

BAHAMAS

1. General trends

Although economic growth was zero in 2016, this was an improvement on 2015, when output declined by 1.7%, and was achieved even though Hurricane Matthew disrupted activity in the latter part of the year, particularly in some of the Out Islands. The turnaround from negative growth was driven by higher tourist arrivals, although visitor expenditure posted only modest growth. Construction activity remained relatively firm, buoyed by a variety of foreign direct investment-financed projects in tourism and other areas. Meanwhile, activity in the offshore financial services sector remained buoyant. Inflation moderated to 0.8% in 2016 from 2.0% in 2015, influenced by the pass-through effects of low international fuel prices. The rate of unemployment fell from 14.8% to 11.6% due to job growth in tourism and post-hurricane construction. The fiscal position improved in fiscal year 2015/16, with the deficit contracting from 4.4% of GDP to 3.5% of GDP as strong growth in value added tax (VAT) receipts helped to offset rising expenditure. Nevertheless, significant spending in the wake of Hurricane Matthew led to a doubling of the deficit in the first half of financial year 2016/17 relative to the same period of financial year 2015/16, taking it to B\$ 276.9 million.

Monetary policy was expansionary, as the central bank lowered its policy discount rate by 0.5 percentage points to stimulate credit growth in key sectors. The balance-of-payments current account strengthened in 2016, with the deficit narrowing to 12.2% of GDP from 13.6% of GDP in 2015. This was mainly due to insurance inflows after the hurricane and lower payments for fuel.

Economic activity is expected to strengthen in 2017 with growth of 1.4%, fuelled by tourism, construction and buoyant offshore financial services activity. Tourism will be bolstered by the phased opening of the Baha Mar resort. Construction activity will be driven by smaller tourism projects and reconstruction after Hurricane Matthew. Higher growth is expected to lead to an increase in employment and a modest rise in inflation. The fiscal deficit is projected to widen somewhat as higher spending on hurricane-related reconstruction offsets revenue growth. Monetary developments are likely to be marked by continued growth in liquidity, while a modest pick-up in private sector credit is expected to fund recovery from the hurricane. The balance-of-payments current account deficit is expected to widen marginally as growth in imports for reconstruction offsets improved tourism receipts.

Downside risks to performance include slower than projected growth in the United States, a larger than expected increase in international fuel prices and further delays in fully completing the Baha Mar project.

2. Economic policy

(a) Fiscal policy

Fiscal policy was contractionary in financial year 2015/16, with the overall deficit declining by 18.8% in nominal terms to 3.5% of GDP from 4.4% of GDP in financial year 2014/15. Fiscal developments were mainly influenced by measures to strengthen the tax base, particularly receipts from the VAT introduced in 2015. Tax receipts expanded by 13.4%, bolstered by VAT proceeds, which amounted to B\$ 627.9 million after the first full year of implementation, exceeding budgeted projections.

Non-tax receipts posted robust growth of 28.1% on account of higher proceeds from fines, forfeits and administrative fees and revenues from a mobile licence auction.

Growth in total expenditure slowed slightly from 7.9% in financial year 2014/15 to 7.5% in 2015/16. Current spending expanded by 17.1% to B\$ 2,004.4 million, boosted by significant growth in transfers and subsidies, higher interest payments on the growing debt stock and increased personal emoluments. However, this was partly offset by a 17.5% reduction in capital spending, reflecting a return to normality after extraordinary outlays for the acquisition of Defence Force vessels in 2015.

Public debt expanded by 2.6 percentage points to 77.9% of GDP in 2016, with both external and domestic debt rising. Nevertheless, the Bahamas remains shielded somewhat from foreign interest and exchange-rate risks, as 72.4% of the debt is denominated in Bahamian dollars. In a welcome development, contingent liabilities declined by 3.5% (B\$ 26.2 million) in 2016.

There was major slippage in fiscal operations during the first half of financial year 2016/17, owing to the exceptional spending and reduced revenues resulting from the effects of Hurricane Matthew. Thus, the overall deficit almost doubled to B\$ 276.9 million, propelled by an 8.1% increase in total expenditure and a 51.1% expansion in capital spending, reflecting outlays on infrastructure rehabilitation, building repairs and coastal protection. At the same time, current revenue contracted by 4.9% (B\$ 39.5 million), as extensions for filing tax returns were granted following the hurricane.

