

## BAHAMAS

### 1. General trends

The Bahamian economy continued to recover in 2018 with growth firming to 1.6%, compared with 0.1% in 2017. Growth was driven mainly by the strong performance of the tourism sector, which recorded the largest increase in visitor arrivals in eight years. Tourism was supported by small and medium-sized construction projects financed by foreign direct investment (FDI). Activity in the offshore financial services sector remained stable as the authorities continued to adjust to increased international regulation that has contributed to some consolidation in the sector. Inflation picked up to 2.0% in 2018, from 1.8% in 2017, on the heels of the increase in the value added tax (VAT) rate and in international fuel prices. An increase in the number of employed was offset by the growth of the labour force, so that the rate of unemployment rose to 10.4% in 2018, from 10.0% in 2017. Fiscal policy was contractionary, with the deficit narrowing from 5.6% of GDP in fiscal year 2016/17 to 3.4% in fiscal year 2017/18, reflecting declines in both current and capital spending, with the latter normalizing after post-hurricane reconstruction outlays in 2017. The external position deteriorated; the balance-of-payments current account deficit widened to 13.9% of GDP in 2018 from 12.9% in 2017, owing to larger merchandise and income account deficits, which offset an increase in the services surplus.

With continued growth in tourism, driven by demand from the United States, additional room capacity and strong construction activity, the economy is projected to grow by 2.2% in 2019. The high value added stopover tourism segment is expected to continue to recover, producing a positive multiplier effect on distribution, transportation and other sectors. This will be further supported by growth in cruise tourist arrivals. Construction will be bolstered by varied-scale projects, including the development at The Pointe and the cruise port being built by the Carnival Cruise Line in Grand Bahama. Growth in activity is expected to lead to a decline in the rate of unemployment. Influenced by the fiscal responsibility legislation aimed at controlling spending and measures to strengthen revenue collections, the fiscal deficit is projected to be contained to under 2.0% of GDP in fiscal year 2018/19<sup>1</sup> and to around 1.0% of GDP in fiscal year 2019/20. Monetary developments will be influenced by continued high liquidity, partly reflecting sluggish growth in credit as banks maintain a prudent lending stance to improve their loan portfolio quality. This is expected to dampen domestic private investment. The balance-of-payments current account deficit is expected to narrow marginally, reflecting reduced imports of construction materials and higher tourism receipts. The economic outlook could be affected by downside risks from the trade dispute between the United States and China, which could have spillover effects on United States growth, as well as by other shocks, potentially including storms and hurricanes.

### 2. Economic policy

#### (a) Fiscal policy

Fiscal policy was contractionary in 2018, as the government implemented spending containment measures to facilitate the orderly reduction of public debt. The deficit declined from 5.6% of GDP in fiscal year 2016/17 to 3.4% in fiscal year 2017/18, although this still exceeded the budgeted target of 2.6% of GDP. The reduction in the deficit resulted from cuts in both capital and current expenditure, as the

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<sup>1</sup> The fiscal year runs from 1 July to 30 June of the following year.

government prioritized fiscal consolidation. Capital spending contracted by 31.1%, reflecting a near-halving of spending on infrastructure, which returned to trend following exceptional outlays for post-hurricane rehabilitation in 2017. Meanwhile, current expenditure fell by 6.8% to represent 17.9% of GDP, with a sharp fall in spending on goods and services, which normalized after hurricane-related outlays in 2017. By contrast, spending on wages and salaries rose by 2.0%, partly reflecting arrears payments.

Total revenue contracted marginally, by 1.4%, owing largely to declines of 0.3% and 10.4%, respectively, in tax and non-tax revenues. Proceeds from taxes on international trade fell due to lower receipts from excise and import taxes. This was only partly offset by an increase of 6.6%, or 42.3 million Bahamian dollars (B\$), in VAT revenues. The decline in non-tax revenues, to B\$ 200.6 million, was due to a 50% fall in income from dividends and other sources.

