



THE COMMONWEALTH OF THE BAHAMAS

NATIONAL ACCOUNTS REPORT 2006

DEPARTMENT OF STATISTICS

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Published by **THE DEPARTMENT OF STATISTICS IN THE BAHAMAS**

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Detailed tables and methodology of the National Accounts results can be found on the Central Bank website at www.centralbankbahamas.com.

FEEDBACK:

The Department of Statistics welcomes your questions and comments regarding this publication.

Printed June 2007

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FOREWORD

This publication introduces Gross Domestic Product of the Bahamas via the production and the expenditure approaches, in current and constant prices and the Tourism Satellite Account which measures the economic impact of the Tourism Sector on the economy. These series increased the analytical usefulness and statistical reliability of the national accounts. The information contained in this report is some of the most sensitive leading indicators of economic conditions in The Bahamas. Users of this information will find it a meaningful addition to the usual body of information for planning and decision-making.

The data has been structured on the basis of the 1993 Revised United Nations System of National Accounts, as far as the Bahamian statistical system permits. Abbreviated definitions of the basic aggregates and an outline of the methodology employed to derive the data are also included. Persons interested in the details of the sources and methods of the estimates are advised to contact the National Accounts Section.

The report covers the period 2000 to 2006. The 2000 to 2002 data represent the Final version to this series of data. The 2003 and 2004 are Revised and 2005 is Provisional figures pending any adjustment or revision by data sources. The 2006 data are available only in constant prices, and are based mainly on indicators and are therefore, Preliminary.

Charles Stuart
Director
Department of Statistics

June 2007

ACKNOWLEDGEMENTS

This report is produced by the staff of the National Accounts Section of the Department of Statistics.

The department wishes to thank the business community, public corporations and governmental agencies for the cooperation received in the provision of the necessary data.

The department also acknowledges the invaluable contribution of:

- Mrs. Leona Wilson (Economics Coordinator)
- Mrs. Clarice Turnquest (National Accounts Supervisor)
- Mr. Alexious Rolle (National Accounts Staff)
- Ms. Shanell Moss (National Accounts Staff)
- Ms. Tenniel Rolle (National Accounts Staff)
- Mr. Andrew Khan (National Accounts Staff)
- Mr. Dwayne Archer (National Accounts Staff)
- Ms. Terah Francis (National Accounts Staff)
- The Business Establishment Section
- The Consumer Prices Section
- The External Trade Section
- The Ministry of Finance
- The Ministry of Agriculture
- The Department of Fisheries
- The Ministry of Tourism
- The Central Bank of The Bahamas.
- The Insurance Registrar

CONCEPTS & DEFINITIONS

The System of National Accounts (SNA): SNA consists of a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision-taking and policy-making.¹

Gross Domestic Product (GDP) at Market Prices: This is the sum of the remuneration of all Bahamian factors of production - labor, capital and land - employed in the creation of the unduplicated total output of the Bahamian economy in the Bahamas. It also includes net indirect taxes i.e. indirect taxes less subsidies. When such net indirect taxes are excluded from the total, it is known as GDP at factor cost.

Gross National Product (GNP): either at market prices or factor cost, differs from the domestic product by including the income of Bahamian capital earned abroad and excluding the contribution of foreign capital to the Bahamian economy. These contributions are represented by interest and dividend receipts and payments to and from abroad.

Gross value added: constitutes the salaries and wages and the gross operating surplus of any or all industries making up GDP. The difference between gross and net value added and gross and net operating surplus is depreciation. The industrial composition of GDP follows the International Standard Industrial Classification (ISIC).

Expenditure on Gross Domestic Product: - sometimes referred to shortly as Gross Domestic Expenditure (GDE) - constitutes all final expenditures made within the year. Final expenditure is defined as expenditure that is not used up in the production process within the year. The differences between Gross Domestic Expenditure and Gross National Expenditure, is identical to the difference between GDP and GNP.

¹ System of National Accounts 1993 pg. 1

SOURCES AND METHODS

A: GROSS VALUE ADDED OF INDUSTRIAL ORIGIN:

Production Approach:

The economy is divided into industries such as Manufacturing, Electricity, Construction etc., based on the International Standard Industrial Classification Revision 3. The measure is Gross Value Added which is calculated as Revenue/Sales minus Cost of Goods Sold and Intermediate Consumption, plus taxes less subsidies.

