

BAHAMAS

1. General trends

Growth in the Bahamian economy slowed in 2013 to 0.7%, down from 1.0% in 2012, dampened by a decline in stopover tourism, a high value added sector. This decline was offset by relatively dynamic growth in resort construction, an activity heavily dependent on foreign direct investment, and buoyant activity in the offshore financial services sector. Inflation increased marginally from 0.7% in December 2012 to 0.8% in December 2013 owing to higher prices of food, health and other services, which counterbalanced the falling cost of fuel. The labour market situation improved in 2013, with the rate of unemployment declining by 0.8 percentage points to 15.4% between May and November.

The country's economic development remains hampered by the fall in stopover arrivals, increasing government debt and public opposition to the introduction of a value-added tax (VAT) of 15%, which the government deems necessary to achieve sustainable public finances. The government has, however, postponed the implementation of VAT and the final rate is expected to be lower. The Bahamas is attempting to diversify the source markets for its tourism industry by focusing on emerging markets in Latin America and other regions. Nevertheless, the country also needs to look into diversification in other sectors, as its tourism continues to face intense competition from other destinations.

The fiscal situation remains a critical challenge for the authorities. The overall deficit worsened from 4.2% of GDP in fiscal year 2011/2012¹ to 5.3% of GDP in fiscal year 2012/2013. This stemmed from an increase in expenditure that was compounded by a decline in revenue. The fiscal outturn nonetheless improved in the first half of fiscal year 2013/2014 as a result of a reduction in capital spending that offset a marginal fall in total revenue. Monetary developments were marked by tepid growth in credit amid weak private sector activity, owing to the shallowness of the recovery. This has meant that liquidity has been abnormally abundant for three years. As a result, interest rates on deposits fell, but the average loan rate increased, leading to a widening of interest rate spreads.

The economy is projected to further strengthen in 2014, with growth of 2.3%. Growth is expected to be bolstered by a rebound in tourism, underpinned by the recovery of the United States economy. Hotel occupancy levels and spending are expected to increase and will be further enhanced by resort-based construction activity. Employment is expected to increase, especially in the tourism and construction sectors, boosting domestic consumption. The current account deficit is expected to widen in 2014 as the projected growth in imports and stronger economic activity are expected to counterbalance an increase in stopover visitor arrivals and visitor expenditure.

2. Economic policy

(a) Fiscal policy

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

The government has stated its commitment to fiscal consolidation so as to bring the debt down to manageable levels. However, given the shallow nature of the recovery, this is expected to occur over the medium term. Fiscal policy remained expansionary in fiscal year 2012/2013, with the deficit rising from 4.2% of GDP in 2012 to 5.3% of GDP in 2013. The increase in the deficit was due to a decline in revenue, aggravated by higher expenditure. Tax receipts, which account for over four fifths of revenue, contracted by almost 5%, mainly reflecting lower proceeds from excise tax and import duties. Revenue from excise tax returned to a more usual rate of growth after a substantial increase in 2012, when a public entity paid up significant arrears. Import tax proceeds fell by 4.6%, influenced by the decline in import payments, owing to reduced public-sector construction activity. Non-tax receipts decreased by 7.8%, associated with lower deferred interest payments, which had been inflated by a one-off payment in 2012. Meanwhile, income from public enterprises increased sharply due to the payment of outstanding landing fees by airlines.

Total expenditure grew marginally (by 0.5%) on the back of a 5.3% increase in capital spending, while current outlays fell slightly. Capital spending was boosted by higher transfers for the acquisition of specialized aviation equipment and modest (3.2%) growth in outlays for infrastructure projects. Spending on defence and security was also increased to aid in the fight against crime. In keeping with the pattern of using domestic financing to avoid foreign interest rate and exchange risks, the deficit was financed mainly from domestic sources, along with an external loan.

Public debt increased from 61% of GDP in calendar year 2012 to 66.2% of GDP in calendar year 2013. This was associated with increased levels of debt owed to the central government as public corporations reduced their debts.

There was some easing of fiscal constraints during the first half of fiscal year 2013/2014. The fiscal deficit declined by 22.6% to 209.1 million Bahamian dollars (B\$), equivalent to 4.8% of GDP. Total expenditure contracted by almost 7%, reflecting lower spending on public infrastructure projects. While current spending grew marginally, capital expenditure fell by over 33%, offsetting the modest decrease in revenue. The government has projected a deficit of 5.1% of GDP and seems on course to achieve this target. The recent budget forecast a deficit of 3.2% for 2014/2015, however, and achieving this target will be conditional on increased revenues from additional tax measures, such as the introduction of VAT, and keeping growth in spending in check.

