EXECUTIVE BOARD MEETING

EBS/20/103

May 26, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **The Bahamas—Request for Purchase Under the Rapid Financing Instrument**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Monday, June 1, 2020**
Proposed Decision:	Page 13
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Questions:	Ms. Weber, WHD (ext. 34013) Mr. Oshima, WHD (ext. 36670) Mr. Cevik, WHD (ext. 36695) Mr. Ghazanchyan, WHD (ext. 37689)
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***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

THE BAHAMAS

May 26, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The Bahamas faces an unprecedented crisis as it battles the fallout from two consecutive large shocks. It was just recovering from the widespread destruction caused by Hurricane Dorian in the fall of 2019, when the COVID-19 pandemic led to a sudden stop in tourism, creating large fiscal and external financing needs. The authorities' policy response to the pandemic has been timely, but limited fiscal space constrains the ability to pursue a deeper emergency response.

Crisis Response. The government has declared a state of emergency and established an Economic Recovery Committee to guide the country's COVID-19 response. The authorities have introduced targeted fiscal measures—amounting to about 4 percent of GDP—to support the healthcare system, employment and the most vulnerable segments of the population. The central bank has focused on protecting the peg to the U.S. dollar, and encouraged banks to consider loan moratoria.

Request for Fund Support. The authorities are requesting emergency financial support under the Rapid Financing Instrument (RFI) of 100 percent of quota (SDR 182.4 million or about $252 million). The RFI is the appropriate instrument for The Bahamas at this juncture, given the urgent balance of payments and fiscal financing needs, the temporary difficulty in accessing international capital markets, and the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic. The external financing needs are estimated at about 9 percent of GDP in 2020. To address the urgent fiscal needs, the central bank will on-lend the disbursement to the Ministry of Finance. Staff is confident that the authorities will pursue appropriate policies for alleviating the impact of the pandemic, based on the country's strong track record. The Bahamas is assessed to have sustainable debt and adequate capacity to repay the Fund.

Policy recommendations. Once the crisis wanes, the focus needs to shift to rebuilding buffers and strengthening resilience. The authorities' commitment to the medium-term targets under the Fiscal Responsibility Act will be critical to anchoring fiscal policy. Putting in place mandatory hurricane insurance and strengthening the social safety net will enhance resilience to natural disasters. Developing domestic debt markets will help improve monetary transmission. Timely resolution of legacy debt in the financial sector, completing legislative reforms of the crisis management frameworks, and continuing to improve the effectiveness of the AML/CFT framework are key priorities.

Approved By
Aasim M. Husain (WHD) and Chris Lane (SPR)

This report was prepared by Anke Weber (Mission Chief), Serhan Cevik, Manuk Ghazanchyan, and Atsushi Oshima (all WHD), with assistance from Sheng Tibung and Tianle Zhu. Discussions were held remotely during May 12–15, 2020, with Deputy Prime Minister Turnquest, Governor Rolle, and other senior officials. Garima Vasishtha (OED) participated in the discussions.

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RECENT DEVELOPMENTS AND OUTLOOK

1. **The COVID-19 shock comes on the heels of the devastation caused by Hurricane Dorian**. On September 2–3, 2019, Hurricane Dorian, the strongest storm in The Bahamas' recent history, caused substantial loss of life and severe damage exceeding 25 percent of GDP. About eight months later, just as the economy started showing signs of recovery, the COVID-19 pandemic has led to an unprecedented sudden stop in tourism and a deep contraction in economic activity. While The Bahamas made notable progress in pursuing fiscal consolidation through a rules-based framework, Hurricane Dorian required directing fiscal resources to recovery and reconstruction. The focus has now shifted to public health measures and a stimulus package to protect jobs and the most vulnerable segments of the population.

