Bahamas

The coronavirus disease (COVID-19) pandemic has been the key determinant of the Bahamas' economic performance in 2020. By 17 November, the country had recorded 7,312 infections and 163 deaths. The mainstay tourism sector has been severely affected, with knock-on effects on commerce, distribution and other sectors. Therefore, the economy is projected to contract by 14.5% in 2020, following growth of 1.8% in 2019. Unemployment has increased, owing to the sharp contraction in tourism and subdued activity in other sectors. Meanwhile, inflation slowed by 0.3 percentage points year-on-year in the first eight months of 2020, mainly due to lower international fuel prices. The fiscal deficit expanded sharply to 6.1% of GDP in the 2019/20 fiscal year, owing to continued reconstruction after Hurricane Dorian in 2019 and outlays relating to the pandemic, accompanied by a sharp decline in revenues. There was a major reversal in the balance of payments current account position from a surplus of 5.2% of GDP in the first half of 2019 to a deficit of 11.9% of GDP in the first half of 2020, largely owing to the steep decline in tourism receipts.

Economic policy has centred on containing the fallout from COVID-19, cushioning the impact on citizens and building a platform for growth after the pandemic. The government has been forced to put its fiscal consolidation effort on hold as it seeks to rebuild after the hurricane and to stimulate activity during the pandemic. As a result, the fiscal deficit expanded from 1.7% of GDP in the 2018/19 fiscal year to 6.1% of GDP in the 2019/20 fiscal year (ending June 2020). This slippage was driven by a 13.9% contraction in revenues, owing to a 15.9% decline in tax receipts, with lower collection of VAT and other taxes in the last quarter, owing to the pandemic. The decline in revenue was compounded by an 8.8% expansion in government spending, including a substantial (65.1%) expansion in capital expenditure to facilitate reconstruction after the hurricane and higher current spending on relief and stimulus to cope with the pandemic. During the last quarter of the 2019/20 fiscal year, the government spent over 57.3 million Bahamian dollars (B$) on medical supplies, rental of quarantine sites and support to households and businesses to cope with the pandemic. The fiscal deficit is projected to further widen to 10.0% of GDP in the 2020/21 fiscal year as the government maintains spending to lessen the impact of the pandemic.

Despite the impact of the hurricane and the pandemic, monetary policy remained neutral, and the central bank has held its policy discount rate at 4.0%. Monetary developments were marked by a temporary boost to external reserves, associated with foreign currency borrowing by the government. Meanwhile, domestic credit is expected to expand by B$ 16.1 million in 2020, partially reversing the decline of B$ 53.3 million in 2019. This is primarily linked to increased borrowing by the central government (forecast at B$ 144.0 million) to fund rehabilitation and activities related to COVID-19, as credit to the private sector is set to contract by B$ 72.6 million , reflecting weaker business confidence because of the pandemic. Meanwhile, growth in banking sector deposits slowed, in line with lower foreign currency inflows from tourism and other activities. Bahamian dollar deposits are projected to grow by B$ 218.9 million in 2020, compared with B$ 331.4 million in 2019, while foreign currency deposits are expected to decline by US$ 96.5 million, following growth of US$ 95.9 million in 2019. The economic downturn, including layoffs of workers in tourism, contributed to a worsening of bank credit quality in 2020. The banking sector is expected to have increased its loan loss provisions by 20.6% (B$ 87.6 million) and the ratio of total provisions to non-performing loans (NPLs) is forecast to rise by 16.6 percentage points. Monetary developments led to a widening of the average interest rate spread from 9.96% in 2019 to a forecast 10.8% in 2020, as the increase in the loan rate outpaced that for the deposit rate.

External payments deteriorated in 2020, with the balance of payments current account slipping from a surplus of 5.2% of GDP in the first half of 2019 to a deficit of 11.9% of GDP in first half of 2020. This reversal stemmed primarily from the slump in net tourism receipts from 36.4% of GDP in 2019 to an expected 15.5% of GDP in 2020. The almost complete shutdown of the tourism sector led to a slump in receipts from both stayover and cruise tourism. The goods trade deficit is projected to contract by 9.1% in 2020, reflecting lower payments for both non-fuel and fuel goods imports, the latter linked to fall in international oil prices. Net transportation payments are set to decline by 32.5%, owing to reduced air and sea travel during the pandemic. The income account deficit is on course to widen, from 4.3% of GDP to 4.7% of GDP in line with higher payments for compensation of employees. Current transfers are forecast to rise from 0.1% of GDP to 6.4% of GDP, bolstered by reinsurance inflows relating to Hurricane Dorian. The capital and financial account surplus is expected to grow from 0.4% of GDP to 17.1% of GDP. This has been driven by significant debt inflows, reflecting government borrowing for post-hurricane reconstruction and the response to the pandemic. Meanwhile, foreign direct investment (FDI) inflows is forecast to contract by 22.3% to US$ 105.0 million in 2020, linked to reduced equity inflows and land sales. By the end of September, international reserves had grown by US$ 347.9 million to US$ 2.1 billion, covering 8.3 months of goods imports.

The economy is projected to contract by 14.5% in 2020, the largest decline since independence in 1973. The COVID-19 pandemic has combined with the effects of hurricane Dorian to create a perfect economic storm in the Bahamas. The main fallout from the pandemic has been on the mainstay tourism sector, with total visitor arrivals declining by 68.0% year-on-year in the first nine months of 2020. Air arrivals, which include the high value-added stopover segment, contracted by 72.4% from 1,342,120 to 370,976 visitors year-on-year to September 2020. Cruise passenger arrivals declined by 66.5% to 1,327,142 visitors over the same period. This fallout in tourism spilled over into distribution and commerce, amplifying the recessionary effects on the economy. This was only marginally offset by reconstruction work in the wake of Hurricane Dorian and ongoing FDI-related tourism projects, which boosted construction activity. The rate of inflation declined by 0.3 percentage points year-on-year to August 2020, compared with an increase of 1.4 percentage points in the same period of 2019. This lower inflation was primarily a result of lower international fuel prices. The rate of unemployment is expected to increase to over 15.0% in 2020 from 10.7% in 2019, owing to significant job losses in tourism and other sectors. However, the economy is expected to bounce back to grow by 4.5% in 2021, as activity picks up owing to expected improved treatments for the virus.