(b) Monetary and exchange-rate policy

Monetary policy remained neutral in 2013, as the central bank left its policy discount rate unchanged. In weighing up the risks to the economy, the bank noted that external reserves were sufficient to defend the fixed exchange rate. The weak recovery, combined with high unemployment and mounting private-sector debt, has dampened demand for credit. As a result, liquidity in the banking sector has remained above the long-term average for the last three years. Domestic credit grew by 3.1%, buoyed by greater public sector credit as a result of banks' holding an increased amount of government paper. Alongside weakness in economic activity, private sector credit was constrained by a more conservative approach to lending by banks as a result of the high rate of non-performing loans (NPLs) in the banking system. In a welcome development, loans to light manufacturing increased during the year to B\$ 12.4 million.

The broad money supply declined by 0.2%, less than the contraction of 0.4% seen in 2012. This was influenced mainly by a 3.8% reduction in time deposits, which offset the 4.2% increase in savings deposits. Banks have been substituting lower interest-bearing savings for higher cost fixed deposits in a

context of high liquidity. Meanwhile, foreign currency deposits grew by almost 10%, reflecting higher holdings in the private sector.

The weighted average interest rate spread widened by 56 basis points to 9.42%, as the loan rate rose by 22 basis points to 11.1%, owing to an increase in the consumer loan segment. Meanwhile, the average deposit rate fell by 34 basis points to 1.7%.

Banking sector credit quality worsened in 2013, influenced by sluggish economic activity and weaker growth in employment. Non-performing loan delinquencies increased by 11.4%, pushing the total private-sector loan delinquency rate up by 1.8 percentage points to 15.7%. The central bank has stepped up its monitoring and prudential oversight of banks with a view to improving their risk management systems.

3. The main variables

(a) The external sector

The current account deficit of the balance of payments widened from 18.3% of GDP in 2013 to 19.4% of GDP in 2014. The trade in goods deficit narrowed by almost 8%, owing to a reduction in import payments for construction materials with the winding-down of some government infrastructure projects. There were also lower payments for oil products due to the fall in oil prices. However, this was offset by a reduction in the services account surplus, which narrowed by 26% to under 11% of GDP. This was attributable to growth in construction—driven by strong activity in the foreign direct investment-dependent subsector of resort construction, including the large-scale Baha Mar project—and lower tourism receipts as numbers of high-spending stopover visitors fell.

The income account deficit widened by 25% to US\$ 329 million, owing to a spike in investment income outflows, particularly from the non-bank sector, while the banking sector registered net inflows.

The surplus on the capital and financial account contracted by 21% to US\$ 990 million, reflecting a 27% reduction in net foreign direct investment inflows in the wake of equity inflows returning to trend levels following a one-off purchase of a major resort in 2012 and lower financing for public infrastructure projects. Real estate investment, meanwhile, posted a five-fold increase, driven by sales of high-end properties. Public sector capital inflows fell sharply following high inflows in 2012 when a public port-management body obtained external financing to expand its operations. International reserves declined by 8.5% to US\$ 741.6 million in 2013, sufficient to cover 15.7 weeks' worth of non-oil imports, down from 16.0 weeks in 2012.

(b) Economic activity

The pace of economic activity slowed in 2013 with growth of 0.7%, down from 1.0% in 2012. Real output was dampened by a contraction of 1.2% in value added in the tourism sector, the mainstay of the economy. The high value added sector of stopover arrivals also declined by 4% to 1.36 million visitors, resulting in a 3% fall in visitor expenditure. Growth in stopover arrivals was dampened by a slowdown in demand from the United States, the Bahamas's major market, greater competition from other Caribbean destinations and a decline in airlift and room capacity. Cruise ship passenger arrivals increased by 6.2% to 4.4 million. A sample of the larger hotels indicated that average occupancy levels

fell by 5.1% and total room revenue was down by 7.0%. This outweighed the effect of a 2.9% increase in the average daily room rate to US\$ 236.

