

BAHAMAS

1. General trends

The Bahamian economy posted negative growth of 1.7% in 2015, after contracting by 0.5% in 2014. The growth impetus from construction related to foreign direct investment (FDI) in recent years subsided and signs of softness were seen in the offshore financial services sector. Lower cruise tourist arrivals offset the growth momentum from stopover tourism, which performed creditably despite repeated delays in the opening of the Baha Mar mega-resort development. That project is expected to provide a substantial boost to activity in the sector, but the delays are pushing up unemployment levels as individuals who expected to be hired by the resort have failed to secure employment. Inflation remained modest at 2.0% as the pass-through effects of lower fuel prices partly offset higher prices resulting from the introduction of value added tax (VAT) in 2015.

The fiscal position improved in fiscal year 2014/15 owing mainly to VAT receipts. The fiscal deficit narrowed by 20.4%, but an uptick in spending (compared with 2013/14) nevertheless delayed the government's consolidation programme. Monetary conditions remained relatively stable with continued growth in liquidity and an improvement in banks' credit quality, owing partly to loan write-offs. Meanwhile, the balance-of-payments current account deficit narrowed significantly in response to a substantial reduction in fuel import payments and a wider services account surplus owing to higher tourism receipts and a sharp fall in payments for construction services. Construction payments plummeted with the winding-down of major FDI-related construction projects.

The economy is expected to post a modest recovery in 2016, with growth of 0.5% on the back of increased stopover tourism and FDI-related construction activity. However, job gains will be limited, leaving unemployment relatively high, and slower-than-projected growth in the United States could pose some downside risks. Inflation will remain subdued owing to below-average international fuel prices. The fiscal deficit is expected to continue narrowing, mainly as the growth in revenues—VAT receipts and improved tax collection—outpaces that in spending, which is expected to increase owing partly to rehabilitation and reconstruction in the Family Islands, which were affected by Hurricane Joaquin in October 2015.

The external current account deficit is projected to narrow somewhat in 2016, reflecting reduced import payments owing to the winding-down of some large construction projects and low fuel prices. This will be supported by higher services inflows with an increase in stopover tourist arrivals and spending. A modest pick-up in FDI is expected on the basis of planned investment projects. These developments will lead to an increase in foreign reserves.

2. Economic policy

(a) Fiscal policy

The fiscal position improved in financial year 2014/15. The deficit narrowed from 5.7% of GDP in 2013/14 to 4.5% of GDP in 2014/15, owing largely to the introduction of VAT at a rate of 7.5% in January 2015, which led to a significant expansion in total tax revenue (17.3%). The overall deficit contracted by 20.4% in nominal terms, but this was still almost 35% above the budget forecast. Buoyed

by VAT proceeds of B\$ 218.6 million in the second half of the fiscal year, tax revenue expanded by 20.5% to B\$ 1.500 billion. This was supported by non-trade-related stamp taxes, but was offset partly by a 2.9% reduction in receipts from taxes on international trade and transactions, as rates were lowered to compensate for the implementation of VAT. Non-tax proceeds declined by 3.5%, but were still higher than budgeted for 2014/15.

Total expenditure rose by 7.9% in financial year 2014/15, underpinned by a 7.2% increase in current spending and growth of 11.1% in capital expenditure. Current outlays were buoyed by a spike in debt interest payments in line with the upward trajectory of debt and higher allocations for transfers and subsidies.

The improved fiscal position led to slower growth in public debt: the debt-to-GDP ratio increased by 2.5 percentage points to 76.3% at year-end 2015 (compared with 7.5 percentage points in 2014). Nevertheless, the government continues to face the significant challenge of containing growth in public corporations' contingent liabilities, which expanded by 7.0% (B\$ 48.9 million) in 2015.

During the first nine months of fiscal year 2015/16, the fiscal deficit narrowed by 12.4% to B\$ 220.5 million. Total revenues were boosted by 17.9%, driven mainly by VAT receipts. This offset a 12.5% rise in spending to B\$ 1.605 billion.

The fiscal position is expected to strengthen further in 2016/17 with the deficit projected to decline to 1.6% of GDP or around B\$ 139 million. Revenues will be buoyed by VAT, while growth in expenditure is expected to be moderate despite spending on the general election.

