

# Local Economic Review

## Fourth Quarter 2023

### Economic Highlights:

- Preliminary data for the twelve months of FY2022/23 (July - June) indicates that the fiscal deficit declined by \$183.9M (25.6%) to \$533.5M compared to the same period of FY2021/22.
- The Bahamas National Statistical Institute estimates that GDP increased by 8.6% for the first half of 2023 and 3.8% for the quarter ending September. The IMF projects that real GDP will expand by 4.3% in 2023 and 1.8% in 2024.
- The country's debt levels remain high as national debt stood at \$11.57B as at September 2023, comprising of Direct Charge of \$11.21B and Contingent Liabilities of \$358.4M. National Debt to GDP stood at 80.1% while Direct Charge to GDP stood at 80.4%.
- The tourism industry recorded significant growth for the first nine months of the year, recording tourist arrivals of 7.21 million, representing a 50.40% increase from the same period in 2022.
- The local stock market, BISX, ended the quarter and year with positive gains of 6.14% and 7.81% respectively. 2023's increase came in lower than 2022's double-digit gains of 18.71% however.

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## Economic Review

### Fiscal Review

Preliminary data for the twelve months of FY2022/23 (July - June) indicates that the overall deficit declined by \$183.9M (25.6%) to \$533.5M compared to FY2021/22. Total revenues for the period stood at \$2.86B, representing an increase of 9.4% or \$246.4M from the previous year. Tax revenues grew by 14.4% or \$312.2M to \$2.474B, while non-tax revenues declined \$66.3M or -14.8% to \$380.5M. The growth in tax revenues were driven by increases in Departure Taxes of \$87.3M (or 102.8%) to \$172.2M, Excise Duties of \$76M (or 42.8%) to \$253.5M, Value Added Tax of \$116.2M (or 10.2%) to \$1.25B, Property Taxes of \$14.5M (or 9.9%) to \$161.5M and Financial & Realty Stamp Taxes of \$24M (or 28.9%) to \$107M. Total expenditure stood at \$3.39B, representing an increase of \$62.5M (or 1.9%) from the same period last year. This increase was mainly attributed to increases in employee compensations of \$68M (or 9.2%) to \$805.2M and interest payments of \$21.3M (3.9%) to \$573.1M. Notably, Social Assistance Benefits, Subsidies, and Grants all declined by -56.1% (\$67.6M), -6.3% (\$31.2M), -18.4% (\$1.6M) respectively. Revenues for FY2023/2024 are projected to come in at \$3.32B, while total expenditure is forecasted at \$3.45B. These projections will result in a deficit of \$131.1M, which will represent 0.9% of GDP.

According to the most recent GDP numbers released by the Bahamas National Statistical Institute, Q2 2023 revealed growth of 3.8% YoY and 8.6% for the first half 2023. The industries that showed the most increases for the first half of 2023 include Accommodations and Food Services (\$162.1M or +32%), Construction (\$89.7M or +42%), Financial & Insurance Services (\$53.8M or +10%), Real Estate Owner Occupied & Actual Rents (\$43.2M or +4%), and Electricity & Water Supply & Sewerage (\$41.4M or +25%). The IMF projects The Bahamas' real GDP to grow about 1.8% in 2024.

As of September 2023, The Bahamas' national debt stood at \$11.57B, increasing \$404.2M or 3.62% from the prior year. This comprised of Direct Charge of \$11.21B, which grew by \$427.8M (or 4.06%) and Contingent Liabilities of \$358.4M which decreased \$33.6M (or 8.6%) from September 2022. Of the Total Direct Charge, external debt accounted for 43.15% or \$4.839B of the debt portfolio and internal debt accounted for 56.85% or \$6.375B. National Debt to GDP stood at 80.1% as of September 2023 compared to 89.1% in the same period of the previous year while Direct Charge to GDP stood at 80.4% compared to 85.9% in the previous year.

### Tourism

The tourism sector continued its rebound for the first nine months as total arrivals increased 50.40% year over year to 7.2m from 4.8m from September 2022. Sea arrivals grew by 2.19M visitors or 59.21% to 5.88m from 3.7m, while air arrivals increased by 230,292 visitors or 20.89% to 1.33m visitors from 1.1m last year. New Providence (+43.8%), Grand Bahama (+64.8%), and the Family Islands (+55.5%) all experienced growth in arrivals. Islands with the largest increases in air arrivals include San Salvador (+3,327.7%), Abaco (+31.4%), and Long Island (+19.4%).

A similar positive trend was seen in the short-term vacation rental market, occupancy levels for entire place listings grew by 4.2% to 51.8% while hotel occupancy increased by 2.3% to 50.1%, according to the Central's Bank September 2023 Quarterly Economic Review.

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## Monetary & Financial Developments

During Q3 2023, liquidity within the banking sector contracted as the deposit base declined and domestic credit rose. The Central Bank reported that as of September 2023, excess reserves declined by \$56.5 million (2.9%) to \$1.87B, while excess liquid assets decreased by \$5.5 million (0.2%). External reserves declined during the third quarter by \$121M to \$2.58B, which is equivalent to 30.5 weeks of the current year's total merchandise imports compared to 43.3 weeks in the same period of 2022. Reserves fell further in the fourth quarter to \$2.35B.

Domestic inflation numbers released by the Bahamas National Statistical Institute as of September 2023 indicate that The Bahamas' CPI increased by 2.2% from the same period last year. The largest contributors to this increase included Alcoholic Beverages (6.5%), Electricity, Gas and Other Fuels (5.8%) and Health (5.3%). Meanwhile, on a monthly basis, inflation rose by 0.2% from August to September 2023 with major contributors being Education and Hotels & Restaurants.

The average Treasury Bill discount rate as of the end of December stood at 2.91%, while weighted average deposit rates stood at 0.47%. The weighted average rate of interest on consumer loans remains high at 13.03%.

## Capital Market Developments

Strong economic conditions, the continued rebound of the tourism industry and the normalization in consumer spending throughout the year contributed to the positive performance of BISX for 2023. The local stock exchange saw growth of 7.81%, increasing to 2,851.64 from 2,645.06 in 2022 and growth of 6.14% for Q4 2023. Notably, the market rose 18.71% in 2022. Top performers for the year were Consolidated Water BDRs (+140.54%), Bank of the Bahamas (+62.84%), and Commonwealth Bank (+52.23%). Detractors to performance included AML Foods (-28.78%), Bahamas First Holdings (-18.70%), and CIBC FirstCaribbean (-16.82%).

The local fixed income market continues to be dominated by monthly offerings of government securities, specifically Bahamas Government Registered Stock (BGS) and Treasury Bills which seek to raise new capital and refinance existing securities.

The Central Bank of the Bahamas had three Bahamas Registered Stock offerings over the quarter: one benchmark offering, and two short term offerings. Benchmark rates ranged from 3.63% for 3 years to 6.59% for 30 years. Short term rates were 3.20% - 3.25% for 1 year.

## Conclusion

The Bahamas continues to face headwinds including relatively high inflation and slowing global growth. However, the positive effects of the post-pandemic rebound in the tourism industry and overall economy can be seen in the data presented. Despite the increase in the national debt, preliminary data for FY2022/2023 have exhibited narrowing of the fiscal deficit driven mainly by an increase in revenues that overshadowed a smaller increase in total expenditure. It is crucial that the Government continue on this trend of reducing the fiscal deficit, while also reducing the country's debt to sustainable levels and improving the standard of living within The Bahamas.