

THE BAHAMAS

Key conditions and challenges

Table 1 **2020**

Population, million	0.4
GDP, current US\$ billion	10.8
GDP per capita, current US\$	27521.8
School enrollment, primary (% gross) ^a	81.4
Life expectancy at birth, years ^a	73.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

GDP is estimated to have contracted by 14.8 percent in 2020 due to the impact of the COVID-19 pandemic on tourism, the country's main economic activity and source of revenue. With over 50 percent of the labor force employed in this sector, unemployment is on the rise, particularly affecting the most vulnerable. Poverty is expected to rise well above 13 percent. The pandemic interrupted the reconstruction efforts following Hurricane Dorian and the structural fiscal reforms aimed to improve and diversify revenues and to strengthen financial stability and the business environment.

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP has risen steadily over the past 3 decades, with annual growth averaging 1.4 percent. Nonetheless, the country's economic position remains vulnerable due to its small size, lack of economic diversification and vulnerability to natural disasters. The Bahamas relies significantly on foreign investment, especially related to tourism. Tourism, together with tourism-driven construction and manufacturing, accounts for approximately 60 percent of GDP and, directly or indirectly, employs half of the country's workforce.

Economic growth in recent decades has not been distributed broadly among all segments of the population. According to the last Household Expenditure Survey collected in 2013, around 13 percent of the population lived below the national poverty line. Moreover, inequality was high, with a Gini index of 41.4. The bottom 40 percent of the population distribution only accounted for 16 percent of total consumption, while the top 10 percent accounted for 31 percent. While no official poverty indicators have been produced since 2013, the country has shown steady improvement in the Human Development Index (HDI), particularly in the education and life expectancy components.

Vulnerability to climate change and global health risk jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands. In addition to the severe impacts of Hurricane Dorian in 2019, the country faces an average annual loss from windstorms of US\$850 million—over 6 percent of GDP.

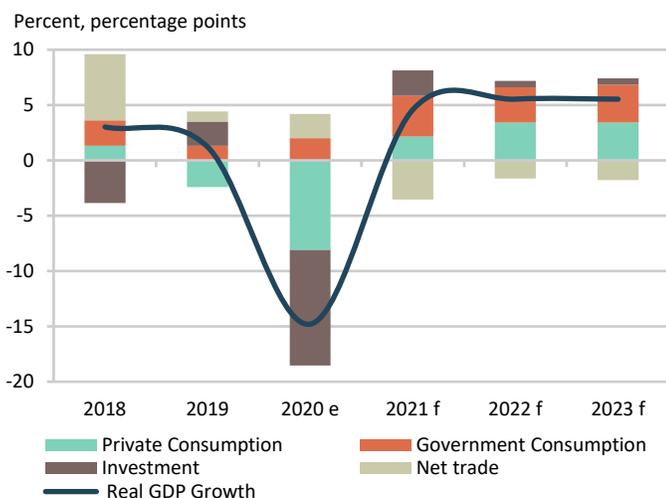
The job losses resulting from COVID-19 have been particularly felt by the vulnerable populations, such as low-income households, informal workers, and women. This will erase some of the progress in recent years in terms of human development and will increase poverty and inequality, underlining the need for the recovery efforts to support these groups decisively and allow a more diversified portfolio of income sources.

Recovery will depend on the roll out of vaccination in the country and in its main tourism-source markets—United States and Canada. New contagion waves and restrictive measures could further postpone economic recovery.

Recent developments

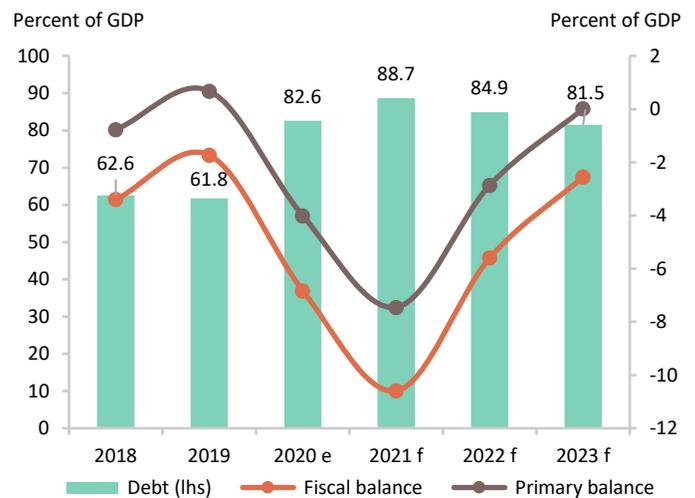
The Bahamas successfully kept COVID-19 cases to a minimum until July 1 when it reopened its borders to tourism. Daily new cases peaked at 123 on October 21, 2020. Cumulative cases increased from 104 to over 6,000 over that period. New cases have remained somewhat stable since, at an average daily rate of 10.

