

## **The Bahamas: 2001 Article IV Consultation—Staff Report and Public Information Notice**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with the Bahamas, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 3, 2001** with the officials of The Bahamas on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 16, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the August 1, 2001, Executive Board discussion** of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [Publicationpolicy@imf.org](mailto:Publicationpolicy@imf.org).**

Copies of this report are available to the public from  
International Monetary Fund • Publication Services  
700 19th Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623 7430 • Telefax: (202) 623 7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund  
Washington, D.C.**

INTERNATIONAL MONETARY FUND

THE BAHAMAS

**Staff Report for the 2001 Article IV Consultation**

Prepared by the Staff Representatives for the  
2001 Consultation with The Bahamas

Approved by Claudio M. Loser and Liam P. Ebrill

July 16, 2001

	Page
Contents	
Executive Summary .....	3
I. Introduction .....	4
II. Background and Recent Developments .....	4
III. Policy Discussions.....	9
A. Fiscal Policy.....	9
B. Credit and Interest Rate Policies.....	11
C. Financial System.....	13
D. External Competitiveness and Medium-Term Outlook.....	14
E. Structural Policies and Social Issues.....	15
IV. Staff Appraisal.....	16
Tables	
1. Selected Economic Indicators .....	19
2. Tourism Indicators .....	20
3. Summary of Central Government Operations.....	21
4. Operations of the National Insurance Board (NIB).....	22
5. Operations of Nonfinancial Public Corporations .....	23
6. Summary Accounts of the Financial System .....	24
7. Accounts of the Central Bank .....	25
8. Summary Balance of Payments.....	26
9. Indicators of External Vulnerability.....	27
10. Medium-Term Projections of the Balance of Payments .....	28
11. Summary Medium-Term Macroeconomic Flows .....	29

Figures

1	Selected Economic Indicators (1994–2001).....	30
2.	Exchange Rate Developments (1990=100).....	31

Appendices

I.	Fund Relations .....	32
II.	Statistical Issues .....	34
III.	Social Indicators of Development.....	36
IV.	Relations with the Inter-American Development Bank .....	37
V.	Recent Developments in Financial Regulation.....	38

## EXECUTIVE SUMMARY

**Background:** The Bahamian economy has experienced a sustained recovery since the mid-1990s, owing to substantial inflows of private investment in tourism, shipping and construction, and to a steady expansion of financial services. At the same time, inflation has remained low, averaging less than 1½ percent a year. The authorities' commitment to sound macroeconomic policies has been a key factor behind this strong performance. The central government deficit was reduced from over 3 percent of GDP in FY 1996/97 (fiscal year begins July 1) to an estimated 0.2 percent in FY 2000/01, and the budget for this fiscal year envisages the achievement of a balanced position.

External current account deficits averaged about 8½ percent of GDP in 1999–2000 and were financed largely by direct investment and other inflows of private capital. Credit to the private sector increased at a relatively fast pace in 1999–2000. Net international reserves (NIR) declined by US\$60 million during 2000, to close to US\$345 million by year's end, but recovered to US\$365 million (96.5 percent of base money and 1½ months of imports) as of end-June 2001, due in part to seasonal factors. Real GDP growth is expected to moderate to about 3½ percent in 2001 (5 percent in 2000), owing in part to the impact on tourism of the slowdown in the United States.

*Policy discussions: The main challenge for The Bahamas is to build on the commendable policy efforts made under the present administration to sustain a favorable environment for investment and growth and further reduce unemployment (estimated at below 7 percent). Therefore, the discussions with the authorities focused on policies aimed at maintaining a prudent fiscal stance, strengthening credit policy, and enhancing competitiveness, including through the implementation of pending structural reforms.*

Discussions on fiscal policy centered on ways to strengthen government savings to allow for a gradual increase in investment on physical and social infrastructure while preserving fiscal balance. The authorities indicated that they intend to launch an effort to improve property taxation and agreed to conduct an assessment of the tax structure with FAD assistance, with a view to further lowering high import duties and dispersion and studying the possibility of introducing a sales or value-added tax. On the expenditure side, there was agreement on the need for continued adherence to a prudent wage policy and for reducing transfers to some public corporations by lowering their operating costs. The authorities indicated that they would monitor credit developments closely and would consider some measures proposed by the staff to contain credit growth.

On the structural front, privatization of the telephone and electricity companies is planned for the second half of 2001 and for 2002, respectively. Moreover, parliament is expected to approve new labor legislation later this year. The staff emphasized the need to study carefully such legislation to avoid an increase in labor costs that could erode competitiveness. The authorities should be commended for the important efforts made within a short period of time to address international concerns about the supervision of the offshore sector, money laundering, and tax practices, which include the approval of comprehensive legislation in late 2000 as well as the adoption of decisive steps toward its implementation.

## I. INTRODUCTION

1. Discussions for the 2001 Article IV consultation with The Bahamas were held in Nassau during April 23–May 3, 2001.<sup>1</sup> The mission met with the prime minister, the minister of finance, the financial secretary, the governor of the central bank, other senior government officials, and representatives of the private sector.<sup>2</sup> The Bahamas has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains a system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. Fund relations with The Bahamas are summarized in Appendix I.

2. The Bahamas is currently on a 24-month consultation cycle, but staff visits to assess economic developments and policies take place between consultations. At the conclusion of the last Article IV consultation on August 3, 1999, Executive Directors commended the authorities' adherence to policies that had promoted a sustained economic recovery, maintained low inflation, and improved social indicators. They welcomed the authorities' commitment to a small budget deficit, including some measures to increase the revenue base, but considered that these steps should be complemented by a full review of the tax structure and efforts to contain the growth of the wage bill. Directors supported the government's plans to privatize the telephone and electricity companies, and noted the importance of training and tackling rigidities in labor arrangements.

3. **The Bahamian authorities publish a wide range of economic and financial data on a regular basis, but there are a number of weaknesses that hamper the assessment of economic developments.** In particular, the updating of the national accounts for the period beyond 1995 remains to be completed, which would require the allocation of more resources to conduct business surveys, and the data on the operations of some public corporations are made available with long lags. Moreover, the information on the nature and composition of private capital flows requires further improvement, and there are no official data available on the size and terms of the private sector debt. Regarding the latter, the authorities indicated their intention to start compiling information from exchange control records.

## II. BACKGROUND AND RECENT DEVELOPMENTS

4. **After a decade of low economic growth, the Bahamian economy began to experience a sustained recovery in the mid-1990s, owing mainly to substantial inflows of foreign investment in tourism, shipping and construction, and to a steady expansion of**

---

<sup>1</sup> The mission comprised Messrs. Di Tata (Head), Fernandez, and Lopetegui, and Mrs. Frantischek (all WHD). Mr. Bernes, Executive Director for The Bahamas, and Mr. Fenton, Advisor, participated in the final round of discussions.

<sup>2</sup> Prime Minister Ingraham is currently in his second five-year term in office. General elections must be called before April 2002.

**financial services.**<sup>3</sup> To a large extent, this turnaround was due to the present administration's commitment to sound macroeconomic policies and was supported by the recovery of consumer demand in the United States. The favorable economic performance contributed to a decline in the unemployment rate to 7½ percent in 1999, from 11½ percent in 1996 (preliminary information suggests that unemployment fell further to below 7 percent by end-2000). Inflation averaged less than 1½ percent a year in 1996–2000 (Figure 1). The Bahamian dollar has appreciated by 10 percent in real effective terms since 1996, reflecting largely the appreciation of the U.S. dollar to which the currency has been pegged since 1970 (Figure 2).

5. **Real GDP growth increased from 3–3½ percent a year in 1997–98 to 6 percent in 1999, and remained strong at 5 percent in 2000** (Table 1).<sup>4</sup> The pickup in economic activity reflected a very favorable performance of tourism, following the temporary closing of hotels for refurbishment and expansion in 1997–98.<sup>5</sup> Tourist expenditure grew by more than 15 percent a year in 1999–2000, as average hotel room rates rose markedly owing to the improvement in hotel accommodations. At the same time, major improvements in cruise ship facilities led to a substantial increase in sea arrivals (Table 2). The expansion and upgrading of hotel facilities continued during 1999–2000, albeit at a slower pace than in the two previous years.

6. **Economic activity in other sectors of the economy was also strong.** Residential construction experienced growth rates averaging 7½ percent a year in 1996–2000, while a substantial amount of foreign investment has been channeled to the construction of a large transshipment terminal and a shipyard facility in Grand Bahama. Moreover, financial services expanded at a steady pace.

7. **A key factor in the economic recovery has been the government's policy of gradual fiscal consolidation.** The deficit of the central government narrowed from over

---

<sup>3</sup> The Bahamas has a population of about 300,000 that is concentrated in five of the islands of the archipelago. The country's GDP is estimated at about US\$4.9 billion in 2000, implying an average per capita income of about US\$16,000. The main sector of the economy is tourism, which accounts for about half of total GDP. The financial sector, the public administration, and the construction sector account for 15 percent, 10 percent, and 4 percent of GDP, respectively.

<sup>4</sup> Real GDP growth is estimated by the staff on the basis of several indicators of economic activity.

<sup>5</sup> A major project during this period was a US\$500 million expansion of the Atlantis Hotel, the largest resort in The Bahamas. In addition, in December 2000 a new resort with 1,350 rooms was completed in Grand Bahama. This project had a cost of US\$400 million and increased the country's hotel capacity by 10 percent.

3 percent of GDP in FY 1996/97 (fiscal year begins July 1) to 0.8 percent in FY 1999/2000, due to an increase in tourism tax rates, some reduction in customs duty exemptions, and lower capital outlays (Table 3). Central government savings increased by 1½ percentage points of GDP over the same period, to above 2 percent of GDP in FY 1999/2000. The improvement in the fiscal position allowed for a reduction in the total debt of the nonfinancial public sector to about 40 percent of GDP at end-2000, from 43½ percent at end-1996 (the short-term component of the debt is estimated at 5 percent of GDP).

8. **Preliminary estimates for FY 2000/01 point to a further reduction of the central government deficit to 0.2 percent of GDP**, compared with the objective of fiscal balance envisaged in the budget. Relative to GDP, tax revenue is estimated to have declined slightly because of slower import growth, but this was more than offset by a reduction in current outlays, particularly in the wage bill.<sup>6</sup> As a result, central government savings strengthened to 2.4 percent of GDP in FY 2000/01. Capital expenditure declined further in FY 2000/01 after the completion in the previous fiscal exercise of most of the reconstruction work to repair damages caused by Hurricane Floyd.

9. Based on information available on a calendar year basis, **the National Insurance Board (NIB)** maintained an overall surplus of about 1 percent of GDP in 2000 (Table 4).<sup>7</sup> At the same time, the consolidated position of the **nonfinancial public corporations** shifted to a surplus estimated at 0.6 percent of GDP in 2000, from a deficit of 1.8 percent of GDP in 1999 (Table 5). This improvement is mainly attributable to a strengthening in the operating position of the telecommunications company (BATELCO), following a substantial downsizing of personnel in 1998–99. The electricity company (BEC) continued to register a significant operating surplus in 2000, as higher operating costs associated with rising oil-import prices and an expansion of services in the Family Islands were met by an increase in revenue.<sup>8</sup> Notwithstanding recent efforts to reduce costs, the operating position of the

---

<sup>6</sup> The growth in the government wage bill was contained at 3½ percent in FY 2000/01, following an increase of almost 11 percent in the previous fiscal year associated with the signing of a new collective labor agreement. The agreement involved (i) a bonus payment of B\$1,200 in July 1999; (ii) general wage increases amounting to B\$1,200 in July 2000 and July 2003; and (iii) a review of salaries to correct misalignments in the wage structure to be undertaken in 2001–03, with a total cost of about B\$5 million a year.

<sup>7</sup> NIB's administration costs remain high, but have declined in recent years as a result of actions taken by the authorities. In 1999 the salary ceiling subject to contributions was raised from B\$250 per week (a level that had been kept unchanged since 1984) to B\$400 a week, which allowed for an increase in pensions while preserving the financial position of the NIB. Under the current pay-as-you-go system, the NIB adjusts contributions and benefits so as to maintain reserves at a level sufficient to cover liabilities over a 15-year period.

<sup>8</sup> Electricity tariffs have remained unchanged since 1993, but there is a surcharge that is adjusted monthly according to the evolution of international oil prices.

Water and Sewerage Corporation (WSC) remained in deficit in 2000, reflecting structural problems related to water leakages and unrecorded consumption.

**10. Broad money growth slowed to 7½ percent during 2000, from about 10 percent in 1999, while credit to the private sector increased by more than 14½ percent, following an 11¼ percent expansion in 1999** (Table 6). Credit demand rose during the second half of 2000, which led commercial banks to reduce their excess reserves to expand their operations. In addition, interest rates on treasury bills remained low during this period, encouraging banks to reduce their holdings of these instruments, which were taken up by the central bank.<sup>9</sup> As a result, net international reserves (NIR) dropped by US\$60 million during 2000, to US\$343 million by year's end (Table 7).<sup>10</sup> NIR recovered to US\$365 million as of end-June 2001 (96.5 percent of base money and 1½ months of imports of goods and services), largely because of the usual concentration of tourism receipts in this period and a low seasonal demand for credit. Bank deposit and lending rates, which are determined by market forces, have remained broadly unchanged since mid-1999, at about 4 percent and 12 percent, respectively.<sup>11</sup> The stability of interest rates relative to those in the United States is largely explained by the existence of controls on capital transactions.<sup>12</sup>

---

<sup>9</sup> Interest rates on treasury bills declined gradually from 3½ percent at end-1998 to 1 percent in mid-2000 due to an increase in banking system liquidity, and remained largely unchanged at that level during the remainder of 2000. Rates have increased subsequently to 1.9 percent as of mid-2001. As an agent of the government, the central bank conducts monthly auctions of treasury bills. Participation in the auctions is open to both institutions and individuals, but in practice is concentrated among financial institutions, pension funds, and the NIB. The government also places long-term bonds that are allocated on a first-come first-serve basis at an interest rate agreed with the central bank.

<sup>10</sup> The central bank has no reserve-related liabilities; gross international reserves and NIR are identical. There are no encumbrances on NIR and the central bank does not engage in operations in future markets for foreign exchange. Data on reserves and foreign currency liquidity are being provided to the Fund on a monthly basis. The authorities are working on improving the disaggregation of this information to conform to SDDS benchmarks.

<sup>11</sup> The relatively large spreads between deposit and lending rates could be attributed to several factors, including the large share of consumer loans in the banks' portfolios, the small scale of domestic banks' operations, and high operating costs.

<sup>12</sup> All outward capital transfers and payments by residents, including purchases of foreign securities, require authorization by the central bank. On approval by the central bank, Bahamian residents may purchase foreign securities by buying foreign exchange through an investment market operated by the bank at a 25 percent premium. Of this 25 percent, 20 percent is refunded once the proceeds from the sale of the security are repatriated.



