

## **Bahamas**

The economy of the Bahamas continued to recover in 2015, with projected growth of 1.5%, up from 1.0% in 2014. The initial growth estimate of 2.3% had to be revised downward because of repeated delays in the opening of the Baha Mar resort, which was expected to boost tourist arrivals. Nevertheless, growth was bolstered by high-spending stopover visitor arrivals, medium- and small-scale foreign investment projects in tourism and buoyant activity in the offshore financial services sector. The introduction of value added tax (VAT) in 2015 drove up government revenues, offsetting a more muted increase in expenditure. Monetary developments were marked by a build-up in bank liquidity amid higher foreign exchange inflows from the real sector and a decline in credit to the private sector. The balance-of-payments current account deficit contracted in the wake of reduced spending on imports. The economy is projected to grow by 2.4% in 2016, buoyed by continued growth in tourist arrivals, hotel construction and vigorous activity in offshore financial services.

Fiscal consolidation continued to be the policy focus in 2015 in an effort to bring down public debt to sustainable levels and catalyse a return to trend growth. A key pillar of this effort was the introduction of VAT at a rate of 7.5% in January 2015. Other measures included customs modernization, real property tax reform and the establishment of a Central Revenue Authority, all of which sought to strengthen the efficiency and effectiveness of government revenue collection and administration.

The government softened its expansionary stance in 2015, as the fiscal deficit declined from 4.9% of GDP to 2.2% of GDP in the first 11 months of financial year 2014/2015 (July to June). Fiscal performance was boosted by an 18.3% increase in tax revenue, driven by receipts from the newly introduced VAT, which met expectations and amounted to 182.0 million Bahamian dollars (B\$). Expenditure grew by a mere 0.3%, as a 6.5% increase in current spending was offset by 32.2% decline in capital expenditure. The sharp fall in capital expenditure reflected a return to normal spending following a spike in 2014, linked to the acquisition of new ships for the Royal Bahamas Defence Force and outlays on public infrastructure. Meanwhile, higher current spending was driven by strong growth in subsidies and transfers, reflecting increased pension payments and outlays for the administration of VAT. The fiscal deficit is projected to narrow further to 1.5% of GDP in 2016 as VAT receipts and the containment of expenditure bolster the consolidation effort.

With no real pressure on the exchange rate, the central bank maintained its neutral monetary stance from the previous year by holding its discount rate at 4.5%. The first quarter of 2015 was marked by strong growth in bank liquidity, fuelled by stronger real sector activity, especially tourism inflows and increased government borrowing. Growth in domestic credit slowed to B\$ 123.6 million in the first nine months of 2015 from B\$ 158.4 million in the same period in 2014. An expansion in credit to the public sector (B\$ 6.4 million) was offset by a decline in credit to the private sector amid continued high unemployment and sluggish consumer demand. Credit quality in the banking system improved in the first quarter of 2015, owing to increased loan write-offs and the boost in economic activity that drove down private sector loan arrears. As a result, non-performing loans contracted by 8.6% to B\$ 893.7 million.

The external position of the economy was projected to improve in 2015. The current account deficit narrowed from 15.9% of GDP to 11.6% of GDP year-on-year to June. That improvement stemmed mainly from a sharp decline in payments for construction services (51%) with the winding-down of major investment projects funded through foreign direct investment (FDI) and a 4.8% fall in the merchandise deficit, linked partly to lower international fuel prices. The services surplus expanded by 25.4%, with travel receipts up by 5.4% thanks to increased visitor arrivals. Higher outflows of investment income

widened the income account deficit by 22.1%. In a major turnaround, the surplus on the capital and financial account contracted significantly (79.6%), as FDI inflows plummeted to US\$ 53.2 million (down 75%) occasioned by lower inflows for the Baha Mar resort. For the first half of 2015, international reserves declined by 6.2% to US\$ 953.1 million, covering 18.4 weeks of non-oil merchandise imports, compared with 20.4 weeks in the same period in 2014.

Economic growth stood at 1.5% in 2015, up from 1.0% in 2014, but lower than the initial projection of 2.3%, which had to be revised downward because of the extended delay in the opening of the Baha Mar resort, the dampening effect of VAT on consumer demand and continued high unemployment, among other factors. Growth in 2015 was driven by an increase in high-spending stopover visitor arrivals and buoyant activity in the construction and offshore financial services sectors. Stopover arrivals were boosted by significant marketing efforts, particularly in Grand Bahama, where arrivals rose sharply. For the period January to August 2015, air arrivals increased by 4.0% to 984,309 visitors, while sea arrivals declined by 3.6%. Overall arrivals in 2015 were dragged down by the lower number of visitors to the outer islands, including Long Island and San Salvador, which were hit by Hurricane Joaquin. Construction tapered off following the sharp growth seen in 2014, but remained buoyant, as activity was bolstered by a mix of small and medium-sized FDI-financed projects in the hotel and tourism sector. This helped to partly offset the winding-down of activity on large projects, including the Baha Mar resort.

After spiking in January, inflation eased in the first half of 2015, reflecting the impact of lower international fuel prices. Year-on-year to June 2015, transportation prices decreased by 1.9% (compared with inflation of 3.8% in June 2014) and the Bahamas Electricity Corporation lowered its fuel charge by 24.2%. Lower fuel and other costs were only partly counterbalanced by higher food and health costs. Unemployment declined from 15.7% in 2014 to 12.0% in 2015. This reflected the hiring of a large number of workers by the Baha Mar resort in anticipation of its opening and the temporary hiring of workers for carnival and other cultural events. A number of the Baha Mar employees have subsequently lost their jobs following the postponement of the opening of the resort.

**Bahamas: main economic indicators,  
2013-2015**

	2013	2014	2015 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	0.0	1.0	1.5
Per capita gross domestic product	-1.4	-0.4	0.2
Consumer prices	0.8	0.2	2.0 <sup>b</sup>
Money (M1)	5.6	8.4	23.2 <sup>c</sup>
	<b>Annual average percentage</b>		
Urban unemployment rate <sup>d</sup>	15.8	14.8	12.0 <sup>e</sup>
Central government			
Overall balance / GDP	-5.7	-3.3	-1.6
Nominal deposit rate <sup>f</sup>	1.7	1.4	1.4 <sup>b</sup>
Nominal lending rate <sup>g</sup>	11.2	11.8	12.3 <sup>h</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	3,626	3,566	...
Imports of goods and services	4,794	4,990	...
Current account balance	-1,494	-1,860	...
Capital and financial balance <sup>i</sup>	1,425	1,906	...
Overall balance	-69	46	...

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

a Estimates.

b Figures as of August.

c Figures as of September.

d Includes hidden unemployment.

e Figures as of May.

f Weighted average of deposit rates.

g Weighted average of lending rates.

h Figures as of October.

i Includes errors and omissions.