

# Local Economic Update

## FY 2019

### Economic Highlights:

- The Government of The Bahamas closed out Fiscal Year (FY) 2018/19 with mixed results. Real gross domestic product (GDP), while positive, has been subdued, averaging a mere 0.07% over the past six years (2013 – 2018).
- The extended trend of systemic lackluster economic growth has had a negative effect on the level of employment, with the national unemployment rate averaging 13.09% over the past six years (2013 -2018).
- Hurricane Dorian is sure to have a negative financial impact, which is estimated to cost the country in excess of \$3.40 billion, representing 27.34% of 2018 nominal GDP. Almost immediately following Hurricane Dorian the International Monetary Fund (IMF) announced a reduction in The Bahamas' 2019 growth rate by 50% to 0.90%, from the 1.80% forecasted at the beginning of 2019. The fallout is expected to continue into 2020 with the Bahamian economy projected to shrink by 0.60% compared to the initial forecast of 1.70% growth.
- The Bahamas ranked 118 out of 190 countries in the 2019 Ease of Doing Business report. This ranking has improved slightly from 121 in 2017 and 119 in 2018. Areas where there is room for much improvement include; starting a business (ranked 105), registering property (ranked 169), getting credit (ranked 144) and protecting minority interest (ranked 132). With the right policies, successful businesses can contribute to higher economic growth and thus create more jobs to expand the government's tax base, without increasing the tax burden on the citizenry.
- At the end of FY 2007/08, government revenues, which stood at 17.27% of GDP fell to 16.81% of GDP in FY 2017/18, notwithstanding the introduction of Value Added Tax (VAT) at 7.50% in January 2015.
- The increase and volatility in the deficit over the past several years have resulted in a record accumulation of additional debt. As at September 30, 2019 the national debt stood at \$8.317 billion or 66.95% of GDP and direct Government debt was recorded at \$7.585 billion or 63.25% of GDP. These debt levels are a stark increase from pre-recession levels of 38.96% and 33.55% of GDP respectively, with no signs of declining. Net borrowing under the Minnis administration from June 2017 to September 2019 totaled \$1.045 billion.
- The Bahamas has had a healthy stream of foreign direct investments, peaking in 2010 to \$871.90 million or 11.02% of GDP. A relatively large portion of this amount, 67.0%, was allocated to equity investments in companies and 33.0% to land purchases.

# CFAL Local Economic Update FY 2019

## Economic Growth and Unemployment

The Government of The Bahamas closed out Fiscal Year (FY) 2018/19 with mixed results. Real gross domestic product (GDP), while positive, has been subdued, averaging a mere 0.07% over the past six years (2013 – 2018). The largest drag on economic growth during this period were outputs from agriculture, forestry and fishing which contracted by 14.0% to \$98.1 million, manufacturing, down by 16.0% to \$299.80 million and construction, which slowed 16.0% to \$579.30 million. The main positive contributors to real GDP came from the accommodations and food services industries and wholesale and retail trade sectors, which expanded by 12.49% to \$1.05 billion and by 7.87% to \$1.45 billion respectively. Output from exports of goods and services, which stood at \$4.09 billion at the end of 2018 softened, with more than half of this amount allocated to the export of tourism services and the balance to the export of financial services and goods. During this time of economic stagnation, investments are essential for job creation and economic expansion. Unfortunately, over the last six years, such investments have contracted by 16.73% to \$2.71 billion compared to \$3.25 billion at the end of 2012. Making the relatively flat GDP growth during this period more a function of household consumption and less reliant on gross fixed capital formation and government consumption.

This extended trend of systemic lackluster economic growth has also had a negative effect on the level of employment, with the national unemployment rate averaging 13.09% over the past six years (2013 -2018). Based on the most recent statistics, the country's jobless rate fell by 632 or 2.73% to 22,558 between May 2018 and May 2019 resulting in a decrease in the unemployment rate to 9.50%. During this period, the labor force grew by 6,003 persons or 2.59% while the number of employed simultaneously climbed by 6,632 to 214,890 workers. The Department of Statistics reported that the reduction in the year over year unemployment rate was due to employment gains in the hotel and restaurant sectors and the community, social and personal services sectors, which include the civil service, police service and domestic services. While the decline in the unemployment rate is notable, there is little cause for celebration as the jobs created were of relatively low-income quality. With the average wage income at or slightly above the current minimum wage rate of \$210.00/week for the private sector and \$220.00/week for the public sector, the decline in unemployment is not providing the catalyst for faster economic growth. The Bahamian economy needs to consistently expand in order to provide adequate paying jobs to the thousands of persons entering the job market each year.

