THE BAHAMAS

Table 1	2023
Population, million	0.4
GDP, current US$ billion	14.7
GDP per capita, current US$	35730.0
School enrollment, primary (% gross)[a]	86.8
Life expectancy at birth, years[a]	71.6
Total GHG emissions (mtCO2e)	2.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2012); Life expectancy (2021).

In 2023, the economy expanded by 4.3 percent, largely driven by a strong recovery in tourism. Fiscal and current account deficits narrowed significantly; the unemployment rate declined but remains high among young people. The Bahamas made significant progress in strengthening its AML/CFT framework. However, high public debt, global uncertainty, and vulnerability to natural disasters pose challenges for growth and poverty reduction.

Key conditions and challenges

The Bahamas is a small island state in the Caribbean. Tourism is its primary driver of economic growth, particularly from key markets, such as the United States, Canada, and the United Kingdom. The financial services sector, which is heavily reliant on foreign investment, also plays a significant role. Following the global financial crisis in 2008 economic growth decelerated to a modest average of 0.8 percent between 2010 and 2019. This slowdown can be attributed to several factors, such as the country's small size, lack of productive diversification, high import dependence, and vulnerability to natural disasters. In 2020, the economy experienced a sharp contraction of 23.5 percent due to the pandemic's impact, but a resilient recovery ensued, and by 2022, economic activity had rebounded to pre-pandemic levels.

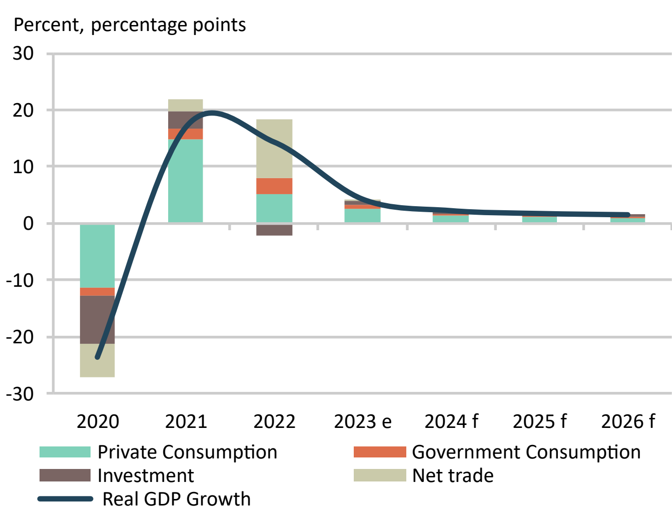
Despite this recovery, economic growth is constrained by capacity limits in tourism, vulnerability to external shocks, skill shortages, and limited fiscal space. The Bahamas' labor market is still facing challenges, including restoring labor force participation to its former level and addressing the high unemployment rate among young adults. As of May 2023, labor force participation was at a low 75.9 percent, still below the pre-pandemic level of 81 percent. Additionally, the unemployment rate for individuals aged 25-35 was 25 percent, nearly triple the national average. The most recent poverty data which dates to 2013, estimated that 12.8 percent of the population lived below the Bahamas' national poverty line. The nation also contends with significant inequality, as evidenced by a GINI coefficient of 41.1 in 2013, which is considerably higher than the average for high-income countries. Despite these socioeconomic challenges, The Bahamas was ranked 57th in the Human Development Index (HDI) in 2022, which is on par with its Caribbean peers.

The pandemic has exacerbated some of the medium-term growth challenges, and public finances have suffered as a result. The country still faces elevated public debt. In response, the government is pursuing fiscal consolidation through tax reforms, enhanced tax administrations, and improvements in public financial management. The Bahamas was recently removed from the Financial Action Task Force's grey list, reflecting its commitment to addressing financial crime. Further efforts are being made to enhance Anti-Money Laundering regulations and supervision, ensuring full compliance with international standards. In October 2020, The Bahamas adopted a digital currency to facilitate financial inclusion.

Recent developments

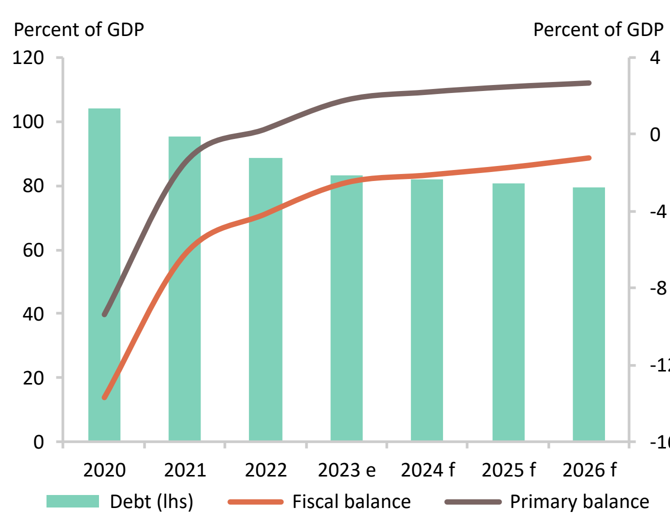
In 2023, the GDP of The Bahamas grew at a solid 4.3 percent, following a robust recovery of 14.4 percent in 2022. This economic resurgence was broad-based, with

