COUNTRY ECONOMIC REVIEW 2017

THE BAHAMAS

Dollars ($) throughout refer to Bahamian dollars (BSD) unless otherwise stated
USD1.00 = BSD1.00

OVERVIEW

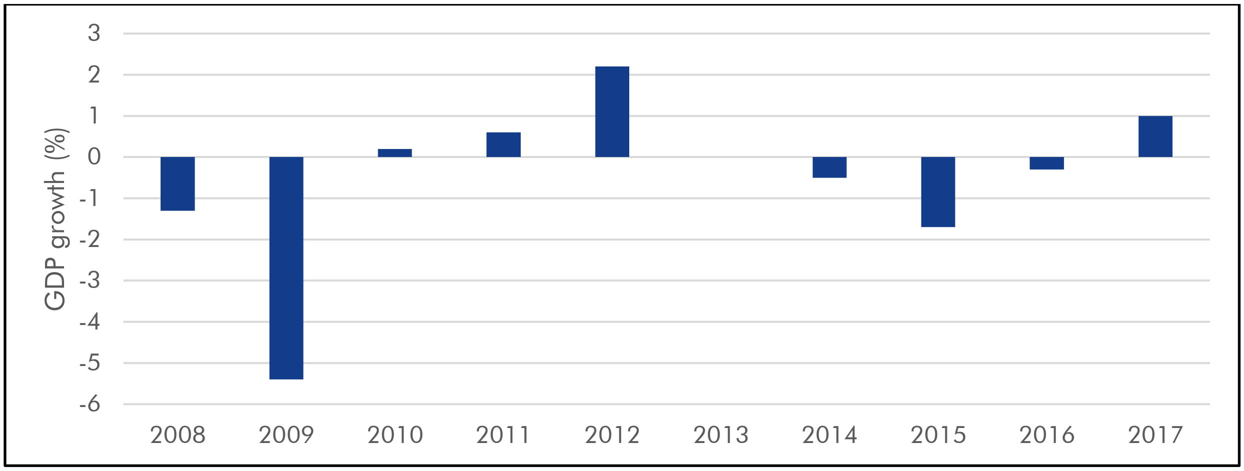
The Bahamian economy grew by an estimated 1% in 2017. This continues a period of negative or low growth, which started in 2012, and which has also included consecutive declines in the economy from 2014 to 2016. Growth in 2017 was largely driven by the impact of increased growth in the United States of America (USA), the opening of Baha Mar in April, and related construction sector activities. Notwithstanding, economic activity was tempered by the passage of Hurricane Irma. The unemployment rate decreased from 12.2% in 2016 to 10% in 2017, in line with the increased economic activity. Correspondingly, inflation increased to 2% in 2017. The fiscal performance of the Government of The Bahamas (GOB) deteriorated in 2017. The primary balance (as a percentage of gross domestic product [GDP]) worsened from -0.4% to an estimated -2.6% in 2017. The overall balance declined from -3.5% to an estimated -5.7% in 2017. Correspondingly, central government (CG) debt increased by 4.7 percentage points to 72.7% of GDP. External balances also worsened in 2017. The current account deficit increased by 4.9 percentage points to 17.8% of GDP. International reserves declined to an estimated 2.4 months of import coverage in 2017, which is below the three-month benchmark. The financial sector remained profitable and well capitalised. However, private-sector credit declined relative to 2016. In addition, non-performing loans (NPLs) declined sharply to 9.5% as at September 2017.

1. REAL SECTOR

1.01 The Bahamian economy grew by an estimated 1% in 2017. This continued a period of negative or low growth since 2012, which also included consecutive declines in the economy from 2014 to 2016. Growth in 2017 was largely driven by the impact of increased growth in the USA, the opening of Baha Mar in April, and related construction sector activities. The Bahamian economy is largely driven by tourism. The World Travel and Tourism Council estimated that travel and tourism activities by residents and non-residents within the country, directly contributed 19.8% to GDP, with an indirectly contribution of 44.8% in 2017. Tourism activity in The Bahamas is highly correlated with economic growth in the USA, which is the main source market. Another contributor to growing tourism activity was the opening of Baha Mar in April 2017, which added 2,400 new rooms to the accommodation stock.

