



Quarterly Economic and Financial Developments Report

September 2016

Prepared by the
Research Department



Overview of Domestic Economic Developments

- During the nine-month period, Jan-Sept 2016, domestic economic activity remained mild,
 - Hotel performance indicators were subdued
 - Construction sector output continued to be driven by medium to small-scale foreign investment funded projects, while private sector construction remained tepid.
- Energy costs firmed modestly, due to the uptick in global oil prices during the period; however, overall price inflation remained low
- Monetary developments for the nine-month period featured expansions in both liquidity and external reserves, associated with Government borrowing and real sector activities.

Impact of Hurricane Matthew Overview

Following the passage of Hurricane Matthew during the first week in October:

- Insured losses to private property are expected to approximate \$400 million; added to public sector damages and uninsured private assets total damages will likely exceed \$600.0 million.
- Initial policy responses to aid the recovery efforts include tax exemptions by Government under an Exigency Order, and the Central Bank's relaxation of debt servicing and equity requirements on hurricane-related lending facilities.



Source: National Oceanic and Atmospheric Association



TOURISM SECTOR



Tourism Sector Performance



- Anecdotal data suggests that tourism activity remained relatively soft during the year
 - Data from Nassau Airport Development (NAD) Company's passenger report, shows that visitor departures from the capital (net of domestic traffic) totaled 1.0 mill. over Jan-Sep 2016 (up 2.3% relative to 2015)
 - Commercial banks' net foreign currency purchases from clients, which are influenced by tourism inflows, were down by 25% over the nine-month period to \$176.5 million

HURRICANE MATTHEW IMPACT ON TOURISM

- A number of hotels were damaged due to the storm (roofing, water infiltration, landscaping)
- **In New Providence:**
 - The majority of properties surveyed immediately after the storm indicated that they were open for business
 - The hotels that were closed due to the storm are expected to reopen within an expedited timeframe.
- **In Grand Bahama:**
 - There was significant loss in room inventory due to damage:
 - Approximately 2 hotels were able to remain open, while the balance were expected to re-open by end-October-December 2016; in time for crucial Winter Tourist season

Source: Bahamas Hotel Association and various newspaper articles



Photo sources: Nassau Guardian

HURRICANE MATTHEW IMPACT ON TOURISM

- **Family Island Hotels:** most properties sustained minimal damage and were able to resume business.
- Noteworthy:
 - **Andros:** Damages to most hotels were minimal, however the Lighthouse Yacht club had extensive roof damage.
 - **Exuma:** Sandals Emerald Bay required extensive repairs. It is projected to reopen by December 15.

HURRICANE MATTHEW IMPACT ON TOURISM

- In light of these developments and the closure of all airports within the country during the hurricane:
 - Arrivals are expected to be modestly below trend for the fourth quarter
 - Given the reduced room inventory, tourism receipts are also likely to fall below trend during this period
 - Hotel sector employment has been disrupted, notably in Grand Bahama.



FORIEGN DIRECT INVESTMENT (FDI)

HURRICANE MATTHEW IMPACT ON FDI

- Receivers of the **Baha Mar Resort** indicated that there were no signs of delays due to the impact of Hurricane Matthew.
 - Damages to the project were minimal; remobilization was still on schedule.
- The **Sandals Royal Bahamian Resort** in New Providence, was set to reopen on October 14th following renovations. Reopening was delayed to October 26th 2016
- The **Albany** Resort sustained landscape and vegetation damage; however, there is no notification of impediments to development.
- The **One & Only Ocean Club** closed for further repairs after suffering storm damages. The \$21 million refurbishment previously in progress, is expected to continue.



EMPLOYMENT



HURRICANE IMPACT ON EMPLOYMENT INDICATORS



The latest survey by from the Department of Statistics indicated that the unemployment rate was 12.7% end-May 2016.

In the aftermath of Hurricane Matthew, it is anticipated that for the November survey:

- Results will be influenced by the large increase in demand for construction workers for building repair activities.
- Skills shortages could surface in the sector given the significant volume of repair activities alongside ongoing investment projects
- Temporary under-employment will however persist in the resort sector in Grand Bahama.



