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Local Economic Review
Second Quarter 2021

Economic Highlights:

- The Government of the Bahamas has spent millions of dollars and utilized various vehicles to support the economy and save jobs considering the devastation brought on by Hurricane Dorian and the COVID-19 pandemic.

- The COVID-19 pandemic has placed a national and global strain on the Bahamian economy which contracted from a real Gross Domestic Product (GDP) of $11.31B in 2019 to $9.67 billion in 2020 or -14.50%. Nominal GDP is estimated to have contracted by 24.70% to $9.91B.

- This reduction in economic activity has had a significant effect on government revenue receipts resulting in an over 30% decline in revenues to $1.229B for the first nine months of fiscal year (FY) 2020/21 ending March 2021. Revenues relative to GDP also declined during the same period to 12.41% compared to 13.34% in FY 2019/20.

- Government spending for FY 2020/21 was up by about $216.0M or 7.54% to $3.09B relative to the previous year. This expansion in expenditures can be attributed to $99.0M for a non-financial asset in Grand Bahama, $57.84M in debt interest and $89.88M in social services benefits.

- Infrastructure spending is a key component for economic growth and prosperity for the Bahamian economy. Averaging some 2.51% relative to GDP over the past five years, the government's investment in capital expenditure has not yielded the return needed to spur economic growth, given that over 50% of capital expenditure is allocated to the acquisition of non-financial, non-performing assets.

- The country's economic growth vision must also include the development of key Family Island economies and tackle the disparities that exist between New Providence and these islands. Critical to the country's economic prosperity is the creation of a competitive environment to start and grow businesses throughout The Bahamas.

- The Bahamas is in a very vulnerable place. Government debt has ballooned to nearly $10.0B, the fiscal deficit has averaged over 7% over the past three years and the government's foreign debt component has expanded to over 40% of GDP. The country's economic recovery efforts must not be left to chance or happenstance. A national economic plan, supported by the proposed regulatory framework is needed for the rebuilding and recovery phases.

Q2 2021 Economic Review

These are no doubt unprecedented and uncertain times for the Bahamian economy and the citizenry. During these times it is critically important that the Government of the Bahamas improve the economic outlook by providing the necessary social support for individuals, and economic stimulus via long term investment in the country's physical infrastructure as well as healthcare and education systems.

The Bahamas experienced lackluster economic growth for up to six years prior to the pandemic, with an average annual growth rate 0.07%. The twin crises of Hurricane Dorian in 2019 and the COVID-19 pandemic further exacerbated the country's low growth levels. The COVID-19 pandemic has placed a national and global strain on the Bahamian economy which contracted from a real Gross Domestic Product (GDP) of $11.31B in 2019 to $9.67 billion in 2020 or -14.50%. Nominal GDP is estimated to have contracted by 24.70% to $9.91B. These economic shocks over the last two years have resulted in the further deterioration of the country's fiscal health, pushing the direct debt to GDP to 92.30% as of March 31, 2021, compared to 61.80% in the same period last year. National debt to GDP (inclusive of contingent liabilities) stands at 96.40%.

As the Bahamian economy emerges from the crippling effects of the coronavirus pandemic, it is vital that the government, businesses, unions and civil society groups work together to devise an aggressive economic strategy to reboot the Bahamian economy, and 'Build Back Better'.

Rebuilding Public Finances:

The Government of the Bahamas has spent millions of dollars and utilized various vehicles to support the economy and save jobs considering the devastation brought on by Hurricane Dorian and the COVID-19 pandemic. The stalled economic activity has had a negative impact on the government's fiscal position, with revenue receipts substantially depressed, while expenditures have notably increased due to higher unemployment and social security benefit payouts. Together these occurrences, as well as increased government borrowing, have produced relatively high and unsustainable deficit and debt levels.

In 2020 there was a significant reduction in economic activity due to government-imposed lockdowns throughout the country. This reduction in economic activity has had a significant effect on government revenue receipts resulting in an over 30% decline in revenues to $1.229B for the first nine months of fiscal year (FY) 2020/21 ending March 2021. Revenues relative to GDP also declined during the same period to 12.41% compared to 13.34% in FY 2019/20. The largest sources of revenues for the government, representing over 65% of total revenue receipts, together declined by 37%. These included declines in Value Added Tax (VAT) receipts (-37.27% to $469.75M), customs duties (-31.04% to $134.19M), gaming taxes (-46.04% to $16.42M), taxes on specific business licenses activities (-$73.98M to 15.57%), departure taxes (-94.65% to $5.85M) and property taxes (-13.59% to $96.59M).

The government is projecting revenues of $2.25B for FY2021/22, an increase of over 27.0% of actual revenue receipts collected during FY2020/21. The lingering effects of the COVID-19 pandemic may make achieving such an aggressive revenue growth forecast difficult resulting in a higher than projected fiscal deficit and by extension increased borrowing for FY2021/22.

On the other hand, government spending for FY 2020/21 was up by about $216.0M or 7.54% to $3.09B relative to the previous year. This expansion in expenditures can be attributed to $99.0M for a non-financial asset in Grand Bahama, $57.84M in debt interest and $89.88M in social services benefits. Central government spending is forecast to rise to $3.20B or 32% of 2020 nominal GDP in FY 2021/22. While spending as a proportion of the economy has averaged 21.90% over the last five years, it is expected that the current elevated spending levels will continue in the short to medium term to address the fallout from the COVID-19 pandemic.

