

BAHAMAS

1. General trends

The Bahamian economy registered a slight recovery in 2014, with growth of 1.0%, compared with zero growth in 2013. Growth was driven by tourism, especially high-value-added stopover arrivals and foreign direct investment-related construction projects. A modest improvement was observed in the offshore financial services sector. Inflation (December-December) rose slightly from 0.8% in 2013 to 0.9% in 2014, mainly reflecting higher prices for clothing and footwear, and furnishings, household equipment and household maintenance, which were offset by the fall in fuel prices. Despite improved activity, unemployment increased marginally from 15.4% to 15.7% year on year in November 2014.

Economic policy continues to focus on paced fiscal consolidation and nurturing the fledgling economic recovery. The fiscal deficit narrowed from 6.6% of GDP in fiscal year 2012/2013 to 4.3% of GDP in fiscal year 2013/2014 as a result of a 2.6% increase in revenue and a 4.7% reduction in expenditure. The fiscal consolidation effort has been spearheaded by the introduction of a 7.5% value added tax (VAT) in January 2015. This is expected to generate substantial additional revenue in the medium term and, together with property and other tax reforms, will significantly boost revenues. The revenue effort is to be supplemented by improved controls on spending, although there has been some fiscal slippage in the first half of fiscal year 2014/2015. Efforts have also been made to attract high-end hotels, to promote incentives for youth entrepreneurship in services, to launch a major drive in agriculture on the largest island, Andros, and to upgrade growth-inducing public infrastructure.

Monetary conditions remained stable with high liquidity in the banking sector amid declining demand for credit, reflecting weak investor sentiment given the fragile economic recovery.

The external imbalance worsened as the current account deficit widened from 17.7% of GDP in 2013 to 21.9% of GDP in 2014, reflecting a higher merchandise trade deficit due to increased imports of construction materials, a smaller surplus in the services account and a larger deficit on the income account.

The economic recovery is expected to strengthen in 2015, with growth projected at 2.0%. The impetus for higher growth will come from continued dynamism in high-value-added stopover tourist arrivals. Tourism will be supported by robust construction activity linked to smaller, boutique hotel properties and buoyancy in the offshore financial services sector. However, the board of directors of the long-delayed Baha Mar resort filed for chapter 11 bankruptcy in late June, which is expected to dampen tourism activity somewhat and poses a downside risk to the 2.0% growth forecast. Despite the recovery, gains in employment are expected to be weak, and the rate of unemployment is expected to remain at around 15%. Inflation will edge up as the impact of the value added tax (VAT) is passed through to consumers. Government revenues will be bolstered by VAT and measures to contain spending will bring the fiscal deficit down to 3.3% of GDP in fiscal year 2014/2015. The current account deficit is expected to narrow thanks to higher tourism receipts, lower payments for construction services with the winding down of Baha Mar, and lower oil prices. Meanwhile, foreign direct investment (FDI) is expected to taper off with reduced inflows for smaller hotel projects.

2. Economic policy

(a) Fiscal policy

The government has at last taken a decisive step on the road to fiscal consolidation with the implementation of the 7.5% VAT in January 2015. This will be buttressed by property tax reform, improved revenue administration and collections, and measures to contain government consumption expenditure. With the combination of fiscal adjustment and growth in the economy, the government hopes to bring the deficit down to around 2% of GDP by 2016/2017.

The fiscal situation was on the right track in fiscal year 2013/2014 (July-June), with the overall deficit narrowing to 4.3% of GDP from 6.6% of GDP in 2012/2013. This improvement stemmed from growth in revenues and lower expenditure. Revenues rose by 2.6%, boosted by higher tax receipts, especially from business and professional licence fees, which jumped by 53.0% to 64 million Bahamian dollars (B\$), following the introduction of a broader fee schedule for firms and higher fees for international banks and trust companies. Receipts corresponding to other miscellaneous taxes, including property and gaming taxes, increased sharply to stand at B\$ 37.7 million. Non-tax revenues expanded by 45.3% to B\$ 201.9 million, 26.7% more than the budgeted amount. These receipts were bolstered by a new customs service fee regime and increased intake from fines and dividends.

