

## Bahamas

The slowdown in the United States has resulted in a marked deceleration of the growth rate of the Bahamian economy, which will stand at 1.5% for 2008 compared with 2.8% in 2007. Tourism and construction have lost momentum and foreign direct investment (FDI) inflows have also slackened. The government introduced fiscal stimulus measures to boost the flagging level of private-sector activity, maintain growth and create employment. Consequently, the fiscal stance deteriorated slightly during the early part of the 2008/2009 financial year. Growth for 2009 is forecast at 1.5%. However, the outcome will depend to a great extent on the length and depth of the slowdown and financial crisis in the United States, the principal market for the Bahamas.

The macroeconomic policy adopted by the authorities has sought to balance the competing aims of improving government finances, providing a fiscal stimulus in the wake of depressed conditions in major export markets, and maintaining the soundness and competitiveness of the fixed exchange-rate regime. Structural policies have remained focused on diversifying tourism by expanding the industry's activities to include the Family Islands and revitalizing the financial services sector.

The overall fiscal deficit came to 1.7% of GDP in fiscal year 2007/2008, down from 2.5% of GDP the previous fiscal year. The fiscal stance was positively affected by an increase in revenues that was attributable to improved tax administration and collections, which outpaced growth in expenditure. Although current spending rose by 2.1%, capital outlays and net lending to public enterprise were reduced during the period. Current revenues were bolstered by higher tax receipts associated with increased import duties and business and professional fees, which were in turn linked to vibrant growth in the offshore financial services sector in the earlier part of the year. Some of these gains were eroded during the latter part of the year; import taxes, however, remain the major source of revenue. In fiscal 2008/2009, government finances are expected to be buffeted by fallout from the global financial crisis, reduced demand for tourism and sluggish activity in the offshore sector. In addition, government borrowing and economic stimulus measures are expected to lead to a weakening of the fiscal

position. As a result, the overall fiscal deficit is expected to rise to 2.5% of GDP, while the debt-to-GDP ratio is expected to increase during the year, although it should remain favourable by Caribbean standards.

Even though monetary policy has been relatively conservative, with the discount rate of the central bank remaining unchanged, government borrowing of US\$ 100 million on the external market has boosted liquidity in the banking system. Excess liquid assets, i.e., assets in excess of required reserves, showed a 50% gain of \$182.2 million in Bahamian dollars (B\$) for the first three quarters of the year compared with the same period in 2007. The fall in demand in the United States market has been reflected in a sharp slowdown in the supply of credit to the private sector, especially consumer credit and mortgages. The quality of bank assets have deteriorated during the year, with non-performing balances (payments over 90 days past due) increasing by over 30%. An evaluation prepared by the central bank has revealed that domestic banks have no exposure to subprime mortgages, while offshore banks have no more than minimal exposure to these instruments. Nevertheless, the international financial crisis has led to an increase in loan arrears as the slowdown reduces the ability of borrowers to repay their loans. Exchange-rate policy remains geared towards maintaining the stability of the Bahamian dollar and its parity with the United States dollar. Meanwhile, little progress has been made in removing exchange controls.

Activity has slowed in the tourism and financial services sectors, the drivers of the economy, particularly during the latter part of the year. Real growth of 1.5% is expected, compared with 2.8% in 2007. During the first seven months of 2008, total visitor arrivals declined by 3.2%, when the 2.2% increase in visitors arriving by air was offset by the 5.9% fall in visitors arriving by sea. The outlook for the full year is somewhat less promising, as travel demand continues to weaken in the wake of more intense fallout from the financial crisis originating in the United States, which is the point of departure of around 87% of tourists heading to the Bahamas. This is a particular cause for concern, since the tourism sector accounts for around 50% of GDP and employs about 60% of the labour force. In 2009, GDP growth is expected to drop to 0.5% as weakened global demand affects the domestic economy.

Reflecting the softening of the market, Atlantis Resort has laid off some 800 workers, while Baha Mar Ltd has laid off about 40 workers. The government plans to accelerate some capital projects to counter the slowdown and cushion the contraction of the labour market. Unemployment has risen from 7.9% in 2007 to an estimated 8.7% in 2008. Year-on-year, the inflation rate up to June climbed to 5.1% in 2008.

For the first semester, the current account deficit narrowed from 17% of GDP in 2007 to 8.7% of GDP in 2008. The merchandise deficit contracted by 10.6%, as reduced consumer demand led to a sharp decline in net non-oil imports, which compensated for the hike in non-discretionary spending on fuel. Exports also

#### BAHAMAS: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.6	2.8	1.5
Per capita gross domestic product	3.4	1.5	0.3
Consumer prices	2.3	2.7	5.1 <sup>b</sup>
Money (M1)	1.2	3.4	5.7 <sup>c</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>d</sup>	7.6	7.9	8.7
Central government overall balance / GDP	-1.2	-3.2	-1.7 <sup>e</sup>
Nominal deposit rate <sup>f</sup>	3.4	3.7	4.0 <sup>g</sup>
Nominal lending rate <sup>h</sup>	10.0	10.6	11.2 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 101	3 401	3 643
Imports of goods and services	4 374	4 536	4 262
Current account	-1 439	-1 314	-692
Capital and financial account	1 360	1 269	912
Overall balance	-79	-46	220

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> New Providence. Twelve-month variation to June 2008.

<sup>c</sup> Twelve-month variation to October 2008.

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

<sup>e</sup> Fiscal year 2007-2008.

<sup>f</sup> Deposit rate, weighted average.

<sup>g</sup> Average from January to June, annualized.

<sup>h</sup> Lending and overdraft rate, weighted average.

expanded owing mainly to re-exports. The services account weakened as a 3.3% reduction in travel receipts and lower local spending by offshore companies cut into the surplus. Meanwhile, the capital and financial account surplus expanded, bolstered by government borrowing, FDI inflows and capital inflows.