

The Bahamas: Staff Report for the 1999 Article IV Consultation

This report was prepared by a staff team of the International Monetary Fund following discussions with the officials of The Bahamas on economic developments and policies. The report was then considered by the IMF's Executive Board in the context of the IMF's periodic consultation with The Bahamas, as required under Article IV of the IMF Articles of Agreement. The views expressed in the staff report itself are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF or of the authorities of The Bahamas; a supplementary statement by IMF staff may also be included. The views of the Executive Board as expressed in the discussion of the Article IV consultation report and as summarized in a Public Information Notice (PIN) are also included. In addition, a statement by the member country authorities may be appended. Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports allows for the deletion of market sensitive information.

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THE BAHAMAS

Staff Report for the 1999 Article IV Consultation

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1999 Consultation with The Bahamas

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July 19, 1999

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EXECUTIVE SUMMARY

- **Since 1995, the Bahamian economy has experienced a sustained recovery** based on significant foreign investment in the expansion of tourist resorts and a large transshipment facility, as well as steady growth in residential construction and financial services. With the completion in late 1998 of the second phase of expansion of the country's largest resort, the economy is poised for an acceleration in real GDP growth from 3 percent a year in 1997–98 to about 6 percent in 1999. The recovery has been accompanied by a decline in unemployment and inflation, a strengthening of the international reserve position, and further progress in social indicators which are among the most favorable in the Caribbean and Latin American region.
- **Imports of goods and services related to the large investment projects led to a marked widening of the external current account deficit** in 1997–98. However, the deficit is expected to begin to narrow in 1999. The public external debt fell from about 10 percent of GDP in 1994 to about 8 percent in 1998. Following a tightening of prudential guidelines on consumer credit in mid-1998, the liquidity situation in commercial banks eased, and there has been a downturn in interest rates in recent months.
- **The government's fiscal policy has been a key factor behind the recovery** in economic activity and investor confidence. Since 1994–95 the overall deficit of the central government has been contained to about 1½ percent of GDP, and the authorities have announced their commitment to eliminate the deficit by 2001. Central government saving however, has been low—averaging about 1½ percent of GDP.
- **The discussions focused on policies to achieve the government's objectives of maintaining satisfactory rates of growth** over the medium term, further reducing unemployment, and addressing the social needs. There was broad consensus between the authorities and the staff that meeting these goals required adherence to the prudent fiscal stance that has been the hallmark of economic policy in recent years, continued competitiveness and profitability of the tourism and other key industries, and measures to continue attracting foreign investment.
- **Noting the low buoyancy of certain key taxes, the mission discussed with the authorities ways to strengthen revenue collections**, including the reduction in exemptions, and a number of measures to meet this goal were contained in the budget for FY 1999/2000. There was agreement that raising saving in the public sector required also firm control over the size of the government wage bill, and spending on goods and services and transfers to public corporations.
- **In the discussions on growth and competitiveness, the staff stressed the need for prompt implementation of structural reforms**, including privatization and strengthening of financial system surveillance. The mission recommended also that work be initiated on changes that might be needed in the tax structure over the medium term; a review of civil service structure, pay, and efficiency; and an assessment of labor market conditions and prospects.

I. INTRODUCTION

1. **Discussions for the 1999 Article IV consultation were held in Nassau during April 19–30, 1999.** The mission met with the prime minister, the minister of finance and planning, the financial secretary, the governor of the central bank, other senior government officials, and representatives of the private sector. Mr. Bernes, Executive Director for The Bahamas, and Ms. Turner-Huggins, Advisor (OED), participated in the final round of discussions.¹
2. **The last Article IV consultation was concluded by the Executive Board on March 13, 1998 (EBM/98/27).** On that occasion Directors commended the authorities for their pursuit of sound macroeconomic policies that had helped preserve price stability, attract significant foreign investment, and promote economic recovery. Directors noted that sustaining the recovery would require maintaining sound financial policies, enhancing competitiveness, and speeding up the pace of structural reform. They observed that fiscal policy would have a key role to play in maintaining macroeconomic stability, and urged a strengthening of revenue administration, in part through a reduction in tax exemptions, and expenditure restraint—particularly on wages and goods and services.
3. **The authorities publish a wide range of economic data on a regular basis** which permit a broad assessment of economic developments and policies. However, national accounts estimates have been adversely affected by the coverage and quality of survey responses, and information on the finances of some public enterprises is available with lags of up to one year. A government committee established to review the coverage and adequacy of economic statistics has completed its work, and is expected to issue its recommendations shortly.
4. **Prime Minister Ingraham is currently in his second five-year term which expires in 2002.** Since taking office in 1992, his administration has pursued a strategy aimed at generating high levels of income and employment by maintaining sound fiscal policies and the fixed exchange rate peg to the U.S. dollar; attracting new investment into the tourism, shipping, and construction sectors; and promoting The Bahamas as a competitive and well-regulated financial center. There is a broad consensus that this strategy began to yield results in late 1995. Over the past 3–4 years the country has been experiencing a sustained increase in incomes and economic activity; unemployment has fallen sharply; and social indicators are among the highest in the Latin American and Caribbean region.

¹ The mission comprised Messrs. DaCosta (Head), Gómez-Oliver, Piñerúa, and Shah (all WHD). Mr. Itam (WHD) joined the mission for the final meetings.

II. BACKGROUND AND RECENT DEVELOPMENTS

5. **Following a period of very slow growth in the late 1980s and early 1990s** associated with low investment, the poor quality of hotel facilities, increased competition from other destinations, and weak consumer demand in the United States (the main tourism market), **the Bahamian economy began to recover in 1995**. In large measure, the turnaround reflected the success of the government's economic strategy described above (Figure 1).

6. **In tourism, the government's policies resulted initially in new investment during 1994–96 totaling US\$300 million (3–4 percent of GDP a year)**, which comprised mainly the expansion and upgrading of existing hotels. By mid-1997, indications of strengthened demand and improved profitability led to a second phase of expansion of the country's largest resort by an additional 1,200 rooms (8 percent of total capacity) at a cost of about US\$450 million (10 percent of annual GDP).

7. **Economic activity in other sectors picked up also during 1995–96**. In shipping, foreign investment totaling about US\$80 million (2 percent of GDP) was channeled into the construction of a large new transshipment facility. Also, demand for residential construction increased, and the financial services sector continued to experience steady growth.² The economic recovery was supported also by the authorities' adherence to sound macroeconomic policies (particularly to a gradual reduction in the central government deficit) that helped boost investor confidence, and by a recovery in consumer demand in the United States.

8. **Real GDP growth accelerated from less than 1 percent a year in 1994–95 to 4 percent in 1996**, but slowed somewhat in 1997–98 as construction work on new tourism projects led to a decline in the number of available hotel rooms and tourist arrivals for most of that period (Tables 1 and 2).³ Following the completion of the expansion projects in November–December 1998, tourist arrivals rose sharply in the first quarter of 1999. Air arrivals were 12½ percent higher than in the corresponding period of 1998, while the number of cruise ship visitors increased by 13½ percent. The surge in arrivals was accompanied by increases (relative to rates in March 1998) in average room rates and room revenues by 13 percent and 44 percent, respectively.

² Agriculture and manufacturing each account for an estimated 4 percent of GDP. The former comprises poultry products, and the cultivation of fresh fruit and vegetables for export. Manufacturing is based on the local market for soft drinks, beer, and paper products, and on the processing of (imported) molasses into rum for export to the European Union under the Lome Convention.

³ Real GDP growth was estimated by the staff on the basis of indicators of activity in key sectors.

9. With the pickup in activity in recent years, the unemployment rate declined from 13 percent in 1993–94 to less than 8 percent in 1998. There is no minimum wage in The Bahamas, but the average wage rate for unskilled labor is about B\$4 per hour, and has been rising by about 3–4 percent annually in recent years.⁴ Inflation is low, reflecting the fixed parity of the currency with the U.S. dollar, the openness of the economy, and cautious financial policies. The rate of increase of consumer prices has remained at between 1–2 percent a year since 1994. Since 1995 the Bahamian dollar has appreciated in real effective terms by about 5 percent. The REER index, based on relative consumer prices, remained virtually unchanged in the 12 months ended May 1999 (Figure 2).⁵

10. The economic recovery has been accompanied by sound fiscal management. Since 1994–95 the overall deficit of the central government has been contained in most years to about 1½ percent of GDP⁶ (compared with 3–4 percent of GDP in 1991–93), financed mainly by the banking system (Table 3). Central government saving has remained largely unchanged at about 1½ percent of GDP since 1994–95. Estimates point to a narrowing of the deficit in FY 1998/99 by about half of a percentage point to 1.3 percent of GDP as revenues continued to keep pace with economic activity, while expenditure (mainly wages and capital outlays) fell slightly. The wage bill grew by 4½ percent (compared with 8½ percent in the previous year) reflecting tight control over hiring and the absence of a general wage increase.

11. In the rest of the public sector, the telephone and electricity companies (BATELCO and BEC, respectively) have continued to register a small surplus on their operations (averaging about 1 percent of GDP a year in 1996–98). BEC appears to have been able to keep its costs down over the past two years—thereby easing pressures for a tariff increase. Regarding the other public corporations, the Hotel Corporation (with government support) has eliminated its debt, and in 1997 generated a small operating surplus for the first time in several years. Also, the **National Insurance Board (NIB)** continues to improve its coverage of the labor force and the efficiency of its collection, while maintaining a firm hold on the growth of administrative expenses. The recent increase in the salary ceiling subject to NIB contributions has allowed the board to adjust its benefit payments more closely in line with inflation.

⁴ The population of The Bahamas was estimated to be 289,000 at end-1997. GDP per capita and average household income were estimated at US\$14,450, and US\$31,000, respectively at end-1998.

⁵ The staff has made efforts to calculate an index of the real effective exchange rate based on relative labor costs, but data limitations have so far stymied these efforts.

⁶ In FY 1996/97 a marked increase in capital expenditure led to a widening of the overall deficit to 3½ percent of GDP. The fiscal year begins on July 1.