(b) Monetary and exchange-rate policy

Monetary policy was expansionary in 2016. With international reserves cover averaging 16.8 weeks during the second half of the year and no real threat to the exchange rate, the central bank lowered its policy discount rate to 4.0% from 4.5%. This was aimed at stimulating credit to the housing sector and for commercial activity. In the wake of firm growth in monetary liabilities and weak credit demand, monetary developments were marked by increasing banking sector liquidity in 2016. Total liquidity increased by 2.5% during the year. The broad money supply (M2) expanded by 7.1%, reflecting an increase in saving deposits. Meanwhile, growth in domestic credit was more muted at 1.8% and was driven by lending to the government. Credit to the private sector declined by 2.0%, partly owing to the sale of a portion of one bank's non-performing loan portfolio to a non-bank entity.

Continued high liquidity in the banking system influenced interest rate developments. The weighted average interest rate spread widened by 37 basis points to 11.25%. The weighted average deposit rate fell by 17 basis points, while the loan rate increased by 20 basis points to 12.49%.

(c) Other policies

Some key pledges outlined in the newly elected government's manifesto are expected to guide policy. Important among these are continued investment in infrastructure to spur growth and boost employment, a renewed focus on fiscal discipline centred on reform of the budgeting process plus more efficient revenue collection, and the use of public-private partnerships for funding capital projects to reduce public debt. The government also plans to empower a new class of local entrepreneurs by leveraging the buying power of government and its influence over the private sector.

3. The main variables

(a) The external sector

The balance-of-payments current account improved in 2016, with the deficit narrowing to 12.2% of GDP from 13.6% of GDP in 2015. This was associated with a contraction in the trade deficit and a significant improvement in the surplus on current transfers. The trade deficit fell by 11.7% to US\$ 2,150.0 million, following an 8.3% decline in 2015. A large factor in this were lower payments for fuel, owing to the fall in international fuel prices. The current transfers surplus was bolstered by reinsurance inflows to settle claims from the hurricane. By contrast, the services account surplus declined by 24.1% (US\$ 389.5 million) because of a drop in net travel receipts following the hurricane and a significant increase in net payments for miscellaneous services.

The income account deficit expanded by 4.6% to US\$ 421.3 million, reflecting interest and dividend payments by commercial banks and non-banks and increased government interest payments because of growth in public debt.

Meanwhile, the capital and financial account surplus, including errors and omissions, declined by 2.4% in 2016. This outturn was associated with an outflow of US\$ 306.3 million on commercial banks' net short-term transactions. In addition, foreign direct investment contracted by 3.1% to US\$ 73.7 million. International reserves increased by 11.3% (US\$ 92 million) to US\$ 904.0 million, enough to cover 16.8 weeks of merchandise imports, as compared to 13.3% in 2015.

(b) Economic activity

Economic activity improved in 2016, with zero growth as against a decline of 1.7% in 2015. The muted recovery was driven by higher tourist arrivals, leading to a more modest increase in visitor expenditure. Total visitor arrivals rose by 2.5% to 6.26 million. The high-spending air segment increased marginally by 0.1% to 1,391,633 visitors, while cruise passenger arrivals rose by 3.9% to 4.7 million. Construction activity remained buoyant and was mainly driven by foreign investment in a variety of tourism projects, as domestic construction activity remained tepid. Both residential and commercial activity were dampened by the underlying weakness in the economy.

(c) Prices, wages and employment

The rate of inflation moderated to 0.8% in 2016 from 2.0% in 2015. The impetus for lower prices came from food and non-alcoholic beverages, whose prices declined by 2.6% after increasing by 8.0% in 2015, and from recreation and culture (-2.7%). In addition, hotel and restaurant prices declined by 5.9% after increasing by 6.3% in 2015. However, housing, water, electricity, gas and other fuel prices rose by 2.0% in line with the upward trend in fuel prices towards the end of the year, since average prices were lower for the first three quarters of the year.