11. After peaking at 23.8 percent of GDP in 1998 because of a sharp increase in imports associated with investments in the tourism sector, the **external current account deficit** narrowed to 8.9 percent of GDP in 1999, as several projects were completed, tourism receipts increased following the expansion in hotel capacity, and insurance claims were collected for the damages caused by Hurricane Floyd (Table 8). The deficit is estimated to have declined slightly in 2000, as a further increase in tourism receipts more than offset the adverse impact of higher oil-import prices and a sharp decline in insurance claims. External current account deficits have been largely covered by foreign direct investment and other inflows of private capital. The public external debt declined from 7.6 percent of GDP at end-1996 to 7.2 percent at end-2000, and the ratio of international reserves to short-term external public debt on a remaining maturity basis was about 600 percent at end-2000.<sup>13</sup>

12. **Currently, the administration is embarked on a serious effort to address international concerns regarding weak supervision of the offshore financial sector, money laundering, and allegations of harmful tax practices.**<sup>14</sup> To that end, in December 2000, parliament enacted a comprehensive body of legislation that (i) enhanced the supervisory role of the central bank, allowed for cross-border supervision by banking regulators of foreign banks with branches in The Bahamas, and introduced stricter licensing requirements for financial institutions; (ii) strengthened “know-your-customer rules” and the obligation to report suspicious activities to a newly created Financial Intelligence Unit; and (iii) relaxed bank secrecy provisions while providing for international cooperation in money laundering. The new legislation also requires the identification of beneficial owners of International Business Companies (IBCs) by eliminating bearer shares and removes restrictions that prohibited IBCs from conducting business in The Bahamas (to address allegations of “ring-fencing,” i.e., that these companies were intentionally insulated from the domestic economy). A detailed description of the new legislation and the steps being taken for its implementation is included in Appendix V.

13. **Regarding other structural issues,** in 1999 parliament approved legislation establishing a regulatory framework for the telecommunications sector, as a step toward the privatization of BATELCO and the subsequent gradual opening of the sector to competition. Privatization plans have been delayed, however, because of the need to finalize the audit of the company’s financial accounts. Moreover, in May 2000 the government submitted to parliament draft labor legislation that seeks to reduce the workweek from 48 to 40 hours; establishes a minimum wage, as well as health and safety requirements; codifies current

---

<sup>13</sup> Moody’s has rated foreign currency denominated government paper as investment grade (A3) since 1997 (domestic debt is rated A1).

<sup>14</sup> In 2000, The Bahamas was cited by the Financial Stability Forum (FSF) for weak regulation and supervision of the offshore financial center and by the Financial Action Task Force (FATF) as a noncooperative jurisdiction in the fight against money laundering. It also was listed by the OECD as a tax haven.

practices regarding severance payments and increases maternity benefits; and regulates the settlement of labor disputes.

### III. POLICY DISCUSSIONS

14. *The main challenge for The Bahamas is to build on the commendable policy efforts made under the present administration to sustain a positive environment for private investment and growth, reduce unemployment, and further improve social conditions. The discussions with the authorities focused on policies aimed at meeting these objectives, including the maintenance of a prudent fiscal stance, a strengthening of credit policy conduct, the enhancement of competitiveness in tourism and other key industries, and the implementation of pending structural reforms, including privatization. The steps being taken to implement the new legislation dealing with offshore supervision, money laundering, and tax practices were also discussed.*

15. Following the very strong performance of recent years, **real GDP growth** is expected to decelerate to about 3½ percent in 2001, as tourist expenditure would grow at a slower pace owing in part to the slowdown in the U.S. economy. Growth in the construction sector would remain strong, albeit more moderate than in 2000, while the financial sector would be temporarily affected, to some extent, by the new legislation dealing with offshore activities and customer identification. Inflation is expected to decline to about 1 percent in 2001, mainly because of lower oil-import prices.

#### A. Fiscal Policy

16. In late June 2001 parliament approved the **budget for FY 2001/02, which envisages the achievement of a balanced position for the central government.** Based on the budget and current trends, central government savings would increase slightly to 2½ percent of GDP in FY 2001/02, due to a reduction in the interest bill associated with lower interest rates abroad. At the same time, capital outlays would decline marginally. The budget contemplates a reduction in the high import duties applied to several items and envisages an increase in total expenditure of about 4 percent relative to the expenditure estimates for the previous fiscal year.<sup>15</sup> The wage bill is projected to rise by about 5 percent in FY 2001/02, or in line with nominal GDP, due to the normal wage drift, the correction of some misalignments in the wage structure envisaged in the last collective agreement, selective increases for nurses and other medical professionals, and the hiring of additional personnel in the education and health sectors.

---

<sup>15</sup> Specifically, the budget proposes a reduction in the import duty rates applying to a group of fruits, vegetables, medical supplies, and school supplies from 50–210 percent to 25–35 percent, and exempts from import duties other items. After these modifications, the import tariff system would still comprise 29 tariff rates ranging from 5 to 210 percent, with an average import duty rate of 25–30 percent.

17. In the discussions with the authorities, the staff welcomed their intention to seek a balanced budget position in FY 2001/02 and indicated that such objective appeared well within reach. At the same time, the staff advised them to consider an additional fiscal effort beginning in FY 2001/02, with a view to gradually strengthening central government savings to at least 3 percent of GDP in FY 2002/03. The staff argued that such effort would permit an increase in capital expenditure on physical and social infrastructure while preserving fiscal balance.

18. In particular, the staff indicated that there was a need to carefully review existing **tax exemptions and concessions and to strengthen property taxation**. Moreover, it stressed the need to take additional steps to **simplify the import tariff system** by further reducing tariff dispersion. On the expenditure side, the staff emphasized the importance of limiting the growth in the wage bill and transfers to public corporations, which together absorb about 50 percent of total government outlays, and the need for greater use of performance-based increases to help retain qualified staff. Wage restraint in the public sector is also important to contain parallel pressures in the private sector that could have adverse effects on competitiveness.<sup>16</sup>

19. **The authorities were in agreement with the need to strengthen government savings over the medium term to allow for a higher level of investment.** They indicated that starting this fiscal year they would launch a four-year effort to improve the collection of property taxes by reassessing property values and improving administrative procedures, particularly in view of the massive investments in real estate that had taken place in 1998–2000. These efforts, however, were expected to start bearing fruit in FY 2002/03. The authorities also noted that the reduction in several of the high import duty rates envisaged in the budget was a first step in the direction of rationalizing the import tariff system. Looking beyond the current fiscal year and taking into account possible future obligations under the Free Trade Area of the Americas (FTAA), they agreed on the need to conduct within a short period of time a broad assessment of the tax structure, with a view to introducing a sales or value-added tax that would permit a significant reduction in import duties.<sup>17</sup> To that end, technical assistance from FAD has been requested.

---

<sup>16</sup> The staff also encouraged the authorities to limit the scope of a new program providing guarantees for loans to students pursuing their tertiary education, and to establish clear eligibility criteria on the basis of financial need and merit. Subsequently, the authorities have established a cap of B\$70 million (1.4 percent of GDP) for the program.

<sup>17</sup> The Bahamas has observer status in the WTO and is a member of CARICOM; however, it does not participate in the Caribbean Single Market and Economy and has not adopted the common external tariff. The government has announced that it intends to apply for full membership in the WTO within a short period of time.

20. The authorities indicated that they were studying **the introduction of guidelines on the overall fiscal position of the central government and/or the level of government debt**, possibly during the second half of 2001. The staff was of the view that this would be a positive step to enhance fiscal discipline, and recommended adding a savings objective to help ensure that the other fiscal targets are not met by curtailing essential capital expenditure.

21. Preliminary projections by the staff for calendar 2001 indicate that the **NIB's overall surplus** would increase slightly, mainly as a result of steps to strengthen the collection of contributions. At the same time, **the consolidated position of the nonfinancial public enterprises** would shift from surplus to near balance in 2001, due to an increase in investment outlays. The staff encouraged the authorities to intensify ongoing efforts to lower administrative costs in the NIB by reducing staff redundancies and increasing efficiency. It also emphasized the need to reduce operating costs and improve accountability and the timeliness of reporting by the financially weak corporations, such as Bahamasair, the Broadcasting Corporation, and the WSC, which continue to depend heavily on transfers from the central government and have accumulated arrears with the NIB.

22. The authorities said that last year Bahamasair had signed a management services contract to increase efficiency, and that the government was studying the possibility of enhancing the role of private carriers in the provision of air services between the islands. In addition, the WSC had started to outsource some activities to reduce operating costs. As a result of these actions, the draft budget envisages a significant reduction in government transfers to these two corporations. Moreover, steps were being taken to reconcile and settle reciprocal arrears between the central government and BEC, which have risen in recent years. The authorities also indicated that an actuarial review of the pension system would be conducted later this year, in line with current legislation.

## **B. Credit and Interest Rate Policies**

23. As noted above, high credit growth led to a decline in international reserves during 2000. Against this background, the staff stressed the need to tighten **credit policy** during the remainder of the year to protect the international reserve position and prevent any possible deterioration in the quality of banks' portfolios. Assuming an increase in broad money of about 7½ percent (in line with developments in 2000 and so far in 2001), projections prepared by the staff show that the 12-month rate of growth of credit to the private sector would need to slow to about 9 percent by December 2001 to allow for a reserve accumulation of US\$20 million for the year as a whole and keep a reserve coverage close to 95 percent of base money by year's end (see Table 7).

24. So far, the main mechanisms used by the central bank to influence bank credit growth have been moral suasion and changes in personal equity (down payment) requirements for consumer credit (the latter were tightened in 1998). The staff encouraged the authorities to enhance the use of indirect monetary instruments and allow interest rate policy to play a greater role in containing credit growth. In this connection, it stressed the need to introduce auctions for long-term government bonds, which are currently allotted on a discretionary

basis, and to provide the central bank with a larger stock of paper to conduct open market operations, including through the repayment of the government debt to the central bank with marketable government securities.<sup>18</sup> As developing indirect monetary instruments is likely to take some time, the staff recommended that in the meantime consideration be given to imposing stricter equity requirements for consumer loans and/or to temporarily raising legal reserve requirements.<sup>19</sup>

25. The authorities were of the view that the large expansion in credit to the private sector registered during 2000 was related to a boom in residential construction that was expected to subside this year. They noted that credit growth had slowed somewhat in recent months and that available indicators suggested that there had been no significant deterioration in the quality of banks' portfolios.<sup>20</sup> The authorities recognized, however, the need to monitor credit developments closely during the remainder of 2001 and said that they would consider the measures proposed by the staff. Central bank authorities indicated that they planned to introduce auctions for government bonds with technical assistance from the World Bank.<sup>21</sup>

26. **The authorities are studying a gradual liberalization of capital transactions by reducing the premium in the investment currency market.**<sup>22</sup> The staff was in agreement with the proposal but cautioned them that such a move should necessarily be accompanied by a closer alignment of the interest rate structure with rates abroad and the development of indirect monetary instruments. In addition, the staff noted that restrictions preventing the NIB and private pension funds from placing resources abroad should be relaxed gradually in the

---

<sup>18</sup> The debt of the government with the central bank amounts to US\$50 million (1 percent of GDP).

<sup>19</sup> Commercial banks are required to hold a statutory requirement equivalent to 5 percent of deposits, to be constituted with cash and deposits at the central bank. In addition, there is a liquidity requirement equivalent to 15 percent of demand deposits and 10 percent of any other type of deposits, which can be satisfied with treasury bills and other government paper. Presently, there is an equity requirement on consumer loans equivalent to 20–25 percent.

<sup>20</sup> The ratio of nonperforming loans to total loans has risen only slightly since 1997, to 5 percent by end-2000.

<sup>21</sup> The recent establishment of the stock exchange is expected to allow the government to move to a system of domestic underwriters, which would help develop a secondary market for government paper.

<sup>22</sup> Specifically, consideration is being given to reducing the premia for sales and purchases of foreign exchange in the investment currency market to 20 and 15 percent, respectively (no time frame has yet been specified). In addition, the authorities are studying the possibility of allowing residents to purchase shares in foreign companies operating in The Bahamas.

context of capital account liberalization, so as to contain possible pressures on the international reserve position.

### C. Financial System

27. **The Bahamas' financial system**, including the domestic banking system and the offshore center, consists of 410 licensed banks and trust companies that manage assets for about US\$275 billion. The domestic banking system, in turn, comprises 16 banks with total assets amounting to almost US\$4 billion (80 percent of GDP).

28. As noted above, in late 2000 parliament enacted a **comprehensive body of legislation dealing with offshore supervision and money laundering issues**, which the authorities are in the process of implementing. In particular, (i) the central bank is carrying out a program to substantially increase the staff of the supervisory department and strengthen its technical skills; (ii) several inspections of financial entities by foreign supervisory authorities have been approved; and (iii) a number of on-site inspections of financial institutions focusing on anti-money laundering procedures and "know-your-customer" rules have already been conducted.<sup>23</sup> On the basis of the progress made in recent months, in late June the FATF removed The Bahamas from the list of noncooperative jurisdictions in the fight against money laundering. Regarding the allegations of harmful tax practices, the authorities expressed their disagreement with the notion of unfair competition employed by the OECD. At the same time, they underlined their disposition to promote transparency and international cooperation on tax matters, and indicated that negotiations had been initiated with the United States on a Tax Information Exchange Agreement that could serve as a basis for treaties with other countries.

29. **Based on official indicators, the domestic financial system appears to be well capitalized and to have a comfortable level of liquidity**, with the average capital/assets ratio rising from 9.1 percent at end-1997 to 11.2 percent at end-2000.<sup>24</sup> The authorities noted that the system was expected to experience some consolidation in the near future, which could involve the absorption of a few relatively small financial intermediaries by the large

---

<sup>23</sup> In January 2001, following a review of "know-your-customer" laws, including those enacted recently, the U.S. Internal Revenue Service granted The Bahamas qualified jurisdiction status. This status allows banks in The Bahamas to keep confidential the identity of non-U.S. customers who hold U.S. securities, without subjecting these customers to a 30 percent withholding on earnings, which is the practice for nonqualified jurisdictions.

<sup>24</sup> Banking institutions in The Bahamas must comply with both a minimum capital to risk weighted assets ratio of 8 percent based on Basel standards and an unweighted capital to assets ratio of 5 percent. The authorities said that all institutions, with the exception of a small entity subject to a recapitalization program, were in compliance with these requirements.

banks. Looking ahead, the staff encouraged the authorities to develop a rating system for banking institutions and to strengthen the evaluation of the banks' policies and practices for the assessment of loan quality. Moreover, an important remaining task is to broaden the scope of on-site inspections to include prudential issues pertinent to the risk management and soundness of financial intermediaries. In this connection, the authorities indicated that during the second half of 2001 they intend to conduct a more comprehensive examination of a first group of financial institutions, including their loan classification policies.

30. The authorities indicated that, following a self-assessment to be conducted during the remainder of 2001, it would be useful that a technical assistance team visit The Bahamas for a **Fund-led assessment focusing on the offshore financial sector**. It was agreed that an appropriate timing for such exercise would be the first quarter of 2002. This would be followed by a more comprehensive evaluation of the health of the financial system under the **Financial Sector Assessment Program (FSAP)** in the context of the 2003 Article IV consultation.

