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“KEY ISSUES FACING THE BAHAMAS ECONOMY  
IN THE 21<sup>ST</sup> CENTURY”

REMARKS GIVEN BY  
MR. JULIAN W. FRANCIS, GOVERNOR  
THE CENTRAL BANK OF THE BAHAMAS

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## INTRODUCTION

Ladies and gentlemen,

I feel most privileged to have this opportunity to participate in this Business Outlook 2000.

With your permission I would prefer to not confine my remarks to the future of central banking, but to comment on what I see as the key economic issues which are likely to be determinant over the next twenty five years of our country's future.

Dispensing firstly with housekeeping matters however, please let me take a few moments to recap economic performance in the Bahamas during 1999.

## REVIEW OF ECONOMY IN 1999

It would appear that growth has been in the 5 to 6% range compared to approximately 3% in each of 1997 and '98. The inflation rate at 1.3% was the same as last year, and consistent with an annual average of 1.6% between 1993 and '98. Unemployment continued it's gradual reduction, standing presently at approximately 7.5% of the workforce.

This strong growth resulted from an estimated 8% increase in tourism arrivals and continued strength in construction and financial services.

You will recall that the build-up in Bahamian dollar Liquidity, as a result of net foreign inflows, propelled the Bank, in June, to reduce the Discount Rate by  $\frac{3}{4}\%$ , which was followed by a similar reduction in the commercial banks' Prime Rate to the level of 6%, which is in fact the lowest level recorded since Prime was formally recognized by the Bank in 1971.

The above foreign inflows pushed the country's holdings of external reserves to an all time high of \$476 million in June; the year end position being also an all time year-end high of \$402 million.

The performance on the fiscal account is moving in the right direction; the deficit for the 1999/2000 period approximating 1.3% of GDP.

External public debt, which has been declining in recent years, totaled approximately \$370 million at the end of the year, with the debt service ratio firmly below 4%.

Considering the continuing strong performance of the U. S. economy, and the excellent growth

and development prospects for our international financial services industry, but a more “normal” level of investment inflows compared to the previous two-to-three years, we would expect growth in the to 4% range this year.

It is likely, however, that we could see some upward price pressures – primarily on salaries and wages, as available labor and skilled white-collar resources are stretched further.

This issue points to one of the most important challenges facing modern economies, the Bahamas being no exception, i.e. the availability of appropriately prepared human resources. We see signs throughout our economy indicating that we are now operating close to practical capacity. This means that if we are to continue to increase the rate of real economic growth i.e., without unreasonable levels of inflation, productivity has to increase, or we shall have to expand the pool of skilled labor through importation.

### ISSUES TO SHAPE THE FUTURE

This is a useful point on which to move to the second area on which I wish to comment i.e. the broad issues, which should shape our economic direction over the next twenty-five years.

There are two reasons why I think that twenty-five years is a convenient interval for this overview:

- Firstly anything less, from a country's stand point, probably would not qualify as strategic, and much more that twenty five years would seem to move into the realm of pure guesswork;
- Secondly, there would seem to be, over the last fifty years in Bahamian socio economic history, two broad periods of twenty-five year into which events may be grouped.

In order to look forward, I would ask you for a moment or two to cast your eyes back to what our economy looked like fifty years ago.

I suppose that the appropriate moment in time could be argued, but a convenient starting point of modern Bahamian economic growth and development would appear to be 1950/51.

Tourism arrivals, which had declined during the Second World War period to some 3,500 in 1943, totalled almost 77,000 in 1951, and had practically doubled by 1955.

Other indicators are equally instructive:

- Government revenues in 1951 amounted to the equivalent of \$5.8 million equivalent, compared to the current budget period's \$914 million, more than one hundred and fifty eight times, against expenditure of \$5.2 million.
- One more number: imports in 1951 attained an up-to-that-point high of \$21.9 million, whereas imports in 1998 represented one hundred and forty one times the 1951 level at \$3.1 billion.

The fifties were marked by widespread development and expansion of tourism infrastructure in New Providence, Andros and Eleuthera – the Lyford Cay development, for example was launched in 1955. Developments were seen equally in light industry, insurance, housing, banking, utilities and an array of other services. The 1953 population of the entire Bahamas was 84,800 (and we didn't have today's large "invisible" population which began to increase during the 70's).

During the late fifties and sixties the Bahamian economy developed rapidly, both in terms of its size and its sophistication. This takes us into independence in 1973 and the beginning of the second twenty-five year period, which, I suggest has already ended. This second period, which I

shall not attempt to describe, as you know it well, has been characterized principally by the efforts of a newly independent country to find itself. To find itself both philosophically and in terms of the practical realities which self-determination impose on a young nation.

I believe that The Bahamas has found itself, certainly from the point of view of the desired course of it's economic developments; what is less clear, and in fact is largely the subject of today's reflections, is how best to continue on this journey on which we have embarked.

