CARIBBEAN DEVELOPMENT BANK

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COUNTRY ECONOMIC REVIEW 2019

THE BAHAMAS

OVERVIEW

Economic activity in the Commonwealth of the Bahamas decelerated to 0.9% in 2019. Growth in real gross domestic product (GDP), originally projected to strengthen, was adversely affected by the passage of Hurricane Dorian in September 2019. However, growth was sustained by increased activity in the tourism industry, with total visitor arrivals surpassing that of 2018. The destruction caused to Abaco and Grand Bahama is expected to have resulted in a rise in the unemployment rate in 2019. Inflation ticked up slightly on a period average basis.

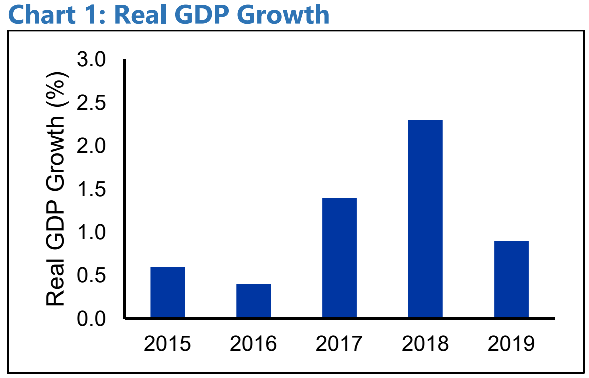
Estimates of fiscal performance of the Government point to a deterioration in fiscal outcomes. Pre-Dorian fiscal balances were trending in line with the recently established Fiscal Responsibility Law. However, in the aftermath of the disaster, fiscal outturns were compromised and direct charges to Government rose. Notwithstanding, external balances improved due partly to higher tourism receipts and capital inflows. The financial sector remained profitable and well capitalised, but growth in private sector credit slowed.

KEY DEVELOPMENTS IN 2019

The passage of Hurricane Dorian dampened output growth, particularly in the last quarter of the year. The economy grew by an estimated 0.9%, half of the outcome that was previously expected (see Chart 1). Economic performance was supported mainly by developments in the tourism sector, led by the highest-ever recorded visitor arrivals across all areas. Official data provided by the Ministry of Tourism revealed that total arrivals for the year rose by 9.1% to 7.2 million (mn), relative to the 6.6 mn in 2018. In particular, stopover arrivals totalled 1.8 mn (of which 1.5 mn were from the United States of America), a gain of 12.5% over the 2018 outturn, while the number of cruise passengers rose by 5.9% to 5.4 mn. Robust pre-hurricane performance and increased airlift from North America accounted for the surge in tourist arrivals in 2019.

Foreign investment projects of varying sizes and post-hurricane rebuilding activity underpinned positive contributions from the construction sector.

Chart 1: Real GDP Growth

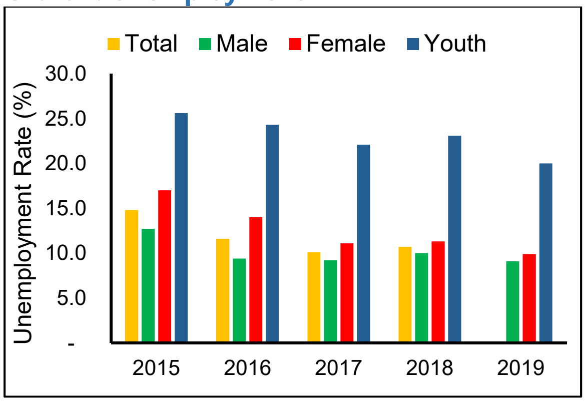


Source: Government of the Commonwealth of The Bahamas (GOCB).

Inflation is estimated to have ticked up. Based on preliminary data to October, retail prices rose by 2.7% year-on-year, compared with a 2.3% upturn registered for the comparable period in 2018. Higher relative prices were influenced by the rise in the value-added tax rate and the increase in global oil prices.

Preliminary results from the May 2019 Labour Force Survey indicate a reduction in unemployment to 9.5% (see Chart 2). However, it is anticipated that the unemployment rate post-Hurricane Dorian would likely rise, given the impact of the disaster on economic activity in Abaco and Grand Bahama.

