Country Report: The Bahamas

Macroeconomic and Political Analysis

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This paper is a country report on the Bahamas which was produced as a result of the AU-IADB collaboration on the Practicum "Development in the Caribbean". It serves as a capstone requirement for Master’s graduation at the School of International Service. The report is divided into two main parts: an economic assessment and a political overview of the Bahamas. The first part presents an analysis of the economic structure, its growth and economic constraints, and emphasized the problematic issues that need improvement. The second part presents an overview of the national government and political structure, the election process, and the press freedom of the country.

Part I - Economic Overview: The Bahamas

Introduction

This section of the paper analyzes the economic situation in the Bahamas. It aims to characterize the current state of the small-island macroeconomic structures and investigate its respective trends in growth in the public and private sectors.

Included in this part of the report are analyses of the country’s economic organization and performance, government and public institutions, and business institutions and the private sector. Additionally, the report provides an overview of the key economic sectors—primarily tourism and financial services—and considers the economic impacts of external forces such as natural disasters and climate change.

Macroeconomic organization

The Bahamas is a service-based economy and one of the highest income countries in the Caribbean. The economy of the Bahamas is characterized by tourism and financial services as its two major income-generating sectors.

As its principal sector, tourism contributes to approximately 40% of the GDP. Construction driven by tourism adds another 20% to Bahamas’ aggregate output. The second largest sector is financial services, which contributes to around 15% of the economy, a large portion of which is from off-shore banking since the Bahamas is considered a tax haven.

Aside from tourism and financial services, other activities include oil, maritime transshipment, salt, rum, aragonite, and pharmaceuticals industries. However, as a whole, they only account for about 7% of the GDP. Agriculture accounts for 2.1% of GDP. In terms of space, more than 99% of the land is used for other purposes - i.e. tourism-related construction

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1 It should be noted that lack of adequate data constrains the thorough analysis that is necessary to make certain inferences. Snapshots of certain years are indicative of the year itself through a big picture but it becomes harder to detangle the underlying issues in the country if we do not have enough observations for previous periods. Therefore, the report that follows provides a descriptive look at the relationships observed in the available data from the Bahamas government websites and other international institutions, such as the World Bank, Inter-American Development Bank (IDB), Organisation for Economic Cooperation and Development (OECD), and the International Monetary Fund (IMF).
and only 0.65% is used as arable land and 0.29% as permanent crops. These figures are an indication of the Bahamas’ economic specialization in the service industry.

Given there is low agriculture and production from other industries on the island, the Bahamas must rely heavily on imports of the majority of its goods. The top five import origin countries of the Bahamas are: United States (31%), India (30%), South Korea (9.9%), Colombia (6.6%), and China (3.6%). Whereas, the top five export destinations of the Bahamas are Singapore (30%), United States (22%), Poland (10%), Ecuador (6.2%), and Switzerland (5.6%).

**Economic performance**

Though one of the higher per-capita income countries in its neighborhood, much like other small economies in the region, the Bahamas experienced stagnant economic growth in recent years. Following the global financial crisis in 2008, the Bahamas, experienced negative growth rates in GDP. While GDP has grown since 2010, the average annual GDP growth is only 1.08%. This is due to multiple factors, namely its size, location, and policies all of which exacerbate its dependency on foreign markets and consequently its vulnerability to external shock. This section investigates the contributing factors to the poor growth by looking at the Human Development Index (HDI), GDP trends, and current account status.

*Size and Location*

The small size of the economy and its geographic location contribute to the Bahamas’ growth. Like most small island economies, the Bahamas has limited capacity for economic expansion and is highly reliant on foreign markets. Any negative shift in the foreign market can be detrimental. In the case of the Bahamas, there is a large dependence on foreign markets, namely the US to contribute to its tourism sector. Moreover, given the geographic and climate traits of the region, the island is subjected to extreme floods, hurricanes, and other natural disasters which cause substantial damage and have negative economic repercussions.

*HDI, GDP per capita, and Annual GDP Growth*

The Bahamas is a high-income country with an HDI of 0.789 showing a good standing in the social development front. HDI is a measure of a nation’s quality of life. It is comprised of life expectancy, level of education, and gross national income (GNI). Barbados, Trinidad and Tobago, Jamaica, Suriname, and Guyana have lower indices than the Bahamas. 

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2 CIA World Factbook
GDP per capita comparisons within the region emphasize the differences in economies and policies of each C6\(^3\) country. The Bahamas, Barbados, and Trinidad and Tobago have higher GDP per capita at more than $27,542, $26,386, and $22,679 respectively. Suriname, Jamaica, and Guyana are at $10,000 and lower annual GDP per capita. The dispersion of the GDP per capita relies partially on the economy type of each country. The Bahamas, Barbados, and Jamaica are all tourist economies. Due to geographic location and a well-maintained landscape, the first two countries and increasingly invest these sectors. Conversely, Jamaica lags behind, largely due to its high crime rates, which diminish their level of tourism and overall economic growth. Trinidad and Tobago, Guyana, and Suriname are all commodity exporters; however, they each have different growth patterns due to their economic structure, treaties, and policies they have in place.\(^4\)

Relative to its Caribbean counterparts and the rest of small economies (ROSE), the Bahamas’ GDP per capita index faced a declining trend with a short recovery towards the end of the 1990s. In 2005, it started to slowly decline yet again until 2012 where it hit a plateau. Given the decline, the Bahamas is still considered a high income economy. Moreover, the lower GDP per capita in comparison to the countries in its region and those with similar population size is alarming. The level of production and its economic sectors may be speaking volumes of the discrepancies between these groups. The extent of dependency to the U.S. as well as the narrow sectors of economic specialization have also caused large problems in terms of equality of income distribution. These problems are reflected in the GDP per capita index graphically portrayed below (Figure 2).

