

Bahamas

The modest recovery posted in 2011 strengthened in 2012, with economic growth increasing from 1.6% to an expected rate of 2.5%. Activity picked up in the first three quarters of 2012, underpinned by dynamic growth in the high value added stopover tourism sector and in construction activity driven by foreign direct investment (FDI) and by the public sector, in addition to buoyancy in offshore financial services. However, the upturn had a lagged effect on unemployment, which declined only slightly. The policy environment remained challenging, with the authorities finding it difficult to embark on fiscal consolidation in the face of a limited recovery. The financial sector continued to be quite liquid as private sector credit demand was just starting to recover, and the current account deficit of the balance of payments widened owing to a larger merchandise deficit. Growth is projected to be 3.0% in 2013, based on continued improvement in tourism, linked to the recovery in the United States.

The new government's policy has centred on nurturing the nascent recovery. In this regard, the government reduced the stamp duty on conveyances over 250,000 Bahamian dollars (B\$) from 12% to 10% to stimulate the real estate market. The government also established a B\$ 50,000 ceiling on the property tax on owner-occupied residences to boost construction activity. The hotel occupancy tax in Grand Bahama, which was badly affected by the recession, was cut by 50% for 10 years to boost the hotel subsector. The government has also drafted a white paper on tax reform to consider options for broadening the tax base and increasing revenue. A debt management committee has also been established to develop a debt strategy aimed at constraining debt growth and securing lower borrowing costs.

During the first two months of fiscal year 2012/2013¹, the fiscal deficit expanded by 49.5% year-on-year in nominal terms to B\$ 81.6 million. Although revenues increased by 8.5%, underpinned by growth in international tax receipts due to higher imports, they were offset by growth in spending, reflecting expanded capital infrastructure spending and

outlays on wages and salaries. The fiscal position worsened with the deficit expanding from 2.6% of GDP in 2010/2011 to 3.8% in fiscal year 2011/2012 up until May. Revenues increased by 4.8% thanks to higher tax receipts, partly reflecting repayment of arrears by a public corporation and increased non-tax receipts. However, gains in the tax take were offset by an 11% expansion in expenditure, mainly on roads, the airport and other projects, in addition to higher spending on wages and on goods and services. Central government debt rose by 11.9% year-on-year to 49.2% of GDP in September 2012. The 2012/2013 budget projects an expansion in the deficit, since an increased revenue effort based on a centralized tax administration system will be more than offset by higher capital spending and current consumption. Accordingly, the fiscal deficit is expected to widen to over 4% of GDP in 2012/2013, as the government implements a B\$ 25-million job creation programme, and revenue capacity remains constrained by lack of tax reform.

Amid still weak domestic demand, import pressures did not present a threat to the fixed exchange rate and the central bank accordingly kept its monetary policy stance unchanged in 2012, holding the discount rate at 4.5%. Liquidity and external reserves declined

¹ In the Bahamas, the fiscal year runs from July 1 to June 30.

during the first nine months of 2012, compared with 2011, when they had been bolstered by one-off receipts from the sale of the Bahamas Telecommunications Company (BTC). Nevertheless, liquidity remained high in the face of weak private sector credit demand. As a result, the weighted average deposit rate declined by 22 basis points, more than the fall in the lending rate. Growth in private credit demand continues to be undermined by high unemployment, investor uncertainty and higher loan loss provisions by banks, which have been affected by high non-performing loan levels. In the period January-September 2012, non-performing loans were up by 0.4 percentage points year-on-year to 13.4%. Partly to provide relief for homeowners and to reduce the level of non-performing loans, the government and commercial banks developed a mortgage relief plan, under which the government will provide relief of B\$ 7,500 to past due mortgage holders, to help cover deferred debt. The plan is expected to cover about a quarter of all mortgages.

The economic recovery strengthened during the year, with growth estimated at 2.5% in 2012, compared with 1.6% in 2011. Growth was buoyed by an 8.4% increase in high value added air arrivals, on the strength of recovering demand from the United States, the sector's main market. Hotel room revenues were up by 5.5% August-on-August, which reflected larger numbers of arrivals since the average daily room rate declined by 2.0%, owing to discounting at some properties. Cruise passenger arrivals were strongly up (8.7%), as well. Growth was also supported by FDI-based construction, especially ongoing work on the US\$ 3.4 billion Baha Mar Resort and public infrastructure, including roads and the airport. Activity in the offshore financial services sector improved marginally, owing to increased business from the recovering United States market and marketing efforts in Brazil, Mexico and Panama.

Inflation slowed from 3.2% in 2011 to 2.3% in 2012 (12-months variation to August), reflecting a decline in transport costs after the previous year's sharp increase, as international fuel prices eased. However, food prices climbed 3.4 percentage points, despite a decline in international food prices. Reflecting the limited recovery, unemployment eased

BAHAMAS: MAIN ECONOMIC INDICATORS

	2010	2011	2012 ^a
Annual growth rates			
Gross domestic product	0.2	1.6	2.5
Per capita gross domestic product	-1.1	0.4	1.3
Consumer prices	1.4	3.2	2.3 ^b
Money (M1)	2.8	6.2	8.4 ^c
Annual average percentages			
Urban unemployment rate ^d	...	13.7	...
Central government overall balance / GDP	-3.8	-2.6	-3.8
Monetary police rate	5.3	4.8	4.5 ^e
Nominal lending rate ^f	11.0	11.0	10.8 ^g
Millions of dollars			
Exports of goods and services	3 196	3 440	3 652 ^h
Imports of goods and services	3 771	4 257	4 758 ^h
Current account balance	-811	-1 090	-1 310
Capital and financial balance ⁱ	856	1 114	1 145
Overall balance	45	24	-166

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

^a Estimates.

^b Twelve-month variation to August 2012.

^c Year-on-year average variation, January to October.

^d Includes hidden unemployment.

^e January-October average.

^f Weighted average of the system lending rates.

^g January-September average.

^h Does not include services.

ⁱ Includes errors and omissions.

down somewhat, from 15.9% in 2011 to 14.7% in 2012. Employment gains were concentrated in the tourism and construction sectors.

The current account deficit expanded from 10.1% of GDP in the first half of 2011 to 11.6% of GDP in the first half of 2012. Sharp growth in imports for construction projects and an upturn in consumer demand on the back of higher incomes led to a 19.9% increase in the trade deficit. This more than offset both the improvements in the services surplus, on account of moderate growth in tourism receipts, and higher merchandise exports. The deficit on the income account widened by 6%, to 2.8% of GDP, while the transfers balance shifted from a deficit to a surplus, as normal levels returned after very high transfer outflows in 2011. For 2012, the deficit is expected to expand from 13.5% of GDP in 2011 to around 15.0%. International reserves declined by 22.6% to US\$ 756.65 million, after being bolstered by one-off receipts from the sale of the BTC and shares in the Bahamas Oil Refining Company International (BORCO) in 2011. The current account deficit is projected to widen in 2013, propelled by stronger import demand as growth continues to recover.