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Local Economic Review

Third Quarter 2020

Economic Highlights:

- The Bahamas' real gross domestic product (GDP) growth rate is estimated by Moody's to have fallen by 62% from 1.57% in 2018 to 0.60% during 2019. The significant fall in economic output was due to the collapse in economic activities for Grand Bahama and Abaco following Hurricane Dorian last September.

- As of September 2020, the National Insurance Board (NIB) had disbursed more than $93 million to over 38,000 individuals seeking unemployment benefits. These benefit payments ended sometime in July 2020, at which time the Government's 13-week unemployment support funded with $48 million from the public Treasury kicked-in. Given the deteriorating state of the Bahamian economy, the actual level of unemployment is projected to be much higher than that reported by the Department of Statistics in December 2019.

- 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 revenues receipts substantially depressed, while expenditures have notably increased due to higher unemployment and social security benefits payouts. Together these occurrences have produced a relatively high deficit and expanded debt levels.

- The pandemic has placed enormous pressure on many aspects of the Bahamian economy, especially on the level of external foreign currency reserves. Policies enacted to contain the spread of the novel coronavirus, in The Bahamas and around the world, have had a punishing effect on the country's main sources of foreign earnings. These sources include tourism, foreign direct investment, and offshore financial services.

- The tourism sector, which was most affected by the COVID-19 pandemic came to a screeching halt after contributing over $3.5 billion to the country's reserves in 2019. The tailwinds of last year's tourism performance, with record-breaking total arrivals at 7.24 million, was quelled by the pandemic. As at July 2020, tourist arrivals for the year fell by 61.9% to 1.73 million compared to 4.53 million arrivals during the same period in 2019.

- The outlook for the Bahamian economy over the next few months is grim at best. In addition to the massive strain on the public healthcare system, the country's gross domestic product has significantly contracted, unemployment has escalated, and an increase in government borrowing and deficits has led to the further deterioration of public sector finances. The country faces a long road to sustainable economic growth in the wake of the COVID-19 pandemic, however, if the country is going emerge from this pandemic stronger and more resilient, all stakeholders including policymakers, corporate partners and citizens must act now and improve 'product' Bahamas.

Local Economic Review Q3-2020

The year 2020 will be one for the history books. Just when the Bahamas was beginning to come to grips with Hurricane Dorian, which ravaged Grand Bahama and Abaco, its second and third major islands in terms of economic output, the country was confronted with the COVID-19 pandemic. Nine days after the World Health Organization (WHO) declared COVID-19 a pandemic on March 11, 2020, the Bahamas issued its first state of emergency order with the implementation of widespread lockdowns and overnight curfews. While the initial public emergency orders were necessary to contain the spread of the novel coronavirus and prevent overburdening the country's already fragile healthcare system, and by extension save lives, an unintended economic crisis was created.

Economic Growth and Unemployment

The Bahamas' real gross domestic product (GDP) growth rate is estimated by Moody's to have fallen by 62% from 1.57% in 2018 to 0.60% during 2019. The significant fall in economic output was due to the collapse in economic activities for Grand Bahama and Abaco following Hurricane Dorian last September. It is expected that the rate of growth will slow significantly or possibly even contract during the first six months of 2020 against the backdrop of stalled economic output resulting from imposing public health restrictions and social distancing protocols.

Since the Government of the Bahamas commenced easing restrictions related to the COVID-19 pandemic on June 15, 2020, economic activity picked up slightly, though the job market remains strained. As of September 2020, the National Insurance Board (NIB) had disbursed more than $93 million to over 38,000 recipients seeking unemployment benefits. These benefit payments ended sometime in July 2020, at which time the Government's 13-week unemployment support funded with $48 million from the public Treasury kicked-in. Given the deteriorating state of the Bahamian economy, the actual level of unemployment is projected to be much higher than that reported by the Department of Statistics in December 2019. Back in May 2019 the country's labor force totaled 235,420, of which 215,000 persons were employed. Fast forward to December 2019 and after the effects of Hurricane Dorian, the number of employed persons plunged to 152,640 resulting in an actual unemployment rate of 35.16%. When we factor in the permanent job losses resulting from lockdown measures implemented earlier this year to contain the spread of COVID-19, it is likely that the jobless rate is near 50%. With such high levels of unemployment, it is evident that The Bahamas is suffering from a jobs crisis. While it may be premature to classify our current economic state as a depression, if the unemployment rate persists above 20% for several more months, the Bahamas will in fact be in the throes of a depression.

