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October 26, 2010

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

We thank staff for a concise report and Messrs. Hockin and Rolle for their helpful Buff statement. Relying heavily on tourism and financial services, and with the tight link to the U.S. economy, the Bahamas was severely hit by the global crisis and the recovery outlook remains weak in the near term. We broadly agree with staff's assessment and would like to concentrate our comments on the fiscal and sustained growth front.

Given its high per capita income, the Bahamas's fiscal revenue is low in relation to GDP. With the estimated increase in public debt, we concur with staff on the need for strengthening fiscal consolidation and improving fiscal transparency. We welcome the authorities' medium-term target to increase the fiscal revenue to the range of 22 to 23 percent of GDP. In order to achieve such a target, the authorities aim at improving administrative efficiency, rationalizing incentives, and adjusting the tax rates, the outcome of which will be uncertain, as Mr. Fachada pointed out in his gray. Staff suggests introducing the Value Added Tax (VAT) which could result in additional revenue of 2–3 percent of GDP based on international experience. We welcome the authorities' openness to the adoption of the VAT and encourage the Fund to provide TA in this regard, if necessary.

Given the uncertainties of the global economic recovery and marked downside risks in the Bahamas economic outlook, we join staff in encouraging the authorities to make available contingent measures to avoid further decline of the fiscal revenue.

A well-structured medium-term fiscal framework will help anchor expectations and inform the policy debate. As Mr. Hockin explained in the Buff statement, the revised Financial Administration and Audit Act will take effect in 2011 and provide the legal foundation for the establishment of a medium-term fiscal framework. *Could staff provide comments on this Act?*

As a small and open economy, the Bahamas has made progress in diversifying the economy and improving the business environment. We encourage the authorities to continue to enhance its growth potential and welcome efforts to consolidate the framework for assistance

to SMEs and hope the National Investment Act and the Fiscal Incentives Act will help to enhance transparency and boost private-led growth.