\(^3\) **C6= Caribbean 6. Consists of the Bahamas, Barbados, Suriname, Jamaica, Guyana, and Trinidad and Tobago**

\(^4\) **WDI**
Generally, the Bahamas annual GDP growth rates follow U.S. trends of fluctuation. Where there is a rise in US GDP growth, there is also a rise in the Bahamas growth, mostly because economic prosperity translates to luxury and hence tourism in the Bahamas by US citizen as well as investments from their rich population. On average, these growth rates have been positive. Growth rates started to boom with policies, hotel acts, non-taxed income, and other attractive undertakings that were put in place after World War II. During this time, there was the initiation of the late Sir Stafford Stands, chair of the Development Board in 1949. He transformed the Bahamas into a massive tourist resort in just a few short years.\(^5\) During the 1960s, the Bahamas recorded great economic growth averaging to about 9% annually during the entire decade.\(^6\)

In the 1970s, the Bahamas did not experience the same level of economic prosperity. Due to an economic recession in the mid-1970s in the western world, the Bahamas experienced negative growth rates and low positive rates throughout the decade, which averaged 3.2\(\%\).\(^7\) The reduced investment and tourist arrivals due to oil price shocks contributed to its aggregate production. Upon gaining independence in 1973, there was an increase in uncertainty that caused a large drop in the Bahamian market. However, later in the decade things shifted, growth became positive and high due to investors resuming their previous activities in the country. Consequently, tourism and employment in the main sectors followed suit.

For the past 15 years, the country has experienced turbulences in the growth of economy due to upheavals and financial crises but in the present and near future years it is expected to pick up the pace of growth. Following 9/11 events, the Bahamian GDP growth rates became negative because US citizens grew wary of travelling as a consequence of political unsafety. More recently, the Bahamas experienced negative growth rates after the 2008 world financial crisis. In 2009, the country experienced a GDP growth of negative 4.2\(\%\). While a negative growth rate is no longer the case – in 2010 the country had a 1.5\(\%\) GDP growth – the growth is

\(^5\) Fraser 2001
\(^6\) WDI
\(^7\) World Bank, World Development Indicators
still listless. Due to its slowly progressive economy and high dependency on U.S. tourism the GDP growth dropped to less than 1 percent in 2013 (Figure 3) but increased to 1.8% in 2014. However, the strength of the U.S. economy recently and the substantial decline in oil prices is expected to continue to boost tourism as a result of a stronger economy and reduced airfare. The dependency on the U.S. will reap its benefits at the present time; however, given its sensitivity to such shocks, the Bahamas needs to find other revenue generating solutions to balance the effect of shocks via fiscal and monetary policy. Meanwhile, the government initiated certain policy changes in 2014 to increase revenue but the expected projections did not follow through due to in-country dissatisfaction.

![Figure 3 Real GDP Growth Barbados and the USA](source: WDI)

**Current Account Deficit and Foreign Direct Investment**

The current account balance is a telling indicator of a country’s economic performance. In the case of the Bahamas, the CA shows a large deficit that drives the country further into debt and is not sustainable for a long time since it has been fluctuating but remaining wide since around 1992. Although in the case of the Bahamas, the deficit is not all due to unproductive imports but also from imports related to investments which are expected to be lucrative, generating revenue through other sources and reducing the debt can help shrinking this wide deficit.

The growing current account deficit in the Bahamas for the past six years has been increasing due to the country’s policies and economic dependence on the U.S. Its status as a financial center, low fiscal revenue due to non-taxation of income and inefficient collection of property taxes, large foreign investments (i.e. Baha Mar Resort), and overall lower exports (e.g. tourism) are all contributing factors to the widened deficit. During economic recoveries, imports often increase at a faster rate than exports, which causes the current account to experience deficits. As seen in the figures below, there is a large gap between foreign direct investment and current account balance. The current account deficit peaked in 2013 at a negative 19.4% of GDP. The wide deficit shrunk by approximately 3 percentage points last year totaling to an extraordinary deficit of 16.6% of GDP. This is mainly due to the construction materials and investment related to the major touristic complex Baha Mar in New Providence. The resort was

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8 Economic Intelligence Unit
expected to open in March 2015 but has been pushed to around June as the Baha Mar representatives took to social media to explain that the current state of the resort does not reflect what the Baha Mar stands for. However, this could mean more construction in these months where a deepening of CA deficit may be expected. The current-account deficit is expected to lower to 13.1% of GDP in 2015, as import costs will be reduced because of falling oil prices, tourism service demand will increase, remittances will be recovered, and the new Baha Mar Project will boost exports.\(^9\)

The Bahamas has experienced current account deficits continuously for the past 25 years, with larger deficits following especially vulnerable periods. The deficit underwent substantial growth proceeding 2001, 2006, and 2011. These numbers are all associated with events that had happened in the world economy and other political upheavals on the country of dependence. However, the deficit has been mainly financed by investment and imports.

