CARIBBEAN DEVELOPMENT BANK

COUNTRY ECONOMIC REVIEW 2018

BAHAMAS

OVERVIEW

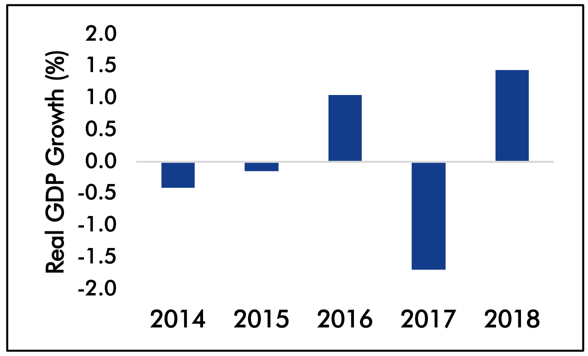
The Bahamas economy grew by 2.3% in 2018. The main drivers of the recovery were higher growth in the United States (US), increased room capacity in the tourism industry, and increased construction activity. Consequently, there was a slight decrease in the unemployment rate. Inflation rose in line with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

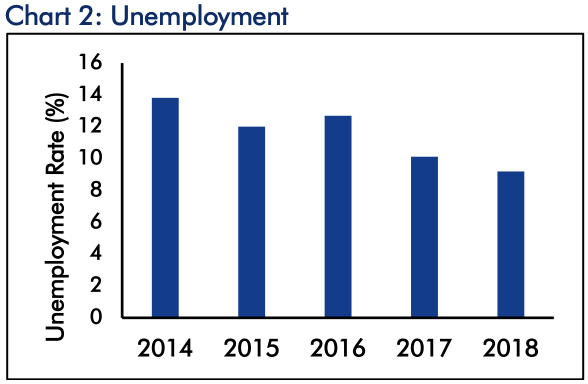
Chart 1: Real GDP Growth



Source: GOCB, CDB estimates.

In 2018, inflation rose and unemployment fell. Consumer prices rose by 2.4%, compared with1.8% 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.

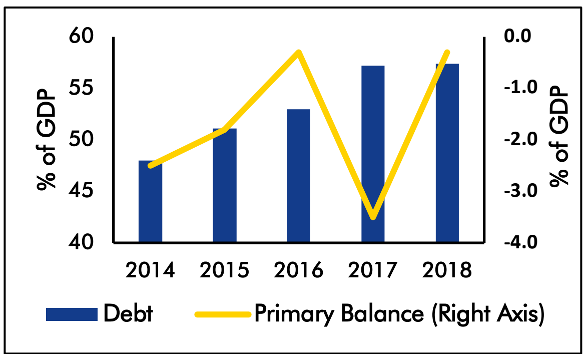
Chart 2: Unemployment



Source: GOCB, the International Monetary Fund (IMF).

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.

Chart 3: Fiscal and Debt Performance



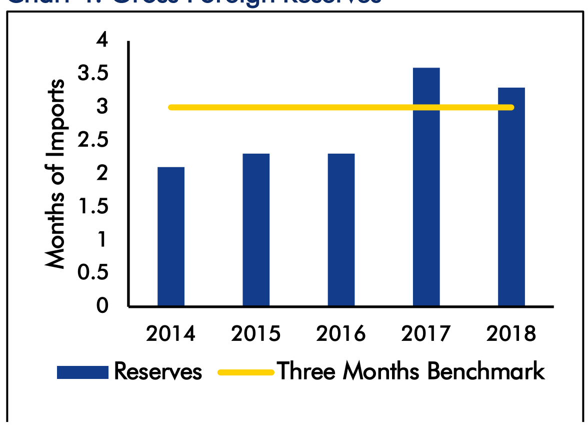
Source: IMF, GOCB.

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.

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.

Chart 4: Gross Foreign Reserves



Source: IMF.

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.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	0.0	-0.4	-0.1	1.0	-1.7	2.3
Average Inflation (%)	1.0	0.2	2.0	0.8	1.8	2.4
Unemployment (%)	15.8	13.8	12	12.7	10.1	9.2
Primary Balance (% of GDP)	-4.1	-2.5	-1.8	-0.3	-3.5	-0.3
Public Sector Debt (% of GDP)	47.8	48.0	51.1	53	57.2	57.4

Sources: IMF, GOCB, CDB.