

Bahamas

1. General trends

The Bahamian economy contracted by 1.7% in 2008, as against growth of 0.7% in 2007. The downturn in major markets, especially in the second half of the year, led to a slump in demand for tourism services and a sharp fall in foreign direct investment (FDI) that dampened construction activity. Real value added in financial services was buoyant in 2008. Reflecting the impact of higher fuel¹ and food prices, inflation leaped far above trend to 4.6%, compared with 2.8% in 2007. One of the knock-on effects of the rapid decline in activity levels in the second semester was a spike in unemployment, which reached 12.1% at the end of December, a far higher rate than the 7.9% recorded in December 2008.

Fiscal performance improved in fiscal year² 2007-2008 as a result of dynamic revenue growth, which outpaced growth in spending. Nevertheless, for the first half of fiscal year 2008-2009, with slumping activity and rising unemployment, the government stimulus translated into an expansionary fiscal stance that included the fast-forwarding of capital projects. In the context of a challenging environment, monetary policy was directed towards maintaining sufficient external reserves to support the pegged exchange rate. Households exercised caution as the global recession made itself felt in the economy and the depletion of resources that usually occurs in the Christmas shopping period was more moderate in 2008.

The balance-of-payments current account deficit narrowed from 17.5% of GDP in 2007 to 13.9% of GDP in 2008, associated with slacker non-oil import demand, growing exports and lower foreign payments for construction exports. Continued import compression reflecting the economy's negative growth is expected to lead to a marginal narrowing of the current account deficit in 2009.

The Bahamian economy is expected to stay in recession with negative growth of 4% in 2009, as the contagion from major markets leads to sharp contractions in tourism, FDI and financial services. The economy is not expected to recover until 2011. The fall-out in major sectors of the economy will result in higher unemployment and reduced hours for some workers. The inflation rate, which is running above the long-term average of around 2%, is expected to ease in 2009 as the international prices of most imports decrease and domestic demand slows.

¹ Fuel prices eased in the latter half of 2008, but the earlier hike contributed to higher average prices.

² In the Bahamas the fiscal year runs from 1 July to 30 June.