Public sector debt edged up to 66.2% of GDP, from 64.9% in 2017. Central government debt rose by 4.4%. The debt of public corporations increased by 4.2%, reflecting government guarantees for loans extended to two utility companies.

During fiscal year 2018/19, the government implemented key measures to entrench fiscal consolidation, including an increase in the VAT rate from 7.5% to 12.0% and the enactment of the Fiscal Responsibility Act in October 2018. The fiscal deficit contracted substantially —by 47.8%, to B\$ 122.5 million— in the first 10 months of fiscal year 2018/19, relative to the year-earlier period. Total revenue was bolstered by a 16.1% (B\$ 245.0-million) increase in tax receipts, spearheaded by a B\$ 123.5-million rise in proceeds from VAT and a spike in receipts from stamp taxes.

Total expenditure climbed by 8.4% to B\$ 2.1 billion. Recurrent expenditure expanded by 12.6% to B\$ 1.9 billion, as the government paid off a significant portion of its arrears and increased spending on goods and services and social assistance. Meanwhile, capital expenditure contracted by 27.3%, to B\$ 147.6 million. Given that capital spending is an important contributor to growth, the government needs to better balance the fiscal adjustment between current and capital expenditure. For fiscal year 2018/19 overall, the deficit is projected to narrow to B\$ 229 million (1.8% of GDP), just overshooting the budgeted target of B\$ 237.6 million.

## **(b) Monetary and exchange-rate policy**

Monetary policy remained neutral in 2018, with the central bank holding its policy discount rate steady at 4.0%. The central bank decided not to adjust its monetary policy stance, noting that key headwinds facing the economy —a possible slowing of the United States economy due to trade disputes with major partners, a tightening of that country's monetary policy and fallout from the withdrawal of the United Kingdom from the European Union (Brexit)— could be countered by positive developments, such as a potential early settlement of the trade disputes, which would limit their impact on United States growth, sound external reserve cover and improved banking sector credit quality.

Monetary developments in 2018 were marked by a decline in banking sector liquidity, as there was a small (0.7%) increase in domestic credit demand alongside a 0.7% decline in the broad money supply (M2). The turnaround in credit demand following the 3.2% decline in 2017, reflected a 5.9% increase in credit to the public sector, as credit to the private sector fell by 1.8%. Although the downturn in private sector credit was smaller than the 3.1% contraction in 2017, this trend over recent years remains a cause for concern, as it could suggest that businesses are not accessing the funding necessary to upgrade their production. By segment, personal loans, which account for 79.2% of the total, declined by 2.4% (B\$ 124.0 million), contrasting with increases in credit for distribution, manufacturing and transport.

The small decline in the broad money supply reflected a 6.8% contraction in time deposits, as relatively low interest rates act as a disincentive for savers to hold these longer-term deposits. Savings deposits increased by 4.1% to B\$ 1.427 billion. Bank loan portfolio quality continued to improve in 2018, with non-performing loans falling by 8.9% to B\$ 517 million, reflecting debt restructuring, sales of these portfolios and improved debt collections.

The weighted average interest rate spread narrowed by 25 basis points to 10.5% in 2018, reflecting a 41-basis-point fall in the average loan rate to 11.34%, which surpassed the 16-basis-point decline in the deposit rate to 0.84%.

The central bank continued its policy of phased capital account liberalization. In 2018, businesses were allowed to maintain deposit accounts in foreign currency at local commercial banks, for amounts of up to B\$ 100,000 to be used for making payments. In addition, the exchange control policies were amended to permit commercial banks to open Bahamian dollar deposit accounts for non-resident individuals for up to B\$ 50,000, in order to facilitate financial inclusion.

