

Bahamas

1. General trends

Recessionary conditions in the Bahamas deepened in 2009, with real GDP falling by 4.3%. Weakened tourism demand in major markets led to a decline in stay-over arrivals and reduced average spending. Value added in offshore financial services was also down due to the recession in major markets. The slump in activity caused unemployment to increase sharply to 14.2%. Inflation moderated to 1.3% because of declining oil and other commodity prices.

The present fiscal situation poses a challenge to the Bahamas owing to the sharply expanded deficit resulting from countercyclical stimulus measures designed to mitigate the effects of the downturn on growth and employment. With external reserves high, owing in part to sluggish credit growth, the central bank's benchmark discount rate and the commercial bank prime lending rate remained at existing levels. The current account deficit narrowed as a result of a fall in fuel prices and lower demand for imports by households and firms.

The economic contraction is expected to ease in 2010 as stay-over tourism rebounds due to the recovery in the United States. The country will remain in recession, however, with growth projected at -0.5%. The fiscal deficit and debt levels are expected to increase as tax receipts remain weak and capital spending expands. The balance-of-payments current account deficit will widen, owing to higher oil prices and increased imports due to improved household incomes.

2. Economic policy

(a) Fiscal policy

The fiscal position deteriorated in calendar year 2009 as the downturn in activity squeezed revenues while the government increased expenditures through countercyclical spending and unemployment relief payments. As a result, the overall deficit remained unchanged at 3.2% of GDP in 2009. Total revenues declined by 7.2% to B\$ 1,334 million, an amount that was less than expected for the year. Tax receipts, which represent 80% of total revenue, were hard hit by the slump in domestic demand, reduced imports

and a fall in tourism tax revenues. Meanwhile, non-tax revenues rose by 71% to B\$ 271 million, buoyed by the sale of a business entity and dividends from a public corporation.

Total expenditure increased by 1.6% to B\$ 1,584 million, reflecting countercyclical fiscal stimulus and higher outlays for debt interest costs. In contrast, capital spending fell by 6.2% to B\$ 161 million owing to a 55% decline in spending on asset acquisitions and a modest drop in allocations for infrastructure projects.

The public-sector debt, including government-guaranteed debt, expanded sharply from B\$ 3,213.1 million

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	-0.6	2.2	0.7	1.6	5.0	3.5	1.9	-1.7	-4.3
Per capita gross domestic product	-1.9	0.9	-0.6	0.3	3.8	1.9	0.7	-2.8	-5.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-1.4	17.2	16.8	-10.2	-6.6	-7.6	-15.2	9.5	-18.9
Mining and quarrying	3.0	2.2	13.1	2.8	-3.1	28.5	-1.4	25.6	3.8
Manufacturing	-26.6	-8.2	31.0	33.0	58.6	-32.1	-14.9	-7.0	-15.0
Electricity, gas and water	6.9	4.5	5.7	-0.2	9.7	-4.6	7.3	31.2	-12.6
Construction	-19.7	1.5	7.2	-17.3	25.2	35.7	-3.7	-9.5	-18.4
Wholesale and retail commerce, restaurants and hotels	6.9	-6.2	-1.1	0.5	8.7	1.1	-8.6	-1.3	-12.6
Transport, storage and communications	-11.8	102.3	0.9	-2.5	5.4	5.1	-13.5	-7.6	-11.4
Financial institutions, insurance, real estate and business services	-0.1	-8.9	9.9	8.3	5.4	-0.7	5.5	4.1	-9.8
Community, social and personal services	-0.5	0.4	-5.5	0.3	3.3	-4.6	-3.5	1.0	2.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.7	-1.8	-0.5	-0.7	6.4	9.8	3.0	-0.3	-4.8
Government consumption	2.8	-1.3	-10.4	-3.3	3.9	2.4	0.1	7.8	6.0
Private consumption	5.3	-1.9	2.4	-0.0	7.0	11.7	3.6	-2.0	-7.4
Gross capital formation	-9.4	-4.9	1.6	-6.0	26.3	22.5	1.8	-15.4	-6.0
Exports (goods and services)	-5.4	8.9	-0.9	13.0	1.4	1.1	2.2	-3.9	-4.9
Imports (goods and services)	-4.1	-4.3	1.7	5.4	18.8	15.3	-3.1	-6.5	-12.7
Millions of dollars									
Balance of payments									
Current account balance	-594	-298	-321	-171	-651	-1 374	-1 315	-1 165	-927
Goods balance	-1 340	-1 213	-1 231	-1 348	-1 763	-2 033	-2 154	-2 243	-1 875
Exports, f.o.b.	423	422	427	477	549	694	802	956	666
Imports, f.o.b.	1 764	1 635	1 657	1 826	2 312	2 727	2 956	3 199	2 540
Services trade balance	835	1 057	1 014	1 068	1 230	825	1 020	1 140	1 074
Income balance	-199	-184	-152	-141	-203	-218	-232	-118	-210
Net current transfers	110	42	49	251	85	52	52	56	82
Capital and financial balance ^c	564	359	432	354	562	1 295	1 269	1 274	1 180
Net foreign direct investment	192	209	247	443	563	706	746	839	654
Other capital movements	372	150	185	-89	-1	588	523	435	526
Overall balance	-30	61	111	184	-89	-79	-46	109	253
Variation in reserve assets ^d	30	-61	-111	-184	89	79	46	-109	-253
Net resource transfer	366	175	279	213	358	1077	1037	1156	971
Gross external public debt	328	310	364	345	338	334	337	443	767
Average annual rates									
Employment									
Unemployment rate ^e	6.9	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2
Annual percentages									
Prices									
Variation in consumer prices (December-December)	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.6	1.3
Nominal deposit rate ^f	3.9	3.8	3.2	3.4	3.7	3.9	3.8
Nominal lending rate ^g	12.0	11.2	10.3	10.0	10.6	11.0	10.6
Percentages of GDP									
Central government^h									
Total revenue	15.4	15.9	16.0	17.3	18.6	19.1	19.3	18.1	19.0
Current revenue	15.4	15.9	15.7	17.1	18.6	19.1	19.3	18.1	18.7
Tax revenue	13.8	14.3	14.1	15.4	16.7	17.2	17.2	15.5	16.8
Capital revenue	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.3
Total expenditure	17.9	18.4	18.2	19.0	19.4	20.7	20.6	21.4	22.2
Current expenditure	16.1	16.9	16.8	17.5	17.5	18.4	18.2	19.5	19.4
Interest	1.8	1.8	1.9	2.0	1.8	1.8	1.9	2.1	2.4
Capital expenditure	1.9	1.5	1.4	1.5	1.9	2.4	2.4	1.9	2.8
Primary balance	-0.7	-0.8	-0.3	0.2	1.0	0.2	0.6	-1.1	-0.9
Overall balance	-2.6	-2.5	-2.2	-1.7	-0.8	-1.6	-1.3	-3.3	-3.2

