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GRAY/10/3971

October 26, 2010

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

We thank staff for a concise, yet comprehensive, clear and well-written report, as well as Messrs. Hockin and Rolle for their candid and informative Buff statement.

This report gives a clear description of the impact of the international crisis on the Bahamian economy, and stresses the key challenges for the years ahead: defining a medium-term fiscal strategy in order to put public debt on a sustainable path and reducing the vulnerabilities in the financial system. We largely share the staff's appraisal and recommendations, and would like to emphasize the following points:

- We wonder about the authorities' projections for fiscal revenues, which are more optimistic than staff's. Consequently, staff recommended the elaboration of a contingency plan, and we take note from Messrs. Hockin and Rolle's statement that the authorities are prepared to adopt contingency measures. *Could we have more information on the contemplated measures?*
- The agreement on the need for a comprehensive tax reform is encouraging. While we welcome the plans for greater efficiency and rationalization of tax collection, we encourage the authorities to accelerate their efforts with a view to implement a VAT. Like staff, and based on lessons learned from the successful introduction of a VAT in several OECS countries, we believe that this measure would have a significant positive impact on fiscal revenues.
- We welcome the steps towards the adoption of a medium-term fiscal framework, and, more generally, the new Financial Administration and Audit Act, which will align the budget implementation with the best international practices.
- On the banking sector, the proportion of nonperforming loans (relative to total loans) has more than doubled in two years, and continued to increase, albeit at a slower pace, during the first half of 2010. In addition, provisioning is lower than in other countries in the region (fig. 5). This situation calls for a close monitoring, even if recent stress tests

concluded that the banks could withstand a further deterioration in their loan portfolio.

- Finally, we welcome the authorities' efforts on tax transparency and information exchange, in accordance with their commitment to the internationally agreed tax standard, allowing the country's exit from the OECD's "grey list". We encourage the authorities to actively engage themselves in the Global Forum's Peer Review process.