BAHAMAS

COUNTRY ECONOMIC REVIEW 2020

Bahamian dollar (B$); United States dollar (US$). **US$1 = B$1.00**

OVERVIEW

The global health pandemic, caused by COVID-19, severely compromised economic and social conditions the Bahamas in 2020, and set back the recovery from Hurricane Dorian. Real gross domestic product (GDP) is estimated to have fallen sharply by 16.2% and unemployment levels worsened due mainly to closures of tourism-related plants and operations, mandated to halt the spread of the virus.

The shutdowns affected the Government's operations, causing a deterioration in fiscal outcomes and a rise in debt levels. External conditions weakened, while the financial sector remained relatively stable, aided by capital buffers and temporary relief measures.

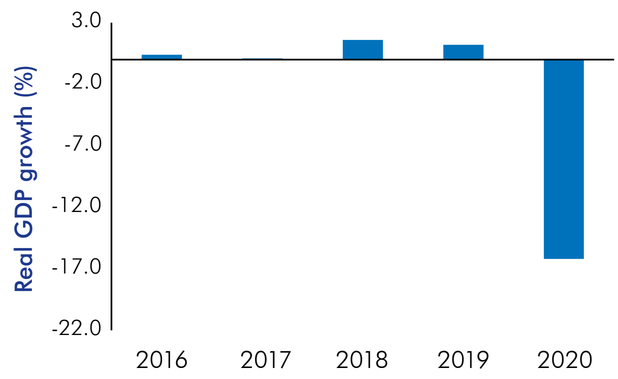
The economy is expected to begin recovering in 2021. Growth is projected to rebound to 2.2% in 2021, with positive knock-on effects on external, fiscal and monetary conditions. However, risks are tilted heavily to the downside.

KEY DEVELOPMENTS IN 2020

The Bahamas was still recovering from its 2019 devastation from Hurricane Dorian when the country was affected by the COVID-19 pandemic, a shock of unprecedented scale. Alongside the public health crisis and human toll of 170 deaths, the outbreak caused a significant economic collapse that severely impacted the wellbeing of its population. Strict social distancing actions taken to prevent spread, and mitigate risks to health and safety, also had significant spill-over effects. Major increases in unemployment, lower foreign exchange earnings, and fiscal accounts deterioration were some of the setbacks experienced.

The economy is estimated to have sharply declined by 16.2% (see Chart 1). The contraction was led by complete cessations of activity in the leading tourism sector at different times of the year, with little recovery between. Total visitor arrivals for the year fell by 75.2% to 1.8 million (mn), relative to 7.2 mn recorded in 2019. A breakdown of arrivals by categories shows similar reductions across the board, both stopover and cruise arrivals were down by 75.9%, and 75.6%, respectively. Foreign investment-funded projects and, to a lesser extent, rebuilding works underpinned positive contributions from the construction sector, tempering the extent of the overall economic decline.

Chart 1: Real gross domestic product growth



Source: Central Bank of the Bahamas (CBB), Department of Statistics.

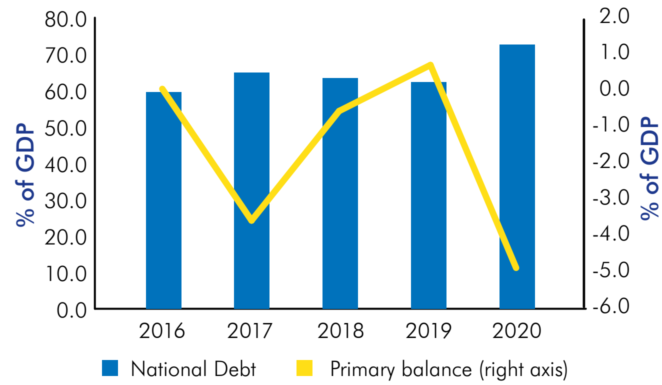
Average consumer prices, as measured by the Retail Price Index (RPI), remained relatively unchanged, with only a 0.4% uptick in the index. The marginal increase in the RPI was led by average higher prices in two of the four major categories: miscellaneous goods and services; and food and non-alcoholic beverages. Further increase in prices were mitigated by declines in the average prices for housing and water, gas, electricity, and other fuels attributable, in part, to pass-through effects from the reduction in global oil prices and transport.

Although official data on unemployment are not yet available, the impacts of the shutdowns point to large-scale employment effects. The Government provided B$90 mn in direct cash assistance and income replacement to nearly 38,000 unemployed persons under the National Insurance Board-administered unemployment benefit scheme. Preliminary estimates for the rate of unemployment suggest a rise to approximately 25.6%, up from 10.7% recorded in 2019.

