THE BAHAMAS

Table 1	2021
Population, million	0.4
GDP, current US$ billion	11.2
GDP per capita, current US$	28233.2
School enrollment, primary (% gross)[a]	96.1
Life expectancy at birth, years[a]	74.1
Total GHG emissions (mtCO2e)	2.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

GDP is estimated to grow by 8 percent in 2022, as tourist arrivals to the islands rebounded due to vaccination efforts and easing travel restrictions, and construction picked up. Tourism may also benefit from the lower risk-advisory COVID-19 rating for the islands given by the Centers for Disease Control and Prevention in April 2022, although downside risks remain. The current account deficit remains high but has decreased to 18.1 percent of GDP. Fiscal accounts started to improve, and the government is expected to restore fiscal consolidation in the short term.

Key conditions and challenges

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP has grown on average at 1.4 percent in real terms. Nonetheless, the country's economic position remains vulnerable due to its small size, lack of economic diversification, and vulnerability to natural disasters. The Bahamas relies significantly on foreign investment, especially related to tourism. The services industry represents 85 percent of GDP and employs a significant portion of the country's workforce. The economy depends heavily on oil and goods imports.

Economic growth in recent decades has not benefitted all segments of the population equally. According to the 2013 Household Expenditure Survey, 12.8 percent of the population lived below the national poverty line. Moreover, inequality is well above the average of high-income economies, with a Gini index of 41.4.

While no official income poverty indicators have been produced since 2013, The Bahamas has exhibited improvements in other areas, such as education and life expectancy, as seen in the 2 percent increase in the Human Development Index (HDI) over the past two decades. The country's HDI is 0.814, above the Latin America and the Caribbean average of 0.766. With respect to its peers, The Bahamas has an HDI comparable to Barbados and Trinidad and Tobago.

Despite steady economic growth, the unemployment rate remains high. According to ILO estimates, the unemployment rate is expected to be 12.9 percent for people aged 15 or over in 2022, higher for women (13.1 percent) than for men (12.6 percent), and 9.7 percent for people aged 25 or over.

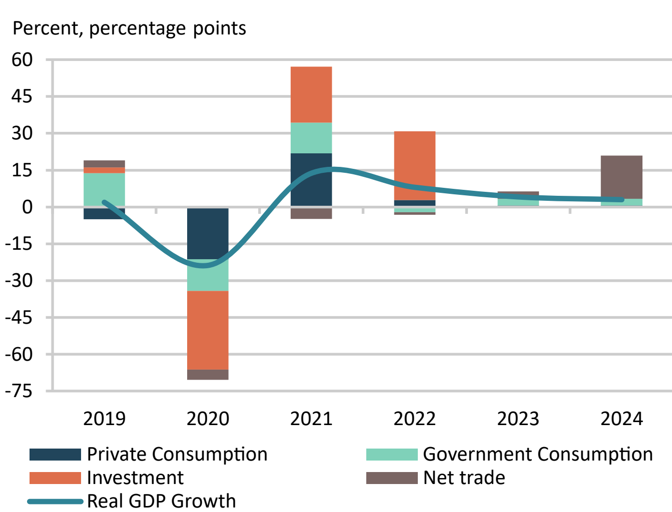
Vulnerability to climate change and global health risks jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands in addition to the severe impacts of natural disasters such as Hurricane Dorian in 2019.

The COVID-19 pandemic that led to a steep decline in tourism arrivals and the resulting job losses appears to be fading. However, the impact of the pandemic on vulnerable populations, such as low-income households, informal workers, and women may last. School closures are likely to have impacted learning, with potential longer-term impacts on human capital and potential earnings.

The Bahamas was removed from the Financial Action Task Force's grey list in December 2020, and the government continues to strengthen the Anti-Money Laundering regulations and supervision, including as related to crypto assets.

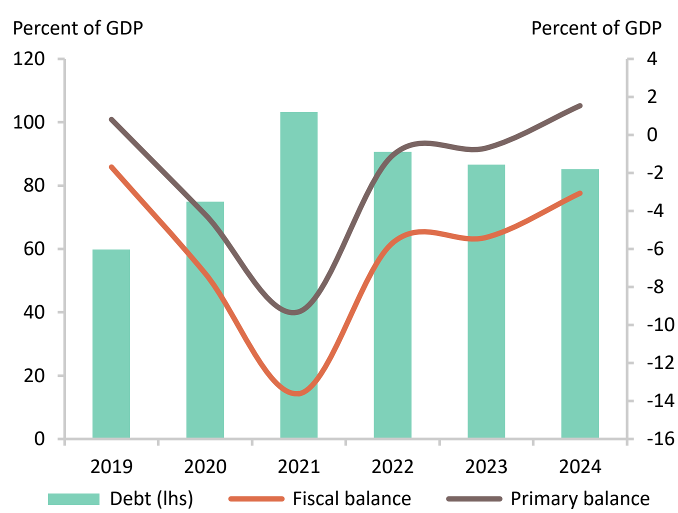
The COVID-19 pandemic laid bare the extent of gender, youth, and income inequality, and it also increased labor informality. Strong efforts to support vulnerable groups are needed going forward.