### **(c) Other policies**

The government budget for 2018/19 outlined key proposals to facilitate stable and equitable growth in the context of sustainable public finances. Growth-focused measures included facilitating small business development through the Small Business Development Centre (SBDC); the government allocated B\$ 5 million to this sector, with prospects for raising the amount to B\$ 8.5 million in the 2019/20 budget cycle. Other measures aimed at improving the ease of doing business have included simplifying business licence renewal, smoothing property registration procedures, protecting minority investors and facilitating trade across borders, especially the export of services via digital platforms. Further, the government is promoting the development of renewable energy, including the use of light-emitting diode (LED) street lights to reduce the cost of public lighting, which accounts for over 30% of electricity consumption in the Bahamas.

## **3. The main variables**

### **(a) The external sector**

The balance-of-payments current account widened from 12.9% of GDP in 2017 to 13.9% in 2018, influenced by substantial income outflows and a higher merchandise deficit, which offset the increase in the services account surplus. The income account deficit almost doubled to US\$ 711.1 million, representing 5.7% of GDP, driven mainly by significant private sector interest and dividend outflows, reflecting higher repatriation of funds by commercial banks and non-bank institutions. Government interest payments to foreign creditors also increased, in line with growth in the public debt. The merchandise deficit expanded by 4.6% to US\$ 2.656 billion, underpinned by 6.5% (US\$ 203 million) growth in imports, which surpassed the 14.9% (US\$ 84.8 million) increase in exports. Imports were propelled by higher payments for fuel, which rose by 32.9%, reflecting an increase in the volume purchased.

After declining the previous year, the services account surplus grew by 23.5% in 2018, to US\$ 1.710 billion, or 13.8% of GDP. This performance reflected a 12.5% (US\$ 328 million) expansion in net travel receipts, associated with a hike in stopover visitor arrivals and smaller construction payments, with the winding down of work on the Baha Mar mega-resort. Net current transfers rose by 28.6% to US\$ 71 million, representing 0.6% of GDP, owing to the normalization of private non-remittance transfers, after the extraordinary inflows due to the hurricane in 2017.

The capital and financial account surplus, including errors and omission, contracted by 27.3% to US\$ 1.511 billion, the equivalent of 12.2% of GDP. This mainly reflected a reversal in public sector debt operations, from substantial borrowing of US\$ 809.4 million in 2017 to a net repayment of US\$ 49.8 million in 2018. This was only partly offset by a substantial (US\$ 186.8 million) increase in net direct investment inflows to US\$ 491.4 million, partly linked to higher equity inflows. International reserves declined by 15.6% to US\$ 1.196 billion, owing to higher foreign-exchange demand by the private sector and public sector transactions, leading to a fall in the reserve cover to 17.5 weeks of merchandise imports, albeit still well above the international benchmark of 12 weeks.

**(b) Economic activity**

Economic recovery strengthened in 2018, with growth of 1.6%, compared with 0.1% in 2017, driven by a strong expansion in tourism, supported by wholesale and retail trade and financial services. Value added in the hotel and food services sector, a proxy for tourism, expanded by 31.6%. This was underpinned by a 7.9% increase in total visitor arrivals, to 6.6 million in 2018, a significant turnaround from the decline of 2.1% in 2017 and the strongest growth since 2010. Total visitor arrivals were boosted by high-spending stopover arrivals, which rose by 10.2%, reversing the 2.9% decline in 2017. Growth in stopover arrivals was accompanied by an improvement in hotel performance in New Providence and Paradise Island, where total room revenue rose by 34.0% and the occupancy rate increased by 1.0% following a 6.8% decline in 2017. Also, the average daily room rate (ADR) was up by 4.7% to B\$ 250.60. Cruise visitor arrivals grew by 5.4% to 4.9 million, relative to a 1.4% fall in 2017.

Construction activity tapered off owing to the completion of work on the Baha Mar mega-resort. Nevertheless, the sector benefited from a number of small and medium-scale FDI-financed projects, including The Pointe development in Nassau and the Carnival cruise ship port in Grand Bahama.

**(c) Prices, wages and employment**

Propelled by the increase in the VAT rate and higher fuel prices, the rate of inflation increased to 2.0% in 2018 from 1.8% in 2017. The index for housing, water, electricity, gas and other fuels rose by 2.7%, while the costs of food and non-alcoholic beverages increased by 1.2%. Meanwhile, the cost of transport and communications declined by 1.1% and 4.0%, respectively.

