

## BAHAMAS

Economic activity slowed in 2013, with growth projected at 1.6%, lower than the 1.8% achieved in 2012. The weakening of the recovery in the United States of America led to a slowdown in tourism demand, which was offset by foreign investment in construction activity, spearheaded by the Baha Mar project. Activity remained flat in the offshore financial services sector. Sluggish activity has resulted in higher unemployment, especially among youths. The financial sector continues to be affected by weak private credit demand amid unfavourable business sentiment and deteriorating credit quality, which have led banks to impose more stringent lending conditions. The external current account deficit was projected to widen, owing to lower net merchandise exports and reduced tourism receipts. The economy is expected to grow by over 2.5% in 2014, fuelled by a recovery in tourism and sustained construction activity.

The government's policy priority is to nurture recovery in activity and employment, while providing a platform for medium-term fiscal consolidation. The growth strategy centres on strengthening product development and diversifying the tourism product both by activities and markets, especially in South America. The key plank of the fiscal adjustment programme is the introduction of VAT in 2014 at a rate of 15%. Other reforms include measures to improve compliance in the payment of real property tax, including a tax amnesty programme, consultation on pension reform to reduce the burden on public finances and strengthened debt management.

Fiscal policy remained expansionary, as the government focused on reducing unemployment and shoring up the economy. The deficit for the first eleven months of 2012/2013 (July to June) widened to 6.0% of GDP from 5.6% in 2011/2012. Expenditure rose by 4.2% to B\$ 1.69 billion, driven by transfers and subsidies to health and other services and debt-servicing costs. Higher capital spending was linked to the purchase of equipment for the airport and other infrastructure works. By contrast, revenue declined by 5.9% to B\$ 1.25 billion, reflecting a 15.1% fall in taxes on international trade. Normal growth was resumed following a spike in 2011/2012 when a public entity paid up arrears to the government. Receipts from import and export duties and property tax were also lower. The fiscal deficit is projected to narrow marginally to 5.1% of GDP in 2013/2014 as revenues recover with improved activity, offsetting modest growth in spending. Public debt has grown sharply since the crisis, owing to stimulus measures. Government debt increased from 49% in 2012 to 52% at the end of June 2013. As part of the ongoing tax reforms, the government plans to introduce 15% VAT in 2014, to bolster revenues, alongside retrenchment to contain growth in the debt.

The Central Bank's monetary policy stance remained neutral in 2013, in the face of strong growth in bank liquidity and weak growth in credit. Reflecting the contraction in foreign exchange earnings from tourism, international reserves declined by 20% during the first nine months of 2013 to stand at B\$ 646 million. With little pressure placed on the exchange rate from growth in import demand, the Central Bank maintained its discount rate at 4.5%. Credit to the private sector declined by B\$ 77.5 million associated with weak consumer demand, rising unemployment, weak investor confidence and more stringent lending conditions in the face of rising loan delinquencies. Amid the build-up in liquidity coupled with sluggish credit demand, the interest rate spread widened by 0.4 of a percentage point to 9.2%. Bank credit quality indicators deteriorated during the first three quarters of 2013, due to higher commercial loan delinquencies, especially on short-term loans. Non-performing loans actually declined marginally by 1.3% to B\$ 856.5 million. Banks increased their provisions for loan losses by 13.6% (B\$ 50.6 million) to bring them in line with rising delinquencies. Overall the banking system remains sound and banks continue to tighten their prudential regulation to maintain their viability.

Economic activity slowed marginally in 2013, with growth projected at 1.6% compared with 1.8% in 2012. This was due mainly to a sharper (7.3%) fall in stopover visitor arrivals to 996,144 during the first eight months of the year, compared with the same period last year. Impetus for growth came mainly from foreign direct investment (FDI), centred on the construction of the Baha Mar Resort and other hotels and infrastructure works. Indications are that activity in the offshore financial services sector was sluggish.

Inflation is projected at 1.0% in 2013, compared to 0.7% in 2012. Subdued inflation reflected reduced food and fuel costs, the latter due to the moderation in international fuel prices. Unemployment increased from 14.0% in 2012 to 16.2% in 2013, owing to the slowdown in activity.

The external current account deficit widened by 4.8% in nominal terms to US\$ 585 million, but remained relatively stable at 13.8% of GDP in the first half of 2013. The nominal deterioration was attributable primarily to a lower services surplus and a larger income account deficit, which was offset by an improvement in the merchandise account. The surplus on the services account contracted by 22% to stand at US\$ 624.1 million. This followed a 6.2% decline in travel receipts, linked to a 7.3% fall in high-spending stopover visitors for the period January to August. Another factor, however, was the substantial rise in payments for construction services relating to FDI-funded projects. The income account deficit grew by 6.1% as employee compensation and investment income payments to foreign investors resulted in higher outflows. Meanwhile, a modest increase in exports and a decline in imports resulted in a 12.4% decline in the trade deficit. Reduced imports stemmed in part from lower fuel payments due to a decline in oil prices. The capital and financial account surplus also contracted as FDI plummeted by almost 40% to US\$ 184 million. FDI has returned closer to trend growth following outlays on large projects such as Baha Mar and non-recurring receipts in 2012 stemming from the sale of a resort to a foreign investor.

#### Bahamas : main economic indicators, 2011-2013

	2011	2012	2013 <sup>a</sup>
<b>Annual growth rate</b>			
Gross domestic product	1.7	1.8	1.6
Per capita gross domestic product	0.0	0.3	0.1
Consumer prices	3.2	0.7	0.2 <sup>b</sup>
Money (M1)	6.2	8.6	5.6 <sup>c</sup>
<b>Annual average percentage</b>			
Urban unemployment rate <sup>d</sup>	...	14.0	16.2
<b>Central government</b>			
Overall balance / GDP	-5.7	-6.7	-5.2
Monetary policy rate	4.8	4.5	4.5 <sup>b</sup>
Nominal lending rate <sup>e</sup>	11.0	10.9	11.1 <sup>b</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 465	3 751	3 600
Imports of goods and services	4 258	4 923	4 817
Current account balance	-1 066	-1 424	-1 499
Capital and financial balance <sup>f</sup>	1 090	1 350	1 301
Overall balance	24	-75	-198

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

<sup>a</sup> Estimates.

<sup>b</sup> Figures as of September.

<sup>c</sup> Figures as of June.

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

<sup>e</sup> Weighted average of some lending rates.

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