

BAHAMAS

1. General trends

Economic growth strengthened to 1.4% in 2017, compared with -1.7% in 2016. Activity was bolstered by growth in construction, based on a range of foreign investment projects in tourism, headlined by the efforts to complete the Baha Mar mega-resort. Growth was also boosted by reconstruction works following the passage of Hurricanes Matthew in 2016 and Irma in 2017. By contrast, value added in tourism was dampened by a decline in high-spending stopover visitor arrivals and lower cruise passenger arrivals, owing to diversion of ships to other regions following the hurricanes in 2017. Meanwhile, the offshore financial services sector remained buoyant, despite challenges posed by intense regulation and higher compliance costs. Inflation picked up from 0.8% in 2016 to 1.8% in 2017, driven by higher global fuel prices. Employment was boosted by the resumption of work on the Baha Mar project and post-hurricane rehabilitation and reconstruction. This led to a 1.5-percentage-point decline in the unemployment rate to 10.1% November-on-November.

Driven by post-hurricane reconstruction and election spending, the fiscal deficit increased to 5.5% of GDP in 2016/17 from 2.6% of GDP in 2015/16, overshooting the government's more conservative original projection of a 0.8% deficit. Following the lowering of the discount rate in 2016 to stimulate activity, monetary policy was neutral in 2017 as the rate held steady. The main development in the financial sector was the significant increase in external reserves, mainly due to the government's external borrowing. The balance of payments current account deficit widened by 6.4 percentage points to 15.7% of GDP from 9.3% in 2016.

The economy is expected to build on the momentum of 2017 to grow by 2.5% in 2018. Growth will be propelled by a recovery in tourism, reflecting the stronger growth in the United States, the Bahamas' major market, and the opening of the Baha Mar resort, which has added some 1,700 rooms to the hotel room stock and witnessed good occupancy levels of between 65% and 70%. Construction activity is expected to be buoyed by smaller-scale foreign investment projects in tourism and government office buildings, road upgrades and docks in the Family Islands. Activity in the offshore financial services sector should remain stable as the sector continues to consolidate and upgrade regulation to meet international standards. The rate of unemployment is expected to decline with increased employment thanks to the opening of Baha Mar and buoyant construction activity. Inflation should pick up marginally, owing to higher oil prices stemming partly from lower global supply.

The fiscal deficit is expected to decline to around 2.5% of GDP in 2018 as the government introduces fiscal responsibility legislation and targets consolidation to stabilize public debt. Monetary policy is expected to remain neutral as, with all indications pointing to moderate growth, the central bank is unlikely to adjust its policy rate. Monetary developments will likely reflect the impact of continued sluggish growth in private sector credit amid expansion in banking sector liquidity as banks remain risk-averse in their lending and focus on reducing their non-performing loans. The current account deficit of the balance of payments is projected to narrow somewhat as imports of construction and other materials taper off with the completion of work on the Baha Mar project and post-hurricane reconstruction.

2. Economic policy

(a) Fiscal policy

Reflecting the impact of post-hurricane reconstruction and election spending, fiscal policy was expansionary in 2017, following the contractionary stance in 2016. The overall fiscal deficit increased from 2.6% of GDP in fiscal year 2015/16 to 5.5% of GDP in fiscal year 2016/17, an increase of 359 million Bahamian dollars (B\$) in nominal terms. This deficit overshoot the budgeted amount, reflecting reflected a spike in expenditure that surpassed firm growth in revenue. Total expenditure expanded by 21.9% to B\$ 2.730 billion, the equivalent of 22.4% of GDP, underpinned by higher post-hurricane and election spending. Capital spending grew by more than 66% to B\$ 390.2 million, including outlays on repairs and reconstruction after Hurricane Matthew in 2016 and the acquisition of new defence force vessels. Current spending rose by 16.7% to B\$ 2.340 billion. Higher government consumption was linked to a sharp (63%) increase in purchases of goods and services, associated with increased spending on rent, communications and utilities and the implementation of the National Health Insurance plan.

