

BEST'S COUNTRY RISK REPORT

Bahamas

CRT-3

August 22, 2018

Region: Caribbean

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- The Bahamas, a CRT-3 country, has moderate levels of economic and political risk, and a high level of financial system risk. The economy depends heavily on tourism, although it has been diversifying into financial services. Prominent sectors are banking, trusts, mutual funds, and insurance.
- The country's economic performance has been improving in recent years, and growth is projected to reach 2.5% in 2018. Over the medium term, the GDP growth rate is expected to moderate towards 1.5%.
- The map depicts the countries A.M. Best evaluates in the Caribbean.



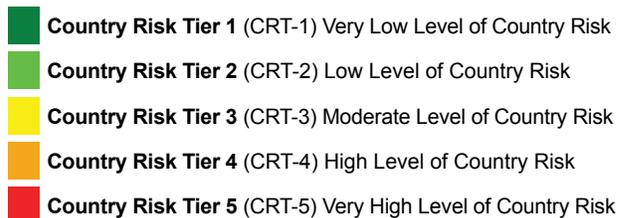
Economic Risk



Political Risk



Financial System Risk



Regional Summary: Caribbean

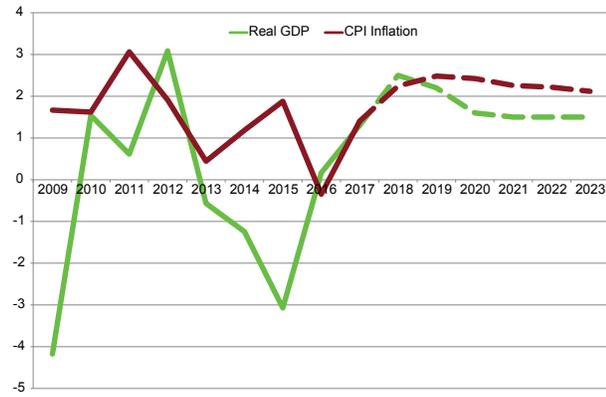
- The countries in the Caribbean vary by cultural origin, economic foundation, and population affluence, but their long-term growth and stability are highly dependent on their larger regional neighbors.
- Countries need to strengthen regional economic integration to become more globally competitive. They need to increase investment and savings, and build up their resilience to external shocks, which includes social, economic, and climate-related events.
- Most of the countries in the Caribbean depend on tourism to generate economic growth. Strong global growth will provide a tailwind for further tourism development. However, recent natural disasters have highlighted the region's dependence on this sector, as well as its continued vulnerability.
- Downside risks include a rise in US trade protectionism, further deterioration in fiscal deficits, and an economic slowdown resulting from either domestic policy uncertainty or a slowdown in global growth.

Vital Statistics 2017		
Nominal GDP	USD bn	11.64
Population	mil	0.4
GDP Per Capita	USD	31,255
Real GDP Growth	%	1.3
Inflation Rate	%	1.4
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	83.0
Dependency Ratio	%	40.8
Life Expectancy	Years	72.6
Median Age	Years	32.0
Insurance Statistics		
Insurance Regulator	Insurance Commission of the Bahamas	
Premiums Written (Life)	USD mil	230
Premiums Written (Non-Life)	USD mil	550
Premiums Growth (2016 - 2017)	%	n.a.
Regional Comparison		
	Country Risk Tier	
Bahamas	CRT-3	
Antigua & Barbuda	CRT-4	
Barbados	CRT-4	
Cayman Islands	CRT-2	
Jamaica	CRT-4	
Trinidad and Tobago	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



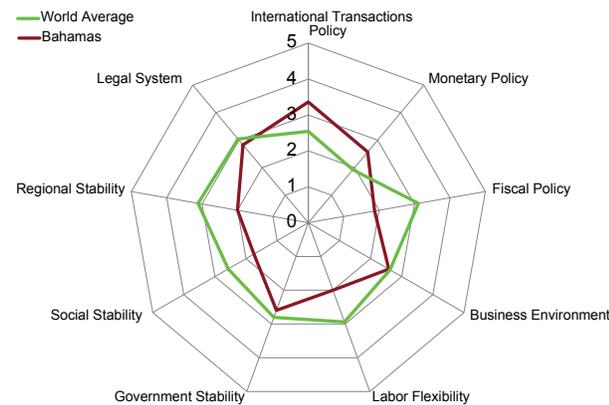
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

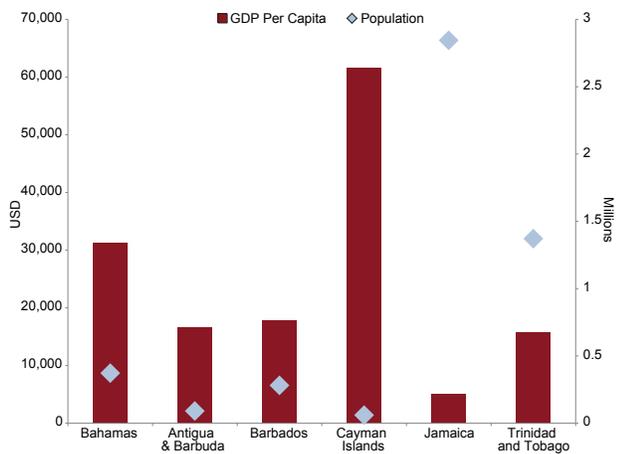
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- The Bahamas' economy depends heavily on tourism, which accounts for more than three quarters of the nation's foreign exchange earnings and half of its GDP. The impact of Hurricane Irma in 2017, oil exploration in its waters, and strong regional competition have the potential to constrain future growth in the tourism sector.
- The US is the Bahamas' primary trading partner, as the destination for nearly 80% of the island's exports. The recent US outlook has been supportive of the Bahamas' growth, but the heavy reliance on tourist inflows from and trade with the US exposes the Bahamas to volatility in the US.
- Other important trade partners include Singapore, India, and China. The Bahamas remains the only nation in the Western Hemisphere that is not a member of the WTO.
- The workforce is well-educated, and the population is comparatively affluent. However, an aging population poses a threat to the sustainability of social programs, and the 10% unemployment rate remains a challenge.

Political Risk: Moderate

- The Bahamas is an independent member of the Commonwealth of the United Kingdom, which is responsible for the Bahamas' defense. Prime Minister Hubert Minnis of the Free National Movement has been in power since May 2017, with policy priorities of eliminating the VAT on certain goods, enhancing services, and creating economic stimulus.
- The legal system is based on English common law and is friendly to business. The judiciary is broadly independent, but legal processes can be inefficient. Contract alteration risks are relatively high.
- Corruption is low by regional standards but is more problematic at lower levels of administrations. Money laundering remains a concern.
- The main security risks arise from a high murder rate and drug trafficking. Demonstrations are mostly peaceful and the government enjoys good labor relations. However, environmental activism is high by regional standards and has elevated further since the 2016 oil exploration laws.

Financial System Risk: High

- The Insurance Commission regulates the industry.
- There is no income tax, but the government is planning for reforms. The VAT was increased to 12% from 7.5% in July 2018, which is affecting consumer confidence and purchasing power. The country was removed from the EU blacklist of tax havens in May 2018.
- The Bahamas' external liquidity and solvency positions are strong, with low external debt and solid FDI inflows. The banks are liquid and well-capitalized.
- Risks are increased by the low import cover and large current account deficit, which reached 16.4% of GDP in 2017, more than double the 2016 amount. Fiscal consolidation will be crucial for reviving market confidence and limiting debt levels.