The fiscal outturn signalled a considerable deterioration in performance and a rise in direct charges to the Government. The primary balance indicated a reversal to a deficit position of 4.9% of GDP from a small surplus of 0.8% in 2019, while the overall deficit grew to 6.8% of GDP (see Chart 2). These developments highlight the continued impact of Hurricane Dorian, the spending required to support disaster recovery, plus the costs associated with mitigating the health and social effects of the pandemic. This occurred in an environment of a sharp reduction in revenues due to the collapse in economic activity.

Collectively, the fall-out from the two large exogenous shocks have put a significant strain on public finances, requiring external financing support. The Government turned to multilateral agencies, including the Caribbean Development Bank (CDB), for financial and policy support. The additional borrowing, combined with the sharp reduction in GDP, contributed to an increase in the debt-to-GDP ratio. Direct charges to Government increased to 69.4%, while public debt rose to 72.6% by the end of the year.

Chart 2: Fiscal and debt performance



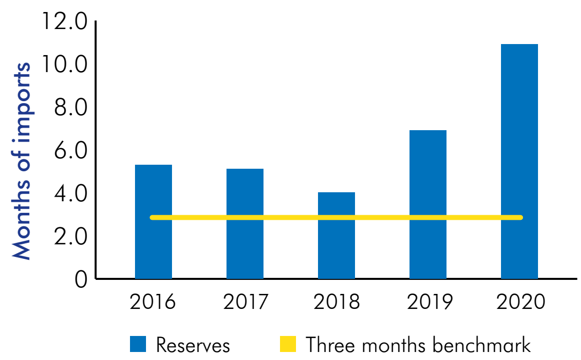
Sources: *CBB and the Government of the Bahamas.*

The financial system remained stable, liquid, and well capitalised though credit quality deteriorated. At end-December, excess liquid assets – a broad measure of liquidity – grew by 4.1% relative to 2019, to B$2,230.5 mn. The ratio of capital to risk-weighted assets was 30.9%, well above the regulatory minimum of 17.0%.

As at December, total domestic credit was B$8.6 mn, 3.8% lower than at the same period of 2019. This outturn reflected a 2.1% reduction in the dominant private sector credit, and a 3.5% decline in public net borrowing. Credit quality declined during the year and by December the non-performing loans ratio had ticked up by 50 basis points to 8.5%. Commercial banks and credit unions offered temporary loan repayment deferrals for borrowers who were negatively impacted by COVID-19. Increased provisions for bad debts, considering the ongoing impact of the pandemic, contributed to a reduction in overall bank profitability. The weighted average rate of interest on loans and overdraft was reduced to 9.69% by December 2020, from 10.44% a year ago.

External operations also highlighted the impact of COVID-19. Provisional data for 2020 indicate a steep reversal in the current account to a deficit of B$2,428 mn from a surplus of B$525.6 mn for 2019, reflecting a significant reduction in export earnings. The services account turned into a deficit on account of the almost total decimation of travel receipts. In contrast, the capital and financial account surplus increased sharply to B$2,417.3 mn from B$230.8 mn a year earlier, largely reflecting a marked rise in public sector debt-related inflows, which buoyed external reserves. At the end of December, the stock of external reserves was equivalent to an estimated 10.9 months of merchandise imports cover (inclusive of oil purchases), compared with 6.9 months at the same time the prior year (see Chart 3).

Chart 3: Gross foreign reserves



Source: *CBB.*

OUTLOOK

Economic conditions are expected to improve over the medium term, although risks are tilted to the downside. Persistent impacts of COVID-19 on tourism in 2021 would temper the recovery, although reconstruction activity should provide some growth impetus. Consequently, real GDP is projected to rise by 4.6% in 2021. However, slower economic gains in the main trading partners, particularly for tourism and natural hazard events, could derail this outlook.

An improved economic environment would translate to higher fiscal revenue intake. However, lingering expenditures for reconstruction, and spending associated with COVID-19, could dampen improvement in fiscal balances. Therefore, public financing needs are forecasted to remain elevated in the near term. Achieving the operational targets of the Fiscal Responsibility Act, including reducing the debt-to-GDP ratio to 50% by fiscal year 2030/2031, will require enhanced fiscal effort.

Export earnings associated with a gradual increase in foreign arrivals could see an improvement in the current account position. Capital inflows, mainly through the public sector, should continue to support the reserve position.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision. The 2020 data are CDB estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	0.4	0.1	1.6	1.2	-16.2
Average inflation (%)	0.7	1.2	0.3	0.3	0.4
Unemployment (%)	11.6	10.1	10.4	10.7	25.6*
Primary balance (% of GDP)	0.1	-3.6	-0.7	0.8	-4.9
Public debt (% of GDP)	59.6	64.9	63.4	62.3	72.6

Sources: *Government of the Bahamas, International Monetary Fund (IMF), CDB.*

Notes: e – estimate (as at April 15, 2021)
**IMF 2020 Article IV Consultations Staff Report*

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