

Bahamas

In 2007, the economy is estimated to have grown by between 3% and 3.5% relative to 3.4% in 2006. Growth in 2007 has been pinned back somewhat by a fall in value added in the tourism sector, lower consumer demand and less dynamic foreign investment inflows. The consumer price index rose to 2.2% in September (cumulative over nine months), compared with 1.8% in 2006. The fiscal position is expected to deteriorate, with the overall fiscal deficit expanding to 1.8% of GDP, up from 1.2%. As of the first semester of 2007 compared to the first semester in 2006, the current account deficit was slightly down, but the capital and financial account was stronger. This resulted in a balance-of-payments surplus (US\$ 143 million). GDP is expected to grow by 3.5% in 2008.

Fiscal management is a policy challenge for the Bahamian economy, especially given the one-to-one peg to the United States dollar. The fiscal stance was expansionary in fiscal year 2006/2007,¹ as expected in an election year. The overall deficit widened by US\$ 88.7 million to 1.8% of GDP, up from 1.2% of GDP in fiscal year 2005/2006 and surpassing the projected 1.6% of GDP. Revenue receipts firmed by 18.5%, responding to dynamic growth in tax proceeds and non-tax receipts. Taxes on international trade and transactions, which account for almost 54% of total tax receipts, expanded by 6.9%; while returns from business and professional licence fees related to offshore financial services, were up by 11%. However, growth in revenue was eclipsed by a 12.6% rise in expenditure. Spending on goods and services expanded by 12.1%, largely reflecting acquisitions for education, health, infrastructure and community services. Underscoring its more favourable expectations for the economy, Standard & Poor's has revised its outlook on the long-term sovereign credit rating for the Bahamas to positive from stable, providing an A- rating for the long-term and A-2 for the short-term sovereign debt.

The government has targeted a recurrent budget surplus for fiscal year 2007/08 and plans to eliminate the overall fiscal deficit by fiscal year 2012/13. This is aimed at reducing the debt-to-GDP ratio to around 35%. The debt burden, currently around 38% of GDP, is not onerous but sharp growth in debt servicing costs could put a strain on fiscal and macroeconomic stability, undermining the gains achieved in the past two decades.

The hard peg to the United States dollar means that monetary policy is indirect and largely focused on ensuring sufficient reserve cover to back domestic currency issue, so as to maintain stability and confidence in the regime. Moderation in the growth of imports, slower growth in credit and stability of the commercial banks' prime rate at around 5.5% allowed the central bank to maintain a conservative monetary stance in 2007. The bank held its benchmark discount rate at 5.25%. Commercial banks remained quite profitable as returns were bolstered by higher interest income and efficiency gains from lower operating costs.

Despite the impact of higher international fuel and other commodity prices and the relative depreciation of

¹ The fiscal year runs from July of the current year to June of the following year.

the Bahamian dollar against currencies such as the euro and the Canadian dollar, inflation edged up to 2.2%² as of September (cumulative over nine months). Price increases were led by other goods and services (up 6.6%) and food and beverages (up 4.2%). There was no general public-sector wage increase during the year, although higher wages were offered to some specific categories of workers.

Tourism and construction, two important engines of growth, turned in weaker performances in 2007 relative to 2006. Buffeted by high fuel prices and difficulties for United States travellers arising from the Western Hemisphere Transport Initiative (WHTI), which requires United States visitors to countries such as the Bahamas to obtain passports, visitor arrivals to the Bahamas declined by 12.1% to 1.15 million during the first semester of 2007, relative to growth of almost 7% over the similar period of 2006. In addition, a slowdown in construction reinforced the dampening effects of the contraction in tourism. Reflecting softer construction activity, the total value of outstanding mortgages was up by 12.5% in the first semester of 2007 (17.1% for the same period in 2006). Activity in offshore financial services remained buoyant as evidenced by higher receipts from international business companies.

The balance of payments recorded a surplus of US\$ 143 million for the first semester of 2007, owing to high foreign investment outflows, an increase in offshore companies' local expenses and a slight improvement in the current account deficit (US\$ 705 million in the first semester of 2006 compared with US\$ 670 million in the same period in 2007, reflecting a moderate downturn in imports and increased exports). These favourable developments were able to offset the dampening effects of a 3.2% decline in net travel receipts associated with a soft tourism market. The structural surplus on the services account decreased by 5.9% to US\$ 376 million. The capital and financial account surplus increased from US\$ 770 million in the first semester of 2006 to US\$ 812 million in the same

BAHAMAS: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	2.7	3.4	3.3
Per capita gross domestic product	1.5	2.1	2.0
Consumer prices	1.2	2.3	2.2 ^b
Money (M1)	16.8	3.7	1.3 ^c
Annual average percentages			
Unemployment rate ^d	10.2	7.6	...
National administration overall balance / GDP	-3.8	-1.5	-1.8
Nominal deposit rate	3.2	3.4	3.6 ^f
Nominal lending rate	10.3	10.0	10.6 ^f
Millions of dollars			
Exports of goods and services	3 075	3 128	...
Imports of goods and services	3 773	4 540	...
Current account	-815	-1 578	-670 ^g
Capital and financial account	726	1 499	812 ^g
Overall balance	-89	-79	143 ^g

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

^a Preliminary estimates.

^b New Providence. Nine-month variation to September 2007.

^c Twelve-month variation to August 2007.

^d Includes hidden unemployment.

^e Fiscal year.

^f Average from January to June, annualized.

^g Data refer to first semester.

period in 2007, with private-sector investment inflows expanding by 26%. With respect to specific projects, phase III of the Kerzner project to expand the Atlantis tourist complex has been completed and the US\$ 500 million Baker's Bay investment on Abaco has started.

The new Free National Movement government, elected in May, prioritizes fiscal consolidation, an improved tourism product and a competitive financial services sector as key policy areas. The Bahamian economy will face challenges relating to sustainable growth and maintaining FDI inflows to fuel the competitiveness of the tourism sector. There is a need to strengthen the business environment to facilitate FDI as well as to harmonize the incentive regime for FDI and domestic investment, in order to boost investment in key activities.

² Based on data for New Providence only.