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



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

FIGURE 2 The Bahamas / Fiscal balance and public debt



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

tourism showing a particularly robust performance. The vigorous recovery contributed to a reduction in the unemployment rate to 8.8 percent, the lowest since 2008. However, the unemployment rate among young people remains elevated. International travel, including flights and cruise ship arrivals, surged past pre-pandemic figures, reflecting strong tourist demand and successful government initiatives to attract new cruise lines and airlines. On average, cruise visitors spent 59 percent more in nominal terms in 2022 compared to 2019, while stayover visitors spent 18 percent more.

The current account deficit narrowed to 6.2 percent of GDP, and the banking sector showed strength with declining non-performing loans. Foreign exchange reserves were estimated to cover 4.9 months of imports of goods and services at the end of 2023. Inflation, which peaked in July 2022 at 7.1 percent y-o-y, primarily due to rising costs of energy and food, began to subside. The inflationary increase was largely attributed to global factors, but a downturn in global energy prices facilitated a quicker-than-anticipated reduction in inflation, with the rate dropping to 3.4 percent by the end of 2023, offering some relief to poor households that are particularly vulnerable to inflation, as it can significantly erode their purchasing power.

The robust economic rebound, coupled with the gradual withdrawal of pandemic-related financial support, led to improved public finances. This improvement occurred despite tax relief measures to alleviate inflationary pressures and an increase in public sector wages. The fiscal deficit shrank to 4.1 percent of GDP in fiscal year 2022/23. The central government's debt decreased from over 100 percent of GDP during the pandemic to 83.2 percent by the end of 2023. However, external sovereign spreads remained high. Significant gross financing needs were largely met through domestic issuance and central bank loans.

Outlook

The medium-term economic outlook is favorable, with real GDP growth projected at 2.3 percent in 2024. Growth is expected to moderate to 1.5 – 2 percent range in the medium term due to capacity limits in the tourism sector. The government expects long-term growth to be stimulated by investments in expanding hotel capacity, with several FDI-financed projects already in the pipeline. These investments, along with investments in other sectors of the economy, are expected to lead to job creation. Enhanced education policies are also projected to improve the domestic supply of skilled workers, contributing to poverty reduction. Inflation is expected to fall to 3.1 percent by end-2024, and to about 2 percent over the medium term. The government aims to achieve a fiscal surplus by 2026, relying on greater cost recovery from public corporations and measures to improve spending efficiency that would allow for spending cuts. Tax reforms are expected to further increase primary surplus in the longer term, and similarly, increased expenditure on climate resilience is expected to contribute to this surplus. Such investments will ultimately reduce spending associated with natural disaster recovery and mitigate the adverse effects of natural disasters on GDP and, consequently, on revenues. The trade deficit is expected to narrow, and international reserves are projected to remain above 4 months of imports. However, the economic forecast is subject to several downside risks, including a potential deceleration in the United States due to monetary tightening, global uncertainty, reduced tourism demand from key source markets, global price shocks, and the escalating threat of climate-induced natural disasters. Addressing labor market challenges and bolstering climate resilience are crucial strategies to mitigate these potential adverse effects.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	17.0	14.4	4.3	2.3	1.8	1.6
Private consumption	23.3	7.7	4.2	2.1	1.9	1.6
Government consumption	12.5	19.0	4.1	2.0	1.7	1.5
Gross fixed capital investment	12.4	-9.7	3.3	3.2	3.1	2.0
Exports, goods and services	22.6	39.9	10.2	10.0	8.8	8.4
Imports, goods and services	10.3	1.7	10.0	10.5	10.1	9.0
Real GDP growth, at constant factor prices	8.1	9.3	4.3	2.3	1.8	1.6
Agriculture	-32.4	29.7	11.6	5.1	4.3	4.0
Industry	-14.8	10.2	4.0	2.9	2.7	2.7
Services	11.7	9.0	4.3	2.2	1.7	1.5
Inflation (consumer price index)	2.9	5.6	3.4	3.1	2.6	2.2
Current account balance (% of GDP)	-21.1	-8.2	-6.2	-6.1	-5.8	-5.7
Net foreign direct investment inflow (% of GDP)	2.6	2.5	2.5	3.0	3.0	3.0
Fiscal balance (% of GDP)[a]	-6.2	-4.1	-2.5	-2.1	-1.7	-1.2
Revenues (% of GDP)	22.6	22.1	21.8	22.0	22.0	22.0
Debt (% of GDP)[a]	95.3	88.6	83.2	81.9	80.8	79.5
Primary balance (% of GDP)[a]	-1.4	0.3	1.8	2.2	2.5	2.7
GHG emissions growth (mtCO2e)	-3.5	1.1	4.0	3.0	0.8	0.1
Energy related GHG emissions (% of total)	86.0	86.1	86.1	85.9	85.6	85.3

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).