Expenditure declined by 4.7% as both current and capital outlays decreased in fiscal year 2013/2014. Current spending, which represents over 83% of total expenditure, was down by 2.6%, reflecting lower government consumption, including reduced wage and salary payments and outlays on goods and services. Meanwhile, debt servicing costs went up by 8.5% in line with the new debts incurred. The deficit was financed from a mix of domestic and foreign sources. These included domestic short-term advances and long-term bonds of B\$ 144 million and B\$ 115 million, respectively, and a foreign bond of US\$ 300 million.

Public debt expanded from 66.2% of GDP in 2013 to 73.3% of GDP in 2014. This included an almost 8% (B\$ 53 million) increase in contingent liabilities. Debt service costs doubled to B\$ 349.8 million.

However, the fiscal situation worsened during the first half of fiscal year 2014/2015, with the deficit widening by B\$ 48.6 million to 5.8% of GDP. Total expenditure increased by 8.4% to B\$ 943.6 million, offsetting the 3.7% growth in revenues. Current expenditure was up by 6.0%, owing to increased transfers and subsidies and a 10% rise in interest payments, mainly reflecting external interest payments. A 22.8% increase in capital spending was linked primarily to the acquisition of new ships for the Royal Bahamas Defence Force. Nevertheless, the newly implemented VAT, along with property and other tax reforms, will boost revenues, and the fiscal deficit is projected to narrow to 3.0% of GDP in fiscal year 2014/2015.

Recent budget estimates for fiscal year 2015/2016 indicate the government's intention to step up the consolidation effort. Revenues are projected at 26.27% of GDP and expenditure at 26.31%, which would result in a negligible fiscal deficit of 0.1% of GDP.

(b) Monetary and exchange-rate policy

In the absence of any real pressure on the exchange rate, monetary policy remained neutral in 2014. The Central Bank of the Bahamas held its benchmark discount rate at 4.5% and the commercial

bank prime lending rate held steady at 4.75%. Amid high unemployment and deleveraging by banks, owing to high non-performing loans, domestic credit contracted by 1.0% in 2014, reversing the 3.1% growth seen in 2013. This was due primarily to a sharp slowdown in credit to the public sector, associated with the government's repayment of debt to the banking sector. Private sector credit, which has grown in only one of the past five years, declined by 2.8% in 2014, following a rescue effort involving the transfer of B\$ 100 million from the Bank of the Bahamas to a government special purpose vehicle, and also owing to continued weak business confidence.

The broad money supply (M2) increased by 2.3% in 2014, following the 0.7% contraction in 2013. This largely reflected dynamic growth in demand deposits (21.6%), due in part to the reclassification of some balances. Meanwhile, savings and time deposits contracted by 4.2% and 5.7%, respectively, as interest rates on these deposits declined.

The weighted average interest rate spread widened by 97 basis points to 10.39%. Influenced by surplus liquidity, the deposit rate fell by 26 basis points to 1.42%, while the loan rate rose by 71 basis points to 11.81%.

Although the weak recovery provided limited scope for improving banking sector credit quality, private sector loan arrears contracted due to the government bailout of the Bank of the Bahamas. Growth in non-performing loans slowed significantly to stand at 16.1% of private sector loans. The Central Bank of the Bahamas continued its heightened monitoring and prudential oversight of banks, including stress testing to assess risks to the sector.

(c) Other policies

The Bahamian government is launching a major thrust in agriculture on Andros, the largest island in the chain. The aim is to strengthen the diversification effort, reduce the country's dependence on food imports and increase the use of local food crops and meat in the tourism sector. A sum of B\$ 20 million has been allocated for the development of the Bahamas Agriculture and Marine Science Institute in North Andros.

