

Quarterly Economic and Financial Developments Report

December 2019

Research Department



Domestic Economic Developments

Preliminary indications are that the domestic economy maintained its modest growth path in 2019, supported by gains in tourism output, several ongoing foreign investment projects, and post-Hurricane reconstruction work.

Real Sector

- Tourist arrivals grew by 10.2% during January–October 2019, compared to the same period of 2018.
- Nassau airport departures rose by 12.8% over the full year.
- Varied scale FDI projects sustained construction sector output and hurricane rebuilding efforts.
- Consumer price inflation firmed by 0.4 percentage points to 2.59% in the twelve months ending October, 2019.

Monetary Sector

- Given re-insurance inflows and tourism receipts, bank liquidity rose robustly by \$433.4 million to \$2.0 billion: underlying growth in the B\$ deposit base outstripped the rise in credit.
- External reserves also expanded by \$559.95 million, reversing the previous year's contraction, also reflecting net tourism and part re-insurance receipts.



TOURISM SECTOR

Visitor Arrivals

(January - October 2019)

Total visitor arrivals grew by 10.2% during Jan - Oct 2019, outpacing the 8.2% increase over the same period of the prior year.

- Sea arrivals expanded by 10.2% vs. a 5.7% gain in 2018.
- Air arrivals rose by 10.1% vs. a 16.9% expansion in 2018.

With 2 months of losses Post-Hurricane Dorian, total arrivals to Abaco contracted by 6.0% over the ten-months to October.

- Sea arrivals decreased by 7.0%
- Air arrivals declined by 3.6%

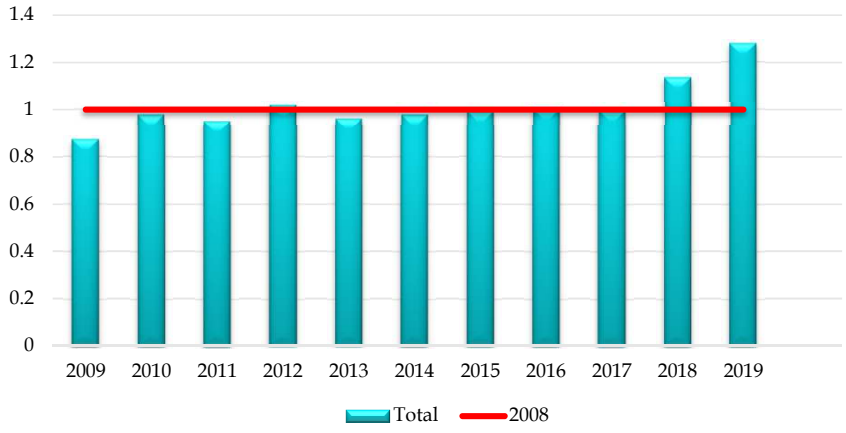
	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2018	2019	2018	2019	2018	2019
Arrivals						
Air	19.4	14.2	3.2	-20.3	11.9	2.0
Sea	-7.5	14.7	10.0	-17.8	28.0	13.5
Total	-0.28	14.5	9.3	-18.1	25.4	11.9

Nassau Airport Development (NAD) DEPARTURES (2019)

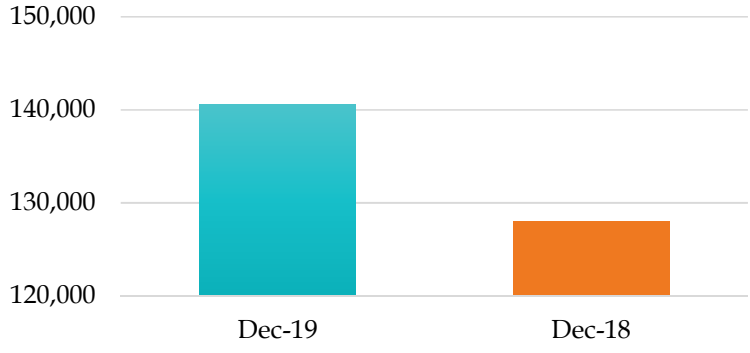
According to NAD statistics, in 2019 total departures expanded by 12.8%, relative to a 13.8% increase in 2018, and depicted a 27.7% growth since the 2008 global recession. Specifically, U.S. traffic firmed 14.0%, while gains in the non-US segment slowed to 5.7%.

Total departures for December 2019 increased by 9.9%, following a 12.3% expansion in 2018.