Most industries are surveyed by the Department of Statistics (DOS) Business Establishment Section. Questionnaires were delivered to commercial establishments. (An establishment is defined as a unit of business that can give information on its gross revenue and specified items of cost). For the largest entities in the various industries the survey is a census, while for the smaller entities a scientifically constructed sample survey is used. The data derived from questionnaires ask such details as gross revenue, salaries and wages, expenses incurred in carrying out the business etc.

Data in the Agriculture and Fishing industries were constructed from information obtained from the Ministry of Agriculture and the Department of Fisheries. The Financial Industry data is obtained mainly from the Registrar of Insurance and the Central Bank of the Bahamas. Information for Public Administration, Public Education and Public Health came from the Ministry of Finance and the Central Bank of the Bahamas.

The industrial total thus derived yielded GDP at factor cost to which were added all indirect taxes less subsidies to obtain GDP at market prices.

B: EXPENDITURE ON GROSS DOMESTIC PRODUCT:

Expenditure Approach:

The economy is divided into consumption patterns of Government and Household Consumption, Investment, Exports minus Imports. It is intended to measure what is consumed or put-in-place.

Government Final Consumption Expenditure was derived from an analysis of the Ministry of Finance and the Central bank of the Bahamas.

Private Final Consumption Expenditure of Residents has many elements. A major part of the total was derived from the establishment survey and consists of revenue in retail trade - adjusted for sales made for purposes of Gross Fixed Capital Formation and sales made to other businesses. The revenues of hotels, restaurants and service establishments and revenues derived from medical and dental practices as well as revenues derived from personal expenditure on the services of accountants, lawyers and architects and the expenditure of charitable organizations as well as associations of individuals such as labor unions were all included. Gross paid and imputed residential rents for household accommodation was derived mainly from the census of population and labor force surveys. Paid and imputed service charges for personal banking and insurance services were also included. An estimate for expenditure in the informal economy was made.

The Change in Stocks were obtained from records of public corporations and the establishment survey in retail and wholesale trade. At present, no knowledge of inventory accounting practices exists nor are there any price indices measuring the change in the value of inventories, these estimates must be considered rough approximations to the true change in the value of inventories. Presently no data exist in areas other than outlined above.

The values of Residential Building Construction and of Other Construction were based on the establishment surveys in the construction industry and information from the Balance of Payments. Purchases of Machinery and Equipment were derived from detailed import data adjusted for custom duties and mark-ups.

The value of Exports and Imports of Goods and Services are anchored to the Balance of Trade and Balance of Payment data estimated by the Department of Statistics and the Central Bank of the Bahamas respectively. The Tourism data is based on Ministry of Tourism figures.

USES OF NATIONAL ACCOUNTS:²

1. Monitoring the behavior of the economy by comparing and following the movement of economic flows such as production, household consumption, government consumption, capital formation, exports, imports etc.
2. Macro-economic analysis using econometric models to investigate the casual, functional relationships between different economic variables.
3. Economic policy making and decision taking short term policy can be made based on recent behavior and the current state of the economy and a view or precise forecast about likely future developments.
4. Harmonization between different statistical systems by promoting consistency in terms of concepts, definitions and classifications. Revisions of these various systems are conducted in parallel with the SNA.
5. International Comparison which normally compare GDP or GDP per head, ratio's of investment, taxes or government expenditure on GDP. These are used to evaluate the performance of similar economies, eligibility for loans, aid or other funds or conditions on which such loans, aid or funds are made available. It also determines the size of the contributions which member countries of international organizations make to finance operations of these organizations.

