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May 2, 2022

**Statement by Mr. Zhang and Mr. Huang on The Bahamas
(Preliminary)
Executive Board Meeting
May 4, 2022**

We thank staff for the well-written set of reports and Mr. Jennings and Ms. Smith for their helpful Buff statement. The economy of the Bahamas rebounded quickly and significantly, as tourists came back. However, the pandemic exacerbated its long-standing vulnerabilities, with fiscal buffers depleted and long-term potential growth decelerated. Given the ongoing geopolitical tension, the authorities need to switch back to crisis mode, while rebuilding policy space in the medium term. We broadly agree with the staff appraisal and would like to limit ourselves to the following comments for emphasis.

Fiscal Policy

On the short term, we take positive note that the fiscal deficit is expected to narrow this year. As the country is highly dependent on imports, the rise in international food and energy prices could have a significant impact on the most vulnerable population. We agree with staff that targeted support to the poorest is needed while allowing higher international prices to pass through. With regard to the social spending, we take note with surprise that 30 percent of high-income households were receiving unemployment benefits during the pandemic, while 35/40 percent of low/middle-income households did.¹ *Could staff shed light on the reasons why there is no significant difference among the three income groups, whether it is due to the low efficiency of unemployment benefits or because the high-income households are equally likely to lose their jobs?*

On the medium term, we take positive note of the authorities' ambitious consolidation strategy. The 50 percent central government debt-to-GDP ratio is an appropriate fiscal anchor to rebuild policy buffer. We welcome staff's comprehensive and granular suggestions on tax policy. The expected gains from all these reforms far exceed the authorities' goal of 5 percent

¹ Figure in Page 12

of GDP. However, we find some policy recommendations politically difficult to implement, for example an increase in VAT rate, as the new administration just cut it. *In this regard, we are wondering among all these tax policy recommendations what are the low hanging fruits. Staff's comments are welcome.*

Monetary Policy

We agree with staff that the exchange rate peg continues to serve the Bahamas well. The central bank should stand ready to raise the interest rate to preserve the peg if the monetary policy tightening in the United States causes pressures. In case of a more volatile scenario, capital flow management measures could be considered. We encourage staff to provide tailored policy suggestions in line with the recent updated Institutional View (IV). The central bank has introduced the Sand Dollar as a CBDC, but the avenues to use the Sand Dollar remains limited and the total amount of digital currency in circulation is still low. Like staff, we suggest the central bank to accelerate public education while strengthening its own capacity. *As the digital wallets has been integrated with the banking system, could staff elaborate on how the Sand Dollar's design features could mitigate risks of bank disintermediation?*

Financial Sector Policies and Structural Reforms

We take positive note that the banking sector remains resilient under downside scenarios. The authorities are encouraged to step up their efforts in implementing the 2019 FSAP recommendations, such as introducing the countercyclical capital buffer and establishing the credit bureau. The negative growth in private sector credit is a source of concern. The central bank needs to work with banks to identify the bottlenecks and address the banks' concerns. We welcome the Bahamas' exit from the FATF "grey-list." Continuous efforts are needed to strengthen the AML/CFT regulation and supervision, in particular the financial transactions related to crypto assets. As the Bahamas is highly vulnerable to natural disaster and climate change, we support the authorities' efforts to building its resilience. Annex IV of the staff report provides an in-depth analysis, which is very helpful. We join the authorities to call on more support from the international community and encourage the authorities to consider the debt instruments with natural disaster clauses and green bonds.

With these remarks, we wish the authorities every success in their policy endeavors.