1.02 The estimated growth in 2017 was also driven by activity in the construction sector, which benefited from a number of foreign and domestically financed projects, including tourism-related initiatives and post-hurricane recovery efforts. Visitor arrivals (both air and sea) for the year to date were 6.1 million (mn), however, this represents a slight 2.1% decline relative to the 6.2 mn recorded in 2016.

FIGURE 1: REAL GDP GROWTH 2008-2017

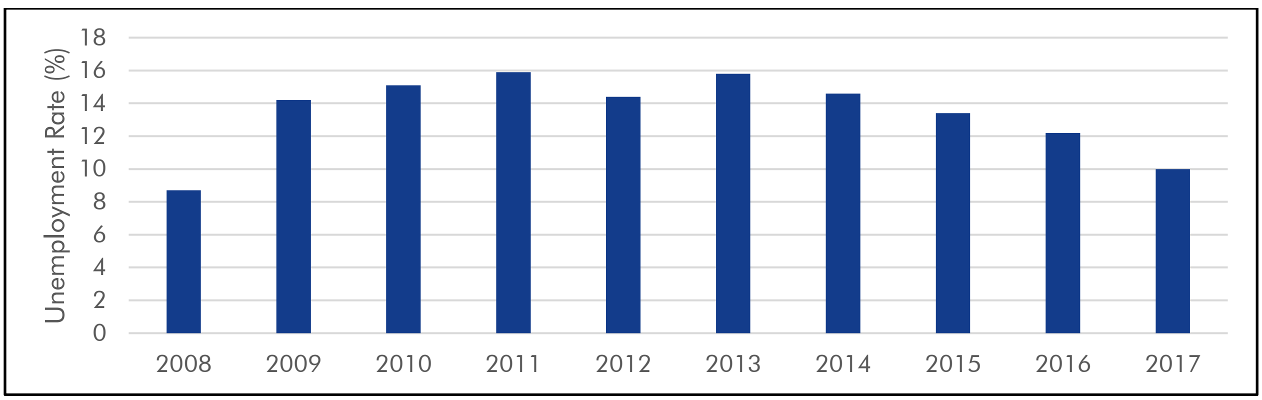


Source: The International Monetary Fund (IMF).

Social Sector

1.03 Consumer prices rose by 1.8% in 2017. This is contrary to the reduction that occurred in 2016. The rate of inflation in 2017 was driven by price increases in the categories of housing, water, gas, electricity and other fuels, as well as transport and education. In line with the rise in economic activity in 2017, the unemployment rate decreased from 12.2% in 2016 to an estimated 10% in 2017. Youth unemployment, however, remained elevated at 25.1% at end of 2016.

FIGURE 2: UNEMPLOYMENT RATE



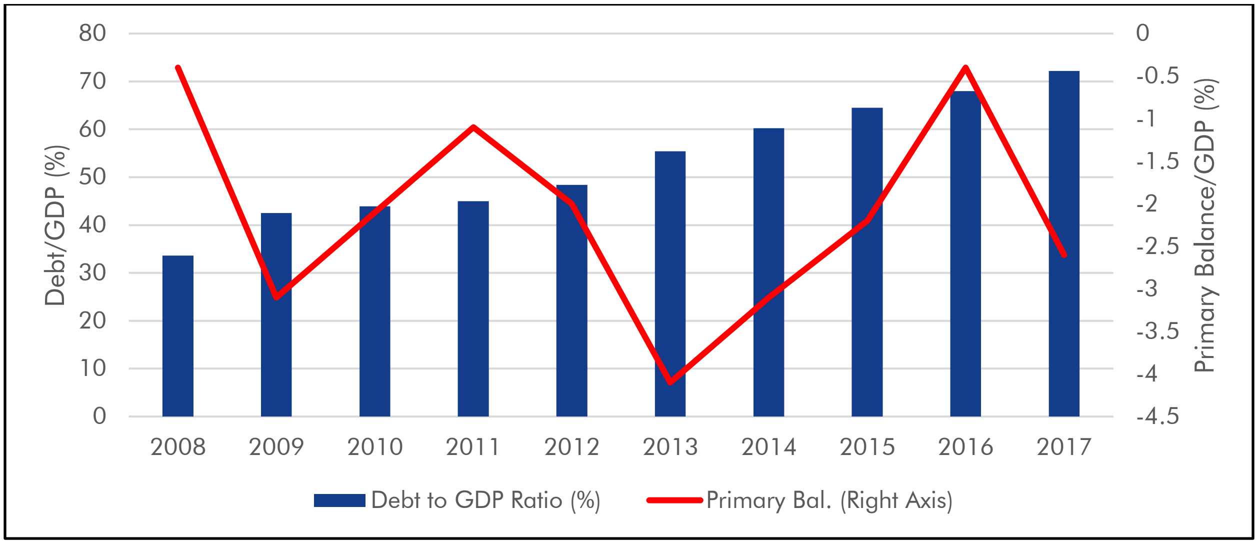
Source: IMF.

