

## Bahamas

In 2011, the Bahamas experienced a modest strengthening of the recovery that started in 2010. Growth is projected at 2.0%, compared with 0.9% in 2010. Tourism activity picked up, thanks to higher stay-over and cruise passenger arrivals. Construction expanded, led by the start-up of the massive (US\$ 3.4 billion) Baha Mar tourism project and government infrastructure works. The fiscal deficit is expected to decline from 3.2% of GDP in 2010/2011 to 2.4% of GDP in 2011/2012, owing to expenditure restraint. The balance-of-payments current account deficit widened, reflecting higher imports related to foreign direct investment activity. Driven by construction and tourism, growth is expected to strengthen to 3% in 2012.

The fiscal position improved in fiscal year 2010/2011,<sup>1</sup> following a one-off sale of government assets and restraint in spending. As a result, the year-to-date fiscal deficit declined from 3.1% of GDP in May 2010 to 2.4% of GDP in May 2011. Total expenditure increased to 18.5% of GDP, up from 18% of GDP a year earlier; this reflected higher interest payments due to increased borrowing and substantial government outlays on goods and services. Central government debt increased by 3% in nominal terms in the year through September 2011, as the government scaled up its borrowing for infrastructure and other projects. However, debt declined marginally to 45% of GDP, down from 46% in 2010, owing to stronger GDP growth. The downgrade in the Bahamas' credit rating by Moody's from stable to negative could raise the future cost of borrowing for the government.

The central bank eased its monetary policy stance in 2011, with a 75-basis-point reduction in its policy-oriented discount rate as a signal to financial institutions to lower the prime lending rate in order to boost private-sector credit and growth. Nevertheless, due to high liquidity conditions, the decline in the lending rate was outweighed by the reduction in the average deposit rate, leading to a widening in the interest rate spread. With investor confidence still weak, credit demand remained tepid. Non-performing loans, however, increased by 2.6%

(18.3 million Bahamian dollars) to 11.4% of total loans, remaining a cause for concern.

Economic activity continued to recover in 2011, with real GDP growth of 2.0% projected, compared with 0.9% in 2010. Activity in tourism improved, reflecting the positive spillover from the modest recovery in the United States. Total visitor arrivals increased by 5.1% from January to August year-on-year. Although high-spending stay-over arrivals were down by 4.0%, total receipts rose by 2.0% for the first nine months of the year, owing to an increase in the average daily room rate. Cruise passenger arrivals from January to August 2011, increased by 8.4% relative to the same period in 2010. Construction activity picked up, with the impetus coming from foreign direct investment in hotel construction, especially the Baha Mar project and the Albany hotel project, and government infrastructure works.

Higher food and fuel prices pushed up the rate of inflation from 1.3% in 2010 (October-October) to 3.2% in 2011. The pass-through effects of the hike in international fuel prices led to an increase in transport prices from 2.9% in October 2010 to 6.8% in October 2011. Food and beverage prices also increased year-on-year to October, while lower costs were recorded for health and education services. Unemployment data are unavailable, but employment was expected to increase in growth sectors, including tourism, distribution and construction.

<sup>1</sup> In the Bahamas, the fiscal year runs from July 1 to June 30.

The balance-of-payments current account deficit is projected to expand from over 10.5% of GDP in 2010 to 12.9% of GDP in 2011. The weakening current account reflects the rebound in imports, following import compression due to stagnant growth in 2010. The full year result will reflect that of the first half, when the current account deficit doubled to 8.5% of GDP from 4% of GDP year-on-year in 2010. The merchandise trade deficit widened by 8.0% in the wake of a 8.0% increase in imports, especially of non-fuel items, which outstripped the 7.9% rise in exports. This offset the improvement in the services surplus, which benefited from higher tourism receipts arising from the modest upturn in the sector; and lower net payments for transportation and insurance services. The income-account deficit decreased by 6.6%, with lower investment-income outflows offset by higher labour-income remittance outflows. The surplus on the capital and financial accounts expanded by 34% to stand at US\$ 1.15 billion. This expansion reflected a surge in net foreign direct investment inflows into tourism and other activities. The current account deficit is expected to widen marginally in 2012, stemming from higher project-related imports. International reserves expanded by US\$ 214 million to US\$ 1.08 billion, or four months of import cover.

**BAHAMAS: MAIN ECONOMIC INDICATORS**

	2009	2010	2011 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	-5.4	0.9	2.0
Per capita gross domestic product	-6.5	-0.5	0.8
Consumer prices	1.3	1.4	3.3 <sup>b</sup>
Money (M1)	0.7	4.0	4.3 <sup>c</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>d</sup>	14.2	...	13.7
Central government			
overall balance / GDP <sup>e</sup>	-3.1	-3.2	-2.4
Nominal deposit rate <sup>f</sup>	3.8	3.4	2.8 <sup>g</sup>
Nominal lending rate <sup>h</sup>	10.6	11.0	11.1 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 061	3 196	3 310
Imports of goods and services	3 731	3 771	4 120
Current account balance	-809	-811	-1 047
Capital and financial balance <sup>i</sup>	1 062	856	1 147
Overall balance	253	45	100

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2011.

<sup>c</sup> Twelve-month variation to September 2011.

<sup>d</sup> Includes hidden unemployment.

<sup>e</sup> Fiscal year.

<sup>f</sup> Deposit rate, weighted average.

<sup>g</sup> January-September average.

<sup>h</sup> Lending and overdraft rate, weighted average.

<sup>i</sup> Includes errors and omissions.