

Quarterly Economic and Financial Developments Report

March, 2019

Featuring the latest Lending Conditions Survey for the Second Half of 2018.



Research Department



Domestic Economic Developments

The domestic economy maintained its modest growth path through March, as the sustained increase in stopover arrivals supported gains in tourism output. Ongoing foreign investment projects undergirded construction activity.

Real Sector

- Over the first three months of 2019, total visitor departures from the Lynden Pindling International Airport (LPIA), grew by 22.0% versus 2018Q1.
- Through the first two months of 2019, hotel room revenues rose by 44.0%, after a 15.8 percentage point increase in the avg. occupancy rate to 73.6%; and a 10.2% rise in the avg. daily room rate to \$269.79.
- In 2018, consumer price inflation rose by 75 basis points to 2.3%.

Fiscal Sector

- During the first half of FY2018/2019, the Government's deficit contracted by 31.3% to \$174.3 million, as revenue growth outstripped expenditure increases.
- Aggregate revenue strengthened by \$129.5 million to \$1,010.3 million, which outpaced the \$49.9 million rise in spending to \$1,184.6 million.

Monetary Sector

- Lending to the private sector remained subdued, with only incremental asset quality improvement.
- ...but seasonally elevated tourism receipts boosted broad liquidity and external reserves by \$87.3 million and \$194.9 million, respectively.
 - Absent of public sector external borrowings, the build-up was less than in 2018.

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is white and sandy, with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly a resort or a small village. The sky is clear and bright.

INTERNATIONAL DEVELOPMENTS

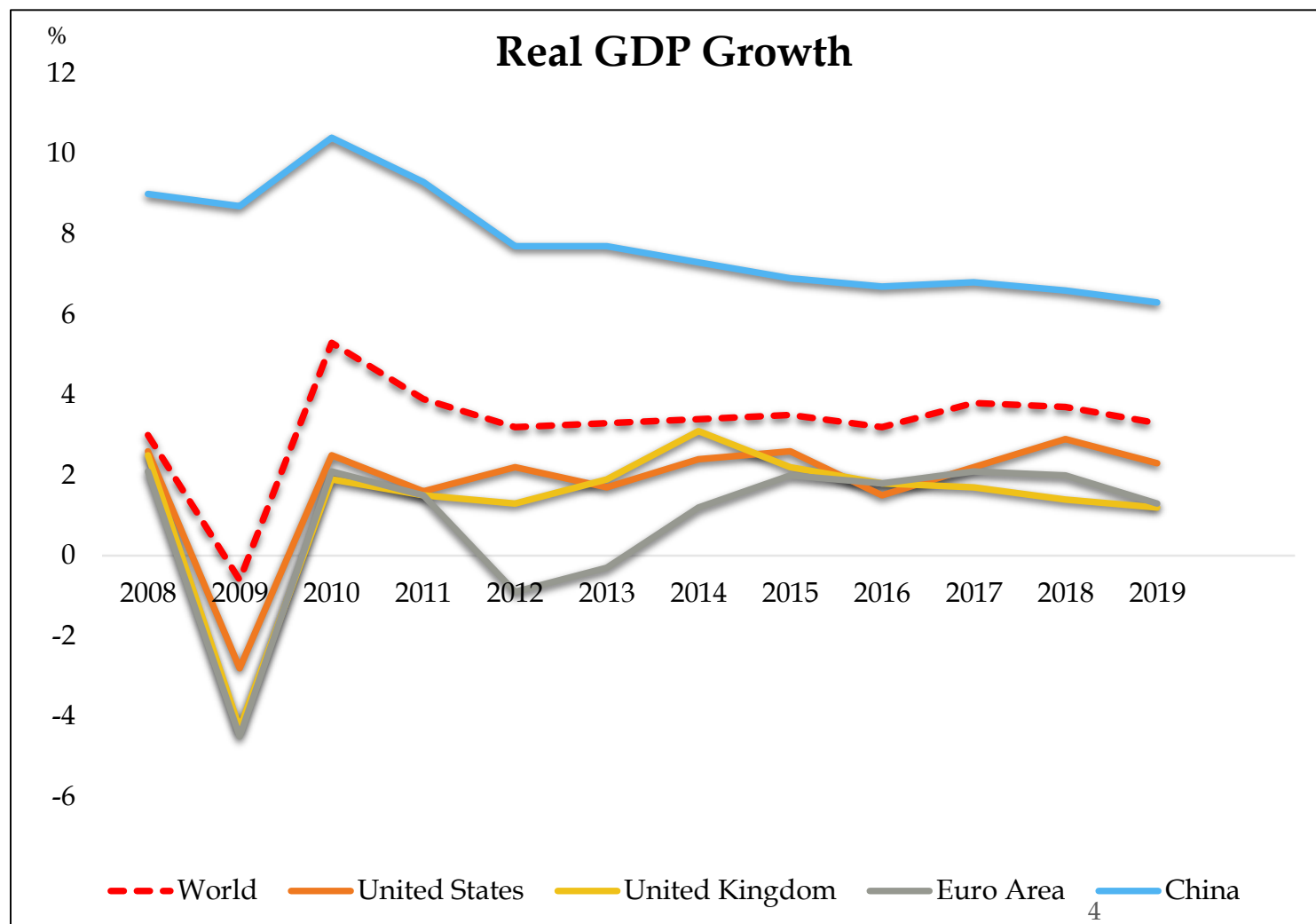
Global Economic Forecasts

In its April update, the IMF lowered its 2019 global growth forecast for the third time in six months by 20 basis points to 3.3%—the weakest pace of expansion since the global financial crisis—relative to January’s update.

Amid the ongoing US-China trade tensions, the tapering of the fiscal stimulus in the US and “Brexit-related” uncertainties.

Difference from January 2019 projections:

- China (+10 basis points to 6.3%)
- United States (-20 basis points to 2.3%)
- United Kingdom (-30 basis points to 1.2%)
- Euro Area (-30 basis points to 1.3%)



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TOURISM SECTOR

Visitor Arrivals

(January)

Total visitor arrivals rose by 19.3% in January 2019, outpacing the 4.8% increase during the same period of the prior year.

- Air arrivals strengthened by 28.8%, following a 7.0% uptick in 2018.
- Sea visitors rose by 17.1%, vis-à-vis a 4.3% gain in 2018.

Arrivals	New Providence		Grand Bahama		Family Islands	
	2018	2019	2018	2019	2018	2019
Air	7.9%	32.9%	-18.2%	14.6%	11.8%	16.3%
Sea	-0.3%	29.0%	49.6%	-36.9%	-3.1%	24.1%
Total	1.6%	30.0%	41.5%	-33.4%	-1.4%	23.1%