2. **The pandemic is expected to lead to a deep recession in 2020.** As of late-May, the number of confirmed cases of COVID-19 reached 100, with 11 fatalities. The government declared a national state of emergency on March 17 and closed air and sea borders to incoming passengers. Curfews on weekdays with full lockdowns during weekends will remain in place at least through the end of June. As a result of these containment efforts and given the damage caused by Hurricane Dorian, the economy is expected to contract by 12.5 percent in 2020, with unemployment climbing from 10.7 percent in 2019 to over 20 percent.[1] Even though banks remain well capitalized, with high liquidity ratios, the recession will further increase non-performing loans (NPLs), which stood at 7 percent at end-2019. Consumer price inflation is expected to decline to 2.1 percent in 2020, from 2.5 percent in 2019, due to the collapse in commodity prices.

3. **A gradual recovery should take hold in 2021, assuming that the pandemic fades and global containment efforts can be gradually unwound.** Tourist arrivals are expected to recover strongly in 2021 but reaching pre-crisis levels will take time. With the removal of domestic containment measures, post-hurricane reconstruction activity is expected to regain momentum. These developments should lead to a rebound in real GDP growth of about 8 percent in 2021, but the recovery will be gradual with the economy reaching its pre-pandemic level only by end-2023. Inflation is expected to increase to 2.5 percent in 2021, along with the economic recovery, and converge towards 2 percent in the long run.

4. **The Bahamas faces a pronounced balance-of-payments shock.** The current account balance is expected to deteriorate to a deficit of 17 percent in 2020, from a surplus of 0.7 percent in 2019. Although lower international oil prices and reduced imports will help the trade balance, these effects are more than offset by the sudden stop in tourist arrivals. On the financial account, foreign direct investment (FDI) inflows are expected to halve. Gross international reserves have been boosted by hurricane insurance payouts of about 8 percent of GDP in 2019 and 2020. The result is an external financing need of about US$1 billion. It is expected that financial support from the Fund and other international financial institutions (IFIs), notably the Inter-American Development Bank

[1] The number of unemployment beneficiaries increased from 725 in August 2019 to over 20,000 (or about 12 percent of the workforce) as of April 28, 2020, indicating an unprecedented rise in joblessness.

(IDB) and the Caribbean Development Bank (CDB), will be able to bridge about 60 percent of this financing gap, helping contain the still-significant drawdown of international reserves. Reserves are expected to decline to about US$1.3 billion in 2020 and to remain at similar levels thereafter.

The Bahamas: Impact of COVID-19 and Hurricane Dorian on Balance of Payments

(In millions of U.S. dollars)

	2020			
	Pre-hurricane/pandemic	Post-hurricane/pandemic	Change	
			mln US$	percent of GDP
Current account balance	**-1359**	**-1953**	**-594**	**(5.2)**
Exports of goods and services	4924	1765	-3159	**(27.8)**
Services (including travel)	4151	1371	-2780	**(24.5)**
Exports (including re-exports)	773	394	-379	**(3.3)**
Imports of goods and services	-5789	-3367	2422	**21.3**
Services (including travel)	-2331	-1458	872	**7.7**
Imports (including goods procured in ports)	-3459	-1909	1550	**13.6**
Oil	-487	-188	299	**2.6**
Capital goods	-827	-741	86	**0.8**
Other	-2145	-979	1166	**10.3**
Foreign direct investment	555	265	-290	**(2.5)**
Other investment (including government borrowing)	829	701	-128	**(1.1)**
Government	47	647	600	**5.3**
Other private flows including domestic banking	781	54	-728	**(6.4)**
BOP financing needs	**...**	**...**	**-1012**	**(8.9)**
Financing 1/			**1012**	**8.9**
IMF (RFI)			252	**2.2**
IDB			180	**1.6**
CDB			50	**0.4**
MIGA guaranteed commercial loans			88	**0.8**
International reserves 2/			442	**3.9**

Sources: The Bahamian authorities; and IMF staff calculations.