#### **D. External Competitiveness and Medium-Term Outlook**

31. **The staff agreed with the authorities that the long-standing fixed parity to the U.S. dollar has served The Bahamas well**, and that the real appreciation of the Bahamian dollar that has taken place since 1995 has been broadly in line with developments in the Caribbean region. Hotel operating costs in The Bahamas, however, are high by regional standards, which points to the need to enhance competitiveness through wage restraint, improvements in the country's infrastructure and basic services, and continued emphasis on education and training to raise labor productivity.

32. The authorities were of the view that the relatively higher domestic costs of the tourist industry in The Bahamas were largely offset by the advantages of the country's proximity to the United States. It was noted that the government's strategy centers on promoting the expansion of the upscale short-stay vacation segment of the tourism market, for which the prospects for sustained growth were regarded as very favorable. These views were shared by representatives of the tourism industry. Moreover, the government's plans to increase private sector participation in the telecommunications and electricity sectors (see section on structural policies and social issues below) were expected to lead to increased efficiency and lower costs for these services. The authorities also noted that the government was strengthening technical education to address some shortages of skilled personnel experienced in recent years, including by expanding the activities of The Bahamas Technical and Vocational Institute, a publicly managed educational institution.

33. Based on the discussions with the authorities and private sector representatives, the staff prepared **preliminary medium-term projections** envisaging an increase in real GDP growth to about 4 percent a year (2.3 percent in per capita terms), following the slowdown expected in 2001. The projections assume the maintenance of a balanced central government position, a prudent wage policy, and the implementation of structural reforms to improve basic services. On this basis, the external current account deficit would narrow from about

7 percent of GDP in 2001 to 3½ percent of GDP by 2006, as major investment projects are completed and tourism receipts increase by about 4 percent a year in real terms.<sup>25</sup> These deficits are expected to continue to be financed with foreign direct investment and other inflows of private capital. The total public debt would decline further to about 30 percent of GDP by 2006, with the international reserve coverage increasing to above 100 percent of base money (Table 10). A risk to this scenario is that a prolonged downturn in the U.S. economy could affect adversely tourism receipts and growth; these effects, however, would be partly offset by lower imports by the hotel industry.<sup>26</sup>

### E. Structural Policies and Social Issues

34. **The discussions on structural policies focused on privatization and labor issues.** The authorities indicated that they would proceed with the delayed privatization of **BATELCO** and would begin opening the telecommunications sector to private competition during the second half of 2001. This would be followed by the privatization of **BEC** in 2002. The staff recommended that part of the proceeds from the privatization of **BATELCO** be used to further strengthen the reserve position, with the remainder applied to reducing public debt.

35. The authorities noted that the draft **labor legislation** submitted to parliament in 2000 seeks to ensure minimum working conditions for all Bahamian workers, both unionized and non-unionized, in line with ILO standards. The legislation is expected to be approved later this year, following consultations with employers and labor unions. Broadly speaking, the authorities recognized that the proposed reforms would lead to some increase in labor costs, but thought that the impact would be small. Regarding the proposed reduction in the workweek, the large hotels, part of the public sector, and the financial sector already have a workweek of 40 hours, and the reform would be introduced gradually for the construction and retail industries, which would be the most affected. Moreover, the authorities noted that the minimum wage would be set at a level that would be nonbinding for most employment categories (possibly US\$150 per week), and that certain jobs (such as gas attendants, retail

---

<sup>25</sup> Assuming an income elasticity higher than one for tourism services, the real rate of growth of 4 percent a year for tourism receipts would be consistent with the average real GDP growth of 3.2 percent a year for the United States envisaged in the latest WEO projections for 2002–06.

<sup>26</sup> If, for instance, the real growth in tourism receipts were reduced to 2 percent a year, the external current account deficit would be on the order of 5½ percent of GDP by 2006, with the reserve coverage falling gradually to below 70 percent of base money. The baseline scenario prepared by the staff does not incorporate the possible impact on growth and the external current account of a large three-year project for the construction of a gas pipeline connecting with the United States. At this stage, studies are being conducted to determine the possible environmental consequences of the project.



packers, and domestic workers) would be exempted from its application. At the same time, new dispositions regarding the regulation of labor disputes are expected to lead to a decline in the incidence of strike activity. Given the lack of adequate labor statistics, it is not possible to make a quantitative assessment of the proposed legislation. The staff recommended that the minimum wage be set at a level that facilitates entrance by the young and unskilled to the labor market and that the current draft law, which leaves room for introducing differentiated minimum wages by categories in the future, be modified to rule out this possibility. It also emphasized the importance of preserving flexibility with regards to part-time and temporary employment and of reducing rigidities in collective agreements in the tourism sector by allowing greater mobility between different job descriptions.

36. **Available social indicators for The Bahamas compare very favorably with those in Latin America and the Caribbean region** (Appendix III). Although there is no official information on the incidence of poverty, based on a household income survey conducted in 1999 the percentage of households earning less than US\$5,000 a year is estimated at 6 percent, with poverty pockets concentrating in the Family Islands. The present administration has given high priority to ensuring that the progress made in economic performance is accompanied by further advances in the social areas, with the budgetary resources allocated to health, education and other social sectors increasing from 33½ percent of total expenditure in FY 1996/97 to 38.2 percent, on average, in FY 2000/01–FY 2001/02. These resources have been devoted to (i) introducing pre-school education into government-operated schools, promoting technical and vocational training, and upgrading schools; (ii) improving health care facilities; and (iii) providing support to the aged, the unemployed, and the disabled. The Department of Statistics is currently designing a living standards survey to be conducted during the remainder of 2001, which will provide information about poverty and social conditions that will be updated on an annual basis.

#### IV. STAFF APPRAISAL

37. Since the mid-1990s the Bahamian economy has experienced an unprecedented period of sustained growth led by substantial inflows of foreign investment in tourism, shipping and construction, and a steady expansion of financial services. This has resulted in a rapid increase in income levels, a decline in unemployment, and an improvement in the country's social indicators. Economic growth is expected to moderate in 2001 owing to the effect of the slowdown in the United States on tourism and the recent completion of major investment projects.

38. To a large extent, the economy's strong performance is attributable to the present administration's track record of sound macroeconomic policies, which has contributed to investor confidence and a favorable business environment. Looking ahead, the main policy challenge is to build on these efforts by maintaining a prudent fiscal stance, enhancing competitiveness in tourism and other key sectors, and implementing pending structural reforms.

39. The authorities should be commended for the substantial progress made in reducing the central government deficit to marginal levels and their commitment to achieve a balanced budget this fiscal year. Additional fiscal efforts are required, however, to further increase central government savings so as to allow for higher public investment in physical and social infrastructure to sustain growth. Specifically, there is significant scope to strengthen revenue collection by carefully reviewing tax exemptions and concessions and moving ahead with plans to improve property taxation by updating property values. In addition, the still complex system of import tariffs should be rationalized by lowering high tariff rates and tariff dispersion. In this connection, the staff welcomes the authorities' decision to conduct in the near future a comprehensive assessment of the tax system with FAD assistance, with a view to introducing a sales or value-added tax that would permit a reduction in import duties.

40. Regarding expenditure, adherence to a prudent wage policy placing greater emphasis on performance is crucial for maintaining fiscal discipline and avoiding parallel wage pressures in the private sector that could affect external competitiveness. It also is important to proceed with current plans to lower government transfers to certain public corporations by reducing their operating costs. In addition, the reporting practices of these corporations should be improved, and efforts to strengthen the collection of contributions and lower administrative outlays in the NIB continued. The planned introduction of guidelines aimed at strengthening fiscal responsibility would be a positive step to preserve discipline in the medium term.

41. In addition to a sound fiscal position, a prudent credit policy is essential for the preservation of the present exchange rate peg. Credit developments should be monitored closely in the period ahead and work on developing indirect monetary instruments should be stepped up to allow interest rates to play a greater role in containing credit growth. In this regard, there is a need to proceed promptly with plans to introduce an auction for government bonds. In the meantime, the central bank should stand ready to tighten regulations on consumer credit and/or increase reserve requirements temporarily to protect the international reserve position. The authorities' intention to gradually liberalize existing capital controls by reducing the premium in the investment currency market is welcomed, but such a move should necessarily be accompanied by a closer alignment of the interest rate structure with rates abroad and the development of indirect monetary instruments.

42. The government deserves credit for the major legislative effort made within a short period of time to address international concerns about offshore supervision, money laundering, and tax practices, as well as for the decisive steps that have been taken to implement the new legislation. Looking ahead, it is essential to broaden the scope of on-site supervision to include prudential issues pertinent to a sound management of financial institutions, and to monitor closely the quality of banks' portfolios. The staff welcomes the authorities' intention to conduct a Fund-led assessment focusing on the offshore sector following a self-assessment to be completed this year, as well as their willingness to complement the exercise with a subsequent comprehensive evaluation of the financial system under an FSAP.

43. The long-standing fixed exchange rate regime has served The Bahamas well, and the real appreciation experienced by the Bahamian dollar since 1995 owing to the strength of the U.S. currency appears to be broadly in line with developments in other Caribbean destinations. Over the medium term, the prospects for sustaining a strong performance in tourism and other key sectors hinge critically on containing labor costs and raising labor productivity through continued emphasis on education and training. In addition, it is essential to improve infrastructure and the delivery of basic services, including by pressing ahead with the planned privatization of the telephone and electricity companies and the opening of the telecommunications sector to competition.

44. The implications of the draft labor legislation presently in parliament deserve further analysis prior to its approval, particularly with respect to the impact on labor costs of the proposed reduction in the workweek and the introduction of a minimum wage. The staff recommends that the minimum wage be set at a level that facilitates entrance by the young and the unskilled to the labor market, and that a proliferation of minimum wages be avoided. More generally, it would be important to preserve flexibility with regard to part-time and temporary employment, and reduce rigidities in collective agreements.

45. Additional efforts are required to strengthen the statistical base, which still presents several weaknesses that hamper the assessment of economic developments. In particular, there is a need to develop data on private sector debt and the national accounts for the period beyond 1995. The authorities' plans to conduct this year a living standards survey that would provide detailed information about social conditions are welcomed.

46. The staff recommends that the next Article IV consultation be conducted on the 24-month cycle.

Table 1. The Bahamas: Selected Economic Indicators

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(Annual percentage changes; unless otherwise indicated)						
<b>Real sector</b>						
Real GDP 1/	4.2	3.3	3.0	5.9	5.0	3.5
Nominal GDP 1/	6.8	5.3	6.3	9.1	7.6	5.1
Consumer price index (annual average)	1.4	0.5	1.3	1.3	1.6	1.0
Unemployment rate (in percent)	11.5	9.8	7.8	7.5	...	...
Total visitor arrivals	5.5	1.3	-3.4	9.2	15.2	6.1
<i>Of which</i>						
Stopover arrivals	2.2	-0.2	-5.6	3.2	1.2	2.4
<b>Central government finances 2/</b>						
Current revenue	4.5	11.3	5.1	14.2	5.5	5.2
Current expenditure	6.8	6.6	4.9	9.5	3.9	5.1
Capital expenditure	55.0	-18.3	4.9	8.7	-6.3	5.3
<b>Financial sector</b>						
Net domestic assets 3/	7.7	11.4	11.4	11.1	8.6	7.1
Credit to the nonfinancial public sector 3/	0.0	-0.8	1.6	0.2	-3.1	0.1
Credit to the private sector 3/	10.1	13.4	12.0	11.6	15.4	7.9
Liabilities to the private sector	6.2	11.2	15.2	10.1	7.5	7.4
Base money	-2.2	13.0	20.6	20.5	-3.4	6.9
Average bank deposit rate (in percent)	5.1	5.3	5.6	4.5	4.0	...
Average bank lending rate (in percent)	12.6	12.8	12.3	11.8	11.7	...
<b>External sector</b>						
Exports of goods	10.8	-1.4	47.4	44.2	5.1	3.4
Imports of goods	10.0	21.6	12.2	2.1	7.5	-1.0
Travel receipts (gross)	3.9	1.3	-4.4	16.9	14.6	4.0
<b>Effective exchange rate (end of period; depreciation -)</b>						
Nominal	1.5	4.7	-1.5	4.5	4.4	...
Real	0.0	3.7	-0.9	4.7	2.8	...
(In percent of GDP; unless otherwise indicated)						
<b>Central government 2/</b>						
Central government saving	0.5	1.3	1.3	2.1	2.4	2.5
Central government overall balance	-3.3	-1.7	-1.6	-0.8	-0.2	0.0
<b>External sector</b>						
Current account balance	-7.2	-16.9	-23.8	-8.9	-8.4	-7.2
Overall balance	-0.2	1.4	2.9	1.4	-1.2	0.4
External public debt (end of period)	7.6	8.4	8.2	7.8	7.2	7.0
<b>Memorandum items:</b>						
Net international reserves						
(end of period; millions of US\$)	163.0	219.5	338.7	404.0	342.6	362.5
In percent of base money	71.6	85.4	109.3	108.2	95.0	94.1
In months of imports of goods and services	1.0	1.1	1.5	1.7	1.4	1.5
External debt-service ratio 4/	5.5	4.4	1.4	2.2	2.0	3.2
Total debt of the nonfinancial public sector (end of period)	43.6	45.7	44.5	42.9	39.7	38.2
GDP (in millions of Bahamian dollars)	3,742	3,940	4,190	4,573	4,920	5,169
Nominal GDP per capita (in U.S. dollars)	13,232	13,694	14,314	15,203	15,901	16,411

Sources: Central Bank of The Bahamas; Ministry of Finance; and Fund staff estimates and projections.

1/ Estimated by the staff on the basis of partial indicators.

2/ Corresponds to the fiscal year beginning July 1.

3/ In relation to liabilities to the private sector at the beginning of the year.

4/ Public sector debt service in percent of receipts from merchandise exports and tourism.

Table 2. The Bahamas: Tourism Indicators

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(Percentage change)						
<b>Total arrivals</b>	<b>5.5</b>	<b>1.3</b>	<b>-3.4</b>	<b>9.2</b>	<b>15.2</b>	<b>6.1</b>
Stopover	2.2	-0.2	-5.6	3.2	1.2	2.4
Cruise and day visitors	8.7	2.6	-1.5	14.3	26.0	8.3
<b>Total tourist expenditure</b>	<b>4.0</b>	<b>0.8</b>	<b>-4.0</b>	<b>17.3</b>	<b>14.1</b>	<b>4.0</b>
Stopover	3.8	0.6	-4.3	18.4	12.9	3.0
Cruise and day visitors	6.5	2.7	0.5	4.6	31.0	15.9
(In U.S. dollars; unless otherwise indicated)						
<b>Average daily tourist expenditure 1/</b>	<b>115.8</b>	<b>115.5</b>	<b>116.3</b>	<b>118.8</b>	<b>141.0</b>	<b>141.5</b>
Stopover	125.6	124.6	126.4	130.7	162.7	163.6
Cruise and day visitors	57.3	57.3	58.5	53.5	55.7	59.5
<b>Hotel indicators</b>						
Hotel occupancy rate (in percent)	71.6	75.1	70.3	68.6	67.2	67.0
Average daily room rate 2/	92.7	100.3	109.6	132.5	148.8	150.3
Average length of stay for stopover visitors (in days)	6.3	6.4	6.4	7.1	6.4	6.4
(In percent)						
<b>Shares in stopover arrivals in the Caribbean</b>						
The Bahamas	11.0	10.2	9.3	9.3	...	...
Puerto Rico	21.0	21.3	21.2	19.0	...	...
Dominican Republic	12.9	13.9	14.0	15.6	...	...
Dutch West Indies 3/	8.7	8.7	8.4	8.3	...	...
Jamaica	7.8	7.5	7.4	7.3	...	...
French departments 4/	7.4	7.4	7.5	7.5	...	...
EECB countries 5/	5.5	5.5	5.3	5.3	...	...
U.S. Virgin Islands	2.5	2.5	2.6	2.8	...	...
Cuba	6.7	7.4	8.6	9.4	...	...
Bermuda	2.6	2.4	2.2	2.1	...	...
Barbados	3.0	3.0	3.1	3.0	...	...
Other 6/	10.8	10.3	10.3	10.4	...	...
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	...	...