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Money and creditⁱ									
Domestic credit	81.7	84.4	81.7	84.5	87.6	94.1	100.3	107.8	108.4
To the public sector	13.8	15.3	14.8	14.7	14.3	15.3	16.4	18.7	19.4
To the private sector	67.8	69.1	66.9	69.8	73.3	78.8	83.8	89.1	89.1
Liquidity (M3)	65.3	65.9	65.9	71.8	71.9	72.3	75.9	80.7	81.3
Currency outside banks and local-currency deposits (M2)	63.6	64.3	64.2	70.1	69.7	70.0	73.2	77.9	78.2
Foreign-currency deposits	1.6	1.6	1.7	1.6	2.2	2.3	2.7	2.8	3.1

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, from July to June.

ⁱ The monetary figures are end-of-year stocks.

(42.5% of GDP) in calendar year 2008 to B\$ 3,901.3 million (53.6% of GDP) in 2009. This spike in the debt is a concern for the government and it has programmed a primary surplus of about 3% of GDP over the medium term to bring the debt level down to around 45% of GDP. Nevertheless, Standard and Poor's has downgraded the long-term sovereign credit rating of the Bahamas one notch to BBB+.

In fiscal year 2009/2010, the overall deficit is expected to overshoot its target of 3.9% of GDP and reach 5.7% of GDP because of a B\$ 94 million shortfall in revenue associated with the weakness of economic activity and a modest increase in total expenditure due to continued fiscal stimulus measures. Meanwhile, the budget for 2010/2011 projects a significant fall in the deficit from the previous 5.7% of GDP to 3% of GDP. This improvement is expected to result from cuts in the salaries of parliamentarians, reduced outlays on goods and services and constraints on capital spending growth. Consequently, public-sector debt is expected to remain stable in 2011.

(b) Monetary and exchange-rate policy

Monetary policy was aimed at sustaining reserves to support the stability of the pegged exchange rate. Despite the sharp slowdown in the economy in 2009 and lower than average inflation that would have provided some leverage, the Central Bank of the Bahamas did not provide any monetary stimulus in 2009. The Bank kept its benchmark discount rate constant at 5.25% and the commercial bank prime lending rate also held steady at 5.5%.

The liquidity and foreign reserves of the banking system rose sharply in 2009, bolstered by sluggish credit

growth and inflows from the government's foreign currency borrowings. Amid growing uncertainty and weakened private sector demand, growth in domestic credit slowed to 1.5% in 2009, compared with 6.5% in 2008. Notably, all categories of consumer credit, which accounts for the bulk of private-sector lending, experienced declines as individuals focused on reducing their debt levels. Growth in the broad money supply slowed to 1.8%, compared with 5.2% in 2008, mainly on account of a 2.4% decline in savings deposits stemming from a drop in incomes, a rise in unemployment and a switch to higher interest-earning time deposits.