Construction activity slowed marginally (-1.0%) as vibrant growth in non-resident construction, driven by hotel construction, was offset by the winding down of public sector construction projects. Non-resident construction focused on a number of hotel and resort projects, including the vast Baha Mar project and resorts in the Family Islands. Meanwhile, the slowdown in domestic construction stemmed from the tapering-off of public-sector projects, including the New Providence Road project and the airport development project. High unemployment and consumer debt dampened activity in the residential construction subsector, as reflected in a 16% reduction in mortgages for new construction and repairs.

Activity in the offshore financial services sector was buoyant, with an increase in the number of trusts and banks registered.

As regards expenditure, GDP was influenced by growth in domestic consumption (0.5%), reflecting higher government consumption (3.7%), which negated the 0.3% contraction in private consumption and offset the 1.8% decline in investment and lower exports of goods and services, resulting in a modest increase in GDP growth. Economic activity is projected to pick up in 2014, with growth of 2.3%. The recovery will be driven by a rebound in stopover tourist arrivals and spending and tourism-related construction activity, together with continued buoyant activity in the offshore financial services sector.

(c) Prices, wages and employment

Inflation increased marginally, from 0.7% in December 2012 to 0.8% in December 2013, chiefly reflecting the higher cost of food (6.2%), communication (4.5%) and services, which offset the fall in the price of fuel as a result of the decline in international oil prices. With the need for prudent fiscal management, wages remained stable in 2013 and the wage bill actually decreased by 2.3%. The rate of unemployment increased by 1.4 percentage points from 14% in November 2012 to 15.4% in November 2013, following a spike of 16.2% in May 2013. The improved labour market situation reflected the creation of 2,600 new jobs. The number of discouraged workers also fell by 15% to 1,205.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	3.4	2.5	1.4	-2.3	-4.2	1.5	1.1	1.0	0.7
Per capita gross domestic product	1.3	0.5	-0.5	-4.1	-5.8	-0.2	-0.5	-0.5	-0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-9.9	-8.2	-7.3	2.9	3.7	3.7	-8.5	5.6	-17.2
Mining and quarrying	-5.0	15.3	-11.7	26.2	-3.3	84.4	-8.5	5.6	-17.2
Manufacturing	-5.6	10.8	-12.6	-7.3	-6.0	9.1	-0.2	-0.1	4.5
Electricity, gas and water	5.3	-2.3	3.7	9.4	-2.6	-4.5	9.8	-3.7	1.7
Construction	33.0	20.4	-34.7	28.7	-10.2	24.6	10.1	13.3	-1.0
Wholesale and retail commerce, restaurants and hotels	10.0	2.3	8.7	-4.4	-2.8	2.1	-0.4	-0.7	-1.2
Transport, storage and communications	5.3	2.7	-11.2	-7.4	4.4	-8.9	8.2	-2.7	-1.0
Financial institutions, insurance, real estate and business services	1.5	-3.5	11.5	-2.1	-6.7	3.2	2.3	1.1	-0.1
Community, social and personal services	-1.4	-3.5	3.8	-3.3	-6.0	0.0	2.7	0.8	1.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.4	2.8	1.0	-2.2	-8.0	0.8	-0.3	1.4	0.5
Government consumption	3.1	1.8	-0.2	7.2	3.9	-0.3	7.2	-3.9	3.7
Private consumption	8.2	3.0	1.3	-3.8	-10.3	1.1	-1.9	2.6	-0.3
Gross capital formation	24.7	22.0	-2.6	-9.3	-9.4	0.6	7.7	5.5	-1.8
Exports (goods and services)	-2.1	1.9	-1.4	-2.2	-9.1	3.4	6.8	8.5	-5.4
Imports (goods and services)	14.3	12.2	-3.7	-5.9	-6.9	4.5	16.1	10.3	-5.8
Balance of payments									
Millions of dollars									
Current account balance	-305	-1,031	-954	-872	-809	-797	-1,193	-1,505	-1,637
Goods balance	-1,763	-2,033	-2,154	-2,243	-1,825	-1,888	-2,132	-2,401	-2,217
Exports, f.o.b.	549	694	802	956	711	702	834	984	909
Imports, f.o.b.	2,312	2,727	2,956	3,199	2,535	2,591	2,966	3,385	3,126
Services trade balance	1,611	1,206	1,433	1,488	1,155	1,329	1,201	1,154	902
Income balance	-159	-165	-186	-78	-152	-235	-226	-268	-329
Net current transfers	6	-39	-47	-39	14	-3	-36	11	7
Capital and financial balance c/	216	952	909	980	1,062	841	1,217	1,430	1,568
Net foreign direct investment	563	706	746	860	497	872	667	526	382
Other capital movements	-347	246	162	120	565	-31	550	904	1,186
Overall balance	-89	-79	-46	109	253	45	24	-75	-69
Variation in reserve assets d/	89	79	46	-109	-253	-45	-24	75	69
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Net resource transfer (millions of dollars)	57	787	723	903	909	606	991	1,163	1,239
Gross external public debt (millions of dollars)	287	289	273	384	703	711	799	1,037	1,152