The pick-up in activity boosted job growth by 3.4%. However, unemployment increased by 0.6 percentage points in 2018, to 10.4%, owing to a large number of entrants into the labour market.

The employment rate is expected to continue rising in 2019, thanks to ongoing growth in tourism and buoyant construction activity, which should bring down the rate of unemployment.

Table 1  
**BAHAMAS: MAIN ECONOMIC INDICATORS**

|   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018 a/ |
|---|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| <b>Annual growth rates b/</b>   |        |        |        |        |        |        |        |        |         |
| Gross domestic product  | 1.5    | 0.6    | 0.0    | -3.0   | 0.7    | 0.6    | 0.4    | 0.1    | 1.6     |
| Per capita gross domestic product                                       | -0.1   | -1.0   | 1.6    | -4.3   | -0.6   | -0.6   | -0.7   | -1.0   | 0.6     |
| Gross domestic product, by sector                                       |        |        |        |        |        |        |        |        |         |
| Agriculture, livestock, hunting, forestry and fishing                   | 3.7    | -7.9   | 4.0    | -18.6  | -6.0   | 0.7    | 5.2    | -5.3   | 11.1    |
| Mining and quarrying  | 8.4    | -17.2  | -14.7  | 37.8   | 40.2   | -36.0  | -57.7  | -27.6  | 173.9   |
| Manufacturing   | 9.1    | 0.3    | 13.4   | -11.9  | 6.3    | -12.2  | 39.0   | -1.6   | -15.6   |
| Electricity, gas and water  | -4.5   | 10.6   | -5.0   | 18.3   | 4.3    | -8.5   | 36.7   | 0.3    | 24.7    |
| Construction  | 24.6   | 9.4    | 13.2   | -7.4   | 2.3    | -29.7  | 5.3    | 15.6   | -10.2   |
| Wholesale and retail commerce,<br>restaurants and hotels                | 2.1    | -3.1   | 5.5    | -6.0   | 2.5    | 11.5   | 2.7    | -12.3  | 13.4    |
| Transport, storage and communications                                   | -8.9   | 8.9    | 3.7    | 17.1   | 12.1   | -0.6   | -6.4   | -10.0  | -0.2    |
| Financial institutions, insurance, real<br>estate and business services | 3.2    | 2.8    | -3.4   | -3.1   | 1.0    | 7.7    | -2.0   | 0.3    | 1.0     |
| Community, social and personal services                                 | 2.7    | 1.1    | -0.5   | -2.4   | 1.4    | 3.0    | 2.9    | 2.6    | -2.5    |
| Gross domestic product, by type of expenditure                          |        |        |        |        |        |        |        |        |         |
| Final consumption expenditure   | 0.8    | -0.8   | 2.6    | -2.9   | 3.5    | 1.6    | -1.3   | 7.8    | 1.0     |
| Government consumption  | -0.3   | 7.2    | -4.7   | -7.2   | -2.5   | 6.8    | -7.3   | 13.9   | -4.0    |
| Private consumption   | 1.1    | -2.6   | 4.3    | -2.1   | 4.7    | 0.7    | -0.2   | 6.8    | 2.0     |
| Gross capital formation   | 0.6    | 7.4    | 9.3    | -1.0   | 7.0    | -10.7  | -1.3   | 23.0   | 0.7     |
| Exports (goods and services)  | 1.3    | 6.3    | 7.2    | 1.9    | -4.1   | -3.6   | 2.2    | -2.2   | 6.3     |
| Imports (goods and services)  | -0.4   | 7.5    | 9.7    | -2.4   | 11.9   | -11.7  | 2.3    | 10.4   | -0.4    |