12. The budget for FY 1999/2000 that was presented to parliament in May 1999 envisages an overall deficit of the central government of 1.4 percent of GDP—about the same level as in FY 1998/99. Expenditure is expected to remain virtually unchanged at about 20½ percent of GDP despite a planned increase in the wage bill by about 7 percent.⁷ The fiscal cost of the wage increase in FY 1999/2000 (estimated to be equivalent to about one quarter of 1 percent of GDP)⁸ will be offset by a number of revenue measures aimed at increasing collections from key activities such as tourism and real estate transactions, as well as rationalizing and reducing the scope of import duty exemptions (see below).

The Bahamas: Selected Revenue Measures Proposed in the FY 1999/2000 Budget

- An increase in the hotel occupancy tax from 4 percent to 6 percent;
- an increase in the rate of duty on cars with a dutiable value in excess of B\$25,000 from 60 percent to 75 percent;
- an increase in the stamp duty on real estate transactions exceeding B\$250,000 from 8 percent to 10 percent;
- an increase in the excise tax on domestically produced beer; and
- the reduction of import duty exemptions on imports of (i) the Bahamas Electricity Corporation (except imports of heavy equipment), and (ii) the state broadcasting and telecommunications corporations.

13. During 1996–97 liquidity in the financial system tightened as the growth in credit (mainly for consumer goods; and the distribution, professional services, and construction sectors) outpaced that of deposits, resulting in a deterioration in the net foreign asset position of commercial banks (Table 5). In mid-1998, in response to the sharp growth in consumer credit, the central bank tightened prudential guidelines on such credit, and for the year as a whole the rate of credit expansion to the private sector slowed.⁹ This measure, as well as a pickup in the rate of growth of private sector deposits led to an easing of the liquidity position by end year, and a small downturn in interest rates on bank loans and treasury bills. Interest rates continued to fall

⁷ Under the wage agreement reached in April all central government workers will receive a lump sum payment of B\$1,200 in 1999, followed by wage increases of 3 percent and 4 percent in 2000 and 2001, respectively.

⁸ This will result in an increase in the wage bill from 9.2 percent of GDP in FY 1998/99 to about 9.4 percent, the same level as in FY 1997/98.

⁹ The rate of growth of credit to the private sector slowed from 15 percent (on an annual basis) in mid-1998 to 11 percent at end-1998; over the same period, consumer credit growth slowed from 28 percent to 15 percent. In the first two months of 1999, growth in private sector credit has remained at about 10 percent a year.

gradually during the first half of 1999, and at end-June the central bank lowered its discount rate from 6.5 percent to 5.75 percent.

14. Imports of equipment and services related to the large tourism investment projects and a slowdown in net tourism receipts (reflecting the temporary closure of rooms noted above) led to a widening of the external current account deficit from 4 percent of GDP in 1995 to 17 percent of GDP in 1997. It is estimated that the current account deficit widened considerably to over 20 percent of GDP in 1998, reflecting mainly the large investment projects in tourism and residential construction.¹⁰ The deficit in recent years has been financed mainly by direct investment. The marked increase in capital inflows helped strengthen the international reserve position of the central bank from the equivalent of 88 percent of base money at end-1997 to 114 percent at end-1998. By end-May 1999 reserves had reached US\$450 million, or 130 percent of base money (Tables 6 and 7).¹¹

15. Net external borrowing by the central government in recent years has been negligible as a result of the improved fiscal performance. Consequently, the public external debt fell from about 10 percent of GDP at end-1994 to about 8 percent of GDP at end-1998. The country's external debt is rated A-3 by Moody's, and its domestic debt is rated A-1.

16. Over the past 3–4 years, the government has implemented a number of reforms in the areas of privatization and the financial system. All but one of the government-owned hotels have been sold,¹² and the state has been reducing steadily its share holding in the Bank of The Bahamas. Also, steps have been taken to increase private sector participation in the public utilities, including through the subcontracting of construction work and water purification by the water and sewerage company. Moreover, the bidding process for shares in the state-owned telecommunications company is expected to begin this year, and a similar process for the electricity company is expected to be completed in 2000.

17. In the financial sector the emphasis in recent years has been on modernizing the regulatory and legislative framework for banks, trust and mutual fund companies, and the stock exchange. With respect to the latter, the Securities Industry Act, which became operational in May 1999, provides for strengthened surveillance by the securities commission over stock exchange operations and the securities industry as a whole. Also, parliament is expected to

¹⁰ As noted above, the main investment project was the expansion of the Atlantis resort at a total cost of US\$450 million, of which about US\$300 million (7½ percent of GDP) was spent in 1998.

¹¹ The central bank has no reserve-related liabilities; gross and net international reserves are identical.

¹² Negotiations are ongoing for the sale of the remaining hotel.

approve shortly legislation (which has already been submitted) to establish a deposit insurance scheme.

18. **A review carried out by an expert from the Fund's Monetary and Exchange Affairs Department (MAE) in 1998 concluded that bank supervision practices in The Bahamas conformed with the Core Principles of the Basle Committee.** Main activities in the bank supervision area in the past year included discussions with banks on their management plans, internal systems of control and risk assessment, Y2K preparedness, and capital adequacy.¹³ Also, the supervision department placed emphasis on vetting directors and managers of banks, and assessing applications for bank and trust licenses.¹⁴ In the area of money laundering, an extensive program is being conducted for bankers, other professionals, and the public to increase awareness of the provisions of the Money Laundering Act of 1996, and its associated regulations.

III. POLICY DISCUSSIONS

19. **The discussions took place in the context of buoyant economic conditions and prospects,** and focused on policies to achieve the government's objectives of maintaining satisfactory rates of growth over the medium term, reducing unemployment, and addressing the social needs of the population. There was broad consensus between the authorities and the staff that meeting these goals required continued competitiveness and profitability of the tourism and other key industries, clear supportive policies governing investment, and adherence to the prudent fiscal stance that has been the hallmark of economic policy in recent years.

A. Policies to Sustain Growth

20. **Government officials indicated that the economic benefits of the large investments in the tourism sector in recent years were now becoming fully manifest.** Tourist demand for the new and refurbished hotel properties was very high, and the largest resorts were reporting near-full occupancy in the post-April period that in the past had been regarded as the low season. Based on these indicators and on arrivals through end-March, it was estimated that the growth rate of stopover tourists could reach 8–10 percent for 1999 as a whole. Beyond 1999, with the global demand for travel and other leisure services projected to grow at about 6–7 percent per year, a moderate expansion in the U.S. economy, improved air access, and ample hotel capacity, it was expected that the annual rate of growth of real tourism expenditure could be maintained at about 4–5 percent over the medium term.

21. **Prospects for steady growth in the other sectors also appeared to be good.** There was a continued strong interest on the part of banks and trust companies to shift their operations to

¹³ During 1998 the average capital/assets ratio for locally incorporated banks and trust companies was 13 percent.

¹⁴ During 1998, 23 licenses were revoked and 23 issued.

The Bahamas because of its location, the presence of competitors, a ready supply of skilled staff, the legal framework, and the perception that the banking system was well regulated. In addition, private sector representatives expressed confidence that the government would move forward with its program of privatization (beginning with the telephone and electricity companies), and that this would stimulate further investment and economic activity as well as improve the quality of these services. On this basis, as well as on the assumption of continued, steady demand for residential housing, shipping, and other services, officials were optimistic about growth and employment prospects over the medium term.

22. **The staff shared the view that near-term prospects for tourism were favorable,** noting that over the longer term, sustained growth would also depend on the industry's ability to maintain competitiveness and profitability. Regarding the former, one indicator—the movement in the real effective exchange rate index since 1995—points to no serious risk to competitiveness at this time, as do the very high occupancy levels and strong advance bookings, despite the increase in room rates in 1997–99. However, the staff noted that hotel operating costs in The Bahamas were among the highest in the region,¹⁵ and cautioned that while hotel operators had been able thus far to raise prices without affecting occupancy, the scope for sustained price increases over the medium term was uncertain. Efforts to maintain competitiveness in future would likely have to focus on wage restraint, and raising productivity through continued emphasis on education and training, performance-based pay schemes, and increased flexibility in labor arrangements—including through part-time and temporary employment, and the subcontracting of some hotel services.

23. **The mission noted also that in the discussions with the private sector, concern had been raised regarding the emergence of shortages of skilled labor** in the tourism, construction, and some areas of the financial sector. These shortages have led to wage pressures in certain skill categories, and if they persist, could adversely affect the efficiency of some businesses.¹⁶ The mission suggested that it may now be timely to conduct a full-fledged survey of the labor market in The Bahamas to identify the supply and demand for various skills, specify shortages, and on that basis strengthen training programs in the public and private sectors.

B. Fiscal Policy

24. **The mission commended the authorities for their prudent management of the central government finances.** It noted that the track record in this area, and the authorities' long-standing commitment to eliminate the central government deficit in 1–2 years had been an

¹⁵ Relatively higher domestic costs in the Bahamas have been offset by lower air transportation costs for tourists and hotel supplies from the United States.

¹⁶ Some shortages of persons with specific skills in the public sector (including the central bank, the ministry of finance, and the statistics department) also appear to be emerging.

important factor in the current high level of investor confidence. In this context, the mission recommended that the budget for FY 1999/2000 aim at lowering further the central government deficit and increasing central government saving, which would permit a reduction in public sector debt. Looking beyond the current fiscal year, the staff discussed the medium-term scenario set out in Table 4 which was broadly endorsed by the authorities and envisages lowering the deficit to near balance in FY 2001/2002, while increasing government saving from 1½ percent of GDP in FY 1998/99 to close to 3 percent.

25. **The authorities and the mission discussed a number of possible steps aimed at achieving the above-mentioned targets.** On the revenue side, the mission noted that on the basis of the marked increase in economic activity projected for 1999 and beyond, it would expect to see a steady increase in revenue from imports, tourism, casino, and property related taxes. However, it pointed out that while overall revenue collections had kept pace with economic activity in FY 1998/99, certain important revenue categories appeared to be lagging, including (i) import duties (5 percent growth in collections in the current fiscal year, compared with a growth of about 12 percent in total imports); (ii) the property tax (no growth in FY 1998/99); and (iii) the gaming tax (a small decline in FY 1998/99).

26. **In view of the importance of increasing the efficiency of revenue collections, the authorities and the staff discussed the need to examine carefully the scope for reducing existing tax exemptions,** in part by ensuring that the various tax concessions remained consistent with the government's fiscal and growth objectives.¹⁷ The mission suggested also that such a review could form part of a broader assessment of the optimal tax structure for the next 5–10 years that would take into account considerations of growth, fiscal objectives, equity, competitiveness, and possible likely future obligations under the Free Trade Association of the Americas (FTAA).¹⁸ Such an assessment could include a study of the possible merits of introducing a sales or value-added tax, that would permit a reduction in import duty rates and help broaden the tax base without necessarily increasing the overall tax burden or altering its distribution.

