Economic Alert iQ

First Citizens Research & Analytics

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Regional
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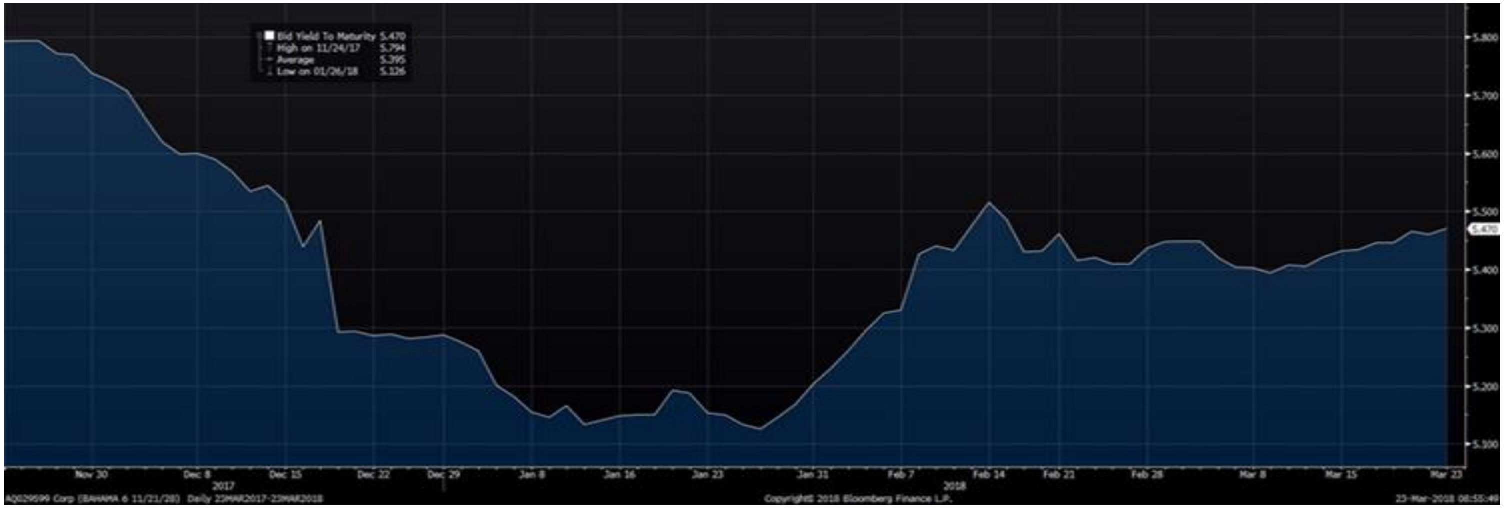
Economic Alert: Bahamas: IMF Staff Concluding Statement of the 2018 Article IV Mission

- On March 22, 2018, the IMF released its preliminary findings following its official staff visit to Bahamas.
- Real GDP is estimated to have increased by 1.3% in 2017, supported by the completion of Baha Mar, new foreign direct investment (FDI), and post-hurricane reconstruction activity.
- According to the IMF, Real GDP growth is projected to reach 2.5% in 2018 and 2.2% in 2019 mainly due to stronger global growth, particularly in the United States; the phased opening of Baha Mar; and a pickup in FDI. Medium-term growth is projected to remain at 1.5% reflecting significant structural impediments.
- Baha Mar has created close to 4,000 jobs so far, helping reduce the unemployment rate to 10.1% in November 2017, from 11.6% one year earlier.
- The national accounts have been substantially revised, mainly due to improved coverage, resulting in a 27% increase in the level of nominal GDP.
- After reaching 5.8% of GDP in FY2017, the central government fiscal deficit is expected to decline to the target of 2.7% of GDP set in the FY2018 budget.
- In August 2017, the new administration announced a 10% cut in discretionary spending, the nonrenewal of some temporary workers' contracts, and a temporary hiring freeze.
- The IMF indicated that the government successfully placed an external bond for US$750 million in November 2017.

Government of Bahamas Bond 6% due 2028



Source: Bloomberg

- The stock of nonperforming loans (NPLs) declined to 9.2% of total loans at end-2017, from 11.4% at end-2016 mainly due to a large sale of NPLs by the Bank of The Bahamas (BOB). Pressures on correspondent banking relationships (CBR) have not resulted in major disruptions so far.
- The current account deficit is estimated to have widened to 16.4% of GDP in 2017, from 7.7% of GDP in 2016, due mainly to a surge in imports related to the completion of Baha Mar.

Key Policy Messages by the IMF

- Decisive fiscal consolidation efforts are needed to put the public debt-to-GDP ratio on a firmly downward trajectory. Sustained large fiscal deficits brought central government debt to 57% of GDP in FY2017, up from 36.7% of GDP in FY2010.
- Fiscal consolidation needs to focus on reducing current expenditure. Efforts should focus on: 1) trimming the wage bill; 2) turning state-owned enterprises (SOE's) self-sufficient; and 3) reforming the unsustainable civil servants' pension system, by moving to a contributory regime in the near term and to a defined-contribution scheme in the medium term.
- Strengthening tax revenues is critical to protect social and infrastructure spending. Laudable efforts, beginning with the introduction of the VAT in 2015, helped lift tax revenues significantly. Continuing with these efforts, with the intent also to make the tax system more progressive, should help offset a reduction in revenues from import duties under an eventual WTO accession.

- Setting up a natural disasters savings fund should enhance fiscal and economic resilience.

Structural Policies

- Lifting growth in the medium term requires resolute implementation of structural reforms. Reform priorities include:
  - Advancing energy sector reforms. These reforms should aim at 1) upgrading infrastructure; 2) improving energy efficiency among users; and 3) exploiting the potential for cleaner energy sources.
  - Steadfast implementation of the credit bureau. Moving swiftly with the implementation of the credit bureau is critical as it will take time for the bureau to populate its database.
  - Streamlining administrative processes. Modernizing government registration/filing processes and establishing intra-agency information exchange systems should facilitate establishing a “one-stop shop” for businesses.
  - Expanding vocational and apprenticeship programs. Moving forward with the implementation of the National Apprenticeship Program would help increase the skill set of the young and reduce youth unemployment.
- The planned amendments to the central bank law would bring it closer to international best practices and would strengthen the peg’s credibility.
- A more proactive approach to accelerate the resolution of NPLs should support the economic recovery.
- Strong compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and tax transparency standards should help mitigate the withdrawal of CBR and safeguard the integrity of the financial sector.

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