Annual Departures vs. 2008 Recession



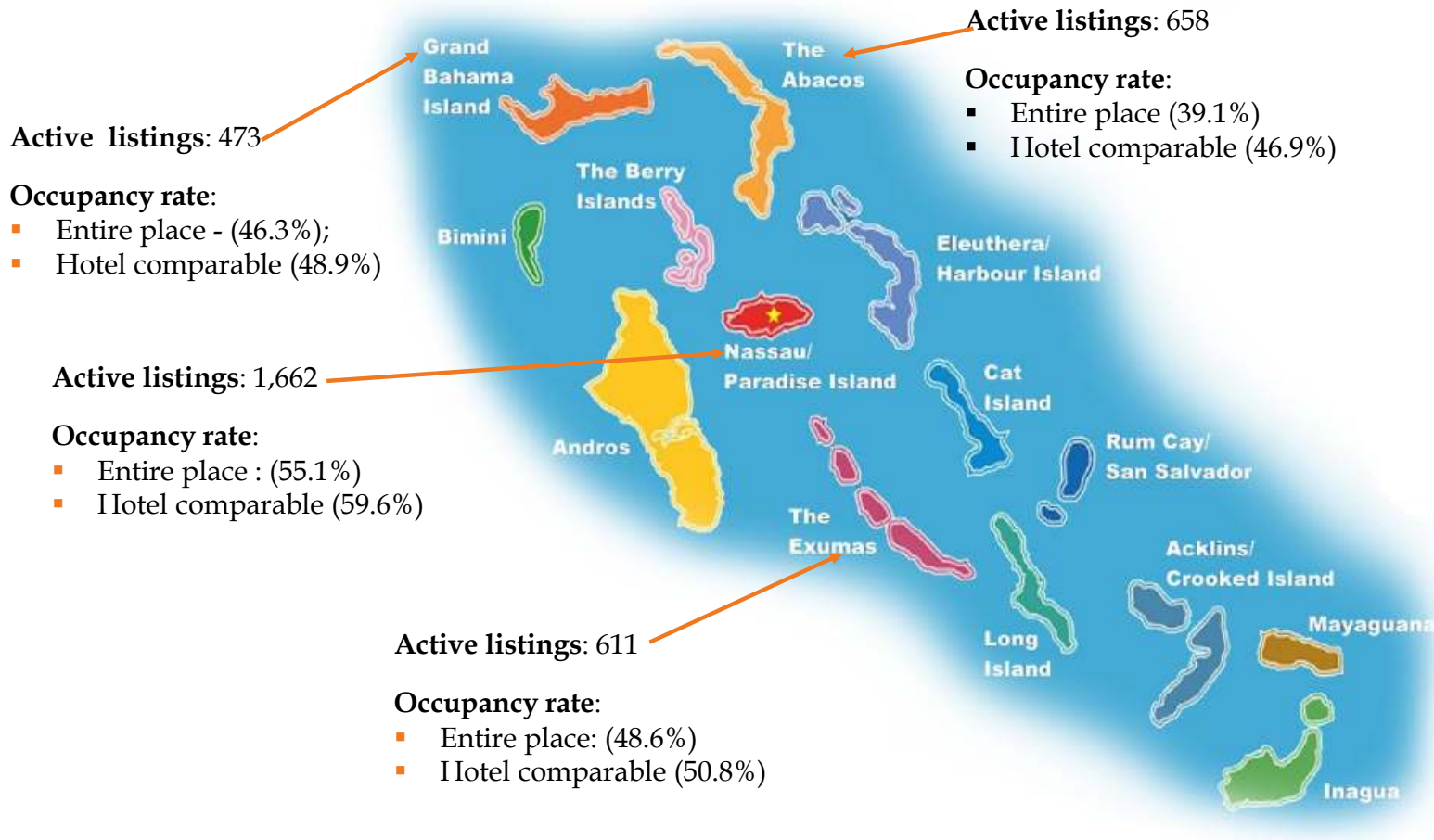
**Total Departures*
December 2019 vs. December 2018**



Source: Nassau Airport Development Company

*All figures are net of domestic departures. 5

Airbnb: Snapshot of Vacation Rentals (as at December 2019)



All Islands

5,146* active listings.