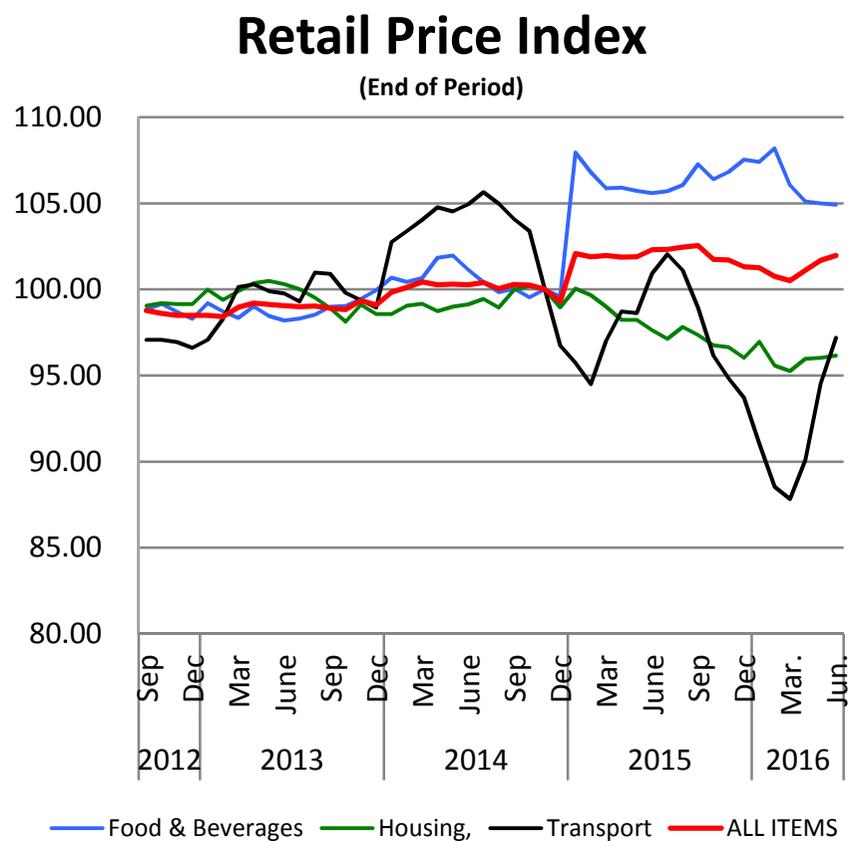
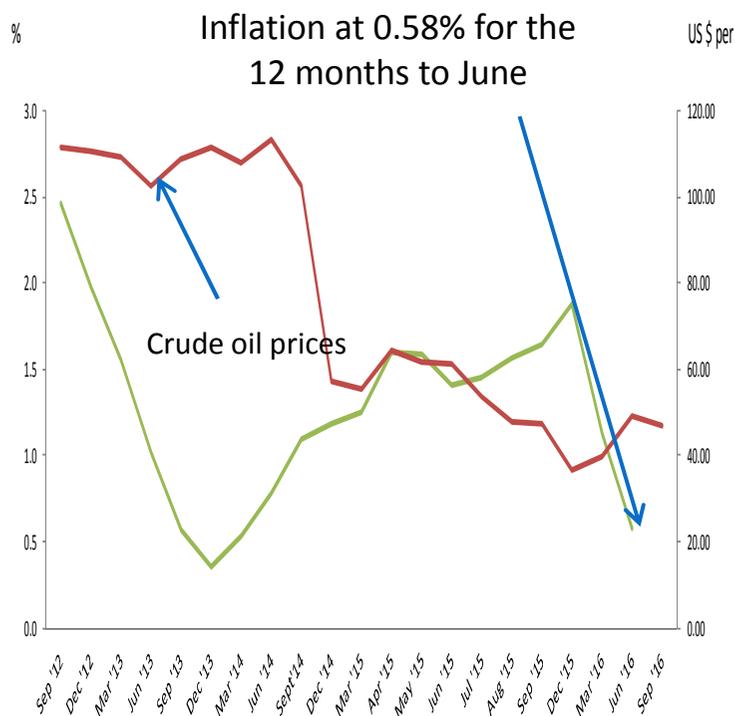
Photo sources: Nassau Guardian



INFLATION

Inflation

For the 12 months to June—latest data available—inflation rate fell by 83 basis points to 0.58%, owing to declines in average costs in housing (2.7%) associated easing in energy prices, and an average decline in transportation costs (5.4%).