Foreseeing a higher electricity demand and in a bid to raise the sector's efficiency, the government has granted a United States firm, Power Secure, a management contract to operate the Bahamas Electricity Corporation (BEC). The aim is to secure a 30% reduction in electricity rates through increased efficiency in the running of the company.

3. The main variables

(a) The external sector

After declining by under 1 percentage point to 17.7% of GDP in 2013, the current account deficit expanded to 21.9% of GDP in 2014. The larger imbalance stemmed from a worsening of all the main sub-accounts. The merchandise trade deficit widened by 9.5%, owing to a spike in the importation of construction materials and equipment for hotel construction. Meanwhile, payments for fuel imports contracted by 13.1%, in line with plummeting international fuel prices. In a reversal of the established trend, the services account surplus declined by 4.4% to US\$ 997 million. The 3.7% increase in tourism

receipts, linked to an ongoing recovery in the sector, was surpassed by a 33% jump in net payments for construction services, relating mainly to the mega hotel resort.

The deficit on the income account expanded by over 32%, owing to a sharp rise in outflows of investment income, notably from commercial banks, and higher interest payments on external public debt.

Meanwhile, the capital and financial account surplus, including errors and omissions, expanded by 33% to US\$ 1.906 billion. This partly reflected loan financing for the mega tourism resort and capital inflows from the government's US\$ 100 million international bond placement, which offset capital outflows by commercial banks. Net FDI flows contracted by 34% to US\$ 251.3 million, reflecting a sharp fall in real estate purchases and net equity investments. International reserves declined by 6.2% to US\$ 788 million in 2014 but increased in terms of merchandise import cover from 11.4 weeks in 2013 to 11.6 weeks.

(b) Economic activity

The economy posted modest positive growth of 1.0% in 2014, compared with zero growth in 2013. This nascent recovery was driven by tourism and dynamic construction activity. Real output in the hotel and restaurant sector was up by 1.1%, compared with a decline of 1.8% in 2013. The rally in tourism was propelled by a 4.2% rise in high-value-added stopover arrivals, supported by a 2.0% increase in cruise ship passenger arrivals. Stopover arrivals were boosted by the recovery in the United States and the public-private incentive programme, which is attractive to visitors. Arrivals also benefited from the hosting of the World Relays of the International Association of Athletics Federations (IAAF) in May 2014. The performance of the hotel sector improved with the rebound in stopover arrivals. The average occupancy rate climbed by 4.5 percentage points to 56.9% and total room revenue increased by 3.3%, but the average daily room rate declined by 3.9% to B\$ 197.0.

Growth in construction picked up to 17.3%, spearheaded by the Baha Mar resort and smaller hotels, including the Albany and Cotton Bay Development, and other construction. Private residential construction was dampened by persistently high unemployment, tighter bank lending conditions and the weakness of the recovery. Value added in the offshore financial services sector was expected to have improved somewhat owing to strong growth in the fiduciary subsector.

Growth in expenditure-based GDP was fuelled by a strong expansion in domestic investment (7.1%) and robust consumption figures (up 4.5%). Domestic investment was buoyed by FDI-related construction and outlays on machinery and transport equipment. Underpinned by higher stopover visitor arrivals and spending, exports of goods and services also recovered (2.3%).

Indications are that the economy may have grown modestly in the first quarter of 2015. Even though total visitor arrivals contracted by 8.0%, high-value-added air arrivals rose by 5.8% and were expected to offset the 12.7% fall in sea arrivals. The first quarter growth may be attributable to construction and buoyant activity in the offshore financial services sector.

Growth is expected to firm to 2.0% in 2015 on the back of a continued rise in stopover arrivals and FDI-based hotel construction activity. This will be supported by an improvement in the offshore financial services sector, due to aggressive marketing in Latin America and other regions.