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Diversification

In its current state, the Bahamas has virtually hit "ground zero". The country's number one industry, tourism, which generated over $3.50 billion in foreign currency receipts in 2019 and accounted for about 30.0% of 2018 GDP, has almost come to a complete halt. The second major industry, international financial services, which is also a source of foreign currency earnings albeit substantially less than that generated by tourism, contracted in 2019 by 26.3% to $183.8 million for the entire year. The reality is that during this time of crisis, big and bold changes in economic policies and management are essential for the Bahamas' survival and economic growth in the aftermath of Covid-19.

The bedrock of the Bahamian economy is the extent to which global involvement generates adequate foreign currency earnings from exports and drives economic growth and diversification. It is thus natural for officials to favor policies like the Commercial Enterprises Bill and the newly proposed Extended Stay Visa program as strategies to generate foreign currency earnings. The challenge, however, is that there are some key development issues that have held the Bahamian economy back and need to be fixed for the country to achieve economic diversification and growth. Topping the list is reliable and affordable infrastructure such as electricity, water, telecommunications, and transport, which includes land, maritime and air. Any attempt to navigate the country out of the current crisis without addressing the inadequate and deteriorating infrastructure will be futile. Research has shown that foreign direct investments are attracted to economies with favorable business climates, or better yet, economies that are ranked favorably on the World Bank's Ease of Doing Business Index. Such an environment will help domestic businesses to thrive as well.

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Government's 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 revenues receipts substantially depressed, while expenditures have notably increased due to higher unemployment and social security benefits payouts. Together these occurrences have produced a relatively high deficit and expanded debt levels.

According to the Central Bank's Quarterly Statistical Digest, the Government of the Bahamas forecasted a budget deficit of $136.92 million for FY 2019/2020 or 1.10% of 2018 GDP. The national debt, which is comprised of direct government debt and contingent liabilities, stood at $8.26 billion or 66.51% of 2018 GDP at the beginning of the period, June 2019. Of note, however, direct government debt was $7.52 billion or 60.58% of GDP and contingent liabilities totaled $736.37 million or 5.93% of GDP. Twelve months later, in June 2020, government debt increased by $664.16 million to $8.19 billion or 65.93% of GDP. Also, during this period, the government deficit expanded by $568.93 million or 259.47% to $788.19 million which represents 6.34% of GDP. Though over budget and alarming, it would not be wise to cut back on support to the citizenry and businesses during the current pandemic. However, a transparent report detailing how the monies borrowed are being spent and a concrete fiscal policy plan in the wake of COVID-19 are essential.

Hurricane Dorian and the COVID 19 pandemic have obviously had a negative impact on the country's finance. Total government receipts for FY 2019/20 came in at $2.09 billion or 16.84% of GDP, down from 19.4% of GDP during FY 2018/19. Government revenues for the previous fiscal year were $539 million or 20.5% less than projected and 13.9% or $337 million short of receipts collected during FY 2018/19. For the first and second quarters of FY 2019/20 (July – December 2019), Government receipts grew by 7.87% and 9.89% respectively. However, during the third quarter receipts fell by 2.97% and then plummeted -54.79% in the final quarter of the fiscal year. The deterioration in these figures reflects the enormous economic impact of the lockdowns in the Bahamas and around the world. While a significant shortfall was recorded for property taxes, stamp tax and taxes on international trade, VAT receipts, the largest single tax item, only fell by 2.14% or $19.20 million to $877.36 million compared to FY 2018/19. With the ongoing lockdowns and economic uncertainty, the government faces significant challenges over the next few months. The government has to balance a collapse in tax revenues with a need for increased spending on vital public services such as healthcare, education, welfare and unemployment assistance, as well as financial stimulus to businesses to address the fallout from the COVID-19 pandemic.

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Total public spending for FY 2019/20 was $2.87 billion or 23.16% of GDP. The Government's most significant expenditure was salaries and benefits which totaled $900.0 million and equivalent to 31.28% of total expenditure and 43.08% of total receipts. The next important expenditure functions were spending on goods and services and subsidies to government institutions which account for 19.15% and 14.86% respectively of total expenditure. Capital expenditure increased slightly to 12.82% of expenditure, followed by interest on government debt which stood at 11.78%. From a departmental perspective, healthcare is the largest expenditure item (14.24%) followed by education (12.78%) and national security (8.61%), relative to total expenditure. Social welfare support has grown from $156.74 million or 5.45% of expenditure in FY 2018/19 to $166.72 million or 5.79% in FY 2-19/20. It is expected that over the next few months, the government's social welfare support will be vital to keeping vulnerable Bahamians afloat. As economic activities remain stalled due to the ongoing lockdowns and the weak tourism sector, more monies will have to be allocated to help those who are experiencing or at risk of experiencing financial hardship. This includes protecting Bahamians from homelessness and hunger. The Government's budget was challenged even before the public health crisis and our policymakers must tread cautiously in balancing support for the citizenry and businesses with investments and policies that deliver economic growth and development. Unfortunately, unlike advanced economies around the world, The Bahamas does not have the financial resources to implement extensive stimulus schemes. Therefore, it is vital that we administer our available resources wisely.