Infrastructure spending is a key component for economic growth and prosperity for the Bahamian economy. Averaging some 2.51% relative to GDP over the past five years, the government's investment in capital expenditure has not yielded the return need to spur economic growth, given that over 50% of capital expenditure is allocated to the acquisition of non-financial, non-performing assets. This includes the bailout of Bank of the Bahamas by taking on the Bank's non-performing loans and the purchase of the Grand Lucayan Hotel for $65.0M. Notably, additional spending on the hotel has resulted in total net spending of over $100.0M to date. As The Bahamas' resources are already limited, a better allocation for the funds would be asset building and maintenance, such as investments in hospitals and clinics throughout the islands of the Bahamas; as well as schools, energy, transport, and telecommunications infrastructure, which are essential to providing high-quality public service.

The country's public finances took a nosedive with net public borrowing up by $1.940B or 25.58% to $9.526B at the end of March 2021. Of this amount borrowed, 83.90% represented foreign currency debt, which rose to historical levels following Hurricane Dorian in Q3 2019 and continued thereafter in response to the halt in economic activity due to the COVID-19 pandemic. It is expected that the reopening of the Bahamian economy would reduce the level of borrowing owing to improvements in tax receipts and a reduction in spending related to government support programs. However, notwithstanding a phased opening of the Bahamian economy since January 2021, the government is forecasting that it will still have to borrow $955.40M to fund the deficit during FY2021/22.

The level of borrowing and downgrades by bond rating agencies Moody's and S&P in 2020 have led to increased borrowing costs for the Bahamas government. Interest payments on government debt is projected to expand to almost $500.0M during FY2020/21 pushing interest costs relative to government revenues upwards to 25.53% compared to 16.40% average over the past three fiscal years.

The country's finances are evidently in an untenable place, with government debt projected to reach $10.0B and slightly over 100% of GDP at the end of FY 2020/21. This is the result of three consecutive years of fiscal deficits in excess of $700.0M and over 5.0% of GDP as well as increasing government expenditures due in large part to an increase in interest costs. These key fiscal ratios are at levels never recorded in the history of the country and are expected to have a significantly negative impact on the living standards of the citizenry. While the focus should be on delivery support for businesses, the unemployed and the population at large, policymakers must not escape the urgent need to simultaneously get the country's public finances on track, which will require decisive execution of an economic growth plan.

Strategy for Economic Recovery:

To reboot the Bahamas' economic recovery in the aftermath of the coronavirus pandemic, an ambitious and long-term strategy, coupled with visionary leadership is needed to rebuild the country's public finances and deteriorating infrastructure, and fix the long-standing problems that have hindered the economic progress of the country and its citizenry.

The first strategy is to turbocharge the investment component, both local and foreign, of the country's GDP. The reality is that the lack of productive investments has had and will continue to have major economic consequences on the country's economic growth. Consumption is down significantly due to stalled economic activity and relatively high unemployment levels, maxed out government expenditures, and significantly reduced net exports. Thus, productive investments in healthcare, education, transportation, telecommunications, energy, housing and roads are key to leading the Bahamas out of this economic slump. Investment in such infrastructural projects coupled with innovation will provide The Bahamas with the high-quality jobs and opportunities necessary to drive economic growth and development. The Bahamas Government has allocated $372.40M to capital expenditure in FY 2021/22, less than the $515.5M budgeted during the previous year. This allocation to capital investment is generous at 3.76% of the country's 2020 GDP, however, it is questionable whether the monies allocated will be used for productive capital projects in key areas of the society and not mere cosmetic upgrades.

The country's economic growth vision must also include the development of key Family Island economies and tackle the disparities that exist between New Providence and these islands. Critical to the country's economic prosperity is the creation of a competitive environment to start and grow a business throughout The Bahamas. Policymakers must seek to remove all the barriers that currently prevent private businesses from thriving. Significant reforms are needed to create a better environment for businesses in New Providence and the Family Islands, and the best place to start is addressing deficiencies in The Bahamas is the World Bank's Ease of Doing Business index. The Bahamas ranked 119 out of 190 countries in 2020, which is exactly equal to the country's average ranking over the past five years with no overall improvements in the components that make doing business in the country easier. While slight progress was made in the areas of starting a business, transparency in getting electricity, protecting minority investors and paying taxes, significant improvements are needed in other key areas such as dealing with construction permits, particularly the number of days for an approval, registering property, getting credit or financing for small and medium size businesses startups and improving the process for across border trading. These improvements are vital to improve the country's overall scores and ranking and by extension the level of productivity and economic success. Policy initiatives to improve these areas must not be New Providence centric but also inclusive of the Family Islands.

Also critical to the Bahamas' economic success and prosperity is the investment in high-quality skills and training. One area in which this can be achieved is via a well thought-out, well-organized apprentice program. With the youth unemployment rate, which covers persons from 18 to 24 years old, currently more than 25%, the number one complaint of employers is that high school graduates are ill-prepared and lack the skill sets required to work in entry level positions. A subsidized apprentice program which provides those at risk of long-term unemployment is needed to aid in providing apprentice students with the critical technical skills and experience that employers require. A successful skills development program will not only provide job opportunities for the young, but it will also simultaneously contribute to economic growth and productivity and help to make the country more competitive.

Conclusion

The Bahamas is in a very vulnerable place. Government debt has ballooned to nearly $10.0B, the fiscal deficit has averaged over 7% over the past three years and the government's foreign debt component has expanded to over 40% of GDP. The country's economic recovery efforts must not be left to chance or happenstance. A national economic plan, supported by the proposed regulatory framework is needed for the rebuilding and recovery phases.