

**Remarks**  
**Rt. Hon. Hubert A. Ingraham**  
**Prime Minister**  
**Commonwealth of The Bahamas**  
**Americas Conference, Miami, Florida**  
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Ladies and Gentlemen:

I am very happy to be in Miami to address this distinguished gathering. I thank the World Bank, the State of Florida, Florida International University and the Miami Herald, for continuing to bring focus to Latin America and the Caribbean, particularly so during the current global economic crisis.

In The Bahamas we often say, only half in jest, that Miami is the capital of the Caribbean. Certainly, for my country Miami is the gateway not only to and from much of our region, but also to the world.

South Florida is the primary departure point for visitors to The Bahamas whether by sea or by air; it is home to many of our second-home owners and significant investors in our local

economy; and, it is our major shopping centre – at both the retail and wholesale level.

Every year Bahamian visitors, shoppers and consumers spend more than \$1 Billion in the Florida economy.

It is therefore most appropriate for all of us to ponder what life and living standards would be like for us after the global economic and financial tsunami-like crisis we all face ends.

Authorities all around the globe have taken massive actions to deal with the financial crisis. Never before has a crisis had such a widespread global impact as the one we are now witnessing. It dramatically demonstrates the pervasive influence of the US economy in the global economy. For almost two years now we have endured a housing crisis, a fuel price crisis, a food price crisis and a financial crisis. The results have been job losses, high levels of unemployment, and greatly reduced levels of foreign direct and domestic investment and reduced incomes.

In The Bahamas our prospects for the future, before the crisis, had been promising. Now we have substantially reduced levels of investments, weakened tourism arrivals and expenditures and

declining government revenue. At the same time demands for social services spending increased sharply, the national debt increased as a percentage of gross domestic product and credit markets became more difficult to access or afford.

The catastrophic failure of Lehman Brothers not only precipitated the worst aspects of the global financial crisis but also directly impacted a number of high-end resort developments already underway in The Bahamas, not only in New Providence but also in a number of our Family Islands, and slowed the progress of other resorts and residential projects in advanced planning stages.

The number of stalled investment projects cost jobs to be lost in the important construction sector, and stymied job creation opportunities directly and indirectly in the tourism sector. Power houses in our hotel sector like Atlantis and Baha Mar were forced to postpone plans for further expansion and redevelopment.

New regulations of financial institutions receiving Tarp funding from the US Government reduced their ability to conduct off-site conventions and sponsor benefit travel for employees. This brought about a reduction for us of benefits under the Convention

Tax Benefit included in the Tax Information Exchange Agreement concluded with the US Government.

Our new circumstances have increased the weight of the burden created by the continuing need to fund initiatives to combat not only undocumented migration from Haiti, which has increased in response to the further deteriorated economic conditions in that country, but also to confront the traffic in illicit drugs and arms through our country.

These are the realities with which many developing countries are confronted. Our prospects for the future will depend greatly on whether we make the appropriate governmental response now.

The Bahamas' GDP of roughly \$7.5 billion is sustained by international services, mainly tourism and the foreign direct investment that supports it, and by financial services.

With a very small and extremely open economy, The Bahamas comprises an archipelago of some 700 islands and more than 2,000 cays scattered over 100,000 square miles of the Atlantic Ocean, running south just 80 miles from the coast of Florida. Its population of 350,000 enjoys the third highest per capita income of

any independent country in the Western Hemisphere, just after the United States and Canada.

In the absence of an income or sales tax, government revenue relies heavily on import tariffs and real estate taxes. Like the economy, government revenue is also extremely vulnerable to external shocks. The revenue base is quite narrow and amounts to less than 20 percent of GDP.

Because of the enormous economic openness and the commitment to a fixed parity with the United States dollar for some 37 years, the maintenance of fiscal sustainability has historically been the centrepiece of our macroeconomic policy. This has enabled us to maintain a level of government debt to GDP of between 30 to 35 per cent prior to the crisis.

In the decade leading up to the crisis, the overall fiscal deficit averaged about two per cent and the primary balance approached zero. This economic stability has been important in attracting the level of foreign direct investment that drove the tourism expansion in the last decade.

