Bahamas

The Bahamian economy posted a modest recovery in 2014, with growth projected to strengthen to 2.3% from 0.7% in 2013. Improved activity was buttressed by higher value added in tourism, driven especially by recovery in high-spending stopover visitor arrivals and buoyant construction activity. Projects financed by foreign direct investment (FDI), led by the Baha Mar resort project, bolstered construction. Activity in the offshore financial services sector was buoyant. In the financial sector, private-sector credit remained subdued amidst slow gains in employment and elevated non-performing loans, which have led to increased prudence by banks in lending. The external imbalance worsened with a widening of the current account deficit, mainly on account of higher construction payments abroad that offset higher tourism receipts. Economic growth is projected to increase to 2.8% in 2015, bolstered by a continued improvement in tourism, firm construction activity and buoyancy in the offshore financial services sector.

The main focus of policy in the near term is on structured fiscal consolidation to reduce public debt, while maintaining public investment to nurture the fledgling recovery. The central pillar of reform will be the introduction of a 7.5% value added tax (VAT) in January 2015, which is expected to help underpin the consolidation effort. Nevertheless, the full impact will be constrained by the government's plan to increase the salaries of some public servants by 7.5% in line with the VAT rate over a five-year period. The introduction of VAT will be supported by efforts to strengthen tax efficiency and collection and to tighten procurement procedures.

Reflecting initial steps towards consolidation, fiscal policy was mildly contractionary in the first 11 months of the 2013/2014 financial year (July to June). The fiscal deficit declined from 6.0% of GDP in 2013 to 4.8% in 2014. This improved performance stemmed from a 6.2% growth in revenue that outweighed a 0.7% increase in expenditure. Revenues were boosted by a 2.6% increase in tax receipts, which firmed up as a result of higher business and professional fees following the government's introduction of a more lucrative revised fee structure. Expenditure grew marginally (0.7%), reflecting increased current spending linked to higher public debt and personal emoluments. The fiscal deficit is projected to decline further to 3.5% of GDP in 2015 as revenues are buoyed by the new VAT and expenditure is dampened by the continued winding down of public infrastructure projects. Public debt expanded by 9% from 64% of GDP in 2013 to 67% year-on-year to June 2014, partly owing to a US$ 300 million international bond issue and loans for infrastructure projects.

Bahamas: main economic indicators, 2012-2014

	2012	2013	2014 [a]
	Annual growth rate		
Gross domestic product	1.0	0.7	2.3
Per capita gross domestic product	-0.5	-0.8	0.9
Consumer prices	0.7	0.8	1.0 [b]
Money (M1)	8.6	5.6	4.6 [c]
	Annual average percentage		
Urban unemployment rate [d]	14.0	15.8	14.3 [e]
Central government			
Overall balance / GDP	-6.7	-5.3	-3.4
Nominal deposit rate	2.0	1.7	1.5 [f]
Nominal lending rate [g]	10.9	11.2	11.7 [f]
	Millions of dollars		
Exports of goods and services	3,675	3,503	3,495
Imports of goods and services	4,923	4,794	5,146
Current account balance	-1,505	-1,613	-1,894
Capital and financial balance [h]	1,430	1,545	1,930
Overall balance	-75	-69	36

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/ Figures as of October.
g/ Weighted average of some lending rates.
h/ Includes errors and omissions.

The central bank maintained a neutral monetary stance in 2014, holding its policy-based discount rate at 4.5%, as the modest recovery did not threaten to undermine reserves through import demand. Growth in domestic credit slowed during the first trimester of 2014 compared with 2013. Credit to the public sector contracted as government used part of the proceeds from foreign financing to retire a portion of debt owed to local banks. Credit to the private sector declined by 2.9 percentage points to 75.6% of GDP in 2014, a slower rate of decline than in 2013, owing to the pickup in activity and gains in employment. Despite the build-up in liquidity, the interest rate spread widened to 10.6% from 9.16% in 2013.

The current account deficit was projected to expand from 19.4% of GDP in 2013 to 22.1% in 2014, reflecting a deterioration in both the goods and the services balances that offset the improvement in the income account. The trade deficit expanded by 16%, owing to a rebound in imports with the pickup in economic activity. Higher imports of fuel and construction material were recorded, partly reflecting ongoing construction activity. The services account surplus narrowed on account of construction-related service payments linked to hotel building, which offset growth in travel receipts due to increased visitor arrivals and spending. The income account was projected to improve in line with a reduction in other investment outflows. The surplus on the capital and financial account expanded by about 10%, bolstered by a surge in FDI to US$ 440 million that was partly associated with the acquisition of a high-end resort. Buttressed by higher inflows, international reserves expanded year-on-year by 18% to US$ 803 million in September 2014, covering about four months of non-oil imports.

Economic growth firmed to 2.3% in 2014, compared with 0.7% in 2013. Growth was propelled by a recovery in tourism, particularly high value added air arrivals, which expanded by 3.6% to 984,309 visitors during the first eight months of 2014. Arrivals were boosted by promotion programmes, including the Companion Fly Free programme and increased air travel from the United States. The hotel occupancy rate also increased by 3.6% to 60.2% in the year to date to July, but the average daily room rate fell by 4%. Construction activity picked up, led by FDI-financed hotel construction, including the Baha Mar resort and other properties in the Out Islands and infrastructure works. The opening of the Baha Mar resort has been pushed back from December 2014 to mid-2015, which means that it will not benefit from the lucrative winter season. Activity in the offshore financial services sector was also buoyant, reflecting growth in trust companies and fund registrations. Growth is expected to pick up to 2.8% in 2015, mainly driven by tourism and construction.

With firmer demand growth, inflation in 2014 is expected to be 2.0%, up from just over 1% in 2013. The uptick reflects higher prices for food and alcoholic beverages and furnishings and equipment. The introduction of VAT in 2015 is expected to push up prices further. Unemployment declined from 15.4% in 2013 to 14.3% in 2014, reflecting job gains among youths in the tourism and construction sectors.