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October 26, 2010

**Statement by Ms. Vongpradhip and Mr. Do on The Bahamas
(Preliminary)
Executive Board Meeting 10/102
October 27, 2010**

As a small open economy, the Bahamas has been negatively impacted by the global economic downturn. In 2009, GDP growth fell markedly, and the fiscal deficit rose further by 0.5 percentage point to 5.3 percent. With increased unemployment and contraction in the domestic activity, this adverse situation has posed uncertainties and downside risks to the growth outlook for 2010 and beyond. As we broadly agree with staff's overall assessment, we limit ourselves to the following comments for emphasis.

Fiscal policy

- We agree with staff in pointing out to the importance of bringing the budget position to a sustainable path in the medium term. As such, measures on the spending side would be essential, including the control of wage bill and new hiring. The success of ongoing tax reforms would also be critical to bolster and cement the foundations for a sustained fiscal consolidation.
- We are encouraged to learn from Messrs. Hockin and Rolle that the revamped law mandates a more comprehensive treatment of the public sector, greater accountability of public official, imposes tighter deadlines for the production of audited government accounts and establishes internal audit units within ministries and departments. We see merits of all these measures in enhancing the fiscal discipline and improving the fiscal position in the long-run. In the same vein, we welcome the government's firm decision to gradually reduce the budgetary support to deficit operating state owned enterprises (SOEs). In the medium term, privatization and public-private partnership of these enterprises could make a significant contribution to improve fiscal outlook and support the authorities' medium term fiscal strategy. Going forward, the government's plan to divest 51 percent of the ownership in the Bahamas Telecommunications Company would be a step in the right direction to provide a benchmark to the other divestment/privatization processes.

Monetary policy and financial sector stability

- The CBOB is commendable for maintaining a tight monetary policy with the objective of avoiding pressures on external reserves and safeguarding financial sector stability. While the Bank has been successful with the lean level of international reserve, we support the authorities' continued efforts to develop additional measures of reserves adequacy in order to frame an increase in the buffers over time.
- We welcome the authorities' effort in modernizing supervision through enhanced risk-based supervisory framework and increasing prudential requirements for regulatory capital adequacy. *With the government's intention to establish the Financial Services Authority for incorporating the existing major supervisory bodies, we invite staff's comments on any consideration to put the holistic supervisory function under the Central Bank's purview?* In the meantime, we are concerned about the deterioration of NPLs, which require close supervision and prompt corrective actions. That being said, the authorities are encouraged to further strengthen their capabilities in this respect, and reinforce collaboration with others supervisors, as suggested by staff.

Structural reforms

- We take note of Bahamas' protracted and large external current account balance. Bearing this in mind, we see merits in diversifying the economy to enhance competitiveness as well as to reduce revenue volatility. Toward this end, we welcome the enhanced mechanism for providing assistances to SMEs.