Following the terrorist attack of September 11<sup>th</sup> 2001, the economy went into rapid decline, but by 2003 foreign direct investment had risen to over 10 per cent of GDP and in the six years to 2008 had averaged more than 13 percent of GDP per annum.

However, economic growth, which is driven primarily by foreign direct investment, was slow to respond to the resurgence in FDI following the collapse in 2001 and the economy remained flat for the next three years. Unemployment which was at 6.9 per cent in 2001 rose rapidly to 10.8 per cent in 2003 and remained above 10 per cent until 2006 when it fell to 7.6 per cent.

Economic growth returned in 2005 and averaged five per cent per annum until 2007 when it again experienced a slow-down. In 2008 economic growth went into negative territory and there it remains. Unemployment is again on the rise and is now estimated at over 14 per cent.

As we are often reminded in The Bahamas, tourism matters. It is the engine of our economy. The full impact of the global crisis hit the Bahamas in September, 2008, with a drop in tourism receipts, a fall in FDI and a deceleration in private sector credit.

Through to July this year, tourism is showing an overall visitor increase of 4.2 per cent, but the important stop-over segment is off from the previous year by 13.7 per cent. This significant drop in air arrivals accounts for a considerable reduction in tourism receipts across the breadth of the economy. This tourism weakness is reflected across all the Bahamian tourism destinations.

In the face of growing unemployment, decelerating private sector credit and falling foreign direct investment, policymakers in an extremely open small economy have relatively little room for manoeuvre.

Fortunately for us, the fiscal discipline that we earlier established as our principal macroeconomic strategy afforded some small headroom and we availed ourselves of it.

We eased the economic hardship on the most vulnerable in our country while maintaining the public sector's level of employment and other recurrent spending. And we did this without adding to the tax burden of the private sector which was itself a victim of the economic weakness.

In the circumstances, the level of government borrowing will necessarily rise substantially. It is envisaged that before this crisis has ended, the level of government debt in The Bahamas could rise well beyond 50% of GDP. And while we will still remain well below the level in other economies in similar circumstances we will be well beyond our own prudent threshold norm.

It must be our committed objective to retreat with all deliberate haste from these levels of debt when our economy returns to growth. As quickly as possible we will move to create even more headroom to see us through the next inevitable down-turn on the assumption that no miracle economic model will emerge to relegate economic cycles to the dust bin of history.

And so, as the world looks beyond the greatest economic crisis since the Second World War, Small Island Developing States are painfully mindful of the extent of their dependency and the paucity of options available to them in confronting a serious economic crisis.

The speed with which the emergence of an economic crisis in one major industrial country could become global has amazed us all, but perhaps the most unsettling experience for mini-states was the

affirmation of the limit of their policy options to respond. In this experience is a lesson we must take into our future economic planning as much as possible.

To date, our strategy has been working and while the economy remains greatly strained, it is enduring. Perhaps one of the most important lessons that we and all developing countries can take away from this current crisis is the importance of maintaining fiscal discipline.

Even in the present situation, while we had to boost government spending in the face of declining revenue, we are being careful to contain the rise in debt to GDP ratio so as not to hinder our ability to respond quickly to a turnaround in global economic fortunes.

As we look forward, we must clearly take advantage of the lessons taught by the present crisis. These lessons indicate the following:

1. We must make an honest assessment of the risks posed to our global economic and financial systems and avoid placing blame where it is not due;
2. We must have a better means of assessing and responding to systemic risk in the global financial architecture and one that

demonstrates equity in calling all economies, those of the developed and developing world, into account;

3. We must promote greater equity in the international development process so as to make the prospects for sustained growth of the world economy more enduring and widespread; and
4. We must better coordinate global resources in order to maximize use; this is especially true with respect to those resources channelled by the multilateral lending and aid agencies.

It has to be accepted that the Government must be able to move quickly to effect counter-cyclical measures and to do so it must be in a position to access the international market. There is no other avenue on which countries like The Bahamas can rely and that is the unmistakable lesson that must be drawn from this global economic crisis.

This clearly implies that such countries will pursue policies that take account of the need to create the so-called headroom in periods of strong economic growth. This suggests the desirability of the establishment of the equivalent of an Emergency Fund, and I

am sure other small states join me in looking forward to such an innovation.

Thank you.