

Bahamas

The economy of the Bahamas was initially projected to recover in 2016 with growth of 0.5%, as compared to a contraction of 1.7% in 2015. However, the aftermath of Hurricane Matthew, which hit the Bahamas in October 2016, means that growth is now projected at 0%. Apart from the hurricane, growth was held back by the continued delay in the opening of the Baha Mar resort, which affected stopover visitor arrivals, spending and employment. Activity in the construction sector remained sluggish, owing mainly to weak domestic private-sector activity. The fiscal deficit contracted from 4.4% of GDP in fiscal year 2014/15 to 3.0% of GDP in 2015/16, reflecting continued strong growth in revenues, which were bolstered by value added tax (VAT) receipts, and slower expenditure growth. Monetary developments included growth in banking-sector liquidity, underpinned by government borrowing and inflows from tourism and other production sectors. The current account deficit of the balance of payments was projected to widen in 2016 relative to 2015, owing to growth in imports and reduced exports following Hurricane Matthew. The economy is expected to rebound in 2017, with growth of 1.0% driven by increased tourism activity and a pick-up in construction, especially with the likely restart of the Baha Mar project.

Economic policy has focused on phasing in fiscal consolidation to achieve sustainable public debt, while at the same time nurturing recovery in economic growth. With VAT bolstering revenues, attention has been paid to modernizing the tax administration system. This includes modernization of the Customs division, including introduction of an online payment system and property tax computer-assisted mass appraisal (CAMA) software to facilitate increased collection. Nevertheless, short-term progress will be impeded by the impact of Hurricane Matthew, which has led to higher government spending than budgeted.

The fiscal position improved in fiscal year 2015/16, with the overall deficit narrowing to 3.0% of GDP from 4.4% of GDP in 2014/15. This performance reflected dynamic growth of 11.0% in revenues, surpassing the 3.3% increase in expenditure. Tax receipts expanded by 13.2%, underpinned by dynamic growth in VAT receipts. VAT proceeds were over 600 million Bahamian dollars (B\$) in 2015/16, exceeding government expectations. Expenditure growth was constrained by a 37.2% decline in capital spending, representing a return to trend following the one-off purchase of seagoing vessels for the Royal Bahamas Defence Force and the tapering off of expenditure on infrastructure projects. The fiscal consolidation effort is expected to continue in 2016/17, with the deficit contracting further to 1.1% of GDP. Central government debt increased from 71.9% of GDP in the second quarter of 2015 to 74.0% of GDP in the same period of 2016.

Monetary policy remained neutral despite the sluggish economic activity, with the central bank holding its policy discount rate unchanged at 4.5%. Liquidity in the banking system continued to grow, owing to the government's foreign-currency borrowing, tourism receipts and sluggish credit demand. Excess reserves expanded by B\$ 250.0 million during the first quarter, reversing a B\$ 50.5 million contraction in 2015. Meanwhile, growth in domestic credit slowed from B\$ 123.6 million in 2015 to B\$ 113.5 million in 2016 as a B\$ 30.4 million decline in private credit was accompanied by a B\$ 22.6 million tapering of growth in credit to the government. Lending to the private sector has continued to be dampened by debt deleveraging, improved prudential lending practices at banks and high unemployment. Indeed, private credit has grown at a meagre 0.2% a year since the global crisis.

The balance-of-payments current account deficit narrowed from 16.8% of GDP in the first half of 2015 to 9.3% of GDP in the first half of 2016. The trade deficit narrowed by 30.2% because of a 27.5% decline in imports, reflecting a sharp fall in payments for oil due to lower international fuel prices and reduced imports of construction materials with the winding down of major projects. The services surplus contracted by 11.7%, in line with a major reversal of government transactions from a net inflow to a substantial net outflow and lower tourism receipts, partly due to lower average visitor expenditure. The income account deficit narrowed because of lower outflows for investment income. The current account deficit is projected to widen from 15.9% of GDP in 2015 to 18.8% of GDP in 2016 because of a pick-up in imports, especially of building materials and equipment, and lower exports after Hurricane Matthew in October. The services surplus is also projected to contract owing to a decline in tourism receipts caused by the loss of hotel business.

Economic growth is expected to be flat in 2016. Hurricane Matthew has dampened economic activity, and the previous growth projection of 0.5% has been reduced to 0%. The economy was experiencing a mild recovery before the hurricane. In the tourism sector, high-spending stopover arrivals increased by 2.7% to over 1 million visitors in the first seven months of 2016, and cruise passenger arrivals were up by 1.5% to 2.8 million visitors. Nevertheless, average room revenues slipped compared with the same period in 2015, although the larger number of visitors was expected to lead to higher total expenditure. Overall losses in the tourism sector from the hurricane were estimated at B\$ 59.6 million, and this is expected to limit the recovery in the sector in 2016 and the early part of 2017. Construction activity picked up during the first half of the year, with building starts in New Providence and Grand Bahama increasing by 21% in number to 127 and by 7.6% in value. Construction is expected to strengthen in 2017 with the restart of the Baha Mar project.

Inflation moderated from 1.4% year on year to June 2015 to 0.6% for the same period of 2016. This outcome was strongly influenced by a 2.7% decline in the costs of housing, water, gas and electricity, which account for one third of the overall index, and a 5.4% reduction in transportation costs. These costs were favourably affected by lower international fuel prices. Although energy prices increased in the second quarter of 2016, with the average prices of petrol and diesel rising by 6.8% and 2.7% year on year, respectively, prices were still lower than in 2015. The unemployment rate increased from 12.0% in May 2015 to 12.7% in May 2016. The continued delay in the opening of the Baha Mar resort dampened job growth in the tourism sector. Nevertheless, the unemployment rate in that sector fell from 14.8% in November 2015 to 12.7% in May 2016, reflecting a higher number of seasonal jobs associated with the carnival and other cultural events.

Bahamas: main economic indicators, 2014-2016

| | 2014 | 2015 | 2016 ^a |
|--|--------|--------|-------------------|
| Annual growth rate | | | |
| Gross domestic product | -0.5 | -1.7 | 0.0 |
| Per capita gross domestic product | -1.9 | -2.9 | -1.2 |
| Consumer prices | 0.2 | 2.0 | -0.3 ^b |
| Money (M1) | 8.4 | 18.7 | 3.8 ^b |
| Annual average percentage | | | |
| Urban unemployment rate ^c | 14.8 | 13.4 | 12.7 ^d |
| Central government | | | |
| Overall balance / GDP | -4.4 | -3.0 | -1.1 |
| Nominal deposit rate ^e | 1.4 | 1.4 | 1.2 ^f |
| Nominal lending rate ^g | 11.8 | 12.3 | 12.4 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 3,551 | 3,264 | 849 |
| Imports of goods and services | 5,041 | 4,224 | 835 |
| Current account balance | -1,928 | -1,409 | -83 |
| Capital and financial balance ^h | -9 | -65 | 410 |
| Overall balance | 474 | 1,113 | -181 |

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

- a/ Estimates.
- b/ Figures as of June.
- c/ Includes hidden unemployment.
- d/ Figures as of May.
- e/ Weighted average of deposit rates.
- f/ Figures as of September.
- g/ Weighted average of lending rates.
- h/ Includes errors and omissions.