

## BAHAMAS

### 1. General trends

The Bahamian economy grew by 1.8% in 2019, an improvement on the 1.6% recorded in 2018, and better than expected, given the severe impact of Hurricane Dorian on Abaco and Grand Bahama. Economic activity picked up, driven by strong growth in both high value-added stay-over and cruise visitor arrivals. Construction activity was buoyed by foreign direct investment (FDI) in tourism. Inflation was 1.8%, partly fuelled by higher prices of alcoholic beverages and tobacco, and of transportation. The rate of unemployment for New Providence was lower than in 2018, falling 30 basis points to 10.7%. However, country-wide unemployment was expected to be higher in the aftermath of Hurricane Dorian in Abaco and Grand Bahama. Despite the hurricane's fiscal fallout, the fiscal deficit halved from 3.4% of GDP in 2017/18 to 1.7% of GDP in 2018/19. Public finances were bolstered by a 19.7% increase in tax revenues, thanks to a sharp rise in VAT receipts, combined with muted growth in expenditure. The balance-of-payments current account reversed from a deficit of 12.0% of GDP in 2018 to a small surplus of 0.7% of GDP in 2019. This outturn was a result of substantial net current transfers, stemming from reinsurance inflows to settle claims from Hurricane Dorian and a fall in the goods trade deficit.

The economy is projected to decline sharply in 2020, by 10.5%. The coronavirus disease (COVID-19) pandemic has had a severe impact, with a slump in tourism arrivals and spending, and harmful spillover effects on other sectors such as commerce and distribution. In the first quarter of 2020, total visitor arrivals plummeted by 14.7% to 1.7 million year-on-year, with declines of 28.0% and 10.5% in air and sea arrivals, respectively. This situation was compounded by slower domestic activity, owing to the lockdown to contain the spread of the disease. With the slowdown in activity, unemployment is expected to surpass the level seen in 2019. Inflation is projected to be relatively stable, as a result of lower oil prices and subdued domestic demand. The recent budget forecasts a fiscal deficit of 1.3 billion Bahamian dollars (B\$), equivalent to 11.6% of GDP. This would be the largest deficit on record in the Bahamas. Public debt is projected to expand sharply to B\$ 9.5 billion, or 82.8% of GDP. The balance of payments current account deficit is also expected to widen, owing to lower tourism receipts and goods exports.

### 2. Economic policy

#### (a) Fiscal policy

Fiscal policy was contractionary in fiscal year 2018/19,<sup>1</sup> and the fiscal deficit shrank to 1.7% of GDP, from 3.4% of GDP in fiscal year 2017/18. Total revenues rose by 18.5% to B\$ 2.42 billion, bolstered by a 19.7% expansion in tax receipts. Revenues were boosted by upbeat growth of 31.7% in VAT receipts. Stamp duties and taxes on goods and services also contributed to the increase in revenue. Non-tax proceeds grew by 9.5%, surpassing the budgeted amount by B\$ 4.5 million.

Total expenditure rose by 7.2% to B\$ 2.635 billion. Current expenditure increased 10.5%, partly driven by a spike in procurement of goods and services for relief and rehabilitation after the hurricane. Interest payments on debt rose by 3.4% to B\$ 324.5 million. Capital expenditure, which accounted for 8.2% of the total, declined by 19.2%, owing to lower acquisitions of non-financial assets and smaller outlays on

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<sup>1</sup> The fiscal year runs from 1 July to 30 June.

infrastructure-related capital transfers. Public debt climbed from 66.4% to 66.8% of GDP, driven by domestic currency debt. The ratio of debt service to revenue declined from 10.5% to 8.3%.

In the first nine months of fiscal year 2019/20, the fiscal deficit expanded to B\$ 255.9 million from B\$ 140.3 million for the same period of fiscal year 2018/19. The larger deficit was mainly a result of a 6.6% increase in current expenditure (B\$ 112.7 million), largely owing to outlays on employee compensation, including allowances for civil servants displaced by Hurricane Dorian. Capital expenditure rose by 55.2% to B\$ 198.9 million, driven up by spending on rehabilitation and reconstruction after the hurricane. Meanwhile, total revenue increased by 4.1% to B\$ 1.7 billion.