(b) Monetary and exchange-rate policy

Given its fixed exchange-rate regime, monetary policy in the Bahamas is focused more on financial and exchange-rate stability than on economic stimulus. Therefore, the monetary stance remained neutral in 2015, despite the decline in economic activity. With an improvement in its international reserves position, the central bank held its discount rate constant at 4.5%. Monetary conditions favoured the accumulation of banking sector liquidity as credit demand remained weak in the light of deleveraging by banks. Excess liquid assets increased by 5.8%, reflecting a shift by banks from cash holdings to government securities. Meanwhile, growth in broad money slowed from 2.0% in 2014 to 0.4% in 2015, owing in part to the decline in economic activity. Savings deposits expanded by 7.6%, time deposits contracted by 4.3%, and the fall in foreign currency deposits slowed marginally to 16.5%.

Domestic credit picked up slightly to grow by 1.0% in 2015, after contracting by 1.0% in 2014. However, this was fuelled solely by growth in public sector borrowing (6.5%), as private sector credit declined by 1.1% amid weak borrowing capacity owing to loan delinquencies and high unemployment. Nevertheless, sustained loan write-offs led to an improvement in banks' credit quality and total private sector arrears fell by 5.7%. As a result, non-performing loans contracted by 7.3% in 2015, after posting marginal growth in 2014.

Strong liquidity in the banking system contributed to a widening of the weighted average interest rate spread by 49 basis points in 2015. The weighted average deposit rate fell by 1 basis point to 1.41%, while the weighted average loan rate rose by 48 basis points to 12.29%. However, the benchmark prime lending rate held steady at 4.75%.

(c) Other policies

In its recent 2016/17 budget communication, the government outlined four pillars for advancing sustainable development in the Bahamas that would form part of a National Development Plan for the country, namely, the economy, governance, social policy and the environment. Areas of focus will include human capital development centred on health-care reform, especially the introduction of a national health insurance scheme to improve access to and reduce the cost of health care; and the modernization of education and training systems, especially training in agriculture. Attention will also be given to governance reform, including the introduction of planning and results-based management and a public financial management system aimed at improving public sector transparency, efficiency and accountability, especially in the area of public procurement. Targets are also envisioned to conserve the natural environment, such as the goal to designate 10% of marine and coastal areas as protected zones.

3. The main variables

(a) The external sector

The current account deficit narrowed considerably, from 22.4% of GDP in 2014 to 15.9% of GDP in 2015. All major components of the current account improved in 2015. The merchandise trade deficit narrowed by 2.3% in nominal terms after expanding sharply by 12.2% in 2014. The merchandise account benefited from a steep fall in oil prices, which led to a 39.8% reduction in payments for oil imports. In addition, with the winding-down of some construction projects, payments for construction materials and other non-oil imports fell by 2.3%, further reducing the trade deficit.

The services account surplus expanded significantly (by 47.8%), reflecting a steep decline in net payments for construction services associated with the winding-down of work on the Baha Mar project. This was reinforced by reduced net outflows for transportation and insurance services. In addition, tourism receipts rose by 3.0%, owing to growth in stopover tourist arrivals and spending. These were offset only partly by reduced net receipts from offshore companies' local expenses and inflows for government services.

The income account deficit narrowed by 8.1% to US\$ 402.4 million in 2015, following substantial growth of 33.1% in 2014. This stemmed from a sharp fall in investment-related outflows owing to reduced private sector interest and dividend payments.

In contrast, there was a marked deterioration in the capital and financial account including errors and omissions. The surplus narrowed by 27.4% to US\$ 1.433 billion, owing mainly to a 69.7% plunge in FDI resulting primarily from the winding-down of work on the Baha Mar project the previous year. International reserves increased from 11.5 weeks of merchandise import cover in 2014 to 13.7 weeks in 2015.

(b) Economic activity

The economy performed worse than initially expected, with growth declining by 1.7% in 2015, following on from a 0.5% contraction in 2014. Economic activity was adversely affected by a slowdown in FDI-related construction, a contraction in cruise tourism and softness in the offshore financial services sector, which offset modest growth in stopover tourism. There was a sharp fall in construction activity,

owing to the winding-down of major projects, such as the Baha Mar mega-resort development, and also some medium- and small-scale projects. There was a 26.1% fall in construction starts in New Providence and Grand Bahama, the two main islands, and financing for mortgage commitments was down by 16.2%.

Alongside tourism, financial services also account for a significant proportion of GDP (some 15%). The offshore financial services sector was challenged by consolidation aimed in part at reducing operating costs and strengthening compliance with a raft of international capital, tax and reporting requirements. These requirements and continued uncertainty in the business environment led to sluggish activity in the sector in 2015.