(c) Prices, wages and employment

Inflation rose slightly from 0.8% in 2013 to 0.9% in 2014 (December-December). Higher prices were led by clothing and footwear (4.7%), alcoholic beverages and narcotics (3.0%) and recreation and culture (2.7%). Nevertheless, prices benefited from the plunge in international fuel prices, which resulted in lower fuel charges by the Bahamas Electricity Cooperation.

Wages remained stable in 2014, as the government continued to grapple with the growing fiscal imbalance and rising debt levels. The rate of unemployment increased marginally from 15.4% in 2013 to 15.7% in 2014 (November-November) and the unemployed labour force grew by 104 persons to 31,540. High, above-trend unemployment is expected to remain a problem for some time, until the recovery in activity strengthens and business confidence improves as businesses eliminate debt overhang.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	2.5	1.4	-2.3	-4.2	1.5	0.6	2.2	0.0	1.0
Per capita gross domestic product	0.5	-0.5	-4.1	-5.8	-0.2	-1.0	0.7	-1.4	-0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-8.2	-7.3	2.9	3.7	3.7	-7.9	4.5	-23.9	-0.6
Mining and quarrying	15.3	-11.7	26.2	-3.3	8.4	-17.2	-15.0	27.2	15.6
Manufacturing	10.8	-12.6	-7.3	-6.0	9.1	0.3	6.4	-9.5	0.7
Electricity, gas and water	-2.3	3.7	9.4	-2.6	-4.5	10.6	-5.7	2.4	-2.9
Construction	20.4	-34.7	28.7	-10.2	24.6	9.4	12.4	10.2	17.3
Wholesale and retail commerce, restaurants and hotels	2.3	8.7	-4.4	-2.8	2.1	-3.1	5.9	-1.8	1.1
Transport, storage and communications	2.7	-11.2	-7.4	4.4	-8.9	8.9	-3.6	1.8	1.3
Financial institutions, insurance, real estate and business services	-3.5	11.5	-2.1	-6.7	3.2	2.8	-0.8	-0.5	-1.5
Community, social and personal services	-3.5	3.8	-3.3	-6.0	2.7	1.1	-0.3	2.7	-2.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.8	1.0	-2.2	-8.0	0.8	-0.8	2.9	-2.0	4.5
Government consumption	1.8	-0.2	7.2	3.9	-0.3	7.2	-3.9	2.8	1.0
Private consumption	3.0	1.3	-3.8	-10.3	1.1	-2.6	4.6	-3.1	5.3
Gross capital formation	22.0	-2.6	-9.3	-5.5	-3.6	7.4	5.6	-3.7	7.1
Exports (goods and services)	1.9	-1.4	-2.2	-3.2	1.3	6.3	7.2	-0.4	2.3
Imports (goods and services)	12.2	-3.7	-5.9	-12.2	-0.4	7.5	9.9	-5.4	10.8
Balance of payments	Millions of dollars								
Current account balance	-1,031	-954	-872	-809	-814	-1,203	-1,505	-1,494	-1,860
Goods balance	-2,033	-2,154	-2,243	-1,825	-1,889	-2,132	-2,401	-2,211	-2,421
Exports, f.o.b.	694	802	956	711	702	834	984	955	849
Imports, f.o.b.	2,727	2,956	3,199	2,536	2,591	2,966	3,385	3,166	3,270
Services trade balance	1,206	1,433	1,488	1,155	1,312	1,201	1,154	1,043	997
Income balance	-165	-186	-78	-152	-235	-236	-268	-329	-437
Net current transfers	-39	-47	-39	14	-3	-36	11	3	0
Capital and financial balance c/	952	909	980	1,061	862	1,228	1,430	1,425	1,906
Net foreign direct investment	706	746	860	664	872	667	526	388	259
Other capital movements	246	162	120	397	-10	562	904	1,037	1,647
Overall balance	-79	-46	109	252	48	25	-75	-69	46
Variation in reserve assets d/	79	46	-109	-252	-48	-25	75	69	-46
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Net resource transfer (millions of dollars)	787	723	903	909	627	992	1,162	1,096	1,469
Gross external public debt (millions of dollars)	289	273	384	703	728	799	1,038	1,188	1,555
Employment	Average annual rates								
Labour force participation rate	75.1	76.2	76.3	73.4	...	72.1	72.5	73.2	73.8
Unemployment rate e/	7.6	7.9	8.7	14.2	...	15.9	14.0	15.8	15.0
Prices	Annual percentages								
Variation in consumer prices (December-December)	2.3	2.8	4.6	1.3	1.4	0.0	0.7	0.8	0.2
Nominal deposit rate f/	3.4	3.7	3.9	3.8	3.4	2.6	2.0	1.7	1.4
Nominal lending rate g/	10.0	10.6	11.0	10.6	11.0	11.0	10.9	11.2	11.8