1/ Part of the financing by other IFIs that is related to the hurricane Dorian has already been disbursed. Staff assumes that a quarter of the $350 million of commercial loans associated with the with the World Bank's Multilateral Investment Guarantee Agency (MIGA) will be externally issued and disbursed in 2020. Of the $320 million of IDB loans under discussion, $125 million (of which $25 million are investment loans recorded above the line are assumed to be disbursed in 2020.

2/ The change in reserves under the pre-hurricane/pandemic was an increase in the amount of about US$25 million.

RISKS

5. **The main risks facing The Bahamas arise from a more severe and long-lasting COVID-19 pandemic and vulnerability to future hurricanes**. The impact of the pandemic depends on its propagation and duration, the success of global and local containment measures, and the effectiveness of policy responses. Disruption of international supply chains, tourism, and travel (including within the archipelago) could have deeper effects than currently expected. The human and economic costs of the local outbreak could also be substantial, given limited capacities of the healthcare system. Vulnerability to hurricanes persists, especially as fiscal and financial buffers are used to respond to Hurricane Dorian and the COVID-19 pandemic.

AUTHORITIES' RESPONSE TO THE CRISIS

6. **As part of a comprehensive pandemic response strategy, the authorities have established Economic Recovery, Tourism Response, and National Food Committees.** The Economic Recovery and Tourism Response Committees will guide the country's COVID-19 response and advise on ways to jumpstart the economy following the crisis, with a focus on job-creation and stimulating small business development, especially in the tourism industry. The Food Committee will enhance the collaboration among public institutions, the private sector and civil society organizations to improve food distribution, especially to the most vulnerable groups.

The Bahamas: COVID-19 Fiscal Stimulus Measures in FY2019/20–FY2020/21

Measure	Details	Total B$ Mln	Total % GDP
Tax Credit & Tax Deferral Programme To Support Business Payroll.	Companies with a minimum of 25 employees and annual sales of B$3 million retaining at least 80 percent of staff	180	1.5
Business Continuity Loan Program for Small Businesses And Payroll Grants	Loans ranging from $5k to $300k, to cover operating costs.	80	0.7
Subvention to key SOEs	$3M per month for BPL; $4M per month for WSC	63	0.5
Health Care 1/		45.2	0.4
Income Support to Self-Employed	$200 per week; valid business license	43.2	0.4
Social Assistance-Food Vouchers	B$100 every second week will be targeted primarily to persons within the hospitality industry.	24	0.2
Family Island Emergency Order Execution	Specifically to be used for any COVID-19 related expenditure	1.8	0.0
Total		**437.2**	**3.7**

Sources: Ministry of Finance; and IMF staff estimates

1/ Purchase of medical and surgical supplies, ventilators, oxygen tanks, vehicles, and bio waste bins, emergency flights, sanitation of medical facilities, and quarantine site expenses.

7. **Fiscal policy has appropriately shifted toward providing economic relief to mitigate the impact of pandemic**. The authorities have introduced temporary fiscal measures of about 4 percent of GDP in response to the COVID-19 outbreak to support healthcare infrastructure, employment, small and medium enterprises, and vulnerable groups in the population. These measures come on top of the recovery and reconstruction outlays and tax exemptions following Hurricane Dorian.

8. **The fiscal position is expected to deteriorate sharply this fiscal year and next**. To accommodate some of the increased fiscal needs, the FY2020/21 budget introduces current spending cuts of 20 percent across ministries, excluding interest expenses and the wage bill, to be achieved through postponing non-priority programs and improving efficiency. State-owned enterprises (SOEs) need to identify savings for FY2020/21 (such as introducing user fees or cutting operating costs). A sin tax will be imposed for one year on items deemed harmful (including alcohol and tobacco). Excise rates on these products could rise by 10 percent and B$5 per gallon, yielding about B$30 million in additional revenues in FY2020/21. Staff estimates that the additional measures could yield total savings of about B$175 million in FY2020/21. As a result, staff projects the overall deficit at 6.7 and 9.5 percent of GDP in FY2019/20 and FY2020/21, respectively.