Source: Ministry of Tourism

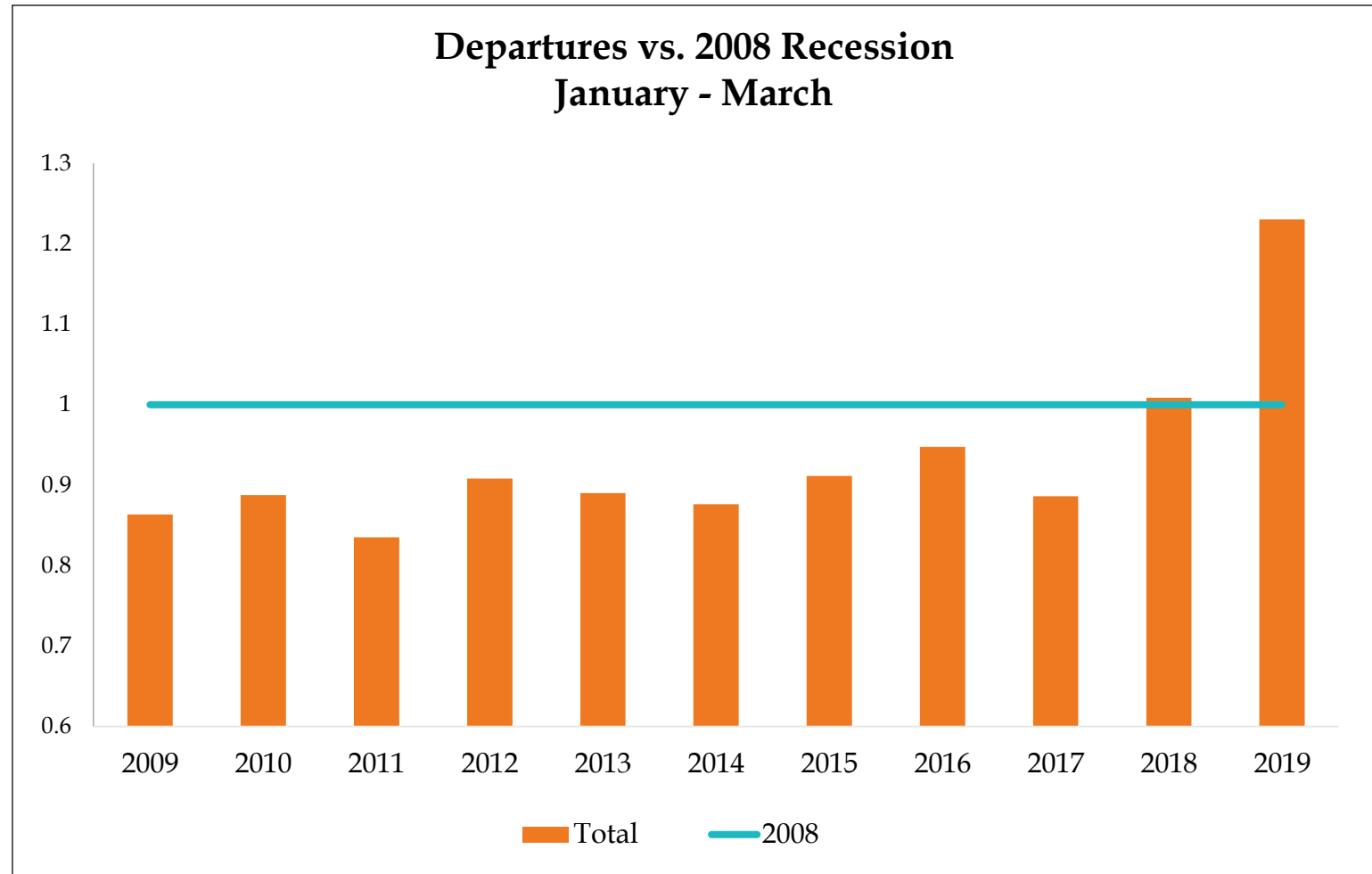
Nassau Airport (NAD) Departures (January - March)

Total departures from LPIA expanded by 22.0%, relative to a 13.8% increase in 2018.

- The non-US segment rose by 13.2%, after a 16.8% gain in 2018.
- U.S. departures grew by 23.8%, following a 13.2% rise in the prior year.

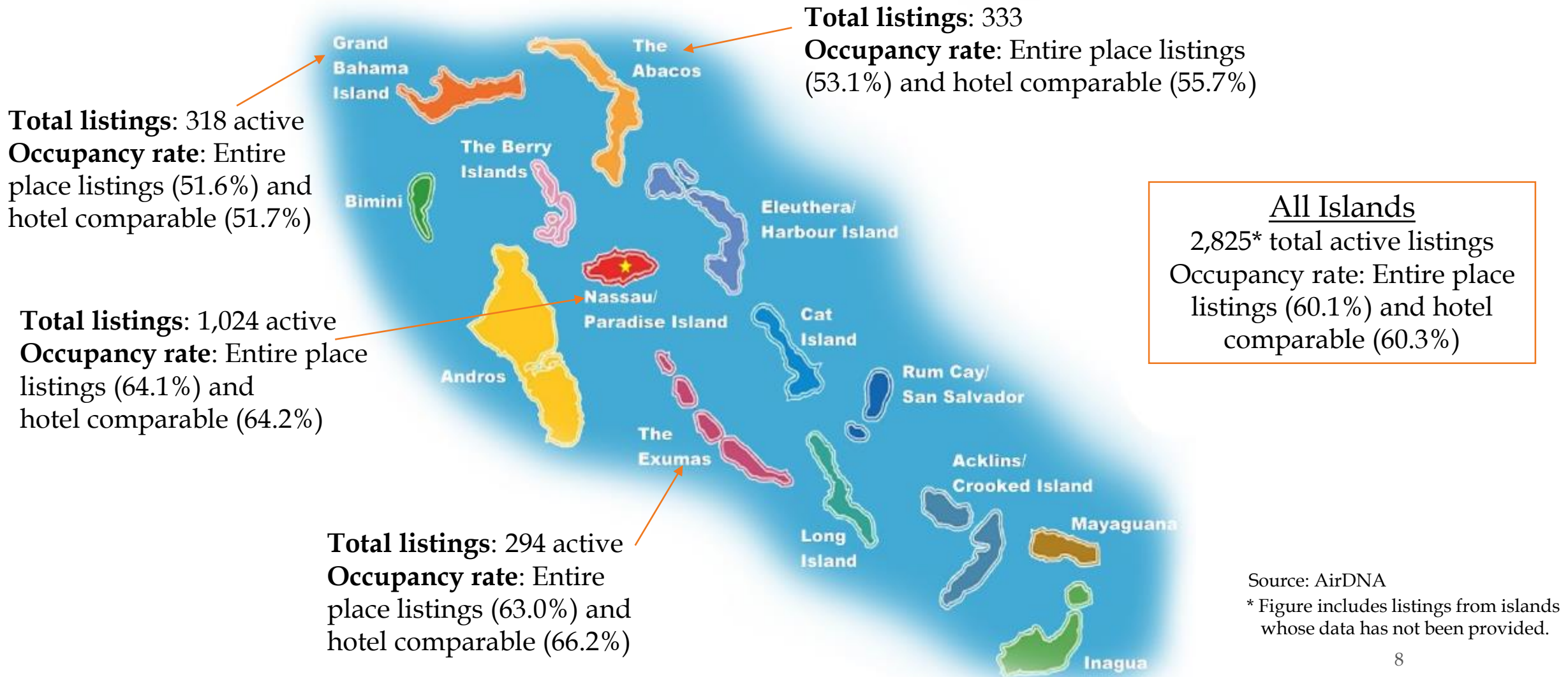
Long-term trends in airport activity showed that as a ratio of departures for Q1 2008, the estimates for the first quarter of 2019 significantly exceeded each year over the past decade.

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



Airbnb: Occupancy Snapshot

(as at March 2019)



Airbnb: Occupancy Rate Trends

(March 2019)