Table 1
THE BAHAMAS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	4.3	-0.3	2.0	-2.4	3.7	5.7	4.3	0.7	-1.7
Per capita gross domestic product	2.8	-1.6	0.7	-3.6	2.4	4.4	3.0	-0.5	-2.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	5.5	-2.0	19.0	-3.8	-7.3	-15.2	5.5	-14.6	-5.8
Mining and quarrying	10.6	2.7	2.8	14.6	4.8	-4.7	-1.6	-43.8	-20.5
Manufacturing	9.8	-20.6	-5.7	22.2	24.2	40.1	-31.0	-12.0	-1.8
Electricity, gas and water	26.9	6.3	5.7	6.6	-29.5	13.0	18.1	2.5	6.0
Construction	30.6	-22.2	18.0	6.6	-1.2	9.5	28.5	5.1	-10.0
Wholesale and retail commerce, restaurants and hotels	-3.1	5.1	-6.4	2.7	6.0	10.3	4.0	-6.1	-0.7
Transport, storage and communications	3.1	-6.5	3.7	0.9	11.1	4.0	3.5	-5.1	-6.4
Financial institutions, insurance, real estate and business services	6.6	7.8	5.8	-9.5	7.2	2.0	1.3	4.7	3.2
Community, social and personal services	-2.0	-1.9	-2.2	-3.0	2.7	4.9	-2.3	4.4	0.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.3	4.0	-3.6	-1.1	-4.7	9.7	7.4	-3.1	-1.6
Government consumption	3.6	2.8	-1.3	-10.4	-3.3	3.9	2.4	0.1	2.2
Private consumption	3.2	4.3	-4.2	1.4	-5.1	11.1	8.6	-3.8	-2.5
Gross domestic investment	14.1	-9.1	-2.7	1.4	-4.7	24.0	21.3	-0.3	-11.1
Exports (goods and services)	5.1	-5.9	10.0	-1.3	25.8	1.4	1.1	3.0	-3.8
Imports (goods and services)	9.6	-4.1	-4.3	3.2	3.8	17.8	16.2	-3.1	-9.6
Millions of dollars									
Balance of payments									
Current account balance	-442	-594	-298	-321	-171	-651	-1 374	-1 315	-1 055
Goods balance	-1 334	-1 340	-1 213	-1 231	-1 348	-1 763	-2 033	-2 154	-2 132
Exports, f.o.b.	576	423	422	427	477	549	694	802	997
Imports, f.o.b.	1 910	1 764	1 635	1 657	1 826	2 312	2 727	2 956	3 129
Services trade balance	955	835	1 057	1 014	1 068	1 230	825	1 020	1 191
Income balance	-141	-199	-184	-152	-141	-203	-218	-232	-169
Net current transfers	78	110	42	49	251	85	52	52	56
Capital and financial balance ^c	381	564	359	432	354	562	1 295	1 269	1 164
Net foreign direct investment	250	192	209	247	443	563	706	746	700
Other capital movements	130	372	150	185	-89	-1	588	523	464
Overall balance	-61	-30	61	111	184	-89	-79	-46	109
Variation in reserve assets ^d	62	30	-61	-111	-184	89	79	46	-109
Net resource transfer	240	366	175	279	213	358	1 077	1 037	994
Gross external public debt	350	328	309	363	345	338	334	326	427
Average annual rates									
Employment									
Unemployment rate ^e	...	6.9	9.1	10.8	10.2	10.2	7.6	7.9	12.1
Prices									
Annual percentages									
Variation in consumer prices (December-December)	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.6
Nominal deposit rate ^f	...	...	...	3.9	3.8	3.2	3.4	3.7	3.9
Nominal lending rate ^g	...	...	...	12.0	11.2	10.3	10.0	10.6	11.0
Percentages of GDP									
Central government^h									
Total income	17.3	15.1	15.3	15.9	16.8	18.0	18.4	19.0	20.7
Current income	17.3	15.1	15.3	15.6	16.6	17.9	18.4	19.0	20.6
Tax income	15.5	13.6	13.8	14.0	14.9	16.1	16.5	16.9	18.7
Capital income ⁱ	0.0	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.1
Total expenditure ^j	16.9	17.7	17.7	18.1	18.5	18.7	19.9	20.3	22.1
Current expenditure	15.3	15.8	16.3	16.7	17.0	16.9	17.7	17.9	19.6
Interest	1.7	1.8	1.7	1.9	1.9	1.7	1.7	1.9	2.2
Capital expenditure	1.5	1.8	1.4	1.4	1.5	1.8	2.3	2.4	2.5
Primary balance	2.1	-0.7	-0.7	-0.3	0.2	1.0	0.2	0.6	0.8
Overall balance	0.4	-2.5	-2.4	-2.2	-1.7	-0.8	-1.6	-1.3	-1.4
Public external debt	6.3	5.8	5.2	6.1	5.6	5.0	4.6	4.4	5.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Money and credit^k									
Domestic credit	75.2	80.5	81.1	81.2	82.1	84.6	90.5	98.7	104.2
To the public sector	11.7	13.6	14.7	14.7	14.3	13.8	14.7	16.2	18.1
To the private sector	63.5	66.8	66.4	66.4	67.9	70.7	75.8	82.5	86.1
Liquidity (M3)	62.7	64.3	63.3	65.5	69.8	69.4	69.6	74.7	77.9
Currency outside banks and local-currency deposits (M2)	61.1	62.7	61.8	63.8	68.2	67.3	67.4	72.1	75.3
Foreign-currency deposits	1.6	1.6	1.5	1.7	1.6	2.1	2.2	2.7	2.7

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 (-) denotes an increase in reserves.

^e Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^f Deposit rate, weighted average.

^g Lending and overdraft rate, weighted average.

^h Fiscal years.

ⁱ Includes grants.

^j Includes net lending.

^k The monetary figures are end-of-year stocks.

2. Economic policy

(a) Fiscal policy

Fiscal policy was less expansionary in fiscal year 2007-2008 than in the previous fiscal year; growth in spending eased and was outpaced by the increase in revenues. Overall, the deficit contracted to 1.3% of GDP, from 1.6% of GDP in 2007. Revenues expanded by 6.4% to 1.424 billion Bahamian dollars (B\$), reflecting solid growth in income from selective taxes on tourism services (15.8%), partly due to higher receipts from departure taxes. Non-tax revenue of B\$ 157 million surpassed both the budgeted figure and receipts for the previous fiscal year.