The Bahamas: Additional Measures for FY2020/21 Budget

(In millions of Bahamian dollars)

	FY2020/21 Draft Budget	IMF Projection
Excise taxes (Sin tax)	30	30
Current spending (cuts)	300	195
of which : SOE spending (cuts)	21	11
Capital expenditure increase1/	122	50

Sources: Bahamian authorities; and IMF staff calculation.

1/ Capital expenditure includes capital transfers to public sectors.

9. The increased fiscal needs will be financed by a combination of domestic and external debt issuance, as well as financial support from the Fund and other IFIs. Despite the recent S&P downgrade by one notch to "BB", The Bahamas is expected to continue to have access to international bond markets albeit at significantly higher rates than before. The authorities plan a $600 million long-term external bond issuance in FY2020/21. They are also close to securing two guarantees amounting to $350 million from the World Bank's Multilateral Investment Guarantee Agency (MIGA) for COVID-19 healthcare expenses and capital spending. The associated guaranteed commercial bank loans would have maturities exceeding 7 years. Discussions are ongoing with the IDB for new credit facilities amounting to $320 million in FY 2020/2021 ($200 million for policy loans and $120 million for investment loans, with maturities exceeding 20 years).

10. The authorities have put in place contingency plans to protect priority spending. In addition to the current expenditure cuts and proposed increase in excise taxes in the FY2020/21 budget, they are reviewing public expenditure (including by SOEs) to allow the government to reprioritize spending flexibly and timely should downside risks materialize. The Ministry of Finance is also proposing a temporary tightening of expenditure controls across ministries and agencies in order to reduce non-priority spending. Freezing wages and payroll increments could provide substantial savings, especially over the medium-term.

11. The authorities remain committed to fiscal consolidation over the medium term as specified under the Fiscal Responsibility Act (FRA). The government activated the escape clause of the FRA after Hurricane Dorian hit the country. This allows the authorities to postpone the achievement of their fiscal consolidation targets (a fiscal deficit of 0.5 percent of GDP by FY2020/21 and a public debt-to-GDP ratio of 50 percent by FY2024/25) by four years. The COVID-19 crisis will delay reaching these targets further, but the authorities are steadfast to bring the fiscal deficit to 0.5 percent of GDP by FY2026/27 and the debt ratio to 50 percent of GDP by FY2030/31. They will resume various measures when the pandemic fades, including the reviews of SOE governance, investment incentives, and the pension system, enhancements to public financial management (PFM) to increase expenditure control and efficiency, and revenue administration reforms.

The Bahamas: Fiscal Financing, FY19/20 and 20/21

(In millions of U.S. Dollars 1/)

	FY2019/20		FY2020/21	
	Pre-hurricane / pandemic 2/	Current	Pre-hurricane / pandemic 2/	Current
Financing needs	**193.8**	**843.6**	**112.2**	**1209.2**
Percent of GDP	*1.5*	*7.1*	*0.8*	*10.3*
Fiscal deficit	**193.8**	**802.6**	**112.2**	**1122.2**
Percent of GDP	*1.5*	*6.7*	*0.8*	*9.5*
Changes in revenue (+: decrease)		504.3		730.2
Tax measures for Hurricane Dorian		232.5		169.8
Tax measures for Covid-19		60.0		120.0
Shortfall due to the contraction		211.8		440.4
Changes in expenditure (+: increase)		104.5		279.8
Dorian-related measures		182.7		109.7
Covid19-related measures		44.4		134.8
Expenditure cuts		-274.3		-194.8
Other expenditure policies, net		151.7		230.0
Financing support		**41.0**		**87.0**
Business continuity loan program (COVID-19)		20.0		45.0
Temporary support to utility-related SOEs		21.0		42.0
Financing sources	**193.8**	**461.7**	**112.2**	**659.2**
Percent of GDP	*1.5*	*3.9*	*0.8*	*5.6*
Domestic, net	155.0	533.9	89.8	123.8
External, net	38.8	-72.2	22.4	535.4
Gap	**0.0**	**381.9**	**0.0**	**550.0**
Percent of GDP	*0.0*	*3.2*	*0.0*	*4.7*
Potential financing sources		**381.9**		**550.0**
IMF		251.9		-
IDB 3/		80.0		200.0
CDB		50.0		-
World Bank MIGA guaranteed commercial loans		-		350.0
Memorandum				
Nominal GDP (mil. of US$)	12950.9	11965.2	13398.0	11793.2
Overall balance (% of GDP)	-1.5	-6.7	-0.8	-9.5
Government debt (% of GDP)	61.9	72.3	60.0	82.6