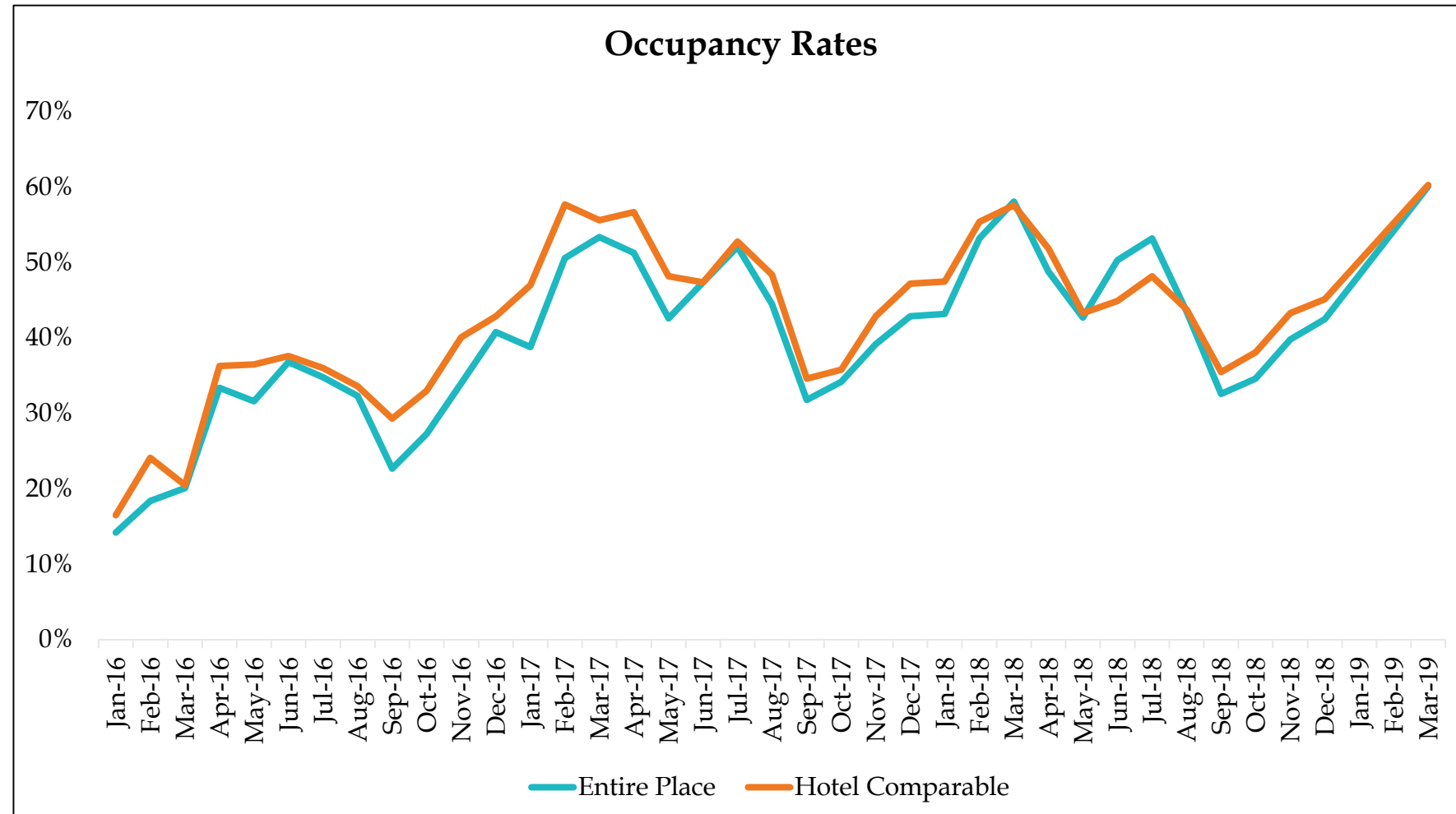
Occupancy levels during the first quarter of 2019, appeared to be the highest recorded over the past four years.

Entire Place Listings

- During the review quarter, the occupancy rate increased to 60.1% from 58.1% in the same period of 2018.

Hotel Comparable Listings

- Occupancy rate rose to 60.3% from 57.4% in the previous year.



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FOREIGN INVESTMENT PROJECTS



Grand Lucayan - Freeport, Grand Bahama

Letter of intent signed jointly with Royal Caribbean Cruises and the ITM Group for the \$65 million purchase of the Grand Lucayan Resort (GLR) and redevelopment of the Freeport Harbour.

- Phase 1: \$195 million investment over a 2-year period, resulting in over 2,000 jobs being created.
- The GLR will be redeveloped into an area called Lucaya Island, at a cost of \$30 million, and will include a waterpark, convention facilities and resort accommodations.
- The Freeport Harbour redevelopment, will include upgrades to the port's docking facilities and multi-modal transportation between the proposed Harbour Village and Lucaya Islands.
- It is expected to result in approximately 2 million additional sea passengers to Grand Bahama annually, and an estimated \$180 million in additional visitor spending per year.



Carnival Cruise "Grand Port" Freeport, Grand Bahama

- The proposed \$100 million Grand Port development will be the largest Carnival Cruise Port in the world, and is slated for completion in 2021.
- Project is expected to create at least 1,000 construction jobs.
- The new port could result in up to 1 million in additional annual cruise passengers to Grand Bahama.



Resorts World Bimini & Virgin Voyages Bimini Island

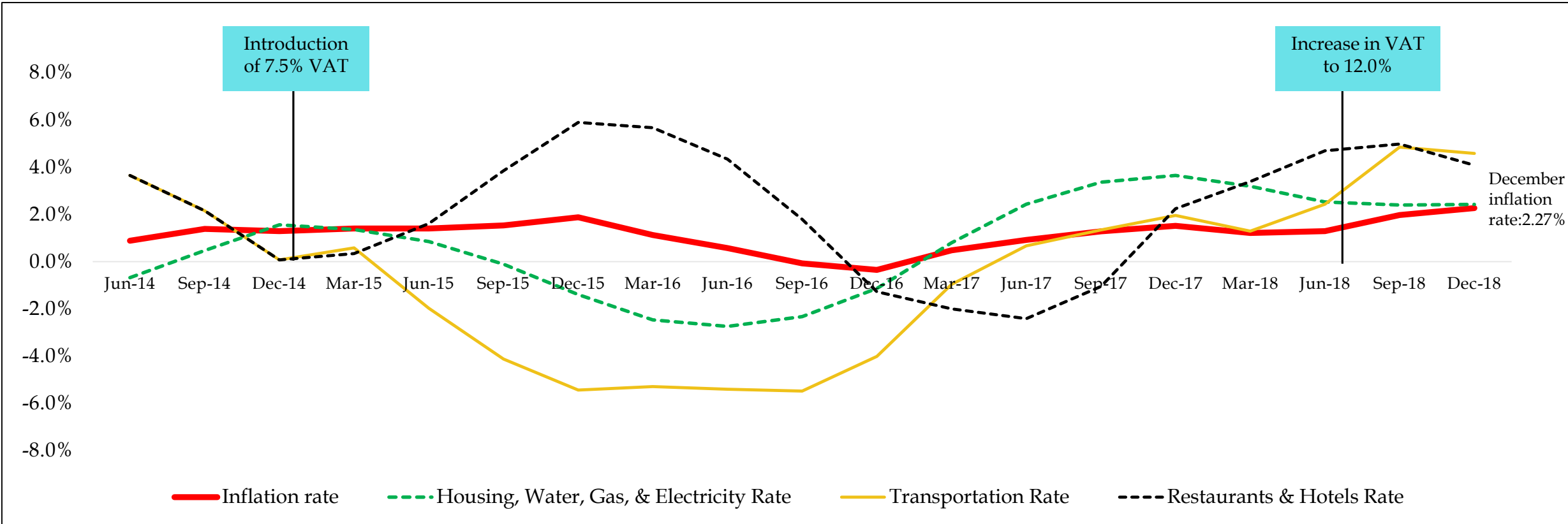
- Virgin Voyages recently revealed plans for its \$72 million cruise stop and beach club The Bimini, which is slated to open in early 2020. The first ship, 'Scarlet Lady', will stop for daylong pool parties, entertainment and beach experiences, with six bars and complimentary Bahamian cuisine.
- The Beach Club will be located near the existing pier and Resorts World Bimini will oversee the building phase.
- Virgin Voyage guests will have exclusive use of the Beach Club on cruise stops, and when there is no ship in port, the facilities will be utilized by Resorts World Bimini.
- This development could support both cruise and stopover visitor growth.



INFLATION

Retail Price Index

The RPI increased by 2.27% in 2018 (up by 75 basis points over the prior year), reflecting mainly the pass-through from the hike in the VAT rate and higher oil prices in prior periods.