Total revenue posted firm growth of 6.8% to B\$ 2.061 billion, buttressed by a 9.8% increase in tax receipts. This largely reflected a 15.1% hike in proceeds from taxes on international trade and transactions to B\$ 582.7 million, in line with growth in imports. Property taxes rose by 16.2% on the heels of measures to improve tax administration and collect arrears. Meanwhile, VAT receipts registered marginal growth of 1.6%, to B\$ 638.0 million.

The government reduced its guaranteed allocations to some public entities in 2017, which led to a 4.1% (B\$ 30.4 million) reduction in its contingent liabilities. This helped to contain growth in public debt to 1.2 percentage points, to 58.70% of GDP, compared with 57.50% of GDP in 2016. Foreign currency debt represented 39.5% of the total.

The government made some progress with fiscal consolidation in the first half of fiscal year 2017/18. The fiscal deficit contracted by 36.0% to B\$ 195.6 million, facilitated by a 7.2% (B\$ 83.3 million) cut in spending and a 3.1% (B\$ 26.7 million) increase in revenues. Expenditure normalized, owing to a 50% cut in capital spending following exceptional hurricane-related spending in the previous fiscal year. Revenues were bolstered by a 3.3% (B\$ 9.9 million) increase in VAT receipts and proceeds from motor vehicle taxes, while lower imports led to reduced receipts from taxes on international trade and transactions.

The government has introduced fiscal responsibility legislation to contain growth in the deficit and public debt. The 2018/19 budget communication highlighted the specific objectives of the legislation, including: to reduce long-term debt to 50% of GDP, to narrow the overall fiscal balance to 0.5% of GDP from fiscal year 2020/21 onward and, after that target is achieved, to contain growth in recurrent expenditure in line with nominal GDP growth. These are ambitious targets which, if met, would contribute significantly to debt sustainability as a platform for stable growth.

(b) Monetary and exchange-rate policy

Monetary policy was neutral in 2017, as the central bank did not adjust its policy discount rate following the reduction in 2016 aimed at stimulating activity. The most significant monetary development was the dynamic growth in banking sector liquidity and external reserves, which were boosted by government borrowing abroad and sluggish growth in domestic credit. The government issued an external bond in the amount of US\$ 750 million in November 2017.

Growth in the broad money supply (M2) slowed to 2.1%, reflecting reduced growth (5.8%) in savings deposits and a 4.5% fall in the value of fixed deposits. Domestic credit declined by 3.1% (to B\$ 284.5 million), as the government used a portion of its foreign borrowing to reduce its domestic debt and asset sales contributed to a fall in private sector borrowing. Credit to the private sector contracted by 3.1%, mainly reflecting the transfer of a financial entity's non-performing loan to the government's special purpose vehicle (SPV), Bahamas Resolve Corporation. Personal loans, which account for over 81% of the total, declined by 1.2% and loans to construction and transport, among other sectors, also fell. There was a marked improvement in banks' credit quality during the year, with non-performing loans falling by 22.2%, thanks to debt restructuring, loan write-offs and resolutions.

The weighted average interest rate spread contracted by 47 basis points to 10.78%. A 74-basis-point decline in the average loan rate to 11.75% outweighed the fall of 27 basis points in the deposit rate to 0.97%. The narrowing of the spread was influenced by high liquidity, alongside subdued loan demand.

In 2017, the central bank continued its phased liberalization of the exchange-rate control regime. The policy is geared towards improving economic efficiency and competition, while maintaining the integrity of the fixed exchange-rate regime. There was further liberalization of capital account transactions, which allowed Bahamian business and resident entities access to foreign-currency financing of up to B\$ 5 million.

(c) Other policies

The government has tabled a white paper aimed at restoration and revitalization of the Over-the-Hill inner-city community. Key pillars of the programme include social empowerment focused on anti-poverty policies and actions; economic empowerment through a mix of job creation, self-employment and small entrepreneurship; and rejuvenation of the community by improving the physical surroundings and upgrading and preserving historical and cultural assets. The programme also aims to empower youths and older persons through more targeted investments in social intervention programmes.

