

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

GRAY/10/3976

October 26, 2010

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

The Bahamas were strongly hit by the global crisis, with significant consequences to the fiscal accounts and deterioration in the banks' balance sheets. While recovery is already underway, policy makers must take corrective measures in order to restore fiscal sustainability and strengthen the financial system. We broadly agree with the staff appraisal and add the following comments for emphasis.

We welcome the ambitious fiscal consolidation efforts and note the authorities' intention to increase government revenues by 2 percentage points. Staff is less optimistic on the revenue side and projects only 1 percentage point increase in tax revenue for the fiscal year 2010-11. Given the sharp increase in the debt-to-GDP ratio in the last two years, the uncertainty regarding tax collection, and the projected 5 percentage point increase in the debt-to-GDP ratio by June 2012, we encourage the authorities to identify contingency measures in case of a further deterioration in the fiscal position.

The fact that the NPLs are concentrated in mortgages and that mortgages account for nearly half of the banks' loan portfolio is a source of concern. We note that the banking system could withstand a further rise in NPLs. However, we agree with staff that vulnerabilities in the banking sector remain, and that it is important to strengthen banking supervision by intensifying on-site inspections and closely monitoring vulnerable banks. We welcome the measures taken by the authorities to strengthen the regulatory frameworks for nonbank financial institutions. Indeed, these measures are important to mitigate vulnerabilities of the sector.