Sources: Ministry of Tourism; Caribbean Tourism Organization; and Fund staff estimates and projections.

1/ Tourist days are defined as the number of days spent by all visitors in The Bahamas.

2/ Based on a representative sample of hotels.

3/ Aruba, Bonaire, Curacao, Saba, St. Eustatius, and St. Maarten.

4/ Guadeloupe and Martinique.

5/ Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and The Grenadines.

6/ Includes Belize, British Virgin Islands, Cayman Islands, Guyana, Trinidad and Tobago, Turks and Caicos Islands, Haiti, and Suriname.

Table 3. The Bahamas: Summary of Central Government Operations

	FY 96/97	FY 97/98	FY 98/99	FY 99/00	Est. FY 00/01	Proj. FY 01/02
(In millions of Bahamian dollars)						
<b>Current revenue</b>	<b>687.2</b>	<b>765.0</b>	<b>803.7</b>	<b>918.2</b>	<b>968.8</b>	<b>1,018.7</b>
Tax revenue	620.1	683.0	727.9	840.0	881.8	927.1
Nontax revenue	67.1	81.9	75.8	78.2	87.0	91.6
<b>Current expenditure</b>	<b>667.8</b>	<b>711.7</b>	<b>746.9</b>	<b>817.8</b>	<b>849.6</b>	<b>888.4</b>
Wages and salaries 1/	349.9	380.2	384.2	425.4	440.4	461.9
Goods and services 1/	141.0	154.8	176.5	191.9	202.8	210.1
Interest payments	93.5	94.7	98.7	94.4	95.7	93.5
Subsidies and transfers 1/	83.4	82.0	87.5	106.1	110.8	123.0
<b>Current account balance</b>	<b>19.4</b>	<b>53.3</b>	<b>56.8</b>	<b>100.4</b>	<b>119.2</b>	<b>130.3</b>
<b>Capital revenue</b>	<b>0.6</b>	<b>0.7</b>	<b>0.0</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>
<b>Foreign grants</b>	<b>0.5</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital expenditure and net lending</b>	<b>149.0</b>	<b>121.7</b>	<b>127.7</b>	<b>138.8</b>	<b>130.0</b>	<b>130.3</b>
Fixed capital formation	99.5	81.6	87.4	99.8	87.3	108.2
Capital transfers and net lending	49.5	40.2	40.3	39.0	42.7	22.1
<b>Overall balance</b>	<b>-128.6</b>	<b>-67.3</b>	<b>-70.9</b>	<b>-38.1</b>	<b>-10.6</b>	<b>0.0</b>
<b>Total financing</b>	<b>128.6</b>	<b>67.3</b>	<b>70.9</b>	<b>38.1</b>	<b>10.6</b>	<b>0.0</b>
Foreign financing	25.2	-21.1	10.0	19.0	6.1	10.7
Domestic financing	103.4	88.3	60.9	19.1	4.4	-10.7
(In percent of GDP)						
<b>Current revenue</b>	<b>17.9</b>	<b>18.8</b>	<b>18.3</b>	<b>19.3</b>	<b>19.2</b>	<b>19.2</b>
Tax revenue	16.1	16.8	16.6	17.7	17.5	17.5
Nontax revenue	1.7	2.0	1.7	1.6	1.7	1.7
<b>Current expenditure</b>	<b>17.4</b>	<b>17.5</b>	<b>17.0</b>	<b>17.2</b>	<b>16.8</b>	<b>16.7</b>
Wages and salaries	9.1	9.4	8.8	9.0	8.7	8.7
Goods and services	3.7	3.8	4.0	4.0	4.0	4.0
Interest payments	2.4	2.3	2.3	2.0	1.9	1.8
Subsidies and transfers	2.2	2.0	2.0	2.2	2.2	2.3
<b>Current account balance</b>	<b>0.5</b>	<b>1.3</b>	<b>1.3</b>	<b>2.1</b>	<b>2.4</b>	<b>2.5</b>
<b>Capital expenditure and net lending</b>	<b>3.9</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>	<b>2.6</b>	<b>2.5</b>
Fixed capital formation	2.6	2.0	2.0	2.1	1.7	2.0
Capital transfers and net lending	1.3	1.0	0.9	0.8	0.8	0.4
<b>Overall balance</b>	<b>-3.3</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-0.8</b>	<b>-0.2</b>	<b>0.0</b>
<b>Financing</b>	<b>3.3</b>	<b>1.7</b>	<b>1.6</b>	<b>0.8</b>	<b>0.2</b>	<b>0.0</b>
Foreign financing	0.7	-0.5	0.2	0.4	0.1	0.2
Domestic financing	2.7	2.2	1.4	0.4	0.1	-0.2

Sources: Ministry of Finance; Central Bank of The Bahamas; and Fund staff estimates and projections.

1/ In FY 1999/2000 the government established the Public Hospitals Authority (PHA) as an autonomous institution. For comparability of treatment with the previous years, the staff reclassified central government transfers to the PHA as wages and purchases of goods and services.

Table 4. The Bahamas: Operations of the National Insurance Board (NIB)

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(In millions of Bahamian dollars)						
<b>Revenue</b>	<b>129.1</b>	<b>142.5</b>	<b>149.1</b>	<b>166.5</b>	<b>178.3</b>	<b>198.9</b>
Contributions	73.2	81.5	84.8	103.7	114.0	130.0
Investment income	50.9	56.1	59.4	57.9	59.4	64.0
Transfers from central government	4.9	4.9	4.9	4.9	4.9	4.9
<b>Expenditure</b>	<b>83.0</b>	<b>88.9</b>	<b>94.7</b>	<b>114.4</b>	<b>128.7</b>	<b>140.4</b>
Current expenditure	80.2	83.5	87.1	103.4	109.4	118.7
Wages and salaries	12.4	12.0	11.7	12.0	11.6	11.6
Benefit payments	62.7	65.1	68.5	82.6	88.7	95.6
Short term	10.6	10.7	11.0	14.2	16.7	18.0
Long term	52.1	54.4	57.5	68.4	72.0	77.6
Retirement	23.6	25.1	27.0	33.6	36.5	39.3
Old age (noncontributory)	9.5	8.6	8.4	9.2	8.5	9.2
Other	16.1	16.8	18.3	20.5	23.1	24.9
Industrial	3.0	3.9	3.9	5.1	3.9	4.2
Goods and services	5.1	6.4	6.8	8.7	9.1	11.5
Capital	2.8	5.4	7.6	11.1	19.3	21.7
<b>Operating balance</b>	<b>-7.0</b>	<b>-2.0</b>	<b>-2.2</b>	<b>0.3</b>	<b>4.6</b>	<b>11.3</b>
<b>Current account balance</b>	<b>48.9</b>	<b>59.0</b>	<b>62.0</b>	<b>63.1</b>	<b>68.9</b>	<b>80.2</b>
<b>Overall balance</b>	<b>46.1</b>	<b>53.6</b>	<b>54.4</b>	<b>52.1</b>	<b>49.6</b>	<b>58.5</b>
(In percent of GDP)						
<b>Revenue</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.8</b>
Contributions	2.0	2.1	2.0	2.3	2.3	2.5
Investment income	1.4	1.4	1.4	1.3	1.2	1.2
Transfers from central government	0.1	0.1	0.1	0.1	0.1	0.1
<b>Expenditure</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>
Current	2.1	2.1	2.1	2.3	2.2	2.3
Wages and salaries	0.3	0.3	0.3	0.3	0.2	0.2
Benefit payments	1.7	1.7	1.6	1.8	1.8	1.8
Goods and services	0.1	0.2	0.2	0.2	0.2	0.2
Capital	0.1	0.1	0.2	0.2	0.4	0.4
<b>Operating balance</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
<b>Current account balance</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.6</b>
<b>Overall balance</b>	<b>1.2</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>1.1</b>
(In percent; unless otherwise specified)						
<b>Memorandum items:</b>						
Benefits/contributions	85.6	79.9	80.8	79.7	77.8	73.5
Wages, and goods and services/contributions	23.9	22.6	21.9	20.0	18.2	17.8
Retirement and old-age payments/contributions	45.1	41.3	41.7	41.3	39.5	37.3
Employment (actual numbers employed)	513	523	511	482	482	480

Sources: National Insurance Board; and Fund staff estimates and projections.

Table 5. The Bahamas: Operations of Nonfinancial Public Corporations 1/

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(In millions of Bahamian dollars)						
<b>Total revenue</b>	<b>404.5</b>	<b>436.1</b>	<b>477.6</b>	<b>533.2</b>	<b>614.8</b>	<b>618.5</b>
Current revenue	373.5	405.8	441.9	498.3	574.3	592.6
Operating revenue	361.7	400.5	435.5	494.6	569.6	587.5
Other	11.9	5.3	6.4	3.7	4.7	5.1
Capital revenue	30.9	30.3	35.7	34.9	40.5	25.9
Sale of assets	0.0	0.7	1.0	0.7	0.1	0.1
Transfers from central government	30.9	29.6	34.7	34.2	40.4	25.8
<b>Total expenditure</b>	<b>431.0</b>	<b>477.1</b>	<b>544.6</b>	<b>639.8</b>	<b>575.2</b>	<b>623.2</b>
Current expenditure	356.7	357.4	382.8	499.0	445.7	443.9
Operating expenditure	330.0	333.0	344.5	385.6	399.6	409.7
Interest payments	21.2	19.9	21.5	24.8	25.6	25.3
Other	0.7	0.6	12.8	84.6	16.6	4.9
<i>Of which: Batelco's severance payments</i>	0.0	0.0	11.4	77.7	6.5	0.0
Transfers to central government	4.8	4.0	4.0	4.0	4.0	4.0
Capital expenditure	74.4	119.7	161.8	140.7	129.4	179.3
<b>Operating balance</b>	<b>31.7</b>	<b>67.5</b>	<b>91.0</b>	<b>109.0</b>	<b>170.0</b>	<b>177.9</b>
<b>Current account balance</b>	<b>16.9</b>	<b>48.3</b>	<b>59.0</b>	<b>-0.7</b>	<b>128.6</b>	<b>148.7</b>
<b>Overall balance, accrual basis</b>	<b>-26.6</b>	<b>-41.1</b>	<b>-67.0</b>	<b>-106.6</b>	<b>39.7</b>	<b>-4.7</b>
Receivables and payables adjustment	21.0	13.6	12.4	23.9	-10.0	8.8
<b>Overall balance, cash basis</b>	<b>-5.6</b>	<b>-27.5</b>	<b>-54.6</b>	<b>-82.7</b>	<b>29.6</b>	<b>4.1</b>
<b>Total financing</b>	<b>5.6</b>	<b>27.5</b>	<b>54.6</b>	<b>82.7</b>	<b>-29.6</b>	<b>-4.1</b>
External	-2.1	32.3	12.7	-7.1	-13.0	-8.2
Domestic	7.7	-4.8	41.9	89.7	-16.6	4.1
(In percent of GDP)						
<b>Total revenue</b>	<b>10.8</b>	<b>11.1</b>	<b>11.4</b>	<b>11.7</b>	<b>12.5</b>	<b>12.0</b>
Current revenue	10.0	10.3	10.5	10.9	11.7	11.5
Operating revenue	9.7	10.2	10.4	10.8	11.6	11.4
Other	0.3	0.1	0.2	0.1	0.1	0.1
Capital revenue	0.8	0.8	0.9	0.8	0.8	0.5
Sale of assets	0.0	0.0	0.0	0.0	0.0	0.0
Transfers from central government	0.8	0.8	0.8	0.7	0.8	0.5
<b>Total expenditure</b>	<b>11.5</b>	<b>12.1</b>	<b>13.0</b>	<b>14.0</b>	<b>11.7</b>	<b>12.1</b>
Current expenditure	9.5	9.1	9.1	10.9	9.1	8.6
Operating expenditure	8.8	8.5	8.2	8.4	8.1	7.9
Interest payments	0.6	0.5	0.5	0.5	0.5	0.5
Other	0.0	0.0	0.3	1.8	0.3	0.1
<i>Of which: Batelco's severance payments</i>	0.0	0.0	0.3	1.7	0.1	0.0
Transfers to central government	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	2.0	3.0	3.9	3.1	2.6	3.5
<b>Operating balance</b>	<b>0.8</b>	<b>1.7</b>	<b>2.2</b>	<b>2.4</b>	<b>3.5</b>	<b>3.4</b>
<b>Current account balance</b>	<b>0.5</b>	<b>1.2</b>	<b>1.4</b>	<b>0.0</b>	<b>2.6</b>	<b>2.9</b>
<b>Overall balance, accrual basis</b>	<b>-0.7</b>	<b>-1.0</b>	<b>-1.6</b>	<b>-2.3</b>	<b>0.8</b>	<b>-0.1</b>
<b>Overall balance, cash basis</b>	<b>-0.1</b>	<b>-0.7</b>	<b>-1.3</b>	<b>-1.8</b>	<b>0.6</b>	<b>0.1</b>
<b>Total financing</b>	<b>0.1</b>	<b>0.7</b>	<b>1.3</b>	<b>1.8</b>	<b>-0.6</b>	<b>-0.1</b>
External	-0.1	0.8	0.3	-0.2	-0.3	-0.2
Domestic	0.2	-0.1	1.0	2.0	-0.3	0.1

Sources: Ministry of Finance; public corporations; and Fund staff estimates and projections.

1/ Batelco, Bahamas Electricity, Water and Sewerage, Bahamasair, and Broadcasting Corporation.