27. **On the expenditure side, there was broad consensus between the staff and the authorities on the need to limit the growth of the wage bill, and outlays on goods, services, and transfers** in order to meet the target of containing the growth in total expenditure to 20–20½ percent of GDP. The mission cautioned that it would be important to contain the growth

¹⁷ As noted above (paragraph 12), the budget for FY 1999/2000 that was presented to parliament at end-May, incorporates a number of measures to broaden the tax base, including by eliminating certain import duty exemptions.

¹⁸ The commitment to create a FTAA by 2005 was agreed to by 34 nations at the Summit of the Americas held in Miami in December 1994. The FTAA is intended to build on NAFTA and other regional trade agreements to broaden and deepen economic integration in the Western Hemisphere. It is intended to be fully consistent with WTO provisions.

of spending in the large units such as the ministries of health and education, and observed that efforts would have to be made to ensure that the proposals to convert the health and airport services into separate statutory bodies do not result in increases in costs which are not commensurate with the quality of service.

28. **In the public corporations, the mission urged that clear objectives (and limits) be established for their activities and financial operations,** requiring greater accountability and reporting, keeping down costs, particularly employment, and exploring options for increased private sector participation. The objectives outlined above are particularly relevant for the financially weak corporations such as Bahamasair, the Broadcasting Corporation, and the Water and Sewerage Corporation. The mission suggested that an action plan achieving these objectives be established for each of the above-mentioned entities as well as the Hotel Corporation.

C. Monetary and External Policies

29. **The mission agreed that the long-established commitment of maintaining the fixed exchange rate link with the U.S. dollar had played a key role in achieving low inflation, maintaining investor confidence, and developing The Bahamas as a financial center.** The staff noted that preserving this framework would require continued fiscal restraint, a strengthening of the use of open market type operations for government paper, and close monitoring of private sector credit. With respect to open market operations, the mission noted that some market participants felt that the basis on which bids for government treasury bills were accepted was not fully transparent, and that the market would benefit from a broadening in the number of participants.¹⁹ Also, a number of observers were of the view that the interest rate paid by the government on long-term bonds (currently 6–7 percent) could be lower if these instruments were auctioned instead of allotted to purchasers. In this connection, the mission welcomed the authorities' ongoing assessment of ways in which more transparent and participative auctions for treasury bills could be carried out, and an auction established for government long-term bonds.

30. **The authorities reiterated that the marked widening of the external current account deficit in 1997–98 reflected mostly the sharp increase in imports related to the investment projects in the tourism sector** and a temporary slowdown in tourist receipts owing to the construction work. The staff noted that they shared this assessment, as did representatives of the banking and business community. However, in view of the large private capital inflows over the past two years, and the size of the errors and omissions in the capital account, the mission welcomed the review being undertaken by the central bank of the nature and maturity structure of these inflows.

¹⁹ Participation is concentrated among financial institutions, pension funds, and the National Insurance Board.

31. **Looking ahead, the mission developed a medium-term scenario for the balance of payments** that contemplates that with the completion of the largest tourism project in 1998 and the expected pickup in tourism earnings, the external current account deficit would narrow to about 3 percent of GDP over the medium term (Table 8). Deficits of this magnitude could reasonably be expected to be financed mainly by direct investment, and allow the central bank to maintain a strong international reserve position. Under this scenario, the government would adhere to its prudent fiscal policy stance aimed at increasing saving and reducing the public debt. Consequently, the public external debt would remain at about 8 percent of GDP, the debt service ratio would likely not increase beyond 3 percent, and net international reserves would be kept at a level equivalent to about 100 percent of reserve money, or about three months of imports of goods and services (Table 9). A risk to this scenario is that a downturn in the U.S. economy could adversely affect tourism receipts and GDP growth; however, these effects would be partially offset by lower imports by hotels of food and other supplies.

32. **In the area of trade policy, The Bahamas has been participating in the discussions that may lead to negotiations of a possible agreement on a FTAA**, and is taking steps to ensure the participation of the representatives of the private sector and civil society. Also, the government has appointed a working group to examine the advantages and disadvantages of The Bahamas' entry into the WTO, and the group will report to the cabinet shortly. The authorities acknowledge the scope for a further simplification of the import tariff structure, including through a lowering of tariff peaks and a reduction in the number of tariff bands. Some progress in this area was made in the recent budget with the reduction of high tariff rates on certain products,²⁰ and additional steps will be considered in the context of the budget for FY 2000/2001.

D. Structural Reforms

33. **The agenda for structural reform focuses on privatization, public sector efficiency, and strong supervision over the financial system.** The mission welcomed the government's intention to initiate the bidding for shares in the telecommunications company this year, and to follow this with the privatization of the electricity company. However, it urged that the strategy and timetable for increased private sector participation in Bahamasair, the Water and Sewerage Corporation, and other institutions be spelled out to facilitate additional private investment. To promote improved efficiency in the civil service, the staff suggested that the authorities conduct a review aimed at identifying the scope for saving through the merger or consolidation of government activities to eliminate duplication, and greater use of performance-based pay for permitting differentiation in individual pay increases, and helping retain valued staff.

34. **The central bank is continuing to pursue as a matter of priority efforts to strengthen bank supervision** and maintain standards that conform with the best international practices. Based on the recommendations of an expert from MAE, the legal framework and operations

²⁰ Fresh vegetables, chicken, and paper products.

procedures for supervision are being reviewed with the aim of ensuring that they reflect the requirements of strengthened supervision. The mission urged the authorities to speed up their efforts to fill the remaining vacancies in the bank supervision department so as to ensure that the expert's recommendations could be implemented without undue delay.

E. Social and Environmental Policies

35. **Social indicators in The Bahamas remain among the most favorable in the Latin America and Caribbean region**, and the government has taken steps to ensure that progress made in economic performance is accompanied by further advances in the social sectors. The budget for FY 1999/2000 allocates about one third of total expenditure to the health, education, and social sectors (compared with 27 percent in FY 1998/99). These resources have been designated mainly for the upgrading of hospitals and clinics; better access to health, technical, and vocational training; and providing minimum levels of support to the aged, unemployed, or disabled. Government policies regarding the environment remain focused on preserving ocean water quality and marine life; providing safe water supplies; and improving waste management.

F. Other Policies

36. **The government has been taking steps to ensure Y2K preparedness in the public and private sectors.** These efforts are being coordinated through a national Y2K advisory council chaired by the minister of finance, and comprising representatives of the government, public corporations, and the private sector. Efforts in the public sector have focused on ensuring that the operations of government institutions, including the treasury, the central bank, and public utilities remain unaffected. In the financial system, the central bank is leading efforts to ensure that banks and other institutions are Y2K ready, through its supervision process, and also through guidance notes and seminars.

IV. STAFF APPRAISAL

37. **Since 1995 the Bahamian economy has experienced a sustained recovery led by significant private investment** in tourism, shipping, construction, and financial services, and supported by prudent fiscal and credit policies. As a result, per capita income has risen rapidly, employment and social indicators improved, and the international reserve position strengthened. Also, the country's international credit rating, as well as investor interest, and consumer confidence reached unprecedented levels.

38. **The main challenge for the authorities is how to maintain the current favorable environment of investment and growth over the medium term** through an appropriate mix of macroeconomic policies, structural reforms, and further social progress. In view of the fixed exchange rate peg and the limited scope for an independent monetary policy, fiscal policy will continue to play the key role in meeting this challenge.

39. **The mission commends the authorities for their track record of sound fiscal management, and commitments to eliminate the central government deficit and increase saving to**

permit adequate improvements in infrastructure and social services. While revenue has kept pace with the growth in economic activity, a priority will be to ensure that as activity expands further, tax collections remain sufficiently buoyant. In this connection the mission welcomes the measures adopted in the budget for FY 1999/2000 to strengthen the revenue base by selective increases in tax rates and the reduction or elimination of a number of tax exemptions. These actions combined with ongoing efforts to update tax registers and property valuations would go a long way toward meeting the authorities' near term fiscal objectives. Further ahead, the staff looks forward to a full assessment of the appropriateness of the existing tax structure—which is characterized at present by relatively high import tariffs—for meeting the government's trade, growth, and social objectives over the medium term. Such an assessment should include an evaluation of the role which a possible sales or value-added tax could play in achieving those objectives.

40. **On the expenditure side, the main priority is to continue to restrain growth of the wage bill, and reducing transfers and other support to certain public enterprises.** Ways to ensure sound expenditure policies and saving over the medium term could be identified through a review of the civil service structure aimed at a consolidation of offices and activities, and the staff urges the authorities to conduct such a review at an early opportunity.

41. **A sound fiscal position and careful monitoring of private sector credit will be essential for maintaining the current exchange rate peg.** In this connection, the central bank acted in a prudent and timely manner in 1998 to tighten regulations regarding consumer credit, and continued close monitoring will be required of credit growth and the quality of loan portfolios. While open market operations are constrained by the limited scope for an independent interest rate policy, the staff welcomes the authorities' ongoing work on assessing alternatives that would help achieve greater transparency in the purchase and sale of treasury bills, and facilitate the introduction of an auction for long-term government bonds.

42. **The mission welcomes the progress made in modernizing the legal and regulatory framework for the financial system.** It is essential that this process continue, with the aim of ensuring that effective regulation keeps pace with the expansion of the sector. Maintaining high standards in bank supervision will remain the key priority, and in this context, the staff urges that the current staffing shortages in this area be addressed expeditiously.

43. **Based on the available information, the substantial widening of the external current account deficit in 1998 was financed by direct investment** in the tourism, construction, and shipping sectors. However, in view of the large size of the unexplained residual in the capital account, the staff considers it essential that the central bank continue its efforts to identify significant capital account transactions and ascertain their origin, source, and implications for the balance of payments in general, and private sector debt in particular.

44. **Meeting the needs of a highly service-oriented economy like The Bahamas will require efficient and competitive basic services** such as telecommunications and electricity. The staff welcomes the imminent sale of shares in the telecommunications company, and the government's commitment to also offer for sale in the near future shares in the electricity company.