FIGURE 1 The Bahamas / Real GDP growth and contributions to real GDP growth



Sources: Government of The Bahamas; IMF and World Bank staff estimates.

FIGURE 2 The Bahamas / Fiscal balances and public debt



Sources: Government of The Bahamas; IMF and World Bank staff estimates.

GDP contraction for 2020 is estimated at 14.8 percent. The policy response, of almost 4 percent of GDP was directed towards health expenditures, including the expansion of infrastructure, employment support, and social assistance. VAT revenues almost halved. Preliminary data show that the fiscal deficit for the first quarter of FY20/21 amounted to B\$336.3 million compared to just B\$48.8 million in the previous fiscal year.

After the COVID-19 pandemic struck, tourist arrivals virtually halted. In January–October 2020 they dropped to 1.75 million, compared to 5.92 million in 2019. The contraction was felt harder during Q2 when the initial measures to contain the pandemic were imposed.

According to the Inter-American Development Bank’s rapid survey, the incidence of job losses has been more prevalent among the bottom of the distribution: around 80 of low-income households reported job losses compared to 35 percent of high-income households. In addition, female and informal workers have been particularly affected.

Around fifty percent of households in The Bahamas reported income below the minimum wage right after the pandemic hit, an increase from 16.1 percent in January

2020 (IADB, 2020). Additionally, only 2 in 5 households report having some savings to manage with the shock.

During the first three quarters of 2020, the current account deficit recorded US\$1.5 billion, compared to a US\$224.5 million surplus in the same period in 2019, reflecting the effects of the pandemic on tourism. The service balance was the most hit, as tourism receipts contracted by over 90 percent in the second quarter of 2020. The impact was partially offset by a 42 percent decrease in non-oil merchandise imports, reflecting a reduction in consumption. Meanwhile, central bank reserves stood at US\$2.1 billion, compared to US\$1.6 billion in September 2019, mainly on account of foreign currency inflows from borrowing by the government. Total public sector debt was estimated at 75.4 percent in September 2020, up from 56.5 in 2019.

Outlook

2021 GDP growth is projected at 2.0 percent, as tourist flows are expected to rebound by the end of Q3. With the relaxation of domestic containment measures and the resumption of travel, real GDP is

expected to grow 8.5 percent in 2022. Poverty rates are expected to gradually decline in line with recovering economic activity over the medium term. However, to avoid long term effects on social mobility and inequality, policies that foster an inclusive recovery and support the vulnerable groups, such as women, will be important.

The primary balance is expected to deteriorate to a deficit of 3.8 percent of GDP in FY2020/21 and 9.1 percent in FY2021/2022, due to lower revenues from tourism, trade, and domestic consumption, combined with government spending to contain the impact of coronavirus and post-Hurricane Dorian reconstruction efforts. In turn, the fiscal deficit is expected to reach 6.6 percent of GDP in FY2020/21 and 12.3 percent in FY2021/2022.

The current account balance is projected to reach a deficit of 21.5 percent of GDP in 2021 and then narrow to 14.8 percent in 2022. Tourism related FDI inflows are projected to halve in 2021 and external financing needs to peak at 23.7 percent of GDP. Meanwhile the expected deterioration of the fiscal accounts in FY2020/21 and FY2021/22 will translate into higher fiscal financing requirements of 10.7 percent of GDP and 17 percent of GDP, respectively.

TABLE 2 The Bahamas / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.0	1.2	-16.2	2.0	8.5	4.0
Real GDP growth, at constant factor prices	3.1	1.2	-16.2	2.0	8.5	4.0
Agriculture	-10.6	-11.9	-6.9	1.7	1.3	1.1
Industry	-8.5	4.6	-4.7	8.7	2.6	2.8
Services	5.3	0.8	-18.1	0.8	9.7	4.2
Inflation (Consumer Price Index)	2.3	2.5	1.8	2.1	2.4	2.2
Current Account Balance (% of GDP)	-12.1	0.7	-17.4	-21.5	-14.8	-11.1
Net Foreign Direct Investment (% of GDP)	3.8	1.9	2.0	2.3	2.5	2.8
Fiscal Balance (% of GDP)^a	-3.4	-1.7	-6.6	-12.3	-8.9	-4.6
Debt (% of GDP)^a	62.6	61.8	69.1	89.0	88.4	86.4
Primary Balance (% of GDP)^a	-0.8	0.7	-3.8	-9.1	-5.7	-1.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal balances are reported in fiscal years (July 1st–June 30th).