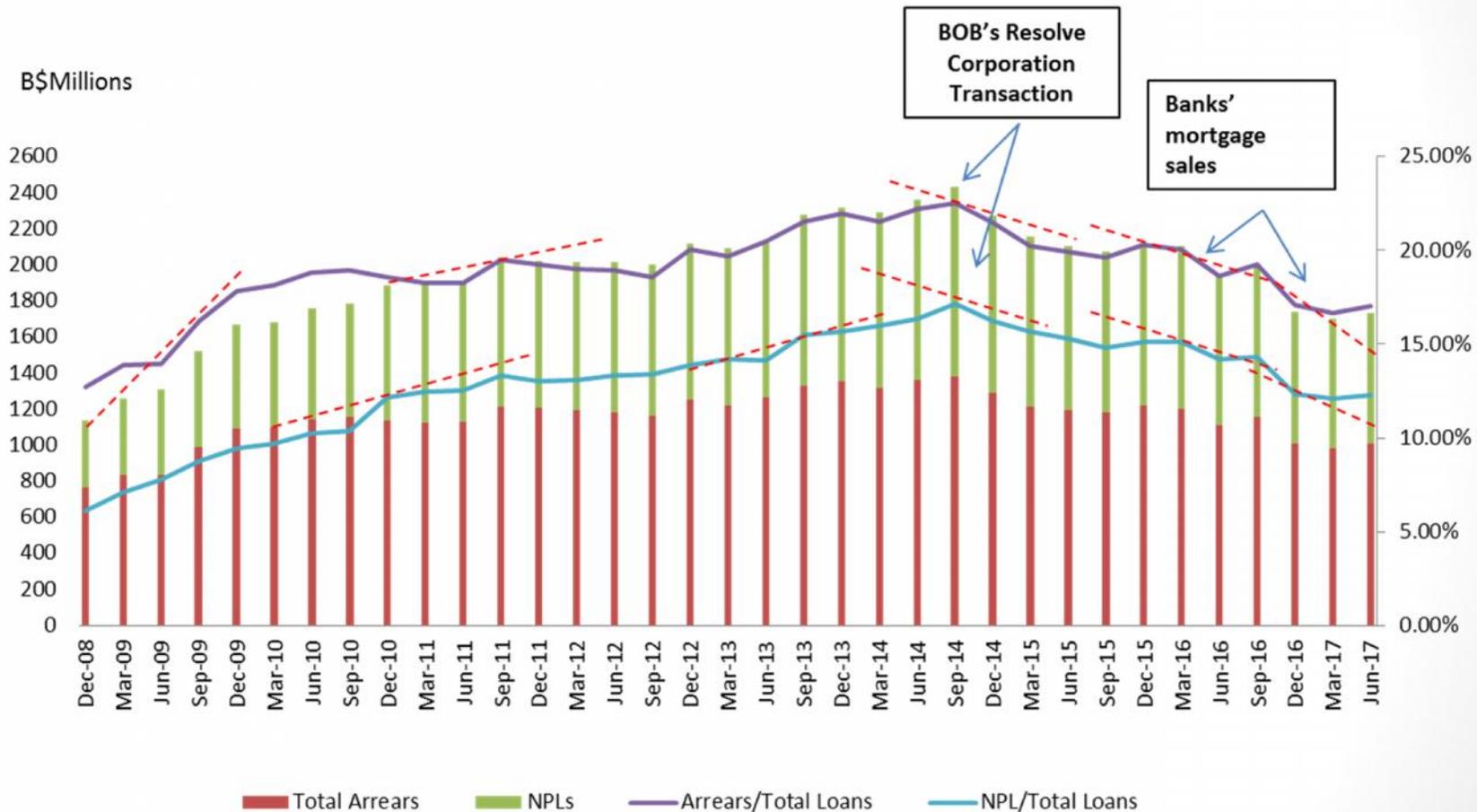
SOURCE: The Central Bank of The Bahamas
 *Q2 calculated using Q1 imports over Q2 reserves

External Reserves to Demand Liabilities



SOURCE: The Central Bank of The Bahamas

The Bahamas' Credit Quality Indicators



SOURCE: The Central Bank of The Bahamas

OUTLOOK

Outlook

The domestic economy is expected to improve slowly over the near-term.

Real Sector

- Modest improvement in tourism sector activity is expected, buoyed by the phased opening of the Baha Mar Resort, as well as sustained improvements in the key source markets.
- FDI projects in the capital and the Family Islands will continue to drive construction sector output.
- Continued, measured decline in the unemployment rate over time, with most of the job gains in the short term accruing to the tourism and construction sectors.
- With the softness in international oil prices, inflationary pressures are anticipated to be well contained over the near-term.

Fiscal Sector

- Performance of VAT and the announced measures to further strengthen revenue administration and restrain expenditure growth, are expected to positively impact the fiscal position; albeit near-term expenditure pressures could delay the timing and magnitude of these gains.
- The aggressive spending cuts announced after the budget, will also assist in reducing the deficit and improving the relevant debt indicators over time

Outlook

Monetary

- Bank liquidity is expected to remain at elevated levels, while in the absence of asset sales, NPLs are likely to sustain their gradual downward trajectory, as banks maintain their loan restructuring programmes.
- Banks are projected to stay well capitalized, thereby mitigating any threats to financial sector stability.
- External reserve outlook remains stable to incrementally positive, however, the overall outturn will depend heavily on:
 - Performance of foreign exchange earning sectors
 - International oil price developments
 - Relative balance of domestic versus external borrowing in the Government's financing activities

Risks to the Forecasts

- Risks to the outlook are predominately on the downside and include:
 - The negative effect on US economic growth as the Federal Reserve continues to raise interest rates.
 - The impact of the US Administration's travel restrictions on both US visitors and travelers who transit through US ports to other destinations.
 - A significant surge in oil prices, arising from geopolitical uncertainty can have an adverse impact on the current account balance and inflation.
 - Impact of any adverse credit ratings adjustments on the cost of government debt financing.

Ratings Update

On Thursday July 6th 2017, Moody's Investor Service placed the Baa3 bond and issuer rating for The Bahamas on review for a potential downgrade.

- The review came on the heels of official statements by the Government of The Bahamas that the fiscal position was much weaker than initially estimated, with a projected rise in the debt ratios.
- The review will focus on the following:
 - Assessing likelihood of stabilization of Government's debt metrics over the coming 2-3 years.
 - Analysing Government's policy proposals to arrest fiscal deterioration.
 - Reviewing The Bahamas' credit profile compared to other sovereigns rated in the Baa and Ba categories.

Ratings Update

- The Government has announced additional measures to stabilise the deficit, including a targeted 10% expenditure cut, a hiring freeze and stronger internal controls over interim spending proposals.
- Plans to provide accelerated support to the Grand Bahama tourist sector could add to near-term fiscal costs but are intended to accelerate the restoration of hotel capacity.

The End