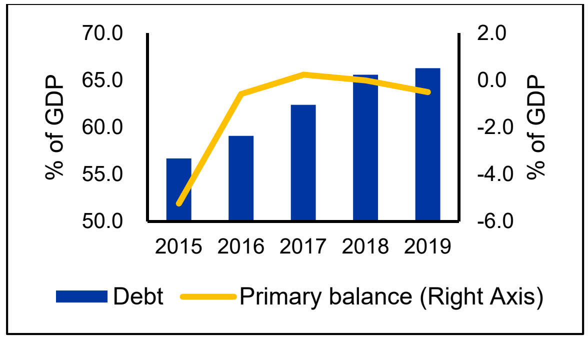
Chart 2: Unemployment



Source: Department of Statistics

Estimates of full year fiscal outturn suggest a deterioration in fiscal balances and a rise in direct charges to Government. A combination of higher total spending to support post-disaster recovery efforts, and a reduction in revenue, particularly during the October-December quarter, led to a weakening of budget balances. From a balanced position in 2018, the Government recorded a primary deficit of 0.5% of GDP in 2019 (see Chart 3), while the overall deficit widened to 3.1% of GDP from 2.6% the prior year. Consequently, Central Government debt is estimated to have risen to 60.7% of GDP by end-2019 up from 60.3% in 2018, and the national debt to 66.3% from 65.6%.

Chart 3: Fiscal and Debt Performance



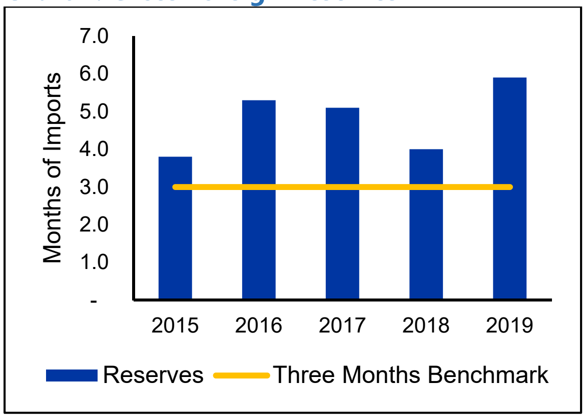
Source: International Monetary Fund (IMF), GOCB.

The financial system remained stable, liquid, and well capitalised. During the month of December, excess liquid assets – a broad measure of liquidity – grew by B$146.5 mn to B$1,965.2 mn, a reversal from a seasonal decrease of B$122.3 mn in the comparable period in 2018. Data as at end-September shows that the ratio of capital to risk-weighted assets across domestic institutions was 31.7%, well above the regulatory minimum of 17.0%.

Private sector credit grew and credit quality improved. On a yearly basis, growth in total Bahamian dollar credit tapered to B$8.9 mn from B$43.6 mn in 2018, with private sector credit rising by B$8.3 mn, in contrast to the B$104.8 mn decline in 2018. Meanwhile, foreign currency credit more than doubled to B$8.8 mn. Once again, personal loans dominated private sector credit. Credit quality also improved on an annual basis, although some short-term deterioration was observed. As at December 2019, non-performing loans were down to 8.0% of total private sector loans from 9.1% at the end of 2018. Consequently, a contraction in provisions for bad debts contributed to a rise in bank overall profitability.

The current account deficit narrowed, and international reserves rose (see Chart 4). Provisional estimates for the third quarter indicate a marked reduction in the current account deficit to B$116.7 mn from B$451.7 mn in the same 2018 period. The fall largely reflected a narrowing of the merchandise trade deficit, while the services surplus. The capital and financial account surplus expanded to B$63.0 mn from B$1.7 mn. At end-December 2019, the stock of external reserves was equivalent to an estimated 5.9 months of total merchandise imports.

Chart 4: Gross Foreign Reserves



Source: Central Bank of The Bahamas.

OUTLOOK

The outlook for The Bahamas has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies, including the country's main trading partners. In early 2020 the tourism sector has seen mass cancellations. Post-hurricane reconstruction activity has slowed, and government finances have come under increasing pressure.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

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

	2015	2016	2017	2018	2019[e]
Real GDP Growth (%)	0.6	0.4	0.1	1.6	0.9
Average Inflation (%)	(0.9)	0.7	1.2	0.3	0.3
Unemployment (%)	14.8	11.6	10.1	10.7	15.8
Primary Balance (% of GDP)	(5.2)	(0.6)	0.2	0.0	0.5
Public Sector Debt (% of GDP)	56.7	59.1	62.4	65.6	66.3

Sources: IMF, GOCB, CDB.

Notes: e – estimate (as at January 31, 2020).

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