



EXCHANGE CONTROLS IN A MODERN BAHAMAS

PRESENTED TO STEP 15 SEPTEMBER 2011
BY JAMES H. SMITH, CHAIRMAN, CFAL

SUMMARY OF PRESENTATION

1. A brief overview of the existing EC regime and its impact on trade and commerce.
2. Examination of the historical origins of the EC regime referencing the UK and the Commonwealth.
3. Impact on the local economy if EC abolished in an effort to liberalize and modernize the monetary sector.



CURRENT EC REGULATIONS (DOWNSIDE)

- EC Act (1952) states that only the Central Bank or Authorized Dealers (Commercial Banks) may transact business in gold or foreign exchange or buy and sell share in foreign companies.
- Capital transactions are strictly enforced whereas current transactions have been relaxed over the years with IMF encouragement.
- The conduct of business under EC's is both cumbersome and costly especially given the advances in IT and the spread of e-commerce.



CURRENT EC REGULATIONS (UPSIDE)

- Proponents of EC's argue that the inconvenience is offset by the stability of the exchange rate (B\$1=US\$1).
- Ability to monitor and measure FDI flows which helps the orderly development of the economy.
- The environment for domestic investment and FDI is predictable, less uncertainty and allows investor to concentrate on project costs unrelated to fluctuating exchange rates.
- Empowers the authorities to determine who, how and where investments are directed.



ORIGINS OF EC REGULATIONS

- Bahamian EC Regulations have roots in the “Sterling Bloc” which was established between the UK and its colonies at the outbreak of WW II. All gold and foreign reserves were pooled to protect the external value of the pound and to provide funding to the British during and after the war.
- The Bloc lasted up until 1967 when the UK unilaterally devalued the pound and by 1972, UK imposed EC against all other members. IN 1979 EC removed in UK prior to its entry in the EC.



EC IN A MODERN BAHAMAS

- What is a modern Bahamas?
- LDC's like The Bahamas are considered to be modernizing by the International Institutions (IMF etc.) if their markets (especially the Capital Market) are liberalized; openness to international trade (WTO); presence of well-functioning regulatory institutions supported by modern legal framework.
- Modern economies, according to the IMF, did away with EC's in order to encourage rapid economic growth.
- Modern economies avoided the "Impossible Trinity"; the simultaneous pursuit of a fixed exchange rate, free mobility of capital and independent monetary policy dedicated to domestic goals.



A MODERN BAHAMAS WITHOUT EC

- IMF : “...free capital flows are good for everyone in the long run...”
- If The Bahamas accepts the IMF’s proposition and abolishes EC’s, it could expect the following according to most experts:
 - a. Increased access to foreign savings by Bahamian residents.
 - b. Debt and savings instruments (loans, bonds, deposits) at internationally competitive rates.
 - c. Free capital movement should contribute to productivity and growth..



A MODERN BAHAMAS WITHOUT EC

- d. Country in a better position to react to adverse economic shocks with a flexible exchange rate policy.
- e. More depth and diversity of listings on the local stock exchange.
- f. Possible fluctuations in the trade sector owing to the volatility of the exchange rate.
- g. Reduction in political control of the economy.



SUMMARY AND CONCLUSION

A modern Bahamas should not regard the abolition of EC as a substitute for prudent economic policies. The removal of EC's should be a gradual and measured process in order to avoid any action that could lead to a run on the currency, speculation, hoarding or anything that could destabilize the economy.



ABOUT CFAL



CFAL is the largest pension provider in The Bahamas and one of the country's strongest financial services companies with a long and proven record of financial stability and integrity in all economic climates.

- Over \$970 million in assets under Administration
- Experienced team of professionals with over 100 years combined experience
- Pension Fund Management
- Mutual Funds
- Investment Services
- Brokerage and Trading
- Licensed with the Securities Commission
- Offices in Nassau and Freeport

THANK YOU

QUESTIONS

JAMES SMITH
INFO@CFAL.COM
242.502.7010

