

## Bahamas

Economic growth picked up in 2017, reaching 1.2%, compared to 0.2% in 2016. However, Hurricane Irma was expected to cut growth forecasts by 0.2 percentage points. Activity was bolstered by increased value added in construction, linked to the resumption of work on the Baha Mar Resort and other tourism projects of varying sizes. Value added in tourism remained subdued as foreign arrivals by air and sea declined owing to reduced room capacity in Grand Bahama following Hurricane Matthew in 2016. Meanwhile, activity in the offshore financial services sector was buoyant. The fiscal deficit, measured on the basis of revised national accounts data, increased from 2.2% of GDP in the first 11 months of the fiscal year 2015/16 to 2.5% of GDP for the same period in 2016/17. However, higher end-of-year spending may cause the deficit for the entire fiscal year to balloon. Monetary conditions were affected by high liquidity and a decline in domestic credit as banks remained cautious amidst relatively high levels of non-performing loans. The balance-of-payments current account deficit widened due to lower services inflows and higher payments for construction services. GDP growth is projected to be over 2.0% in 2018, driven by improved tourism activity as a result of the phased opening of the Baha Mar resort, other tourism projects and reconstruction after Hurricane Irma.

Fiscal policy was expansionary in 2016/17, as the planned consolidation failed to gain traction. Public finances deteriorated during the 11 months to May, with the overall deficit increasing from 2.2% of GDP to 2.5% of GDP<sup>1</sup>. While total revenues grew by 3.7%, reflecting higher receipts from taxes on international trade and transactions, in line with the growth in imports, and from property tax, this was offset by a 4.9% expansion in expenditure. In addition, value added tax (VAT) receipts fell slightly by 0.7%. Current spending rose by 2.3%, reversing the decline of over 10% seen during the same period of the fiscal year 2015/16. Growth in current spending was driven by higher outlays on goods and services and more generous wage and salary payments, in part because procurement was stepped up and more workers hired to carry out relief, clean-up and rehabilitation efforts after Hurricane Matthew. Debt interest costs rose by 2.5%, reflecting mounting public debt. Preliminary estimates for the full fiscal year indicate that the deficit could be much larger, potentially reaching 5.7% of GDP, on the back of a strong year-end increase in purchases of goods and services as well as capital expenditures related to reconstruction efforts. Public debt grew from 65.1% of GDP at the end of the second quarter of 2016 to 70.3% of GDP for the same period of 2017<sup>2</sup>.

The new government has identified fiscal consolidation as a major policy priority for reducing public debt. The 2017/18 budget sets out key measures to advance consolidation, including: a review of government expenditure programmes to improve their efficiency and effectiveness; the introduction of fiscal responsibility legislation to make ministries and departments more financially accountable; and the presentation of revenue administration legislation to boost tax collection. The government also plans to introduce regulations to deliver value for money in public procurement.

Monetary policy was neutral as the central bank held its policy discount rate constant at 4.0%. The banking system maintained its high liquidity levels, as banks' excess liquid assets increased by B\$ 260.3 million year-on-year to September. Liquidity was also boosted by a US\$ 250 million external loan to the government and the adoption of more cautious lending practices by banks in the wake of continued high non-performing loan ratios. Domestic credit increased by 1.8%, following a decline of 0.1% in the

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<sup>1</sup> Calculated on the basis of revised data series for GDP.

<sup>2</sup> Calculated on the basis of revised data series for GDP.

first nine months of 2016. Credit growth was affected by the sale of non-performing loans in the amount of B\$ 138.0 million to the government's special purpose vehicle, Bahamas Resolve Limited, that was established to help distressed banks clean up their loan portfolios. Government borrowing grew by B\$ 116.0 million, in part to cover reconstruction costs following Hurricane Matthew, while lending to the private sector declined by B\$ 134.7 million.

The balance-of-payments current account deficit more than doubled, up from 7.5% of GDP in the first half of 2016 to 15.3% of GDP in the first half of 2017. This reflected a sharp decline (28.4%) in the vital services account surplus to B\$ 576.7 million, as a result of significant net payments for construction and other services. Construction payments rose in line with outlays for the completion of the Baha Mar resort. A decrease in stopover visitor arrivals and spending cut travel receipts by 1.6%, which also contributed to the decline in the services account. Moreover, the income account deficit widened by 6.8% owing to higher investment income outflows and employee compensation. Meanwhile, the capital and financial account surplus improved significantly, reflecting a sharp reversal of outflows by commercial banks and a spike in other investments; net foreign direct investment (FDI) flows more than doubled to B\$ 39.9 million. International reserves amounted to US\$ 1.065 billion at the end of September 2017, representing 4.0 months of imports, compared to 3.8 months a year earlier.

Economic growth is expected to pick up in 2017, reaching 1.2%, buoyed by construction activity, including FDI-related projects and reconstruction after Hurricane Irma. Ongoing FDI-funded projects included the Great Exuma Adventure resort and the Chinese-financed development of The Pointe. Meanwhile, tourism activity slowed in 2017. Total visitor arrivals declined by 2.8% to 4.3 million during the first eight months of 2017, compared to growth of 4.0% in the same period of 2016, mainly as a result of the fallout from Hurricane Matthew, especially in Grand Bahama. Air arrivals, which include the highest spending stopover visitors, contracted by 6.3%, compared with an increase of 3.2% in 2016. Cruise arrivals dipped by 1.6%, following firm growth of 4.3% in 2016. The offshore financial services sector remained buoyant, despite consolidations to optimise value.

Inflation edged up to around 1% year-on-year in August from 0.15% for the same period in 2016. Prices were pushed up by higher international fuel prices that affected housing, water, gas and electricity costs. The unemployment rate fell from 12.7% in May 2016 to 9.9% in May 2017, the lowest rate registered since the 2008 global crisis, thanks to the creation of some 12,000 jobs and the resumption of work on the Baha Mar resort, among other things. Another sign of improving labour market conditions was the 22.1% decline in the number of discouraged workers, down to 1,925.

#### Bahamas: main economic indicators, 2015-2017

	2015	2016	2017 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	-3.1	0.2	1.2
Per capita gross domestic product	-4.3	-1.0	0.1
Consumer prices	2.0	0.8	2.7 <sup>b</sup>
Money (M1)	18.7	9.0	16.9 <sup>b</sup>
	<b>Annual average percentage</b>		
Urban unemployment rate <sup>c</sup>	13.4	12.2	9.9 <sup>d</sup>
Central government			
Overall balance /GDP	-3.5	-5.7	-3.5
Nominal deposit rate <sup>e</sup>	1.4	1.2	1.0 <sup>f</sup>
Nominal lending rate <sup>g</sup>	12.3	12.5	12.0 <sup>f</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	3 264	...	...
Imports of goods and services	4 224	...	...
Current account balance	-1 409	...	...
Capital and financial balance <sup>h</sup>	1 437	...	...
Overall balance	28	...	...

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

a/ Estimates.

b/ Figures as of March.

c/ Includes hidden unemployment.

d/ Figures as of May.

e/ Weighted average of deposit rates.

f/ Figures as of September.

g/ Weighted average of lending rates.

h/ Includes errors and omissions.