

THE BAHAMAS

Table 1	2021
Population, million	0.4
GDP, current US\$ billion	11.5
GDP per capita, current US\$	29087.8
School enrollment, primary (% gross) ^a	96.1
Life expectancy at birth, years ^a	73.9
Total GHG Emissions (mtCO ₂ e)	2.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2019).

GDP is estimated to have expanded by 5.6 percent in 2021, as tourist arrivals to the islands rebounded thanks to vaccination efforts in The Bahamas and easing travel restrictions in main tourism markets. Tourism remains the country's main economic activity and source of revenue, with over 50 percent of the labor force employed in the sector. The current account deficit remains high but narrowed to 19.3 percent of GDP. Fiscal accounts deteriorated in 2021, but the country is expected to restore the fiscal consolidation and reconstruction efforts following Hurricane Dorian.

Key conditions and challenges

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. GDP has risen steadily over the past 3 decades, with annual growth averaging 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. Tourism, together with tourism-driven construction and manufacturing, accounts for approximately 60 percent of GDP and, directly or indirectly, employs about half of the country's workforce.

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

While no official poverty indicators have been produced since 2013, The Bahamas has exhibited improvements in other areas, such as education and life expectancy, as reflected by the 2 percent increase in the Human Development Index (HDI) in the past two decades.

Similar to economic growth, economic opportunities have not been inclusive. According to the Labor Force and Household

Report of 2016, the national unemployment rate was 12.75 percent. Unemployment was 4 percentage points higher for women than for men, and 15 percentage points higher for youth below 25 years than among adults 25 years and older.

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 disasters such as Hurricane Dorian in 2019.

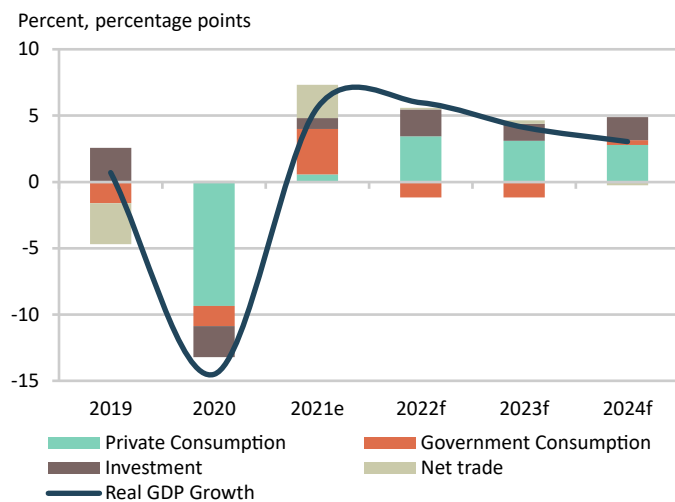
The COVID-19 pandemic led to a steep decline in tourism arrivals and the resulting job losses have been particularly felt by vulnerable populations, such as low-income households, informal workers, and women. School closures are likely to have impacted learning, with potential longer-term impacts on human capital and potential earnings.

The pandemic also negatively impacted women's day-to-day lives in The Bahamas. Women's workload in the household increased more than that of men, as related to homeschooling for example, 62.8 percent of women and only 25.8 percent of men are dealing with the additional workload of supporting children with schoolwork.

Recent developments

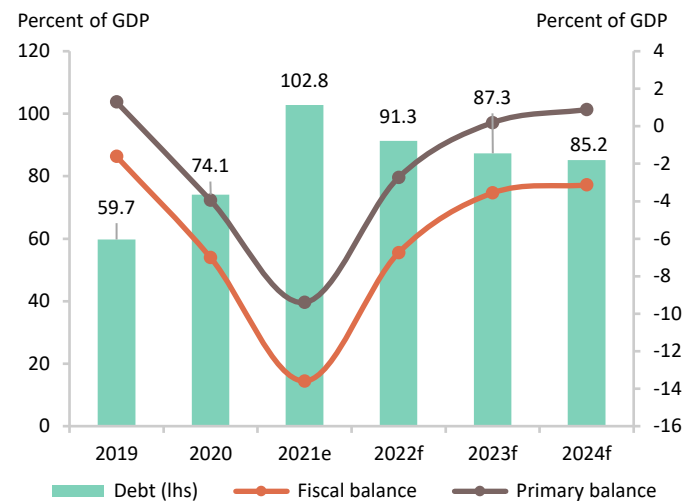
GDP expanded by 5.6 percent in 2021, following a 14.5 percent contraction in 2020. Tourist arrivals to the islands grew at a faster pace during the second half of 2021,

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 balances and public debt



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

totaling nearly 2 million for the entire year. This is still below the record inflow of 7.2 million tourists in 2019. The hotel occupancy rate averaged 50 percent in 2021. Tourism-related FDI projects, together with post-hurricane rebuilding efforts supported the construction sector output.