Source: Department of statistics and Bloomberg

HURRICANE MATTHEW IMPACT ON INFLATION

- Expect some modest cost pressures due to Hurricane Matthew
 - Increase in overall demand for building supplies (due in part to the impact on the US mainland)
 - Pressures in the local construction sector due to queuing of jobs; and potential skills shortages
- More recent uptick in oil prices, could erode the some of the previous buildup in local energy cost rebates.



FISCAL SECTOR

HURRICANE MATTHEW IMPACT ON FISCAL SECTOR

- The Government has estimated the total costs for hurricane relief after Hurricanes Matthew (\$600 million) and Joaquin (\$200 million) to be \$800 million.
- To cover \$150 million of this cost, the government has designed two-tranche borrowing measures:
 - A syndicated loan from commercial banks of approximately \$120 million
 - A public offering bond of \$30 million, which will be opened to non-residents with nexus to The Bahamas
- The funds will be used for reconstruction efforts including:
 - Defraying expenses for restoration of essential utilities
 - Varied social assistance (including home repairs) for displaced vulnerable households
 - Reconstruction of public infrastructure

HURRICANE MATTHEW: FISCAL SECTOR OUTLOOK

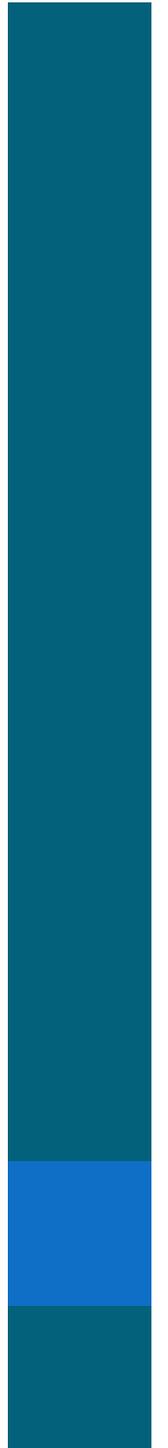


- Deterioration in the fiscal position is expected due to:
 - **Necessary expenditure increases**
 - **Disrupted revenue collections:** due to temporary reduction in business activity and tax concessions on rebuilding activity



