

Bahamas

The impact of Hurricane Dorian has dampened economic activity in the Bahamas in 2019 as visitor arrivals and spending declined. As a result, growth for the year is expected to slow to 0.9% from the previously projected 1.8%. Unemployment declined, thanks to the robust activity seen in the first eight months of the year, while inflation increased to 1.8%, partly reflecting the pass-through of higher value added tax (VAT) rates. The steady growth in revenues, which offset higher expenditure, led to the fiscal deficit falling to 2.0% of GDP. Monetary policy remained neutral in the wake of a build-up in liquidity and lower domestic credit, which did not affect the exchange rate. Meanwhile, the balance of payments current account deficit narrowed sharply from 8.7% of GDP in the first half of 2018 to 1.2% of GDP in the same period of 2019, driven by a significant improvement in the service account before the hurricane, higher tourism receipts and lower merchandise imports.

In the aftermath of Hurricane Dorian, the economy is projected to contract by 0.6% in 2020, as the disruption continues to affect the tourism, distribution and other sectors in Abaco and Grand Bahama, which together account for about 12% of total stopover visitors and 18% of sea visitors. Year-on-year visitor arrivals to the Bahamas declined by 12.8% in September 2019. Muted tourism activity is expected to carry over into 2020 as the islands hardest hit by the hurricane have lost room capacity. Unemployment is expected to increase due to job losses in the tourism and distribution sectors, while inflation should stabilize as the effects of the VAT hike become normalized. Furthermore, partly as a result of capacity constraints and prudential requirements relating to the disbursement of funds, reconstruction-related construction will not be able to offset the decline in tourism. Reconstruction spending is expected to push the fiscal deficit up to 5.0% of GDP in fiscal year¹ 2019/20. The external position is expected to worsen in 2020, as growth in reconstruction-related imports result in a widening of the current account deficit, from 7.4% of GDP in 2019 to over 12.0% of GDP in 2020.

There was slippage in the government's fiscal consolidation efforts in fiscal 2018/19. Following a decline of 10% in fiscal 2017/18, government expenditure grew by 7.2% in fiscal 2018/19, linked to a 31.8% hike in spending on goods and services, together with higher outlays for transfers and subsidies, which remain sticky and increased debt interest payments. Capital expenditure was cut by 19.2% in 2018/19, reflecting the public sector's greater leverage over its capital programme compared to current spending. Meanwhile, government revenues rose by 19.7% compared to 2017/18, reflecting a 31.7% jump in VAT receipts and a 28.1% increase in revenues from taxes on goods and services. The fiscal deficit was consequently cut substantially, down from 3.4% of GDP in fiscal 2017/18 to 2.0% of GDP in 2018/19. During the first quarter of fiscal 2019/20, the deficit shrank by one third to 41.8 million Bahamian dollars (B\$). Revenues, boosted by the 7.6% growth in VAT receipts, surpassed expenditures, which grew by 2.7%.

In the wake of Hurricane Dorian, the fiscal stance is expected to ease as the government prioritizes reconstruction efforts. The fiscal deficit is therefore projected to rise to 5.3% of GDP. Given the large scale of rehabilitation and reconstruction work that is required in Abaco and Grand Bahama, government spending is projected to be B\$ 214.2 million, spread over fiscal 2019/20 and 2021/22. In an effort to take away something positive from the disaster, the government is using this opportunity to

¹ 1 July – 30 June.

modernize and diversify the energy sector by investing in cleaner, cost-efficient renewable sources, including solar and wind power.

Monetary policy remained neutral in 2019 with the central bank holding its policy discount rate steady at 4.0%. Banking sector liquidity was strengthened amidst a drop in domestic credit during the first nine months of 2019. Excess liquid assets grew by B\$ 252.9 million, a turnaround from the reduction in 2018. Following strong growth of B\$ 39.1 million in 2018, domestic credit contracted by B\$ 22.2 million in 2019, as loans to the public sector declined by B\$ 33.8 million, which was only partly offset by a B\$ 11.6 million increase in credit to the private sector.