*“With the average wage income at or slightly above the current minimum wage rate of \$210.00/ week for the private sector and \$220.00/ week for the public sector, the decline in unemployment is not providing the catalyst for faster economic growth.”*

The country's challenged economic climate over the past few years was exacerbated by the devastation of Hurricane Dorian, which made landfall on the Abaco Islands and Grand Bahama in early September 2019. Hurricane Dorian was the strongest storm on record in The Bahamas, with wind gusts in excess of 200 miles per hour, as well as severe sea surges and catastrophic flooding. The loss of life and infrastructural damage were extensive and is recorded as the most disastrous hurricane in Bahamian history. Hurricane Dorian is sure to have a negative financial impact, which is estimated to cost the country in excess of \$3.40 billion, representing 27.34% of 2018 nominal GDP. Almost immediately following Hurricane Dorian the International Monetary Fund (IMF) announced a reduction in The Bahamas' 2019 growth rate by 50% to 0.90%, from the 1.80% forecasted at the beginning of 2019. The fallout is expected to continue into 2020 with the Bahamian economy projected to shrink by 0.60% compared to the initial forecast of 1.70% growth.

## An Economic Strategy to Promote Growth

Hurricane Dorian and its aftermath has placed The Bahamas and its economy in uncharted territory, which will require a well-thought out, effective policy initiative, combined with a thorough economic growth strategy to move the country forward and possibly reverse the economic contraction forecast for 2020. In the first instance, considerable emphasis must be placed on establishing the right framework that will foster small businesses and entrepreneurial activities, improved government finances and the injection of foreign private capital.

### ***Small Business and Entrepreneurial Activities:***

Research done by Birch, 1979 found that small firms, rather than large firms, were net job generators. To support entrepreneurship in the Bahamas, as a means of helping to navigate the economy out of the economic challenges lingering since the 'great recession' of 2008-2009, government intervention is necessary. This can be achieved by the development of a progressive policy to increase the quality and quantity of Bahamian small businesses, which has the potential to put a dent in the country's structurally high unemployment rate. To be effective, the initiatives must be targeted and the focus on equipping entrepreneurs and small to medium sized businesses to better meet the challenges of the global environment and to benefit from both local and international opportunities. The main challenges faced by small businesses in the country include; lack of access to capital and the very important but not talked about issue of the lack of business acumen. If policy makers and the private sector, via the Chamber of Commerce, can unify to devise strategies that will identify and alleviate the bottlenecks that hinder the country's progress in entrepreneurial performance, this will go a long way towards positively helping the country's business climate. Investing in teaching small and medium enterprises how to improve and grow their businesses is crucial. Creating such an environment where business can innovate and thrive, will also help to reduce the country's

*“Hurricane Dorian and its aftermath has placed the Bahamas and its economy in uncharted territory, which will require a well-thought out, effective policy initiative, combined with a thorough economic growth strategy to move the country forward and possibly reverse the economic contraction forecast for 2020.”*

poverty level and improve living standards. While the government's efforts to tackle the challenging environment for small and medium sized businesses, with the establishment of the Small Business Development Centre (SBDC), is a step in the right direction, more must be done to consistently assess the program and to improve the country's ease of doing business ranking, particularly removing the barriers to starting a new business. The Bahamas ranked 118 out of 190 countries in the 2019 Ease of Doing Business report. This ranking has improved slightly from 121 in 2017 and 119 in 2018. Areas where there is room for much improvement include; starting a business (ranked 105), registering property (ranked 169), getting credit (ranked 144) and protecting minority interest (ranked 132). With the right policies, successful businesses can contribute to higher economic growth and thus create more jobs to expand the government's tax base, without increasing the tax burden on the citizenry.

### **Government's Finances:**

Fiscally, the country is facing big challenges, which are not all the result of Hurricane Dorian, but have existed for the past several years. Since the Great Recession of 2008-2009, previous administrations have implemented differing variations of fiscal consolidation in an effort to stabilize the country's debt levels. However, based on the data, the Bahamian economy remains in a fragile state with very little change in the fiscal metrics. For instance, at the end of FY 2007/08 government revenues, which stood at 17.27% of GDP fell to 16.81% of GDP in FY 2017/18, notwithstanding the introduction of Value Added Tax (VAT) at 7.50% in January 2015. In an effort to boost government revenues, the Government raised the VAT rate to 12.00% in July 2018, which drove government revenues to GDP higher to 19.48% in 2018/19. The average tax-to-GDP for Latin American Countries, of which The Bahamas is a part, is 22.80%. It is important to note however that in the absence of healthy, sustainable economic growth, government revenues to GDP will decline again. On the fiscal front, while the government has made some strides in containing the deficit, increased spending and interest on debt over the past decade, has contributed to the volatility in deficit numbers. In FY 2008/09, the GFS deficit stood at 1.81% and 10 years later the deficit remained near these levels, with the FY 2018/19 deficit, being recorded at 1.73%. However, during this time-period, the deficit has averaged 4.39%, peaking at 5.71% in FY 2011/12 and swung to its lowest level of 2.64% in FY 2015/16. With Hurricane Dorian restoration and rebuilding efforts in full swing, the Minister of Finance, Peter Turnquest, laid out his plans for an aggressive spending program, which is expected to shoot the deficit up again to over \$600 million or in excess of 5.00% of GDP. The increase and volatility in the deficit over the past several years have resulted in a record accumulation of additional debt. As at September 30, 2019 the national debt stood at \$8.317 billion or 66.95% of GDP and direct Government debt was recorded at \$7.585 billion or 63.25% of GDP. These debt levels are a stark increase from pre-recession levels of 38.96% and 33.55% of GDP respectively, with no signs of declining. Net borrowing under the Minnis administration from June