Total visitor arrivals declined by 3.3% to 6.1 million, reversing the growth of 2.8% in 2014. Nevertheless, tourism activity improved as the number of high-spending stopover visitors increased by 3.6% to 1.4 million and more than offset the decline in the number of lower-spending cruise passenger visitors by 5.1% to 4.7 million. Stopover arrivals were boosted by a strong marketing campaign, including the “Companion Flies Free” programme, and increased airlift to some of the islands. In addition, visitor spending increased owing to a 2.5% rise in the average hotel occupancy rate and a 6.0% increase in the daily room rate to B\$ 253.88.

(c) Prices, wages and employment

Inflation picked up in 2015 to the modest rate of 2.0%, pushed up largely by higher prices for health care (up by 18%), recreation and culture (11.9%) and food and alcoholic beverages (8.0% and 9.0%, respectively). The introduction of VAT contributed to the higher prices of these and other items. Meanwhile, transportation costs declined by 3.2%, reflecting the pass-through effect of lower international fuel prices. The costs of housing, electricity, gas and other fuels also fell, in line with reduced fuel prices, for example, the Bahamas Electricity Corporation’s fuel charge dropped by 34.2% to 16.23 cents per kilowatt hour (kWh).

Employment was hit by the decline in economic activity. The unemployment rate rose from 12.0% in May 2015 to 14.8% in November 2015. The labour market was affected by protracted delays in the opening of the Baha Mar resort, which led to the termination of some 2,000 permanent jobs. Nevertheless, year-on-year to November, unemployment declined by 0.9 percentage points. The government has noted with particular concern the high rate of unemployment among young persons aged 15 to 24 years, estimated at around 30%, which it plans to tackle by boosting growth and introducing apprenticeship and training programmes.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Annual growth rates b/									
Gross domestic product	1.4	-2.3	-4.2	1.5	0.6	3.1	0.0	-0.5	-1.7
Per capita gross domestic product	-0.5	-4.1	-5.8	-0.2	-1.0	1.5	-1.4	-1.9	-2.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.3	2.9	3.7	3.7	-7.9	4.0	-24.0	-2.6	-2.4
Mining and quarrying	-11.7	26.2	-3.3	8.4	-17.2	-14.7	9.5	33.1	-28.0
Manufacturing	-12.6	-7.3	-6.0	9.1	0.3	13.4	0.6	-3.3	-19.0
Electricity, gas and water	3.7	9.4	-2.6	-4.5	10.6	-5.0	0.0	-0.4	2.0
Construction	-34.7	28.7	-10.2	24.6	9.4	13.2	9.0	0.3	-36.6
Wholesale and retail commerce, restaurants and hotels									
Transport, storage and communications	8.7	-4.4	-2.8	2.1	-3.1	5.5	-1.7	-7.5	3.6
Financial institutions, insurance, real estate and business services	-11.2	-7.4	4.4	-8.9	8.9	3.7	3.2	-2.3	0.8
Community, social and personal services	11.5	-2.1	-6.7	3.2	2.8	-3.4	0.9	-3.9	5.9
Community, social and personal services	3.8	-3.3	-6.0	2.7	1.1	-0.5	2.1	12.3	4.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.0	-2.2	-8.0	0.8	-0.8	2.6	-1.1	3.9	-4.1
Government consumption	-0.2	7.2	3.9	-0.3	7.2	-4.7	1.6	-0.2	7.0
Private consumption	1.3	-3.8	-10.3	1.1	-2.6	4.3	-1.7	4.8	-6.5
Gross capital formation	-2.6	-9.3	-9.4	0.6	7.4	9.3	-2.9	12.8	-11.9
Exports (goods and services)	-1.4	-2.2	-3.2	1.3	6.3	7.2	0.0	-3.2	-7.2
Imports (goods and services)	-3.7	-5.9	-12.2	-0.4	7.5	9.7	-3.3	10.8	-15.6
Millions of dollars									
Balance of payments									
Current account balance	-954	-872	-809	-814	-1,203	-1,505	-1,494	-1,928	-1,409
Goods balance	-2,154	-2,243	-1,825	-1,889	-2,132	-2,402	-2,211	-2,482	-2,426
Exports, f.o.b.	802	956	711	702	834	984	955	834	527
Imports, f.o.b.	2,956	3,199	2,536	2,591	2,966	3,386	3,166	3,316	2,953
Services trade balance	1,433	1,488	1,155	1,312	1,201	1,154	1,043	992	1,466
Income balance	-186	-78	-152	-235	-236	-268	-329	-438	-402
Net current transfers	-47	-39	14	-3	-36	11	3	0	-46
Capital and financial balance c/									
Net foreign direct investment	909	980	1,061	862	1,228	1,430	1,425	1,974	1,433
Other capital movements	746	860	664	872	667	530	388	251	76
Other capital movements	162	120	397	-10	562	900	1,037	1,723	1,357
Overall balance	-46	109	252	48	25	-75	-69	46	24
Variation in reserve assets d/	46	-109	-252	-48	-25	75	69	-46	-24
Other financing	0	0	0	0	0	0	0	2	0
Other external-sector indicators									
Net resource transfer (millions of dollars)	723	903	909	627	992	1,162	1,096	1,538	1,031
Gross external public debt (millions of dollars)	273	384	703	728	799	1,038	1,188	1,593	1,671
Average annual rates									
Employment									
Labour force participation rate	73.4	...	72.1	72.5	73.2	73.7	73.0
Unemployment rate e/	7.9	8.7	14.2	...	15.9	14.4	15.8	14.8	12.0
Annual percentages									
Prices									
Variation in consumer prices (December-December)	2.8	4.6	1.3	1.4	0.0	0.7	0.8	0.2	2.0
Nominal deposit rate f/	3.7	3.9	3.8	3.4	2.6	2.0	1.7	1.4	1.4
Nominal lending rate g/	10.6	11.0	10.6	11.0	11.0	10.9	11.2	11.8	12.3