At 4.7%, growth in expenditure was below the budgeted level, as a result of the containment of primary spending during the year. Outlays on goods and services and personal emoluments, the two largest current spending items, were up by 6.8% and 2.8%, respectively, although in real terms there was a fall in outlays on wages and salaries. Debt interest payments rose by 12.1% to B\$ 143 million, as the public debt stock climbed to 36.5% of GDP. Even with this debt-to-GDP ratio, debt costs would remain manageable within a framework of stable growth and orderly debt acquisition, but could raise concerns if fiscal expansion becomes locked in as economic conditions worsen.

Capital formation focused on infrastructure projects and the acquisition of assets advanced by 6.5%, but was below initial allocations. The smaller deficit in fiscal year 2007-2008 was financed by domestic currency borrowings of B\$ 137.9 million and proceeds from a US\$ 100 million bond issue. External public debt rose from 4.4% to 5.6% of GDP.

The spreading recession has impinged on fiscal performance in 2008-2009. The government has undertaken a fiscal stimulus programme with the aim of containing the slowdown in economic activity and rise in unemployment while providing critical public infrastructure. The stimulus includes the start-up of infrastructure projects such as road improvement and the redevelopment of downtown Nassau, as well as safety-net assistance, including unemployment benefit for workers who have lost their jobs. Combined with a decline in revenues from import duties and stamp and gaming taxes, the stimulus has forced the government to double its original fiscal deficit target to 4.7% of GDP for 2008-2009. Nevertheless, even with extra borrowing, debt levels should remain within the medium-term goal of 30%-35% of GDP. Given the country's heavy reliance on the United States market, Standard and Poor's has downgraded its outlook for the Bahamas from stable to negative.

(b) Monetary and exchange-rate policy

Despite its trade and financial openness, the Bahamas was largely shielded from the “toxic” products that contributed to the financial crisis in major markets. There was thus no serious direct threat to the financial sector and monetary policy was largely neutral, with no policy intervention in 2008. The central bank’s role consisted mainly of monitoring to ensure sufficient reserves to support the fixed exchange-rate regime and maintain stable prices.

The reserve cover was bolstered enough to support the exchange rate by the build-up of reserves (stemming from public external borrowing) and reduced import leakage (due to reduced credit growth). Growth in domestic credit slipped by 5.8 percentage points, as sluggish economic conditions led banks to evaluate their customers’ credit risk more carefully in order to reduce defaults. Credit to the private sector slackened, with the greatest allocations going to personal loans. The bulk of consumer lending went to debt consolidation (B\$ 98 million) and credit card debt (B\$ 37.4 million). Along with a spike in overdraft facilities, this underscored households’ increased financial difficulties in the recessionary environment. Many households will need to retire expensive credit card and overdraft debt in an orderly fashion in order to avoid slipping into a debt trap.

Broad money (M2) growth slowed to 5.2% from 10.6% the previous year. The growth of savings accounts and foreign-currency deposits diminished. Fixed-term

deposits also grew more slowly, owing to reduced holdings by businesses and public corporations. Although liquidity in the banking system increased, the weighted average interest rate spread widened by nine basis points, owing to a jump of 32 basis points in the average loan rate to 10.95%, which offset the average deposit rate’s rise of 23 basis points to 3.92%.

One area of short-term concern is the deteriorating quality of assets in the domestic banking sector as borrowers face increasing loan servicing problems in the gathering recession. Non-performing loans (those with arrears of over 90 days) increased by 46.1% in 2008 and are expected to show a continued rise in the early part of 2009. Another major concern is the renewed attempt to tighten regulation in offshore financial regimes in the framework of measures to reduce tax avoidance. This could impinge on both the financial sector and real estate because of the close link between the two.

Clico Bahamas (Colonial Life Insurance Company) went into liquidation in February 2009, after the parent company in Trinidad and Tobago encountered major financial difficulties and a number of its subsidiaries were taken over by the Central Bank of Trinidad and Tobago. Updated insurance legislation recently passed by the parliament will raise prudential standards in the sector, including strict limits on inter-company loans.