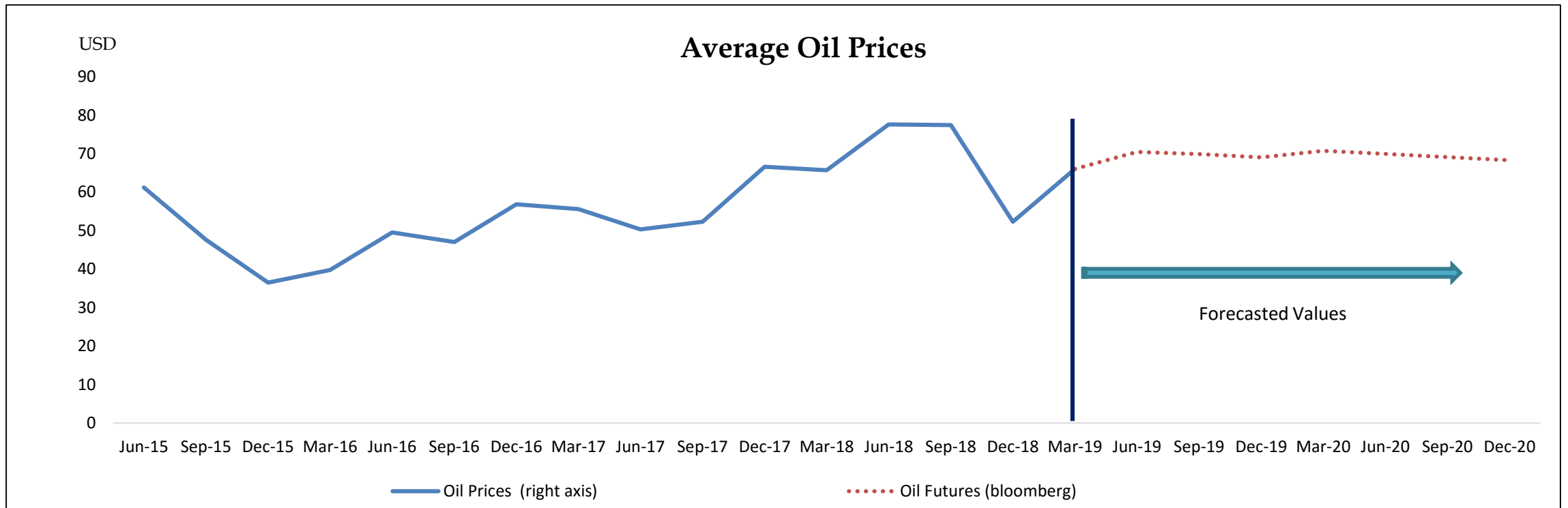


Source: Department of Statistics and The Central Bank of The Bahamas

Oil Price Trends

In March 2019, crude oil prices increased by 6.7%, relative to the previous month, to \$66.01 per barrel, as OPEC's oil production levels fell to 30.4 million barrels per day—its lowest level since February 2015. Prices rose by 26.3% for the quarter.

The mean of the forecasts suggest that during the second quarter of 2019, crude oil prices will average \$66.70 per barrel.



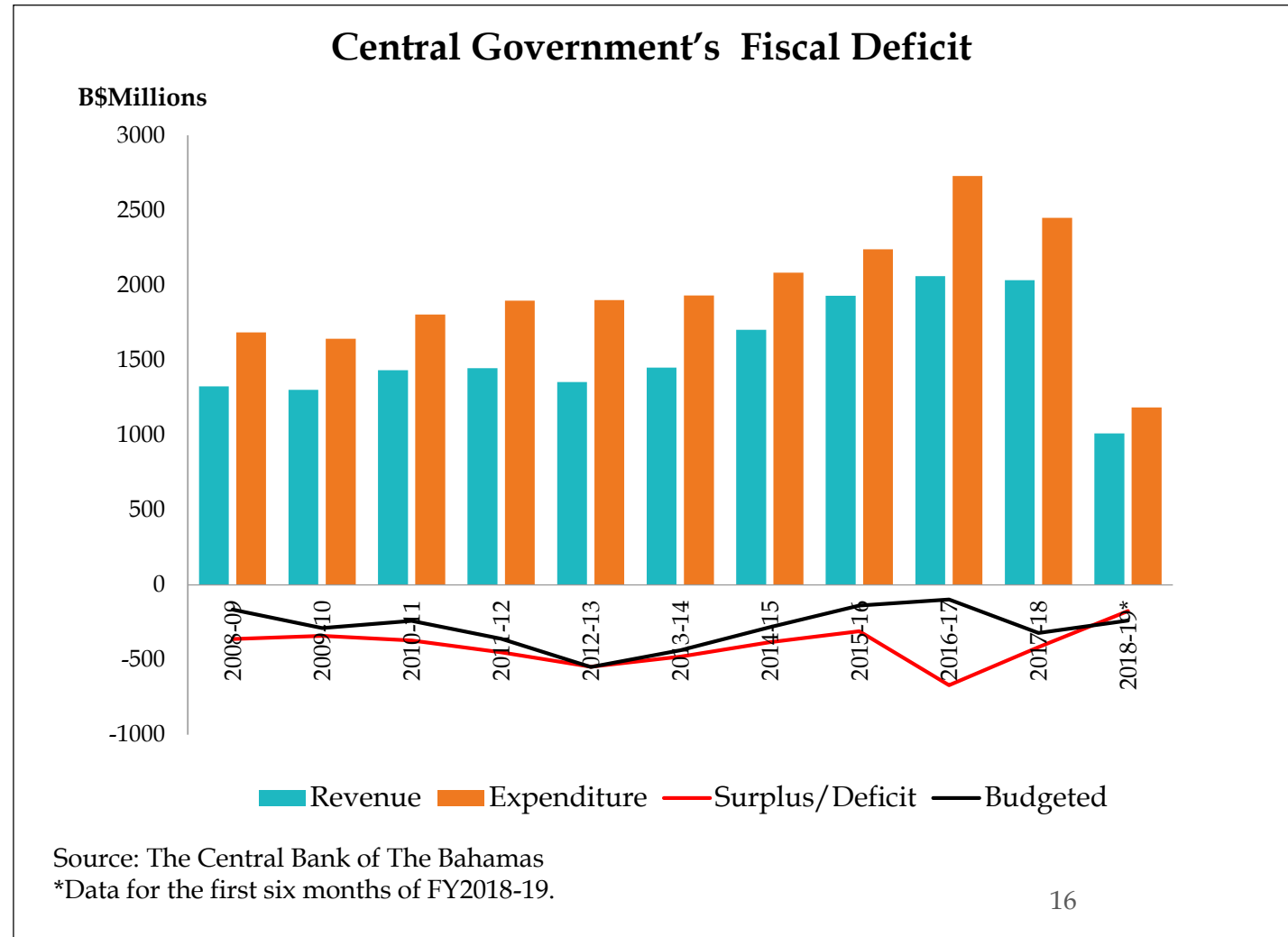
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FISCAL SECTOR

Fiscal Sector

During the first half of FY2018/19, the deficit contracted by \$79.6 million (31.3%) to \$174.3 million, relative to the same period in FY2017/18.

- Revenue grew by \$129.5 mil (14.7%) to \$1,010.3 million.
 - VAT receipts rose by \$81.2 million (25.5%) to \$399.5 million.
- Expenditure firmed by \$49.9 million (4.4%) to \$1,184.6 million.
 - Recurrent outlays grew by \$93.9 million (9.4%) to \$1,097.6 million.