#### **(b) Monetary and exchange-rate policy**

Monetary policy remained neutral in 2019, and the central bank left its policy discount rate unchanged at 4.0%. The year was marked by an increase in liquidity and external reserves, as deposit growth outpaced the increase in domestic credit. Liquidity was bolstered by reinsurance inflows from Hurricane Dorian and higher foreign exchange receipts from tourism.

There was a turnaround in broad money supply, with growth of 8.9% to B\$ 7.893 billion, following a decline of 4.1% in 2018. The supply was boosted by a 14.7% increase in private sector savings deposits and a slower decline in fixed deposits. There was meagre growth of 0.5% in domestic credit, compared to 0.8% in 2018. Growth in credit to the government slowed to 3.2%, while lending to the private sector grew by 0.1%, after declining in 2018. A portion of this limited growth in lending was to productive activities, including tourism and manufacturing.

The weighted average interest rate spread narrowed by 89 basis points to 9.61%, reflecting an 88-basis-point fall in the loan rate to 10.46%, offsetting a 1.0-basis-point rise in the deposit rate to 0.85%.

#### **(c) Other policies**

The 2020/21 budget is focused on rebuilding after Hurricane Dorian and on a resilient recovery after the COVID-19 pandemic. The government has implemented a number of economic support actions in response to the pandemic. Key measures include an allocation of B\$ 250 million for unemployment assistance, a food assistance programme, a temporary monthly increase in the old age pension of B\$ 50.00, support for the public health sector, B\$ 30 million for business support and business continuity loan programmes for entrepreneurs and small businesses, and a VAT deferral programme for eligible businesses to receive tax credits and waivers for three months. The government aims to develop an entrepreneurial ecosystem and has earmarked B\$ 55.0 million in the new budget to provide financing for small businesses.

### **3. The main variables**

#### **(a) The external sector**

The external position improved, with the current account reversing from a deficit of 12.0% of GDP in 2018 to a surplus of 0.7% of GDP in 2019. This outturn stemmed from significant inflows of insurance payments to settle claims for damage caused by Hurricane Dorian and a lower goods trade deficit. Net current transfers turned around from an outflow of US\$ 68.6 million in 2018 to an inflow of US\$ 846.3 million in 2019. This reversal reflected a surge in hurricane-related insurance receipts and lower outflows for workers' remittances.

The goods trade deficit narrowed from 21.5% of GDP in 2018 to 18.0% of GDP in 2019. This reflected a 10.6% decline in imports, alongside a 2.0% increase in exports. Lower international fuel prices helped to contain domestic fuel prices, benefitting producers and consumers. The services account surplus grew by 8.1% to US\$ 2.098 billion, driven by a 7.3% rise in tourism receipts from increased stay-over and cruise passenger arrivals and lower net payments for transportation services. The income account deficit contracted by 19.9% to US\$ 547.3 million, linked to lower investment outflows.

The capital and financial account surplus, including errors and omissions, declined significantly from 10.2% of GDP to 3.7% of GDP. This was a result of a reversal in “miscellaneous investments”, which shifted from a net inflow of US\$ 150.0 million in 2018, to a net outflow of US\$ 3.5 million in 2019, owing to lower private sector debt financing. Net FDI contracted by 46.2% to US\$ 265.0 million, mainly because of a sharp decline in net equity receipts and lower real estate sales. As at 22 May 2020, international reserves stood at US\$ 1.97 billion, covering 28 weeks of imports, but they are expected to decline when the reopening of the economy relieves pent-up import demand. Nonetheless, the authorities are aiming to manage reserves to maintain the viability of the currency peg to the United States dollar.

### **(b) Economic activity**

Despite the devastation wrought by Hurricane Dorian in the Family Islands, economic growth picked up slightly to 1.8% in 2019 from 1.6% in 2018. Growth was driven by a resurgence in tourism, with higher tourist arrivals and spending. Total visitor arrivals rose by 9.4% to 7.2 million, the fastest growth in nine years, extending the expansion of 7.2% in 2018. Air arrivals, which include the high value-added stop-over segment, grew by 6.7% to 1.7 million, while sea arrivals rose by 10.2% to 5.6 million. Arrivals improved in New Providence and in the Family Islands that were unaffected by the hurricane. Performance indicators for a sample of large hotels in New Providence and Paradise Island showed 18.0% revenue growth and a 5.4% rise in the average occupancy rate to 67.1%. The average daily rate (ADR) rose by 6.5% to US\$ 266.92, compared with 4.7% growth in 2018. However, in the wake of the travel restrictions imposed to contain the COVID-19 pandemic in the first quarter of 2020, tourism activity plummeted relative to the same period of 2019, with visitor arrivals declining by 14.7%, on account of a 28.0% drop in air arrivals and a fall of 10.5% in sea arrivals to 1.3 million.

