BAHAMAS

The Bahamian economy recovered in 2021, growing 13.7%, following the steep contraction of 23.8% in 2020, when the country suffered wide-ranging impacts from the coronavirus disease (COVID-19) pandemic. Nevertheless, because this rebound was from a low base, real GDP remained 13.4% lower than in 2019. The country benefited from improved management of the spread of the virus and increasing levels of vaccination, enabling a gradual re-opening of the economy. This opened the door for a resumption of tourism arrivals, especially high value-added air arrivals, which contributed significantly to overall tourism receipts. Construction activity underwent a modest recovery, driven by foreign investment projects of different sizes and improved domestic construction. Inflation picked up to 4.1%, mainly owing to higher international fuel prices, which led to increased transport and communication costs. With the strengthened economic activity, job creation in tourism and construction recovered, resulting in a decline in unemployment. Amidst significant health and social spending to address the pandemic, including on vaccines, the fiscal deficit expanded from 7.2% of GDP in the 2019/20 fiscal year to 12.8% in 2020/21. External payments improved, with the current account deficit narrowing from 24.5% of GDP in 2020 to 19.2% of GDP in 2021, reflecting a substantial recovery in travel receipts and a narrowing of the deficit on net transfers.

The economy will be affected by continued headwinds from COVID-19 and the war in Ukraine, which has led to higher fuel and food prices. Despite this context, economic activity is expected to normalize in 2022, with growth of 8.5%, buoyed by a continued recovery in tourism and construction projects of different scales financed by foreign investment, including post-hurricane reconstruction work in the Family Islands. Inflation is expected to remain above-trend, owing to rises in international fuel and food prices. In contrast, unemployment is projected to ease, owing to job creation in tourism and construction. The fiscal deficit is forecast to remain above-trend, reflecting continued pandemic-related spending on health and social protection and post-hurricane reconstruction, alongside modest growth in revenues. External payments are expected to worsen with an increase in the balance of payments current account deficit, fuelled by higher import payments for fuel and food amid meagre growth in exports and a moderate increase in tourism receipts.

1. General trends

2. Economic policy

(a) Fiscal policy

The pandemic has forced the government to bring forward its fiscal consolidation timetable. Substantial outlays on health, social protection and post-hurricane reconstruction led to a widening of the fiscal deficit from 7.2% of GDP in the 2019/20 fiscal year to 12.8% of GDP in 2020/21, mainly influenced by an 11.1% increase in expenditure and an 8.9% decline in revenue. Current spending rose sharply by 13.4%, reflecting higher outlays on transfers to assist households and small businesses in coping with the pandemic. There was also an 8.3% increase in expenditure on goods and services, partly linked to the procurement of health supplies, including vaccines. The 8.9% decline in total revenue in the 2020/21 fiscal year was less significant than the 13.7% recorded in 2019/20, owing to smaller falls in both tax and non-tax revenues. The twin shocks from the pandemic and the hurricane have led to elevated public debt.

Nevertheless, with the recovery in GDP, the public debt-to-GDP ratio declined from 101.6% in 2020 to 95.6% in 2021.

During the first half of the 2021/22 fiscal year, the fiscal situation improved, underpinned by a recovery in economic activity. The deficit more than halved from 743.3 million Bahamian dollars (B$) during the first six months of the 2020/21 fiscal year to B$ 287.6 million in the same period of 2021/22. Buoyed by a recovery in VAT collections, total revenue expanded by B$ 453.8 million to B$ 1.127 billion. This dwarfed the modest B$ 7.1 million increase in expenditure to B$ 1.415 billion. The budget for the 2022/23 fiscal year projects a fiscal deficit of 4.3% of GDP or B$ 564.3 million. Total revenue is expected to grow by over 19% to around B$ 2.804 billion, while total expenditure is projected at over B$ 3.368 billion.

(b) Monetary and exchange-rate policy

With the economic situation stabilizing, the Central Bank of The Bahamas maintained a neutral monetary policy stance in 2021, with its policy discount rate held steady at 4.0%. Banking sector liquidity remained high, amidst sluggish loan demand and cautious lending by banks.

The broad money supply expanded by 5.1% in nominal terms to 69.3% of GDP. This growth was fuelled by a 5.4% rise in savings deposits, albeit at a slower pace than in 2020, offsetting a 2.6% decline in time deposits. A rebound in lending to the government drove domestic credit growth of 4.0% in 2021, reversing the 4.0% decline in 2020. Credit to the public sector rose by 14.6%, overshadowing a 1.3% decline in private sector credit, mainly linked to a downturn in the dominant personal loan subsector. With money supply growth outpacing credit demand growth, the weighted average interest rate spread narrowed by 44 basis points to 9.50 percentage points in 2021. The average loan rate fell by 37 basis points to 10.02%, while the average deposit rate rose by 7 basis points to 0.52%.