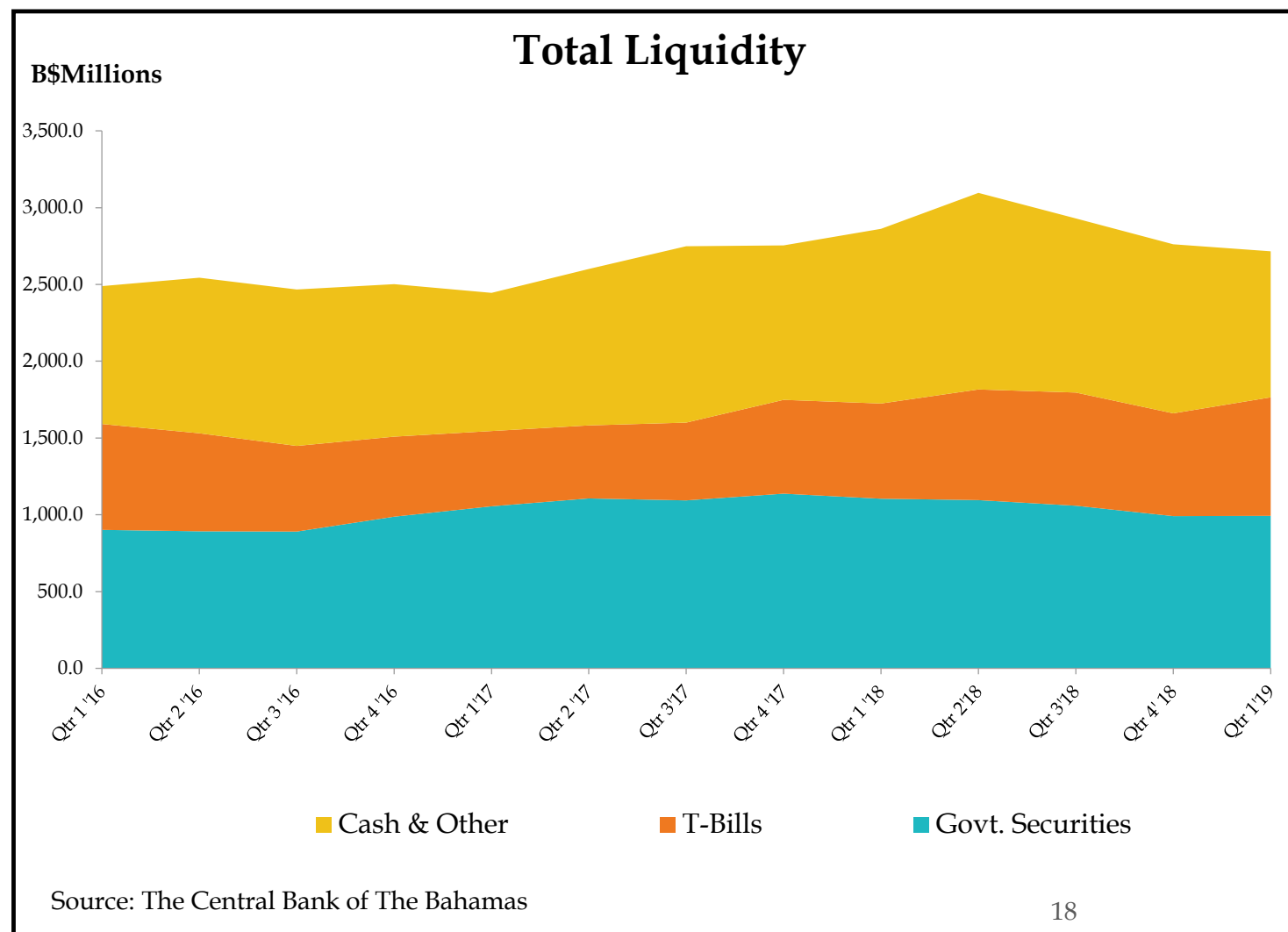
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MONETARY SECTOR

Money and Banking: Liquidity Conditions

Buoyed by net foreign currency inflows from real sector activities, commercial bank liquidity expanded over the first quarter.

- Excess liquid assets rose by \$87.3 million to \$1.6 billion, following a \$97.0 million gain in 2018.
- Excess reserves increased by \$4.8 million, below the \$110.5 million expansion in the prior year.



Lending Conditions

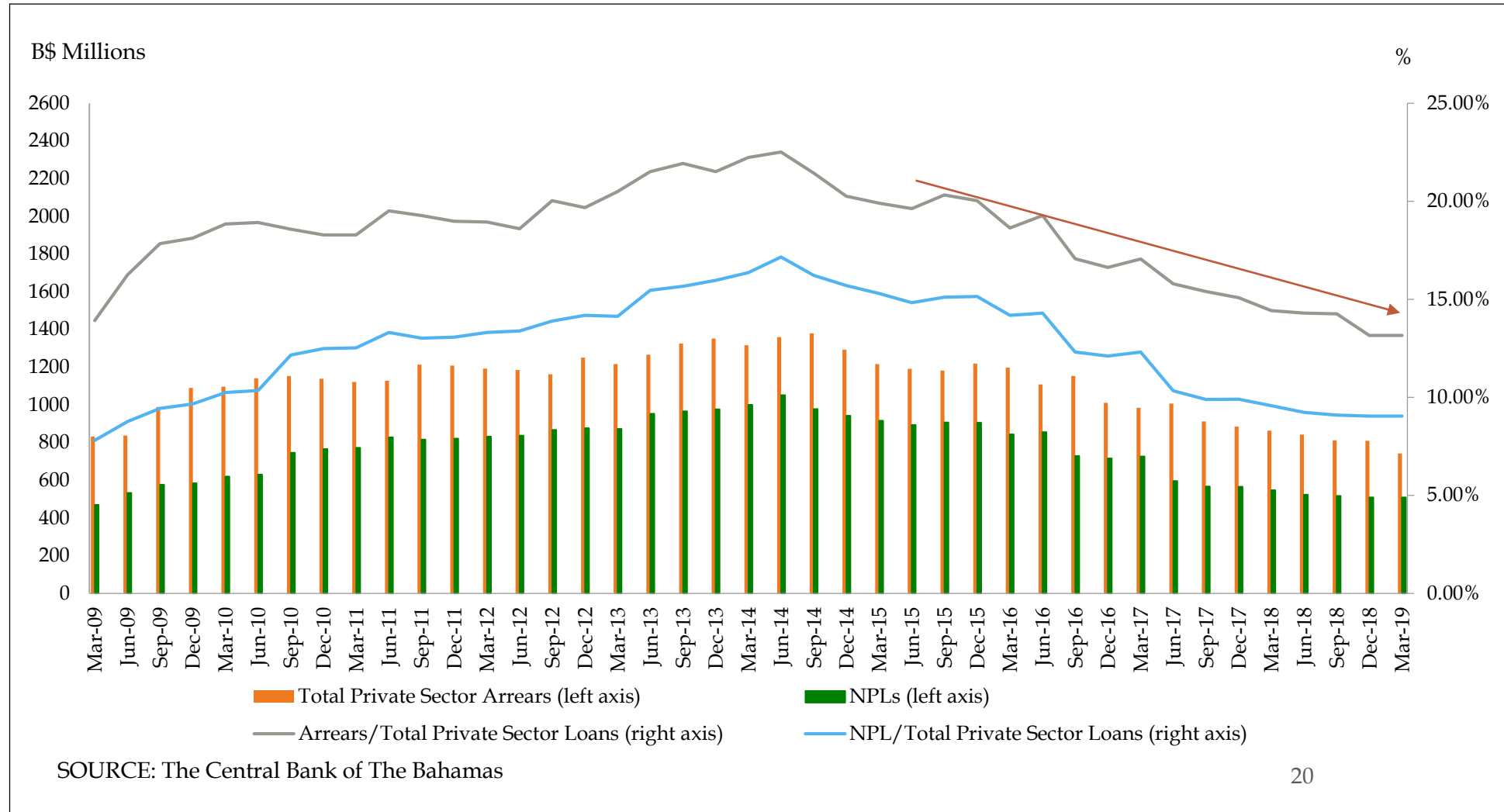
During the review quarter, total domestic Bahamian dollar credit fell by \$136.5 million, compared to a reduction of \$91.3 million in Q1 2018.

- Net claims on the Government decreased by \$103.5 million, relative to a \$37.1 million contraction in the prior year.
- Credit to the public corporations fell by \$5.9 million, after moving lower by \$0.5 million in Q1 2018.
- Private sector credit contracted by \$27.1 million; although it was lower than the prior year's decline of \$53.7 million.
 - ✓ Consumer credit ↓ by \$29.5 million
 - ✓ Commercial credit ↓ by \$0.2 million
 - ✓ Mortgages ↑ by \$2.6 million

Credit Quality Indicators

At the end of Q1 2019, the arrears rate for total private sector credit was 13.2%, vis-à-vis 15.1% in the previous year.

