Increased IMF Criticism

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The 2003 Staff Report of the Bi-Annual Consultation of the International Monetary Fund with the Bahamian Government is a substantive document. In fact it is a series of 61 numbered statements covering 18-pages, four one-page analyses of special topics such as "Competitiveness in the Tourism Sector", nine full-page tables and four appendices.

The IMF starts its Report by confirming its high regard for the Bahamas. It cites its "long track record of prudent macroeconomic management and financial stability", the strength of its democratic institutions and its favorable social indicators. The latter is backed up with data that shows how favorable the country stands relative to the average Latin America and the Caribbean country with respect to health, nutrition and education.

As in the past the IMF recommended the maintenance of a prudent monetary and fiscal stance and structural reforms to preserve growth and competitiveness.

However, the big difference between this and prior Reports is that the recommendations are far more pointed and the policy disagreements with the Bahamian Government more pronounced.

Fiscal Balance

The IMF observed that fiscal revenues fell markedly in 2002 with the economic slowdown while expenditures rose due to the 5-year wage agreement signed with civil service unions in 1999. This led to a sizable widening of the fiscal deficit and a marked increase in the debt-to-GDP ratio. The current budget will reduce the fiscal deficit but the debt-to-GDP ratio is expected to increase and the deficit will be financed with foreign debt.

The Government expects that wage restraint and tax measures will stabilize the present fiscal imbalance. It committed only to "seek the postponement of the wage increase scheduled for FY 2003/04 in the context of the 1999 wage agreement, and to exert significant restraint in granting merit increases." The Government expects an economic recovery and a rebound in tax receipts and thus "found it premature to implement stronger adjustment measures at this time."

The IMF disagrees. It believes that the revenue effort will not produce a gradual reduction in the debt burden and that the outlook for a gradually improving fiscal balance is subject to significant down side risks. It states the following:

- The measures in the Budget will not "reduce the deficit enough to stabilize the debt-to-GDP ratio in the near and medium term."
- A reduction in transfers to inefficient public enterprises is necessary to allow for improvements in the tourist infrastructure.
- A more ambitious approach is required that includes privatization beyond Bahamas Telecommunications and the granting of "concessions to private operators in critical areas such as airports and ports to alleviate the demand on scarce public funds and to improve efficiency.

The Government saw little hope in dramatically improving the financial positions of the state corporations and felt that continued subsidies were in the national interest. It contends that "it would be difficult to proceed with structural changes…in the absence of greater political consensus."

External Competitiveness

The IMF concluded that the Bahamian tourist industry faces "a gradual erosion in external competitiveness because of relatively high labor and utilities costs." It cited data contained in the Tourism Taskforce Report on Trade Liberalization although it did not identify the study by name. It states that the progress of structural reform, namely the privatization of Government utilities and services has been slow and this continues to constrain long-term growth prospects. While steps to increase the flexibility of wage arrangements and to privatize Bahamas Telecommunications are welcomed, further steps are necessary.

The IMF takes its criticism one step forward when it links operating costs, fiscal balance and structural reforms with the maintenance of dollar parity.

With a fixed exchange rate, preserving the country's competitive position relies heavily on prudent fiscal management and flexibility in labor and other factor markets, magnifying the benefits of structural reforms.

The Government has not finalized a structural reform policy agenda and it says it prefers "a gradual, selective approach…gaining public support before introducing structural changes."

With respect to tourism the Government did not "believe that the risk of losing market [share] was very high"…and argued that "the proximity to the United States and a focus on high-income demand largely protected the Bahamas from regional competition."

The Government expressed concern about employment growth and were "promoting the inclusion in labor contracts of clauses linking wage increases to productivity", the creation of a favorable business climate, more streamlined administrative procedures for approval of new investments and the study of proposed investments in transportation infrastructure.

Other Considerations

- In its 2001 Report the IMF was critical of the draft labour bills and stated that the labour bills of December 2001 increased labor inflexibility; it recommended that the impact of shorter work week and minimum wage should be documented.
- The IMF wanted more efficient tax collection; the Government. was receptive to idea but wanted to construct incentives for foreign investment.
- The Government proposes to continue the liberalization of exchange controls. The IMF contends that this must be "supported by enhanced prudential requirements and a strengthening of the fiscal and foreign reserve positions".
- The IMF expressed concern over the relatively low level of foreign reserves. The Government "felt comfortable with the present level of reserves and saw no pressing need to increase it."

The Dole

There is buried in the diplomatic style of the IMF Report an impatience with the Bahamas over its failure to follow the advice given. This is seen clearly in its commentary on the Labour Bills of December 2001.

Legally the Bahamian Government is not bound to follow IMF advice. However, the IMF is a lender of last resort to Governments in fiscal distress. Its experience with underdeveloped countries in fiscal distress is that once they get on the "international dole" they become dependent on it and may take decades to get off.

The present task of the IMF is to keep the Bahamas off the dole and that is why their criticism in the 2003 Consultation is so sharp. Once on the dole the IMF tells you what to do. Some countries see this possibility as a potential real loss of sovereignty and fight hard to stay off it; and others do not plan ahead and simply complain vociferously against the IMF when they are on it. In this Consultation the IMF is asking the Bahamas to fight harder.

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