

IMF Executive Board Concludes 2012 Article IV Consultation with The Bahamas

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On February 4, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Bahamas.¹

Background

Economic activity grew by about 1½ percent of Gross Domestic Product (GDP) in 2011, up from near-zero in 2010, on improved tourism activity and ongoing investment projects, including the large US\$3.5 billion private Baha Mar project. However, unemployment remained high at 16 percent, and inflation more than doubled to 3 percent, mainly due to higher world oil prices. The fiscal deficit in FY2011/12 (July to June) is estimated to have increased to about 6 percent of GDP, up from 4½ percent in the previous fiscal year.

Despite higher exports in the wake of the gradual global recovery, the external current account deficit widened in 2011. This is due to higher imports, which reflect a surge in foreign direct investment (FDI)-related imports and high world oil prices. At the same time, large FDI and other private capital inflows helped support gross international reserves, which remained at a modest level of 2.3 months of imports at end-2011. However, measured in terms of non-FDI imports, reserves were much higher at about 4.6 months cover. The real effective exchange rate has remained broadly stable over the past four years.

Looking forward, the outlook foresees stronger growth and a weaker debt position. Real GDP growth of 2½ percent in 2012 is projected to exceed trend growth (2 percent), driven by

strong tourism and construction activity. Growth could increase further over the medium term if new projects and trade initiatives materialize. Inflation is likely to stay low—projected at over 2 percent (year on year) at end-2012—but reducing the high level of unemployment will remain a challenge. Pressures are projected to continue from a large external current account deficit and a rising government fiscal deficit. The risks to the outlook, however, are tilted to the downside, given uncertainty about prospects for the U.S. recovery and global food and fuel prices, and, on the domestic front, about the pace of fiscal consolidation and implementation of structural reforms.

Executive Board Assessment

Executive Directors welcomed the gradual recovery of The Bahamas economy, supported by a rebound in tourism and ongoing investment projects. However, unemployment remains high and the economy faces downside risks from an uncertain external environment, while fiscal and external imbalances have widened. Directors agreed that the main challenge is to strengthen the fiscal and external positions, rebuild macroeconomic buffers, and implement policies to enhance medium-term growth.

Directors emphasized that the key policy priority is to strengthen public finances. They acknowledged the need to balance fiscal consolidation with efforts to support growth and employment. At the same time, they noted that delayed fiscal consolidation could pose risks to long-term debt and external sustainability. Directors, therefore, encouraged the authorities to embark on a credible medium-term strategy to strengthen revenue mobilization and improve tax administration, rationalize expenditure, and place public enterprises on a sound financial footing.

Directors agreed that the fixed exchange rate regime continues to serve the country well. They noted the staff's assessment that the level of the exchange rate remains broadly in line with medium-term macroeconomic fundamentals. Nonetheless, there is room to improve non-price competitiveness and build up buffers. In this regard, Directors welcomed the authorities' commitment to boost foreign exchange reserves and to strengthen competitiveness and the external position.

Directors welcomed the authorities' growth strategy, and looked forward to sustained implementation. They emphasized the importance of measures to improve the business environment, develop infrastructure, enhance human capital, and promote economic diversification.

Directors welcomed the finding of the Financial Sector Stability Assessment that there are no immediate threats to financial stability. Stress tests indicate that the onshore banks can withstand severe shocks to solvency and liquidity. Directors encouraged the authorities to strengthen the monitoring of credit risk in light of high nonperforming loan ratios. They noted that financial system oversight has strengthened, and

encouraged the authorities to compile and disseminate more information regarding the offshore financial sector. They looked forward to continued improvements in the crisis management and financial safety net framework.

The Bahamas: Selected Economic Indicators

	2010	2011	Est. 2012	Proj. 2013	2014
(Annual percentage changes, unless otherwise indicated)					
Real sector 1/					
Real GDP	0.2	1.6	2.5	2.7	2.5
Nominal GDP	0.7	0.2	3.2	3.5	4.4
Consumer price index (annual average)	1.3	3.2	2.3	2.0	2.0
Consumer price index (end of period)	1.5	3.2	2.3	2.0	2.0
Unemployment rate (in percent) 2/	...	15.9	14.7
Financial sector					
Credit to the nonfinancial public sector	37.5	4.0	9.5	9.1	8.3
Credit to the private sector	-0.4	1.1	0.9	2.1	3.5
Liabilities to the private sector	2.6	1.9	5.0	6.3	7.2
External sector					
Exports of goods and services	4.4	7.6	6.6	5.8	4.0
<i>Of which:</i> Travel receipts (gross)	6.6	5.0	8.1	7.2	5.0
Imports of goods and services	1.1	12.9	7.3	4.6	2.5
(In percent of GDP, unless otherwise indicated)					
Central government 3/					
Revenue and grants	16.8	18.5	18.4	18.5	18.7
Current expenditure	18.0	19.4	19.2	20.1	20.0
Capital expenditure and net lending	3.2	3.6	5.0	4.3	4.0
Primary balance	-2.1	-1.9	-3.4	-3.6	-2.9
Overall balance	-4.4	-4.5	-5.9	-5.9	-5.3
Central government debt	43.9	45.7	49.3	53.6	56.9

External sector 4/

Current account balance	-10.5	-14.0	-14.1	-13.6	-12.7
Change in net international reserves					
(increase -)	-0.6	-0.3	0.7	-0.3	-0.3
External public debt (end of period)	11.8	12.9	12.8	14.1	14.5

Memorandum items: 4/

Gross international reserves					
(end of period; millions of U.S. dollars)	860	885	829	855	884.8
In months of next year's G&S imports	2.4	2.3	2.1	2.1	2.1
In months of next year's non-FDI related G&S imports	4.5	4.5	4.0	4.0	3.9
In percent of reserve money	104	100	90	87	84
External debt-service ratio (in percent of exports of G&S)	11.2	8.1	7.5	5.9	4.8
GDP (in millions of Bahamian dollars)	7,771	7,788	8,040	8,318	8,682

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; CIA World Factbook and IMF staff projections.

1/ Revised national accounts data.

2/ The 2011 figure is based on November survey and the 2012 figure is based on May survey.

3/ The data refer to fiscal years ending on June 30.

4/ The data refer to calendar years.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

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