The upturn in activity related to cultural events, job growth in tourism and recovery spending after the hurricane led to a decline in the rate of unemployment from 14.8% in November 2015 to 11.6% in November 2016. The unemployment rate fell by 2.1% between November 2015 and May 2016 owing to the addition of 7,540 jobs. Increased confidence in the job market was reflected by a 15.2% fall in the number of discouraged workers.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 a/ |
|--|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Annual growth rates b/ | | | | | | | | | |
| Gross domestic product | -2.3 | -4.2 | 1.5 | 0.6 | 3.1 | 0.0 | -0.5 | -1.7 | 0.0 |
| Per capita gross domestic product | -4.1 | -5.8 | -0.2 | -1.0 | 1.5 | -1.4 | -1.9 | -2.9 | -1.2 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 2.9 | 3.7 | 3.7 | -7.9 | 4.0 | -24.0 | -2.6 | -2.4 | ... |
| Mining and quarrying | 26.2 | -3.3 | 8.4 | -17.2 | -14.7 | 9.5 | 33.1 | -28.0 | ... |
| Manufacturing | -7.3 | -6.0 | 9.1 | 0.3 | 13.4 | 0.6 | -3.3 | -19.0 | ... |
| Electricity, gas and water | 9.4 | -2.6 | -4.5 | 10.6 | -5.0 | 0.0 | -0.4 | 2.0 | ... |
| Construction | 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 | -4.4 | -2.8 | 2.1 | -3.1 | 5.5 | -1.7 | -7.5 | 3.6 | ... |
| Financial institutions, insurance, real estate and business services | -7.4 | 4.4 | -8.9 | 8.9 | 3.7 | 3.2 | -2.3 | 0.8 | ... |
| Community, social and personal services | -2.1 | -6.7 | 3.2 | 2.8 | -3.4 | 0.9 | -3.9 | 5.9 | ... |
| -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 | -2.2 | -8.0 | 0.8 | -0.8 | 2.6 | -1.1 | 3.9 | -4.1 | ... |
| Government consumption | 7.2 | 3.9 | -0.3 | 7.2 | -4.7 | 1.6 | -0.2 | 7.0 | ... |
| Private consumption | -3.8 | -10.3 | 1.1 | -2.6 | 4.3 | -1.7 | 4.8 | -6.5 | ... |
| Gross capital formation | -9.3 | -9.4 | 0.6 | 7.4 | 9.3 | -2.9 | 12.8 | -11.9 | ... |
| Exports (goods and services) | -2.2 | -3.2 | 1.3 | 6.3 | 7.2 | 0.0 | -3.2 | -7.2 | ... |
| Imports (goods and services) | -5.9 | -12.2 | -0.4 | 7.5 | 9.7 | -3.3 | 10.8 | -15.6 | ... |
| Balance of payments | | | | | | | | | |
| Millions of dollars | | | | | | | | | |
| Current account balance | -1 222 | -809 | -814 | -1 203 | -1 505 | -1 494 | -1 928 | -1 409 | -1 106 |
| Goods balance | -2 243 | -1 825 | -1 889 | -2 132 | -2 401 | -2 211 | -2 482 | -2 426 | -2 150 |
| Exports, f.o.b. | 956 | 711 | 702 | 834 | 984 | 955 | 834 | 527 | 444 |
| Imports, f.o.b. | 3 199 | 2 536 | 2 591 | 2 966 | 3 385 | 3 166 | 3 316 | 2 953 | 2 594 |
| Services trade balance | 1 131 | 1 155 | 1 312 | 1 201 | 1 154 | 1 043 | 991 | 1 466 | 1 228 |
| Income balance | -85 | -152 | -235 | -236 | -268 | -329 | -438 | -403 | -421 |
| Net current transfers | -25 | 14 | -3 | -36 | 11 | 3 | 0 | -46 | 237 |
| Capital and financial balance c/ | -1 006 | -927 | -1 380 | -731 | -1 273 | -605 | -987 | 725 | 1 198 |
| Net foreign direct investment | -860 | -664 | -872 | -667 | -526 | -382 | -251 | -76 | 74 |
| Other capital movements | -146 | -263 | -508 | -64 | -746 | -223 | -736 | 801 | 1 125 |
| Overall balance | -109 | -74 | -48 | -25 | -219 | 129 | -2 | -28 | 92 |
| Variation in reserve assets d/ | 109 | 252 | 48 | 25 | 72 | -99 | 27 | 28 | -92 |
| Other financing | 0 | -178 | 0 | 0 | 147 | -30 | -25 | 0 | 0 |
| Other external-sector indicators | | | | | | | | | |
| Net resource transfer (millions of dollars) | -1 092 | -1 257 | -1 615 | -967 | -1 393 | -964 | -1 450 | 322 | 777 |
| Gross external public debt (millions of dollars) | 443 | 767 | 916 | 1 045 | 1 465 | 1 616 | 2 095 | 2 185 | 2 371 |
| Employment | | | | | | | | | |
| Average annual rates | | | | | | | | | |
| Labour force participation rate | ... | 73.4 | ... | 72.1 | 72.5 | 73.2 | 73.7 | 74.3 | 76.9 |
| Unemployment rate e/ | 8.7 | 14.2 | ... | 15.9 | 14.4 | 15.8 | 14.8 | 13.4 | 12.7 |
| Prices | | | | | | | | | |
| Annual percentages | | | | | | | | | |
| Variation in consumer prices (December-December) | 4.6 | 1.3 | 1.4 | 0.0 | 0.7 | 0.8 | 0.2 | 2.0 | 0.8 |
| Nominal deposit rate f/ | 3.9 | 3.8 | 3.4 | 2.6 | 2.0 | 1.7 | 1.4 | 1.4 | 1.2 |
| Nominal lending rate g/ | 11.0 | 10.6 | 11.0 | 11.0 | 10.9 | 11.2 | 11.8 | 12.3 | 12.5 |

