

Bahamas

Despite the fallout from Hurricane Irma in 2017, growth in the Bahamian economy improved to 2.5% in 2018, compared with 1.4% in 2017, driven by a rebound in the tourism sector —fuelled in part by strong growth in the United States— and increased construction activity. Inflation picked up to 3.4% year-on-year to August 2018. Government finances improved as the overall fiscal deficit fell from 3.4% of GDP in 2017 to 1.8% in May 2018 year-to-date. Monetary developments were marked by liquidity decline amidst growth in domestic credit, a reduction in external reserves and improved banking sector loan portfolio quality. The external position worsened, with the balance-of-payments deficit widening by almost 3 percentage points to 18.9% of GDP.

The economy is projected to grow marginally more slowly, at 2.2%, in 2019. Growth will continue to be driven by tourism and related construction financed by foreign direction investment (FDI). This is expected to lead to a pick-up in employment, while inflation will remain above trend, owing to relatively high fuel prices and the price pressures from the increase in value added tax (VAT). The fiscal deficit is projected to remain stable at around 1.8% of GDP, as measures to grow revenue and contain spending take effect. The balance-of-payments current account deficit is expected to narrow owing to solid travel receipts and slower growth in imports with the winding down of some projects.

The government continues to prioritize fiscal consolidation in order to reduce public debt and generate recurrent savings to contribute to financing capital spending. Parliament has discussed the government's proposed Fiscal Responsibility Act, which sets key targets including a long-term debt ceiling of 50% of GDP and a fiscal deficit of 1.8% of GDP in financial year 2018/19, 1.0% of GDP in financial year 2019/20, and 0.5% of GDP in financial year 2020/21, after which recurrent expenditure is targeted to grow in line with GDP to stabilize the deficit. In an important development, the government raised the VAT rate from 7.5% to 12% in 2018, with a view to strengthening revenues to complement its expenditure adjustment.

Fiscal policy was contractionary in 2018, with the deficit declining from 3.4% of GDP in the first eleven months of financial year 2016/17 to 1.8% of GDP of the same period a year later. This outturn stemmed from a 2.8% nominal decline in total expenditure and a 1.5% increase in revenue. Nevertheless, the adjustment reflected a cut in capital expenditure, which is a driver of growth, as current spending rose by 3.3%, as government continues to find it difficult reduce wage costs and spending on transfers and subsidies. The increase in total revenue resulted from a 2.0% rise in tax revenue, partly linked to 2.5% growth in VAT receipts. Public sector debt climbed from 66.0% of GDP at end of the second quarter of 2017 to 71.7% of GDP at the same point in 2018.

Monetary policy was neutral, with the central bank holding its policy discount rate at 4.0%. During the first nine months of 2018, monetary developments were marked by a decline in liquidity, owing to an expansion in credit to the government, a decrease in deposits and higher public sector foreign-currency demand to defray steeper fuel costs and for the purchase of the Grand Lucayan Resort. Total domestic credit grew by 67.3 million Bahamian dollars (B\$), reversing the decline of B\$ 17.6 million for the same period of 2017. Credit to the government expanded by B\$ 114.0 million, but was partly offset by a B\$ 100.6-million contraction in credit to the private sector. The quality of the commercial bank loan portfolio improved over the first three quarters, with average non-performing loans (NPL) declining to 9.2% from 10.3% for the prior-year period and private credit arrears falling to 14.3% from 15.8% in 2017.

The external position weakened in the first half of 2018, with the current account deficit of the balance of payments widening from 16.0% of GDP in 2017 to 18.9% of GDP in 2018. This outturn stemmed mainly from a deterioration in the income and services accounts. The income account deficit expanded by 64% to US\$ 328.2 million, reflecting a hike in net interest and dividend outflows and higher debt service payments. The surplus on the services account contracted by 15.8% to US\$ 433.5 million, owing to higher net payments for insurance and transportation services. These were partly offset by solid growth (17.5%) in net travel receipts, which were bolstered by a substantial increase in high-spending stopover visitor arrivals and expenditure. The capital and financial account surplus expanded sharply —by 30.1%— to US\$ 1.337 billion. FDI inflows more than doubled to US\$ 634.3 million, underpinned by dynamic growth in private equity inflows. Similarly, the commercial banks' position reversed from net outflows of US\$ 4.9 million in 2017 to inflows of US\$ 19.9 million in 2018. International reserves contracted by US\$ 91.9 million to US\$1.316 billion at the end of September, covering 5.7 months of merchandise imports.

Economic growth strengthened to 2.5% in 2018, following the 1.4% rate in 2017, thanks to a recovery in tourism, buoyant construction and stability in the offshore financial services sector. Visitor arrivals grew by 5.4% during the first eight months of 2018, reversing the decline of 2.8% for the year-earlier period. In a welcome development, air arrivals, which include the high value-added stopover component, expanded by a substantial 15.1%, after contracting by 6.3% in 2017. Tourist arrivals were boosted by stronger growth in the United States, the Bahamas' main market, and the partial opening of the Baha Mar megaresort, which significantly increased room capacity in the country. Meanwhile, sea arrivals, comprising mainly cruise visitors, posted muted growth of 2.4%. An interesting development in the sector is the growth in Airbnb properties, which will provide some competition to hotels, at the lower end of the market. As at September this year, 2,511 active listings were identified, with an average occupancy rate of 32.6%, not far from the rate of 35.5% for hotels. Construction was boosted by FDI-financed tourism projects.

Inflation spiked to 3.4% year-on-year to August, compared with 1.4% for the prior-year period. This reflected the pass-through effect of higher international fuel prices, which impacted transport costs. The rate of unemployment edged down by a tenth of a percentage point to 10.0% for the period November 2017–May 2018.

Bahamas: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	-1.7	1.4	2.5
Per capita gross domestic product	-2.8	0.4	1.5
Consumer prices	0.8	1.8	3.4 ^b
Money (M1)	9.0	13.6	8.7 ^c
	Annual average percentage		
Urban unemployment rate ^d	12.2	10.0	10.0 ^e
Central government			
Overall balance / GDP	-5.7	-3.4	-1.9
Nominal deposit rate ^f	1.2	1.0	0.9 ^g
Nominal lending rate ^h	12.5	11.8	11.4 ^g
	Millions of dollars		
Exports of goods and services	3 411	3 420	...
Imports of goods and services	4 446	4 972	...
Current account balance	-1 158	-1 971	...
Capital and financial balance ⁱ	1 250	2 485	...
Overall balance	92	513	...

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

a/ Estimates.

b/ Figures as of August.

c/ Figures as of June.

d/ Includes hidden unemployment.

e/ Figures as of May.

f/ Weighted average of deposit rates.

g/ Figures as of September.

h/ Weighted average of lending rates.

i/ Includes errors and omissions.