| <b>Millions of dollars</b>  |        |        |        |        |        |        |        |        |         |
| Balance of payments   |        |        |        |        |        |        |        |        |         |
| Current account balance   | -814   | -1 203 | -1 505 | -1 494 | -1 885 | -1 203 | -1 106 | -1 981 | ...     |
| Goods balance   | -1 889 | -2 132 | -2 401 | -2 211 | -2 510 | -2 434 | -2 150 | -2 538 | ...     |
| Exports, f.o.b.   | 702    | 834    | 984    | 955    | 834    | 521    | 444    | 570    | ...     |
| Imports, f.o.b.   | 2 591  | 2 966  | 3 385  | 3 166  | 3 344  | 2 954  | 2 594  | 3 108  | ...     |
| Services trade balance  | 1 312  | 1 201  | 1 154  | 1 043  | 997    | 1 618  | 1 228  | 973    | ...     |
| Income balance  | -235   | -236   | -268   | -329   | -438   | -403   | -421   | -360   | ...     |
| Net current transfers   | -3     | -36    | 11     | 3      | 66     | 15     | 236    | -55    | ...     |
| Capital and financial balance c/  | 862    | 1 228  | 1 430  | 1 425  | 1 937  | 1 231  | 1 201  | 2 485  | ...     |
| Net foreign direct investment   | 872    | 667    | 526    | 382    | 251    | 76     | 74     | 595    | ...     |
| Other capital movements   | -10    | 562    | 904    | 1 043  | 1 686  | 1 155  | ...    | ...    | ...     |
| Overall balance   | 48     | 25     | -75    | -69    | 52     | 28     | 95     | 504    | ...     |
| Variation in reserve assets d/  | -48    | -25    | 75     | 69     | -52    | -28    | -95    | -504   | ...     |
| Other financing   | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | ...     |
| Other external-sector indicators  |        |        |        |        |        |        |        |        |         |
| Net resource transfer (millions of dollars)                             | 627    | 992    | 1 162  | 1 096  | 1 499  | 829    | 780    | 2 125  | ...     |
| Gross external public debt (millions of dollars)                        | 916    | 1 045  | 1 465  | 1 616  | 2 095  | 2 176  | 2 373  | 3 234  | 3 172   |
| <b>Average annual rates</b>   |        |        |        |        |        |        |        |        |         |
| Employment  |        |        |        |        |        |        |        |        |         |
| Labour force participation rate   | ...    | 72.1   | 72.5   | 73.2   | 73.7   | 74.3   | 77.1   | 80.5   | 82.8    |
| Unemployment rate e/  | ...    | 15.9   | 14.4   | 15.8   | 14.8   | 13.4   | 12.2   | 10.0   | 10.4    |
| <b>Annual percentages</b>   |        |        |        |        |        |        |        |        |         |
| Prices  |        |        |        |        |        |        |        |        |         |
| Variation in consumer prices<br>(December-December)                     | 1.4    | 0.0    | 0.7    | 0.8    | 0.2    | 2.0    | 0.8    | 1.8    | 2.0     |
| Nominal deposit rate f/   | 3.4    | 2.6    | 2.0    | 1.7    | 1.4    | 1.4    | 1.2    | 1.0    | 0.8     |
| Nominal lending rate g/   | 11.0   | 11.0   | 10.9   | 11.2   | 11.8   | 12.3   | 12.5   | 11.8   | 11.4    |