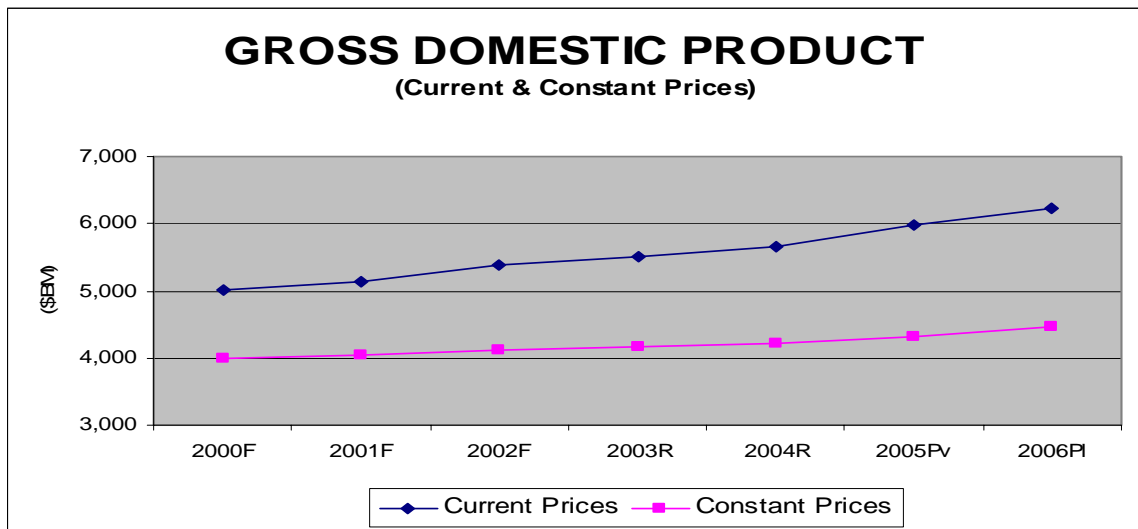
ANALYSIS

The Gross Domestic Product (GDP) estimates for 2006 are Preliminary, 2005 are Provisional, 2004 & 2003 are Revised and 2000 to 2002 are Final. Final data will no longer be altered until a major change in methodology or benchmark data becomes available. Revised data are subjected to mostly very minor adjustments. Preliminary estimates are an approximation of what has transpired in the economy and are based on indicators that give an idea of how a particular industry performed. Provisional estimates benefit from the first or early results from the Establishment Surveys for the reference year and are adjusted to reflect the entire population. Consequently, with the availability of additional data, Preliminary and Provisional GDP estimates are potentially subject to some major revisions.

The Bahamian economy has experienced growth in Gross Domestic Production (GDP) at current market prices over the period 2000 to 2006. This growth phase has been marked by three periods of five plus percentage growth. These years were 2000 whose increase was fueled by \$154million growth in Tourist Expenditure and \$73million in Goods Exported; 2002 whose boost was led by \$110million increase in Tourist Expenditure and 2005 also augmented by \$187million expansion in Tourist Expenditure. According to the Tourist Satellite Account Report, tourism economic impact on GDP was 51% therefore sharp movements in this sector would have a major impact on the overall GDP growth levels.

Growth in 2006:

The 2006 Preliminary estimates are based on first round estimates by some major data providers, trend analysis and a series of current indicators. We have calculated a growth rate at current market prices of 4.2%. This increase points to a sustained growth over 2005 led by a growth in Tourist Expenditure of \$103million, Export of Goods of \$139million and a



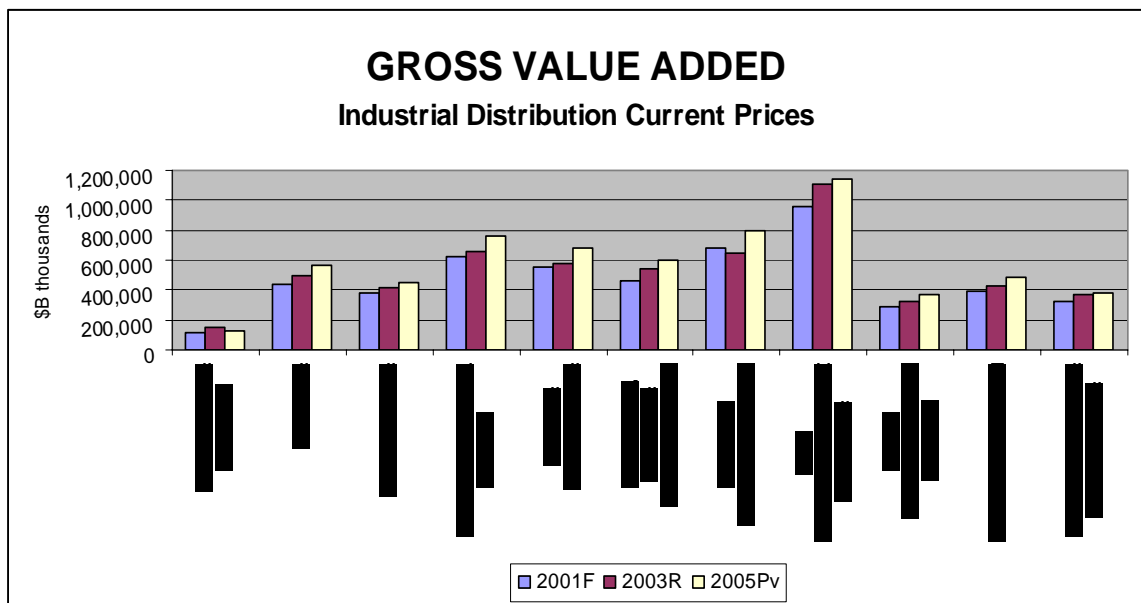
robust Construction Industry lead by Atlantis phase III, BahaMar, the Ginn Corporation and other multi-million dollar projects around the islands of the Bahamas.