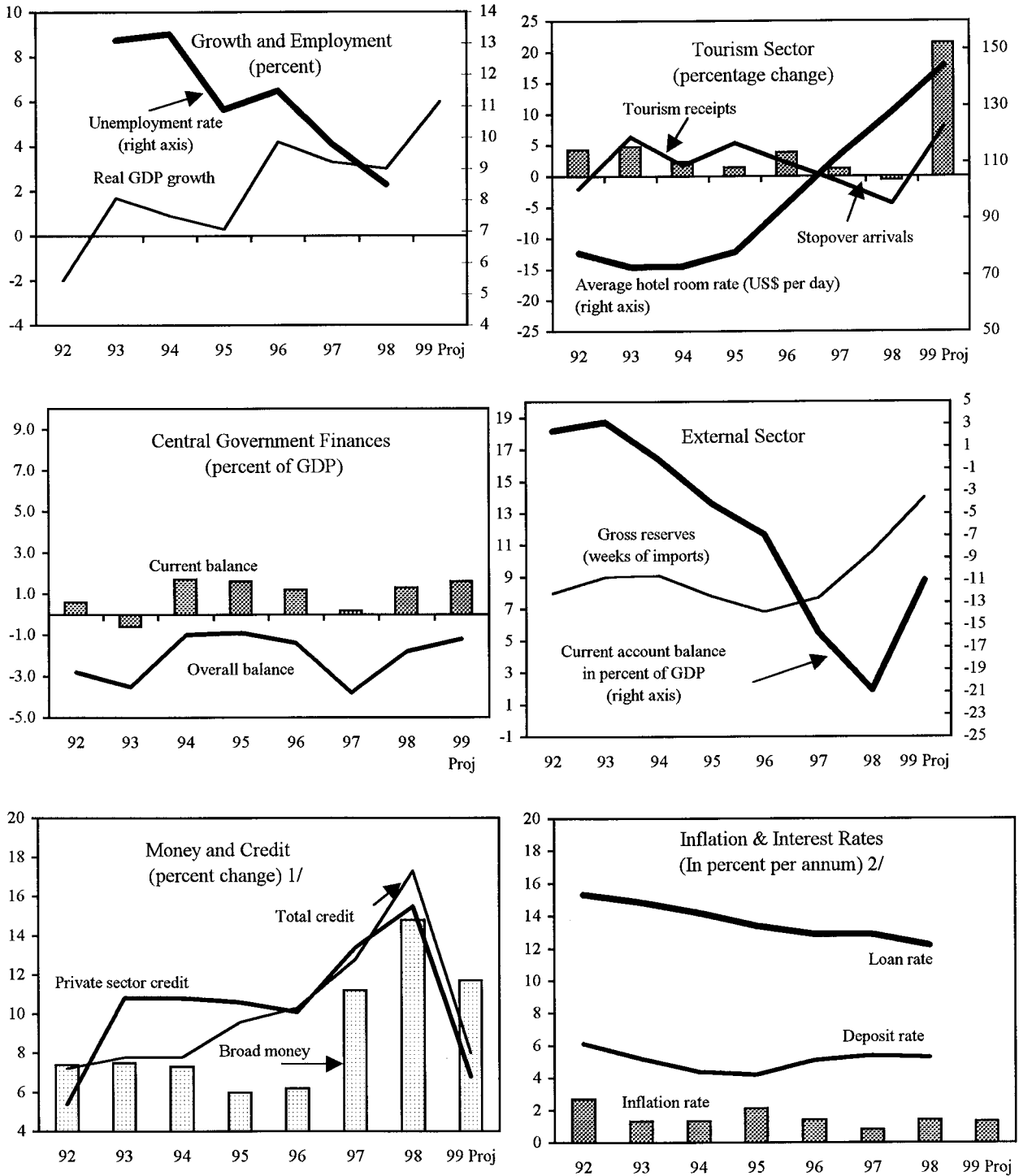
These initiatives could be followed by early consideration of a possible role for the private sector in the operations of Bahamasair and the Hotel Corporation.

45. **It is important that the economic recovery be accompanied by further steps to alleviate poverty**, enhance the quality of social services, and provide job opportunities to the unemployed, who are mainly the youth. The staff therefore commends the allocation of about one third of this year's budget to health and social services, education and training, and the environment. In addition to its social implications, an increased supply of trained labor, combined with increased labor market flexibility will help raise employment, ease wage pressures in certain skill categories, and contribute toward maintaining the competitiveness of key sectors.

46. **While the statistical base has improved in recent years, the statistics office continues to be affected by staff shortages and poor survey data.** Key areas requiring attention include the national accounts, and the size of errors and omissions in capital account of the balance of payments. Resolving these matters will be important for improving the quality of economic analysis and effective surveillance, and the staff expects that these weaknesses will be addressed in the recommendations of the committee that has been established to look into statistical issues.

47. The staff recommends that the next Article IV consultation be conducted on a 24-month cycle.

Figure 1. The Bahamas: Selected Economic Indicators (1992-99)

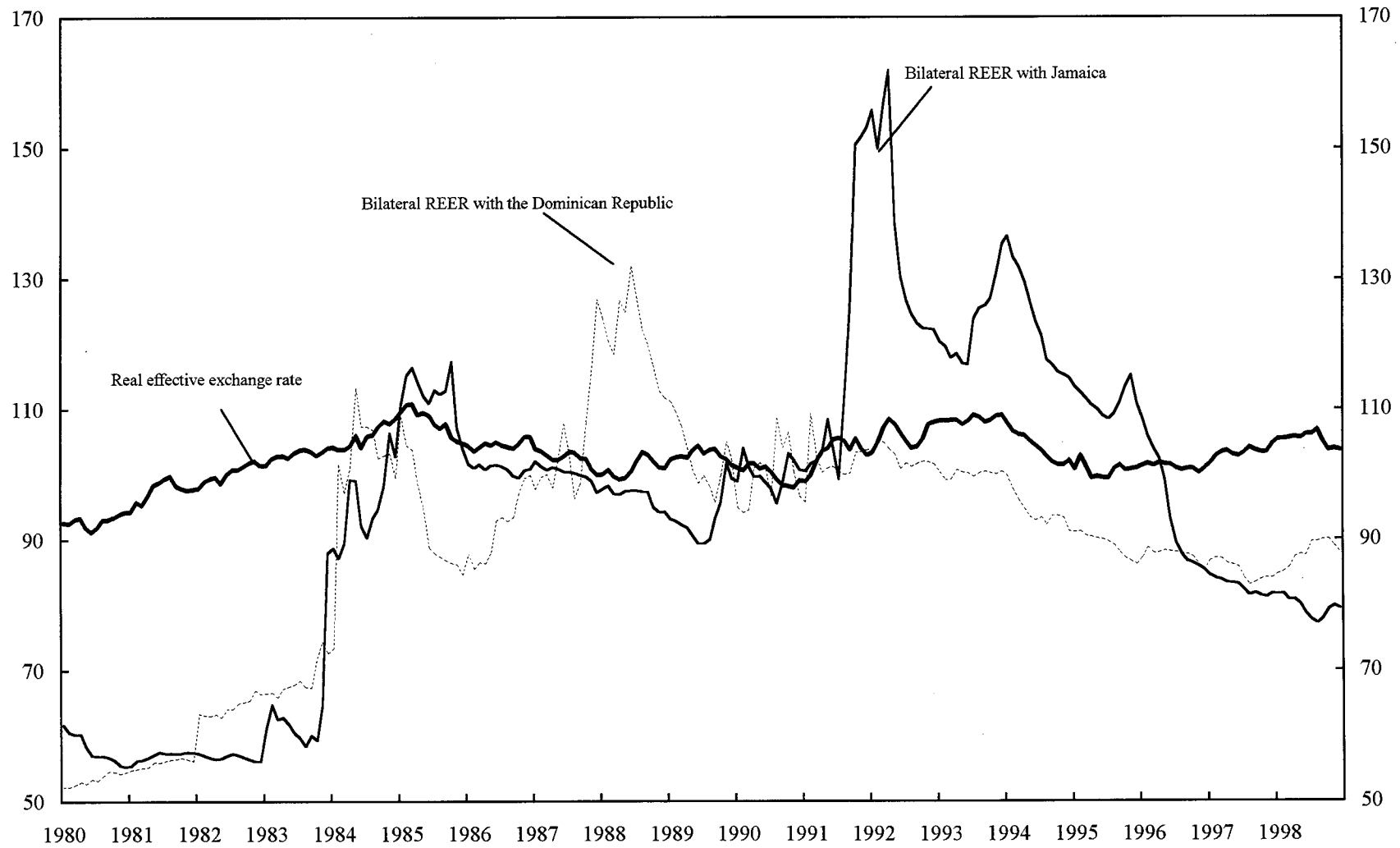


Source: The Bahamian authorities; and Fund staff estimates.

1/ In percent of liabilities to the private sector (broad money) at the beginning of period.

2. Weighted averages of commercial bank rates.

Figure 2. The Bahamas: Exchange Rate Developments¹
(1990=100)



Source: IMF Information Notice System.