2. CENTRAL GOVERNMENT OPERATIONS AND DEBT

2.01 The fiscal performance of GOB continued to deteriorate in 2017, following slippages during 2016. The fiscal deficit is estimated to have declined to 5.7% of GDP as at June 2017. This was primarily driven by continued post-hurricane spending, a higher wage bill and increased spending during the run-up to the general election. As a result, expenditure, as a percentage of GDP, is estimated to have increased by 2.2 percentage points. In addition there was a decline in revenue and grants, such. The primary balance declined from -0.4 % of GDP in 2016 to an estimated -2.6 % in 2017, as shown in Figure 3. GOB, however, has outlined a new fiscal consolidation plan that projects a reduction in the deficit to 3.5% of GDP in FY2018, and targets further reduction to 2.3% and 1.1% of GDP in FY2019 and FY2020, respectively.

2.02 In 2017, CG debt is estimated to have increased by 4.7 percentage points to 72.7% of GDP. The GOB has articulated an intention to reverse the upward trend in the debt-to-GDP ratio by undertaking a number of measures, including implementing a hiring freeze, making budget cuts, performing an in-depth expenditure review, and enacting new legislation to improve fiscal discipline.

FIGURE 3: DEBT/GDP AND PRIMARY BALANCE

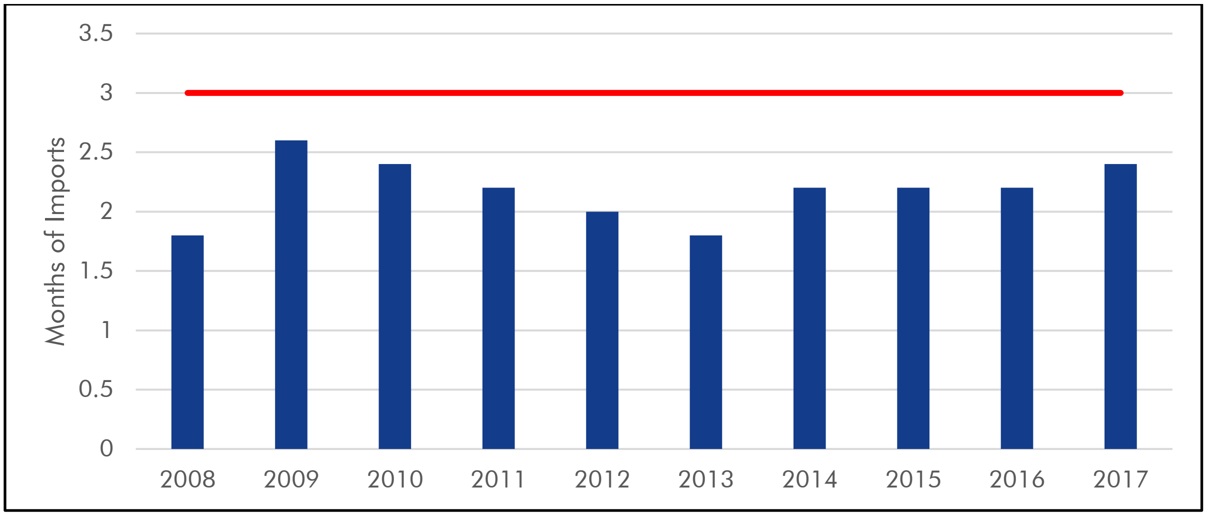


Source: IMF.