The industries in which this increase is seen were Construction, Electricity, Wholesale and Retail Trade and Banking. These increases are borne out in the growth measured by the 2006 Labour force Survey results. According to this Survey, employment grew by 7,530 persons to 168,060, the lowest level since 2001. This major boost in employment came mainly in the following industry groups; Construction 9.04%, the Financial Sector 16.29% and Community, Social & Personal Services 11.65%. Also, confidence in the economy's continued growth was displayed by major increases in the Bahamian Dollar Credit Issued in the Bahamas led by Personal Credit with \$553million, Construction \$42million, Professional & Other Services \$31million and Distributive Trades \$22million.

Growth in 2005:

During 2005, the GDP in current market prices grew by 5.96%, moving from \$5.7billion to \$6billion in 2005. This growth was predominately due to capital development by government in the housing market and private investments mainly in the Hotel Industry. Residential Construction grew by \$88million, Investment in Machinery and Equipment increased by \$264million and Capital-Work-In-Progress increased by \$84million led by the capital works of Bahamas Telecommunications Corporation and the Bahamas Electrical Corporation. Also, Government Final Consumption Expenditure increased by \$54million led by Public Health Expenditure which grew by \$10million and Public Education Expenditure \$8million. In order to meet this demand for resources and the increase in world prices for oil the Imports of Goods & Services grew by \$667million.

The industries who saw the largest growth in it's contribution to the Bahamian economy

