Bahamas

The Bahamian economy grew by an estimated 4% in 2006, the highest rate in seven years. The country is experiencing a boom, after having successfully survived the ravages of the early years of the current decade, which dealt a blow to its two engines of growth: tourism and international financial services. Tourism was severely affected by the fall-out from the terrorist attacks of 11 September 2001 and financial services suffered from the fight against money-laundering, undertaken by the Organisation for Economic Co-operation and Development (OECD). Investment in tourist projects amounted to US$ 12.6 billion, not including the construction of high-cost residences. Personal banking services, wealth management and financial security for international investors benefited from a series of legislative reforms introduced in recent years, which are geared to modernizing both the regulations and the products, in order to enable the Bahamas to maintain a leadership position among low-tax jurisdictions.

Economic policy sought to bring the fiscal deficit down from 3.4% of GDP in 2002-2003 to below 2% in 2006 and close to 1% in 2008-2009. Consequently, the public debt, which stands at practically 40% of GDP, will fall to the desired level of 30% over the medium term, thereby guaranteeing stable growth and resistence to external shocks. In addition to other economic policies, the government expects to prepare a proposal for the introduction of a national medical insurance scheme, since there is no such system at present.

The budget for fiscal year 2006-2007 envisages a 14% increase in expenditure, including a rise in a reserve for debt repayment.[1] The budget gives priority, first and foremost, to security personnel (administration of justice and the police) and, second, to job creation and the provision of public services in education, housing and health. The higher tax collection is more than enough to offset the increase in expenditure. Fiscal revenue depends almost exclusively on import tariffs as well as stamp tax on financial and legal transactions. There are no income, company, capital or inheritance taxes. Higher-than-forecast revenues in the first quarter of the 2006-2007 budget, which covers the period July to September 2006, resulted in a 1.8% surplus on the current account, which enabled authorities to pay off the debt and balance their fiscal accounts.

The central bank closely monitors trends in external reserves, but has not modified its principal monetary policy instruments. Interest rates have remained stable for over a year. On the other hand, the credit increase was reflected in an increase in imports, which strengthened the fiscal situation, but worsened the balance-of-payments current account.

Bolstered by the boom in construction of residential as well as tourist projects, economic activity expanded strongly. According to information on mortgage loans, as of mid-2006, construction recorded 10% growth over the figure for the same period in 2005. Foremost among the tourist projects is the construction of the third phase of the Atlantis complex, which involves an investment in excess of US$ 1 billion. The government's policy objective is to establish in each of the inhabited islands an "anchor tourism project" around which development

1 The fiscal year runs from July to June.

will be structured. Several of these projects contemplate investments that exceed US $ 1 billion and have already had an impact on the economy as a result of the real-estate transactions and legal and design services they entail.

Up to September 2006, visitor arrivals were down by 3.5%, owing to a decline in cruise-ship passengers, the category of tourist that contributes least to the local economy. Nevertheless, since the number of long-stay visitors increased (1.1%), as did tourist spending per person, a positive outcome is expected at the close of the year.

As regards international financial services, a sector estimated to account for 20% of economic activity, the number of banks and trust companies licensed to operate in the Bahamas increased from 249 in January 2006 to 256 in June of the same year. Tax revenue from licences to international corporations rose by 15% in 2006.

Prices varied only marginally. To August, 12-month inflation was 2.5%, practically the same as in the previous year, despite sharp rises in gasoline prices and electricity rates. Curiously enough, transport and communications rates declined. According to the annual labour survey, the unemployment rate fell from 10.2% in 2005 to 7.6% in 2006. The number of employed persons increased by 7,500 and the labour force by 3,000.

In 2006, the country's external accounts reflected the impact of large-scale investment projects. The surplus on the overall balance is expected to disappear almost entirely and the current account deficit is slated to increase. The deficit to June 2006 exceeded the figure recorded in 2005. In 2006, merchandise imports expanded and the surplus on the services account is expected to decline, reflecting corporate services contracted abroad. In addition, a surplus is projected on the capital account as a result of the sharp increase in foreign direct investment (FDI). By June 2006, FDI had already exceeded the amount of inflows in 2005. At the end of June, international reserves were equivalent to 18 weeks of merchandise imports, compared with 23 weeks in the previous year. Bearing in mind the 50% statutory requirement for liabilities in local currency, the amount of uncommitted reserves was US$ 16 million less than that recorded in 2005.

Table 1

BAHAMAS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	1.8	2.7	4.0
Consumer prices	1.9	1.2	2.5 [b]
Money (M1)	23.3	16.8	4.5 [c]
	Annual average percentages		
Unemployment rate [d]	10.2	10.2	7.6
Central government overall balance/GDP	-2.5	-1.9	...
Nominal deposit rate	3.8	3.2	3.3 [e]
Nominal lending rate	11.2	10.3	10.0 [e]
	Millions of dollars		
Exports of goods and services	2 722	3 004	2 804 [f]
Imports of goods and services	3 136	3 508	3 407 [f]
Current account	-305	-582	-703 [f]
Capital and financial account	489	493	768 [f]
Overall balance	184	-89	65 [f]

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

[a] Preliminary estimates.
[b] Twelve-month variation to August 2006.
[c] Year-on-year average variation, January to September.
[d] Includes hidden unemployment.
[e] Average from January to September, annualized.
[f] Data refer to first semester.