**Revenue and Expenditure**

Furthermore, the Bahamas has habitually higher expenditures than revenue due to inadequate fiscal policies. These policies meet the necessities for public expenditures which contributed to the widened deficit. Its revenues as a percentage of GDP amount to around 17.8% and its expenditures to around 22.5%. The tax collection of the Bahamas until recently has relied on the real property tax which is determined upon the evaluation of the property’s value by the Real Property Tax Valuation Unit and if paid after the deadline an interest of 5% is issued. Nonetheless, the collection of the taxes has not been to its desired level as the officials accounted that only 50% of these taxes are collected; thus, they are planning to renovate tax collection through an online platform.\(^10\) The high discrepancy between revenue and expenditure led to a large accumulation of debt in the Bahamas in the course of a few years from FY2011/2012 to 2013/2014, substantially increased by a loan contracted in 2012 at the amount of US$180 million (2.2% of the Bahamas’ GDP).\(^11\)

\(^9\) Bahamas Country Report 2015 (EIU)

\(^10\) IMF, Article IV

\(^11\) IMF, Article IV
The graph below with the inverted U debt curve depicts whether higher debt is correlated with lower or negative growth rates. The data below shows that the Bahamas debt lies between 56.1% in 2013 having increased to around 56.1 as per IMF’s projections. The growth rate has been increasing since 2010 from 1.0 to 2.3 but debt is increasing simultaneously. The growth rate of GDP is expected to increase further due to new hotel developments via foreign direct investment. However, since tourism has stagnated due to U.S. economic shocks, the Bahamas has plans to draft policies and promote the country to other high income economies to lessen the dependence on the U.S. demand for its tourism and stabilize the potential effect of such external forces.

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12 IMF, Article IV
13 IMF, Article IV
14 Bahamas Ministry of Finance
Moreover, there is tax exemption for selected imported items to encourage industrial development and attract investors. The list is quite extensive which covers exemptions on imported commercial printers, equipment and machinery, new vehicles, and raw materials and supplies.  

Additionally, it is evident that the Bahamas’ pattern starkly differs from the average of the C6 group of countries and ROSE regarding the ratio to GDP of current account and FDI. The Bahamas ratio to GDP of current account balance and FDI jointly is negative whereas that of the average of the C6 is positive, from 2010 and on (Figure 9). The gap is similar to the rest of small economies indicating the stagnant Bahamian economy. The Bahamas has a higher deficit on its own mainly due to was discussed above: major reliance on foreign markets on all of its most lucrative sectors. New development projects (i.e. Baha Mar Resort) have been under construction, nonetheless, which are mainly financed by foreign investors and if projections turn out to be true, the current account balance should shrink and FDI increase in the next five years.

Figure 7 Debt-to-GDP ratio and Economic Growth (2012)  
Source: IADB calculations; and International Monetary Fund, World Economic Outlook, October 2013.  
Note: C6 = The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago; OECS = Organization of Eastern Caribbean States; ROSE = Rest of small economies
Figure 8: Current Account and Current Account + FDI, in the Bahamas
Source: WEO for CA and WDI for FDI

Figure 9: CA+FDI comparison for Bahamas, C6, and Rest of Small Economies (ROSE)
Source: WEO for CA and WDI for FDI
The economic growth process is largely influenced by governance and the quality of public institutions. This section describes Bahamian government economic stakeholders and assesses the fiscal and monetary policies which shape the economy.

In general, small economies have large government sectors. This can be observed in the best-fit line on the graph below. The Bahamas falls well below this line. Compared to economies of a similar size, the Bahamas has a relatively small ratio of government expenditures to total GDP.

In terms of quality of governance, the Bahamas scores relatively high for its size and region. Compared to ROSE and other Caribbean islands, the Bahamas falls above averages in ratings of quality of Voice and Accountability, Control of Corruption, Rule of Law and Political Stability. Figure 11 shows the Bahamas scores slightly below the compared countries in terms of regulatory quality. However, regarding Government Effectiveness, it falls substantially below the average.
The Bahamian government shows weakness in the effectiveness of the government. The PRODEV Evaluation Tool (PET), a measure that determines the quality of a country’s public sector, ranked the Bahamas a .8 out of 5 for Monitoring and Evaluation and for Program and Project Management. These scores have remained unchanged since 2009. In the other PET measures (ie. Strategic Planning, Budgeting, and Financial Management), the island has made progress. In 2012, Progressive Liberal Party (PLP) of the Bahamas published a 200-page document entitled Vision 2030: A New Charter for Governance, which outlines its goals to improve government effectiveness. Primarily, the goals aim to address issues of crime, education, health care, mortgage relief, border controls, job creation, and corruption.

