# BAHAMAS

## ECONOMIC BRIEF

Bahamian Dollar (B$); United States Dollar (US$) US$1 = B$1.00

# Overview

**Macroeconomic recovery continued in The Commonwealth of the Bahamas in 2022.** Real gross domestic product (GDP) expanded further by 14.4%, despite inflationary pressures. Fiscal and debt positions improved, in GDP terms, while external balances were strengthened, bolstered by a significant increase in export earnings. The financial sector remained stable and well capitalised.

**The economy is expected to further strengthen in 2023, albeit at a slower pace.** GDP growth is projected to taper to a rate of 3.0%, with positive knock-on effects on external, fiscal, and monetary balances. However, risks to the outlook are tilted heavily to the downside due largely to the global impact of the ongoing Russia/Ukraine war, and the continuing vulnerability to natural hazards.

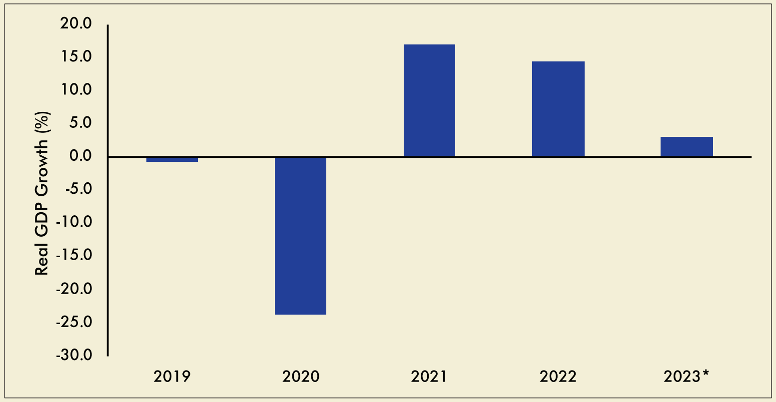
## KEY DEVELOPMENTS IN 2022[1]

**The Bahamian economy which emerged from a steep double-digit contraction in 2020 has achieved further gains in real growth in 2022.** The economy registered strong growth of 14.4%, following a sharp rebound of 17.0% (see Chart 1). This outturn was underpinned primarily by the continued recovery of the tourism sector. Total visitor arrivals recovered to 7,000,706, just 5.0% below that of the 2019 outturn. Total arrivals in 2021 was 2,100,618. This represented rates of growth of 65.8% in air arrivals and 355.6% in sea arrivals.

**The increased number of visitor arrivals bolstered activity in other sectors.** Transportation and storage; and electricity and other utilities benefitted from positive spillover effects from tourism. Other contributors to the economic expansion included activity in construction and public administration, which were buoyed by foreign investment projects and an increase in the compensation of employees, respectively.

[1]All comparisons are with respect to 2021, unless otherwise stated.

### Chart 1: Real GDP Growth




**Sources:** *Central Bank of The Bahamas (CBB), Department of Statistics. *Caribbean Development Bank (CDB) estimate.*

**The pace of inflation as measured by changes in the Retail Price Index (RPI) accelerated, largely influenced by global commodity price pressures.** RPI rose by 5.6%, compared with an increase of 2.9%, as consumers paid higher prices for food, housing, gas and other utilities; recreation and culture; transport and health services; and restaurants and hotels. Together, these categories make up nearly 70.0% of the consumption basket.

**Consistent with the gains in economic activity, labour market conditions improved in 2022.** Available estimates for the unemployment rate indicate a decline of 9.4 percentage points to 8.8% in 2022.