FIGURE 1 The Bahamas / Real GDP growth and contributions to real GDP growth



Sources: Government of The Bahamas, IMF, and World Bank staff estimates.

FIGURE 2 The Bahamas / Fiscal balance and public debt



Sources: Government of The Bahamas, IMF, and World Bank staff estimates.

Recent developments

GDP growth reached 13.7 percent in 2021 after the pandemic restrictions were eased. Tourists' arrivals increased from 23,619 in January 2021 to 312,208 in January 2022. However, they are still below the record inflow of 636,881 tourists in January 2019. Tourism-related FDI projects, together with post-hurricane rebuilding efforts have supported construction sector output.

Although the pandemic restrictions were eased and economic conditions improved, the unemployment rate, which increased to 13.3 percent in 2020, has not returned to the pre-pandemic level of 9.8 percent in 2017. ILO estimates suggest that unemployment will only fall to 12.9 percent in 2022.

Only 40 percent of the population was fully vaccinated by February 2022. The government launched free COVID-19 testing this year and announced the elimination of curfews and lockdowns, enhancing the prospects for economic recovery.

CPI inflation has been on the rise since 2021. The highest increases were registered in food, beverages, and clothing due to hikes in international oil and food prices The mitigation measures implemented by the government will slow the fiscal consolidation somewhat, but it will still proceed at a significant pace.

Public finances are entering a consolidation process after having worsened during the COVID-19 pandemic. The government's comprehensive response to the pandemic combined with the fall in revenues increased public debt to 103.3 percent of GDP in 2021. The government rolled back a significant portion of the pandemic-related fiscal support in 2021, which together with recovering economic activity, public financial management reforms, and improved tax collections, led to a significant reduction in the budget deficit.

The external sector was particularly hard hit by the pandemic, as net travel receipts contribute most to the current account balance. The current account deficit has improved from 24.5 percent in 2020 to 23.1 percent in 2021. It was financed through borrowing from capital markets and IFIs as well as through decreasing international reserves, which decreased from 5.8 months of imports in 2020 to 4.8 in 2021.

Outlook

The economy is expected to grow by 8.0 percent in 2022, as tourism flows and construction projects continue to revert from the fall of the COVID-19 pandemic. The vaccination campaign will continue with international support. It is expected that growth will decline to 4.1 percent in 2023 when capital investment is also expected to decrease to its pre-pandemic levels. The inflation rate is projected to significantly increase to 5.7 percent in 2022, pushed by energy and oil prices, and to average around 4.3 percent in the medium-term. The primary and overall fiscal deficits are expected to improve in FY2022/23 to 1.1 percent of GDP and 5.7 percent of GDP, respectively. They are also expected to steadily improve in the following two years in response to the government's expenditure reduction efforts and the resumption of tax reforms. Public debt is projected to decrease once the economy is back on the growth path, as revenues rebound, and pandemic-related expenditures are wound down but will remain above 85 percent of GDP during 2023-24.

The current account deficit is expected to decrease to 18.1 percent of GDP in 2022, as tourism receipts expand. An improvement of the current account deficit is also expected for 2023 and 2024, with 14.1 percent of GDP and 11.1 percent of GDP, respectively. While the gross international reserves will maintain at 4.8 months of imports in 2022.

The economic growth outlook is subject to significant uncertainty related to the possibility of new travel restrictions, slower than expected growth in the U.S. economy, the global geopolitical shock, as well as the risk of natural disasters. Higher oil prices and imported inflation due to global geopolitical risks may trigger higher consumer prices with implications for the poorest. The government will continue to finance the rebuilding of public and private buildings to increase their resilience to natural disasters and to implement mitigation policies for climate change.

TABLE 2 The Bahamas / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.9	-23.8	13.7	8.0	4.1	3.0
Real GDP growth, at constant factor prices	1.5	-18.8	9.2	8.0	4.1	3.0
Agriculture	-21.6	14.1	-31.7	-6.5	-7.0	-7.5
Industry	-1.2	-34.5	8.5	25.8	18.9	13.2
Services	2.1	-16.7	9.7	6.1	2.2	1.4
Inflation (Consumer Price Index)	2.5	0.0	2.9	5.7	5.3	3.3
Current Account Balance (% of GDP)	-2.6	-24.5	-23.1	-18.1	-14.1	-11.0
Net Foreign Direct Investment Inflow (% of GDP)	2.8	3.9	3.7	3.5	3.4	3.3
Fiscal Balance (% of GDP)[a]	-1.7	-7.3	-13.6	-5.7	-5.4	-3.1
Debt (% of GDP)[a]	59.8	75.0	103.3	90.7	86.6	85.2
Primary Balance (% of GDP)[a]	0.8	-4.2	-9.3	-1.1	-0.7	1.5
GHG emissions growth (mtCO2e)	1.6	-15.4	1.8	4.0	-6.8	-10.1
Energy related GHG emissions (% of total)	89.3	88.4	88.2	88.2	87.1	85.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are reported in fiscal years (July 1st -June 30th).