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Central government h/	Percentajes of GDP								
Total revenue	16.8	17.1	16.1	16.7	18.1	18.3	16.5	17.2	20.7
Tax revenue	15.1	15.2	13.7	14.2	16.4	16.2	14.8	14.8	18.6
Total expenditure	19.1	18.9	20.4	21.0	22.8	24.0	23.1	21.5	24.0
Current expenditure	16.1	16.2	17.3	17.8	19.3	19.6	18.8	17.9	20.1
Interest	1.6	1.7	1.9	2.3	2.7	2.4	2.4	2.5	3.0
Capital expenditure	2.1	2.1	1.7	2.0	2.6	3.1	3.1	2.7	3.2
Primary balance	-0.7	-0.1	-2.5	-2.1	-2.0	-3.4	-4.2	-1.7	-0.3
Overall balance	-2.3	-1.8	-4.4	-4.3	-4.7	-5.7	-6.6	-4.3	-3.3
Non-financial public sector debt	36.2	36.9	37.4	44.1	45.7	50.2	54.5	59.1	65.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	84.7	89.4	95.9	102.8	106.8	108.2	105.5	106.1	104.2
To the public sector	13.5	14.6	16.6	18.5	23.7	23.9	25.0	28.4	28.2
To the private sector	71.2	74.7	79.3	84.3	83.1	84.3	80.5	77.7	74.8
Monetary base	7.1	8.1	7.8	8.9	10.4	11.2	10.9	10.3	11.5
Money (M1)	15.7	15.6	15.5	16.4	16.9	18.2	19.1	19.5	23.5
M2	62.6	65.4	69.4	74.2	75.4	77.4	73.9	71.7	72.4
Foreign-currency deposits	2.0	2.4	2.4	3.0	2.8	2.6	2.6	3.2	2.6

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 (-) indicates an increase in reserve assets.

e/ Includes hidden unemployment. Nationwide total.

f/ Weighted average of deposit rates.

g/ Weighted average of lending and overdraft rates.

h/ Fiscal years, from July 1 to June 30.

Table 2
BAHAMAS: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	779	815	729	701	921	999	895	766	815	931 b/
Consumer prices (12-month percentage variation)	0.8	0.2	0.0	0.4	1.5	1.2	1.3	0.8	1.8	1.6 c/
Average nominal exchange rate (Bahamas dollars per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nominal interest rates (average annualized percentages)										
Deposit rate d/	1.9	1.7	1.7	1.4	1.6	1.6	1.4	1.2	1.5	...
Lending rate e/	10.9	10.8	11.3	11.7	11.1	12.0	12.1	12.1	11.9	12.2 c/
Monetary policy rates	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5 c/
Domestic credit (variation from same quarter of preceding year)	2.4	0.9	2.6	1.7	-0.8	-0.1	0.5	0.3
Non-performing loans as a percentage of total credit	14.2	14.2	13.9	15.1	15.9	16.2	17.0	16.0	15.9	15.5 c/

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

a/ Preliminary figures.

b/ Figures as of May.

c/ Figures as of April.

d/ Weighted average of deposit rates.

e/ Weighted average of lending and overdraft rates.