1/ Increase (decrease) indicates appreciation (depreciation)

Table 1. The Bahamas: Selected Economic Indicators

	1995	1996	1997	1998	Proj. 1999
(Annual percentage changes, unless otherwise indicated)					
Real sector					
Real GDP 1/	0.3	4.2	3.3	3.0	6.0
Nominal GDP 1/	2.3	6.8	5.3	6.3	8.8
Consumer price index (annual average)	2.2	1.4	0.6	1.4	1.3
Unemployment rate (in percent of labor force)	10.9	11.5	9.8	7.8	...
Total visitor arrivals	-6.0	5.3	1.3	-3.1	14.7
Stopover arrivals	5.4	2.2	-0.9	-4.4	8.0
Central government finances 2/					
Current revenue	2.8	4.5	6.1	4.5	10.5
Current expenditure	3.2	8.2	7.5	3.8	9.5
Capital expenditure	9.3	-2.4	66.4	-29.1	8.8
Financial sector					
Net domestic assets 3/	7.2	7.7	11.4	11.1	9.6
Credit to the nonfinancial public sector 3/	-0.8	0.0	-0.8	1.6	1.2
Credit to the private sector 3/	10.6	10.1	13.4	15.5	6.8
Liabilities to the private sector	6.0	6.2	11.2	14.8	11.7
Reserve money	3.7	-2.2	9.0	19.8	18.6
Treasury bill rate (in percent, end of period)	4.6	4.4	4.5	3.2	...
External sector					
Exports of goods	13.5	10.3	-1.4	47.4	7.1
Imports of goods	14.1	10.1	21.6	12.2	-1.9
Travel receipts (gross)	1.4	3.9	1.3	-0.6	21.5
Effective exchange rate (depreciation -)					
Nominal	-0.4	2.2	5.0	-1.5	...
Real	-3.4	0.5	4.0	-0.5	...
(In percent of GDP)					
Central government 2/					
Central government saving	1.2	0.2	1.3	1.7	1.9
Central government overall balance	-1.3	-3.8	-1.8	-1.3	-1.1
External sector					
Current account balance	-4.1	-7.2	-16.7	-22.5	-12.2
Overall balance	-0.1	-0.2	1.4	2.8	2.2
External nonfinancial public sector debt	8.8	7.8	9.9	8.3	7.6
Memorandum items					
Gross international reserves (in millions of US\$)	170.6	163.0	219.5	339.0	439.0
In percent of base money	73.3	71.6	88.4	113.9	122.8
In weeks of imports	7.7	6.7	7.4	10.1	14.6
Debt service ratio 4/	4.3	3.7	4.9	3.8	3.1
GDP (in millions of Bahamian dollars)	3,504	3,472	3,940	4,190	4,560
Nominal GDP per capita (in U.S. dollars)	12,514	12,400	13,586	14,448	15,724

Sources: Central Bank of The Bahamas; Ministry of Finance; and Fund staff estimates.

1/ Estimated by the staff on the basis of partial indicators.

2/ Corresponds to the fiscal year beginning July 1.

3/ In relation to liabilities to the private sector at the beginning of the year.

4/ Public sector debt service in percent of receipts from merchandise exports and tourism.

Table 2. The Bahamas: Tourism Indicators

	1995	1996	1997	Prel. 1998	Proj. 1999
	(Percentage change)				
Total arrivals	-6.0	5.3	1.3	-3.1	14.7
Stopover	5.4	2.2	-0.9	-4.4	8.0
Cruise and day visitors	-14.9	8.3	3.4	-2.0	20.5
Total tourist expenditure	1.4	3.9	1.2	-0.5	17.3
Stopover	1.2	3.5	1.2	-0.4	16.9
Cruise and day visitors	4.6	6.5	3.2	1.8	22.5
Average daily tourist expenditure (in U.S. dollars)	126.1	124.3	124.4	128.5	137.4
Stopover	126.8	136.4	136.9	142.6	154.3
Cruise	60.8	60.4	60.2	61.6	63.5
Hotel indicators					
Hotel occupancy rate (in percent) 1/	66.6	71.6	75.1	76.4	78.0
Average daily room rate 2/ (in U.S. dollars)	78.2	95.3	112.6	127.8	144.4
Average length of stay for stopover visitors (in days)	6.2	6.3	6.4	6.4	6.4
Shares in stopover arrivals in the Caribbean					
The Bahamas	9.4	9.3	8.6	7.8	...
Puerto Rico 3/	18.0	17.9	17.9	17.8	...
Dominican Republic	10.5	11.0	11.7	11.8	...
Dutch West Indies 4/	8.3	7.4	7.3	7.0	...
Jamaica	6.8	6.6	6.3	6.2	...
French departments 5/	6.5	6.3	6.2	6.3	...
OECS countries 6/	6.1	6.1	5.9	5.5	...
U.S. Virgin Islands	2.7	2.1	2.2	2.6	...
Cuba	4.5	5.7	6.2	7.1	...
Bermuda	2.3	2.2	2.0	1.9	...
Barbados	2.6	2.6	2.5	2.6	...
Mexico (Cancun and Cozumel)	14.5	14.9	15.9	17.2	...
Other 7/	7.9	7.8	7.4	6.2	...
Total	100.0	100.0	100.0	100.0	

Sources: Ministry of Tourism; Caribbean Tourism Organization; and Fund staff estimates.

1/ Tourist days are defined as the number of days spent by all visitors in The Bahamas.

2/ Based on representative sample of hotels. Data for 1996 and 1997 are year averages through June.

3/ Refers to fiscal years, July-June.

4/ Aruba, Bonaire, Curacao, Saba, St. Eustatius, and St. Maarten.

5/ Guadeloupe and Martinique.

6/ Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and The Grenadines.

7/ Includes Belize, Cayman Islands, Guyana, Trinidad and Tobago, Turks and Caicos Islands, Haiti, and Suriname.

Table 3. The Bahamas: Summary of Central Government Operations

	FY 94/95	FY 95/96	FY 96/97	Prel. FY 97/98	Proj. FY 98/99
(In millions of Bahamian dollars)					
Current revenue	633.9	654.8	683.6	763.2	812.7
Tax revenue 1/	568.9	588.4	616.3	684.7	726.6
Nontax revenue 2/	65.0	66.4	67.3	78.5	86.1
Current expenditure	580.2	610.5	677.8	711.7	739.7
Wages and salaries	341.0	321.7	350.2	380.2	397.2
Goods and services	109.8	132.3	147.0	154.8	158.7
Interest payments	77.8	85.1	93.4	94.7	100.5
Subsidies and transfers	51.6	71.4	87.2	82.0	83.3
Current account balance	53.7	44.3	5.8	51.5	73.0
Capital Revenue	4.0	5.0	0.6	0.7	0.0
Foreign grants	7.7	0.0	0.5	0.5	0.5
Capital expenditure and net lending	98.1	97.6	149.5	123.7	130.9
Fixed capital formation	63.0	60.3	99.6	81.6	93.9
Capital transfers 3/	35.1	37.3	49.9	42.1	37.0
Statistical discrepancy	0.1	-1.1	-0.3	-0.3	0.0
Overall balance	-32.6	-49.4	-142.9	-71.3	-57.4
Total financing	32.6	49.4	142.9	71.3	57.4
Foreign financing	-11.2	-10.1	25.1	-22.7	-5.3
Domestic financing	57.5	59.5	117.8	94.0	62.7
(In percent of GDP)					
Current revenue	18.3	18.2	18.0	18.8	18.9
Tax revenue	16.4	16.3	16.2	16.8	16.9
Nontax revenue	1.9	1.8	1.8	1.9	2.0
Current expenditure	16.7	17.0	17.8	17.5	17.2
Wages and salaries	9.8	8.9	9.2	9.4	9.2
Goods and services	3.2	3.7	3.9	3.8	3.7
Interest payments	2.2	2.4	2.5	2.3	2.3
Subsidies and transfers	1.5	2.0	2.3	2.0	1.9
Current account balance	1.6	1.2	0.2	1.3	1.7
Capital expenditure	2.8	2.7	3.9	3.0	3.0
Capital formation	1.8	1.7	2.6	2.0	2.2
Capital transfers	1.0	1.0	1.3	1.0	0.9
Overall balance	-0.9	-1.4	-3.8	-1.8	-1.3
Financing	0.9	1.4	3.8	1.8	1.3
Foreign financing	-0.3	-0.3	0.7	-0.6	-0.1
Domestic financing	1.7	1.7	3.1	2.3	1.5

Sources: Ministry of Finance; Central Bank of The Bahamas; and Fund staff estimates.

1/ Includes net refunds.

2/ Excludes net revenues from government properties and net lending.

3/ Includes net lending.

Table 4. The Bahamas: Summary Central Government Operations in the Medium Term

	FY95/96	FY96/97	FY97/98	Est.	Projections			
				FY98/99	FY99/00	FY00/01	FY01/02	FY02/03
(In percent of GDP)								
Current revenue	18.2	18.0	18.8	18.9	19.2	19.4	19.5	19.7
Tax revenue	16.3	16.2	16.9	16.9	17.2	17.4	17.5	17.7
Nontax revenue	1.8	1.8	1.9	2.0	2.0	2.0	2.0	2.0
Current expenditures	17.0	17.8	17.6	17.2	17.3	17.0	16.9	16.8
<i>Of which</i>	2.4	2.5	2.3	2.3	2.4	2.3	2.3	2.2
Interest								
Primary balance	3.6	2.6	3.6	4.0	4.3	4.7	4.9	5.1
Current account	1.2	0.2	1.3	1.7	1.9	2.4	2.6	2.9
Capital revenue and foreign grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditures	2.7	3.9	3.1	3.0	3.0	3.0	3.0	3.0
Fixed capital	1.7	2.6	2.0	2.2	...	...	...	...
Net lending and transfers	1.0	1.3	1.0	0.9	...	...	...	...
Overall balance	-1.3	-3.8	-1.8	-1.3	-1.1	-0.6	-0.4	0.0
Memorandum items:								
Total debt/GDP	33.4	34.7	33.6	33.0	32.5	31.5	30.4	29.0
Interest payments/GDP	2.4	2.5	2.3	2.3	2.4	2.3	2.3	2.2

Sources: The Central Bank of The Bahamas, Ministry of Finance; and Fund staff estimates and projections.

