DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

June 7, 1990 - 90/116

Statement by Mr. Clark on The Bahamas
Executive Board Meeting 90/89
June 8, 1990

My authorities would like to express their appreciation to the staff for their clear and constructive report. They attach great importance to the annual visits of the Fund mission. They find the analysis undertaken by the staff a very useful compliment to their own work. My authorities are in broad agreement with the thrust of the staff report.

Since the last Article IV consultation, the Bahamian ecomony has continued to grow, although at a more moderate pace. Output in 1988 and 1989 is estimated to have increased by just over 2 percent, somewhat below the average of 3.5 percent for the whole period of expansion since 1982. The rate of inflation, which tends to move in line with U.S. inflation, moderated in the latter part of 1989, and in January, the year over year increase in consumer prices was 4.1 percent. While output and price developments have been relatively favourable, the current account deficit has remained uncomfortably large. The sharp widening of the deficit in 1987 was followed by a marked narrowing in 1988, as credit was tightened from late 1987 onward. However, the deficit widened again in 1989, and is estimated by the staff to have risen to the equivalent of nearly 6 percent of GDP. Reserves, which had stabilized in 1988, declined again in 1989.

My authorities agree with the staff's analysis that the increased public sector deficit over the past few years has contributed to the pressure on foreign exchange reserves. Reserves have increased since the beginning of the year, largely reflecting seasonal factors, and, at the end of May, were $183 million, compared with around $140 million early in the year. Nevertheless, reserves remain below what the authorities regard as prudent levels, particularly in view of the fixed exchange rate with the U.S. dollar, which they believe, has served The Bahamas well. They, therefore, agree that there is a need to put in place policies that will strengthen the balance of payments position, while fostering conditions conducive to sustained economic growth.

The Bahamas' economy is based largely on tourism. My authorities agree with the staff that the prospects for tourism over the next few years are somewhat uncertain, and that growth could be slower than in the 1980s. They also recognize that The Bahamas is facing increased competition for tourism within the Caribbean area. However, preliminary first quarter data showed an increase of 6.4 percent in tourist arrivals. Particularly encouraging, was the fact that the increase in air arrivals was slightly greater than that for visitors off cruise ships.

- over -

Much of the increased public sector deficit over the past few years, and the prospective continued deficit, reflect a "bunching" of capital expenditures. A large part of the outlays are for infrastructure, much of it related to development of the tourist industry. Developing infrastructure on outer islands, that have not been tourist centres, is an expensive proposition. My authorities are aware that they may be pressing ahead somewhat faster than desirable, but are also of the view that such development is necessary if The Bahamas is to maintain its market share and diversify its tourist industry.

In light of the budget strains caused by the heavy capital program, the 1990 budget announced the establishment of a high level macro-economic policy committee, chaired by the Permanent Secretary of Finance, and charged with monitoring the finances of the Government, the non-financial public corporations, and the National Insurance Board (NIB), the main saving vehicle in The Bahamas. A particular focus will be on ensuring that the operations of the NIB are in line with macroeconomic objectives. The Goverment has also recently contracted the services of a merchant bank to provide advice on privatization. In particular, consideration is being given to privatizing certain operations of the government-owned Hotel Corporation.

The Government of The Bahamas also intends to borrow abroad on a limited scale. While external debt ratios are low, the Government is very conscious that undue reliance on foreign borrowing would not be wise. A bill is currently before Parliament to permit the Government to issue Euro-bonds. However, the IDB is expected to be the main source of foreign financing.

Monetary policy has remained restrictive. Although liquidity increased in the early months of the year with the influx of tourist dollars, the Central Bank has issued a circular to banks, stating that, with the increase in liquidity, they do not expect a proportionate increase in credit. The Central Bank has also sharply reduced its holdings of Treasury Bills and Government Bonds since the start of the year.