

Main Issues and Trends in the Bahamian  
Economy, 1981 - 1983

Development policies and issues

The development strategy continues to focus on growth of tourism provision of infrastructure and the maintenance of a climate favourable to private investment and to the operation of offshore companies and the promotion of agriculture and fisheries.

Efforts continue towards encouraging industrial activities that would be relatively more dependent on available domestic resources. The Government has also announced the establishment of a free trade zone in 1983 which will be geared towards providing a framework for new export-oriented, labour intensive operations.

The aims of the agriculture development policy are to achieve diversification of the economy and to increase local supplies for the domestic and tourist market. Additionally, it is hoped that the achievement of these objectives will alleviate unemployment and help to ease overcrowding in New Providence where some 60% of the population resides.

Monetary Developments & Policies

From 1980 to mid-1982, the banking system was influenced by a large differential between U.S. and Bahamian dollar interest rates which caused a shift between Bahamian and foreign assets and liabilities which resulted in a tightening of commercial bank liquidity. Consequently, banks were forced to borrow heavily from the Central Bank to supplement their resources.

CCMS Annual Monetary Studies  
Conference  
(October 12-15, 1983)

With the decline in the value of the dollar of 1982, yield differentials moved in favour of Bahamian dollar assets. However, domestic foreign currency lending to the private sector declined during 1982, hence exerting continued pressure on the financial system. The reluctance to borrow U.S. dollars may be attributed to uncertainty regarding the future direction of U.S. interest rates and also a perception of exchange risk.

#### Fiscal Developments

After showing significant improvement from 1978 - 80, the fiscal situation deteriorated during 1981 - 82. The overall budgetary position moved from a deficit of \$7.8 million in 1980 to \$78.2 million in 1982, reflecting a sharp increase in loans to public corporations. The current position weakened from a modest deficit of \$2.8 million to \$28.8 million in 1982. The growth in tax revenue was adversely affected by the slowdown in economic activity as in the previous year and non-tax did not get the significant boost from exploratory fees as in 1981. However, the rate of increase in current spending slowed considerably in 1982.

#### External Policies and Issues

The external debt of the public sector soared in the past two years as many investment programs got underway. The debt service ratio in 1982 was less than 5% and, on basis of existing commitments, was not expected to increase much further. However, such a ratio may not be a meaningful indicator of the adequacy of the external debt position, having regard to the high import content of tourism. Other indicators show a significantly different picture

to estimated GDP may have increased from some 8% in 1980 to end-1982.

On the issue of the impact of the International Banking in New York on offshore banking in the Bahamas, while there was some decline in the Eurodollar operations of some banks, the effect on the economy has been fairly marginal as most of the benefits derived from offshore banking are directly correlated with the number of banks and not the size of their operations. So far the fall-off has not affected fees paid to Government by such institutions and there are no indications whatsoever that domestic employment has been affected.

#### Recent Economic Developments

Following a modest decline in 1981 of some 1%, the major economic indicators pointed to a moderate economic recovery in 1982. The economy showed some increase, reflecting in large measure a successful marketing thrust by the Bahamas. For the first six months of 1982, tourist arrivals (air) increased by 10.3%, compared to a decline of 4.3% for the corresponding year in 1981. New Providence showed a sharp rise of 29.8% after a year earlier drop of 4.8%.

The pace of construction slowed somewhat from the very high level recorded in 1979 - 80, but commercial activity was sustained in 1982 with continuation of work in the public sector. Manufacturing picked up from the depressed level of 1981, but agricultural output fell sharply.

The rate of inflation has eased significantly since 1981 in line with developments in the U.S. The 12-month rate of increase in prices dropped from more than 13% in May 1981 to 4% in December.

The current rate of inflation is 4.8%. There has also been a deceleration in wage settlements, although the rate of increase in wages in some sectors is well above the current rate of inflation.

Concerning the balance of payments, the current account showed great improvement in 1982 from a \$73 million deficit in 1981 to a much reduced deficit of \$19 million. However, long-term private capital inflows fell sharply with the completion of some major projects. Official reserves posted a gain of \$11.2 million for the year. External reserves have been growing steadily during the first half of 1983 and stood at B\$151.7 at end-June.

Government foreign currency obligations have increased substantially in the last two years by B\$107.7 million to a level of B\$350.4 million, by the end of 1982. As at end-June, the amount was B\$393.4 million, largely reflecting the total drawdown by Government on the \$150 million Eurodollar Cable Beach Hotel loan facility.