Photo source: Nassau Guardian

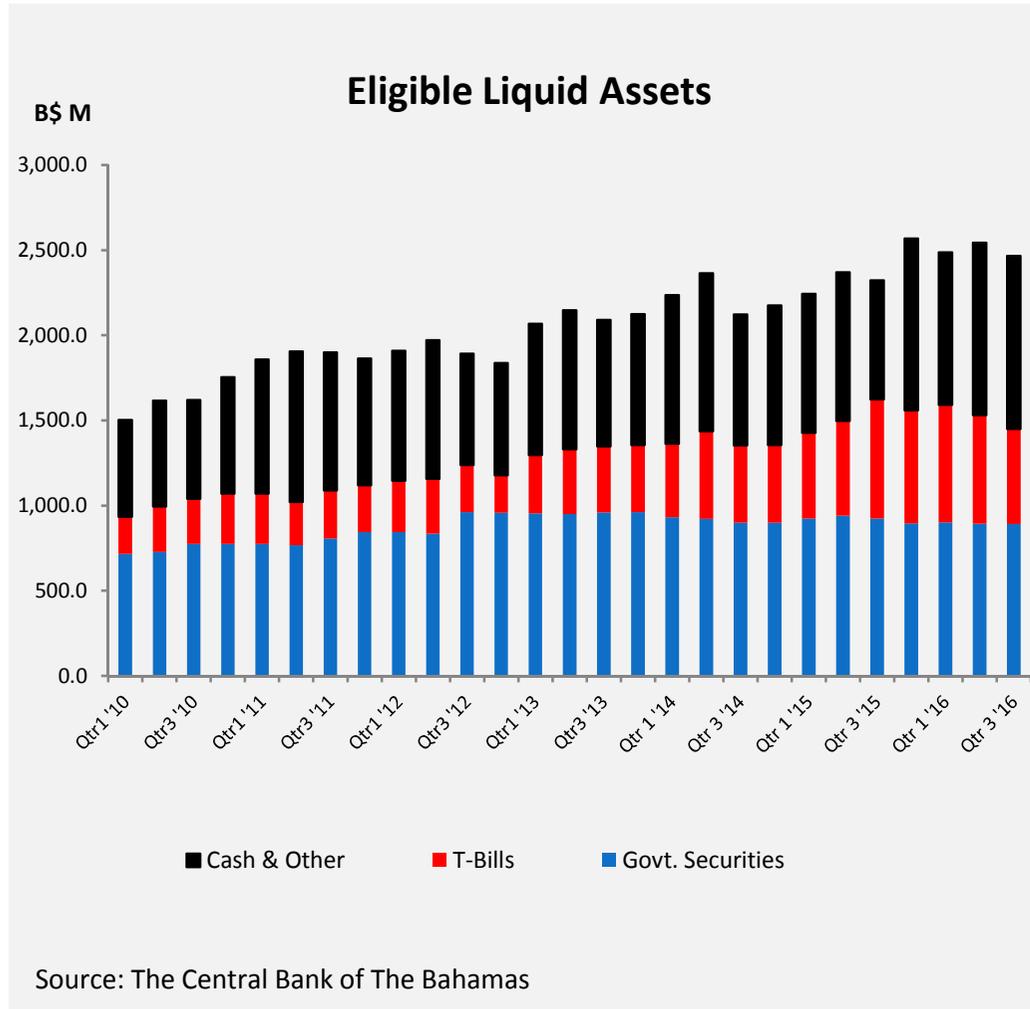
FINANCIAL SECTOR



Money & Banking: Liquidity Conditions

Liquidity strengthened in the first nine months of 2016, due to:

- Government's foreign currency borrowing and net foreign currency inflows for real sector activities
- Eligible liquid assets approached \$2.5 billion; and excess liquid assets which nets out the statutory requirement stood at \$1.4 billion, up by \$117.6 mil for the year-to-date.
- In addition, excess reserves (net cash and other) grew by \$257.0 mil. to \$746.4 mil for the year to-date.



Lending Conditions

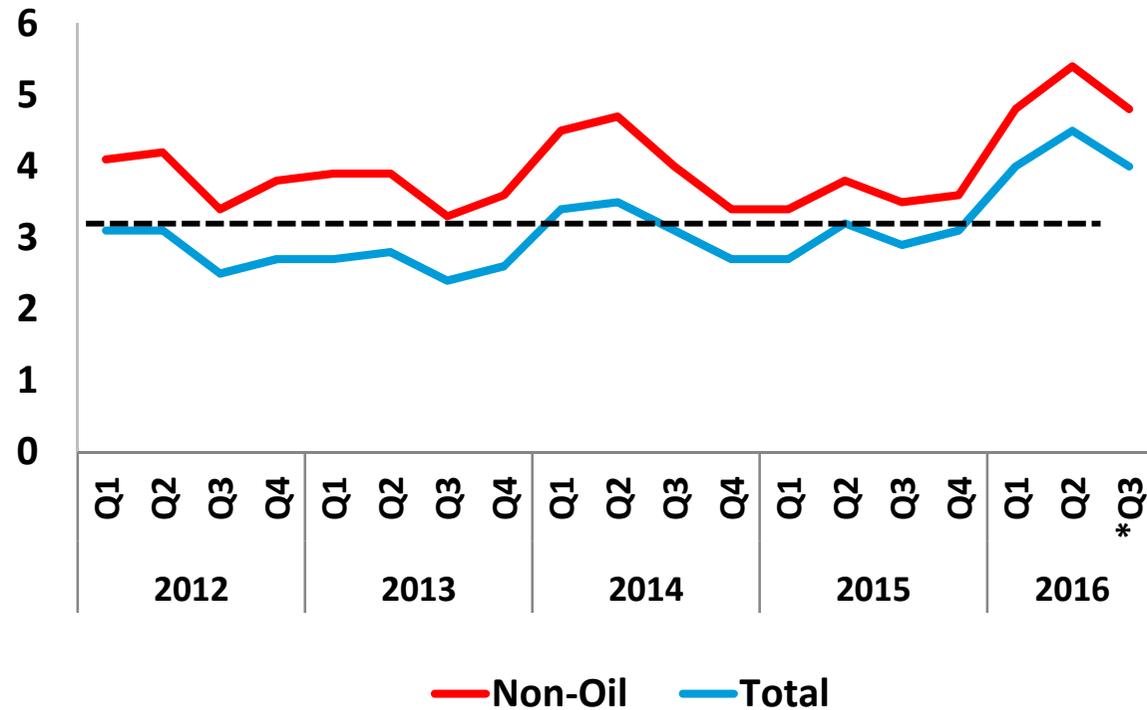
- During the nine months of 2016, total Bahamian dollar credit grew by \$113.5 million, a slowdown from a \$123.6 million expansion last year
- Net claims on the Government rose by \$116.1 million, slightly lower than 2015's \$138.7 million expansion.
- Private sector credit contracted by \$30.4 million, following a \$21.5 million decrease in 2015. The components are shown below:
 - Commercial lending :  \$51.5 million
 - Residential Mortgages:  \$18.3 million
 - Consumer loans:  \$39.3 million
- Credit to public enterprises grew by \$27.9 million, extending the \$6.4 million expansion the year before.

