Bahamas

The Bahamian economy continued to recover in 2022 and was projected to grow by 8.0%, down from 13.7% in 2021. Growth was bolstered by the continued recovery in tourism as the sector reopened after collapsing at the height of the COVID-19 pandemic. With the pickup in activity, the rate of unemployment trended downward, falling to 13.9% in 2022 from 18.1% in 2021, owing in part to employment gains in tourism and distribution. The rate of inflation rose sharply to 7.3% in 2022 from 4.1% in 2021, mainly reflecting the impact of higher international fuel and food prices, partly due to the war in Ukraine. The fiscal deficit declined from 13.6% of GDP to 5.9%, as spending to ameliorate the effects of COVID-19 and carry out hurricane reconstruction was lower. The balance-of-payments current account deficit narrowed sharply from 22.7% of GDP in 2021 to 14.2% of GDP in 2022, owing mainly to a 60.3% increase in exports of goods and services, which were bolstered by tourism receipts and goods exports.

Economic policy in 2022 remained focused on a balanced recovery following the fallout from the pandemic. The goal was to spur economic growth, whose main drivers were the recovery in tourism, construction and commerce, while containing public spending and increasing revenue to strengthen the fiscal position, thereby creating a platform for medium-term fiscal consolidation and debt reduction.

The fiscal stance was contractionary, as the deficit more than halved to 5.9% of GDP in fiscal year 2021/22 from 13.6% of GDP the previous year. Reversing the decline that stemmed from the pandemic, total revenue grew by 36.8%, rising from 19.4% of GDP to 21.5% of GDP in fiscal year 2021/22. Tax revenues increased by 34.2%, buoyed by strong growth in VAT receipts. In addition, there was significant growth in non-tax receipts. Reflecting a reduction in pandemic spending and initial efforts to normalize government outlays on the path to fiscal consolidation, expenditure growth slowed from 13.4% in fiscal year 2020/21 to 5.9% in fiscal year 2021/22. Growth in spending on goods and services halved to 4.1% in fiscal year 2021/22 as outlays returned to trend after exceptional pandemic-induced spending. Similarly, expenditure on transfers slowed substantially, owing to a reduction in spending on pandemic relief for households and businesses. Public sector debt contracted by 8.6 percentage points from 103.8% of GDP in 2021 to 95.2% of GDP in 2022, as debt normalized following exceptional borrowing to deal with the pandemic the previous year.

Monetary policy remained neutral in 2021, with the central bank keeping its policy discount rate at 4.0%. Monetary developments were marked by an increase in banking sector liquidity, which was bolstered by foreign currency inflows from the tourism sector and government borrowing. Excess reserves grew by B$ 387.2 million, surpassing the B$ 104.0 million increase in 2021. Broad money (M2) grew by 0.4% to represent 61.4% of GDP. This was led by growth of 2.3% in higher interest-bearing time deposits, as saving deposits declined by 0.2%. Growth in domestic credit slowed from 3.6% in 2021 to 2.4% in 2022, reflecting a slowdown in lending to the public sector as the government normalized its borrowings following exceptional growth to deal with the effects of the pandemic.

The balance-of-payments current account deficit narrowed from 22.7% of GDP in 2021 to 14.2% of GDP in 2022. This was mainly driven by a doubling of the services account surplus from 7.3% of GDP to 15.4% of GDP. Services continued to move back towards trend performance owing to the rebound in tourism as the economy opened with the waning of the pandemic. High-spending stop-over and cruise passenger arrivals alike expanded significantly, contributing to dynamic growth in tourism receipts. The trade deficit expanded by 12.6% in nominal terms but narrowed marginally from 22.5%

of GDP to 22.3% of GDP owing to the increase in GDP. Imports rose from 27.2% of GDP to 28.9% of GDP, reflecting higher fuel and food prices. Exports grew from 4.7% of GDP to 6.6% of GDP. The income account deficit contracted from 7.5% of GDP to 7.3% of GDP, reflecting GDP growth, as the deficit expanded in nominal terms. The capital and financial account position, including errors and omissions, expanded from 2.3% of GDP to 6.7% of GDP, reflecting a sharp increase in FDI to US$ 107.6 million. International reserves amounted to US$ 3,199.7 million, enough to cover 10 months of imports.

With the rebound in activity as the economy fully reopened, economic growth was projected at 8.0% in 2022. Growth was driven by a resurgence in tourism activity, reflecting the release of demand that had been suppressed during the pandemic. Total visitor arrivals more than tripled in 2022. Stopover visitor arrivals increased by 62.6% to 1,450,936, while cruise passenger arrivals more than tripled to 5,390,016. Reflecting the continued recovery in the sector, the occupancy rates of hotels and hotel-comparable properties grew by 56.6% and 55.7%, respectively. Meanwhile, the average daily room rate rose by 8.6% to B$ 524.7 for hotels and by 4.9% to B$ 186.5 for hotel-comparable properties. Construction activity picked up with the recovery in the economy and centred on varied-scale FDI-related projects. Responding to the pickup in activity, especially in tourism and commerce, the unemployment rate is estimated to have declined to under 14% from around 18% in 2021. The inflation rate increased from 4.1% in 2021 to 5.5% in 2022, propelled by higher international fuel and food prices that were due in part to disruptions resulting from the war in Ukraine.

Economic growth is expected to moderate to around 4.1% in 2023 as activity normalizes after rebounding from a low base in the last two years. Growth will be driven by the continued recovery in tourism, especially the stopover segment. This will be supported by foreign investment-led construction projects in tourism. Activity in the offshore financial services sector is expected to be buoyant, influenced by the overall improvement in economic conditions. Nevertheless, there are downside risks to this projection that might result from more lethal strains of the COVID-19 virus and from higher inflation caused by fuel price rises due to the impacts of the war in Ukraine.