I would argue that there are essentially three factors which have resulted in the relatively favorable average standard of living in The Bahamas, compared to the rest of the Caribbean:

- The early choice to pursue a service economy - which to some extent, although not entirely, would have been accidental;
- Proximity to the American mainland, and particularly the rapidly growing and developing South Florida economic region; and thirdly,

- The failure for there to have developed in The Bahamas, as elsewhere in the region, a dogmatic socio-economic thinking among our political and business leaders which in it's own pursuit could have led The Bahamas too far down the road of pure economic experimentation and would have weakened the classical impulse, so alive in our country, to achieve prosperity first, and to worry about what you call it only after the fact.

Let me sum all of that up by saying that The Bahamas finds itself today positioned worldwide in two of the most prosperous and rapidly developing industries; is next door to what will remain the dominant world economy, certainly for fifty years, and has no particular appetite for dogma, so is free to pursue the economic well being of its populace without the ideological constraints still lingering with some of our neighbours.

So, how does The Bahamas best position itself for the next twenty-five years and beyond?

Ladies and gentlemen it comes down to one single and simple idea: the ability to compete!

The integration of capital, technology and information across national borders to form the

global market is already, and will increasingly be, the most important determining factor in our lives over the period to come.

In a borderless world, where so many of the factors which gave countries and companies comparative advantage are no longer of such significance, ability to compete itself becomes the most important factor in determining comparative advantage. We see it already; this new, emerging global economy is being defined by a dominance of skill intensive, knowledge-based industries. The quality of human resources, coupled with technology placed at the disposal of that resource of human skills, has become what determines the wealth of a nation two hundred years after Adam Smith.

If The Bahamas is to survive and prosper in this new world, we will have to do the following things:

- (a) We will have to ensure that The Bahamas as a whole is receptive-to and embraces these changes;
- (b) We will have to ensure that our people are technologically-literate, and well prepared in sufficient numbers, to deliver those

specialized services which we seek to offer;  
and

- (c) We will have to ensure that as a country we are on the edge of technological developments, with the appropriate resources to compete.

I fear that if at each point that there is a need to make a significant change to how things are the organized, we need to repeat the torturous efforts we have seen with every aspect of the Batelco privatization, others will easily beat us to the table, or we will expend our resources only in the effort to “pay-off” those who cannot understand the need to adapt. To address this issue there may have to be a consensus, between Government, labor and politics, in the national interest, as to how these restructuring efforts are undertaken and carried-out.

The process of ensuring that our people have the necessary skills will be a costly undertaking, which will have to be well conceived and executed. I believe that it should be a renewed priority of the Government going forward.

As far as availing ourselves of technology in concerned, the recent decision of the Government to focus resources on the

development of electronic commerce is not too early, and encouraging. More will need to be done relatively quickly in this area.

### CENTRAL BANKING IN THE 21<sup>ST</sup> CENTURY

I would now wish to comment on the role of central banks in this new environment; I think that it relates closely to what I have already said this morning about the global economy.

As you know, the principal role of central banks is to ensure stability of the national money and to generally ensure the soundness of the domestic financial system and, to some extent, the economy.

These roles, too, I think will evolve and change going forward. Not only in The Bahamas, but in most if not all countries.

We will no doubt see confirmation of the emergence of currency blocks around the world – probably primarily the American, European and Asian blocks, and consequently the emergence of supra-central banking institutions surrounded by satellite institutions, whose roles will be largely administrative. The European Central Bank in some respects is already this.

Will the Bahamian Dollar as a distinct currency exist twenty-five years from now? I would say probably yes, but it will depend on the pace of development in this direction, which for the moment is unclear.

Much clearer is the certainly of need for enhanced supervisory skills and resources, as banking institutions more and more operate seamlessly across national borders, and as cyber business increasingly becomes a reality.

We can look at reforms which have already advanced in the United Kingdom, to create the new super-regulator, and at what it being contemplated in Japan, Canada and elsewhere, to see the direction which will emerge. The trend in the U. S. towards multi-industry financial sector institutions such as Citigroup will probably lead to similar regulatory trends in the U.S. over the next decade. It is difficult to see how, in this environment, we could escape the logic of trans-national regulators; indeed the basis for this structure already functions in the form of the Bank for International Settlements and a number of recently created related institutions which seek to influence policies cross border.

One obvious question which comes out of this for The Bahamas is whether there will continue to be a place for jurisdictions in the business of international financial services. My own view is that during this shake-out period which we are now entering, while the industrial countries try to determine how they might defend their systems from the onslaught of the electronic information age, and eventually how they would need to adjust to it, there is tremendous opportunity for well reputed, expert, technologically adept jurisdictions. By then, if we're smart, we would have figured new strategies for our continued survival.

Ladies and Gentlemen, the value of today's discussions is that we have an opportunity to stand at this pivotal point in our country's economic experience, at this gateway to a new world economic order, and to debate how our country might best secure its place twenty five, fifty and a hundred years hence. Those Bahamian pioneers of an earlier time, who paved the paths of the fifties and sixties, lived the past; and those who will follow us in twenty five years from now will know the future; only we are privileged to both explore the past, for its lessons, and plan the future, to suit our dreams and aspirations.

Thank you