Exchange Rate

A key cornerstone of the Bahamian monetary policy is its fixed rate to the US dollar, coupled with certain capital controls. Following the Bahamian independence in the early 1970s, the policy was enacted in the Central Bank law of the Bahamas, which describes it as an effort “to ensure disciplined use of the country's foreign currency reserves and to assist in its Balance of Payments.” The exchange controls include measures to serve the country's external reserves and safeguard the balance of payments; control expansion in the money supply as well as speculation in the Bahamian currency by non-residents; provide a statistical means of monitoring the inflows and outflows of foreign currency to/from The Bahamas; and maintain the fixed rate parity of the Bahamian Dollar with the United States Dollar. The existence of capital controls allows the Bahamian central bank to have some degree of flexibility in its interest rate setting, although with limits to how far it can diverge from US monetary policies.

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16 Public Financial Management Reform and Performance Monitoring Reform, (BH-L1035)
17 Vision 2030: A New Charter for Governance, PLP Publication
18 Central Bank of the Bahamas
19 Central Bank of the Bahamas
Government Policies

To generate higher revenue and cover the expenditures that the modern necessities dictate, the Bahamian institutions is introducing a value-added tax (VAT). This is all in an effort to halt the further deepening of the public debt. Based on the success stories of other countries, the Bahamas introduced a VAT of 15% to replace the reduction in customs duty revenues. The projected net gains from the tax were to account at 1.3% of the GDP in 2013 and reaching 2.3% of the GDP in 2018. Due to displeased citizens, however, the tax changed its target rate to 7.5% through a VAT bill enacted by the Bahamian parliament. The reluctance to pay the tax starting January 2015 remains a challenge to the Bahamas and their efficiency in the tax collection is yet to be observed.

The government has developed an electronic platform to collect taxes, establish new business license fees, environmental levy on certain imports, and a progressive customs processing fee as opposed to the fixed fee that was in place until 2013. The government argued the full potential of revenue from tax collection has not been met. In fact, it is estimated to have only been collected around 50%. The government anticipates that the online portal is going to increase the efficiency and amount of tax collection.

Furthermore, the government is relaxing barriers to trade because it joined the WTO and cannot rely as heavily on import tariffs any longer. Even if it did, the current tax structure does not generate the adequate amount of revenue to cover all the expenses for the current and future Bahamians and therefore the tax reform was a must.

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20 IMF, Article IV
21 Bahamas Ministry of Finance
22 IMF, Article IV
23 Central Bank of Bahamas
Educational, health, and basic food products are exempt from the tax. Regardless of such exemptions, political unrest from labor unions is expected because higher wages will be demanded due to higher cost of living with the added tax burden to the citizens.\textsuperscript{24} The Bahamas continue not to tax income to keep its tax haven status. The addition of business license fees, and other import related fees are likely contributing factors to the Bahamas’ lower rates in the business frontier scale.

**Business Environment and the Private Sector**

This section of the report presents a description of the current business environment and a profile of the private sector in the Bahamas.

**The Bahamas has a relatively large private sector and is highly entrepreneurial.** As of 2011, the private sector accounts for nearly 80\% of GDP.\textsuperscript{25} Additionally, it contributes to 78.7\% of total employment.\textsuperscript{26} As mentioned before in this report, the private sector is dominated by the tourism industry, and the financial sector, which consists of commercial banks, insurance firms, and other financial institutions.

**The majority of Bahamian firms are considered small (1-4 employees) or medium (10-49 employee).** According to the Bahamian Department of Statistics, as of early 2011 there were 4,732 small- or medium-sized enterprises (SMEs) on the capital island of New Providence, 87\% of which have less than 9 employees.\textsuperscript{27}

\textsuperscript{24} EIU  
\textsuperscript{25} World Bank, World Development Indicators  
\textsuperscript{26} The Bahamas Department of Statistics  
\textsuperscript{27} The Bahamas Department of Statistics
The World Bank’s Doing Business Report of 2014 reveals the level of performance of the countries on their best business practices, including ease of conducting business, on a scale from 0 to 100 which depicts the distance to the frontier (highest performance level of 100 points). The Bahamas stands a little above halfway of the scale with 63.9 points (Figure 14). Since the FDI it attracts is high, improving the level of performance would increase the possibility of higher employment opportunities within the country which would increase the income tax base and lead to higher revenues. When compared to other Caribbean countries like Jamaica, Suriname, Antigua and Barbuda, and other small economies, the Bahamas is positioned below. This is a case for concern because the Bahamas is expected to do better due to large investments from foreigner; nonetheless, even when compared from 2009 to 2014, the Bahamas has deteriorated its level of performance. Given the problems that it had to face in its two major industries, regressing in terms of business best practices is not feasible for the country.
Issues of corruption and bribery continue to be an obstacle for the Bahamas. A large amount of institutional strength is subject to bribe requests.\textsuperscript{28} According to the World Bank Enterprise surveys, the Bahamas rates higher than the global average in incidence of bribery, and the percentage of firms expecting to give gifts to get an operating license and construction permit. 21\% of firms experience at least one bribe payment request compared to a world average of 17.9\%.