(c) Other policies

The government has outlined three key areas of focus for the short-term: (i) measures to cushion the impact on households of the high cost of living driven by soaring fuel and other commodity prices on international markets; (ii) a strategy to grow the economy and increase opportunities for investing and saving by citizens; and (iii) measures to improve long-term citizen security as a platform for stability and growth.

3. The main variables

(a) The external sector

Net external payments improved in 2021. The balance of payments current account deficit narrowed from 25.3% of GDP in 2020 to 19.9% of GDP in 2021. This was mainly a result of a turnaround in the services account from a deficit of 2.1% of GDP in 2020 to a surplus of 11.4% of GDP in 2021, stemming from a substantial recovery in net travel receipts to US$ 2.570 billion, as tourism arrivals rebounded with the lifting of COVID-19-related travel restrictions. This improvement in services was partly offset by a 61.7% increase in the goods trade deficit to US$ 2.637 billion. Import payments rose by 58.2%, mainly driven by a doubling of fuel payments on account of higher prices. This offset a 43.6% rise in export receipts, which recovered with the opening up of the economy. Net payments for goods and services by the government fell 58.1% to US$ 76.7 million.

The deficit on the income account widened from 4.5% of GDP in 2020 to 6.6% of GDP in 2021, driven by a sharp increase in net investment income payments, with outflows to remunerate direct investments rising from US$ 12.3 million in 2020 to US$ 250.1 million in 2021. Net transfers declined from 1.8% of GDP in 2020 to 1.2% of GDP in 2021, reflecting higher outflows for other net private current transfers and workers' remittances.

The capital and financial account surplus, including errors and omissions, expanded substantially from 16.9% of GDP in 2020 to 19.1% of GDP in 2021. This was largely a reflection of substantial growth in errors and omissions, without which the surplus would have contracted from 18.2% of GDP to 12.9% of GDP. Net portfolio flows reversed from a net inflow of US$ 656.8 million in 2020 to a net outflow of US$ 447.1 million in 2021. In addition, net foreign direct investment inflows declined by 32.4% to US$ 253.3 million in 2021, linked to lower equity and fund share inflows. This was only partly offset by larger inflows classified as "other investment". International reserves expanded by US$ 50.6 million to US$ 2.433 billion, covering 36.8 weeks of goods imports.

(b) Economic activity

The economy began to recover in 2021, with growth rebounding to 13.7% from the decline of 23.8% in 2020, caused by the severe fallout from the pandemic. Renewed holiday travel made possible by widespread vaccination in source markets triggered a recovery in the mainstay tourism sector. This contributed to 25.0% growth in the wholesale and retail commerce and restaurants and hotel sector. The recovery in tourism was underpinned by a 17.1% increase in total visitor arrivals, following the 75.2% decline in 2020 at the height of the pandemic. Nevertheless, arrivals in 2021 were still equivalent to just 29.0% of the level recorded in 2019, meaning that much ground has to be regained to return to trend. High-spending stop-over visitors more than doubled to 886,629. However, because of delays in reopening the cruise subsector —partly owing to concerns about outbreaks on ships— sea arrivals declined by 11.8% to 1.2 million passengers in 2021. Total room nights sold for entire-place and hotel-comparable properties increased by 64.8% and 47.4%, respectively, in line with the pickup in tourism.

Construction activity rebounded owing to foreign direct investment (FDI) in tourism, domestic private residential and commercial projects. Nevertheless, forward-looking indicators of near-term activity in the sector remained subdued. Total mortgage commitments for new construction and repairs declined by 18.3% to 325 and in value from B$ 83.1 million to B$ 63.2 million.

With the reopening of the economy and abatement of the pandemic, growth is projected at 8.5% for 2022, bolstered by tourism activity, with a continued recovery in arrivals from major markets. In addition, construction activity is expected to improve, with growth on the domestic front supported by FDI-related construction projects of varying sizes.

(c) Prices, wages and employment

Inflation picked up from 1.2% in 2020 to 4.1% in 2021. Price rises largely reflected higher international fuel costs. As a result, transport costs climbed by 21.4%, after declining in 2020. Communication costs increased by 13.7% and food and alcoholic beverages prices rose by 7.4%. These increases were partly offset by lower prices for restaurant and hotel services and recreation and cultural services. With the recovery in economic activity, the unemployment rate is expected to have declined in 2021, mainly owing to job growth in tourism, construction and commerce.