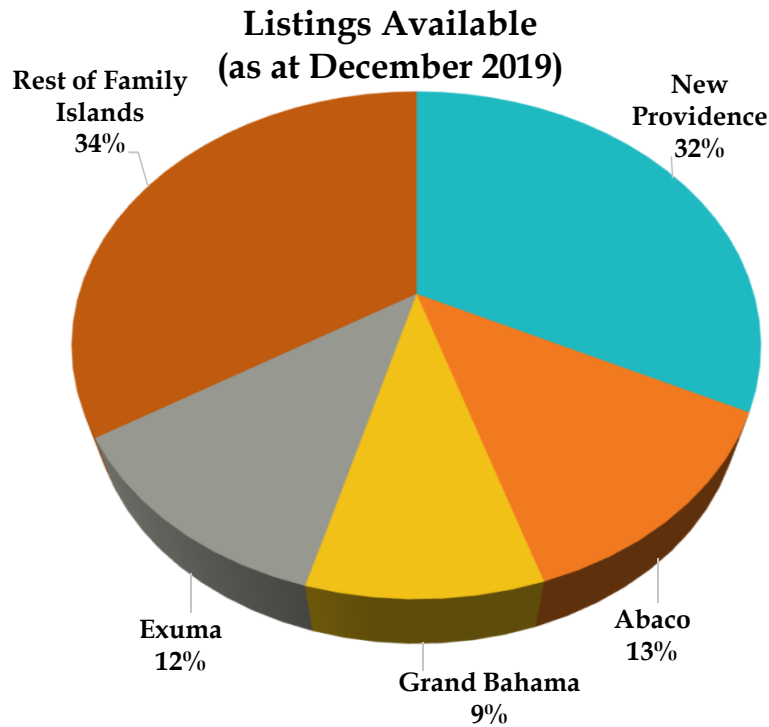
Occupancy rate:

- Entire place (47.5%)
- Hotel comparable (51.4%)

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

Airbnb: Market Share by Island

New Providence, Grand Bahama and Abaco account for more than half of all available listings.



Available listings: Dec 2019 vs 2018

- Abaco decreased by 7.2% (due to effects of Hurricane Dorian).
- New Providence rose by 16.5%
- Grand Bahama rose by 4.4%

All Available Listings				
	Sept 2018	Dec 2018	Sept 2019	Dec 2019
Abaco	610	709	596	658
Grand Bahama	409	453	449	473
New Providence	1,227	1,426	1,218	1,662

Source: AirDna

A wide-angle photograph of a tropical beach. The foreground shows a white sandy beach with several palm trees and some beach umbrellas. The water is a vibrant turquoise color, transitioning to a deeper blue further out. In the distance, there are small islands and a coastline with some buildings. The sky is clear and bright.

FOREIGN INVESTMENT PROJECTS

Selected Foreign Investment Projects

New Providence

- \$50.0 million renovation of Paradise Yacht Club on Paradise Island, will construct a 48 bedroom boutique hotel, 45-50 boat slip marina, waterfront café and roof club. Anticipated to provide 120 construction and operational jobs.
- Kovalitio and 360 Bahamas Limited will invest \$50.0 million for the renovation and expansion of The Cove Resort.
- The Lyford Cay Members Club plan to expand its community facilities with the acquisition of 59 acres of land for \$12.0 million.
- The Ocean Club Community Associate will pursue a \$5.0 million venture for the purchase and renovation of the Beach Club.

Berry Islands

- Yo! Island Limited to build \$10.0 million glamping (luxury or glamorous camping) hotel.
- NCL (Bahamas) Limited will expand its existing facility with the construction of a pier (\$197.4 million).

Exuma

The Marina at Hooper's Bay Limited - \$250.0 million ; Bespoke Exuma Limited - \$5.7 million. Both investments will employ 101 workers.

Eleuthera

Just Imagine Events Limited seeks to develop an eco-friendly beach resort "Blue Pearl Bay" for an investment of \$5.0 million, employing 80 workers.