\textbf{Figure 15: Bribery Depth}

\textit{Source: Private Sector Assessment Reports}

\textbf{Figure 16: Bribery Incidence}

\textit{Source: Private Sector Assessment Report}

\textsuperscript{28} Compete Caribbean, Private Sector Assessment Report
The country’s leaders have stressed the importance of the private sector in its new efforts to diversify the economy. Examples of this are the plans to privatize the electrical industry and create a moratorium for offshore oil drilling.\textsuperscript{29}

\textsuperscript{29} Compete Caribbean, Private Sector Assessment Report
**Key sectors**

_Tourism_

This section focuses on the two dominant industries in the Bahamas. As mentioned, this includes Tourism – which accounts for 60% of GDP when tourism-based construction is included – and financial services in the form of commercial banks, insurance companies, trusts, and credit companies. An analysis of these key sectors and their effects on growth, stability, and stagnation follows.

Tourism has been the engine of the Bahamian economy since the end of the World War II. Contributing to about 2/3 of the economy, it is the sector that keeps the Bahamas afloat since the country lacks diversity of income generating sources. Thus, the almost unilateral reliance on the tourism sector leaves the Bahamas extremely vulnerable. Examples of this include US market demand drops, unforeseen delays of development projects, global recessions and storm damage. Unfortunately, the statistics agency in the Bahamas has only published the arrivals for 2008 in their website and therefore the data that will be considered here is from the World Travel and Tourism Council.

Figure 19 illustrates the tourism sector’s direct and total contributions to GDP for 9 Caribbean countries (Grenada, St. Vincent and the Grenadines, Jamaica, St. Kitts and Nevis, Dominica, St. Lucia, Barbados, Antigua and Barbuda, and the Bahamas). Compared to these other small island economies in the Caribbean, the Bahamas has a much higher direct contribution, the contribution generated by the direct economic relationship between guest and producer, to GDP. 30 The prevalence of the tourism industry is reflected in the employment

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30 Direct and Indirect Contributions of Tourism to Regional GDP: Hawaii, University of Hawaii
sector. Figure 20 shows the relationship between the tourism and travel industry’s contribution to employment through percentage of growth since 1990.

![Tourism Dependency and Employment](source: World Travel & Tourism Council (WTTC))

Approximately 60% of the Bahamian GDP is accumulated from its tourism sector – services and construction included. The direct contribution to GDP accounts for the total spending in tourism within the country by residents and tourists as well as government individual spending – i.e. museums, recreational parks. The indirect contribution to GDP accounts for investment spending by tourism such as purchasing new aircraft, constructing new hotels, promoting tourism, providing security services, purchasing of food and catering services by hotels and so on. The total contribution includes both the indirect and direct contributions and other variables that cannot be observed or estimated.

The direct contribution of tourism to GDP was 20.4% in 2013 which was forecast to increase for another 7.8% in 2014 reflecting activity by hotels, travel agencies, airlines, and transportation services. The total contribution of tourism was 46% of the GDP and around 48% of the GDP in 2014. In 2013, 28.5% of total employment was generated via 53,500 jobs in the tourism and travel sector, including hotels, travel agencies, transportation services, restaurants, and leisure industries supported by tourists. The forecast for 2014 suggested 56,500 jobs in the tourism sector amounting to 29.8% of GDP.

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31 World Travel & Tourism Council (WTTC)
32 WTTC
33 WTTC
Even with all of the contributions to the economy, citizens who want to pursue different careers have little options outside of the sector. This drives high-skilled non-service industry human capital to leave the country for work elsewhere. This brain drain phenomenon, illustrated in Figure 18, pushes at the most nearly 75% of the high-skilled population to leave. This could have larger implications for the Bahamas global competitiveness.

![Figure 21: Emigration Rates by Skill-Level: Source IDB AB Emigration Data Set](image)

For any given skill level and year, the emigration rate is defined as the total migrant population from a given source country divided by the sum of the migrant and resident population in the same source country.

**Financial services**

The financial services sector is the second largest contributor to the Bahamian GDP. Over the past quarter century, the Bahamas has continued to foster its status as a tax haven and offshore banking center.\(^{34}\) This is supported, most notably, through the International Business Companies Act (IBC). The main goals of the IBC is to reduce costs and to simplify the process of incorporating offshore companies on the island.\(^{35}\) For a company to file for IBC in the Bahamas, the annual government fee is only 350 USD for authorized capital of 50,000 USD and below and 1000 USD for 50,000 USD and above.\(^{36}\) Policies like the IBC welcome offshore companies on the island.

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\(^{34}\) US Department of State, Country Profile

\(^{35}\) Modeled after policies in the Cayman Islands and the British Virgin Islands, this governing corporate law was first introduced in 1990 to attract investment. It has had multiple amendments and revisions. The most recent version of the law was enacted in 2014

\(^{36}\) International Business Companies Amendment Act 2014, Bahamas
The quantity of offshore banks and of these banks assets are gargantuan compared to onshore banks (Figure 22). At the end of 2011, there were 271 banks and trust companies with active licenses. The Bahamas held $595 billion USD in assets, 98% of which is attributed to IBC-type companies. While the majority of the assets come from foreign companies, 80 percent of onshore banking assets comes from domestic banks. The separation is attributed to strict firewalls between the offshore and onshore sectors, which greatly limit its impact on the real economy.  