Table 6. The Bahamas: Summary Accounts of the Financial System

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(In millions of Bahamian dollars; end of period)						
<b>Net foreign assets</b>	<b>-109</b>	<b>-113</b>	<b>-24</b>	<b>-50</b>	<b>-84</b>	<b>-75</b>
Central bank	163	219	339	404	343	362
Commercial banks	-277	-342	-377	-457	-450	-461
Other financial institutions	5	9	14	2	23	23
<b>Net domestic assets</b>	<b>2,245</b>	<b>2,489</b>	<b>2,760</b>	<b>3,064</b>	<b>3,322</b>	<b>3,552</b>
Net credit to nonfinancial public sector	409	392	430	435	340	300
Net claims on government	422	420	453	496	509	498
Net credit to financial public sector 1/	-21	-17	-11	-10	-16	-16
Credit to private sector	2,264	2,551	2,837	3,155	3,619	3,946
In local currency	2,055	2,287	2,539	2,808	3,200	3,490
In foreign currency	209	264	298	347	418	456
Capital and surplus	-372	-422	-476	-562	-672	-731
Net unclassified assets	-35	-16	-20	46	52	54
<b>Liabilities to private sector</b>	<b>2,137</b>	<b>2,375</b>	<b>2,736</b>	<b>3,013</b>	<b>3,238</b>	<b>3,477</b>
Money	416	485	574	715	761	813
Currency	96	110	126	148	151	162
Demand deposits	320	375	448	567	609	651
Savings and fixed deposits, local currency	1,697	1,849	2,106	2,247	2,393	2,577
Foreign currency deposits	24	42	56	51	84	88
(Annual percentage change in terms of liabilities to the private sector at beginning of the period)						
<b>Net foreign assets</b>	<b>-1.5</b>	<b>-0.2</b>	<b>3.8</b>	<b>-1.0</b>	<b>-1.1</b>	<b>0.3</b>
<b>Net domestic assets</b>	<b>7.7</b>	<b>11.4</b>	<b>11.4</b>	<b>11.1</b>	<b>8.6</b>	<b>7.1</b>
Credit to nonfinancial public sector	0.0	-0.8	1.6	0.2	-3.1	-1.3
Credit to central government	-0.1	-0.1	1.4	1.6	0.4	-0.3
Credit to National Insurance Board	-0.3	-0.2	-1.1	-0.5	-6.3	-1.0
Credit to public corporations	0.4	-0.5	1.4	1.3	0.7	0.1
Credit to financial public sector	0.2	0.2	0.2	0.0	-0.2	0.0
Credit to private sector	10.1	13.4	12.0	11.6	15.4	10.1
<b>Liabilities to private sector</b>	<b>6.2</b>	<b>11.2</b>	<b>15.2</b>	<b>10.1</b>	<b>7.5</b>	<b>7.4</b>
Money	0.7	3.2	3.8	5.2	1.5	1.6
Quasi-money	5.5	8.0	11.4	5.0	5.9	5.8
(Annual percentage changes )						
Net domestic assets	7.4	10.9	10.9	11.0	8.4	6.9
Credit to private sector	9.9	12.7	11.2	11.2	14.7	9.0
Liabilities to private sector	6.2	11.2	15.2	10.1	7.5	7.4
Money	3.5	16.6	18.4	24.6	6.4	6.9
Quasi-money	6.9	9.9	14.3	6.3	7.8	7.6
<b>Memorandum items:</b>						
Change in net international reserves (in millions of B\$)	-7.6	56.5	119.2	65.3	-61.5	19.9
Broad money (in percent of GDP)	57.1	60.3	65.3	66.5	67.2	68.7

Sources: Central Bank of The Bahamas; and Fund staff estimates and projections.

1/ Financial public corporations: Bahamas Development Bank, Bahamas Mortgage Corporation, and Bahamas Agricultural and Industrial Corporation.

Table 7. The Bahamas: Accounts of the Central Bank

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(In millions of Bahamian dollars; end of period)						
<b>Net international reserves</b>	<b>163</b>	<b>219</b>	<b>339</b>	<b>404</b>	<b>343</b>	<b>362</b>
Balances with banks abroad	104	136	243	181	119	126
Foreign securities	51	75	87	215	215	228
Reserve position in the Fund	9	9	9	9	8	9
<b>Net domestic assets</b>	<b>79</b>	<b>51</b>	<b>-14</b>	<b>-17</b>	<b>31</b>	<b>36</b>
Net credit to nonfinancial public sector	143	118	53	51	106	111
Net claims on financial public sector	3	4	5	7	8	8
Credit to commercial banks	0	0	0	2	0	0
Official capital and surplus	-80	-84	-87	-91	-98	-98
Net unclassified assets	13	13	14	14	15	15
<b>Liabilities to commercial banks</b>	<b>118</b>	<b>146</b>	<b>182</b>	<b>221</b>	<b>204</b>	<b>218</b>
Notes and coins	46	47	47	74	64	68
Deposits	72	98	135	147	140	150
<b>Liabilities to other financial institutions</b>	<b>13</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>SDR allocation</b>	<b>15</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>13</b>	<b>13</b>
<b>Currency held by the private sector</b>	<b>96</b>	<b>110</b>	<b>125</b>	<b>148</b>	<b>151</b>	<b>162</b>
(Annual percentage changes relative to base money at the beginning of the period)						
Net international reserves	-3.3	24.8	46.4	21.1	-16.4	5.5
Net domestic assets	0.8	-12.2	-25.6	-0.7	12.8	1.3
Net credit to nonfinancial public sector	2.3	-10.9	-25.1	-0.6	14.7	1.3
Net claims on financial public sector	1.8	0.4	0.3	0.6	0.4	0.0
Net credit to banks	0.0	0.1	0.0	0.5	-0.5	0.0
Liabilities to commercial banks	-4.4	12.1	14.2	12.6	-4.5	3.9
Liabilities to other financial institutions	0.2	-5.1	0.3	0.5	0.3	0.1
Currency held by the private sector	2.0	6.0	6.1	7.4	0.8	2.9
(In millions of Bahamian dollars)						
<b>Memorandum items:</b>						
Base money	227.6	257.2	310.0	373.5	360.7	385.4
Change in net international reserves	-7.6	56.5	119.2	65.3	-61.4	19.9
Net international reserves (in percent of base money)	71.6	85.4	109.3	108.2	95.0	94.1
(Annual percent changes)						
Base money	-2.2	13.0	20.6	20.5	-3.4	6.9

Sources: Central Bank of The Bahamas; and Fund staff estimates and projections.

Table 8. The Bahamas: Summary Balance of Payments

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(In millions of U.S. dollars)						
<b>Current account balance</b>	<b>-271.2</b>	<b>-665.8</b>	<b>-995.6</b>	<b>-406.1</b>	<b>-414.3</b>	<b>-374.2</b>
<b>Trade balance</b>	<b>-1,022.9</b>	<b>-1,301.7</b>	<b>-1,373.9</b>	<b>-1,249.3</b>	<b>-1,354.9</b>	<b>-1,316.6</b>
Exports	249.7	246.2	362.9	523.2	549.7	568.4
Imports	-1,272.6	-1,547.9	-1,736.8	-1,772.5	-1,904.6	-1,885.0
<b>Service balance</b>	<b>863.5</b>	<b>745.1</b>	<b>543.0</b>	<b>802.1</b>	<b>1,049.4</b>	<b>1,121.2</b>
Travel (net)	1,163.3	1,166.1	1,098.3	1,272.6	1,521.1	1,582.0
Construction services	-20.4	-75.1	-145.8	-100.9	-101.7	-94.4
Other services (net)	-279.4	-345.9	-409.5	-369.6	-370.0	-366.5
<b>Income (net)</b>	<b>-149.0</b>	<b>-148.5</b>	<b>-199.1</b>	<b>-129.7</b>	<b>-164.8</b>	<b>-224.1</b>
<i>Of which</i>						
Interest and dividends	-119.9	-117.4	-164.6	-88.7	-113.7	-170.4
<b>Current transfers (net)</b>	<b>37.2</b>	<b>39.3</b>	<b>34.4</b>	<b>170.8</b>	<b>56.0</b>	<b>45.2</b>
<b>Capital account balance</b>	<b>157.0</b>	<b>405.4</b>	<b>859.9</b>	<b>583.5</b>	<b>411.9</b>	<b>394.2</b>
Capital transfers	-24.4	-13.0	-11.7	-13.6	-16.4	-17.2
Public sector	-25.1	25.7	-5.3	-5.0	-5.2	7.4
Disbursements	28.7	100.2	35.7	42.2	32.5	66.9
Amortization	-53.7	-74.5	-41.0	-47.2	-37.7	-59.5
Financial system (net)	23.0	61.2	29.9	91.8	-27.1	11.0
Direct investment	183.5	331.5	847.0	510.3	460.6	393.0
Net errors and omissions 1/	106.6	316.9	256.0	-112.2	-59.0	0.0
<b>Change in international reserves</b>	<b>7.6</b>	<b>-56.5</b>	<b>-120.3</b>	<b>-65.2</b>	<b>61.5</b>	<b>-20.0</b>
(In percent of GDP)						
<b>Current account balance</b>	<b>-7.2</b>	<b>-16.9</b>	<b>-23.8</b>	<b>-8.9</b>	<b>-8.4</b>	<b>-7.2</b>
Trade balance	-27.3	-33.0	-32.8	-27.3	-27.5	-25.5
Exports	6.7	6.2	8.7	11.4	11.2	11.0
Imports	34.0	39.3	41.5	38.8	38.7	36.5
Services (net)	23.1	18.9	13.0	17.5	21.3	21.7
Travel (net)	31.1	29.6	26.2	27.8	30.9	30.6
Income (net)	-4.0	-3.8	-4.8	-2.8	-3.3	-4.3
<b>Capital account balance</b>	<b>7.0</b>	<b>18.3</b>	<b>26.6</b>	<b>10.3</b>	<b>7.2</b>	<b>7.6</b>
<i>Of which</i>						
Direct investment	4.9	8.4	20.2	11.2	9.4	7.6
<b>Overall balance</b>	<b>-0.2</b>	<b>1.4</b>	<b>2.9</b>	<b>1.4</b>	<b>-1.2</b>	<b>0.4</b>
<b>Memorandum items:</b>						
Net international reserves						
(end of period; millions of U.S. dollars)	163.0	219.5	338.7	404.0	342.6	362.5
In percent of base money	71.6	85.4	109.3	108.2	95.0	94.1
In months of imports of goods and services	1.0	1.1	1.5	1.7	1.4	1.5
External public debt (end of period; in percent of GDP)	7.6	8.4	8.2	7.8	7.2	7.0

Sources: Central Bank of the Bahamas; and Fund staff estimates and projections.

1/ The authorities believe that a significant proportion of errors and omissions reflect unrecorded direct investment flows.

Table 9. The Bahamas: Indicators of External Vulnerability

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
<b>Financial indicators</b>						
Broad money (12-month percentage change)	6.2	11.2	15.2	10.1	7.5	7.4
Private sector credit (12-month percentage change)	9.9	12.7	11.2	11.2	14.7	9.0
Three-month treasury-bill rate (end of period)	4.4	4.5	3.5	1.5	0.9	...
Domestic public debt (in percent of GDP, end of period)	36.1	37.3	36.4	35.2	32.5	31.3
<b>External indicators</b>						
Exports of goods and services (12-month percentage change)	3.3	0.6	3.1	20.4	12.0	3.6
Imports of goods and services (12-month percentage change)	10.6	20.6	13.8	0.1	4.9	-0.7
Current account balance (in percent of GDP)	-7.2	-16.9	-23.8	-8.9	-8.4	-7.2
Capital account balance (in percent of GDP)	7.0	18.3	26.6	10.3	7.2	7.6
Net international reserves (end of period)						
In millions of U.S. dollars	163	219	339	404	343	362
In months of imports of next year's goods and services	1.0	0.8	1.0	1.4	1.7	1.4
In percent of base money	71.6	85.4	109.3	108.2	95.0	94.1
In percent of broad money	7.6	9.2	12.4	13.4	10.6	10.4
In percent of short-term external public debt 1/	277.2	1,391.4	1,052.2	1,278.6	575.7	604.3
Commercial banks, net foreign assets (in US\$ million, end of period)	-277	-342	-377	-457	-450	-461
External public debt (in percent of GDP)	7.6	8.4	8.2	7.8	7.2	7.0
External debt service (in percent of exports of goods and services)	5.5	4.4	1.4	2.2	2.0	3.2
External interest payments	3.1	1.2	0.6	0.9	0.8	0.9
External amortization payments	2.4	3.2	0.8	1.3	1.2	2.2
External debt service (in percent of government revenue)	14.7	11.2	3.4	6.2	5.4	8.3
External interest payments	8.2	3.1	1.4	2.5	2.1	2.4
External amortization payments	6.5	8.1	2.1	3.7	3.4	5.9
REER appreciation (+) (end of period)	0.5	2.1	1.9	2.7	2.5	...

Sources: Central Bank of The Bahamas; and Fund staff estimates and projections.

1/ Includes external maturities falling due in the coming year. Excludes private external debt due to lack of information.

Table 10. The Bahamas: Medium-Term Projections of the Balance of Payments

	1999	Prel.	Projections					
		2000	2001	2002	2003	2004	2005	2006
(In millions of U.S. dollars)								
<b>Current account balance</b>	<b>-406</b>	<b>-414</b>	<b>-374</b>	<b>-361</b>	<b>-308</b>	<b>-289</b>	<b>-268</b>	<b>-247</b>
<b>Trade balance</b>	<b>-1,249</b>	<b>-1,355</b>	<b>-1,317</b>	<b>-1,356</b>	<b>-1,388</b>	<b>-1,447</b>	<b>-1,500</b>	<b>-1,569</b>
Exports	523	550	568	599	643	677	726	771
Imports	1,773	1,905	1,885	1,954	2,031	2,123	2,226	2,340
<b>Service balance</b>	<b>802</b>	<b>1,049</b>	<b>1,121</b>	<b>1,186</b>	<b>1,284</b>	<b>1,382</b>	<b>1,477</b>	<b>1,580</b>
Travel (net)	1,273	1,521	1,582	1,658	1,766	1,882	2,005	2,136
Construction services	-101	-102	-94	-90	-86	-83	-82	-80
Other services (net)	-370	-370	-366	-382	-396	-417	-446	-476
<b>Income (net)</b>	<b>-130</b>	<b>-165</b>	<b>-224</b>	<b>-240</b>	<b>-256</b>	<b>-279</b>	<b>-304</b>	<b>-322</b>
<b>Current transfers</b>	<b>171</b>	<b>56</b>	<b>45</b>	<b>48</b>	<b>51</b>	<b>55</b>	<b>59</b>	<b>64</b>
<b>Capital account balance</b>	<b>584</b>	<b>412</b>	<b>394</b>	<b>411</b>	<b>353</b>	<b>324</b>	<b>298</b>	<b>277</b>
Capital transfers	-14	-16	-17	-18	-19	-20	-22	-25
Long-term public sector	-5	-5	7	-8	16	23	31	28
Financial system	92	-27	11	20	20	21	23	25
Direct investment	510	461	393	418	337	300	266	249
<b>Net errors and omissions</b>	<b>-112</b>	<b>-59</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change in net international reserves (increase -)</b>	<b>-65</b>	<b>61</b>	<b>-20</b>	<b>-50</b>	<b>-45</b>	<b>-35</b>	<b>-30</b>	<b>-30</b>
(In percent of GDP)								
<b>Current account balance</b>	<b>-8.9</b>	<b>-8.4</b>	<b>-7.2</b>	<b>-6.6</b>	<b>-5.4</b>	<b>-4.8</b>	<b>-4.2</b>	<b>-3.6</b>
<b>Trade balance</b>	<b>-27.3</b>	<b>-27.5</b>	<b>-25.5</b>	<b>-24.8</b>	<b>-24.1</b>	<b>-23.8</b>	<b>-23.4</b>	<b>-23.2</b>
Exports	11.4	11.2	11.0	11.0	11.2	11.1	11.3	11.4
Imports	38.8	38.7	36.5	35.8	35.3	34.9	34.7	34.5
<b>Service (net)</b>	<b>17.5</b>	<b>21.3</b>	<b>21.7</b>	<b>21.7</b>	<b>22.3</b>	<b>22.7</b>	<b>23.0</b>	<b>23.3</b>
<b>Income (net)</b>	<b>-2.8</b>	<b>-3.3</b>	<b>-4.3</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.6</b>	<b>-4.7</b>	<b>-4.7</b>
<b>Current transfers</b>	<b>3.7</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>
<b>Capital account balance</b>	<b>12.8</b>	<b>8.4</b>	<b>7.6</b>	<b>7.5</b>	<b>6.1</b>	<b>5.3</b>	<b>4.6</b>	<b>4.1</b>
Capital transfers	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Long-term public sector	-0.1	-0.1	0.1	-0.1	0.3	0.4	0.5	0.4
Financial system	2.0	-0.6	0.2	0.4	0.3	0.3	0.4	0.4
Direct investment	11.2	9.4	7.6	7.7	5.9	4.9	4.1	3.7
<b>Net errors and omissions</b>	<b>-2.5</b>	<b>-1.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Change in net international reserves (increase -)</b>	<b>-1.4</b>	<b>1.2</b>	<b>-0.4</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.6</b>	<b>-0.5</b>	<b>-0.4</b>

Sources: Central Bank of The Bahamas; The Bahamas Department of Statistics; and Fund staff estimates and projections.

