

# Statement by an IMF Mission to the Bahamas

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An International Monetary Fund (IMF) team, headed by Mr. Mbuyamu Matungulu, visited The Bahamas during November 3–16 to conduct discussions for the 2013 Article IV consultations. The team met with Honorable Perry Christie, Prime Minister and Minister of Finance; Honorable Ryan Pinder, Minister of Financial Services; Honorable Obediah Wilchombe, Minister of Tourism; Honorable Michael Halkitis, Minister of State for Finance; Honorable Khaalis Rolle, Minister of State for Investments; Ms. Wendy Craig, Governor of the Central Bank of the Bahamas; senior government officials, and representatives of the opposition, private sector and civil society.

Mr. Matungulu issued the following statement at the conclusion of the mission today:

“Economic activity continues to recover from the crisis at a slow pace. Real Gross Domestic Product (GDP) growth is projected at 1.9 percent in 2013, marginally higher than 2012. A reduction in stopover tourist arrivals and the completion of major public infrastructure projects is being offset by a pickup in foreign private investment under the large Baha Mar project and other smaller foreign-financed ventures in the tourism sector. Economic growth is expected to pick up from 2014 onward as the US economy strengthens, tourist arrivals rebound, and Baha Mar opens, reaching 2¾ percent in 2015–16 before moderating to around 2½ percent thereafter.

“Commendably, the authorities have begun implementing an ambitious fiscal consolidation program to rebuild fiscal buffers eroded in the aftermath of the global crisis and reverse the recent significant increases in the public debt ratio. Provided that the planned revenue and expenditure measures are implemented, the authorities could achieve substantial fiscal savings over the medium term. The Central Government debt ratio would peak at about 60 percent of GDP in fiscal year 2014/15 and fall to about 55 percent of GDP by fiscal year 2017/18.

“The implementation of a value added tax is a cornerstone of the fiscal consolidation agenda, providing a more efficient means to broaden the tax base, increase revenues, stimulate a strengthening of overall tax administration, and support

needed reforms of the import duty and customs regime. The mission recommends that all efforts and resources should be deployed to ensure its timely implementation, including as pertains to the broad based support for the initiative. Envisaged reforms of state-owned enterprises, especially the Water and Sewage Corporation and Bahamas Air should move forward to rein in subsidies and transfers.

"Against the backdrop of a projected strengthening of global economic conditions, the much anticipated opening of Baha Mar would reduce related construction imports and increase tourism receipts from 2015 onward, contributing to a decline in the current account deficit. This would support ongoing efforts to improve external stability and address persistent pressures on reserves. The rigorous implementation of fiscal consolidation, which would help moderate the expansion of domestic demand and of non-FDI imports, will be critical to that end. However, over the near term the recent downward pressures on international reserves could persist, underscoring the need for close adherence to launched fiscal adjustment and to measures in train aimed at further diversifying tourism and the economy more generally.

"The financial sector appears sound, and the authorities continue to improve its regulatory framework. Banks are profitable and well capitalized, though nonperforming loans remain elevated in the aftermath of the global crisis and credit growth is weak. Efforts to strengthen crisis management procedures are ongoing.

"The mission supports the authorities' efforts to craft a detailed and comprehensive national development plan in 2014 to guide development efforts over the long run. The plan would notably identify clear strategies for the further development of tourism and for achieving stronger activity in other key sectors such as agriculture and port activities. The IMF stands ready to assist as needed.

"The mission wishes to thank the authorities for their warm hospitality, and the constructive dialogue. It will be preparing a report that the IMF's Executive Board is scheduled to discuss in January 2014"

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