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37 IMF Financial Sector Stability Assessment, 2013  
38 IMF Financial Sector Stability Assessment, 2013
Natural disasters

Aside from economic shifts, the island is also subject to the whims of the physical environment, many of which have considerable economic ramifications. A country situated in a part of the world that is prone to natural disasters, the Bahamas is especially vulnerable to annual flooding and hurricanes. Moreover, the Bahamas’ small size – geographically and economically – has an inverse effect on the devastation: the smaller the size, the worse the aftermath. These calamities can be detrimental to the country’s economic situation. From 1980-2010 alone, the island experienced a total of 13 natural disasters. This total accounts for 12 major storms and 1 flood. Economic damages for these 13 disasters totaled over 2.5 billion USD with an average of 82 million USD annually. Figures 20 and 22 demonstrate the direct costs of natural disasters. Next to economies of a comparable size, the cost of disasters is among the highest.

The impact of these storms is harsh. Hurricane Andrews is an example of the devastation storms have on the island. In 1992, the Bahamas was hit with Hurricane Andrews, the first big storm since 1965. The storm destroyed 800 homes, 5 schools, and left 1,700 people homeless. There was also substantial damage done to the transport, communications, water, sanitation, and agriculture and fishing industries. While the hurricane did little damage to tourist areas, officials anticipated a decline in tourism by up to 20% following the storm.

In view of the high frequency and intensity of storms, the government needs to undertake measures to build resilience. These efforts include climate change adaptation and mitigation, which would require enormous financial resources, technology transfer and effective national, regional and global policy and governance frameworks. Necessary policies should focus on
diversifying “options” for small island economies in such a way that the inter-linkages between sectors like tourism, finance, and ICT can be exploited.  

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**Figure 24: Direct Cost of Natural Disasters**  
Source: The International Disaster Database; and IMF, World Economic Outlook, October 2013.

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**Figure 25: Natural Disasters by Population**  
Source: The International Disaster Database; and IMF, World Economic Outlook, October 2013.

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41 CTA Policy Brief “Building Resilience in Small Island Economies”
Part II – Political System Overview

This section of the report provides an overview for the government of the Bahamas. In addition to detailing the structural components of the country’s executive, legislative, and judiciary branches, the report assesses the appointment and election processes for government officials.

Structure of the National Government

The Bahamas, officially the Commonwealth of the Bahamas, follows the structure of a parliamentary system. As indicated in Figure 1, under this system, there are three main branches of the government: the executive, legislative, and judiciary. The Prime Minister leads the government. Similar to other British commonwealths, the role of the British monarch in the former colony’s government is largely symbolic and harbors little to no power. This is exemplified through the role of the Governor General, who serves as the viceregal representative of the monarch. Technically, this position is responsible for the appointments of certain officials, can overrule successive Senate rejections of bills, and is tasked with providing guidance to the prime minister. However in actuality, the Governor General hardly enacts these responsibilities and serves instead as a national figurehead. Often, the role of the Governor-General is given to someone who is of historical importance in the Bahamas. The current position is held by Marguerite Pindling, who is the wife of the first Prime Minister of the Bahamas, Perry Christie.

The executive branch of the government is headed by the Prime Minister and his or her Cabinet of Ministers. This branch is responsible for the general direction and control of the government. This includes final determination of government policy, control of government activities, and coordination of government ministries and departments. The Cabinet consists of a minimum of 9 ministers, and includes the Prime Minister and the Attorney General. Each of the ministers are members of either the Senate or the House of Assembly.

Parliament constitutes the legislative branch. Parliament is tasked with making laws. It consists of two houses: the Senate and the House of Assembly. The Senate, regarded as the upper house, encompasses 16 members. The House of Assembly, or the lower house, has 38 members who are elected from single-member districts.

The main functions of parliament are to uphold, amend, and regulate the constitution. Parliament is also responsible for prescribing the number of justices of the Supreme Court and Court of Appeal. Aside from these responsibilities, the Senate and House of Assembly oversee the government’s financial matters through the Public Accounts Committee.

The Senate has power to reject bills the House of Assembly passes, however if the House of Assembly passes a bill two successive sessions and it is rejected both times by the Senate, technically the bill must be sent to the Governor-General without the Senate having consented to the Bill. This rarely occurs, as the two houses of parliament are not antagonist entities. Senators are typically appointments by the House of Assembly and the executive branch.
The judicature of the Commonwealth of the Bahamas consists of multiple courts. The first is the Privy Council, which is technically the highest court of the Bahamas and is located in England. The Court of Appeals and the Supreme Court are not government departments and they function as independent institutions under the constitution, though parliament prescribes the number of judges. The Court of Appeals is the highest court in the Bahamas, and has jurisdiction in criminal, constitutional, and civil matters. It consists of six justices. The Supreme Court has 12 justices who are appointed by the Governor General under the consultation of the Judicial and Legal Services Commission. This court has jurisdiction in general, civil, and criminal matters. The lowest court is the Magistrates’ Court. In the Bahamas there are 20 Magistrates’ Courts, which oversee criminal and civil matters.