Table 11. The Bahamas: Summary Medium-Term Macroeconomic Flows 1/

	1999	Prel. 2000	Projections					
			2001	2002	2003	2004	2005	2006
(Annual percentage change)								
<b>National income and prices</b>								
GDP at constant prices	5.9	5.0	3.5	3.8	4.2	4.0	4.0	4.0
Consumer prices (annual average)	1.3	1.6	1.0	1.5	1.5	1.5	1.5	1.5
<b>Tourism</b>								
Travel receipts	16.9	14.6	4.0	5.0	6.5	6.5	6.5	6.5
(In percent of GDP)								
<b>Balance of payments</b>								
<b>Current account balance</b>								
Trade balance	-8.9	-8.4	-7.2	-6.6	-5.4	-4.8	-4.2	-3.6
Exports	-27.3	-27.5	-25.5	-24.8	-24.1	-23.8	-23.4	-23.2
Imports	11.4	11.2	11.0	11.0	11.2	11.1	11.3	11.4
Services (net)	38.8	38.7	36.5	35.8	35.3	34.9	34.7	34.5
Of which	17.5	21.3	21.7	21.7	22.3	22.7	23.0	23.3
Travel receipts	34.6	36.9	36.5	36.3	36.6	37.0	37.3	37.6
Income (net)	-2.8	-3.3	-4.3	-4.4	-4.4	-4.6	-4.7	-4.7
Current transfers (net)	3.7	1.1	0.9	0.9	0.9	0.9	0.9	0.9
<b>Capital account</b>								
Capital transfers	12.8	8.4	7.6	7.5	6.1	5.3	4.6	4.1
Public sector	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4
Financial system	-0.1	-0.1	0.1	-0.1	0.3	0.4	0.5	0.4
Direct investment	2.0	-0.6	0.2	0.4	0.3	0.3	0.4	0.4
Net errors and omissions	11.2	9.4	7.6	7.7	5.9	4.9	4.1	3.7
Change in net international reserves (increase -)	-2.5	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Central government 2/</b>								
Current revenue	-1.4	1.2	-0.4	-0.9	-0.8	-0.6	-0.5	-0.4
Current expenditure	19.3	19.2	19.2	19.5	19.9	19.9	19.9	19.9
Current account balance	17.2	16.8	16.7	16.5	16.8	16.7	16.7	16.7
Capital expenditure	2.1	2.4	2.5	3.0	3.1	3.2	3.2	3.2
Overall balance	2.9	2.6	2.5	3.0	3.1	3.2	3.2	3.2
<b>Memorandum items:</b>								
Total public debt (in percent of GDP) 3/	-0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Of which	42.9	39.7	38.2	36.0	34.4	33.0	31.7	30.5
External public debt (in percent of GDP)	7.8	7.2	7.0	6.5	6.4	6.5	6.6	6.7
External debt-service ratio 4/	2.4	2.0	3.2	2.9	1.7	1.3	1.1	1.0
Net international reserves								
(end of period; in millions of US\$)	404	343	362	413	458	493	523	553
In percent of base money	108.2	95.0	94.1	101.4	106.5	108.7	109.2	109.4
In months of imports of goods and services	1.8	1.4	1.5	1.7	1.8	1.8	1.9	1.9

Source: Fund staff estimates and projections.

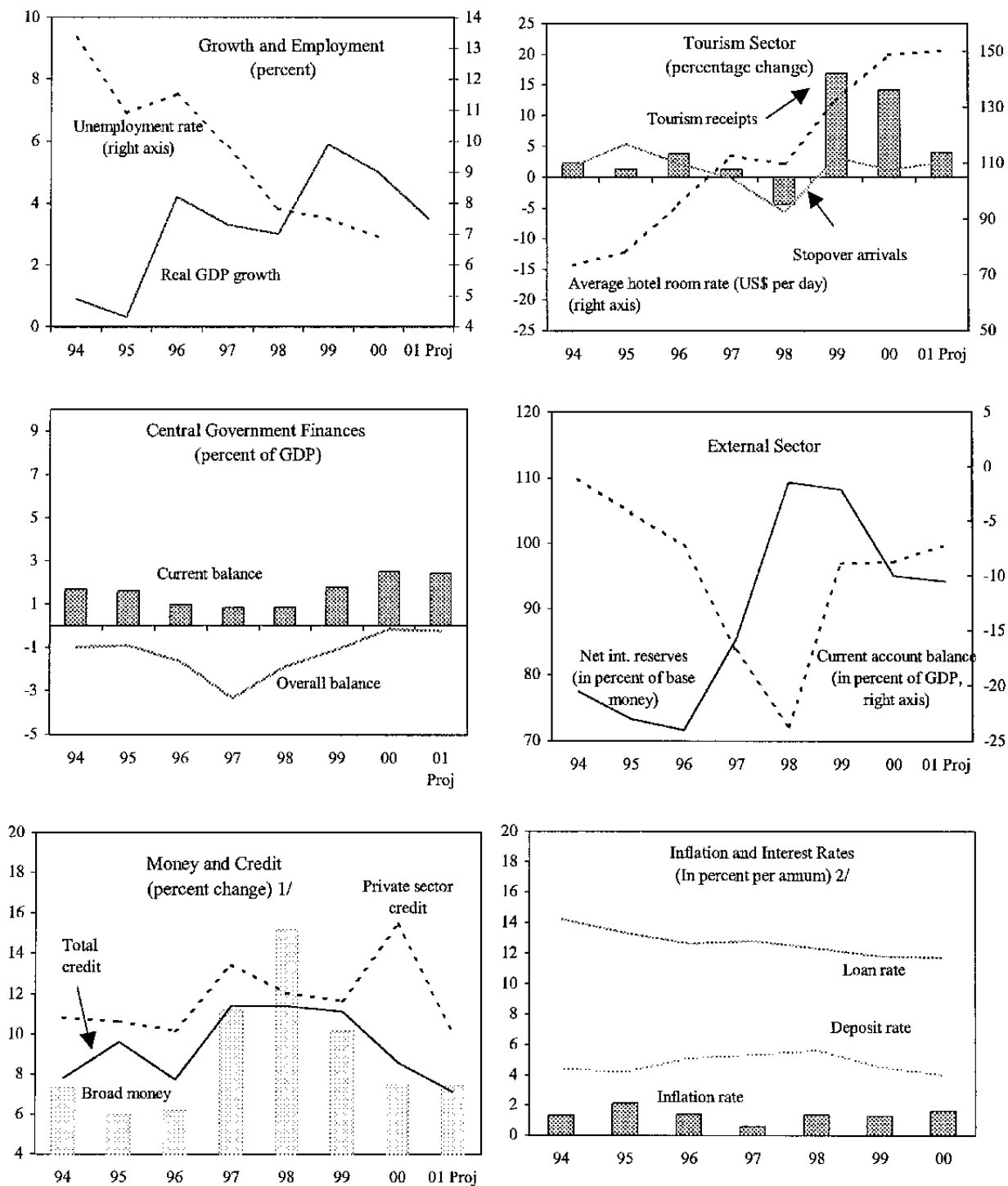
1/ Projections of savings and investment are not incorporated in the table because work is still ongoing on the compilation of national accounts by expenditure categories.

2/ Refers to fiscal years beginning July 1.

3/ End of period.

4/ Public sector debt service in percent of receipts from merchandise exports and tourism.

Figure 1. The Bahamas: Selected Economic Indicators (1994-2001)

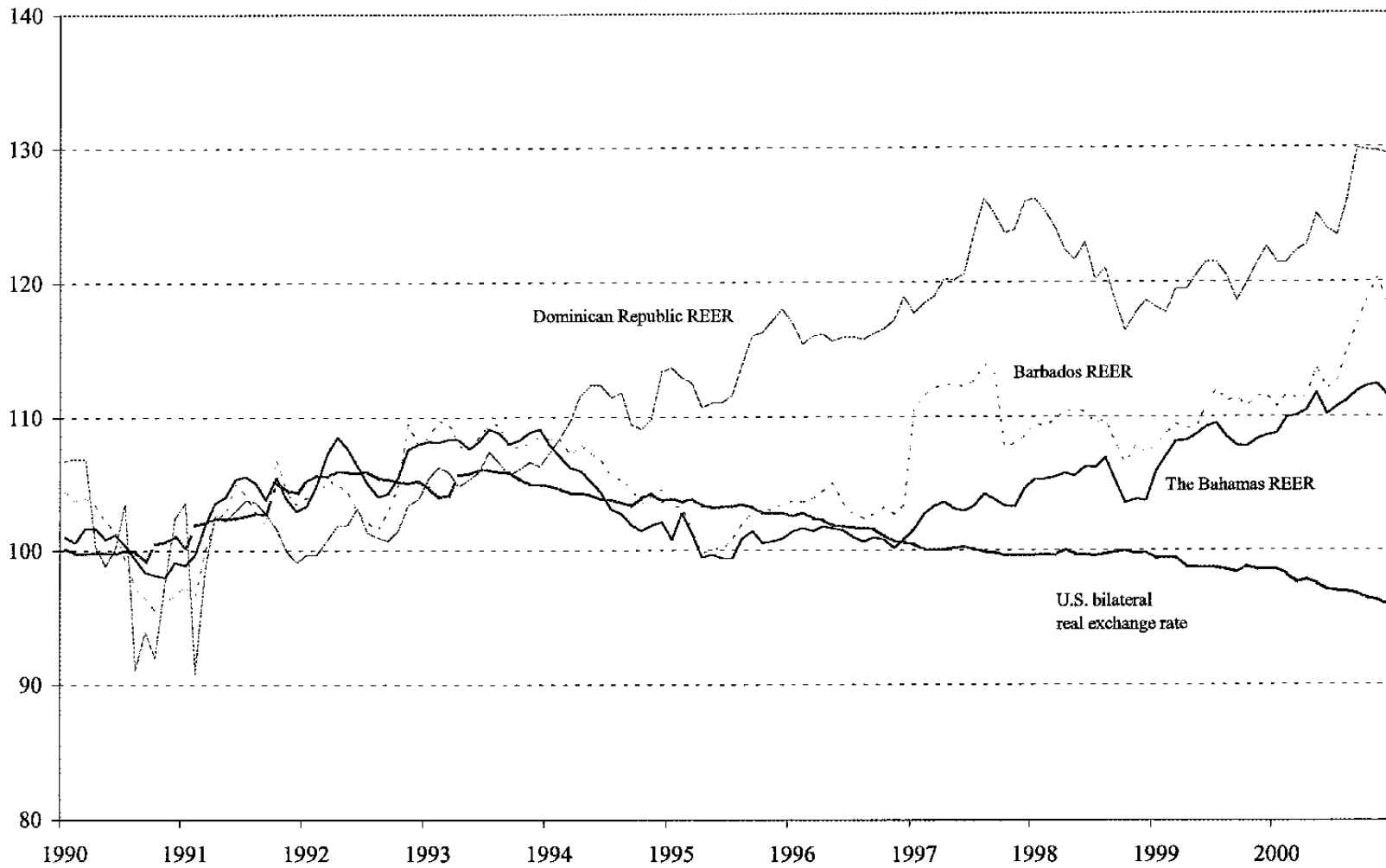


Sources: The Bahamian authorities; and Fund staff estimates and projections.

1/ In percent of liabilities to the private sector (broad money) at the beginning of period.

2/ Weighted averages of commercial bank rates.

Figure 2. The Bahamas: Exchange Rate Developments (1990=100) 1/



Source: IMF Information Notice System.

1/ Increase (decrease) indicates appreciation (depreciation).



**The Bahamas—Fund Relations**  
(As of June 30, 2001)

<b>I. Membership Status:</b>			
Joined: August 21, 1973			
Status: Article VIII			
<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>	
Quota	130.30	100.0	
Fund holdings of currency	124.06	95.2	
Reserve position in Fund	6.24	4.8	
<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>	
Net cumulative allocation	10.23	100.0	
Holdings	0.07	0.7	
<b>IV. Outstanding Purchases and Loans:</b>	None		
<b>V. Financial Arrangements:</b>	None		
<b>VI. Projected Obligations to the Fund</b> (SDR million; based on present holdings of SDRs):			

	<b>Overdue</b>	<b>Projections</b>			
	<b>5/31/01</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Total</b>	<b>0.0</b>	<b>0.2</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
Charges/interest	0.0	0.2	0.4	0.4	0.4

**VII. Exchange Rate Arrangement and Exchange System:**

The Bahamian dollar is pegged to the U.S. dollar at B\$1 per US\$1. The official buying and selling rates are B\$1.0025 (buying) and B\$1.0040 (selling) per U.S. dollar. In addition, the central bank buys and sells investment currency at premium bid and offer rates of 20 percent and 25 percent, respectively.

The Bahamas has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

**VIII. Article IV Consultation:**

The Bahamas is on a 24-month consultation cycle. The last Article IV consultation discussions took place in April 1999, and the staff report (SM/99/183) was considered by the Executive Board on August 3, 1999.

**IX. Technical Assistance:**

<b>Department</b>	<b>Dates</b>	<b>Purpose</b>
TGS	June 2001	Improve systems used to manage economic time series.
MAE	January 2001	Brief visit to review new supervisory and regulatory framework.
MAE	April 1998	Assessment of supervision practices.
STA	June 1996	Review the compilation of national accounts and trade statistics.
FAD	November 1994– March 1995	Rationalize the tariff system.