Unemployment increased 5 percentage points in 2020 as a result of the pandemic, setting the labor market back to the 2009 level, with an estimated 14.4 percent unemployment rate. Estimates suggest that unemployment fell to 13.2 percent in 2021, and it is predicted to fall below 13 percent in 2022.

The Bahamas was hit by two coronavirus waves in 2021, in August and end-December. Vaccination started in March 2021 and only 40 percent of the population was fully vaccinated by February 2022. As a complement to vaccination efforts, 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 is estimated at 3.2 percent for 2021. The highest increases were registered in food, beverages, and clothing, disproportionately affecting the purchasing power of the poor and vulnerable.

Public finances continued to deteriorate during FY 2020/21 to a 9.4 percent of GDP primary deficit and 13.6 percent of GDP overall deficit, after recording a 3.9 percent of GDP primary deficit and a 7.0 percent of GDP overall fiscal deficit in FY 2019/20.

In part due to the government's comprehensive response to the COVID-19 pandemic,

total public debt jumped to 102.8 percent of GDP in 2021, compared to 74.1 percent of GDP in 2020.

The external sector was particularly hit by the COVID-19 pandemic, as net travel receipts make the largest contribution to the current account balance. In fact, the services account balance posted deficits from the second quarter of 2020 to the third quarter of 2021. The current account deficit was 19.3 percent of GDP in 2021, an improvement from 23.5 percent of GDP in 2020. It was financed through borrowing from capital markets and IFIs as well as through decreasing international reserves.

Outlook

The economy is expected to grow by 6.0 percent in 2022 and 4.1 percent in 2023, as tourism flows to the island continue to revert to pre pandemic levels. The vaccination campaign will continue with support from PAHO/WHO donations. The inflation rate is projected to significantly increase to 7.3 percent in 2022, pushed by energy and oil prices, and to average around 3.6 percent in the medium-term. The primary and overall fiscal deficits will improve in FY2021/22 to 2.7 percent of GDP and 6.7 percent of GDP respectively. They are expected to steadily improve in the following two years in response to the government's expenditures reduction efforts as well as needed tax reforms, and will

record a primary surplus in FY2023/24. 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 in the medium term.

The current account deficit is expected to decrease to 18.1 percent of GDP in 2022, as tourism receipts expand. An improvement of the account deficit is also expected for 2023 and 2024, with projections of 12.6 percent of GDP and 8.6 percent of GDP, respectively. Outlook is subject to significant uncertainty related to the possibility of new travel restrictions worldwide affecting tourist arrivals to the country; there are also global geopolitical risks, 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 as well as to implement a mitigation policy for climate change.

The pandemic will erase some of the progress in recent years in terms of human development and is expected to increase poverty and inequality, widening the divide for women, youth, informal workers, and other vulnerable populations. Recovery efforts need to support these groups decisively and allow for more diversification of income sources.

TABLE 2 The Bahamas / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	0.7	-14.5	5.6	6.0	4.1	3.0
Real GDP growth, at constant factor prices	0.7	-14.5	6.0	5.9	4.1	3.0
Agriculture	-0.8	-8.8	-1.3	3.6	4.8	4.8
Industry	-1.0	-2.0	1.7	3.5	1.4	1.7
Services	1.0	-16.4	6.8	6.3	4.5	3.2
Inflation (Consumer Price Index)	2.5	0.0	3.2	7.3	4.5	3.3
Current Account Balance (% of GDP)	4.0	-23.5	-19.3	-18.1	-12.6	-8.6
Net Foreign Direct Investment (% of GDP)	2.0	2.2	2.2	2.4	2.8	2.6
Fiscal Balance (% of GDP)^a	-1.6	-7.0	-13.6	-6.7	-3.5	-3.1
Debt (% of GDP)^a	59.7	74.1	102.8	91.3	87.3	85.2
Primary Balance (% of GDP)^a	1.3	-3.9	-9.4	-2.7	0.2	0.9
GHG emissions growth (mtCO₂e)	1.2	-15.3	2.1	11.1	4.0	3.5
Energy related GHG emissions (% of total)	87.6	86.7	86.2	86.9	86.9	86.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Fiscal balances are reported in fiscal years (July 1st -June 30th).