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Foreign Currency Earnings

The pandemic has placed enormous pressure on many aspects of the Bahamian economy, especially on the level of external foreign currency reserves. Policies enacted to contain the spread of the novel coronavirus, in The Bahamas and around the world, have had a punishing effect on the country's main sources of foreign earnings. These sources include tourism, foreign direct investment, and offshore financial services. The country's external reserves at the beginning of the year stood at $1.75 billion and increased to just over $2.05 billion at the end of June 2020. Notwithstanding the 16.71% increase in external reserves during the period, exchange control transactions have been restricted by the Central Bank to protect the level of reserves during the pandemic. Commercial banks were restricted from repatriating dividends to their foreign parent companies. As well, all transactions involving the purchase of foreign currency via the Investment Currency Market and the Bahamas Depository Receipt program were suspended until market uncertainties surrounding the COVID-19 pandemic recede. However, these commercial banks have only delayed these payments and when they eventually occur, the level of foreign reserves will substantially drop, especially if the other sources of foreign reserve remain stalled.

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The tourism sector, which was most affected by the COVID-19 pandemic came to a screeching halt after contributing over $3.5 billion to the country's reserves in 2019. The tailwinds of last year's tourism performance, with record-breaking total arrivals at 7.24 million, was quelled by the pandemic. As at July 2020, tourist arrivals for the year fell by 61.9% to 1.73 million compared to 4.53 million arrivals during the same period in 2019. The decline in both the air and sea segments were almost evenly distributed with air arrivals down by 68.5% to 364,156 visitors compared to 1.15 million arrivals during the same period last year. Sea arrivals slipped 59.6% to 1.36 million, off substantially from the 3.37 million arrivals for the same time last year. The downturn in tourism numbers is apparently likely to continue for the remainder of the year. For now, major hotels in New Providence remain closed and are expected to open during the last quarter of the year, while many hotels on the family islands are closed until further notice. International and domestic flights have resumed; however, passenger volumes are significantly down. In the cruise industry, major cruise lines have not confirmed a date for resuming sailings and it appears that any decision to restart cruise operations will be based on the containment of the virus. Although, many cruise lines have indicated that when the 'no sail' order is lifted, they will utilize their private islands and not the shared ports like those in Nassau and Grand Bahama. While this move will put some foreign dollars in the government's coffers, it will do little to help with economic growth and job creation, particularly youth employment.

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Notwithstanding the challenges, tourism is and will remain the country's top industry and a major source of foreign exchange earnings for the foreseeable future. However, in preparation of the re-opening of the sector, improvements in the quality of the Bahamas' tourism product and infrastructure, including better attractions and stronger security, are essential to boosting our economy and increasing productivity in the country.

Conclusion

The outlook for the Bahamian economy over the next few months is grim at best. In addition to the massive strain on the public healthcare system, the country's gross domestic product has significantly contracted, unemployment has escalated, and an increase in government borrowing and deficits has led to the further deterioration of public sector finances. Many of these issues are structural and have only intensified following the Covid-19 pandemic. To aid households and businesses during this time, the government has had to borrow a significant amount of funds. While this approach is supported, eventually, the government will have reduce these stimulus measures to prevent the country from drowning in unsustainable debt.

The Bahamas is an export driven economy and must improve the domestic business climate to achieve economic growth and attract foreign currency earnings. New industries should be explored and existing industries like fisheries and agriculture should be expanded to further diversify our economy and improve both domestic and foreign earnings. This will require legislative commitment to outlining quality and sanitary standards in production, handling, packaging, and distribution, which will aid in making the country competitive and in-line with global benchmarks. The country faces a long road to sustainable economic growth in the wake of the COVID-19 pandemic, however, if the country is going emerge from this pandemic stronger and more resilient, all stakeholders including policymakers, corporate partners and citizens must act now and improve 'product' Bahamas.