Bahamas

The recession in the Bahamian economy deepened in 2009 with growth estimated to contract by 3.9%, as the recession in its major market, the United States, led to a sharp fall in tourism and foreign direct investment and to less dynamic offshore financial services. The government implemented a series of fiscal stimulus measures to counter the downturn in demand and bolster economic activity. With reduced private-sector demand, monetary developments were marked by a slowdown in credit and a build-up in liquidity. The current account deficit decreased reflecting the weakness in import demand and lower fuel prices. Services exports fell owing mainly to the decline in tourism receipts. An upturn is expected in 2010 (2%), as growth returns following a recovery in the United States; inflation will then be fuelled by increased demand and higher commodity prices and the fiscal deficit will remain stable.

Economic policy in 2009 sought to provide an effective response to the recession in major markets and its repercussions on growth and employment in the Bahamas. The government's stimulus programme has involved fast-tracking infrastructure projects and providing unemployment benefits to cushion the fall-out in terms of unemployment.

Shrinking revenues (-6.1%) and growth in expenditure (4.5%) led to an increase in the fiscal deficit from 2.0% of GDP in fiscal year 2007/08 to 3.0% of GDP in fiscal year 2008/09.[1] Tax receipts were undermined by domestic recessionary conditions, which reduced the take from both domestic and border taxes. Taxes on international trade and transactions fell by 13% owing to reduced imports, and a 15% contraction in the proceeds of the departure tax. On the other hand, total expenditure increased by 4.5%, boosted by higher current spending and outlays on the capital formation component of capital expenditure. Growth in current spending resulted from a 4.2% increase in outlays on wages and salaries, aimed partly at maintaining consumption during the downturn. Capital expenditure contracted by 6.7% owing partly to reduced acquisition of assets. Nevertheless, expenditure on capital formation, an important part of capital spending, rose by 8.8% and was associated with government building projects and road works undertaken in order to stimulate activity. The deficit was financed through domestic borrowing and external loans and public-sector debt climbed to nearly 50% of GDP, well above the medium-term objective of 30% to 35% of GDP. Domestic debt accounted for 86% of the total. A fiscal deficit of 3.3% of GDP is projected for fiscal year 2009/10 with demand remaining weak at least into the early months of 2010 and some fiscal stimulus being maintained to spur growth.

Monetary policy continued to target the build-up of reserves in order to maintain the pegged exchange rate, which has been a source of stability. The Bahamas received US$ 186.8 million in special drawing rights (SDRs) from IMF under the general allocation programme to help countries affected by the crisis. The central bank's benchmark discount rate and prime lending rate remained unchanged and therefore did nothing to facilitate economic recovery. Dampened consumer confidence and business uncertainty led to a deceleration in credit growth to 5.9% year-on-year in June 2009 compared with 8.4% in June 2008. The bulk of the credit allocated went to personal loans with little directed at stimulating productive activity. Credit quality worsened with consumer loan delinquencies rising by 7.2% to 33% during the second quarter of the year.

Real output dropped by 3.9% in 2009, deepening the decline in 2008 (-1.7%). In the wake of the recession, the

[1] In the Bahamas, the fiscal year runs from 1 July to 30 June.

mainstay of the economy —tourism— which accounts for around 50% of GDP, was badly weakened by the slump in demand from the United States. Real value added in tourism contracted during the year as growth in the cruise component was largely counterbalanced by a decline in the heavy-spending stay-over segment. The hosting of the Miss Universe event in August provided only a temporary boost to the tourism sector. The other key sector, financial services, also experienced a fall-off in activity. Construction slowed as the global financial crisis stifled foreign investment in the sector.

Inflationary pressures moderated to 3.5% (September-September) with the slowdown in demand and the slackening of international prices of commodities, especially fuel. Of particular concern is the rise in unemployment, notably in tourism, from 12.1% in 2008 to 14.2% in May of 2009, the highest level in recent decades. A recovery in activity in 2010 is expected to lead to improved labour demand and lower unemployment.

A sharp fall in merchandise imports (more than 20%) more than compensated for the reduction in the services and income surpluses, leading to a marked narrowing of the current account deficit from 13.3% of GDP in the first half of 2008 to 8.6% in the first half of 2009. Imports plummeted owing to stalled private-sector demand and lower prices for some commodities; fuel imports, in particular, plunged by some 40% following a sharp fall in both price and volumes. The services surplus declined by around 5% as tourism receipts were down by around 6%. Foreign direct investment contracted, partly reflecting reduced land purchases. As a result, the capital and financial account surplus shrank by 5.1% and international reserves amounted to US$ 651 million, covering 12 weeks of imports.

BAHAMAS: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	0.7	-1.7	-3.9
Per capita gross domestic product	-0.5	-2.9	-5.0
Consumer prices	2.4	4.8	0.8 [b]
Money (M1)	3.4	-1.7	-3.4 [b]
	Annual average percentages		
Unemployment rate [c]	7.9	8.7	12.4
Central government overall balance/GDP [d]	-2.4	-2.0	-3.0
Nominal deposit rate [e]	3.7	3.9	3.8 [f]
Nominal lending rate [g]	10.6	11.0	10.6 [f]
	Millions of dollars		
Exports of goods and services	3 401	3 499	703 [h]
Imports of goods and services	4 536	4 559	2 468 [h]
Current account balance	-1 315	-1 118	-544
Capital and financial account balance [i]	1 269	1 228	919
Overall balance	-46	109	375

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to September 2009.
[c] Includes hidden unemployment.
[d] Fiscal year.
[e] Deposit rate, weighted average.
[f] Average from January to September, annualized.
[g] Lending and overdraft rate, weighted average.
[h] In 2009, refers to goods only.
[i] Includes errors and omissions.