The government has also embarked on a project called "Digital Bahamas Initiative" in collaboration with the Inter-American Development Bank (IDB). The project is aimed at improving competitiveness by reducing the costs of doing business with the government in a number of ways, including: streamlining government procedures and providing them online; increasing the use of information and communications technologies (ICTs) in the public sector; making government operations more transparent and improving auditing and control mechanisms. The project will lead to the establishment of a single national identity number and identity card that will facilitate transacting business in the public and private sectors.

3. The main variables

(a) The external sector

The external imbalance worsened in 2017, with the current account deficit of the balance of payments widening to 15.7% of GDP, from 9.3% of GDP in 2016. Higher imports pushed up the trade deficit, which was exacerbated by a reduction in the services account surplus. The trade deficit expanded by 11.8% to US\$ 2.404 billion, as non-oil imports rose by 8.8%, partly reflecting higher capital goods imports for tourism projects and post-hurricane reconstruction. Payments for oil imports rose sharply (31.5%), in line with the increase in international fuel prices.

The tourism sector suffered setbacks due to the loss of room capacity in Grand Bahama after the hurricanes and increased regional competition. This reduced visitor arrivals, especially in the high value added stopover segment, which contributed to a 2.4% fall in net travel receipts to US\$ 2.207 billion, and a 10.7% decline in the services account surplus. The services surplus was also affected by reduced inflows of offshore companies' local expenses and higher net payments for miscellaneous services and transportation.

The deficit on the income account contracted by 17.2% to US\$ 364.3 million, owing mainly to investment-related payments. Private sector net payments fell by 24.0%, while net payments for official transactions rose by 5.4%, linked to an increase in the central bank's investment income. Current transfers normalized to net outflows in 2017 after posting significant net receipts in 2016 because of re-insurance claims following Hurricane Matthew.

After narrowing by 23.5% in 2016, the capital and financial account surplus, including errors and omissions, expanded by a hefty 93.8% to US\$ 2.423 billion. This major reversal stemmed from government external borrowing, which widened public sector receipts more than threefold to US\$ 823.2 million. Meanwhile, net foreign direct investment remained stable at US\$ 73.6 million, partly reflecting the winding down of some tourism projects. International reserves grew substantially by 56.9% to US\$ 1.418 billion, covering 23 weeks of merchandise imports, compared with 16.5 weeks in 2016. Underpinned by tourism receipts, reserves expanded by a further US\$ 189 million in the first quarter of 2018.

(b) Economic activity

The economy returned to positive growth of 1.4% in 2017, following the decline of 1.7% in 2016. Growth was bolstered by a pickup in construction activity, whose value added grew by 24.7%, up from 2.6% in 2016. Construction was boosted by the resumption of work to complete the Baha Mar mega-resort, other varied-scale tourism projects and rehabilitation and reconstruction works after Hurricane Matthew. Value added in the wholesale and retail sector rose by 4.4%. By contrast, output in the accommodation and food services sector, which reflects value added in tourism, declined by 12%, adding to the contraction of 3.4% in 2016. The tourism sector was buffeted by increased competition from regional competitors, many of which are more affordable than the Bahamas, as well as the loss of hotel room capacity in Grand Bahama as a result of the hurricane. As a result, tourist arrivals fell by 2.1% to 6.1 million visitors. However, the major impact came from a 4.0% decline in air arrivals, which includes the high value added stopover arrivals segment. This was reflected in the performance of hotels in New Providence and Paradise Island, where average room occupancy fell by 6.8% to 60.7% and the average daily room rate declined by 0.8% to B\$ 239.20. Cruise passenger arrivals contracted by 1.5% to 4.8 million.