## **The Bahamas: Statistical Issues**

### **Outstanding statistical issues**

#### **National accounts**

Data on the national accounts for the period beyond 1995 are not available. In December 1997 the Department of Statistics (DOS) released revised national accounts data covering GDP by activity and expenditure at current and constant 1991 prices, as well as national income for 1989–1995. For the period 1995–2000, the staff has estimated nominal and real GDP series based on several indicators of activity, sectoral weights, and estimated deflators.

#### **Government finance**

Monthly data are reported by the central bank for publication in *IFS*. The data cover major aggregates on budgetary operations of the central government (i.e., excluding social security) and are updated on a timely basis. Annual data covering the central government through 2000 have been submitted for publication in the 2001 *GFS Yearbook*. Data on certain public enterprises are available with long lags (in some cases exceeding one year).

#### **Monetary accounts**

Monetary statistics are provided regularly by the central bank. At present, there are no major issues of concern in this area.

#### **External sector**

Quarterly balance of payment statistics are reported to the Fund on a timely basis. A number of improvements have been made recently in the classification of capital account transactions. Specifically, data reported for publication in the *IFS* now discriminate between foreign direct investment abroad and in The Bahamas, and provide a breakdown of other capital flows. The latest data published in the *IFS* are for the first quarter of 2000. No information is available on the external debt of the private sector.

The Bahamas: Core Statistical Indicators  
(As of June 30, 2001)

	Exchange Rate	International Reserves	Reserves/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	Fixed rate since 1970	6/29/01	6/29/01	6/20/01	6/20/01	6/20/01	2/01	Q4/00	Q4/00	Q1/01	1995	Q1/01
Date received		7/11/01	7/11/01	7/5/01	7/5/01	7/5/01	7/01/01	3/16/01	3/16/01	4/24/01	6/30/97	4/24/01
Frequency of data		W	W	W	W	W	M	Q	Q	Q	A	Q
Frequency of reporting		M	M	M	M	M	M	Q	Q	Q	A	Q
Source of data		Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Dept. of Statistics	Central Bank
Mode of reporting		C	C	C	C	C	C	M	M	M	M	M
Confidentiality		C	C	C	C	C	C	C	C	C	C	C
Frequency of publication		W	W	W	W	W	M	Q	Q	Q	A	Q

Frequency of data/reporting/publication: D-daily, W-weekly, M-monthly, Q-quarterly, A-annually.

Mode of Reporting: C-cable or facsimile, M-mail.

Confidentiality: C-for unrestricted use.

## The Bahamas: Social Indicators of Development

	The Bahamas		Latin America and Caribbean (Most Recent Estimates)
	(Most Recent Estimates)	(15-20 Years Ago)	
<b>Demographic</b>			
Area (square kilometers)	13,939	13,939	20,461,000
Population (millions)	0.3	0.2	508.2
Density (population per sq. kilometer)	21.8	20.6	25.0
Population annual growth rate (percent)	1.6	2.5	1.8
<i>Of which</i>			
Urban	...	...	2.6
Crude birth rate (per thousand population)	18.0	23.7	23.0
Crude death rate (per thousand population)	5.3	5.8	7.0
Fertility rate (births per women)	2.3	...	2.6
<b>Labor force</b>			
Economically active population (millions)	0.2	0.1	319.0
Agriculture (percent of labor force)	4.0	5.9	19.0
Manufacturing (percent of labor force)	4.0	17.2	24.0
<b>Health</b>			
Infant mortality (per thousand live births)	15.8	25.9	30.0
Mortality rate under five years of age (per thousand live births)	19.2	35.0	38.0
Life expectancy at birth (years)	73.9	68.1	70.0
Physicians per 1,000 inhabitants	2.3	0.9	1.6
Hospital beds per 1,000 inhabitants	2.5	2.3	2.2
Immunized under 12-months (percent of group)			
Measles	93.0	...	91.0
DPT	86.0	40.0	92.0
Access to safe water (percent of population)	97.0	...	85.0
Urban	97.0	...	93.0
Rural	98.0	...	62.0
<b>Nutrition</b>			
Food production (index 1989-91 = 100)	122.5	90.9	101.0
Daily calorie supply (calories per person)	2,546.0	...	2,726.0
Daily protein supply (grams per person)	80.7	...	68.0
<b>Education</b>			
Gross enrollment ratios (percent of school age group) 1/			
Primary	97.9	98.5	113.0
Secondary	88.9	88.1	60.0
Pupil/teacher ratio (pupils per teacher)			
Primary	22.0	...	25.0
Secondary	16.0	...	26.0
Illiteracy rate (percent of population over 15 years)	4.2	6.6	13.0
Newspaper circulation (per thousand of population)	100.0	157.0	71.0
<b>Women</b>			
Gross enrollment ratio (percent of school age group) 1/			
Primary	104.4	101.3	99.0
Secondary	97.1	...	...
Illiteracy rate (percent of population over 15 years)	3.6	6.1	12.0
Life expectancy (years)	77.2	72.2	73.0
Labor force (percent of total)	47.8	43.4	34.6

Sources: World Bank Social Indicators of Development; IDB Social Indicators; and Statistics Office of The Bahamas.

1/ Includes over and underage students.

**The Bahamas: Relations with the Inter-American Development Bank**

(In millions of U.S. dollars)

A. Active Loans as of May 30, 2001

Purpose	Approval Date	Amount	Amount Disbursed
Multi-sector credit program	12/09/92	7.0	5.3
Primary and secondary education improvement	12/14/94	21.0	12.8
Power expansion II	11/06/96	56.0	54.3
Family Islands potable water	07/29/98	14.0	4.8
Solid waste management	02/17/99	23.5	9.3
Health sector strengthening	05/23/00	0.8	0.0
Infrastructure rehabilitation	09/13/00	21.0	0.0
New Providence transport program	05/30/01	46.2	0.0
		<b>189.5</b>	<b>103.0</b>

B. Net Flow of Convertible Currencies

	1996	1997	1998	1999	2000	Proj. 2001
a. Loan disbursements	11.9	25.2	34.6	12.9	23.4	39.3
b. Repayments	8.8	7.9	8.0	10.0	11.2	14.0
c. <b>Net loan flow (a-b)</b>	<b>3.1</b>	<b>17.3</b>	<b>26.6</b>	<b>2.9</b>	<b>12.2</b>	<b>25.3</b>
d. Interest and charges	10.5	10.7	11.6	13.0	13.4	17.0
e. <b>Net cash flow (c-d)</b>	<b>-7.4</b>	<b>6.6</b>	<b>15.0</b>	<b>-10.1</b>	<b>-1.2</b>	<b>8.3</b>

C. Recent Country Strategy

The IDB has focused on projects that support the Bahamian government's strategy to increase the competitiveness of the economy in both tourism and other sectors, including through investment in basic infrastructure and upgrading of public utilities. At the same time, the bank has been involved in an effort to minimize any adverse environmental impact resulting from the expansion of the tourism sector. The bank is also currently assisting the Bahamian authorities in the design of a household survey on poverty and living standards.

## **The Bahamas—Recent Developments in Financial Regulation**

1. Following the concerns raised by the Financial Action Task Force (FATF), the Financial Stability Forum (FSF), and the OECD in 2000, The Bahamas launched a comprehensive legislative effort aimed at strengthening the regulations concerning anti-money laundering practices and the supervision of the offshore sector. Presently, the authorities are in the process of implementing such legislation, whose immediate impact has been a reduction in the number of licensed banks and trust companies, and international business companies (IBCs). This section describes the size of the Bahamian financial sector, explains the nature of the deficiencies identified by the above-mentioned advisory bodies, and summarizes the main regulatory and policy changes.

### **A. Size of the Financial Sector**

2. The development of the international financial sector in The Bahamas has been stimulated by a combination of economic and political stability, adequate resources, and a mostly deregulated environment.

3. According to central bank estimates, the financial sector accounts for about 15 percent of GDP, with half of this contribution generated by the banking sector. As of December 2000, there were 410 licensed banks and trust companies, of which 142 had restricted<sup>1</sup> or non-active licenses, with about 200 having physical presence in the country. According to BIS data, banks manage US\$276 billion in foreign assets, 87 percent of which are inter-bank claims. Off-balance-sheet activity is not measured, but is estimated to be equally significant. By comparison, domestic operations amount to only US\$4 billion (80 percent of GDP). Employment in the sector totaled 4,409 by end-1999, or about 2.8 percent of the total workforce.

4. Offshore banking operations, measured by the size of external assets, grew at an average annual rate of 3.2 percent during the past decade, and of 4.5 percent since 1994. At the same time, the number of registered IBCs, which is the vehicle commonly used by nonresidents to hold financial assets, grew steadily from 28,493 in 1994 to 117,520 in 2000. There are 600 mutual funds administering a portfolio of about B\$85 billion.

5. Financial activities constitute a significant source of revenue for the government. In 2000 fees paid by the banking sector amounted to B\$17.1 million, while IBCs licensing fees totaled B\$17.2 million. Combined, these fees were equivalent to 3.7 percent of government revenue and 0.7 percent of GDP.

---

<sup>1</sup> Restricted banks carry on business with certain counterparts that are usually specified in the license.

### **B. The International Initiatives on Offshore Centers, Money Laundering, and Tax Practices**

6. In 2000, The Bahamas was adversely listed by the FSF, the FATF, and the OECD for deficiencies in the supervision of the offshore center and anti-money laundering practices, and allegations of harmful tax practices.

7. The concerns raised by the FSF emerged from a survey it conducted of banking, insurance, and securities supervision, which collected information on the quality of supervision practices and the degree of cooperation in jurisdictions with significant offshore financial activities.<sup>2</sup> As a result of the survey, jurisdictions were grouped into three categories, according to the perceived quality of supervision and the degree of international cooperation. On May 26, 2000, the FSF released the groupings, which included The Bahamas in the lowest category as regards legal infrastructure and supervisory practices, and/or the level of resources devoted to supervision and cooperation with foreign supervisors.

8. At the same time, the FATF published a report on international cooperation in the fight against money laundering. The report set out 25 criteria aimed at identifying specific rules and practices that prevent an effective fight against money laundering.<sup>3</sup> Subsequently, the FATF issued a list of 15 jurisdictions, including The Bahamas, with deficiencies in their regulatory frameworks, and urged these jurisdictions to remedy these deficiencies expeditiously. Following the adverse listing by the FATF, in July 2000 the United States Treasury Department issued an advisory warning U.S. financial institutions to closely scrutinize their operations with Bahamian banks, owing to problems in the country's anti-money laundering regime.

9. In 1998, the OECD published a report (*Harmful Tax Competition: An Emerging Global Issue*) on the spread of tax practices concerning mobile economic activities that may erode the tax bases of other countries and distort the location of capital. Four key factors were identified as characterizing a tax haven: (i) no or nominal taxation on the relevant income; (ii) no effective exchange of information with respect to the tax regime; (iii) lack of transparency, e.g., inadequate regulatory supervision or financial disclosure; and (iv) no need for a substantive local presence of foreign entities, or the prohibition to engage in domestic

---

<sup>2</sup> Supervisors from 30 major financial centers and 37 financial centers with significant offshore financial activities were surveyed.

<sup>3</sup> These 25 criteria are consistent with the 40 recommendations on money laundering issued by FATF, which set out the basic framework for anti-money laundering practices, covering the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation.



operations (*ring fencing*). Based on these criteria, on June 26, 2000 the OECD listed The Bahamas as one of 35 tax havens.

10. Moreover, on January 1, 2000, the United States tightened identification requirements for holders of U.S. securities through foreign banks not regarded as “*qualified intermediaries*.”<sup>4</sup> To obtain the status of *qualified intermediary*, the country in which the bank operates must first be designated as a Qualified Jurisdiction (QJ). In turn, for countries to obtain QJ status, the IRS must assess favorably the *know-your-customer* (KYC) regime in place in the jurisdiction.

### C. Main Legislative Changes

11. In response to the international initiatives referred earlier, in late 2000 the Bahamian Parliament enacted a major body of legislation to bring the regulation and supervision of the financial services sector into compliance with international standards and practices. This effort involves nine new pieces of legislation that address three major issues: (i) customer identification, reporting of suspicious transactions, and transparency; (ii) financial supervision practices; and (iii) international cooperation.

#### **Customer identification, reporting of suspicious transactions, and transparency**

12. This body of legislation comprises the Financial Transactions Reporting Act, the Financial Intelligence Unit Act, the International Business Companies Act, and the Financial and Corporate Services Providers Act. The revised Central Bank of the Bahamas Act and the revised Banks and Trust Companies Regulation Act, which are described below under supervision practices, also deal with these issues.

13. **The Financial Transactions Reporting Act** makes provisions for the verification of the identity of customers by financial institutions. The Act establishes that the identity of existing account holders must be verified by end-2001 (the minister has discretion to extend this deadline to June 30, 2002). In case it is not possible to meet the prescribed deadline, any unverified account after that time must be transferred to the central bank. The law makes it an offense to conduct operations without verifying the identity of the customer, imposes the obligation to maintain records for a minimum of five years, and establishes the obligation to report transactions known or reasonably suspected to be related to offenses specified in the Proceeds of Crime Act (see below). It also expands the definition of financial institutions by including professionals (lawyers, accountants) when they engage in certain types of financial activity. The regulations establish a threshold of B\$10,000 over which transactions must be

---

<sup>4</sup> When holding of U.S. securities is conducted through a nonqualified intermediary, the new regulations require disclosure of the identity of the holder whether or not the customer is a U.S. citizen. Nondisclosure is penalized with a withholding rate of 30 percent. If the holdings are directed through a qualified intermediary, non-U.S. customers’ identities do not need to be disclosed.

monitored. A compliance commission is established to monitor adherence to the law by financial institutions other than banks and trust companies licensed under the Bank and Trust Companies Regulation Act.

14. **The Financial Intelligence Unit Act** establishes a Financial Intelligence Unit (FIU) as the agency responsible for receiving, analyzing, obtaining, and disseminating information that may relate to offenses specified in the Proceeds of Crime Act. The law empowers the FIU to request the production of such information as considered necessary for the execution of its functions. The FIU also has the power to stop a transaction for a period up to three days upon receipt of a suspicious transactions report or a request from a foreign FIU, and to freeze bank accounts for up to five days upon request from a foreign FIU or from the Commissioner of the Police of The Bahamas.

15. **The International Business Companies Act** sets new provisions for the incorporation, registration, and operation of IBCs in The Bahamas. Among the most important modifications, the Act provides for the elimination of bearer shares in new companies and for the recall and substitution of existing bearer shares. The Registrar General will keep records of the location of the registered agent of companies in The Bahamas, the registered office, and the names and addresses of the directors and officers of the company. The registered agent, in turn, must keep a register containing the names and addresses of the beneficial owners of the company. The new law also allows Bahamians to hold shares of IBCs, permits IBCs to engage in business in The Bahamas, and subjects IBCs to the usual tax obligations under Bahamian law.<sup>5</sup>

16. **The Financial and Corporate Service Providers Act** provides for the licensing and regulation of financial and corporate service providers. Following its approval, only licensees under this Act and bank and trust companies licensed under the Bank and Trust Companies Regulation Act can incorporate IBCs (under the old regime, any person could incorporate an IBC). Any person licensed under this act to provide financial or corporate financial services must verify the identity of each client and must obtain from clients details of their principal place of business and two sources of reference, to have an indication of their reputation and standing. Licensees also have to comply with other provisions such as having in place internal control procedures and anti-money laundering policies. In addition, the Act establishes the Office of the Inspector of Financial and Corporate Services as an independent control authority that will conduct on-site and off-site examinations to ensure compliance with the new requirements.