*“If policy makers and the private sector, via the Chamber of Commerce, can unify to devise strategies that will identify and alleviate the bottlenecks that hinder the country's progress in entrepreneurial performance, this will go a long way towards positively helping the country's business climate.”*

2017 to September 2019 totaled \$1.045 billion. The current administration and previous administrations have attempted to correct the country's expanding public debt burden by taxation, with the introduction of the 7.50% VAT in January 2015 and the subsequent increase to 12.00% in July 2018. This strategy is misguided and has shown to be unsuccessful given the country's record indebtedness and weak growth. What is paramount, however, for a successful fiscal consolidation program, are reforms and measures that will support confidence in the Bahamian economy and encourage sustainable economic growth, while simultaneously allowing for the flexibility to cut, or at minimum contain spending.

### **Foreign Direct Investment:**

Foreign Direct Investment (FDI) is essential to the social and economic development of the Bahamian society. However, FDI is not a panacea. Equally important are domestic investments, both private and public, which should interact with FDIs in order for The Bahamas to realize maximum benefits for the economy and citizenry. The Bahamas has had a healthy stream of foreign direct investments, peaking in 2010 to \$871.90 million or 11.02% of GDP. A relatively large portion of this amount, 67.0%, was allocated to equity investments in companies and 33.0% to land purchases. Almost 10 years later in 2018, the average foreign direct investment position has declined to a still healthy level of \$516.06 million or 4.15% of GDP. Notwithstanding the expected positive impact of FDI, the spillover into the Bahamian economy appears to be minimal, given the minuscule economic growth and structurally high unemployment rate over the past few years. Additionally, the extensive tax incentives provided to attract FDI result in the government forgoing much needed revenues that could improve infrastructure and fund social programs. Policies to attract FDI should be transparent and competitive, and incentives balanced with the need to collect adequate taxes from foreign entities operating in the country. To yield the widest possible impact, policy makers must find a way to create a competitive environment for diversified private investments, both foreign and local, that will improve the standard of living for Bahamians while simultaneously facilitating sustainable economic growth.

*“Notwithstanding the expected positive impact of FDI, the spillover into the Bahamian economy appears to be minimal, given the minuscule economic growth and structurally high unemployment rate over the past few years. Additionally, the extensive tax incentives provided to attract FDI result in the government forgoing much needed revenues that could improve infrastructure and fund social programs.”*

The tourism sector continues to play an important role in the country's economic development. Gross tourism expenditure in 2018 amounted to \$3.35 billion and directly contributed to 27.0% of GDP. This growth continued during the first two quarters of 2019 to \$2.12 billion compared to \$1.71 billion reported during the previous year. Last year, 2019, was a record-breaking year for overall arrivals which increased by 9.41% to 7.24 million visitors. Cruise arrivals represented the largest visitor category at 75.0%, increasing by 551,878 visitors to 5.429 million in 2019, while air and sea landed arrivals, increased by 71,703 visitors or 4.11% to 1.81 million visitors. Though badly hit by Hurricane Dorian, Abaco's Airbnb available listings declined by only 7.20% to 658. New Providence and Grand Bahama, however, provided much needed support to the sector increasing by 16.5% and 4.4% respectively. To capitalize on the increased visitor arrivals, and



---

to support local communities and their livelihoods, it is essential that policy makers work along with the private sector to devise a strategy for developing high-quality products to offer to visitors at competitive prices. A well-thought out and well-executed strategic plan can be the catalyst for increased economic opportunity to a broader section of Bahamians.

## Conclusion

The major economic challenges for The Bahamas are weak and unsustainable economic growth. This low growth trend over the years has made it increasingly difficult for the government to reduce the public sector debt burden, despite the many years of fiscal consolidation. The country's debt to GDP continues to rise and is expected to increase even further. The Government simply cannot reverse this trend by operating in silo. A more collaborative effort with the private sector is needed to nurse the Bahamian economy back to health and deliver the level of growth that will create more diverse, good paying jobs, and simultaneously expand the country's tax base.

*“To capitalize on the increased visitor arrivals, and to support local communities and their livelihoods, it is essential that policy makers work along with the private sector to devise a strategy for developing high-quality products to offer to visitors at competitive prices.”*