External Reserves

External reserves firmed by \$104.3 million to \$913.2 million at end-September, compared to a \$40.0 million expansion in 2015.

- At end-Sept, external reserves were equivalent to an estimated 4.5 months of total merchandise imports

Import Reserve Cover Ratio (Months)



SOURCE: The Central Bank of The Bahamas

*Estimated using 12 month imports up to Q2 2016

HURRICANE MATTHEW IMPACT ON THE INSURANCE SECTOR*



- According to Bahamas Insurance Association initial indications are that insured private losses are approximately \$400 million.*
- Given the nature of the local insurance industry, the total losses will not be absorbed solely by Bahamian insurers; as reinsurance receipts will be significant.
 - It is anticipated that by end-2016, some 50% of the total insured losses (\$200 million) will have been settled by reinsurance inflows.*
- Vulnerable, uninsured households may be among those relying on the public sector for recovery assistance.

POLICY MEASURES IN RESPONSE TO HURRICANE MATTHEW

- **Government Measures:**

- Effective October 11th, an exigency order allowed specific exemptions on goods imported for rebuilding efforts, i.e. water, tarp, and other “personal items”
- All NEMA-approved donations will be allowed into The Bahamas duty free, VAT free, and with no processing fee
- Government in conjunction with the Bahamas Chamber of Commerce and Employers Confederation has approved a 10% rebate on business license fees as credit against donations to the national recovery efforts. The maximum tax credit possible is \$100,000 for donation of \$1 million or more.

- **Central Bank Measures:**

- The monthly debt service ratio was raised to 55% from the 40% - 45% range on all hurricane related lending facilities.
- The mandatory 15% equity contribution requirement was relaxed on these facilities.
- Administrative monetary penalties were suspended for banks’ relevant quarterly, monthly, weekly and daily reporting obligations until 1st November 2016, to allow banks to divert more staffing resources to assist with their clients’ recovery needs.

Economic Outlook

- The impact of hurricane Matthew has tempered near-term forecasts due to:
 - Short-term disruptions to businesses
 - Overall impact on tourism sector will be muted and short-lived due to the timing outside of the peak winter season, and limited disruptions with the exception of Grand Bahama.
 - An uptick in construction activity is expected as rebuilding continues, along with sustained work on several FDI projects (and resumption of construction on Baha Mar)
- Employment should be stable to slightly improved due to construction labour demand
- Modest increase in inflation pressures due to resource tightness in the construction sector (of local and US origin), lower discounting on energy prices.

Fiscal Sector

- Increased hurricane-related outlays for recovery assistance and public assets repair will place additional pressure on the deficit; this is occurring alongside some disruption in revenue collection and concessions on rebuilding activities.

The End