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Central government h/	Porcentajes de GDP								
Total revenue	17.1	16.2	16.7	18.1	18.3	16.5	17.2	20.0	23.0
Tax revenue	15.2	13.7	14.2	16.4	16.2	14.8	14.8	17.6	20.9
Total expenditure	18.9	20.6	21.0	22.8	24.0	23.1	22.9	24.5	24.6
Current expenditure	16.2	18.2	17.8	19.3	19.6	18.8	18.9	20.1	21.1
Interest	1.7	1.9	2.3	2.7	2.4	2.4	2.5	2.7	3.0
Capital expenditure	2.1	3.2	2.0	2.6	3.1	3.1	3.0	3.3	2.7
Primary balance	-0.1	-2.5	-2.1	-2.0	-3.4	-4.2	-3.2	-1.7	1.4
Overall balance	-1.8	-4.4	-4.3	-4.7	-5.7	-6.6	-5.7	-4.5	-1.6
Non-financial public sector debt	36.9	37.4	44.1	45.7	55.3	60.8	66.3	73.7	76.3
Money and credit	Porcentajes de GDP, end-of-year stocks								
Domestic credit	89.4	95.9	102.8	106.8	108.2	103.4	105.0	102.9	101.3
To the public sector	14.6	16.6	18.5	23.7	23.9	24.5	28.1	27.8	30.1
To the private sector	74.7	79.3	84.3	83.1	84.3	78.9	76.9	73.9	71.2
Monetary base	8.1	7.8	8.9	10.4	11.2	10.7	10.1	11.4	11.1
Money (M1)	15.6	15.5	16.4	16.9	18.2	18.8	19.3	23.2	23.4
M2	65.4	69.4	74.2	75.4	77.4	72.5	70.9	71.5	69.9
Foreign-currency deposits	2.4	2.4	3.0	2.8	2.6	2.6	3.2	2.6	2.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2006 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Includes hidden unemployment. Nationwide total.

f/ Weighted average rate of deposit rates.

g/ Weighted average of lending and overdraft rates.

h/ Fiscal years, from July 1 to June 30.

Table 2
BAHAMAS: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	921	999	895	766	815	940	904	795	924	1,008 b/
Consumer prices (12-month percentage variation)	1.5	1.2	1.4	0.2	1.8	2.0	2.2	2.0	-1.4	...
Average nominal exchange rate (Bahamas dollars per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nominal interest rates (average annualized percentages)										
Deposit rate d/	1.6	1.6	1.4	1.2	1.5	1.4	1.5	1.3	1.4	1.3 b/
Lending rate e/	11.1	12.0	12.1	12.1	11.9	12.4	12.6	12.3	11.8	12.4 b/
Monetary policy rates	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5 b/
Domestic credit (variation from same quarter of preceding year)	-0.8	-0.1	0.5	0.3	2.4	0.4	-0.2	0.3	0.9	...
Non-performing loans as a percentage of total credit	15.9	16.2	17.0	16.0	15.9	15.5	15.0	14.9	15.1	14.4 b/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of May.

c/ Weighted average rate of deposit rates.

d/ Weighted average of lending and overdraft rates.