Non-performing loans (NPLs) fell by B\$ 38.4 million (7.4%), leading to a 67 basis points decline in the NPL rate, down to 8.4%. Average interest rate spreads widened to 10.58% in 2019 from 10.5% in 2018.

The balance-of-payments position strengthened in the first half of 2019 relative to 2018. The current account deficit narrowed significantly to 1.2% of GDP, compared to 8.7% of GDP in 2018, underpinned by improvements in the merchandise, services and income accounts. The merchandise deficit declined by 16.4% to US\$ 1262.2 million, reflecting lower payments for imports, due in part to the completion of the Baha Mar project in 2018 and the winding down of some other projects. The services surplus expanded by 12.7% to US\$ 1391.1 million, buttressed by 16.7% growth in net travel receipts, the result of steady growth in visitor arrivals and receipts. The income account deficit contracted by 9.0% to stand at US\$ 312.3 million, linked to lower investment income outflows. The capital and financial account surplus declined sharply by 58% to US\$ 434.3 million. Foreign direct investment (FDI) inflows plummeted by 55% to US\$ 160.9 million, following the completion of key projects and a decline in other investments, including commercial banks and government borrowing. At the end of September 2019, international reserves grew by US\$ 360.1 million, to stand at US\$ 1.6 billion, on the back of foreign exchange and reinsurance receipts, covering 5.3 months of imports, compared to 4.4 months in 2018.

Economic activity had picked up prior to Hurricane Dorian, buoyed by 10.4% growth in total visitor arrivals for the first nine months of 2019. Air arrivals, including high-spending stopover visitors, expanded by 11.6% on the heels of the 16.5% growth seen in 2018. Sea arrivals, which are dominated by cruise ship visitors, were up by 10.1%, surpassing the increase registered in 2018 (6.5%). Growth in tourism had a positive spillover effect on other sectors, including transportation and distribution. Construction activity remained fairly strong, bolstered by varied-scale foreign and domestic investment projects. However, for the latter part of 2019 into 2020, the fallout from the hurricane is expected to depress growth. According to the damage and loss assessment carried out by ECLAC, the hurricane will cause Abaco and Grand Bahama to lose 7.3% and 2.0% of GDP, respectively, in 2019.

Inflation moderated to 1.8% year-on-year to September 2019, compared to 4.2% for the same period in 2018. Inflation is expected to remain relatively low at around 2.0% in 2020, as the impact of

Bahamas: main economic indicators, 2017-2019

	2017	2018	2019 ^a
	Annual growth rate		
Gross domestic product	0.1	1.6	0.9
Per capita gross domestic product	-1.0	0.6	-0.1
Consumer prices	1.8	2.0	2.9 ^b
Money (M1)	13.6	6.3	4.4 ^b
	Annual average percentage		
Urban unemployment rate ^c	10.0	10.4	9.5 ^d
Central government			
Overall balance / GDP	-5.6	-3.4	-2.0
Nominal deposit rate ^e	1.0	0.8	0.6 ^f
Nominal lending rate ^g	11.8	11.4	11.1 ^f
	Millions of dollars		
Exports of goods and services	3 409	...	...
Imports of goods and services	4 975	...	...
Current account balance	-1 981	...	...
Capital and financial balance ^h	2 485	...	...
Overall balance	504	...	...

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

a/ Estimates.

b/ Figures as of June.

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.

the VAT hikes are normalized. The unemployment rate fell from 10.7% in November 2018 to 9.5% in May 2019, reflecting a 1.8% rise in the employed population, to stand at 137,605 persons. The number of discouraged workers also declined amidst improved job prospects as the Baha Mar resort and other hotel properties became fully operational. The unemployment rate is expected to rise as jobs are lost in the tourism and distribution sectors as a result of the impact of the hurricane.