(c) Prices, wages and employment

The rate of inflation increased from 0.8% in 2016 to 1.8% in 2017, driven mainly by higher international fuel prices. Housing, water, electricity, gas and other fuels, the most heavily weighted subindex, increased by 2.9%, compared with a 2.0% rise in 2016. Increased fuel costs also provided impetus for higher costs of transport and communication, which climbed by 4.9% and 2.7%, respectively. Costs in the restaurants and hotels sector increased by 7.9% in 2017. Meanwhile, health costs fell by 11.9% and the costs of clothing and footwear declined by 5.7%.

Recovery in activity, particularly construction, led to a year-on-year fall in unemployment of 1.5 percentage points to 10.1% in November 2017. This stemmed from a 5.9% (11,345 persons) expansion in the number of employed, which surpassed 4.1% growth in the labour force to 226,680 persons. To date, the Baha Mar resort has hired over 4,000 workers. Unemployment of the female labour force, at 11.1%, remained higher than the rate of 9.2% for men.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
Annual growth rates b/									
Gross domestic product	-4.2	1.5	0.6	3.1	-0.4	-0.1	1.0	-1.7	1.4
Per capita gross domestic product	-5.8	-0.1	-1.0	1.6	-1.8	-1.4	-0.2	-2.8	0.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.7	3.7	-7.9	4.0	-18.6	-6.0	0.7	5.2	20.1
Mining and quarrying	-3.3	8.4	-17.2	-14.7	10.9	30.2	-29.2	-44.1	-6.1
Manufacturing	-6.0	9.1	0.3	13.4	-7.6	6.1	-30.2	42.0	-27.7
Electricity, gas and water	-2.6	-4.5	10.6	-5.0	0.6	6.7	19.6	-7.6	7.2
Construction	-10.2	24.6	9.4	13.2	-7.4	4.3	-31.0	2.6	24.7
Wholesale and retail commerce, restaurants and hotels									
Transport, storage and communications	-2.8	2.1	-3.1	5.5	-1.2	-7.5	11.0	7.0	-1.0
Financial institutions, insurance, real estate and business services	4.4	-8.9	8.9	3.7	17.3	12.1	-0.5	-7.9	-9.8
Community, social and personal services	-6.7	3.2	2.8	-3.4	-1.6	5.0	4.4	-2.9	-1.4
	-6.0	2.7	1.1	-0.5	2.8	1.1	0.5	-0.1	1.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	-8.0	0.8	-0.8	2.6	-1.6	2.9	1.7	-2.4	8.1
Government consumption	3.9	-0.3	7.2	-4.7	-1.0	-4.7	6.5	-3.1	9.6
Private consumption	-10.3	1.1	-2.6	4.3	-1.7	4.5	0.7	-2.3	7.8
Gross capital formation	-9.4	0.6	7.4	9.3	13.4	-19.4	7.8	6.2	-34.8
Exports (goods and services)	-3.2	1.3	6.3	7.2	-14.7	22.6	-20.4	-5.4	8.1
Imports (goods and services)	-12.2	-0.4	7.5	9.7	-5.1	55.3	-33.0	30.4	-16.3
Balance of payments									
Millions of dollars									
Current account balance	-809	-814	-1 203	-1 505	-1 494	-1 928	-1 409	...	...
Goods balance	-1 825	-1 889	-2 132	-2 401	-2 211	-2 482	-2 426	...	...
Exports, f.o.b.	711	702	834	984	955	834	527	...	...
Imports, f.o.b.	2 536	2 591	2 966	3 385	3 166	3 316	2 953	...	...
Services trade balance	1 155	1 312	1 201	1 154	1 043	991	1 466	...	...
Income balance	-152	-235	-236	-268	-329	-438	-403	...	...
Net current transfers	14	-3	-36	11	3	0	-46	...	...
Capital and financial balance c/	1 061	862	1 228	1 430	1 425	1 980	1 437	...	...
Net foreign direct investment	664	872	667	526	382	251	76	...	...
Other capital movements	397	-10	562	904	1 043	1 729	1 361	...	...
Overall balance	252	48	25	-75	-69	52	28	...	...
Variation in reserve assets d/	-252	-48	-25	75	69	-52	-28	...	...
Other financing	0	0	0	0	0	0	0	...	...
Other external-sector indicators									
Net resource transfer (millions of dollars)	909	627	992	1 162	1 096	1 542	1 035	...	...
Gross external public debt (millions of dollars)	767	916	1 045	1 465	1 616	2 095	2 176	2 373	3 237.7
Employment									
Average annual rates									
Labour force participation rate	73.4	...	72.1	72.5	73.2	73.7	74.3	77.1	80.5
Unemployment rate e/	14.2	...	15.9	14.4	15.8	14.8	13.4	12.2	10.0
Prices									
Annual percentages									
Variation in consumer prices (December-December)	1.3	1.4	0.0	0.7	0.8	0.2	2.0	0.8	1.8
Nominal deposit rate f/	3.8	3.4	2.6	2.0	1.7	1.4	1.4	1.2	0.995
Nominal lending rate g/	10.6	11.0	11.0	10.9	11.2	11.8	12.3	12.5	11.8492