- The NPL rate was 9.1% (9.9% last year)
- The short-term arrears rate was 4.1% (5.2% in 2018)

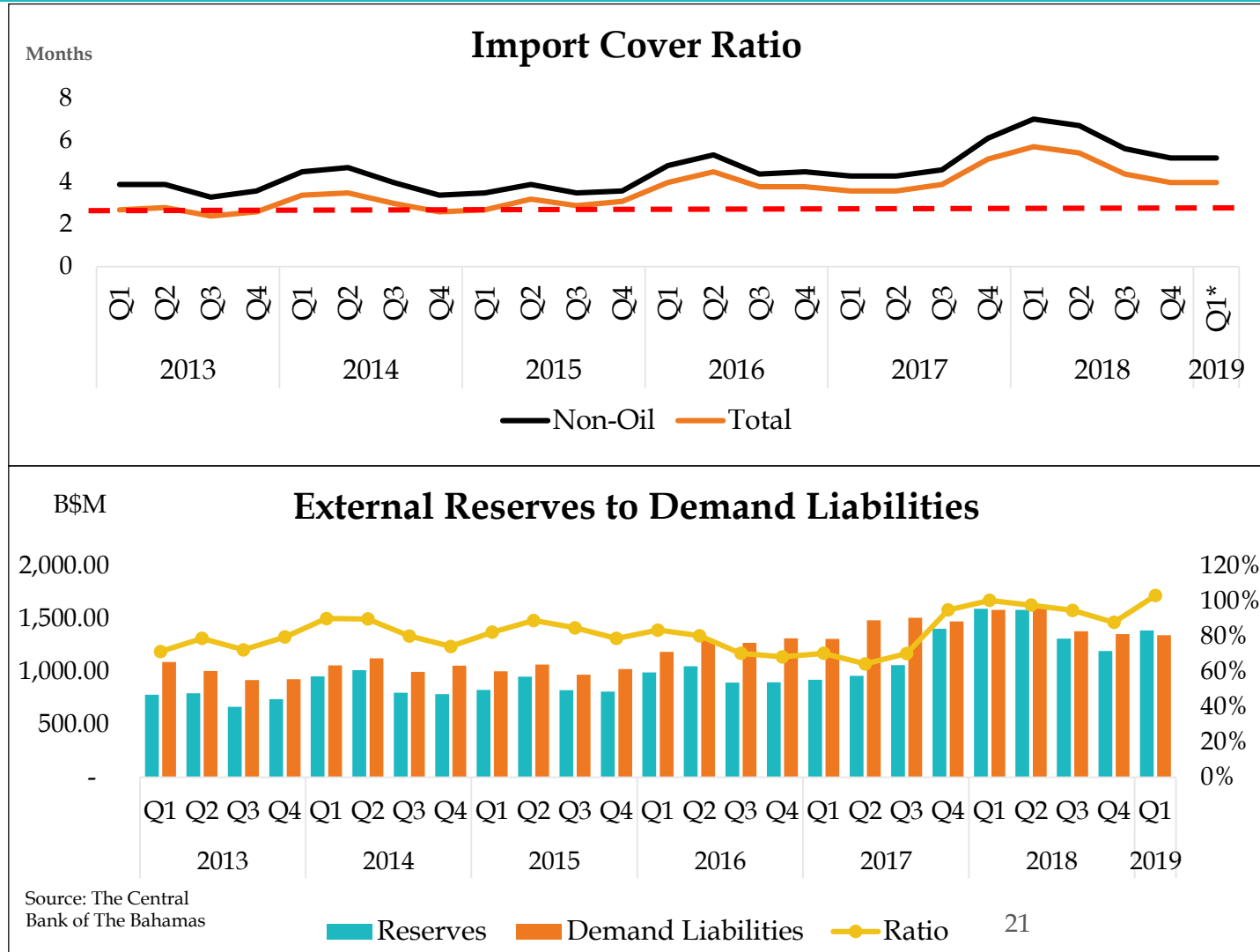


External Reserves

External reserves rose by \$194.9 million to \$1,392.3 million at end-March; it was higher than the \$189.1 million rise in 2018, when Government borrowing helped the outcome.

- At end-March, reserves were equivalent to approx. 4.0 months of total merchandise imports, compared to 5.7 months in 2018 (benchmark 3.0 months).
- External reserves represented 103.3% of Demand Liabilities, compared to 100.6% at the end of first quarter 2018 (benchmark 90% - 100%).

*Estimates based on BOP data for 4th Qtr. 2018, along with external reserves for week ending Mar. 27, 2019 were used.





OUTLOOK

Real Sector and Fiscal Sector

Real Sector

The economy is expected to maintain its upward growth trajectory over the near-term.

- Forecasted gains in tourism lead the outlook, as the key source markets continue to improve.
- Construction activity should be favorably supported by several varied-scale foreign investment projects
- With these developments, employment conditions should continue to gradually strengthen.
- Meanwhile, some firming in prices is expected, reflecting the pass-through effects of the hike in the VAT rate.

Fiscal Sector

- Successful implementation of measures to curtail expenditure growth and strengthen revenue administration, should support efforts to reduce the deficit and improve debt indicators over the near term.

➤ ...but unforeseen shocks, such as major hurricanes could hamper progress.

Monetary Sector and External Reserves

Monetary

- Banking sector liquidity is expected to remain at robust levels over the remainder of the year, as banks maintain their conservative lending practices and consumers continue to deleverage.
- Loan arrears and NPLs should continue to decline, reflecting banks ongoing debt restructuring programmes and the improvement in economic conditions.

External Reserves

- External balances are expected to remain well above international benchmark levels; although some erosion in reserves is anticipated to occur from current levels over the latter half of the year, reflecting the traditional holiday-related increase in private sector demand.

Risks To The Outlook

Inflation

Further cuts in oil production may result in increased energy costs and overall prices.

Global

Prolonged trade tensions between the U.S and China, and/or continued delay in a Brexit deal, can exacerbate global uncertainty.

Tourism

Potential exist for natural disasters (i.e. hurricanes) to reduce visitor traffic.

External Reserves

Higher demand for foreign exchange due to rising fuel costs can place downward pressure on reserves.

Employment

Slowed growth in the tourism sector could hamper job gains.

Fiscal

Potential exists for natural disasters and external shocks to adversely affect the country's fiscal performance.

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BANK LENDING CONDITIONS SURVEY

Bank Lending Conditions Overview (July – December 2018)

