Bahamas

The Bahamian economy is slowly edging out of the recession of 2009 with growth of 0.5% expected in 2010. A slow but steady recovery in the United States, its major market, has bolstered tourism demand, and internal demand has picked up slightly owing to government spending on some key projects. Activity in the offshore financial services sector has remained stable despite increased tax compliance pressure from the United States. Fiscal policy has started to shift towards consolidation in an effort to achieve sustainable deficit and debt levels. Continued import compression and higher exports led to a narrowing of the current account deficit. The economy is expected to grow by 2.3% in 2011, but this prediction may be undermined by lower growth in the United States.

Fiscal policy has sought to achieve a balance between maintaining activity and employment in the wake of tepid private sector investment and starting consolidation to contain the growing deficit and widening public debt. However, only modest consolidation has been achieved in fiscal year 2009/2010.[1] Although the overall fiscal deficit widened marginally from 3.2% to 3.3% of GDP, this increase was due to a fall in revenue, as total expenditure contracted by 0.6% to 20.8% of GDP. Current spending declined by 1.9%, as the government moved to restrict goods procurement. Capital spending expanded by 12% as the government prioritized infrastructure development to build capacity for future growth. Revenues declined by 1.6%, reflecting weak domestic private activity and sluggish tourism demand, which led to a 4% fall in receipts from the hotel occupancy tax.

During the first quarter of fiscal year 2010/2011, the overall fiscal deficit expanded by 11%, year-on-year, to B$ 112 million. Total revenue plus grants declined by 1%, as the revenue-generating measures outlined in the latest budget have not yet started to have an impact. Following a 6% rise in current spending, linked to higher outlays on goods and services and interest payments, total expenditure expanded by 4%, leading to sharp growth in the debt. A fiscal deficit of 3.0% of GDP is projected for 2010/2011, but this target may not be achieved owing to continued outlays on infrastructure projects. Stimulus measures adopted by the government to counter weak private demand have pushed up central government debt from 44% of GDP in September 2009 to 47.4% of GDP in September 2010.

In view of the fixed exchange rate and the need to maintain reserves in order to protect the peg, monetary policy did not provide any stimulus to activity in spite of lukewarm demand. Year on year to September 2010, the benchmark discount rate (5.25%) and the commercial banks' prime rate (5.50%) remained unchanged. Lacklustre private demand and high unemployment led to slow growth in private sector credit. The rise in non-performing loans is a concern and expectations of higher losses have prompted banks to increase their loan loss provisions. Growth in credit to the government also slowed as the latter sought to tighten fiscal operations.

Real GDP is expected to grow by 0.5% in 2010, reversing the decline of 4.3% in 2009. This mild recovery has been fuelled by a modest upturn in tourism and buoyancy in the financial services sector, which offset continued weakness in construction activity. For the

[1] In the Bahamas, the fiscal year runs from July 1 to June 30.

first seven months of 2010, arrivals of higher-spending stopover visitors rose by 3.2%, while cruise passenger arrivals were up by 14%, reflecting the recovery in demand in the United States. Stopover arrivals were expected to increase by 3% for the whole year. Hotel revenues were also bolstered by a 3.1-percentage-point increase in occupancy rates and a 2.8% rise in average daily room rates. Construction activity remained weak in the face of sluggish foreign direct investment (FDI) inflows, as investor confidence continued to waver. Activity in the offshore financial services sector remained stable, but the costs will increase as the industry begins to comply with United States tax laws.

Inflation continued to ease (September-September), falling from 3.6% in 2009 to 1% in 2010. Price reductions were experienced in food and beverages, in stark contrast to the substantial increases in the rest of the region. Costs for housing, and transport and communications were also down. However, in spite of lower oil prices, fuel and electricity costs escalated. Unemployment was expected to register a marginal improvement with the rebound in tourism.

The balance-of-payments current account deficit narrowed from 8.5% of GDP in January-June 2009 to 7.7% of GDP in January-June 2010. Tepid private-sector demand led to a continued scaling back of imports (-2.9%), while exports of goods and services exhibited modest growth. Travel receipts picked up by 5.6%, reflecting the modest improvement in tourism demand. The capital and financial account surplus contracted, owing to a decline in the foreign liabilities of commercial banks, but, in a welcome development, foreign direct investment rallied by 13.6%, partly as a result of the sale of a local company to a foreign conglomerate. International reserves increased by 0.4% to US$ 819 million between December 2009 and June 2010. This amounts to nearly 3 months' cover of imports.

BAHAMAS: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	-1.7	-4.3	0.5
Per capita gross domestic product	-2.8	-5.4	-0.7
Consumer prices	4.6	1.3	0.5 [b]
Money (M1)	-1.7	0.3	6.5 [c]
	Annual average percentages		
Unemployment rate [d]	8.7	14.2	...
Central government overall balance / GDP [e]	-3.3	-3.2	-3.3
Nominal deposit rate [f]	3.9	3.8	3.5 [g]
Nominal lending rate [h]	11.0	10.6	10.9 [g]
	Millions of dollars		
Exports of goods and services	3 499	2 985	3 096
Imports of goods and services	4 602	3 731	3 688
Current account	-1 165	-860	-766
Capital and financial account [i]	1 274	1 113	812
Overall balance	109	253	46

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to July 2010.
[c] Twelve-month variation to September 2010.
[d] Includes hidden unemployment.
[e] Fiscal year.
[f] Deposit rate, annualized weighted average.
[g] Average from January to September, annualized.
[h] Lending and overdraft rate, annualized weighted average.
[i] Includes errors and omissions.