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Central government h/	Percentajes of GDP								
Total revenue	13.0	14.2	14.4	12.6	13.2	14.4	16.3	17.0	16.2
Tax revenue	11.1	12.8	12.7	11.3	11.4	12.7	14.2	14.0	13.3
Total expenditure	16.5	17.9	18.8	17.7	17.6	17.7	18.9	22.5	18.7
Current expenditure	14.0	15.1	15.4	14.4	14.6	14.5	16.9	19.3	16.8
Interest	1.8	2.1	1.8	1.8	1.9	2.0	2.3	2.2	2.2
Capital expenditure	1.6	2.0	2.4	2.4	2.3	2.4	2.0	3.2	1.8
Primary balance	-1.6	-1.6	-2.6	-3.2	-2.4	-1.3	-0.3	-3.3	-0.3
Overall balance	-3.4	-3.7	-4.5	-5.1	-4.4	-3.2	-2.6	-5.5	-2.5
Non-financial public sector debt	36.1	40.7	42.3	45.1	52.6	57.4	56.5	57.5	58.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	80.5	83.7	84.8	81.0	84.2	80.9	76.0	77.1	72.7
To the public sector	14.5	18.6	18.8	19.2	22.6	21.9	22.6	25.0	23.5
To the private sector	66.1	65.1	66.0	61.8	61.6	58.1	53.4	52.1	49.2
Monetary base	7.0	8.2	8.8	8.4	8.1	9.0	8.3	10.9	11.9
Money (M1)	12.9	13.2	14.2	14.7	15.4	18.2	17.6	20.8	21.8
M2	58.1	59.1	60.6	56.8	56.9	56.3	52.5	55.9	55.6
Foreign-currency deposits	2.3	2.2	2.0	2.0	2.6	2.1	1.6	2.6	2.3

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/ Nationwide total. Includes hidden unemployment.

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

	2016				2017				2018	
	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)	924	1 023	988	915	925	955	974	1 350	7 478	6 904
Consumer prices (12-month percentage variation)	-1.4	-0.3	-0.4	0.8	2.7	1.2	0.9	1.8	0.5	0.5
Average nominal exchange rate (Bahamas dollars per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0 #	1.0	1.0
Nominal interest rates (average annualized percentages)										
Deposit rate b/	1.4	1.2	1.1	1.2	1.0	1.0	1.0	1.0	0.9	0.9 c/
Lending rate d/	11.8	12.5	12.9	12.7	11.9	12.0	12.0	11.5	11.4	11.0 c/
Monetary policy rates	4.5	4.5	4.5	4.3	4.0	4.0	4.0	4.0	4.0	4.0
Domestic credit (variation from same quarter of preceding year)	0.9	0.8	-0.2	1.3	2.0	3.6	4.2	-2.1	-4.0	...
Non-performing loans as a percentage of total credit	15.1	14.3	14.4	13.1	12.3	12.3	11.3	10.0	9.9	9.7

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

a/ Preliminary figures.

b/ Weighted average rate of deposit rates.

c/ Figures as of May.

d/ Weighted average of lending and overdraft rates.