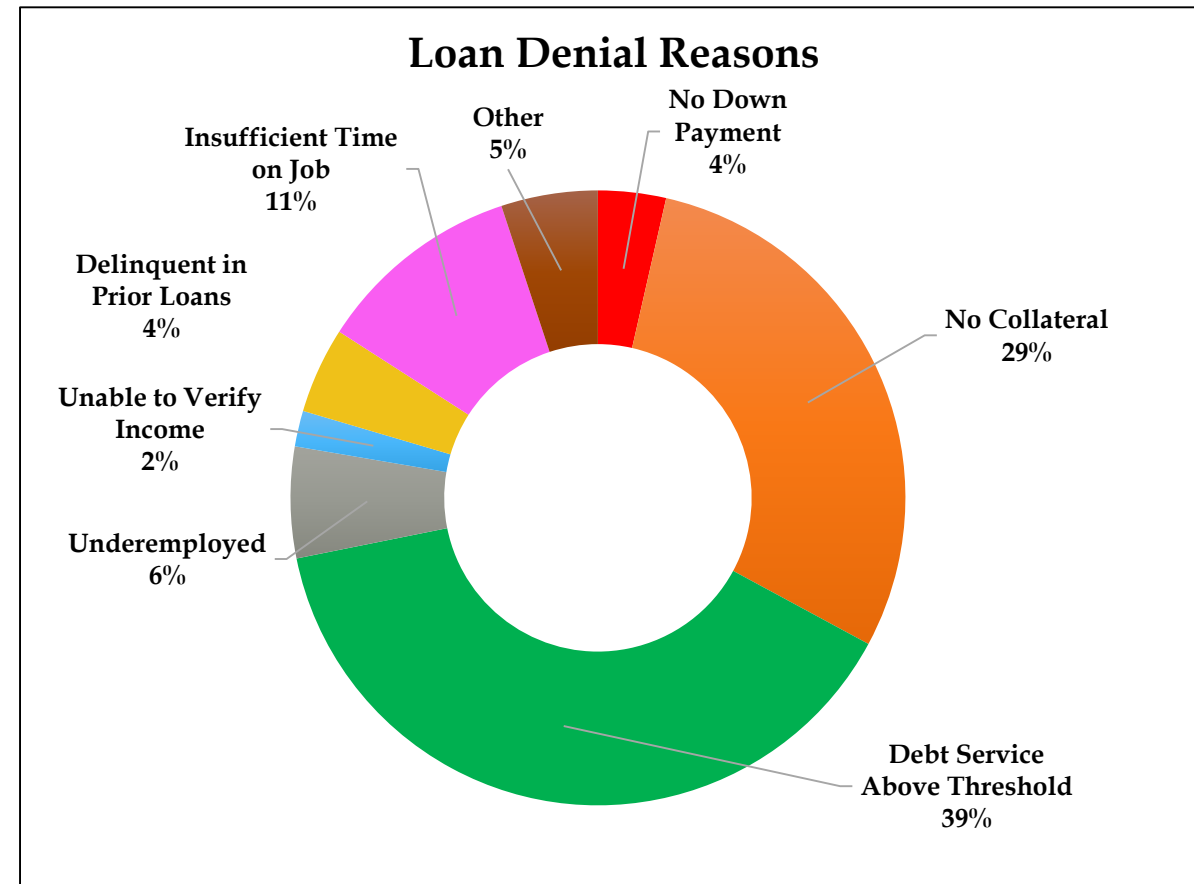
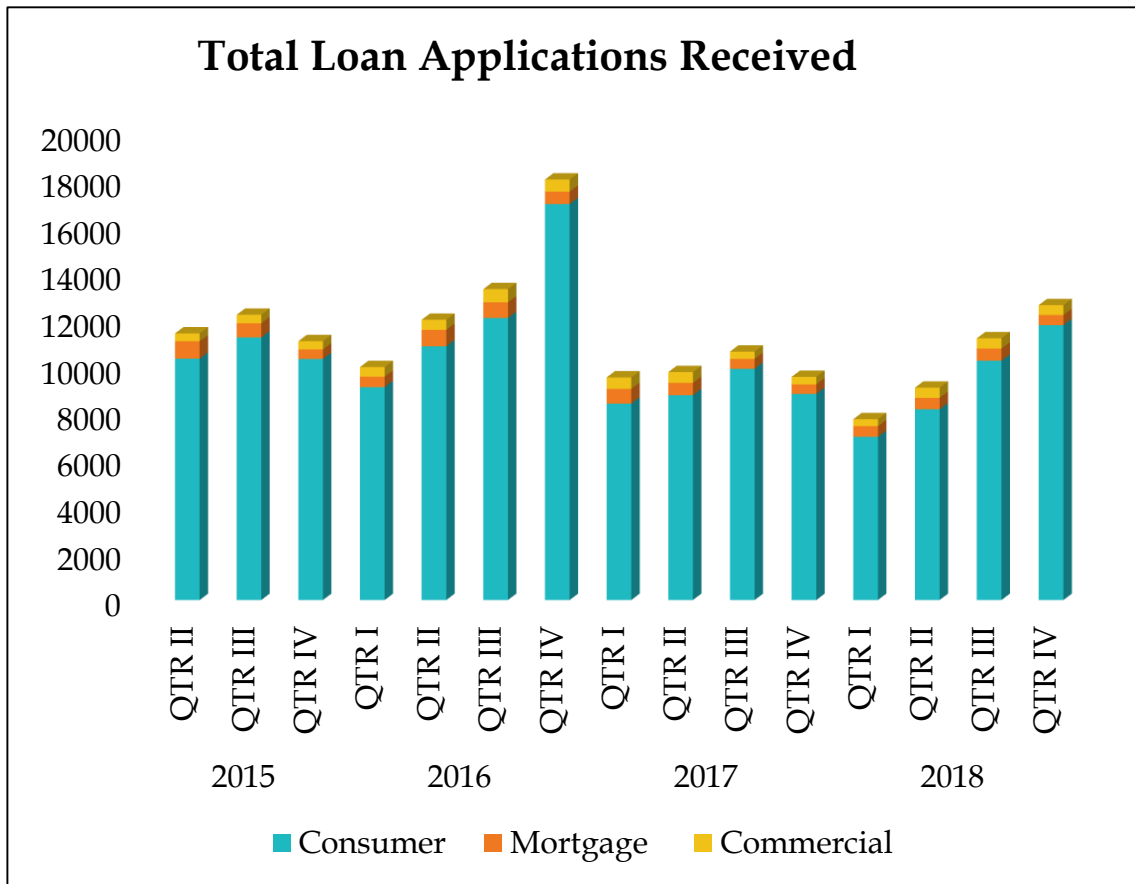
Second half 2018 showed seasonal growth in loan applications over the prior six-month period.

Specifically, approximately 23,879 loans were processed in final six months of 2018 (+41.7% over June), with an average approval rate of 81.8%.

- Consumer loan applications dominated (92.4% of all loans), with approximately 82.7% approved.
- New Providence continues to host the majority of loans (82.5%)
- Main reasons for application denials were due to high DSR (39%), no collateral (29%) and insufficient time on job (11%).
- Although loan volume expanded over the review period, avg. loan values declined.

Bank Lending Conditions Overview (July - December 2018)

