Bahamas

Economic performance in the Bahamas continues to be affected by the coronavirus disease (COVID-19) pandemic and the effects of Hurricane Dorian. As of 22 November 2021, the Bahamas had recorded 29,501 cases and 671 deaths owing to the disease. Nevertheless, the economy posted a modest recovery in 2021 compared with 2020, stemming from a gradual improvement in its mainstay, the tourism sector, supported by various FDI-financed construction projects in tourism and post-hurricane reconstruction works. The pickup in stayover visitor arrivals in 2021 was expected to ease the high rate of unemployment seen in 2020, but apparently that was not the case. Inflation rose to 0.9% from 0.88% in the previous year, driven by higher prices of fuel and some other products. The fiscal stance was fairly expansionary in 2020/21 relative to 2019/20. The fiscal deficit almost doubled, rising from 7.0% of GDP to 13.1% of GDP, representing a 66.1% increase in nominal terms. This stemmed from contingency spending to address COVID-19 and the impact of Hurricane Dorian amidst a collapse in revenue owing to the near shutdown of the economy for an extended period because of the pandemic. The external position worsened, with the balance-of-payments current account deficit widening from 19.5% of GDP at the end of the third quarter of 2020 to 20.9% of GDP at the end of the third quarter of 2021. This was underpinned by a significant widening of the trade deficit, which offset the improvement in the services balance stemming from the recovery in tourism.

Economic policy remained focused on containing the impacts of COVID-19 and nurturing a recovery in tourism as a platform for growth. The fiscal stance was fairly expansionary in 2020/21. Marked by a 10.3% contraction in revenue alongside an 11.1% increase in spending, the fiscal deficit widened to 13.1% of GDP in 2020/21, from 7.0% of GDP in 2019/20. With a large part of the economy grinding to a halt owing to COVID-19-related lockdowns, curfews and border closures, tax revenue plummeted. Valued added tax (VAT) receipts declined by 15.7% to 741.7 million Bahamian dollars (B$). Meanwhile, the hike in spending reflected a 12.9% increase in recurrent spending, including allocations for pandemic relief for households and businesses. By contrast, capital expenditure declined by 0.7% to B$ 365.9 million. The recent budget has projected the fiscal deficit to fall from 11.3% of GDP in 2020/21 to a fiscal deficit equivalent to 7.7% of GDP in 2021/22. With the modest recovery, revenue is expected to increase by 27.5% to B$ 2.2 billion from the low base last year, buoyed by higher tax proceeds and non-tax revenue. Public sector debt expanded to 98.2% of GDP at the end of the first quarter of 2021/22, compared with 94.3% of GDP in the year-earlier period.

With the modest recovery in activity in 2021, the fiscal deficit narrowed to B$ 153.5 million in the first quarter of 2021/22, compared with the year-earlier period. Total revenues rebounded strongly, posting growth of 90.4% to B$ 572.8 million, buoyed by VAT receipts. This far outweighed the 12.4% increase in expenditure, as the government maintained outlays to cope with the pandemic and to promote economic recovery.

Monetary policy remained neutral in 2021, with the central bank keeping its discount rate at 4.0%. In the first nine months of the year, the banking sector experienced significant growth in liquidity, reflecting inflows from external borrowings by the government. Excess liquid assets expanded by B$ 193.8 million, outpacing the B$ 186.8 million increase in the year-earlier period. Domestic credit grew by B$ 184.4 million, surpassing the B$ 79.7 increase in 2020. Credit growth was associated with increased lending to the government, whose borrowing rose by B$ 217.6 million, up from B$ 91.9

million in the previous year. Owing in part to higher loan delinquency and uncertainty, credit to the private sector continued to decline, by B$ 67.7 million, underscored by a sharp fall in consumer credit. Reflecting the impact of the pandemic, bank credit quality has worsened with non-performing loans (NPLs) rising to 9.1% from 8.2% in the year-earlier period.

The balance-of-payments current account deficit expanded from 19.5% of GDP in 2020 to 20.9% of GDP in 2021. The trade deficit widened from 15.6% of GDP to 23.7% of GDP, driven mainly by an increase in imports of other goods and higher international fuel prices. Imports expanded from 19.1% of GDP to 28.6% of GDP, while exports rose from 3.6% of GDP to 4.9% of GDP. The services surplus rebounded, up from 1.4% of GDP to 10.1% of GDP as visitor arrivals by air increased by 56.8%, a turnaround from the contraction of 71.4% in 2020 at the height of the pandemic. This helped to offset the 84.7% decline in the lower value added sea arrivals component. Net payments on the primary income account increased from 4.0% of GDP to 5.3% of GDP, reflecting higher investment income outflows. The capital and financial account surplus contracted sharply from 23.4% of GDP in 2020 to 3.8% of GDP in 2021, owing to a significant decline in loan inflows and portfolio investments. However, FDI rose from 2.2% to 2.5% of GDP, reflecting an increase of US$ 37.8 million. External reserves declined by US$ 36.4 million to US$ 2.717 billion, covering 11.6 months of merchandise imports.

The economy started to normalize in 2021with growth of 2.3%, following the steep 14.5% contraction in 2020 at the height of the pandemic. Growth was driven by a rebound in the dominant tourism industry, which experienced a near collapse in activity in 2020 owing to border closures and shutdowns to address COVID-19 before vaccines were available. Total visitor arrivals declined by 45.6% in the first quarter of 2021, falling from 1,739, 522 visitors to 945,859 visitors. This was a significant improvement on the 75.2% contraction in 2020 owing to the pandemic. The high value added stopover segment recovered to grow by 54.5% relative to the first quarter of 2020. Nevertheless, cruise passenger arrivals declined by 81.5%, as most visitors remained reluctant to undertake cruises owing to higher risks of being infected in an enclosed environment. The economy is projected to rebound with growth of 8.5% in 2022, as tourism continues to recover with the expected easing of the effects of the pandemic. Tourism is expected to be supported by FDI-related construction and activity in the offshore financial services sector. The pickup in growth is expected to relieve the unemployment situation, but inflation is projected to remain above trend, owing in part to supply chain disruptions and higher average import costs.