

# Local Economic Review

## Q1 2023

### Economic Highlights:

- Preliminary data for the first half of FY2022/23 (July - December) indicates that the fiscal deficit decreased slightly by \$5.3M or -1.9% to \$276.0M compared to the same period of FY2021/22.
- The Bahamas National Statistical Institute estimates that GDP increased by 14.4% to \$12.854B in real terms for 2022. The IMF projects that real GDP will increase by 4.3% in 2023.
- The country's debt levels remain high as the Direct Charge stood at \$11.036B as of December 2022 while National Debt (inclusive of contingent liabilities) stood at \$11.426B. Based on the latest GDP numbers, Direct Charge to GDP was 85.9% while the National Debt to GDP was 88.90%.
- The tourism industry continued to thrive in 2022 as tourist arrivals neared the pre-pandemic record breaking numbers of 2019. Seven million visitors entered the country compared to 2019's 7.25M.
- The local stock market, BISX, declined -9.36% in Q1-23. This negative performance followed 2022's double digit gains of +18.71%.

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### Fiscal Review

Preliminary data for the first half of FY2022/23 (July - December) indicates that the fiscal deficit decreased slightly by \$5.3M or -1.9% to \$276.0M compared to the same period of FY2021/22. Over the period, revenues increased by \$124.60M or 11.0% to \$1.258B. This represents 44.9% of the budgeted revenues for FY2022/23. Tax revenues increased by \$130.8M or 13.5% year over year while non-tax revenues decreased by \$7.0M or -4.2% over the same period. Driving the growth in tax revenues were increases in Value Added Tax (up \$54.3M or 10.0% to \$598.8M), Departure Taxes (up \$45.0M or 169.8% to \$71.5M), Excise and Export Duties (up \$37.4M or 45.8% to \$119.0M), and Property Taxes (up \$22.5M or 61.7% to \$59.5M). The Government is focused on improving their collection processes to increase revenues and improve the country's fiscal position. This includes aggressive collection of real property taxes and customs duties as well as enforcement of VAT and business license fee payments. Government expenditure also expanded over the period by \$119.30M or 8.4% to \$1.534B. Large contributors to the increase in expenditure included Compensation of Employees (up \$42.1M or 11.8% to \$399.4M) and Public Debt Interest (up \$41.1M or 17.1% to \$280.9M). The Ministry of Finance reported that foreign currency interest payments represent 54.7% of obligations while domestic debt obligations represent 45.3%. Of note, Social Assistance Benefits (-\$36.9M or -64.0%) and Government Subsidies (-5.5M or -2.4%) both declined.

According to the Bahamas National Statistical Institute, it is estimated that GDP increased by 14.4% to \$12.854B in real terms for 2022. Using the production approach, the following industries experienced the highest increases in 2022: Accommodation and Food Services (up 100.1% to \$1.1B), Transportation and Storage (up 33.2% to 602.2K) and Public Administration (up 30.9% to \$1.036B). Using the expenditure approach, largest contributors to growth included: General Government Consumption (up 13% to \$1.97B), Household Consumption (up 7.0% to \$7.83B) and Exports of Goods and Services (up 40.0% to \$4.29B). The IMF projects that real GDP will increase by 4.3% in 2023.

The country's debt levels remain high as the Direct Charge stood at \$11.036B as of December 2022, representing an increase of \$718.6M or 7.0% year over year. The National Debt (inclusive of contingent liabilities) increased by \$709.3M or 6.6% to \$11.426B. Using the latest GDP numbers, Direct Charge to GDP as of the end of December was 85.9% while the National Debt to GDP was 88.90%.

### Tourism

The tourism industry continued to rebound in 2022 as tourist arrivals neared the pre-pandemic record breaking numbers of 2019. Seven million visitors entered the country compared to 2019's 7.25M. Over the year, visitor arrivals expanded by 4.90M or 233.30% due to pent-up demand and the relaxation of COVID-19 restrictions. A large portion of this increase can be attributed to the rebound in the cruise industry as sea arrivals grew by 4.32M visitors or 355.56% to 5.53M. Air arrivals increased by 583,615 visitors or 65.82% to 1.47M. New Providence (193.47%), Grand Bahama (356.40%), and the Family Islands (270.92%) all experienced growth in arrivals. Islands

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with the largest percentage growth in air arrivals included San Salvador (up 998.20% to 3,591), Grand Bahama (up 100.10% to 39,520), New Providence (up 74.60% to 1.137M), and Abaco (up 68.40% to 78,035). According to the Central Bank's Quarterly Economic and Financial Developments Report, vacation rentals occupancy rate stood at 59.6% (2021: 52.4%) as at December 2022 while hotel occupancy stood at 58.1% (2021: 49.3%). The Family Islands made up 55% of Airbnb listings in 2022, with Exuma (16%) having the largest share of the listings.

Tourism officials are optimistic that 2023 will exceed pre-pandemic numbers as forward bookings are high for the first half of the year. In addition, the Nassau Cruise Port expects to welcome over four million passengers in 2023. Year to date as of March 2023, tourist arrivals were 2.615M representing an increase of 1.255M or 92.3% year over year.

## Monetary & Financial Developments

Banks continue to experience a high level of liquidity. The Central Bank reported that as at the end of December, excess reserves stood at \$1.928B while excess liquid assets stood at \$2.786B. External reserves decreased by \$615.8 million in the quarter ending December 2022 to \$2.584B. This represents 33.6 weeks of total merchandise imports compared to 36.1 weeks in the same period of 2021. This is well above the international benchmark of 12 weeks.

Domestic inflation, as measured by the Bahamas National Statistical Institute's Consumer Price Index, rose 4.8% year over year as of January 2023. Largest contributors to the increase included Recreation (+20%), Food and Non-Alcoholic Beverage (+11%), and Alcoholic Beverages (+11%). January's rate declined slightly from December's 5.5%. The IMF projects that 2023 inflation will be 4.5%.

The average Treasury Bill discount rate as of the end of December stood at 2.88% while weighted average deposit rates stood at 0.60%. The weighted average rate of interest on loans and overdrafts remains high at 11.17%.

## Capital Market Developments

The local stock market, BISX, declined in Q1-23 by 247.69 points or -9.36%. This negative performance followed 2022's double digit gains of +18.71%. Best performers for the quarter were Bank of the Bahamas (+18.77%), Consolidated Water BDRs (+11.15%) and Commonwealth Brewery (+10.54%). Detractors to performance included: CIBC FirstCaribbean (-33.40%), AML Foods (-11.94%) and Bahamas Waste Limited (-1.03%).

The Central Bank of the Bahamas had four Bahamas Registered Stock offerings over the quarter: two benchmark offerings, one short term offering, and one secondary offering. Benchmark rates ranged from 3.58% for 3 years to 6.51% for 30 years. Short term rates were 3.20% and 3.35% for 1 and 2 years respectively.

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## Conclusion

The Bahamas continues its recovery, boosted by ongoing gains in the tourism sector. While projections for 2023 are favorable, headwinds such as inflation and slowing growth remain. The Bahamas' debt to GDP of over 80% remains a detractor to growth. As of December, public debt interest represents 19.8% of total recurrent expenditures. It is important that a plan is devised to reduce the deficit and in turn reduce the country's debt to a sustainable level. We are hopeful that the government can strike the right balance between economic development and debt management to boost growth.