Table 5. The Bahamas: Summary Accounts of the Financial System

	1995	1996	1997	Prel. 1998	Proj. 1999
(In millions of Bahamian dollars, end-of-period)					
Net foreign assets	-78	-109	-113	-24	33
Central bank	171	163	219	339	439
Commercial banks	-260	-277	-342	-377	-420
Other financial institutions	11	5	9	14	14
Net domestic assets	2,090	2,245	2,489	2,752	3,015
Net credit to nonfinancial public sector	410	409	392	430	464
Net claims on government	424	422	420	453	463
Deposits of the National Insurance Board	-71	-78	-82	-109	-122
Net claims on public corporations	56	64	54	87	123
Net credit to financial public sector 1/	-24	-21	-17	-11	-11
Credit to private sector	2,060	2,264	2,551	2,919	3,105
In local currency	1,881	2,055	2,287	2,623	2,790
In foreign currency	179	209	264	296	315
Capital and surplus	-338	-372	-422	-476	-517
Net unclassified assets	-18	-35	-16	-110	-26
Liabilities to private sector	2,012	2,137	2,375	2,728	3,048
Money	402	416	485	566	627
Currency	92	96	110	126	143
Demand deposits	310	320	375	440	484
Savings and fixed deposits, local currency	1,579	1,697	1,849	2,106	2,359
Foreign currency deposits	31	24	42	56	61
(Annual percentage change in terms of liabilities to the private sector at beginning of the period)					
Net foreign assets	-1.1	-1.5	-0.2	3.8	2.1
Net domestic assets	7.2	7.7	11.4	11.1	9.6
Credit to nonfinancial public sector	-0.8	0.0	-0.8	1.6	1.2
Credit to central government	0.6	-0.1	-0.1	1.4	0.4
Credit to National Insurance Board	-1.7	-0.3	-0.2	-1.1	-0.5
Credit to public corporations	0.3	0.4	-0.5	1.4	1.3
Credit to financial public sector	-0.2	0.2	0.2	0.2	0.0
Credit to private sector	10.6	10.1	13.4	15.5	6.8
Liabilities to private sector	6.0	6.2	11.2	14.8	11.7
Money	0.8	0.7	3.2	3.4	2.3
Quasi-money	5.2	5.5	8.0	11.4	9.5
(Annual percentage changes)					
Net domestic assets	7.0	7.4	10.9	10.6	9.6
Credit to private sector	10.8	9.9	12.7	14.4	6.4
Liabilities to private sector	6.0	6.2	11.2	14.8	11.7
Money	4.1	3.5	16.6	16.8	10.9
Quasi-money	6.5	6.9	9.9	14.4	11.9
Memorandum items:					
Change in net international reserves (in millions of B\$)	-3.0	-7.6	56.5	119.2	100.0
Broad money/GDP (percent)	57.4	57.1	60.3	65.1	66.8

Sources: Central Bank of The Bahamas; and Fund staff estimates.

1/ Financial public corporations: Bahamas Development Bank, Bahamas Mortgage Corporation, and Bahamas Agricultural and Industrial Corporation.

Table 6. The Bahamas: Accounts of the Central Bank

	1995	1996	1997	Prel. 1998	Proj. 1999
(In millions of Bahamian dollars)					
Net official foreign assets	171	163	219	339	439
Balances with banks abroad	115	104	136	243	323
Foreign securities	47	51	75	87	107
Reserve position in the Fund	9	9	9	9	9
Net domestic assets	77	79	42	-26	-71
Net credit to nonfinancial public sector	137	143	118	56	18
Net claims on financial public sector	4	3	4	5	6
Credit to commercial banks	0	0	0	0	0
Official capital and surplus	-78	-80	-84	-87	-94
Net unclassified assets	15	13	4	-1	-1
Liabilities to commercial banks	128	118	146	184	210
Notes and coins	37	46	47	47	52
Deposits	91	72	98	137	157
Liabilities to other financial institutions	13	13	-7	-12	0
SDR allocation	15	15	14	15	15
Currency held by the private sector	92	96	110	126	143
(Annual percentage changes in terms of reserve money at the beginning of the period)					
Net international reserves	-1.3	-3.3	24.8	48.1	33.6
Net domestic assets	5.2	0.8	-16.2	-27.7	-15.0
Net credit to nonfinancial public sector	11.1	2.3	-10.9	-24.7	-12.9
Central government, net	5.1	1.8	-8.9	-52.9	-67.4
Net credit to banks	0.0	0.0	0.1	0.0	-0.1
Liabilities to commercial banks	2.4	-4.4	12.1	15.6	8.5
Liabilities to other financial institutions	0.0	0.2	-9.0	-2.2	4.2
Currency held by the private sector	1.4	2.0	6.0	6.4	5.9
(In millions of Bahamian dollars)					
Memorandum items:					
Reserve money	232.8	227.6	248.2	297.4	352.7
Currency in circulation	129.0	142.5	156.9	173.0	195.3
Change in net international reserves	-3.0	-7.6	56.5	119.2	100.0
(Annual percent changes)					
Reserve money	3.7	-2.2	9.0	19.8	18.6
Currency in circulation	4.8	10.5	10.1	10.2	12.9

Sources: Central Bank of The Bahamas; and Fund staff estimates.

Table 7. The Bahamas: Summary Balance of Payments

	1995	1996	1997	Prel. 1998	Proj. 1999
(In millions of U.S. dollars)					
Current account balance	-143.2	-271.1	-658.1	-943.1	-557.5
Trade balance	-930.2	-1,022.8	-1,300.1	-1,373.1	-1,314.8
Exports	226.3	249.7	246.2	362.9	388.7
Imports	-1,156.2	-1,272.5	-1,546.9	-1,736.0	-1,703.6
Service balance	905.0	863.5	751.3	586.2	920.2
Travel (net) 1/	1,133.1	1,163.3	1,166.1	1,152.2	1,429.3
Construction services	-12.3	-20.4	-75.1	-145.8	-82.6
Other services (net)	-215.8	-279.4	-349.7	-420.2	-426.5
Income (net)	-135.9	-149.0	-148.5	-189.9	-196.8
<i>Of which</i>					
Interest and dividends	-108.1	-119.9	-117.4	-155.4	-159.9
Current transfers (net)	17.9	37.2	39.3	34.4	33.9
Capital account balance	88.5	156.9	402.8	724.4	477.6
Capital transfers	-12.5	-24.4	-13.0	-11.7	-12.4
Public sector	-29.2	-25.2	23.1	-11.0	-22.8
Disbursements	16.8	28.6	93.2	33.5	20.2
Amortization	-44.0	-53.7	-70.6	-44.7	-43.2
Financial system (net)	12.2	23.0	61.2	29.9	42.9
Direct investment	106.6	88.2	209.5	339.0	372.9
Other private sector (net)	11.4	95.3	122.0	372.8	97.0
Net errors and omissions 2/	51.8	106.6	311.8	338.0	179.9
Change in net international reserves	2.9	7.6	-56.5	-119.3	-100.0
(In percent of GDP)					
Current account balance	-4.1	-7.2	-16.7	-22.5	-12.2
Trade balance	-26.6	-27.3	-33.0	-32.8	-28.8
Exports	6.5	6.7	6.2	8.7	8.5
Imports	-33.0	-34.0	-39.2	-41.4	-37.4
Services (net)	25.8	23.1	19.1	14.0	20.2
Travel (net) 1/	32.3	31.1	29.6	27.5	31.3
Income (net)	-3.9	-4.0	-3.8	-4.5	-4.3
Capital account balance 3/	4.0	7.0	18.1	25.4	14.4
Memorandum item:					
NIR/Imports (weeks)	7.7	6.7	7.4	10.1	14.6

Sources: Central Bank of the Bahamas, Department of Statistics; and Fund staff estimates.

1/ Data from the Ministry of Tourism, adjusted by departure tax receipts.

2/ The authorities believe that a significant proportion of errors and omissions reflect unrecorded direct investment flows.

3/ Includes errors and omissions.

Table 8. The Bahamas: Medium-Term Projections of the Balance of Payments

	1997	Prel.		Proj.				
		1998	1999	2000	2001	2002	2003	2004
(In millions of U.S. dollars)								
Current account balance	-658.1	-943.1	-557.5	-316.6	-235.3	-171.3	-170.3	-169.6
Trade balance	-1,300.1	-1,373.1	-1,314.8	-1,272.1	-1,335.7	-1,402.5	-1,472.7	-1,546.3
Exports	246.2	362.9	388.7	414.4	435.1	456.9	479.7	503.7
Imports	1,546.3	1,736.0	1,703.6	1,686.5	1,770.9	1,859.4	1,952.4	2,050.0
Service balance	751.3	586.2	920.2	1,124.8	1,267.3	1,398.4	1,470.3	1,545.9
Travel (net) 1/	1,166.1	1,152.2	1,429.3	1,602.5	1,688.7	1,766.9	1,848.6	1,934.0
Construction services	-75.1	-145.8	-82.6	-74.3	-44.6	-17.8	-19.4	-21.2
Other services (net)	-339.7	-420.2	-426.5	-403.4	-376.8	-350.7	-358.9	-366.9
Income (net)	-148.5	-190.6	-196.8	-205.6	-205.5	-205.9	-206.7	-207.9
Current transfers (net)	39.3	34.4	33.9	36.3	38.7	38.7	38.7	38.7
Capital account balance	402.8	724.4	477.6	347.4	263.9	199.4	197.9	196.6
Capital transfers	-13.0	-11.7	-12.4	-13.6	-15.0	-16.5	-18.1	-20.0
Long-term public sector	23.1	-11.0	-22.8	-23.3	-9.4	-15.3	-19.7	-19.7
Financial system	61.2	29.9	42.9	40.2	45.7	49.5	54.7	59.7
Direct investment	209.5	339.0	372.9	257.5	186.8	157.8	166.4	176.2
Other private sector	122.0	378.2	97.0	86.7	55.9	23.9	14.6	0.3
Net errors and omissions	311.8	338.0	179.9	0.0	0.0	0.0	0.0	0.0
Change in net international reserves	-56.5	-119.3	-100.0	-30.7	-28.6	-30.3	-32.2	-34.1
(In percent of GDP)								
Current account balance	-16.7	-22.5	-12.2	-6.5	-4.6	-3.2	-3.0	-2.9
Trade balance	-33.0	-32.8	-28.8	-26.2	-26.2	-26.2	-26.2	-26.2
Exports	6.2	8.7	8.5	8.5	8.5	8.5	8.5	8.5
Imports	39.2	41.4	37.4	34.7	34.8	34.7	34.7	34.7
Services (net)	19.1	14.0	20.2	23.1	24.9	26.1	26.1	26.2
Income (net)	-3.8	-4.5	-4.3	-4.2	-4.0	-3.8	-3.7	-3.5
Current transfers	1.0	0.8	0.7	0.7	0.8	0.7	0.7	0.7
Capital account balance 2/	18.1	25.4	14.4	7.1	5.2	3.7	3.5	3.3
Capital transfers	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Public sector	0.6	-0.3	-0.5	-0.5	-0.2	-0.3	-0.3	-0.3
Financial system	1.6	0.7	0.9	0.8	0.9	0.9	1.0	1.0
Private sector 2/	16.3	25.2	14.3	7.1	4.8	3.4	3.2	3.0
Change in net international reserves	-1.4	-2.8	-2.2	-0.6	-0.6	-0.6	-0.6	-0.6

Sources: Central Bank, Department of Statistics; and Fund staff estimates.

1/ Data from the Ministry of Tourism, adjusted by departure tax receipts.