Bimini

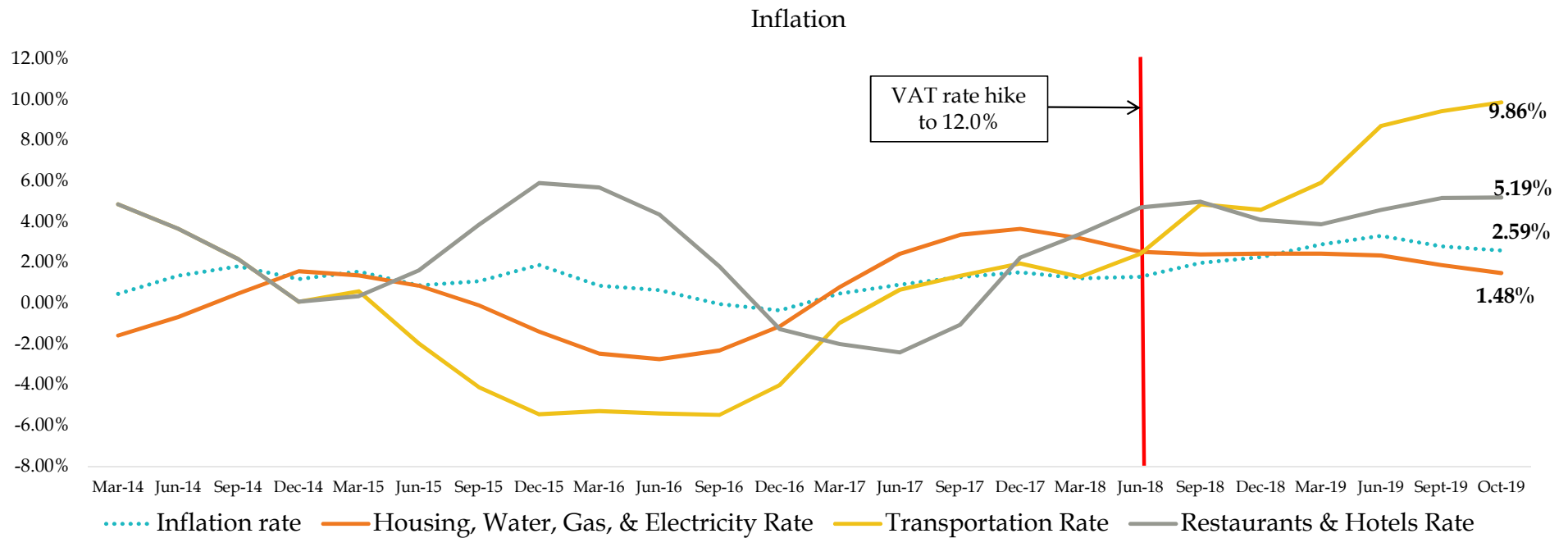
Virgin Cruises Intermediate Limited to introduce a new cruise line service, and construct a \$23.0 million beach clubhouse.

A wide-angle photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a mix of white sand and dark green vegetation, including palm trees. The sky is a clear, bright blue. The word "INFLATION" is overlaid in the center of the image in a bold, black, serif font.

INFLATION

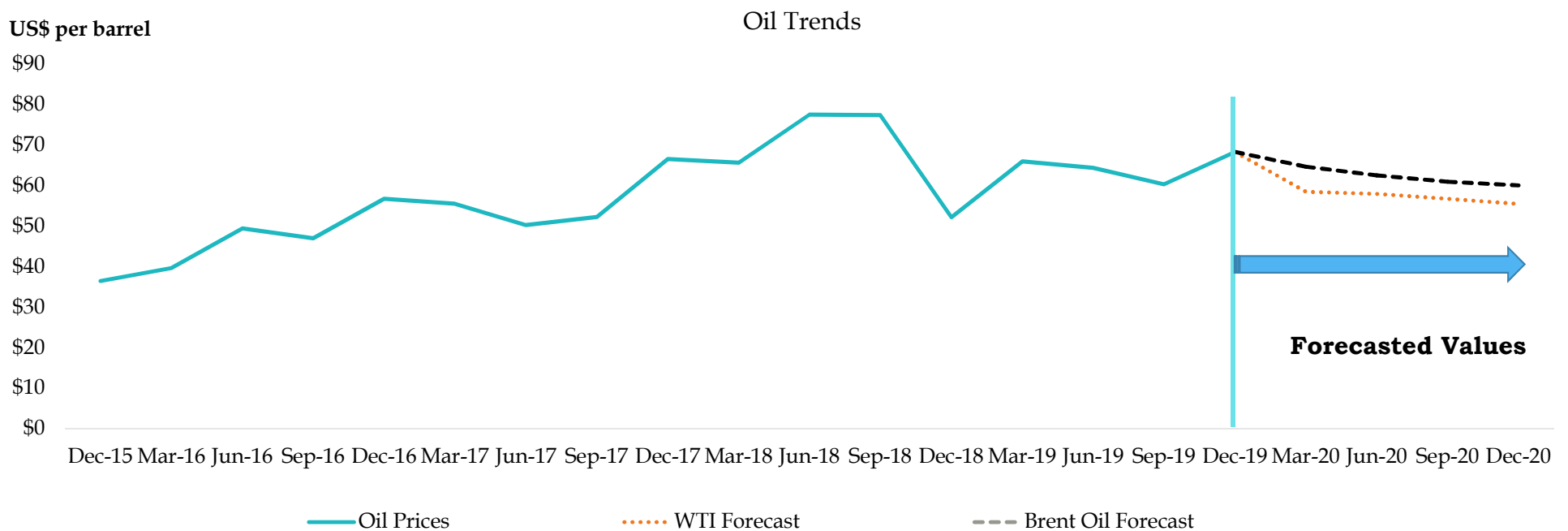
Retail Price Index

Inflation increased by 38 basis points to 2.59% during the twelve months to October, 2019.