The net foreign assets of the banking system were bolstered in 2009, reversing the position from 2008. Reserves were boosted by US\$ 178.8 million under the International Monetary Fund (IMF) global initiative to combat the recession. Although the banking system remained fairly stable in 2009, commercial banks' credit quality deteriorated as the decline in disposable income and rising unemployment impinged on the ability of customers to service their debt. By February 2010, total non-performing loans (those in arrears for more than 90 days on which banks had stopped accruing interest) had increased by 1.7% to B\$ 595.8 million.

In 2009, the central bank brought in a programme to improve the administration of exchange controls in order to promote capital account liberalization, including overseas investment by the National Insurance Board. The central bank abolished the requirement for manual completion of forms for foreign currency sales and for current transactions below a certain dollar threshold. The exchange rate remained stable in 2009, with the banks buying and selling United States dollars from and to commercial banks at US\$ 1 to B\$ 1 and US\$ 1 to B\$ 1.0025, respectively.

3. The main variables

(a) Economic activity

The recession in the United States led to a fall in stay-over tourist arrivals in the Bahamas and this adversely affected economic activity. Real output contracted by 4.3% in 2009, as compared to a decline of 1.7% in 2008. Value added in the mainstay tourism sector, which represents about 40% of GDP, fell sharply (-12.6%) owing to a 9.3% decline in the higher-spending stay-over visitors, despite some cushion provided by the hosting of the Miss Universe pageant and an International Federation of Association Football (FIFA) World Cup meeting.

Real value added in tourism was also affected by rate discounting and other incentive packages, leading to a decline in average daily room rates of 8.3%. Average occupancy rates fell by 4.7 percentage points to 49.4% and total visitor expenditure contracted by 10%, compared with a decline of 1.8% in 2008.

Activity in construction (6% of GDP) slumped in 2009 (-18.9%), continuing a worsening trend that began in 2007 and that reflects reduced investor appetite for risk in the wake of the global recession.

Indications are that activity in the offshore financial services sector was down in 2009. The number of bank and trust licences increased by one, and the number of private trust companies was up by 12 to 50. Trusts increased by nine, a development influenced by firms' compliance with the consolidated supervision of banks and trust companies. Nevertheless, offshore companies reduced their local spending in the economy.

The economy is expected to moderate somewhat in 2010, with growth of -0.5%. Stopover tourist arrivals will increase marginally as the recovery continues in the United States; construction will pick up as foreign investment strengthens, and offshore financial services are expected to rebound.

(b) Prices, wages and employment

Reflecting lower housing costs and the pass-through effects of lower international prices for fuel and other commodities, the end-of-year rate of inflation stood at 1.3% in 2009, as against 4.6% in 2008. Housing costs, the most heavily weighted item in the index, fell by 0.3% after rising by 3.2% in 2008. This drop is partially due to lower building material costs. A welcome development was the substantial moderation in the growth of food prices (1%, compared to 9.1% in 2008). This reduction eased

the burden on households in an environment of reduced employment and income. Inflation is expected to pick up in 2010, propelled by higher fuel prices and a nascent recovery stimulating internal demand.

The slump in economic activity caused unemployment to spike from 8.7% in 2008 to 14.2% in 2009. As the recession deepened, job losses were experienced across a number of sectors, including hotel and restaurants, construction and wholesale and retail trade. The labour force participation rate fell from 76.3% in 2008 to 73.4% in 2009.

(c) The external sector

Falling import demand because of reduced purchasing power and lower fuel and other commodity prices caused the current account deficit of the balance of payments to narrow by US\$ 238 million to 12.5% of GDP in 2009 from 15.9% of GDP in 2008. The trade deficit contracted by 16.4% to US\$ 1,875 million, four times the decline in 2008, largely because of a 42.7% drop in fuel imports to US\$ 667.9 million. The total import bill also benefited from lower food and other commodity prices and from sluggish demand for non-oil imports in the context of the recession.

With the downturn in tourism activity, the services account surplus shrank by 6% to US\$ 1,074 million. The 9.3% decline in stopover visitors contributed to an 8.2% fall in net travel receipts. Meanwhile, in a sluggish environment, offshore companies reduced local spending, while government payments for stimulus-related infrastructure projects increased.

The capital and financial account surplus contracted by 7.3% as foreign direct investment (FDI) slumped by 22% to US\$ 654 million owing to reduced equity investments and land purchases as investors waited out the adverse economic developments. Meanwhile, miscellaneous investments increased by US\$ 88.7 million, propelled by the proceeds from a US\$ 300 million government bond issue and an allocation of US\$ 178.8 million in Special Drawing Rights (SDRs) under the IMF global initiative to help countries deal with the recession. At the end of 2009, external reserves amounted to US\$ 815.9 million, providing cover for 5 months of goods and services imports.

The current account is projected to worsen in 2010 as the modest recovery and higher oil prices lead to higher imports, expected to more than offset a tepid recovery in tourism receipts. The capital and financial account is also expected to remain relatively stable as FDI slowly recovers.