BAHAMAS

1. General trends

In 2022, the Bahamian economy continued to recover from the pandemic. However, as expected, growth slowed somewhat to 14.4%, as activity normalized following the major rebound of 17.0% in 2021. Nevertheless, output has not yet returned to the pre-pandemic level. Tourism continues to be the main engine of the recovery, posting strong growth of 16.0%. Total visitor arrivals more than tripled to 7.0 million, relative to 2021. Inflation rose from 4.1% in 2021 to 5.5% in 2022, driven by higher international food and fuel prices and increased costs in the restaurants and hotels and recreation and culture sectors. Notably, the labour market has recovered well since the height of the pandemic, with the rate of unemployment falling to 8.8% in May 2023, compared to 9.5% in 2019, when the last survey was done. Relative to GDP, the fiscal deficit halved from 12.5% of GDP in the 2020/21 fiscal year to 5.9% in the 2021/22 fiscal year. This outturn reflected strong growth in revenues, buoyed by the recovery in value added tax (VAT) receipts, offsetting modest growth in expenditure. The external position improved in 2022, with the current account deficit of the balance of payments narrowing by US$ 575.0 million, from 21.7 % of GDP in 2021 to 14.4% of GDP in 2022, mainly owing to the services account surplus almost doubling, driven by a spike in tourism receipts.

In 2023, the Bahamian economy is expected to continue recovering, buoyed by a return to pre-pandemic visitor arrivals and expenditure. This will have positive spillover effects on commerce, distribution and other sectors. Tourism will be supported by construction, underpinned by varying-sized foreign investment projects and continued post-hurricane reconstruction. Activity in the offshore financial services sector is expected to remain buoyant, in line with economic conditions in major investment markets. Nevertheless, the unemployment rate is expected to remain above pre-pandemic levels, given the extent of job losses during the pandemic and the growth in new job seekers in the last two years. Inflation is expected to remain above average owing to the continued effects of high international prices for fuel and other imported goods, influenced partly by supply chain disruptions and the impact of the conflict in Ukraine. The fiscal deficit is projected to narrow but will remain elevated owing to ongoing health and social welfare spending at the back end of the pandemic and infrastructure spending for reconstruction following Hurricane Dorian in 2019. Monetary policy is expected to remain neutral in 2023, given continued high liquidity in the banking system, the steady recovery in the economy and the decline in loan delinquencies. Banks look set to maintain a conservative lending stance as they shore up their balance sheets following losses during the pandemic, while maintaining adequate capital levels and provisions for potential credit losses. The current account deficit of the balance of payments is projected to widen marginally in 2023, as continued growth in tourism receipts is offset by growth in merchandise imports, driven by pent-up demand from the pandemic.

2. Economic policy

(a) Fiscal policy

Fiscal policy was expansionary in 2022. Nevertheless, the overall deficit narrowed from 13.1% of GDP in the 2020/21 fiscal year to 5.8% of GDP in 2021/22. This stemmed from the significant growth in GDP, which led to a reduction in the deficit ratio. Current expenditure grew by 6.0%, buttressed by a 30.6% increase in interest payments on the public debt, higher allocations for compensation of employees and goods and services. Meanwhile, capital expenditure declined by 23.5%. Total revenue recovered strongly, growing by 36.6% and reaching 236.0 million Bahamian dollars (B$), 12.3% above the budgeted amount. Revenues were bolstered by a 53.5% expansion in VAT receipts to B$ 1.136 billion, as the recovery stimulated consumer spending. Proceeds from levies on international trade and transactions expanded by 71.1% to B$ 511.8 million. Revenue from stamp taxes and financial and realty transactions grew by 44.4% to B$ 83.0 million, while taxes on goods and services increased by 13.4% to B$ 175.7 million. Non-tax revenue rose by 50.8% to B$ 446.7 million. Public sector debt grew by 6.6% to B$ 11.426 billion in nominal terms, however, owing to strong growth in output, the debt-to-GDP ratio declined from 93.0% of GDP in 2021 to 88.6% of GDP in 2022. The debt ratio is expected to continue trending downwards as borrowing normalizes, in line with the government's fiscal consolidation programme.

In the first six months of the 2021/22 fiscal year, the overall deficit contracted by 1.9% (B$ 5.3 million) to B$ 276.0 million. This favourable outcome stemmed from strong 11.0% growth in revenues buoyed by a 10.0% increase in VAT receipts and robust growth in levies on international trade and property tax proceeds. Total expenditure rose by 8.0% to B$ 1,417 billion, reflecting higher outlays for public sector wages, debt interest payments and purchases of goods and services. Capital spending expanded by 13.3%, mainly owing to acquisition of non-financial assets.

(b) Monetary and exchange-rate policy

Monetary policy remained neutral in 2022, with the Central Bank of The Bahamas holding its policy discount rate steady at 4.0%. The highlight of monetary developments in 2022 was the build-up of banking sector liquidity and external reserves, as growth in the deposit base surpassed the increase in domestic credit. The broad money supply expanded by 9.0% to 65.7% of GDP. Growth in savings deposits more than doubled to 11.1%, compared with the previous year's 5.4%. However, after falling 2.6% in 2021, time deposits declined once more in 2022, by 4.5%, reflecting savers' preference for more liquid savings deposits, given the low interest rates on both.

Growth in domestic credit slowed to 2.6% in 2022 from 4.0% in 2021, reflecting a slowdown in credit to the public sector and a fall in lending to the private sector. In an alarming trend, credit to the private sector has been declining for a decade, a trend that is unrelated to the pandemic. The decline in credit to the private sector in 2022 was linked to a decrease in personal loans, which offset welcome growth in credit to tourism, professional and other services and manufacturing. The loan rate rose by 98 basis points to 11.00%, while the deposit rate remained unchanged at 0.52%. As a result, the weighted average interest rate spread widened by 98 basis points, to 10.48%.