Oil Price Trends

During 2019 crude oil prices rose by 30.8% to \$68.38 per barrel, reflecting market conditions and anticipated supply cuts.



Source: Bloomberg

Electricity Rate Reduction Bond

- Authorised via Electricity Rate Reduction Bond (ERRB) Act, passed by Parliament in December, 2019.
- Provides for a special purpose vehicle (SPV) to house financing and debt service arrangements for a \$650 million facility.
- Purpose of ERRB is to help Bahamas Power and Light (BPL)-
 - reduce rates to customers,
 - fund financial obligations and existing debt;
 - establish an Electricity Infrastructure Disaster Fund
- Consumers will see an increase billing equivalent to an average 15% of their current monthly consumption costs.

Source: The Tribune (Nov. 13, 2019) & the Nassau Guardian (Nov. 7, 2019)



Photo Credit: Google Images

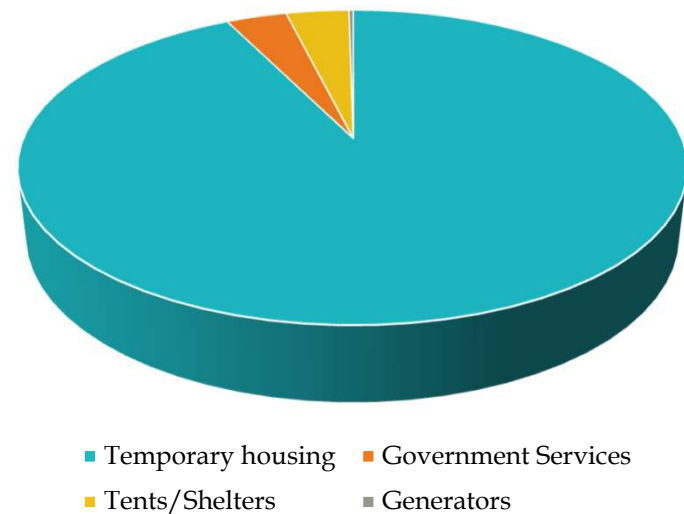


FISCAL SECTOR

Fiscal Update Post-Hurricane Dorian

- As of 14th January 2020, the Government spent over 77.8% (\$7.0 million) of the \$9.0 million donations received:
 - 91.4% of expenditures (\$6.4 million) financed construction of temporary housing structures for displaced residents of Abaco and Grand Bahama.
 - \$240,000 used for the purchase, and furnishing of trailers (RVs) with Government services.
 - \$250,000 was spent on tents in the Kendal G.L. Isaacs gymnasium to shelter evacuees.
 - \$17,500 covered purchase of a generator to power the gymnasium.

Government Post-Hurricane Expenditure



Source: The Tribune Newspaper

Fiscal Update on Post-Hurricane Dorian

- Revised deficit of \$677.5 million projected for 2019/2020, compared a pre-Hurricane estimate \$137.0 million.
- Government anticipates additional spending of \$308.1 million for fiscal year 2019/2020.
- Estimated revenue shortfall projected at \$232.6 million.
- Government intends to borrow an additional \$507.9 million.
- Various countries and companies pledged a combination of cash, financing and “in-kind” services totaling \$1.5 billion to date, to assist with the restoration of Abaco and Grand Bahama.