3. EXTERNAL SECTOR

3.01 External balances deteriorated in 2017. The current account deficit increased from $1,158.3 mn at the end of 2016 to $1,903.9 mn at the end of 2017. This deterioration reflected a decline in the services trade surplus, as well as a worsening in the goods trade deficit, which is estimated to have moved to to $1,806.2 mn in the first nine months of 2017, compared to $1,589 mn in the corresponding period in 2016. This was further augmented by the decrease in the services trade surplus of 17.9% to 848.9 mn, for the first three quarters of 2017, relative to a surplus of $1,033.1 mn in the corresponding period in 2016. Analogous to the current account balance reduction, the capital account surplus, based on data up to September 2017, increased significantly to $765.7 mn relative to $16.9 mn in the corresponding period in 2016.

FIGURE 4: GROSS INTERNATIONAL RESERVES



Source: IMF.

4. FINANCIAL SECTOR

4.01 The financial system remained stable, profitable and well-capitalised in 2017. However, private-sector credit continued to decline and NPLs remained in double-digit territory. In addition, the August 2016 central bank survey on correspondent banking relationships (CBRs) suggested that 26% of banks lost at least one CBR. However, this did not result in any major disruptions to the financial system. The capital-asset ratio of commercial banks was 32.5% at the end of September 2017, way above the regulatory target and trigger ratios of 17% and 14%, respectively. Commercial banks also reduced their total provisioning to $424.4 mn, which was primarily facilitated by a sale of assets and a reduction in loan delinquencies. As a result, the ratio of provisions to both arrears and NPLs decreased to 71.1% and 46.5%, respectively.

4.02 As at the end of 2017, private-sector credit was $24.3 bn, which represents a 2.3% decline relative to 2016. While loan quality has improved in 2017, the level of NPLs still remains elevated. NPLs as a share of total loans declined from 11.4% at the end of 2016 to 9.2% at the end of 2017. This was driven primarily by a significant sale of assets, and by bank restructuring. At the same time, profitability marginally decreased, owing to a reduction in interest income and a rise in operating costs.

5. OUTLOOK

5.01 The medium-term outlook for The Bahamas is positive, albeit with a number of risks. A continuation of positive growth is expected, with 2.0% projected for 2018. An average of roughly 2.0% growth is expected over the medium term. This will be largely driven by the tourism sector, owing to increases in air arrivals, improved growth in the USA and additional room capacity from the Baha Mar resort; and continued post-hurricane rebuilding activities, as well as other construction sector activities. Growth should also be enhanced by increases in private investment and consumption. Inflation is expected to average 2.0% in 2018 and in the medium term.

5.02 The debt level in The Bahamas is currently unsustainable. The Government has continued to increase its debt at a rate that exceeds the growth of the economy, causing debt payments to absorb an increasingly higher proportion of GDP. GOB's fiscal plan to stem this tide is very ambitious. While a higher-than-anticipated growth outcome may help GOB to meet its fiscal projections for the medium term, a slightly slower pace of fiscal consolidation is projected in this outlook. In 2018 the primary and overall balances are projected to improve to -0.6% and -3.7% respectively. This will not be enough to reduce the central government's debt-to-GDP ratio, which is projected to increase to 73.7% of GDP in 2018.

TABLE 1: SELECTED INDICATORS

	2013	2014	2015	2016	2017
Real GDP Growth (%)	0.0	-0.5	-1.7	-0.3	1.0
Average Inflation (%)	0.4	1.2	1.9	0.8	1.8
Unemployment (%)	15.8	14.6	13.4	12.2	10.0
Primary Balance (% of GDP)	-4.1	-3.1	-2.2	-0.4	-2.6
Public Sector Debt (% of GDP)	55.4	60.2	64.5	68.0	72.7

Source: IMF/GOB