Figure 1. Basic Structure of the National Government
Source: The Bahamanian Government Website
<table>
<thead>
<tr>
<th>Official Name</th>
<th>Commonwealth of the Bahamas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form of government</td>
<td>Representative Democracy</td>
</tr>
<tr>
<td>Head of state</td>
<td>Queen Elizabeth II, represented by a governor-general appointed on the advice of the Bahamian cabinet - currently by Sir Arthur A. Foulkes</td>
</tr>
<tr>
<td>The executive</td>
<td>The prime minister, appointed by the governor-general, heads a government responsible to the House of Assembly (the lower house)</td>
</tr>
<tr>
<td>National legislature</td>
<td>Bicameral: Parliament consists of the Senate (the 16 members of which are appointed by the governor general upon the advice of the prime minister and the opposition leader to serve five-year terms) and the House</td>
</tr>
<tr>
<td>Legal system</td>
<td>Based on the British system, with a UK style hierarchy of courts: magistrates’ court, Supreme Court, Court of Appeal and, in some cases, the UK Privy Council</td>
</tr>
<tr>
<td>National elections</td>
<td>Last elections held on May 7, 2012; Upcoming elections are due in May 2017</td>
</tr>
<tr>
<td>National government</td>
<td>The PLP holds 30 seats (in the lower house) whereas the FNM holds 8 seats</td>
</tr>
<tr>
<td>Main political organisations</td>
<td>Government: Progressive Liberal Party (PLP)</td>
</tr>
<tr>
<td></td>
<td>Opposition: Free National Movement (FNH)</td>
</tr>
<tr>
<td>Key ministers</td>
<td>Prime minister &amp; minister of finance: Perry Christie</td>
</tr>
<tr>
<td></td>
<td>Deputy prime minister &amp; minister of works &amp; urban development: Philip Davis</td>
</tr>
<tr>
<td></td>
<td>Attorney-general &amp; legal affairs: Allyson Maynard Gibson</td>
</tr>
<tr>
<td></td>
<td>Agriculture, marine resources &amp; local government: Alfred Gray</td>
</tr>
<tr>
<td></td>
<td>Education, science &amp; technology: Jerome Fitzgerald</td>
</tr>
<tr>
<td></td>
<td>Environment &amp; housing: Kenred Dorsett</td>
</tr>
<tr>
<td></td>
<td>Financial services: Hope Strachan</td>
</tr>
<tr>
<td></td>
<td>Health: Perry Gomez</td>
</tr>
<tr>
<td></td>
<td>Labour &amp; national insurance: Shane Gibson</td>
</tr>
<tr>
<td></td>
<td>National security: Bernard Nottage</td>
</tr>
<tr>
<td></td>
<td>Social services &amp; community development: Melanie Griffin</td>
</tr>
<tr>
<td></td>
<td>Tourism: Obediah Wilchcombe</td>
</tr>
<tr>
<td></td>
<td>Transport &amp; aviation: Glenys Martin</td>
</tr>
<tr>
<td></td>
<td>Youth, sports &amp; culture: Daniel Johnson</td>
</tr>
<tr>
<td>Central Bank governor</td>
<td>Wendry Craigg</td>
</tr>
</tbody>
</table>

*Source: EIU*

**Table 1. Political Structure**

*Source: EIU*
Elections and the Level of Freedom

Elections in the Bahamas are democratic. They are managed by the Parliamentary Registration department which is led by the Parliamentary Commissioner. The Commissioner is responsible for voter registration. Another important portion of the electoral process in the Bahamas is the Electoral Broadcasting Council, which aims to make sure the media reports are fair towards both parties. In order to vote in the general elections, one must be 18 years old, a Bahamian citizen, and have lived in the country for at least three consecutive months.

The Bahamas has two major parties: The Progressive Liberal Party (PLP) and the Free National Movement (FNM). The PLP was the first black-led party in the Bahamas and has dominated the elections since its naissance in the early 1960s. The party is positioned in the center left on a liberal to conservative spectrum. It should be noted that up to the early 90s, the PLP was the dominating party in country which secured the country’s independence from the UK in 1973 with the leadership of Lynden Pindling, also known as the father of the nation. The FNM is a party that developed from a split within the PLP in the 1970s. The group is slightly more conservative, supporting more economic conservatism in the Bahamas. The FNM won its first elections in 1992 and ruled the country for 10 years under Prime Minister Hubert Ingraham who was succeeded by Perry Christie of PLP. In the two upcoming elections the two leading parties won one after the other with FNM in 2007 and PLP in 2012.

Some of the main issues of the penultimate electoral process were foreign investments, immigration policy, and the economy in general. Christie of PLP held that he helped Bahamas with 20 billion dollars of investment whereas FNM argued that the major accommodations to investors should be halted and that land should be leased rather than sold to investors. The migration issues views were shared by both parties who wanted to halt illegal immigration to the country. In the 2012 elections, when the FNM lost to PLP, the FNM leader resigned from politics. As such the representation of the party has fallen substantially to 9 seats in comparison to the 29 seats of the winning party. Despite the lesser presence in the parliament, the FNM provides active insights in public policy even with the inner political turbulences with its leader’s resignation.