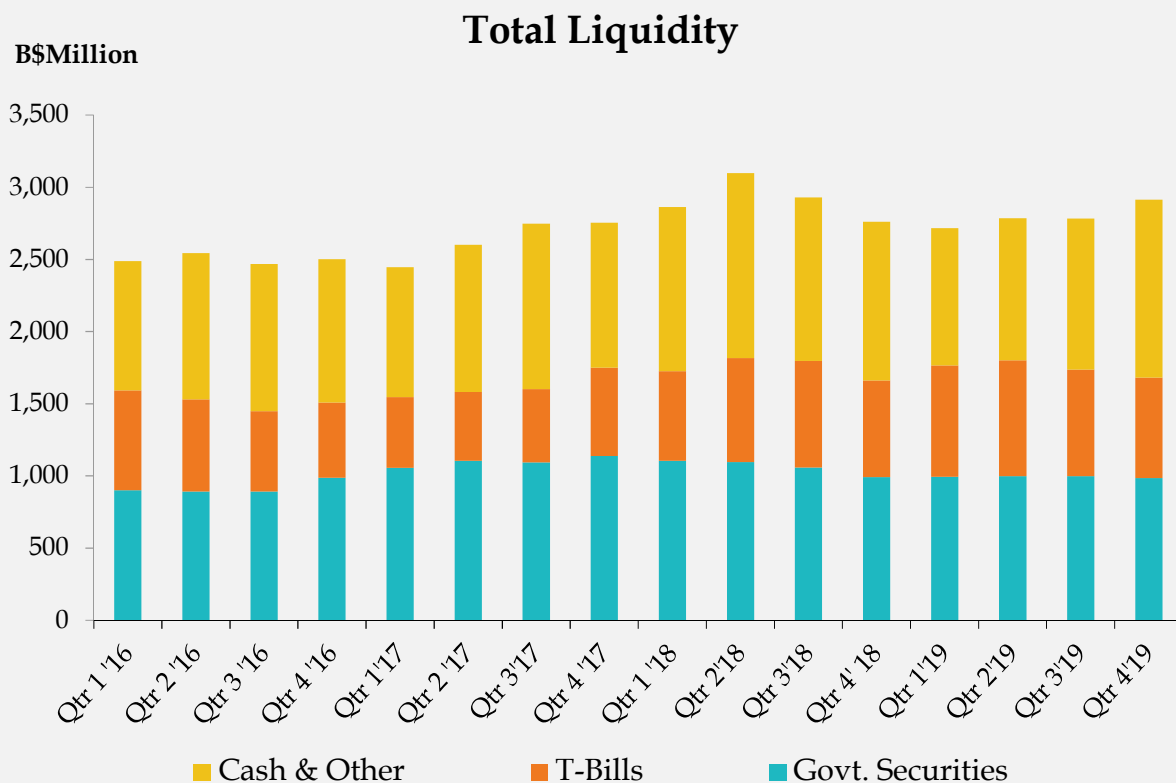


MONETARY SECTOR

Money and Banking: Liquidity Conditions

At end-December 2019, bank liquidity increased, as the growth in deposits outpaced the rise in domestic credit. Inflows were provided from tourism and re-insurance proceed.

- Excess liquid assets rose by \$433.4 million to \$2.0 billion, reversing a \$209.3 million falloff in 2018.
- Excess reserves grew by \$434.9 million to \$1.1 billion, overturning the \$186.2 million contraction of the prior year.



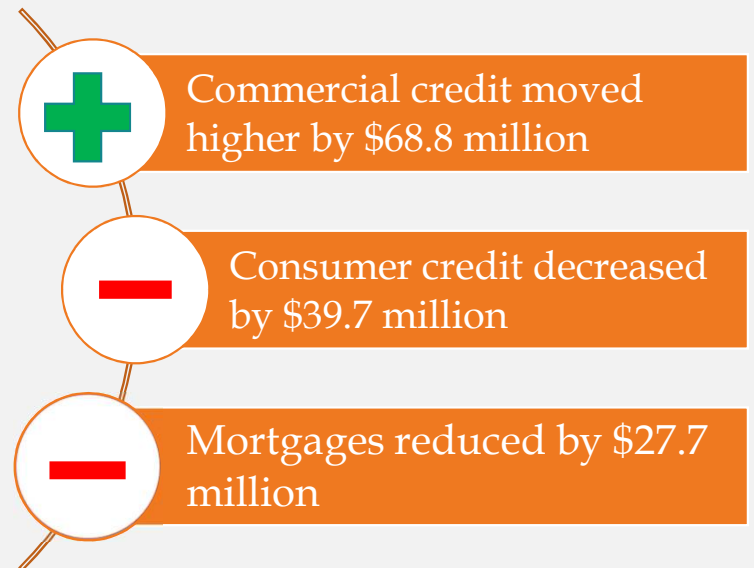
Source: Central Bank of The Bahamas

Credit Conditions (All currencies)

Annual domestic credit growth moderated to \$35.1 million from \$48.8 million in 2018.

- The rise in net claims on the Government was approximately halved to \$76.7 million.
- Credit to public corporations contracted by \$43.0 million in 2019, reversing the \$17.3 million increase in 2018.