2/ Includes errors and omissions

Table 9. The Bahamas: Summary Medium-Term Macro Flows 1/

	1997	Prel. 1998	Projections					
			1999	2000	2001	2002	2003	2004
(Annual percentage change)								
National income and prices								
GDP at constant prices	3.3	3.0	6.0	3.5	3.3	3.5	3.5	3.5
Consumer prices (end of period)	0.8	1.4	1.3	1.5	1.5	1.4	1.4	1.4
Tourism								
Tourist arrivals	1.3	-3.1	14.7	3.2	3.2	3.4	3.0	3.0
Stopover arrivals	-0.9	-2.0	8.0	3.5	3.5	3.5	3.0	3.0
(In percent of GDP)								
Balance of payments								
Current account	-16.7	-22.5	-12.2	-6.5	-4.6	-3.2	-3.0	-2.9
Trade balance	-33.0	-32.8	-28.8	-26.2	-26.2	-26.2	-26.2	-26.2
Exports	6.2	8.7	8.5	8.5	8.5	8.5	8.5	8.5
Imports	-39.2	-41.4	-37.4	-34.7	-34.8	-34.7	-34.7	-34.7
Services	19.1	14.0	20.2	23.1	24.9	26.1	26.1	26.2
Income (net)	-3.8	-4.5	-4.3	-4.2	-4.0	-3.8	-3.7	-3.5
Current transfers	1.0	0.8	0.7	0.7	0.8	0.7	0.7	0.7
Central government ^{2/}								
Current revenue	18.0	18.8	18.9	19.2	19.4	19.5	19.7	19.7
Current expenditure	17.8	17.5	17.2	17.3	17.0	16.9	16.8	16.8
Current account surplus	0.2	1.3	1.7	1.9	2.4	2.6	2.9	2.9
Capital expenditure	3.9	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Overall balance	-3.8	-1.8	-1.3	-1.1	-0.6	-0.4	0.0	0.0
Memorandum items:								
Total public debt/GDP	34.7	33.6	33.0	32.5	31.5	30.4	29.0	29.0
Interest payments/GDP	2.5	2.3	2.3	2.4	2.3	2.3	2.2	2.2

Source: Fund staff projections.

1/ Projections of savings and investment are not incorporated in the table because of difficulties in finalizing the estimates of national accounts by expenditure categories. These difficulties relate mainly to the quality of survey responses.

2/ Refers to fiscal years ending June 30.

The Bahamas: Fund Relations
(As of June 30, 1999)

I. Membership Status:

Joined: August 21, 1973
Status: Article VIII

II. General Resources Account:

	SDR Million	Percent of Quota
Quota	94.90	100.0
Fund holdings of currency	88.66	93.4
Reserve position in Fund	6.24	6.6

III. SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	10.23	100.0
Holdings	0.01	0.01

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue 06/30/99	Forthcoming				
		1999	2000	2001	2002	2003
Charges/interest	0.0	0.2	0.3	0.3	0.3	0.3
Total	0.0	0.2	0.3	0.3	0.3	0.3

VII. Exchange Rate Arrangement and Exchange System:

The Bahamian dollar is pegged to the U.S. dollar at B\$1 per U.S. dollar. The official buying and selling rates are B\$1.0025 per U.S. dollar (buying) and B\$1.0040 per U.S. dollar (selling).

The Bahamas has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. However, capital account transactions are subject to exchange controls.

VIII. Last Article IV Consultation:

The Bahamas is on the standard 12-month consultation cycle but the authorities have agreed to move to the 24-month consultation cycle starting in 2001. The last Article IV consultation discussions took place in November 1997, and the staff report (SM/98/54, February 24, 1998) was considered by the Executive Board on March 11, 1998 (EBM/98/27)

IX. Technical Assistance:

Department	Dates	Purpose
MAE	November-December 1990	Review monetary management, financial system liberalization, and exchange control.
FAD	November 1994-March 1995	Rationalize the tariff system.
STA	June 1996	Review the compilation of national accounts and trade statistics.
MAE	April – May 1998	Assess supervision practices.

The Bahamas: Statistical Issues

Outstanding statistical issues

Real sector

The Department of Statistics' latest revision of national accounts data covers the period 1989–96, and work is ongoing to establish an improved data base for estimating constant price series for 1997 and 1998. For the period 1992–98, the staff has estimated nominal and real GDP series based on indicators of activity, estimates of sectoral weights, and estimated deflators. In June 1996, a STA technical assistance mission reviewed the compilation problems in producing national accounts data.

Government finance

Monthly data are reported by the central bank for publication in *IFS*. The data cover major aggregates on budgetary operations of the central government (i.e., exclusive of social security). Annual data covering budgetary central government that are reported for the *GFS Yearbook* (1998), have been reported only through 1993.

Monetary accounts

Monetary statistics are regularly provided by the central bank. The monetary survey includes the central bank and all 10 commercial banks. At present, there are no major issues of concern regarding monetary statistics.

External sector

The balance of payments statistics are reported to the Fund on a timely basis. In 1997, a number of improvements were made in the recording of goods and investment income transactions and in the classification of financial flows. Merchandise trade value data have been updated through end-1998, however, there has been no reporting of volume and price data for trade flows since 1991. Net errors and omissions, which are thought by the authorities to reflect mainly unregistered direct investment, have increased to about 8 percent of GDP in both 1997 and 1998.

The Bahamas: Core Statistical Indicators
(At end-June 1999)

	Exchange rate	International reserves	Base money	Central bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/imports	Current account balance	Overall government balance	GDP/GNP	External Debt/debt service
Date of latest observation	Fixed rate Since 1970	6/16/99	6/16/99	6/16/99	6/16/99	6/16/99	4/99	Q4/98	Q4/98	Q4/98	1996	Q4/98
Date received		6/17/99	6/17/99	6/17/99	6/17/99	6/17/99	4/99	4/99	4/99	4/99	11/10/97	4/99
Frequency of data		W	W	W	W	W	M	Q	Q	Q	A	Q
Frequency of reporting		W	W	W	W	W	M	Q, N	Q	Q	A	Q
Source of data		Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Dept. of Statistics	Central Bank	Central Bank	Dept. of Statistics	Central Bank
Mode of reporting		C	C	C	C	C	M	M	M	M	M	M
Confidentiality		No	No	No	No	No	No	No	No	No	No	No
Frequency of Publication	M	M	M	M	M	M	M	M	Q	Q	A	Q

The Bahamas: Social Indicators of Development

	The Bahamas		Latin America and Caribbean
	(most recent estimates)	(15-20 years ago)	(most recent estimates)
Demographic			
Area (square kilometers)	10,010	10,010	20,504,830
Population (millions)	0.3	0.2	486.0
Density (population per sq. kilometer)	28.4	20.6	...
Population annual growth rate (percent)	1.7	2.5	1.7
<i>Of which</i>			
Urban	...	...	2.6
Crude birth rate (per thousand population)	20.2	23.7	23.0
Crude death rate (per thousand population)	4.7	5.8	7.0
Fertility rate (births per women)	2.3	...	2.8
Labor force			
Economically active population (millions)	0.2	0.1	300.0
Agriculture (percent of labor force)	4.0	5.9	23.4
Manufacturing (percent of labor force)	4.0	17.2	24.0
Health			
Infant mortality (per thousand live births)	17.0	25.9	33.0
Mortality rate under 5 years of age (per thousand live births)	20.7	35.0	41.0
Life expectancy at birth (years)	73.7	68.1	69.1
Population per physician	1,290.0	938.0	1,400.0
Population per hospital bed	250.0	226.0	...
Immunized under 12 months (percent of group)			
Measles	93.0	...	84.0
DPT	86.0	40.0	86.0
Access to safe water (percent of population)	95.0	...	...
Urban	98.0	...	...
Rural	94.0	...	...
Nutrition			
Food production (index 1989-91 = 100)	122.5	90.9	101.0
Daily calorie supply (calories per person)	...	...	2,726.0
Daily protein supply (grams per person)	...	...	68.0
Prevalence of malnutrition under 5 years of age (percent of age group)	...	...	...
Education			
Gross enrollment ratios (percent of school age group) 1/			
Primary	97.9	98.5	111.0
Secondary	86.8	88.1	106.0
Pupil/teacher ratio (pupils per teacher)			
Primary	22.2	...	26.0
Secondary	...	...	26.0
Pupils reaching 4th grade (percent of cohort)	...	...	64.0
Illiteracy rate (percent of population over 15 years)	4.2	6.6	14.0
Newspaper circulation (per thousand of population)	100.0	157.0	83.0
Women			
Gross enrollment ratio (percent of school age group) 1/			
Primary	104.4	101.3	...
Secondary	97.1	...	...
Illiteracy rate (percent of population over 15 years)	3.6	6.1	15.0
Life expectancy (years)	77.1	72.2	73.0
Labor force (percent of total)	46.9	43.4	33.0

Sources: World Bank Social Indicators of Development; and Statistics Office of The Bahamas.

1/ Includes over and underage students.

The Bahamas: Relations with the Inter-American Development Bank

(In millions of U.S. dollars)

A. Active Loans as of June 30, 1999

Purpose	Approval Date	Amount	Amount Disbursed
Family Island Electrification Program	11 Dec. 91	29.8	29.6
Multisectoral Credit Program	9 Dec. 92	7.8	2.3
Improvement of Primary/Secondary Education	14 Dec. 94	21.0	10.3
Power Expansion Program II	6 Nov. 96	56.0	46.4
PPF; BH0008 Solid Waste Management	14 May 97	0.8	0.8
Family Island Potable Water Project	29 Jul. 98	14.0	0.0
Solid Waste Management	17 Feb. 99	23.5	0.0
Total		152.9	89.4

B. Net Flow of Convertible Currencies

	1995	1996	1997	1998	Proj. 1999
a. Loan disbursements	8.3	11.9	25.2	32.6	21.6
b. Repayments (Principal)	8.6	8.8	7.9	9.0	10.0
c. Net Loan Flow (a-b)	-0.3	3.1	17.3	23.6	11.6
d. Interests and charges	9.2	10.5	10.7	12.0	13.0
e. Net cash flow (c-d)	-9.5	-7.4	6.6	11.6	-1.4



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 99/85
FOR IMMEDIATE RELEASE
August 27, 1999

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with The Bahamas

On August 3, 1999, the Executive Board concluded the Article IV consultation with The Bahamas.¹

Background

Following a period of very slow growth in the late 1980s and early 1990s the Bahamian economy began to recover in 1995 in response to the government's policies aimed at strengthening fiscal management and attracting new investment into tourism and other sectors. Real GDP growth accelerated from less than 1 percent a year in 1994–95 to 4 percent in 1996, but slowed somewhat in 1997–98 as construction work on a second phase of tourism projects led to a decline in the number of available hotel rooms and in tourist arrivals. Following the completion of the expansion projects in November–December 1998, tourist arrivals rose sharply in the first quarter of 1999, and real GDP growth is expected to rebound to 6 percent for the year as a whole. The economic recovery has been accompanied by declines in unemployment and inflation, a strengthening of the international reserve position, and an improvement in social indicators, which are among the most favorable in the Caribbean and Latin American region.