(c) Other policies

The government is focused on developing the domestic government securities market to provide increased funding for its activities. To facilitate greater holdings of its securities, the government plans to remove any tax on the related interest income. To strengthen its finances, the government plans to establish a large taxpayer unit to improve compliance and revenue collection from the 100 or more businesses that account for US$ 1.7 billion in taxes. This will be supported by a national revenue targeting centre that uses modern technology to identify discrepancies in revenue reporting.

3. The main variables

(a) The external sector

The external position improved significantly in 2022. The balance of payments current account deficit narrowed from 21.7% of GDP in 2021 to 14.4% of GDP in 2022. This outturn was mainly influenced by the rebound in the services account surplus from 9.0% of GDP in 2021 to 15.1% in 2022 and a decline in the merchandise deficit from 23.4% of GDP in 2021 to 22.6% in 2022. The larger services surplus stemmed from a widening of the travel account surplus by 6.6 percentage points of GDP, owing to robust tourism receipts as the sector continues to benefit from the reopening of the economy as the pandemic wanes. The services account was supported by a reduction in the deficit on net transfers from 0.7% of GDP in 2021 to 0.2% of GDP in 2022. The merchandise deficit narrowed on account of a sharp slowdown in growth in import payments from 61.3% in 2021 to 15.0% in 2022. Higher payments for fuel imports were offset by lower payments for other goods. Similarly, growth in goods exports slowed from 48.0% in 2021 to 31.2% in 2022.

The deficit on the income account widened marginally from 6.6% of GDP to 6.7% of GDP, propelled by higher net investment outflows, linked to remittances on portfolio investments and an increase in net outflows for direct investment.

The capital and financial account surplus contracted substantially from 21.2% of GDP in 2021 to 15.0% in 2022. This was mainly driven by a substantial decline in other investment net inflows, owing to a steep fall in the net external loan exposure of private entities, magnified by a fall in the government's net loan inflows from US$ 289.3 million in 2021 to US$ 155.2 million in 2022. In contrast, net portfolio investment underwent a turnaround to a net inflow of US$ 165.0 million, reflecting growth in debt securities on account of the government's external bond issue. Net foreign direct investment (FDI) rebounded by 34.5% to US$ 401.5 million. Buoyed by investments in real estate, equity and investment fund receipts rose to US$ 412.7 million, relative to US$ 78.0 million in 2021. International reserves increased by 7.3% in 2022 to US$ 2.561 billion, covering 34.2 weeks of merchandise imports, down from 36.1 weeks in 2021.

(b) Economic activity

Economic growth slowed in 2022, but was still a healthy 14.4%, compared to 17.0% in 2021, when there was a significant rebound on the back of reopening following the pandemic. The tourism sector remains the main driver of the recovery in activity. Real value added in tourism expanded by 16.0% in 2022, following a rise of 12.1% in 2021. This buoyant growth was reflected in a tripling of visitor arrivals to over 7.0 million in 2022, after a 17.1% recovery in 2021. Air arrivals, which include the high-spending stopover segment, expanded by 65.8% from 0.9 million visitors in 2021 to 1.5 million in 2022. Sea arrivals, comprising mainly cruise ship passengers, grew by 5.5 million visitors. Other performance indicators also improved, with occupancy levels in hotel-comparable rentals and entire-place listings increasing by 7.1 and 6.4 percentage points to 52.1% and 55.6%, respectively. Meanwhile, the average daily rate for these two types of properties rose by 9.0% and 8.4%, respectively, to US$ 188.04 and US$ 519.12.

Construction value added rebounded by 8.4% in 2022, following the contraction of 23.9% in 2021. Activity was boosted by FDI-financed tourism projects of varied sizes. However, domestic private investment in the sector remained muted, with little investment in residential and commercial properties. Reflecting the weakness in domestic activity, total mortgage allocations for new construction and repairs contracted by 10.2% to B$ 81.1 million. In addition, the outlook for construction remains downbeat, with mortgage commitments for new construction and repairs falling by 20.0% to 228, although their value did rise by 32.1% to B$ 73.3 million.

GDP growth is expected to moderate to 4.3% in 2023, as activity returns closer to trend following the exceptional rebound after the pandemic. This above-trend growth will be driven by continued strong performance of tourism, supported by FDI-financed construction projects. Downside risks to this projection include slower than projected growth in the United States, owing to factors such as continued monetary tightening, and the impact of hurricanes.

(c) Prices, wages and employment

Inflation increased from 4.1% in 2021 to 5.5% in 2022, driven by higher international fuel and food prices. As a result, the costs of food and non-alcoholic beverages rose by 16.0% in 2022, extending the 4.8% increase in 2021. The costs of recreation and culture increased by 20.6%, following a 2.6% decline in 2021. Transport costs rose by 0.3%, possibly reflecting the lower end-of-period inflation, as average transport costs over the year were up by 12.3%, thus better reflecting the pass-through of international fuel prices. Transport inflation at the end of the period was lower, partly because of a decline in international fuel prices in the last quarter. The index for restaurants and hotels rose by 12.7%, reflecting the impact of the recovery in demand on prices. Meanwhile, the costs of furnishing, household equipment and routine household services declined by 1.3%.

The labour market has rebounded since the height of the pandemic, with the rate of unemployment falling to 8.8% in May 2023, compared to 9.5% in 2019, when the previous survey was done. Tourism, commerce and distribution saw gains in employment. However, the unemployment rate was higher for men than for women, at 9.1% and 8.5%, respectively.