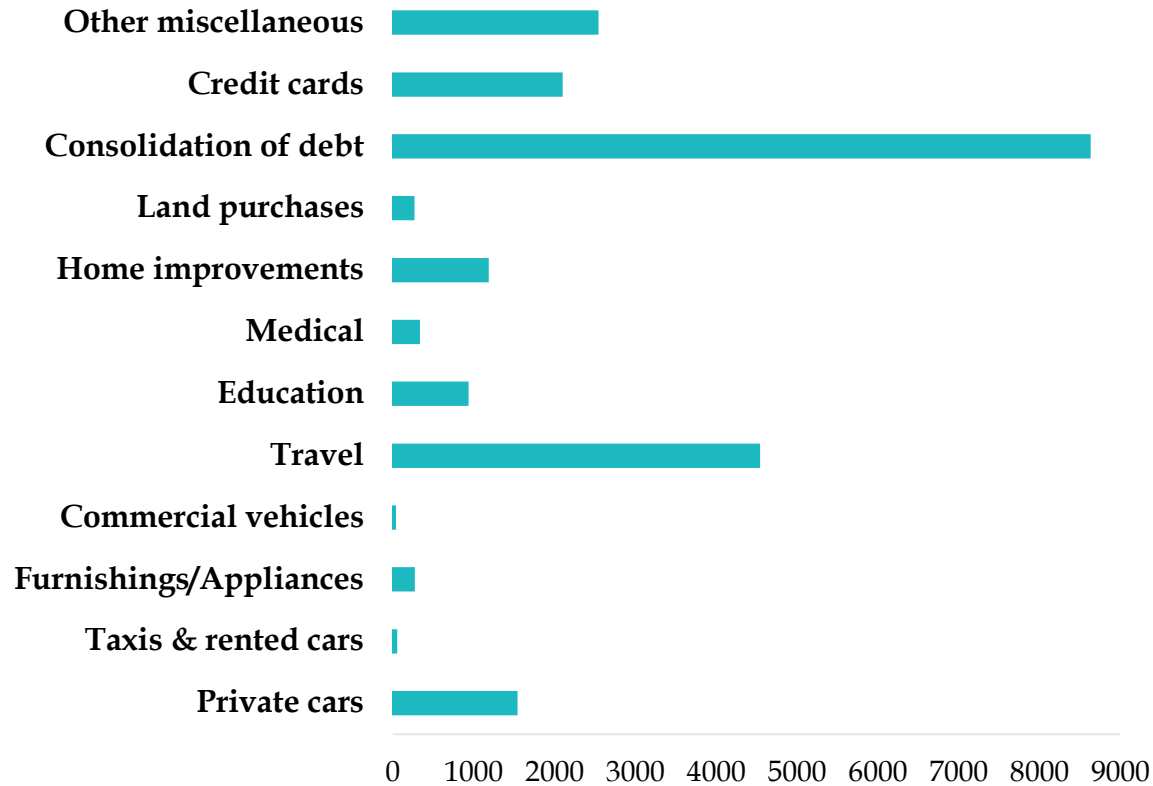
Average approval rate – 81.8%



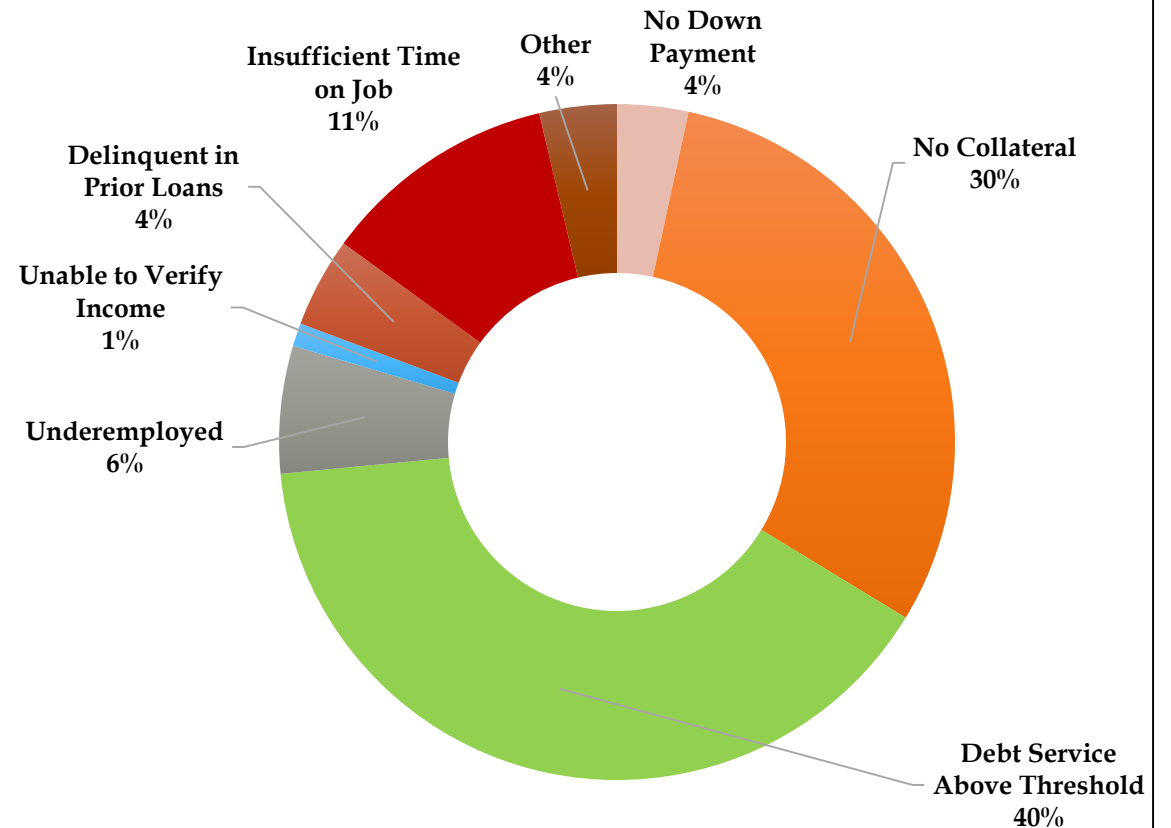
Bank Lending Conditions (Consumer Loan Applications)

Average approval rate – 82.7%

Consumer Loan Demand By Category



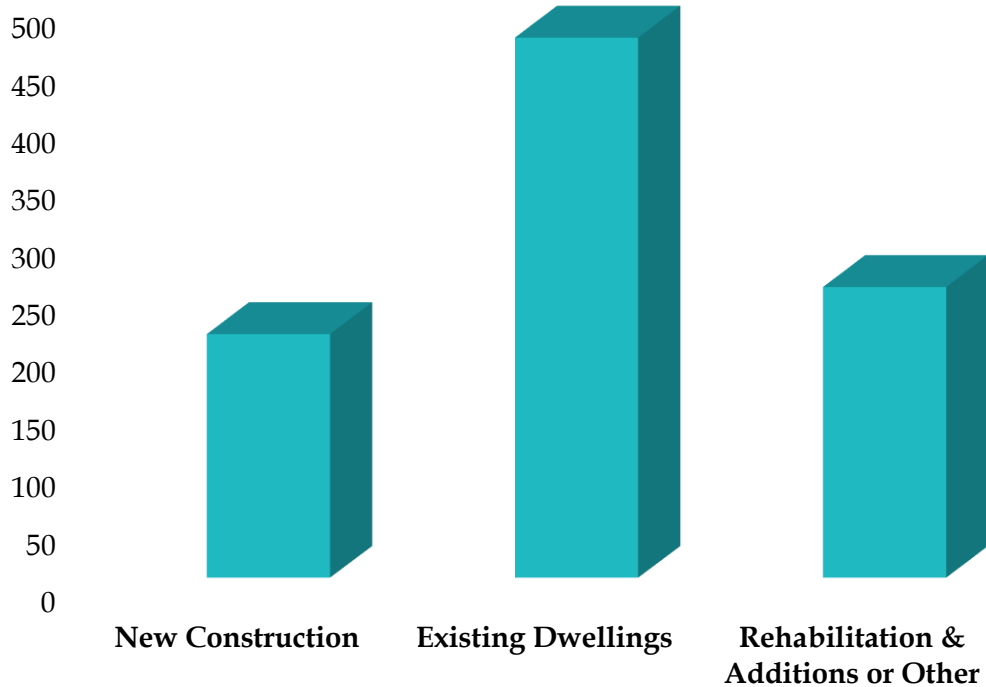
Reasons for Consumer Loan Denial



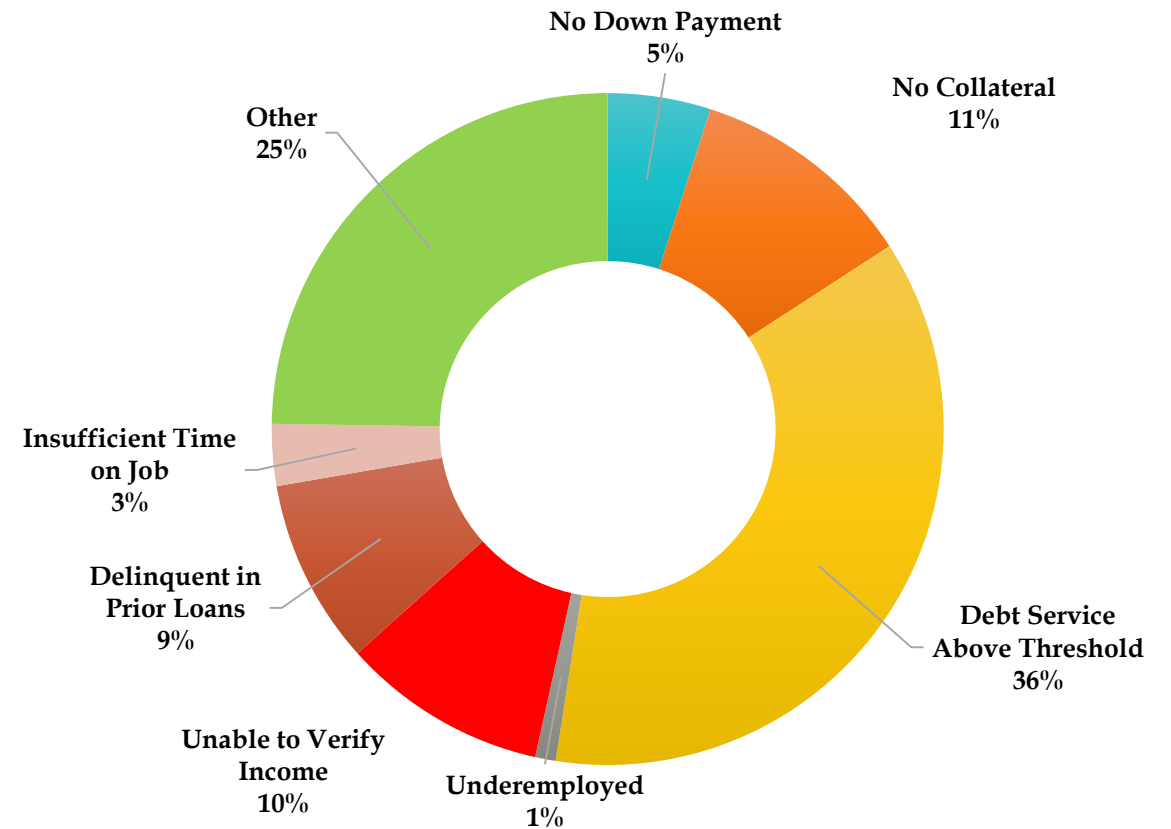
Bank Lending Conditions (Mortgage Applications)

Average approval rate – 54.9%

Residential Mortgages Applications Received June - December 2018



Reasons for Mortgage Loan Denials



The End

