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Economic Update

Quarter 1 2018

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Economic Highlights:

- On April 27th, 2018, the Department of Statistics (DOS) released revised nominal and real GDP data for the period 2013 – 2016 and new figures for 2017. According to preliminary results from the DOS, the Bahamian economy grew by 1.40% in 2017.
- The government is estimating a further uptick in real GDP growth for 2018 to 2.50%. Unemployment increased to 10.1% in November 2017 from 9.90% in May 2017.
- Government receipts for the first half of FY 2017/18 totalled $878.51M; $26.67M higher than the same period during FY 2016/17 and $190.99M lower than the amount forecasted.
- During the first half of FY 2017/18, the government raised around 89.09% of its revenues from taxes, of which 35.52% was derived from VAT. Of note, taxes on international trade and transactions, particularly import tax, contracted by 4.48% to $130.45M.
- Public spending was $83.19M or 7.19% lower, to $1.07B, for the first half of FY 2017/18, representing 8.83% of 2017 nominal GDP; compared to 9.77% during the comparative period.
- This softening in expenditure was driven by a 0.65% or $6.53M decline in current expenditure to $998.30M and a 50.27% or $76.65M drop in capital expenditure to $75.65M.
- The deficit declined by 36.0% from $305.56M during FY 2016/17 to $195.55M during FY 2017/18, representing 1.61% of 2017 GDP. The government appears to be on track to achieve its GFS deficit target of $321.33M or 3.50% of GDP.
- For the first two quarters of FY2017/18 (June 2017 - December 2017) national borrowing rose by $605.45M to $7.88B or 64.81% of 2017 nominal GDP.
- Total visitor arrivals to the Bahamas for the full year 2017 were 6.136M, representing a decrease of 2.10% since 2016. Air arrivals during the year contracted by 4.0% to 1.335M visitors, as well, sea arrivals slipped by 1.50% to 4.80M visitors.
- While it is too soon to establish a trend, there is some evidence, from the data presented, that public finances, with the exception of the country's debt levels, are being steered in the right direction.

MARCH 2018

CFAL Economic Update Q1/ 2018

Fiscal Management:

The economy of the Bahamas has shown some resilience, though it may be too soon to confirm whether the economy has truly turned the corner. On April 27th, 2018, the Department of Statistics (DOS) released revised nominal and real GDP data for the period 2013 – 2016 and new figures for 2017. The department initially reported that the Bahamian economy contracted by 3.10% in 2015 and grew by 0.20% in 2016. Revised data now records an economic growth of 1.0% for 2015 and a contraction of 1.70% for 2016. According to preliminary results from the DOS, the Bahamian economy grew by 1.40% in 2017. This growth was a result of increases in "construction, wholesale and retail trade, business services of a professional nature, administrative business services along with arts and other services". The International Monetary Fund (IMF), on the other hand, revised the real GDP forecast for the Bahamas down by 10 percentage points (0.10%) to 1.30% during March 2018. The Fund attributed this slower, yet positive growth forecast, to the partial opening of Baha Mar during the period, new foreign direct investments and hurricane rebuilding activities. The government is estimating a further uptick in real GDP growth for 2018 to 2.50%. Unemployment increased to 10.10% in November 2017 from 9.90% in May 2017.

"Outside of a significant increase in economic growth, the current revenues as a percentage of GDP may present a case for the Government to increase taxes given the average for developed countries is 34.00%."

Government receipts for the first half of FY 2017/18 totalled $878.51M; $26.67M higher than the same period during FY 2016/17 and $190.99M lower than the amount forecasted. Prior to the significant adjustments to GDP numbers last year, public revenues as a percentage of GDP peaked at 21.79%. However, following revisions to the GDP calculation methodology, which resulted in an average 28.00% increase in nominal GDP during the period 2012 – 2016, revenues as a percentage of GDP settled at 17.40% for FY 2016/17. Outside of a significant increase in economic growth, the current revenues as a percentage of GDP may present a case for the Government to increase taxes given the average for developed countries is 34.00%. During the first half of FY 2017/18, the government raised around 89.09% of its revenues from taxes, of which 35.52% was derived from VAT. The remaining 10.91% of public revenues was garnered from non-tax receipts. The jump in government receipts was due to improvements in gaming tax (+$4.97M to $14.60M), business and professional licenses (+$5.27M to $20.65M), motor vehicle tax (+$6.05M to $15.53M), excise tax (+$3.79M to $119.53M) and value added tax (+$9.87M to $312.01M). Revenues secured from fines, forfeits and administration fees also increased by $4.79M to $74.85M during the period. Of note, taxes on international trade and transactions, particularly import tax, contracted by 4.48% to $130.45M.