A more active monetary stance could facilitate recovery by boosting credit to production sectors, thereby complementing the fiscal stimulus.

3. The main variables

(a) Economic activity

Economic activity declined by 1.7% in 2008, reflecting a sharp slowdown in real output in the second half of the year, partly due to the recession in major markets. The mainstay tourism industry (the commerce, restaurants and hotels sector contributes 21% of GDP) contracted as total visitor arrivals fell by 4%. The sector was especially badly hit by the drop in stay-over visitors (-4.3%), whose average spending is about 15 times that of cruise-ship passengers. Stay-overs from the United States, the country’s largest tourism market, were down by 6.9% as households in that country cut travel plans owing to the recession. This fall exceeded the growth in arrivals from

the Canadian and European markets in response to the weakness of the United States dollar.

Construction activity plunged by 10% as the positive impetus from domestic activity was cancelled out by a fall-off in foreign investment in the sector, particularly in second homes. The financial services sector was relatively buoyant in 2008 (3.2%). The number of licensed banks and trust companies increased by 26 to 271. These entities’ total outlays, which contribute to value added, rose by 8.2% to B\$ 553.1 million, consisting largely of operational expenses, including salaries and capital expansion. Employment in the offshore banking sector was up by 31% to 4,954 persons, reflecting a higher number of local employees.

A breakdown of GDP by category of expenditure shows that consumption, investment and exports of goods and services contracted by 1.6%, 11.1% and 3.8%, respectively, reflecting the slowdown in activity.

All the major sectors have been affected by the spread of recessionary conditions to the Bahamas from major markets in 2009. During the first four months of 2009, stay-over arrivals fell by 15.5%. Moreover, hotel-room revenue continues to decline owing to falling prices for hotel stays and depressed housing sales, and this pattern is expected to persist throughout the year and have adverse multiplier effects on other sectors, especially distribution. The authorities hope that the fifty-ninth congress of the Fédération internationale de football association (FIFA) hosted in June, and the Miss Universe pageant to be held in August, will help to cushion the impact on the tourism sector. Except for stimulus projects undertaken by the government, construction activity has been subdued so far in 2009, as FDI in the sector has tapered off. Given these factors, growth is projected at 4% for 2009.

(b) Prices, wages and employment

Inflation increased from 2.8% in 2007 to 4.6% in 2008, as the spike in oil prices in the first semester and still-high food prices pushed up prices overall. Although international oil and food price inflation eased somewhat, domestic food prices rose by 6.7%, partly owing to the high cost structure of domestic wholesalers and retailers. Above-average prices were sustained for the 12-month period to April 2009 (4.8%), in spite of slackening economic conditions. Nevertheless, inflation should ease up during the latter part of 2009 since oil and food prices are not expected to reach the highs seen in 2008. Weaker domestic demand should also help to reduce inflation.

The unemployment rate is estimated to have exceeded 12% at the end of 2008, compared with 8.7% in May that year, as job losses were recorded in the hotel, construction, distribution and other sectors.

(c) The external sector

The slowdown in activity fed through to the balance of payments and the current account deficit narrowed to 13.9% of GDP (US\$ 1.055 billion), down from 17.5% of GDP (US\$ 1.315 billion) in 2007. This improvement stemmed largely from reduced non-oil import demand increased exports, lower payments for foreign experts on projects and a tapering-off of outward private-sector income remittances. The trade deficit declined by 1.0% to US\$ 2.132 billion, as the fall in the non-oil deficit offset the hike (44.7%) in fuel costs. The services account surplus expanded by 16.8% to US\$ 1.191 billion, as a result of a drop in external payments for construction services and an increase in net travel receipts. Although tourism revenues contracted as the sector weakened, this was compensated by a fall in residents' overseas travel spending in response to worsening conditions.

The capital and financial account surplus narrowed by 1.1% to US\$ 940.7 million (12.4% of GDP). Net FDI, as well as some items of other private investment, declined by 23.9% to US\$ 885.6 million, partly reflecting a plunge of one third in net real estate purchases by foreigners.

In 2009, the current account deficit is expected to narrow slightly, as import demand falls in line with the decline in activity. The services account is projected to remain fairly stable, as lower payments for construction services and reduced overseas travel payments by residents are expected to match the contraction in tourism receipts.