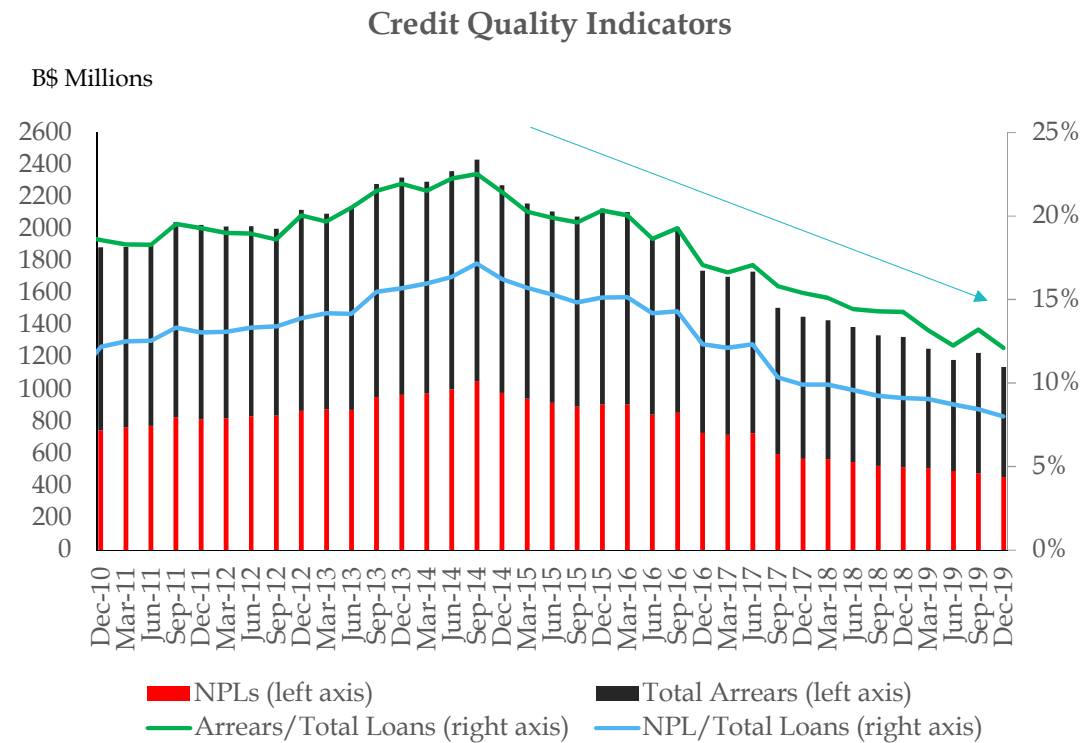
- Total private sector credit increased by \$1.4 million tempering prior year's decline of \$121.4 million.



B\$ Credit Quality Indicators

- During 2019, total private sector arrears contracted by \$123.5 million (15.3%); the ratio of arrears to total private sector loans fell by 2.2 percentage points to 12.1%, in response to enhanced debt collection efforts and the improvement in the economy.
 - Short-term arrears fell by \$60.5 million (20.7%) resulting with a 1.1 percentage point decline in the arrears rate to 4.1%.
 - NPLs fell by \$63.0 million (12.2%), and the NPL rate by 1.1 percentage points to 8.0%.

- Analysis by loan type:
 - Commercial arrears ↓ by 20.3%.
 - Mortgage arrears ↓ by 15.3%.
 - Consumer arrears ↓ by 13.5%.