**There was an improvement in the fiscal position of the Government of the Commonwealth of the Bahamas (GOCB).** The overall deficit is expected to decline to 3.8% of GDP in fiscal year (FY) 2022/23[2] from 5.8% of GDP in FY 2021/22. Similarly, the primary balance is expected to move from a deficit to a surplus position of 0.5% of GDP (see Chart 2). These outcomes are expected to be supported by recent policies targeted at revenue enhancement and

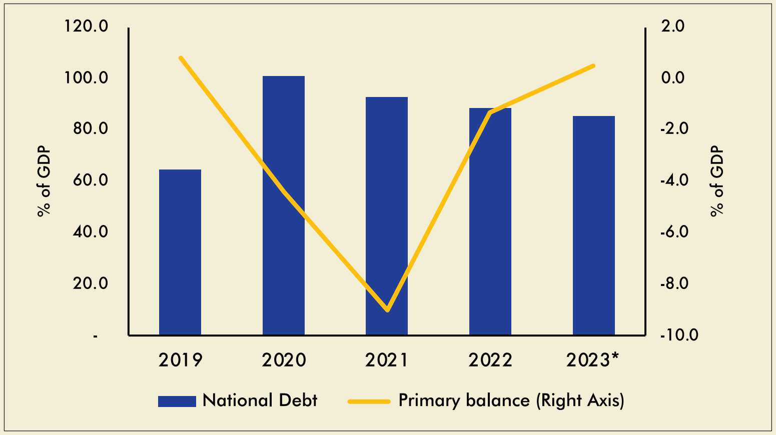
[2] FY runs from July to June.

strengthening tax administration and collection, while containing expenditure. Tax policy measures and reforms initiated in 2022 have simplified the Value-added Tax (VAT) by reducing the standard rate and removing the zero-rating on a range of goods and updating property valuations.

**In the first half of FY 2022/23, the overall deficit narrowed to 4.2% from 4.7%.** A primary surplus of 0.1% of GDP was recorded, reversing the deficit of 0.7% of GDP in the six-month period of 2021/22. Total revenue amounted to B$1,258.3 million (mn), surpassing that of the same period in the prior year by B$124.7 mn, driven by robust increases in receipts from VAT, excise taxes and the Departure Tax. Meanwhile, aggregate expenditure rose by B$119.3 mn to B$1,534.4 mn mirroring higher spending on personal emoluments, interest payments, and the acquisition of goods and services. For the 6-month period, capital spending was 33% of the budgeted allocation, signifying the possibility of lower-than-expected capital outlays.

**Strong growth in nominal GDP, coupled with a better fiscal outcome, are expected to lead to overall improvements in debt dynamics for FY 2022/23.** Gross financing needs are projected to decline to 13.3% of GDP from 16.5% the prior year, with GOCB utilising a combination of external and domestic sources to fill its financing requirements. As a result, the national debt-to-GDP ratio fell to 88.6% in 2022 (see Chart 2).