Given the relatively high level of public debt, it is imperative that the Government exercise discipline to control government expenditures. Public spending was lowered $83.19M or 7.19%, to $1.07B, for the first half of FY 2017/18, representing 8.83% of 2017 nominal GDP; compared to 9.77% during the comparative period. This softening in expenditure was driven by a 0.65% or $6.53M decline in current expenditure to $998.30M and a 50.27% or $76.65M drop in capital expenditure to $75.65M. Significant reductions in government expenditures were recorded for general public services – particularly salaries and benefits (-$17.59M to $257.10M or -7.32%); defence (-$10.61M to $27.78M or -27.64%); health (-$30.22M to $133.52M or -18.26%); transportation (-$2.52M to $4.05M or -38.37%); tourism (-$6.67M to $26.06M or -20.40%); and public works and water supply (-$43.53M to $68.58M or -38.83%). Interest on public debt, on the other hand, increased by $9.19M or 7.07% to $139.30M. The Government also increased its welfare spending during the period by $12.51M or 15.95% to $90.96M. Notwithstanding the overall reduction in government spending, to achieve economic growth and productivity, the government should focus on increasing infrastructural spending and decreasing current and recurrent spending.

"Given the relatively high level of public debt, it is imperative that the Government exercise discipline to control government expenditures."

The Government Finance Statistics (GFS) deficit, which is the difference between total government expenditures and government revenues - also improved during the period under review. The deficit declined by 36.0% from $305.56M during FY 2016/17 to $195.55M during FY 2017/18, representing 1.61% of 2017 GDP. The government appears to be on track to achieve its GFS deficit target of $321.33M or 3.50% of GDP.

For the first two quarters of FY2017/18 (June 2017 - December 2017) national borrowing rose by $605.45M to $7.88B or 64.81% of 2017 nominal GDP. Public sector borrowing, which was a major component of the national debt expanded by $627.74M to $7.17B, while contingent liabilities contracted by $22.29M to $704.19M. Total foreign currency debt swelled during the period by $850.42M to $2.61B or 36.41% of the government's debt stock. The country's debt stock remains dangerously high and is likely to remain so in the absence of significant and sustainable economic growth.

Tourism:

Total visitor arrivals to the Bahamas for the full year 2017 were 6.136M, representing a decrease of 2.10% since 2016. During the year, air arrivals contracted by 4.0% to 1.335M visitors, and sea arrivals slipped by 1.50% to 4.80M visitors. Direct tourism spending for the first two quarters of 2017 rose by 2.06% to $1.45B compared to 2016.

January 2018 visits are promising, with air arrivals up 7.0% to 100,876 visits and sea arrivals up 4.6% to 434,175 visits. New Providence was the catalyst for growth in air arrivals recording 76,418 visits compared to 70,791 during January 2016. While Family Island visits also helped to drive air arrival growth, increasing 11.8% to 19,412 visitors, Grand Bahama air arrivals declined by 18.2% to 5,046 visits during the month. Cruise visits were up by 4.60% to 434,175, driven primarily by cruise visits to Grand Bahama, which rose by 52.4% to 69,555 visitors. Cruise visits, however, softened by 0.30% to 233,427 visits for New Providence and by 3.10% to 131,193 for the Family Islands.

"New Providence was the catalyst for growth in air arrivals recording 76,418 visits compared to 70,791 during January 2016."

Monetary and Financial Developments:

The latest information available puts the country's inflation rate at the end of March at 2.20%, down from 2.40% recorded at the end of 2017.

External reserves improved by $183.31M or 12.96% to $1.59B at the end of March 2018, which covers 4.99 months of imports. External reserves as a percentage of 2017 GDP was 11.63% at the end of December 2017.

Total Bahamian dollar and foreign currency credit tightened by $279.43M to $6.61B during 2017. Leading this credit decline were the construction sector (-$85.13M), the Government (-$60.45M), and the private sector (-$63.21M). Credit quality also deteriorated slightly with total private sector credit arrears expanding by 4.40% to $863.1M and representing 15.10% of total loans outstanding. Credit quality also weakened further as non-performing loans rose by 0.80% to $566.80M.

The weighted average deposit rate declined by 24 basis points (0.24%) to 0.75%, with the highest deposit rate offered on deposits over a 12-month period at 4.50%. Consequently, the weighted average loan rate fell by four basis points (0.04%) to 11.79%.

Capital Market Developments:

The local stock market, BISX, declined in Q1 2018, reversing gains earned during the previous quarter. The weakest performance was recorded for Commonwealth Bank (-18.81%) and Emera Inc. BDRs (-13.90%). Cable Bahamas' share price also waned slightly by 2.70%. Some bright spots which helped to cushion losses included AML Foods (+6.25%), Commonwealth Brewery (+11.89%) and FINCO (+9.24%).

Conclusion:

While it is too soon to establish a trend, there is some evidence, from the data presented, that public finances, with the exception of the country's debt levels, are being steered in the right direction. It is imperative, however, that the Government pursue a balanced approach to managing the country's finances, by building on the 2017 growth rate, reducing debt ratios to more sustainable levels, substantially improving the ease of doing business and creating an environment that will improve the standards of living for the citizenry. This standard of living improvement should particularly focus on reducing the cost of living while upgrading and supporting vital public services.