SOURCE: Central Bank of The Bahamas

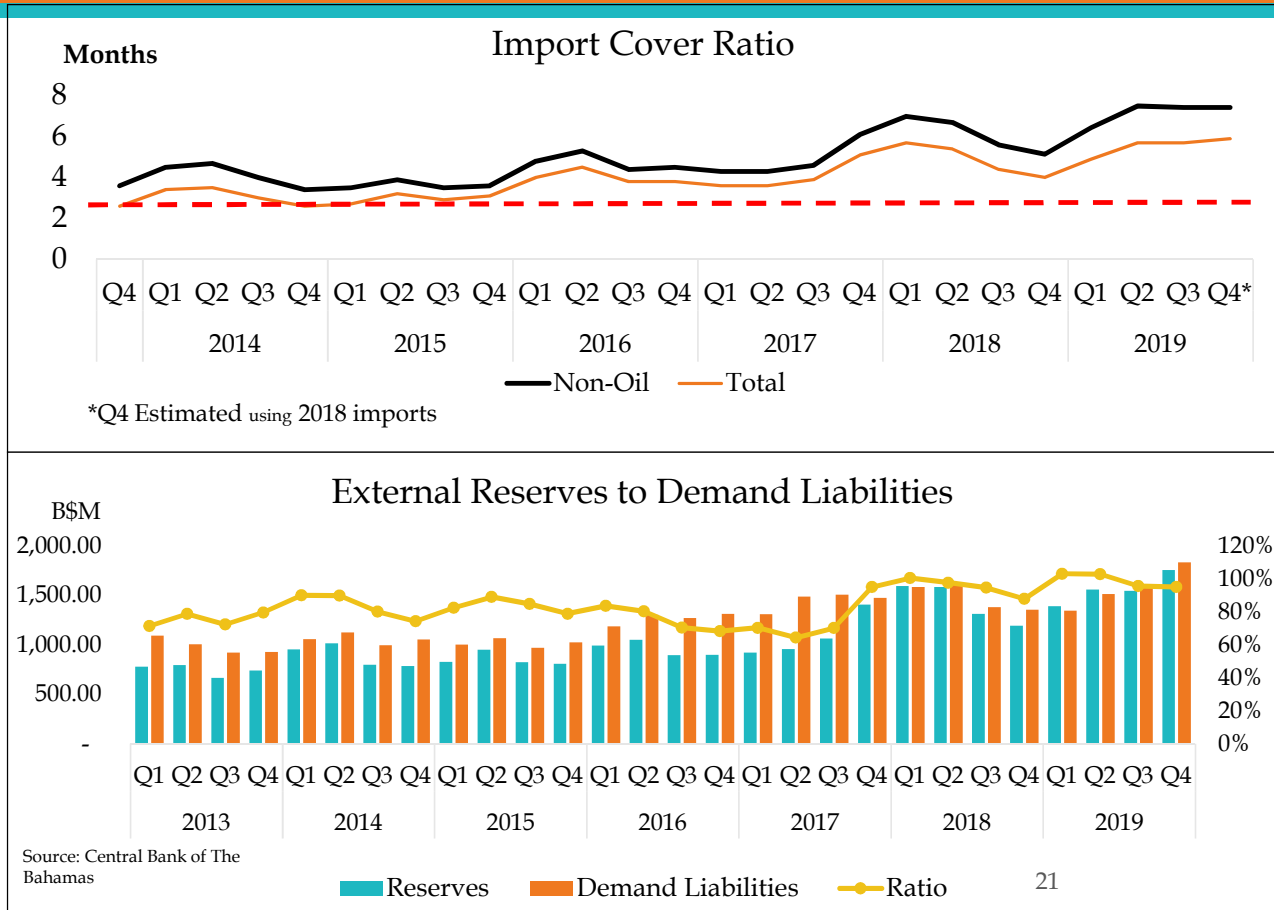
External Reserves

External reserves grew by \$560.0 million to \$1.8 billion at end-Dec, 2019.

➤ Balances fell by \$209.2 million in 2018.

- Balances were equivalent to approximately 5.9 months of current year's total merchandise imports vs. 4.0 months of coverage in 2018 (international benchmark = 3.0 months).

- External reserves represented 95.3% of Central Bank's demand liabilities, compared to 88.8% at the end of 2018 (target range is 90% - 100%).





OUTLOOK

Real Sector and Fiscal Sector

Real Sector

- Positive growth is expected for 2019, albeit lower than the original forecast which predates the storm.
 - Drivers: sustained gains in stopover segment tourism sector and stimulus from construction.
- A flat outturn is anticipated for 2020: increased momentum from hurricane re-building activity is countered by the rise in related imports and temporarily suppressed tourism capacity.
- Near-term deterioration in labour market conditions from disruption caused by Hurricane Dorian.
- Steadied domestic inflation, with dissipated effects of the 2018 VAT increase set against new energy costs pressures.

Fiscal Sector

- Significantly increased net financing needs are projected to cover outlays associated with reconstruction of damaged infrastructure and replacement of fixed assets; loss tax revenues and additional social welfare spending.
- Re-insurance receipts and donations from domestic and international partners should alleviate some of the financing pressures.

Monetary Sector and External Reserves

Monetary

- Banking sector liquidity is expected to remain elevated over the near term, as banks maintain their cautious lending stance.
- Modest growth in private sector credit is anticipated, given the measures implemented by both the Government and the Central Bank to support hurricane recovery efforts.

External Reserves

- Balances though boosted by one-off re-insurance inflows, could face a net drawdown in 2020 from the rise in imports for rebuilding activities.
- External stocks should still remain well above international benchmarks in 2020 and resume a growth trajectory in 2021.

Risks To The Outlook

TOURISM

Damages sustained and negative press from Hurricane Dorian could deter travel plans to unaffected areas, as rebuilding efforts continue.

GLOBAL

Geopolitical tensions could continue to weigh down the global outlook.

EMPLOYMENT

Constrained tourist arrivals could undermine employment in the sector.

EXTERNAL RESERVES

Higher demand for foreign currency for reconstruction work could place downward pressures on reserves.

INFLATION

Geopolitical tensions and reduction in oil production could accelerate consumer price increases.

FISCAL

A protracted Hurricane Dorian recovery path could extend fiscal strains beyond, the already identified funding needs.

The End