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Employment	Average annual rates								
Labour force participation rate	76.3	75.1	76.2	76.3	73.4	...	72.3
Unemployment rate e/	10.2	7.6	7.9	8.7	14.2	...	15.9	14.0	15.8
Prices	Annual percentages								
Variation in consumer prices (December-December)	1.2	2.3	2.8	4.6	1.3	1.4	3.2	0.7	0.8
Nominal deposit rate f/	3.2	3.4	3.7	3.9	3.8	3.4	2.6	2.0	1.7
Nominal lending rate g/	10.3	10.0	10.6	11.0	10.6	11.0	11.0	10.9	11.2
Central government h/	Percentajes of GDP								
Total revenue	15.9	16.8	17.1	16.1	16.7	18.2	18.4	16.6	18.9
Tax revenue	14.2	15.1	15.2	13.7	14.2	16.4	16.2	14.9	0.0
Total expenditure	16.5	19.1	18.9	20.4	21.0	22.9	24.1	23.3	24.5
Current expenditure	14.9	16.1	16.2	17.3	17.8	19.3	19.7	19.0	20.9
Interest	1.5	1.6	1.7	1.9	2.3	2.7	2.4	2.4	2.5
Capital expenditure	1.6	2.1	2.1	1.7	2.0	2.6	3.1	3.2	3.6
Primary balance	0.9	-0.7	-0.1	-2.5	-2.1	-2.0	-3.4	-4.3	-3.1
Overall balance	-0.7	-2.3	-1.8	-4.4	-4.3	-4.7	-5.7	-6.7	-5.6
Public debt	35.5	36.2	36.9	37.4	44.1	45.7	50.2	54.5	59.3
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	76.6	84.7	89.4	95.9	102.8	107.1	108.4	106.6	108.7
To the public sector	12.3	13.5	14.6	16.6	18.5	23.8	24.0	25.2	29.6
To the private sector	64.3	71.2	74.7	79.3	84.3	83.3	84.4	81.4	79.1
Monetary base	7.6	7.1	8.1	7.8	8.9	10.5	11.2	11.0	10.5
Money (M1)	16.2	15.7	15.6	15.5	16.4	16.9	18.2	19.3	19.9
M2	60.8	62.6	65.4	69.4	74.2	75.6	77.5	74.7	73.4
Foreign-currency deposits	1.9	2.0	2.4	2.4	3.0	2.8	2.6	2.6	3.3

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 2006 prices.

c/ Includes errors and omissions.

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

e/ Includes hidden unemployment. Nationwide total.

f/ Weighted average rate of deposit rates.

g/ Weighted average of lending and overdraft rates.

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

Table 2
BAHAMAS: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	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)	890	950	825	716	779	815	729	701	921	997 b/
Consumer prices (12-month percentage variation)	3.5	2.3	2.1	1.3	0.7	0.2	0.0	0.5	1.2	...
Average nominal exchange rate (Bahamas dollars per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Nominal interest rates (annualized percentages)										
Deposit rate d/	2.2	2.1	1.9	1.8	1.9	1.7	1.7	1.4	1.5	...
Lending rate e/	10.3	11.0	11.2	11.1	10.9	10.8	11.3	11.7	11.1	11.9 b/
Monetary policy rates	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5 b/
Domestic credit (variation from same quarter of preceding year)	2.1	6.6	4.0	3.4	2.4	0.9	2.6	1.7	-0.7	...
Non-performing loans as a percentage of total credit	13.1	13.3	13.3	13.7	14.2	14.2	13.9	15.1	15.8	...

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

a/ Preliminary figures.

b/ Figures as of May.

c/ Figures as of January.

d/ Weighted average rate of deposit rates.

e/ Weighted average of lending and overdraft rates.

f/ Figures as of April.