The Bahamas is in the forefront of economic world freedom in comparison to the rest of the Caribbean but lags a bit behind Jamaica in terms of the freedom of the press. The Freedom House publishes the World Freedom Index yearly since the 1972 which ranks countries by political rights and freedoms. Countries are grouped into four categories: free, partly free, unfree, and worst of the worst. The Bahamas is in the best category in this section which is also partly supported by the voter turnout in the more recent elections as seen in the figures below. The Economic Freedom Index is produced by the Wall Street Journal and the Heritage

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42 Economic Intelligence Unit 2015
43 Freedom House 2013
44 Organization of American States 2013
45 Economic Intelligence Unit 2015
Countries are classified as free, mostly free, moderately free, mostly unfree, and repressed, and the Bahamas falls into the moderately free category. Although on average it has had a 0.7 increase in the past half-decade, the Bahamas still struggles with issues of corruption which stem from the financial system and the inadequate tax regime which does not tax personal or corporate income tax. The Press Freedom Index is produced by Reporters without Borders which groups countries in: a good situation, a satisfactory situation, noticeable problems, a difficult situation, or a very serious situation regarding issues of freedom of expression and information sharing. The Bahamas lies in the satisfactory situation category which could be as a result of the small economy, small population, and great ties of people in different levels of the executive.

### Recent Election Results

<table>
<thead>
<tr>
<th>Parties</th>
<th>Votes</th>
<th>%</th>
<th>Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007 Election Results</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progressive Liberal Party (PLP)</td>
<td>64,624</td>
<td>46.96%</td>
<td>18</td>
</tr>
<tr>
<td>Free National Movement (FMN)</td>
<td>68,624</td>
<td>49.85%</td>
<td>23</td>
</tr>
<tr>
<td>Bahamas Democratic Movement (BDM)</td>
<td>741</td>
<td>0.54%</td>
<td>0</td>
</tr>
<tr>
<td>Independent Candidates</td>
<td>3654</td>
<td>2.65%</td>
<td>0</td>
</tr>
<tr>
<td>Total Valid Votes</td>
<td>137,643</td>
<td>100.00%</td>
<td>41</td>
</tr>
<tr>
<td><strong>2012 Election Results</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progressive Liberal Party (PLP)</td>
<td>75,815</td>
<td>48.62%</td>
<td>29</td>
</tr>
<tr>
<td>Free National Movement (FMN)</td>
<td>65,634</td>
<td>42.09%</td>
<td>9</td>
</tr>
<tr>
<td>Democratic National Alliance (DNA)</td>
<td>13,226</td>
<td>8.47%</td>
<td>0</td>
</tr>
<tr>
<td>Bahamas Constitution Party (BCP)</td>
<td>96</td>
<td>0.06%</td>
<td>0</td>
</tr>
<tr>
<td>Independent Candidates</td>
<td>1,177</td>
<td>0.76%</td>
<td>0</td>
</tr>
<tr>
<td>Total Valid Votes</td>
<td>155,948</td>
<td>100.00%</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: OAS/DECO and nuttonline

*Table 2. Recent Election Results*

*Source: OAS/DECO and nuttonline*

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46 Heritage 2015
Conclusion

The Bahamas is the wealthiest country in the Caribbean, yielding above par performance in key sectors compared to the rest of the region. Nonetheless, having a less than half-million population size, being prone and vulnerable to natural disasters, having high dependency on the U.S. for imports, investments, and tourism, is challenging for the Bahamas. As a result, when the world is hit by devastating recessions, like the most recent in 2008, major losses in the U.S. translate into major losses in the Bahamas. Moreover, although its private sector often flourishes, the fiscal policies in the Bahamas have served to generate little to no revenue. Trying to keep its population and corporations appeased, the Bahamas does not tax personal or corporate income and provides tax exemptions in most of the imports. Furthermore, the Bahamas barely collects the property tax. Consequently, the Bahamas has accumulated debt at around 60% of GDP. All things considered, the Bahamas government aims to change its tourism base establishing sound international relationships and increase its tax base through the use of an online platform and the introduction of VAT at 7.5%.

Nevertheless, the government has already experienced difficulties in implementing these policies by reducing the intended rates of taxes and prolonging their due dates, as well as becoming a member of the World Trade Organization (WTO). Also, the country faces a widened current account deficit though it is expected to shrink due to the completion of a new touristic resort in the country on which the government relies heavily. Being late in implementation of both the fiscal policies and the private sector initiations will keep the Bahamian economy a bit more stagnant than projected by IMF and EIU calculations. Therefore, the government should strive to diversify the tourist base through the promotion of existing sources as well as offering deals to people to keep things moving especially during the summer.

Regarding Bahamian politics, the country is a constitutional monarchy where the Queen Elizabeth II is the head of state and is represented by a Governor General who appoints a prime minister – at least in theory. The country holds democratic elections with large voter turnout where voters choose a representative. The two dominating parties in the system are the PLP and FNM headed by Perry Christie and Hubert Ingraham respectively for at least a couple decades.
The length of their representation shows deep-rooted leadership in political parties. In terms of world and economic freedom, the Bahamas is in good standing. The freedom of the press lags behind other countries in the region, however this situation could be improved by more rigorous international pressure.