Table 1 (concluded)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 a/ |
|----------------------------------|---|-------|-------|-------|-------|-------|-------|-------|---------|
| Central government h/ | Percentajes of GDP | | | | | | | | |
| Total revenue | 16.2 | 16.7 | 18.1 | 18.3 | 16.1 | 17.0 | 19.7 | 21.8 | 22.0 |
| Tax revenue | 13.7 | 14.2 | 16.4 | 16.2 | 14.5 | 14.6 | 17.4 | 18.9 | 18.5 |
| Total expenditure | 20.6 | 21.0 | 22.8 | 24.0 | 22.6 | 22.7 | 24.2 | 25.3 | 27.6 |
| Current expenditure | 18.2 | 17.8 | 19.3 | 19.6 | 18.4 | 18.7 | 19.9 | 23.2 | 24.2 |
| Interest | 1.9 | 2.3 | 2.7 | 2.4 | 2.4 | 2.5 | 2.7 | 3.1 | 3.1 |
| Capital expenditure | 3.2 | 2.0 | 2.6 | 3.1 | 3.1 | 3.0 | 3.3 | 2.6 | 3.5 |
| Primary balance | -2.5 | -2.1 | -2.0 | -3.4 | -4.1 | -3.1 | -1.7 | -0.4 | -2.6 |
| Overall balance | -4.4 | -4.3 | -4.7 | -5.7 | -6.5 | -5.6 | -4.4 | -3.5 | -5.7 |
| Non-financial public sector debt | 37.4 | 50.2 | 54.3 | 55.4 | 59.6 | 65.6 | 72.9 | 75.3 | 77.9 |
| Money and credit | Percentages of GDP, end-of-year stocks | | | | | | | | |
| Domestic credit | 95.9 | 102.8 | 106.8 | 108.2 | 103.4 | 105.0 | 102.9 | 101.3 | 102.6 |
| To the public sector | 16.6 | 18.5 | 23.7 | 23.9 | 24.5 | 28.1 | 27.8 | 30.1 | 33.2 |
| To the private sector | 79.3 | 84.3 | 83.1 | 84.3 | 78.9 | 76.9 | 73.9 | 71.2 | 69.4 |
| Monetary base | 7.8 | 8.9 | 10.4 | 11.2 | 10.7 | 10.1 | 11.4 | 11.1 | 14.5 |
| Money (M1) | 15.5 | 16.4 | 16.9 | 18.2 | 18.8 | 19.3 | 23.2 | 23.4 | 27.7 |
| M2 | 69.4 | 74.2 | 75.4 | 77.4 | 72.5 | 70.9 | 71.5 | 69.9 | 74.4 |
| Foreign-currency deposits | 2.4 | 3.0 | 2.8 | 2.6 | 2.6 | 3.2 | 2.6 | 2.1 | 3.5 |

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/ Nationwide total. Includes hidden unemployment.

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

| | 2015 | | | | 2016 | | | | 2017 | |
|--|------|------|------|------|------|-------|------|------|------|---------|
| | 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) | 815 | 940 | 904 | 795 | 924 | 1 023 | 988 | 915 | 925 | 953 b/ |
| Consumer prices (12-month percentage variation) | 1.8 | 2.0 | 2.2 | 2.0 | -1.4 | -0.3 | -0.4 | 0.8 | ... | ... |
| 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 c/ | 1.5 | 1.4 | 1.5 | 1.3 | 1.4 | 1.2 | 1.1 | 1.2 | 1.0 | 1.0 d/ |
| Lending rate e/ | 11.9 | 12.4 | 12.6 | 12.3 | 11.8 | 12.5 | 12.9 | 12.7 | 11.9 | 11.5 d/ |
| Monetary policy rates | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.3 | 4.0 | 4.0 d/ |
| Domestic credit (variation from same quarter of preceding year) | 2.4 | 0.4 | -0.2 | 0.3 | 0.9 | 0.8 | -0.2 | 1.3 | ... | ... |
| Non-performing loans as a percentage of total credit | 15.9 | 15.5 | 15.0 | 14.9 | 15.1 | 14.3 | 14.4 | 13.1 | 12.3 | 12.3 d/ |

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/ Figures as of April.

e/ Weighted average of lending and overdraft rates.