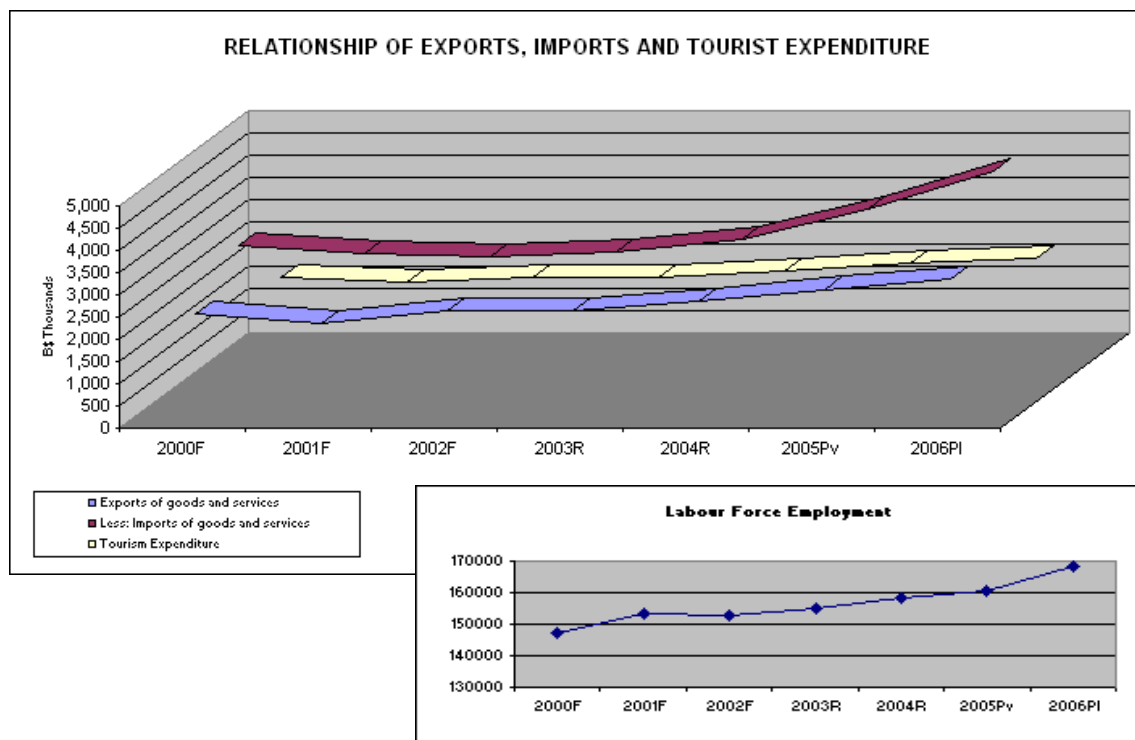


were: Electricity rising by \$26million, Construction \$54million, Wholesale Trade amplified by the increase in the fuel prices around the world \$50million, Hotel \$71million fueled by growth in the number of Stopover Visitors of 44 thousand coupled with a 5.52% growth in the average room rate, Banking also grew \$108million led by an increase in the Net Interest Received of \$74million and an increase in Fees Explicitly Charged of \$41million.

Continued Growth in 2000-2004

During 2004, the GDP in current market prices grew by 2.49% moving from \$5.5billion in 2003 to \$5.6billion in 2004. This followed a modest increase of 2.28% for GDP in 2003. Consumer confidence, as indicated by increases in Private Final Consumption Expenditures of 5.11% in 2003 and 3.24% in 2004, continued to drive the economy in both periods. After a brief weakening of that confidence in 2002, when employment declined slightly and Private Final Consumption Expenditure fell by 1.82%, consumer demand has been strong, buoyed by growth in employment of 2% in 2004 and by total household income and average household income registering 10-year highs in 2004.

Increases in the value of Exports (Tourist Expenditure grew \$112million) with a lower value of Imports (Oil Imports fell \$121million) led to a decrease in the international trade deficit to a 6-year low in 2002. The smaller deficit reduced the downward pressure on GDP for that year. However, the deficit inched upward in 2003 and again in 2004 as Imports grew more quickly than Exports – rekindling the downward pressure on GDP and slowing its growth. Renewed Construction activity drove up Imports of construction materials and Machinery and Equipment in 2004.



Increases in Gross Fixed Capital Formation in 2004 also contributed to the upward movement on the expenditures on GDP. These increases nudged capital investment beyond the slow decline that was exhibited between 2001 and 2003, and was led by growth in Machinery & Equipment of 7.09% and Other Construction of 5.68%. Tourism-related development in the Family Islands combined with government infrastructural improvement also contributed to the capital investments during the period.

Government Final Consumption Expenditure grew a modest 1.9% in 2003 but was bolstered to 5.26% in 2004. The largest component of Government Final Consumption Expenditure (GFCE) was compensation of employees, which grew by 7.41% in 2004, contributing to the growth spurt seen in the GFCE.

By the end of 2001, the robust growth of the GDP slowed considerably to 2.55%, the smallest increase since 1993. Labour force employment had peaked and consumer confidence had reached its zenith. The turndown in the North American economy overflowed into the Bahamian economy and the events of 9/11 resulted in fewer visitors arriving from North America causing the value of Exports to drop and a slowdown in capital investment resulted in a dampening GDP growth.

The slowdown in GDP growth, reflected declines in the Construction, Other Community & Social Services, Real Estate and Business Services industries. This decline was dampened in part by substantive increases in Financial Intermediation, Communication and Manufacturing industries and by more modest increases in other smaller industries.

The Hotel and Restaurant industries started 2001 robustly but the impact of September 11, 2001 was felt moderately in 2001 and more significantly in 2002 as growth in GVA slowed from 6.26% to 1.78% for the Hotel Industry and fell from 8.61%(\$143million) to (23.3%)((\$109million) for the Restaurant Industry.

Nevertheless, 2002 saw growth in overall nominal GDP recover to a healthy 5%, lead by growth in Marine Transport, Banking, Fishing, Retail Trade and Construction industries.