Construction activity in 2019 was buoyed by FDI-supported projects in tourism, but domestic activity remained sluggish. After growing 11.6% in 2018, total mortgage disbursements for construction and repairs slipped by 6.6% in 2019, reflecting muted domestic activity.

The fallout from the pandemic and the lingering effects of Hurricane Dorian will pose a major challenge to growth and stability in the Bahamas. In 2020, GDP is projected to decline by 10.5%. The mainstay tourism industry has been severely affected by the pandemic, with a substantial fall in tourist arrivals and spending and spillover effects on distribution and other sectors.

### **(c) Prices, wages and employment**

The 12-month rate of inflation fell from 3.7% in September 2018 to 1.8% in the same month of 2019. This fall was driven by the decline in both core and food and non-alcoholic beverages inflation rates, which dropped by 3.9 percentage points and 2.9 percentage points, respectively.

The rate of unemployment in New Providence remained stable at 10.7% in 2019. However, as Hurricane Dorian devastated Grand Bahama and Abaco the national rate is expected to be higher. Survey data indicated that 3,360 people were relocated following the hurricane, many of whom are likely to be unemployed.

Table 1  
**BAHAMAS: MAIN ECONOMIC INDICATORS**

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	0.6	0.0	-3.0	0.7	0.6	0.4	0.1	1.6	1.8
Per capita gross domestic product	-0.7	2.0	-3.9	-0.2	-0.4	-0.5	-0.9	0.5	-0.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.9	4.0	-18.6	-6.0	0.7	5.2	-5.3	11.1	...
Mining and quarrying	-17.2	-14.7	37.8	40.2	-36.0	-57.7	-27.6	173.9	...
Manufacturing	0.3	13.4	-11.9	6.3	-12.2	39.0	-1.6	-15.6	...
Electricity, gas and water	10.6	-5.0	18.3	4.3	-8.5	36.7	0.3	24.7	...
Construction	9.4	13.2	-7.4	2.3	-29.7	5.3	15.6	-10.2	...
Wholesale and retail commerce, restaurants and hotels	-3.1	5.5	-6.0	2.5	11.5	2.7	-12.3	13.4	...
Transport, storage and communications	8.9	3.7	17.1	12.1	-0.6	-6.4	-10.0	-0.2	...
Financial institutions, insurance, real estate and business services	2.8	-3.4	-3.1	1.0	7.7	-2.0	0.3	1.0	...
Community, social and personal services	1.1	-0.5	-2.4	1.4	3.0	2.9	2.6	-2.5	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	-0.8	2.6	-2.9	3.5	1.6	-1.3	7.8	1.0	...
Government consumption	7.2	-4.7	-7.2	-2.5	6.8	-7.3	13.9	-4.0	...
Private consumption	-2.6	4.3	-2.1	4.7	0.7	-0.2	6.8	2.0	...
Gross capital formation	7.4	9.3	-11.0	13.0	-17.7	2.4	10.3	-9.0	...
Exports (goods and services)	6.3	7.2	1.9	-4.1	-3.6	2.2	-2.2	6.3	...
Imports (goods and services)	7.5	9.7	-2.4	11.9	-11.7	2.3	10.4	-0.4	...
	<b>Millions of dollars</b>								
Balance of payments									
Current account balance	-1 193	-1 505	-1 516	-2 193	-1 611	-711	-1 509	-1 488	84
Goods balance	-2 132	-2 402	-2 211	-2 510	-2 434	-2 150	-2 538	-2 675	-2 313
Exports, f.o.b.	834	984	955	834	521	481	571	642	654
Imports, f.o.b.	2 966	3 386	3 166	3 344	2 954	2 632	3 109	3 317	2 966
Services trade balance	1 201	1 154	895	689	1 281	1 564	1 445	1 938	2 098
Income balance	-226	-268	-221	-378	-363	-440	-361	-682	-547
Net current transfers	-36	11	21	7	-94	315	-55	-69	846
Capital and financial balance c/	1 217	1 430	1 448	2 239	1 634	803	2 023	1 267	478
Net foreign direct investment	669	530	688	475	526	390	305	491	265
Other capital movements	549	900	760	1 764	1 108	412	1 718	775	214
Overall balance	24	-75	-69	46	24	92	513	-221	562
Variation in reserve assets d/	-24	75	69	-46	-24	-92	-513	221	-562
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Net resource transfer (millions of dollars)	992	1 162	1 227	1 861	1 271	363	1 662	584	-69.0
Gross external public debt (millions of dollars)	1 045	1 465	1 616	2 095	2 176	2 373	3 234	3 172	3 123
	<b>Average annual rates</b>								
Employment									
Labour force participation rate	72.1	72.5	73.2	73.7	74.3	77.1	80.5	82.8	80.3
Unemployment rate e/	15.9	14.4	15.8	14.6	13.4	12.2	10.0	10.3	10.1
	<b>Annual percentages</b>								
Prices									
Variation in consumer prices (December-December)	3.1	0.8	0.8	0.3	2.0	0.8	1.8	2.0	1.3 f/
Nominal deposit rate g/	2.6	2.0	1.7	1.4	1.4	1.2	1.0	0.8	0.6
Nominal lending rate h/	11.0	10.9	11.2	11.8	12.3	12.5	11.8	11.4	11.2