### Chart 2: Fiscal and Debt Performance

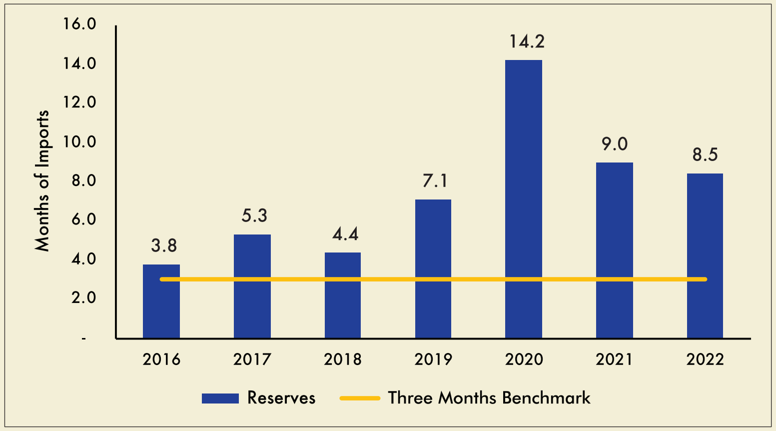



**Sources:** *CBB, GOCB.*

**The Monetary Authorities policy stance was accommodative in 2022, amidst a financial system that remained stable, well capitalised, and highly liquid.** The risk adjusted capital adequacy ratio rose by 4.8 percentage points to 31.2%, significantly above the regulatory minimum of 17.0%. The expansion in real sector activities contributed to a 34.1% increase in banking sector liquidity. The quality of banking sector assets also improved concomitant with greater economic activity and loan write-offs as the non-performing loans to private sector loans ratio dipped to 7.7% from 9.6%. Domestic credit grew by 2.4% mainly due to increased government borrowings, while private sector credit declined as banks maintained a conservative lending posture.

**The external position also improved. The current account deficit declined to 13.6% of GDP (B$1.760.1 mn) from 21.1% of GDP (B$2.434.0 mn).** The reduction largely reflected a significant increase in service export earnings, consistent with increases in travel receipts. The foreign reserves position remained strong, covering 8.5 months of merchandise imports (see Chart 3).

### Chart 3: Gross Foreign Reserves




**Source:** *CBB.*

## 2023 OUTLOOK

**Growth momentum is expected to be maintained throughout 2023/24 driven by continued strengthening in tourism activity.** International travel will continue to drive the tourism sector and, in turn, overall economic performance. Real GDP is projected to rise by approximately 3.0% in 2023. However, risks to the outlook are biased to the downside. Rising prices emanating from higher cost for food and some services threaten to dampen demand and stymie economic activity, while the ever-present high probability of natural hazard events could derail growth momentum.

**Continued improvement in economic conditions combined with deliberate policy actions to boost revenue and contain expenditure will augur well for fiscal and debt sustainability.** Budget estimates for FY 2023/24 indicate a strong primary surplus of 3.3% of GDP. Over the medium term, GOCB's revenue strategy targets a steady increase in intake to 25% of GDP by FY 2025/26[3], from 20.2% in 2021/22.

[3] Government's revenue enhancement strategy; "Securing the Revenue Target of 25% of GDP".

**Financing needs are forecasted to remain elevated in the near term, despite the fiscal improvement.** Therefore, achieving its fiscal responsibility targets[4], including reducing the debt-to-GDP ratio to 50% by FY 2030/2031, will require consistent fiscal effort by the authorities. The Bahamas has a robust macroeconomic framework with FRA (2018) being the central anchor for improving fiscal sustainability.

**Both external and monetary conditions are expected to improve.** With respect to transactions with the rest of the world, export earnings particularly associated with the anticipated increase in foreign arrivals could continue to positively impact the current account position. External reserves are anticipated to remain buoyant. Monetary conditions are generally predicted to remain stable with an anticipated rise in credit to the private sector, and improvement in credit quality as CBB relaxed the minimum qualification standards for personal loans, raising the total debt service ratio to 50% from within a range of 40% to 45%. CBB has also removed the minimum equity requirement on loans, except for residential mortgages, allowing lenders to grant facilities of up to 100% of the borrower's financial requirement.

[4] Fiscal Responsibility Act (FRA), 2018; and Fiscal Strategy Report 2022.

## 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. 2023 data are estimates and are subject to revision.

### Selected Indicators

| | 2019 | 2020 | 2021 | 2022 | 2023e |
|---|---|---|---|---|---|
| Real GDP Growth (%) | 1.9 | (23.5) | 17.0 | 14.4 | 3.0 |
| Average Inflation (%) | 2.5 | 0.4 | 2.9 | 5.6 | 4.5 |
| Unemployment (%) | 9.5 | 25.6 | 18.2 | 8.8 | n.a |
| Primary Balance (FY, % of GDP) | 0.8 | (4.4) | (9.0) | (1.3) | 0.5 |
| Public Debt (% of GDP) | 64.8 | 101.10 | 93.0 | 88.6 | 85.4 |

**Sources:** *GOCB, CDB, the International Monetary Fund.*

*Note: e-estimate.*