



Welcome Remarks

Governor John Rolle*

Seminar on Exchange Control Liberalisation and Future Developments

5 February, 2017

The Central Bank is pleased to welcome participants to today's seminar on the administration of Exchange Controls (EC) in The Bahamas. This event is being held to provide more information on the recent liberalisation measures. We seek to promote better awareness of the distinction between exchange controls current account or trade-related transactions versus those on capital and financial flows. This has a bearing on how discussions about liberalisation of international financial flows could be approached. We also expect to receive constructive feedback on how the various administrative processes can be further improved.

Over time the Bank expects that our focus will narrow to just those issues related to capital and financial flows and how these can be managed for the benefit of the economy. The Bank anticipates a further rapid shift in delegated responsibility to commercial banks to process foreign currency applications for trade-related payments. This will leave more space on our work agenda to explore and prepare for relaxation of capital flows.

It should be stressed though that The Bahamas is not presently in the position to make a large leap to more liberalised, unfiltered financial flows, such that the stability of our exchange rate would be preserved. This is especially so considering the very liquid nature of flows to which some stakeholder groups aspire. Preparation is still required to strengthen our institutional capacity to function in a transformed environment, and to improve the structural health of the economy.

Some of our important stakeholder groups do not yet fully acknowledge the trade-offs that could be involved between the extent of liberalisation introduced, and difficulty it would pose to preserve the fixed exchange rate. Also, The Bahamas has not built the sufficiently informed national consensus on what the final state should look for either liquid flows or direct investments. "Informed consensus" means that the positions adopted should be based on proficient understanding of how the economy is structured; the nuts and bolts of how the economy works; how foreign exchange gets from where it is earned to where it is needed; and how, in the absence of capital controls, pricing mechanisms could dictate how foreign exchange gets allocated.

**As prepared for delivery.*

But the messaging seems clear: we want less administrative involvement of the public sector in the commercial activities of the private sector, balanced with the objective of keeping the outcomes stable.

How does the central bank fit into this process?

In our Strategic Plan for 2016-2020 the Bank mapped out goals to pursue a constructive approach with both internal and external stakeholders to improve the administrative processes for Exchange Controls. This includes a focus on promoting more informed dialogue on capital and financial flows and on how these relate to an understanding of the way our economy works. Our Financial Literacy program will support this process. We also believe that literacy will encourage more transparency and accountability on policies and fundamentals over which we have control. It will better equip the private sector to ask pointed, relevant questions of policy makers.

Our dialogue has to draw out the importance of holding policy makers accountable to inspire confidence through the outcomes that they produce. In this regard, the degree of success achieved with liberalisation ought to be gauged by the extent to which private sector decisions around the deployment of capital is based on genuine pursuit of higher productive returns rather than a fear of erosion of wealth from real or perceived risks of domestic economic ruin.

Fear is still too prominent in the discussion for wanting to go outside. As such the private sector's decisions could be underweighting the returns that their capital would generate in productive investments inside The Bahamas. This point should not be downplayed given already significant liquid resources that lay idle in local banks. These resources and others are in need of greater deployment in the enterprise sector. New private sector mechanisms ought to be developed to deploy these resources.

The Central Bank does believe that more benefits can be obtained from liberalisation. Prudent reforms should continue to be advanced to put these advantages within the reach of the economy. The Bank has stressed though that liberalisation should be gradual. After all, the process of developing the systems and capacity to manage a transformed economy is itself gradual.

With these points in mind, the Bank trusts that you will find today's seminar useful. We look forward to your constructive input.

Thank you.