

**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.