### **Supervision practices**

17. The body of legislation dealing with supervision practices comprises the new Central Bank of The Bahamas Act and the Bank and Trust Companies Regulation Act, which

---

<sup>5</sup> These measures address allegations of ring fencing by the OECD.

repealed and replaced the Central Bank of The Bahamas Act approved in 1974, the Banks and Trusts Companies Act introduced in 1966, and the Banks Act enacted in 1909.

18. **The Central Bank of The Bahamas Act** includes among the functions of the central bank to assist and cooperate with overseas regulatory authorities. The central bank is given extensive powers to require specific information from financial institutions for its own regulatory purposes or to assist a foreign supervisor, having the ability to set fines for noncompliance or seek a court order. The bank also is authorized to share information with foreign supervisors in order to help them exercise their functions. The prohibition of disclosure of information by central bank officials—the duty of confidentiality—is relaxed under certain circumstances, such as court requirements.

19. **The Bank and Trust Companies Regulation Act** introduces several improvements in the regulatory framework of banks. In particular, the Act (i) enhances the authority and autonomy of the central bank's governor, who has full responsibility for the licensing of banking and trust businesses; (ii) expands the licensing criteria for banks and trust companies, including fit and proper tests for the applicants, the evaluation of the applicant's financial resources, its business record and experience, and the soundness and feasibility of the business plan; (iii) requires that the establishment of a branch or subsidiary of a foreign bank be approved by the authority in charge of the consolidated supervision of such institution; (iv) expands the duties and powers of the Inspector of Banks, who is in charge of the supervision of licensees, allowing for on-site examinations and off-site supervision; and (v) allows foreign supervisors, upon approval by the Inspector of Banks, to conduct inspections of Bahamian branches or subsidiaries of foreign banks for purposes of consolidated supervision.

### **International cooperation**

20. The new legislation dealing with international cooperation consists of the Proceeds of Crime Act, the Evidence (Proceedings in other Jurisdictions) Act, and the Criminal Justice (International Cooperation) Act.

21. **The Proceeds of Crime Act** makes provisions for the search, seizure and confiscation of the proceeds of crime and for the registration of foreign confiscation orders. The law expands the offenses whose proceedings are subject to seizure and confiscation, including drug dealing, bribery, and money laundering, and any other offense that could be brought before the Supreme Court.

22. **The Evidence (Proceedings in other Jurisdictions) Act** permits any foreign court requesting assistance to obtain evidence in proceedings on **civil or commercial** matters. To obtain the required evidence, an application should be filed with the Supreme Court, which in turn sends it to the Attorney General's office. The Attorney General takes the steps that might be necessary to satisfy the request.

23. **The Criminal Justice (International Cooperation) Act** enables The Bahamas to cooperate with other countries in **criminal** proceedings and investigations. Applications for

assistance in criminal matters are made to the Attorney General, who may nominate a court to receive the requested evidence.

#### **D. Implementation of the New Legislation**

24. Following the approval of the new legislation, the Central Bank of The Bahamas launched an ambitious on-site supervision program focusing primarily on the evaluation of anti-money laundering systems and procedures by banks and trust companies.<sup>6</sup> The program aims at completing 90 examinations during 2001, of which 12 had already been conducted as of end-April. These examinations are carried out by a team of 10 inspectors supervised by two foreign consultants with ample experience in banking supervision.

25. On licensing policies, the central bank is requiring unrestricted licensees that do not maintain physical presence in The Bahamas to establish a meaningful presence, including (i) local maintenance of books, records, and customer identification; (ii) the appointment of a local non-executive director to their boards; and (iii) the nomination of two local senior officials who should be fully aware of the licensee's operations. As a result of these new requirements, 42 licenses had been revoked as of end-April. The central bank also has approved 10 examinations by foreign supervisory authorities and is in the process of authorizing a number of additional inspections.

26. The FIU started activities in 2001 with a staff of 12 people. As of April 2001, it had received 95 reports of suspicious transactions, of which three resulted in temporary freezing orders. This level of activity compares with a maximum of 77 reports of suspicious transactions a year over the last five years. The unit is in the process of drafting memoranda of understanding with foreign FIUs and preparing guidelines on suspicious transactions for financial institutions. At the same time, an International Legal Cooperation Unit has been established in the Office of the Attorney General to deal more effectively with requests for assistance in relation to the provisions of the Criminal Justice (International Cooperation) Act, the Evidence (Proceedings in other Jurisdictions) Act, and other legal assistance treaties. Several requests on civil, commercial, and criminal matters are being processed.

27. On January 2, 2001, the government submitted to the United States Internal Revenue Service a list of "know-your-customer" regulations in place. Subsequently, on January 9, The Bahamas was granted QJ designation by the U.S. Treasury Department. By mid-2002, the IRS is expected to assess the implementation of the new "know-your-customer" rules, and by end-2002 it will make a decision as to whether the QJ status will continue.

28. As a result of the new provisions, licensing of IBCs has declined sharply. In the first four months of the year, the number of granted licenses totaled 1,997, compared with 8,435 in the same period of 2000. As of March 2001, registered companies totaled 119,200, of which 71,000 had active licenses.<sup>7</sup>

---

<sup>6</sup> In some cases the inspectors have assessed banks' internal control systems.

<sup>7</sup> Active licenses exclude companies with unpaid fees.

## The Bahamas: Indicators of the Financial Services Sector

	1994	1995	1996	1997	1998	1999	2000
Number of registered IBCs 1/	28,493	39,035	51,192	69,889	84,540	100,092	117,520
<b>Bank and trust companies</b>							
Total licensees	413	418	425	418	418	415	410
Public	288	303	299	291	282	276	268
Restricted	112	102	107	109	119	123	125
Non-active	13	13	19	18	17	16	17
Number of employees	3,612	3,680	3,786	3,942	4,080	4,145	4,409
Domestic banks	2,853	2,903	2,980	3,050	3,178	3,203	3,270
Offshore banks	759	777	806	892	902	942	1,139
	(In billions of U.S. dollars)						
External assets 2/	194.2	188.5	200.0	243.5	219.3	231.2	276.0
Loans and deposits	194.2	188.5	200.0	243.5	219.3	226.4	271.2
Vis-à-vis the bank sector	154.0	145.1	155.9	189.0	173.6	183.3	239.1
Vis-à-vis the nonbank sector	40.2	43.4	44.1	54.5	45.7	43.1	32.1
External liabilities 2/	202.9	193.6	205.9	251.3	231.4	239.3	283.0
	(In millions of U.S. dollars)						
Total operating costs of banks and trusts 3/	207.4	215.4	249.8	275.5	275.8	314.2	350.6
Domestic banks	134.0	138.0	169.3	185.1	180.5	203.2	207.9
Offshore banks	73.4	77.4	80.5	90.4	95.3	110.9	142.7
Of which							
Government fees 4/	14.5	15.8	16.6	15.3	14.2	14.4	17.1
IBCs licensing fees 5/	...	...	3.6	3.9	8.0	17.4	17.2

Sources: Central Bank of The Bahamas; Bank for International Settlements; and Fund staff estimates.

1/ The total number of active IBCs was about 71,000 at end-2000.

2/ As reported by the BIS in the locational banking statistics. Includes institutions with external positions in excess of US\$10 million (256 institutions by end-1999).

3/ Includes salaries, government fees, staff training, and other administrative costs.

4/ Licenses, company registration fees, work permits, and other government fees.

5/ Refers to the annual fiscal periods ending June.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 01/89  
FOR IMMEDIATE RELEASE  
August 14, 2001

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes Article IV Consultation with The Bahamas**

On August 1, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Bahamas.<sup>1</sup>

### **Background**

After a decade of low economic growth, the Bahamian economy began to experience a sustained recovery in the mid-1990s due to substantial inflows of private investment in tourism, shipping and construction, and a steady expansion of financial services. Real GDP growth picked up from 3–3½ percent a year in 1997–98 to 6 percent in 1999, and remained strong at 5 percent in 2000, as tourist expenditure grew markedly following the expansion and upgrading of the country's hotel infrastructure. Inflation averaged less than 1½ percent a year in 1996–2000, reflecting the peg to the U.S. dollar. The recovery in economic activity was accompanied by a decline in unemployment and an improvement in social indicators, which remain among the most favorable in Latin America and the Caribbean region.

The present administration's policy of gradual fiscal consolidation has been a key factor in the economic recovery. The deficit of the central government narrowed from over 3 percent of GDP in FY 1996/97 (fiscal year begins July 1) to an estimated 0.2 percent of GDP in FY 2000/01, due to an increase in tourism taxes, the elimination of some import duty exemptions, and a reduction in both current and capital outlays. After peaking in 1998 owing to a sharp increase in imports associated with investments in the

---

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the August 1, 2001 Executive Board discussion based on the staff report.

tourism sector, the external current account deficit declined to about 8½ percent of GDP in 1999–2000 as several investment projects were completed and tourism receipts increased substantially. Credit to the private sector increased strongly during 2000, with banks reducing their excess reserves during the second half of the year to expand their operations. Net international reserves declined by US\$60 million to US\$343 million by year's end, but recovered to US\$365 million (96.5 percent of base money and 1½ months of imports) as of end-June 2001, largely because of seasonal factors.

Following the very strong performance of recent years, real GDP growth is expected to moderate to about 3½ percent in 2001, partly because of the impact on tourism of the slowdown in the United States. In June 2001 parliament approved the budget for FY 2001/02, which envisages the achievement of a balanced position for the central government. The budget incorporates a reduction in the high import duties applied to several items.

Regarding structural issues, the government has taken important steps to address international concerns about the supervision of the offshore financial center, money laundering, and tax practices. To that end, in December 2000 parliament enacted a comprehensive body of legislation, which is being implemented. The authorities also intend to privatize the telephone company (BATELCO) and would begin to open the telecommunications sector to private competition during the second half of 2001; this would be followed by the privatization of the electricity corporation (BEC) in 2002. In addition, in 2000 the government submitted to parliament draft labor legislation that seeks to reduce the workweek from 48 to 40 hours; establishes a minimum wage, as well as health and safety requirements; codifies current practices regarding severance payments and increases maternity benefits; and regulates the settlement of labor disputes.

### **Executive Board Assessment**

Executive Directors commended the authorities for their continued adherence to sound macroeconomic policies, which had contributed to a sustained economic recovery led by substantial inflows of private investment, a decline in unemployment, and an improvement in the country's social indicators. Directors noted that the main challenge for the period ahead was to build on these accomplishments by maintaining a prudent fiscal stance, enhancing competitiveness, and pressing ahead with pending structural reforms.

Directors welcomed the progress made by the authorities in almost eliminating the central government deficit, as well as their commitment to achieve a balanced budget position this fiscal year. They felt, however, that additional efforts were needed to further strengthen central government savings to ensure an adequate level of public investment to sustain growth. In this connection, Directors noted that revenue could be strengthened by reducing tax exemptions and improving property taxation, and that the import tariff system needed to be rationalized by lowering high tariff rates and tariff dispersion. The authorities' decision to conduct a broad review of the tax system with Fund assistance, with a view to evaluating the possibility of introducing a sales or

value-added tax, was welcomed. Directors supported the authorities' request for technical assistance in this area.

Directors stressed the need for adherence to a prudent wage policy to maintain fiscal discipline and avoid parallel wage pressures in the private sector that could affect competitiveness. They encouraged the authorities to proceed with current plans to lower government transfers to certain public corporations by reducing their operating costs, and to improve the reporting practices of these corporations. The planned introduction of fiscal guidelines was considered a positive step for preserving fiscal discipline over the medium term.

Directors cautioned the authorities to monitor credit developments closely and tighten the credit stance as necessary to protect the international reserve position. They also encouraged them to work on the development of indirect monetary instruments and to allow interest rates to play a greater role in containing credit growth.

Directors commended the authorities for their major legislative effort made within a short period of time to address international concerns about offshore supervision, money laundering, and tax practices, as well as for the decisive steps taken to implement the new legislation. Looking ahead, they underlined the importance of broadening the scope of on-site inspections of financial institutions and of monitoring closely the quality of the banks' portfolios. The authorities' intention to conduct a Fund-led assessment focusing on the offshore sector following a self-assessment to be completed during the remainder of 2001 was welcomed, as well as their willingness to complement such an exercise with a comprehensive evaluation of the financial system under an FSAP.

Directors were of the view that the long-standing fixed exchange rate regime had served The Bahamas well. They observed that sustaining a strong performance in tourism and other key sectors depended crucially on containing labor costs and raising labor productivity through continued emphasis on education and training. The prompt privatization of the telephone and electricity companies and the opening of the telecommunications sector to competition were considered important to modernize infrastructure and improve the delivery of these services.

Directors emphasized the need to analyze carefully the implications of the draft labor legislation that has been submitted to parliament so as to avoid a significant increase in labor costs that could have an adverse impact on external competitiveness. They highlighted the need to preserve flexibility with regard to part-time and temporary employment, and reduce rigidities in labor arrangements. Directors also welcomed The Bahamas' interest in acceding to the WTO.

Directors encouraged the authorities to address quickly several statistical weaknesses that hamper the assessment of economic developments, including by developing data on private sector debt and the national accounts for the period beyond 1995.



**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

### The Bahamas: Selected Economic Indicators

	1996	1997	1998	1999	Prel. 2000
(Annual percentage changes; unless otherwise indicated)					
<b>Real sector</b>					
Real GDP 1/	4.2	3.3	3.0	5.9	5.0
Tourist expenditure	3.9	1.3	-4.4	16.9	14.6
Consumer price index (annual average)	1.4	0.5	1.3	1.3	1.6
Unemployment rate (in percent of labor force)	11.5	9.8	7.8	7.5	...
<b>Financial sector</b>					
Broad money 2/	6.2	11.2	15.2	10.1	7.5
Credit to the private sector 2/	9.9	12.7	11.2	11.2	14.7
(In percent of GDP at market prices)					
<b>Central government finances</b>					
Central government overall balance 3/	-3.3	-1.7	-1.6	-0.8	-0.2
Central government savings 3/	0.5	1.3	1.3	2.1	2.4
Total public sector debt 2/	43.6	45.7	44.5	42.9	39.7
(In millions of U.S. dollars; unless otherwise indicated)					
<b>External sector</b>					
Current account balance	-271	-666	-996	-406	-414
Overall balance	-8	56	120	65	-62
Net international reserves 2/	163	219	339	404	343
(In percent of base money)	71.6	85.4	109.3	108.2	94.1
External debt of public sector (in percent of GDP) 2/	7.6	8.4	8.2	7.8	7.2
Real effective exchange rate appreciation 2/	0.0	3.7	-0.9	4.7	2.8

Sources: The Central Bank of The Bahamas; Ministry of Finance; and IMF staff estimates.

1/ Estimated by Fund staff on the basis of partial indicators.

2/ End of period.

3/ Corresponds to the fiscal year beginning July 1.