Imports of equipment and services related to investment projects in tourism, shipping, and construction, as well as a slowdown in net tourism receipts—reflecting the temporary closure of rooms during the construction phase—led to a marked widening of the external current account deficit in 1997–98. However, the deficit is expected to begin to narrow in 1999. Following a tightening of prudential guidelines on consumer credit in mid-1998, the liquidity

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

situation in commercial banks eased, and there has been a downturn in interest rates in recent months.

The government's fiscal policy has been a key factor behind the recovery in economic activity and investor confidence. Since 1994–95 the overall deficit of the central government has been contained to about 1½ percent of GDP, and the authorities have announced their commitment to eliminate the deficit by 2001. Central government saving however, has been low—averaging about 1½ percent of GDP. The budget for FY 1999/2000 envisages an overall deficit in line with that of recent years, and proposes a number of revenue measures (including increases in rates of the hotel occupancy tax, the production tax on beer, and the stamp duty on real estate transactions, as well as the elimination of certain import duty exemptions) aimed at strengthening further the fiscal position.

Over the past 3–4 years the government has implemented a number of reforms in the areas of privatization and the financial system. All but one of the major government-owned hotels have been sold, and the state has been reducing steadily its share holding in the Bank of The Bahamas. Also, steps have been taken to increase private sector participation in the public utilities, with the bidding process for shares in the state-owned telecommunications company expected to begin this year, and a similar process for the electricity company scheduled to be completed in 2000.

Executive Board Assessment

Executive Directors commended the authorities' adherence to policies that had attracted substantial flows of private investment, maintained low inflation, and delivered marked increases in per capita income and employment, as well as improved social indicators. Directors encouraged the authorities to build on these achievements to ensure a basis for sustained, noninflationary growth in the medium term, and for further progress in raising social welfare.

Directors considered that appropriate fiscal and monetary policies and effective oversight of financial institutions would continue to play a key role in preserving macroeconomic stability and the exchange rate peg. They commended the authorities' commitment to a low budget deficit. Directors welcomed the steps proposed in the fiscal year 1999–2000 budget to strengthen the revenue base by increasing certain tax rates and reducing tax exemptions, but considered that these efforts should be complemented by a full review of the tax structure. Such a review should include an assessment of the desirability of lowering import duty rates, introducing a value-added tax, or sales tax, and of increasing revenue from property taxes.

Both with a view to strengthening public finances and raising economic efficiency, Directors saw scope for expenditure savings, mainly through containing the growth of the wage bill and reducing subsidies and support to public enterprises. They considered that containment of the wage bill, which could be facilitated by a review of the civil service structure, would help ease wage pressures and promote competitiveness.

Directors welcomed the Government's commitment to move forward quickly to invite private sector participation in the telecommunications and electricity sectors, and looked forward to similar initiatives with respect to other publicly-provided services. In general, Directors considered that development policies should address shortages of labor in key areas, and continue to focus on efforts to broaden the base of the economy beyond tourism. In this connection, they noted the importance of improved training and measures to tackle rigidities in labor arrangements.

Directors welcomed the recent steps taken by the central bank to strengthen prudential credit guidelines, and more generally to modernize the regulatory framework for the financial system in line with international standards. They urged the authorities to remain vigilant concerning the threat of money laundering.

Directors commended the quality and range of most published economic statistics. However, noting the widening external current account deficit, and the importance of capital flows in the balance of payments, Directors urged the authorities to try to identify the nature and origin of unexplained capital inflows, and to monitor the external situation carefully. They also encouraged further improvement in the national accounts.

Directors welcomed the authorities' intention to release the Article IV staff report under the pilot project.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 1999 Article IV consultation with The Bahamas is also available on the IMF's website (<http://www.imf.org>).

The Bahamas: Selected Economic Indicators

	1995	1996	1997	Prel. 1998
Domestic Economy				
Change in real GDP 1/	0.3	4.2	3.3	3.0
Change in number of stopover visitor days 2/	2.9	4.7	0.6	-4.4
Change in consumer price index (end of period)	1.7	1.1	0.8	1.9
Unemployment rate (in percent of labor force)	10.9	11.5	9.8	7.8
(In percent of GDP at market prices)				
Financial variables				
Central government overall balance 3/	-1.3	-3.8	-1.8	-1.3
Central government savings 3/	1.2	0.2	1.3	1.7
Change in broad money (in percent)	6.0	6.2	11.2	14.8
(In millions of U.S. dollars)				
External sector				
Current account balance	-143	-271	-658	-943
Overall balance	-3	-8	56	119
Gross international reserves	171	163	220	339
Debt service ratio 4/	4.3	3.7	4.9	3.8
Percentage change in real effective exchange rate (depreciation -) 5/	-3.4	0.5	2.2	1.9

Sources: The Central Bank of the Bahamas; Ministry of Finance; and IMF staff estimates.

1/ Estimated on the basis of partial indicators.

2/ Calculated as the number of stopover visitors times the estimated average length of stay.

3/ Corresponds to the fiscal year beginning July 1.

4/ Public sector debt service in percent of receipts from merchandise exports and tourism.

5/ Annual averages.

**Statement by Thomas A. Bernes, Executive Director
for The Bahamas
August 3, 1999**

1. My Bahamian authorities wish to express their gratitude to management and staff for the excellent policy dialogue, cooperation, and careful advice during the recent consultation. The staff identified some key topics and the Selected Issues paper will no doubt be useful in improving the use of monetary instruments, and in monitoring competitiveness of the economy. In both areas, these topics are timely in light of the increasing sophistication of the financial market, and the reliance of the economy on tourism and related services. Figure 5 (SM/99/186) on comparative real effective exchange rate movements paints a good picture.

2. Directors will note that The Bahamas' economic situation has never been better. It has not been affected by the Asian or Russian crisis. Real growth has been sustained for a third year in a row (one of the best in the Caribbean Community (CARICOM) region), unemployment is at its lowest level since the 1970s, inflation remains negligible, investor confidence is high (mostly due to fiscal discipline) and the outlook is promising. Furthermore, the fiscal position of the central government is on track for a balanced budget by FY 2001/02 from a deficit of 1.1 percent in FY 1999/00. Total debt to GDP is low and continues to decline while the net international reserve position is strong and at an historical high. Moreover, social indicators in The Bahamas are among the highest in the Western Hemisphere. Given the excellent prospects ahead, my authorities have decided to move to a 24-month consultation cycle while maintaining an interim visit at the time of the annual budget preparation.

I. POLICY ISSUES

3. The Staff Report is uncontroversial but hits on appropriate issues that bear on the economic management of a small, open economy. The analysis is clear and focussed. Directors, like my Bahamian authorities, will no doubt find it difficult to argue with the staff's approach and advice. However, Directors may wish to share their insight into the mix of ideas regarding policies to sustain growth, fiscal management with the focus on the improving public sector savings (perhaps through a value added tax (VAT) as suggested by staff), models of privatization, and the thorny issues of wage policy and social ills, including environmental problems and crime.

4. In the **fiscal area**, my authorities are aware that there is a need to take a close look at its longstanding reliance on trade tariffs as the main basis for tax revenues. Given The

Bahamas' status as an offshore financial center, and the government's willingness to maintain this distinction, there is no consideration of income taxes as an alternative. The impetus for a broader assessment of the "optimal tax structure" as noted by staff, will be future membership in the FTAA. My authorities will no doubt look carefully at the possibility of a VAT as an alternative and will be anxious to review cases of recent implementation in similar countries. Concerning the issue of wage policy, so far my Bahamian authorities have been careful (in light of the fixed exchange rate regime) to limit wage increases to prudent levels. The staff's concern that the government limit transfers to non-profit making public enterprises is shared by my authorities and efforts are being made to strengthen the operations of Bahamasair, and the Broadcasting Corporation in particular.

5. In the **financial sector**, the Central Bank continues to monitor the growth of private sector credit and will continue to intervene from time to time to exert downward pressure on credit growth through moral suasion. So far this remains an effective tool. My authorities take note of the staff's views on the functioning of the government securities market and will continue to improve transparency of these operations. In the area of bank supervision and financial sector regulation, my authorities were satisfied with the conclusion of the MAE expert that bank supervision practices conformed with the Core Principles of the Basle Committee. Nonetheless, they will continue to pursue vigilance in every effort to maintain the highest standards of The Bahamas as a premier offshore financial center.

6. On the **structural front**, The Bahamas has made considerable progress in its privatization efforts. Only one major hotel remains under government ownership (currently profitable) and the divestment processed is advanced for BATELCO, the telecommunications company, and is expected to be completed by year end, while BEC, the electricity company, is in the initial stages with plans for divestment of shares next year. The Bahamian experience suggests that a transparent process including discussion with a cross-section of the community paves an easier way for consensus building for privatization. However, this is not to downplay the political difficulties involved in the process as well as the complexity of settling with workers who may lose jobs as a consequence.

7. In other areas, my authorities noted the concerns in the staff report about social issues. The economic progress has not yet permeated the entire society but this will be addressed in the government's ongoing social development program. On the issue of **labor shortages** in certain areas, the government has begun to address skills shortages through intensified training, and will examine this problem more closely in the coming year. On data problems, my authorities have noted the repeated exhortation by staff to improve the national accounts and will undertake to review the underlying issues behind the net errors and omissions in the balance of payments as elaborated in the Selected Issues paper.

8. Finally, I am pleased to confirm that my Bahamian authorities have agreed to **release the Staff Report** under the subcategory of 24-month cycle countries in the Fund's pilot project on transparency.