Table 1 (concluded)

|                                  | 2010  | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------|---|------|------|------|------|------|------|------|------|
| Central government h/            | <b>Percentajes of GDP</b>                     |      |      |      |      |      |      |      |      |
| Total revenue                    | 14.2  | 14.4 | 12.6 | 13.7 | 15.6 | 16.4 | 17.3 | 16.7 | 19.4 |
| Tax revenue                      | 12.8  | 12.7 | 11.3 | 11.8 | 13.7 | 14.3 | 15.4 | 15.1 | 17.7 |
| Total expenditure                | 17.9  | 18.8 | 17.7 | 18.3 | 19.1 | 19.1 | 22.9 | 20.2 | 21.5 |
| Current expenditure              | 15.1  | 15.4 | 14.4 | 15.1 | 15.7 | 17.1 | 19.6 | 17.9 | 19.6 |
| Interest                         | 2.1   | 1.8  | 1.8  | 2.0  | 2.1  | 2.3  | 2.2  | 2.6  | 2.7  |
| Capital expenditure              | 2.0   | 2.4  | 2.4  | 2.4  | 2.6  | 2.0  | 3.3  | 2.2  | 1.9  |
| Primary balance                  | -1.6  | -2.6 | -3.2 | -2.5 | -1.4 | -0.3 | -3.4 | -0.8 | 0.6  |
| Overall balance                  | -3.7  | -4.5 | -5.1 | -4.5 | -3.5 | -2.6 | -5.6 | -3.4 | -2.1 |
| Non-financial public sector debt | 40.7  | 42.3 | 45.1 | 52.6 | 57.4 | 56.5 | 59.6 | 64.9 | 66.2 |
| Money and credit                 | <b>Percentages of GDP, end-of-year stocks</b> |      |      |      |      |      |      |      |      |
| Domestic credit                  | 83.7  | 84.8 | 81.0 | 84.7 | 81.2 | 76.3 | 76.5 | 72.7 | 71.7 |
| To the public sector             | 18.6  | 18.8 | 19.2 | 22.7 | 22.0 | 22.7 | 24.8 | 23.5 | 24.3 |
| To the private sector            | 65.1  | 66.0 | 61.8 | 62.0 | 58.3 | 53.6 | 51.7 | 49.2 | 47.4 |
| Monetary base                    | 8.2   | 8.8  | 8.4  | 8.2  | 9.0  | 8.3  | 10.8 | 11.9 | 10.1 |
| Money (M1)                       | 13.2  | 14.2 | 14.7 | 15.5 | 18.3 | 17.6 | 20.6 | 21.8 | 22.0 |
| M2                               | 59.1  | 60.6 | 56.8 | 57.2 | 56.5 | 52.6 | 55.5 | 55.7 | 54.0 |
| Foreign-currency deposits        | 2.2   | 2.0  | 2.0  | 2.6  | 2.1  | 1.6  | 2.6  | 2.3  | 3.2  |

**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 2012 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**

|  | 2017 |      |      |       | 2018  |       |       |       | 2019  |          |
|--|------|------|------|-------|-------|-------|-------|-------|-------|----------|
|  | 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)                 | 925  | 955  | 974  | 1 350 | 7 478 | 6 904 | 7 385 | 7 100 | 7 179 | 7 656 b/ |
| Consumer prices<br>(12-month percentage variation)                 | 2.7  | 1.2  | 0.9  | 1.8   | 0.7   | 1.9   | 3.7   | 2.0   | 3.6   | ...      |
| Average nominal exchange rate<br>(Bahamas dollars per dollar)      | 1.0  | 1.0  | 1.0  | 1.0   | 1.0   | 1.0   | 1.0   | 1.0   | 1.0   | 1.0 b/   |
| Nominal interest rates (average annualized percentages)            |      |      |      |       |       |       |       |       |       |          |
| Deposit rate d/  | 1.0  | 1.0  | 1.0  | 1.0   | 0.9   | 0.8   | 0.9   | 0.8   | 0.7   | 0.6 e/   |
| Lending rate f/  | 11.9 | 12.0 | 12.0 | 11.5  | 11.4  | 11.3  | 11.6  | 11.3  | 10.3  | 10.4 e/  |
| Monetary policy rates  | 4.0  | 4.0  | 4.0  | 4.0   | 4.0   | 4.0   | 4.0   | 4.0   | 4.0   | 4.0 b/   |
| Domestic credit (variation from same<br>quarter of preceding year) | 2.0  | 3.6  | 4.2  | -2.1  | -4.0  | -4.9  | -5.0  | -0.2  | 0.6   | ...      |

**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/ Figures as of February.

d/ Weighted average rate of deposit rates.

e/ Figures as of April.

f/ Weighted average of lending and overdraft rates.