COUNTRY ECONOMIC REVIEW 2018

BAHAMAS
Disclaimer
Copyright © Caribbean Development Bank (CDB). The opinions, findings, interpretations and conclusions expressed in this publication are those of the staff of CDB and do not necessarily reflect the official policy or position of CDB, its Board of Directors, or the countries they represent.

This work may be reproduced, with attribution to CDB, for any non-commercial purpose. The use of CDB's name for any purpose other than for attribution, and the use of CDB's logo shall be subject to a separate written licence agreement between CDB and the user and is not authorized as part of this licence. No derivative work is allowed.

CDB does not necessarily own each component of the content contained within this document and therefore does not warrant that the use of any third-party owned individual component or part contained in this work will not infringe on the rights of those third parties. Any risks of claims resulting from such infringement rest solely with the user. CDB does not guarantee the accuracy of the data included in this work.

Any dispute related to the use of the works of CDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. Nothing herein shall constitute or be deemed to constitute a waiver of the privileges and immunities of CDB, all of which are specifically reserved.
OVERVIEW

The Bahamas economy grew by 2.3% in 2018. The main drivers of the recovery were higher growth in the United States (US), increased room capacity in the tourism industry, and increased construction activity. Consequently, there was a slight decrease in the unemployment rate. Inflation rose in line with higher economic activity.

The fiscal performance of the Government of The Commonwealth of the Bahamas (GOCB) improved in 2018. As a percentage of gross domestic product (GDP), the primary balance improved. Central Government (CG) debt was slightly higher at 57.4% of GDP. External balances also improved as a result of increased tourism receipts. In addition, the financial sector remained profitable and well capitalised, although private sector credit continued to decline.

KEY DEVELOPMENTS IN 2018

The Bahamas economy recovered in 2018. Real GDP grew by an estimated 2.3%, following low and volatile growth rates over the previous five years (see Chart 1). The economy is largely dependent on tourism, which constitutes a 42.0% share of GDP; and growth is highly correlated with economic performance in the US, the main source market for tourism. Consistent with this, in 2018 tourism benefited from higher U.S. growth. In addition, the economy was boosted by increased room capacity from the recently completed Baha Mar Resort, as well as more activity in the construction sector. There were a number of small-to-large scale foreign investment and domestically-financed projects, including tourism-related initiatives underway. Visitor arrivals (both air and sea) up to the end of September amounted to $4.9 million (mn), 8.5% more than the $4.5 mn recorded in the corresponding period in 2017. It is estimated that performance for the final quarter was also positive.

In 2018, inflation rose and unemployment fell. Consumer prices rose by 2.4%, compared with 1.8% in 2017. This was driven by higher costs of housing, water, gas, electricity and other fuels. The unemployment rate decreased from 10.1% in 2017 to 9.2% (see Chart 2). However, unemployment among youths remained elevated at 24.1% as at May 2018.

The fiscal performance of GOCB improved significantly in 2018, in line with the commitments made in its 2017 budget communication. As a percentage of GDP, the primary deficit narrowed from 3.5% to an estimated 0.3% (see Chart 3). The overall
deficit improved from 5.8% of GDP to an estimated 2.7%. In addition, GOCB enacted Fiscal Responsibility Legislation (FRL), which will support efforts to safeguard fiscal sustainability and reduce public debt. GOCB also plans to establish a disaster relief fund to enhance fiscal preparedness and risk management against natural disasters. In the Budget for Fiscal Year 2019, GOCB outlined its intention to pursue further fiscal consolidation, with a target deficit of 1.8% of GDP. The decline in the fiscal deficit slowed the growth of debt. CG debt is estimated to have increased only marginally from 57.2% in 2017, to 57.4% in 2018.

Private sector credit continued to decline, while loan quality improved in 2018. As at the end of September 2018, private sector credit was $5.9 mn, which represents a 1.6% decline relative to December 2017. As was the case in 2017, personal loans constituted the largest share of credit, followed by government and the construction sector. Profitability improved marginally, owing to a fall in operating costs.

The current account deficit decreased in 2018, contributing to the maintenance of adequate international reserves (see Chart 4). External balances improved slightly.

The financial system remained stable, sound, and well-capitalised in 2018. As at June, the average capital to risk-weighted assets ratio across domestic institutions was 34.0%, which is above the regulatory target ratio of 17.0%. Non-performing loans (NPLs), as a percentage of total loans, declined from 12.3% in December 2017, to 8.5% as at September 2018, a continuation of the steady improvement over the last few years. However, commercial banks slightly increased their total provisions from 6.8% of total loans in December 2017, to 6.9% as at September 2018. As a result, the ratio of provisions to NPLs rose from 74.6%, to 81.0% over the same period.

The current account deficit declined from 16.4% of GDP in December 2017, to 15.2% in September 2018. The decline largely reflected an improvement in the services trade balance. The financial account surplus decreased significantly to $767.2 mn in September 2018. Gross international reserves fell slightly to 3.3 months of import coverage.
OUTLOOK

The medium-term outlook for The Bahamas is positive, albeit with a number of risks. Continued growth is envisaged, with 2.0% projected in 2019 and over the medium term. This growth will be largely based on tourism industry performance, emanating from increased air tourist arrivals and from expanded room capacity. Growth will also be driven by increased construction activities, as well as higher private investment and consumption.

GOCB recently enacted the FRL, which should lend important support to fiscal consolidation. The Caribbean Development Bank (CDB) estimates that the primary and overall balances will improve to 0.5% and -2.0%, respectively, in 2019. In addition, CG debt should decline marginally to 57.0% of GDP.
DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision. The 2018 data are CDB estimates.

<table>
<thead>
<tr>
<th>Selected Indicators</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth (%)</td>
<td>0.0</td>
<td>-0.4</td>
<td>-0.1</td>
<td>1.0</td>
<td>-1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Average Inflation (%)</td>
<td>1.0</td>
<td>0.2</td>
<td>2.0</td>
<td>0.8</td>
<td>1.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>15.8</td>
<td>13.8</td>
<td>12</td>
<td>12.7</td>
<td>10.1</td>
<td>9.2</td>
</tr>
<tr>
<td>Primary Balance (% of GDP)</td>
<td>-4.1</td>
<td>-2.5</td>
<td>-1.8</td>
<td>-0.3</td>
<td>-3.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>Public Sector Debt (% of GDP)</td>
<td>47.8</td>
<td>48.0</td>
<td>51.1</td>
<td>53</td>
<td>57.2</td>
<td>57.4</td>
</tr>
</tbody>
</table>

Sources: IMF, GOCB, CDB.