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**Statement by Mr. Fachada and Ms. Mohammed on The Bahamas
(Preliminary)
Executive Board Meeting 20/65
June 1, 2020**

We thank staff for the report and Ms. Levonian and Ms. Vasishtha for their insightful statement. The COVID-19 shock on The Bahamas comes on the heels of the devastation caused by Hurricane Dorian in September 2019. Having not fully recovered from last year's natural disaster, The Bahamas is now faced with a sudden halt in visitor arrivals, thus creating large fiscal and external financing needs. In this context, we support the authorities' request for a disbursement under the Rapid Financing Instrument (RFI) of 100 percent of quota equivalent to SDR 182.4 million. We positively note that The Bahamas has adequate capacity to repay the Fund and its public debt is assessed by staff as sustainable.

As several other tourism-dependent small island states, real GDP in The Bahamas is expected to contract by double digits in 2020. We commend the appropriate and timely counter-cyclical policies adopted by the authorities to protect jobs and the most vulnerable segments of the population, while providing broad relief to the economy. However, we emphasize that these measures should remain temporary, targeted and transparent. The establishment of the Economic Recovery, Tourism Response, and National Food Committees to guide the country's crisis response is welcomed. We encourage the authorities to formulate a tangible contingency and reprioritization plan, in case the duration of the crisis is more severe and prolonged than anticipated. Moreover, maintaining a balance between supporting economic activity and safeguarding financial stability should be of paramount importance, particularly with the encouragement of the 3-month loan moratoria. Although the banks remain well capitalized, with high liquidity ratios, close monitoring of the banking system is recommended to circumvent further increases in non-performing loans.

It is critical to closely monitor how the financing gap evolves going forward. We note that the RFI financing, together with funding from other multilateral agencies would bridge

about 60 percent of The Bahamas' external financing gap, with the remainder being funded by drawing down on international reserves. We also note that international reserves increased considerably in the aftermath of Hurricane Dorian due to substantial insurance payouts, and the authorities took recently measures to boost the availability of foreign exchange, such as the request to the National Insurance Board (NIB) to repatriate external assets. Given the need to preserve the peg to the U.S. dollar, we recommend that the authorities avoid large drawdowns on reserves, especially in light of the risk that the crisis be more severe and prolonged.

Advancing fiscal and structural reforms, whilst safeguarding debt sustainability should be of utmost importance once the crisis wanes. In this regard, further efforts will be needed to maintain macroeconomic stability, boost potential growth and strengthen fiscal and external buffers while continuing to put public debt on a downward trajectory. We welcome the authorities' commitment to the Fiscal Responsibility Act (FRA) to anchor fiscal policy in the medium term and we encourage the authorities to continue to pursue their new Public Financial Management and Public Debt Management bills. Finally, given The Bahamas' high susceptibility to hurricanes, we urge the authorities to continue to develop an adequate Natural Disaster Risk Management Framework including hurricane insurance and strengthening the social safety net to proactively respond to such shocks.