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Central government i/	<b>Percentages of GDP</b>								
Total revenue	14.4	12.6	13.7	15.6	16.4	17.3	16.7	19.4	...
Tax revenue	12.7	11.3	11.8	13.7	14.3	15.4	15.1	17.7	...
Total expenditure	18.8	17.7	18.3	19.1	19.1	22.9	20.2	21.5	...
Current expenditure	15.4	14.4	15.1	15.7	17.1	19.6	17.9	19.6	...
Interest	1.8	1.8	2.0	2.1	2.3	2.2	2.6	2.7	...
Capital expenditure	2.4	2.4	2.4	2.6	2.0	3.3	2.2	1.9	...
Primary balance	-2.6	-3.2	-2.5	-1.4	-0.3	-3.4	-0.8	0.6	...
Overall balance	-4.5	-5.1	-4.5	-3.5	-2.6	-5.6	-3.4	-2.1	...
Non-financial public sector debt	46.5	52.5	57.5	56.6	59.6	64.8	64.4	63.8	...
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	84.8	81.0	84.7	81.2	76.3	76.5	72.7	71.7	70.0
To the public sector	18.8	19.2	22.7	22.0	22.7	24.8	23.5	24.3	24.0
To the private sector	66.0	61.8	62.0	58.3	53.6	51.7	49.2	47.4	46.1
Monetary base	8.8	8.4	8.2	9.0	8.3	10.8	11.9	10.1	13.5
Money (M1)	14.2	14.7	15.5	18.3	17.6	20.6	21.8	22.0	25.4
M2	60.6	56.8	57.2	56.5	52.6	55.5	55.7	54.0	57.1
Foreign-currency deposits	2.0	2.0	2.6	2.1	1.6	2.6	2.3	3.2	4.6

**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 2012 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Nationwide total. Includes hidden unemployment.

f/ Figures as of October.

g/ Weighted average rate of deposit rates.

h/ Weighted average of lending and overdraft rates.

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

Table 2  
**BAHAMAS: MAIN QUARTERLY INDICATORS**

	2018				2019				2020	
	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)	7 478	6 904	7 385	7 100	7 179	7 656	7 902	7 807	9 866	7 951
Consumer prices (12-month percentage variation)	0.7	1.9	3.7	2.0	4.0	2.9	1.8	1.3 b/	...	...
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/	0.9	0.8	0.8	0.8	0.7	0.6	0.5	0.6	0.4	0.3 d/
Lending rate f/	11.4	11.3	11.6	11.3	10.3	10.9	12.2	11.6	10.4	8.6 d/
Monetary policy rates	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Domestic credit (variation from same quarter of preceding year)	-4.0	-4.9	-5.0	-0.2	0.6	0.8	0.3	0.5	0.4	...

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

a/ Preliminary figures.

b/ Figures as of October.

c/ Weighted average rate of deposit rates.

d/ Figures as of April.

e/ Weighted average of lending and overdraft rates.