

The contents of this document are preliminary and subject to change.

GRAY/10/3973

October 26, 2010

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

We thank Staff for the well-written paper, and Mr. Hockin and Mr. Rolle for their informative Buff statement.

The Bahamas' economy has been severely affected by the global crisis in 2009, with a significant decline in FDI and tourism-related activity. As a result, economic activity as a whole contracted by 4½ percent, unemployment increased, notably in the tourism and construction sectors and many fiscal, debt and financial sector indicators deteriorated. We welcome the positive recent developments in the first part of 2010, which have improved the archipelago's economic outlook. Nevertheless, there remain significant downside risks to the outlook, notably a slower recovery in The Bahamas' main trading partners. We note the authorities' continued commitment to reforms and welcome their agreement with staff on the need to implement policies aimed at increasing the country's resilience to shocks and making further progress towards macroeconomic stability over the medium-term.

**Fiscal consolidation** will be important to bring public finances and debt back on a sustainable path. In that regard, we welcome the budget for 2010/11 that projects an increase in revenues through tax reforms and curtails expenditures, including wage bill and transfers to SOEs, while strengthening the social safety net. That said, we note that the authorities and staff have different revenue projections. *We would like staff to elaborate further on those diverging views.*

We note the steps being taken towards the adoption of a medium-term fiscal framework and the authorities' consideration of staff's recommendation to further increase transparency in the operations of public enterprises, in order to increase public financial management. We welcome the progress made in the strengthening of the fiscal policy framework, with the adoption of the revised Financial Administration and Audit Act, as indicated in Mr. Hockin and Mr. Rolle's statement. However, we note that two draft legislations on investment and fiscal incentives will be submitted to the Parliament soon. *We would like staff to elaborate more on these two legislations and their potential impact on the fiscal consolidation program*

.

On the **monetary front**, we commend the authorities for their prudent conduct of monetary policy, with a moderate credit growth and a reserve coverage ratio well above the statutory target. We note the agreement that the fixed exchange rate continues to provide an adequate nominal anchor for the peg. We note the authorities' interest in developing additional measures of reserves adequacy and support Fund TA in that regard.

In the **financial sector**, we welcome the stabilization of the banking system, which remains liquid and well capitalized. We take note of the findings that, despite a high level of NPLs, the system can withstand shocks stemming from a further deterioration in banks' loan portfolio. That said, we agree that banks' loan portfolio should continue to be closely monitored. The enhanced monitoring framework, as described in Mr. Hockin and Mr. Rolle's statement, will be helpful in that regard and in reducing risks to the banking system. We note that progress is being made in the establishment of a single supervisory body for all nonbank financial institutions, in order to strengthen the related regulatory and supervisory framework. *We would like staff to indicate when this process is expected to be completed.*

With these remarks, we wish the Bahamian authorities every success in their future endeavors.