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SM/83/64
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

May 9, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Bahamas - Staff Report for the 1983 Article IV Consultation

The following correction has been made in SM/83/64 (4/20/83):

Page 2, last line: for "between U.S. and Bahamian dol-"
read "between U.S. and Bahamian dollar assets. Net
external borrowing by the public sector
(mainly to"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

BAHAMAS

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Article IV Consultation with the Bahamas

Approved by E. Wiesner and W.A. Beveridge

April 19, 1983

A fund mission held the 1983 Article IV consultation discussions with representatives of the Bahamas in the period February 1-16, 1983; the Bahamas accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1973. The Bahamian representatives were led by Mr. Arthur D. Hanna, Deputy Prime Minister and Minister of Finance, and Mr. William C. Allen, Governor of the Central Bank of the Bahamas. They also included senior officials from the Ministries of Finance, Labor and Home Affairs, Tourism, Agriculture and Fisheries, Works and Utilities, and Education and Culture; the Central Bank of the Bahamas; the Department of Statistics; and the National Insurance Board. The staff met with officials of the public corporations and with representatives of the labor unions and of the financial and business community. Mr. Robert Joyce, Executive Director for the Bahamas, participated in the final round of policy discussions. The Fund mission consisted of Ernesto Hernandez-Cata (Head), Yusuke Horiguchi, Lloyd R. Kenward and Fredesvinda G. Pham (all WHD), and Valerie Rowles (Secretary-WHD).

I. Recent Economic Developments

Following a decline in 1981, overall economic activity appears to have risen moderately in 1982. Activity in the tourist sector had dropped sharply in 1981 owing to the weakness of demand in the United States and other industrial countries and to the adverse effects on competitiveness of the appreciation of the U.S. and Bahamian dollars since mid-1980. Tourist activity is estimated to have shown a modest increase in 1982 (in spite of continued unfavorable conditions abroad), apparently in reflection of the aggressive marketing strategy pursued by the Bahamas. The rate of growth of construction has been coming down from the very high rates recorded in 1979-80, but commercial construction was well sustained in 1981-82 by work on two large projects by the publicly owned Hotel Corporation. Activity in the relatively small, export-oriented, manufacturing sector picked up in 1982 from the depressed level of the previous year, but there are indications that agricultural output declined rather sharply.

The rate of price increase has moderated considerably since the spring of 1981, broadly in line with the slowing of inflation in the United States. The 12-month rate of increase in consumer prices, which reached more than 13 per cent in May 1981, was down to 4-1/2 per cent in December 1982. Recently, there has also been a deceleration in wage settlements although the rate of increase in wages in most sectors remains well above the current rate of price inflation. The wage contract signed in the hotel industry in May 1982 called for an average annual increase in total compensation of just under 8 per cent for the period 1982-84, down from about 12 per cent during the preceding three-year period. It may be noted that the rate of increase of hourly earnings in the U.S. hotel sector came down from a yearly average of about 10 per cent from 1978 to 1981 to less than 4 per cent in 1982. The salaries of government employees increased by 7 per cent and 9 per cent in 1980 and 1981, respectively; no general salary increase was granted in 1982 although there was a substantial increase in earnings stemming from annual salary increments and bonuses. A general salary adjustment averaging a little less than 7 per cent has been proposed for 1983.

With regard to the balance of payments, there was a substantial improvement in the current account in 1982, but at the same time there was a large decline in long-term capital inflows; net official international reserves registered a small increase. The current account shifted from surpluses of B\$25-35 million a year in 1976-77 to deficits of B\$30-40 million in 1979-80. The deficit widened to B\$80 million in 1981, owing largely to a decline in the value of merchandise exports and to a sharp drop in the growth of tourist receipts. In 1982 the current account deficit is estimated to have narrowed to B\$20 million (about 1-1/2 per cent of the staff's estimate of GDP). The drop in the deficit resulted largely from a substantial improvement in the trade balance; there was a strong rebound of exports from the depressed levels of 1981 ^{1/} and a small decline in the value of imports reflecting a fall in the volume and price of imported oil.

Net inflows of private capital fell from more than B\$100 million in 1981 to about B\$35 million in 1982. There was a sharp decline in long-term borrowing abroad by private companies from the unusually high levels registered in 1981 in connection with the financing of several large projects. There was also a significant reduction in the value of property purchases by nonresidents; this reduction may have been related to administrative delays in authorizing purchases under the Government's land policy. The outflow on net errors and omissions declined from B\$72 million in 1981 to B\$49 million in 1982, perhaps reflecting the narrowing of interest rate differentials between U.S. and Bahamian dollar assets. Net external borrowing by the public sector (mainly to

^{1/} To some extent, the decline in exports in 1981, as well as the pickup in 1982, reflected temporary factors. Also, as explained in Chapter IV of the recent economic developments paper, the estimating method currently in use may have exaggerated movements in merchandise exports in the past two years.