Sources: The Bahamian authorities; and IMF staff calculations.
1/ Exchange rate of Bahamian dollar and U.S. dollar is fixed to 1.
2/ "Pre-hurricane/pandemic" refers to the 2019 AIV.
3/ Loans for investment projects are included in "External, net".

12. The authorities plan to follow best practices in procurement and contract awards. The Cabinet recently re-established the Audit Committee to strengthen the implementation of recommendations by internal and external audits. The authorities intend to finalize the Public Procurement Law—which will modernize the existing procurement system and bring it in line with international best practice—by end-June this year. The new Public Financial Management (PFM) Bill and Public Debt Management Bill are under internal review and will be submitted to Cabinet by end-June.

13. The Central Bank of the Bahamas (CBOB) has kept interest rates unchanged and focused on protecting the peg to the U.S. dollar. The CBOB has maintained the policy rate at a historically low level of 4 percent. Recent measures aimed at ensuring liquidity in the foreign exchange market include: (i) suspending dividend payments by domestic and foreign-owned financial institutions; (ii) providing more latitude to commercial banks to supply foreign exchange to the public before approaching the CBOB to replenish such funds[2]; (iii) suspending access to foreign exchange for international capital market and real estate investments; and (iv) requesting the National Insurance Board (NIB) to repatriate some of its external assets (about $60 million). Measure (ii) is an easing of a capital flow measure (CFM) on inflows and measures (iii) and (iv) are assessed as a tightening of CFMs on outflows under the IMF's Institutional View (IV).

14. The CBOB has encouraged domestic banks and credit unions to consider loan moratoria. The arrangement provides for a 3-month deferral against repayments on credit facilities that were negatively impacted by the COVID-19 crisis and requires the resumption of payments, with accrued interest, when the financial circumstances of borrowers improve. Some financial institutions have already announced credit support that could extend beyond the 3-month period. The CBOB has provided guidance that loans in good standing before the onset of the pandemic will not be reclassified as a consequence of the deferral against repayments. However, if at the end of the forbearance period loans are not performing, banks will have to reevaluate and reclassify them as needed. Banks have been asked to report monthly on their loan portfolio to enable the CBOB to monitor the impact of the payment deferral on their credit quality.

DEBT SUSTAINABILITY

15. Despite the severe shocks of Hurricane Dorian and COVID-19, public debt remains sustainable. In the baseline scenario, the public debt-to-GDP ratio increases from 61.8 percent in FY2018/19 to 82.6 percent by FY2020/21, and then gradually declines to 79.2 percent over the medium term. The authorities remain committed to pursuing the fiscal targets under the FRA after the pandemic wanes. Nevertheless, considering the expected increase in the debt level, the projected debt path remains vulnerable to substantial downside risks, including from a more severe and long-lasting COVID-19 pandemic and vulnerability to future hurricanes. The authorities have extended maturities through financing support from international financial institutions, limiting the

[2] The CBOB lowered the ceiling on the Bahamian $ Open Position on foreign exchange transactions to the maximum of 5 percent of Tier-1 capital and removed the more binding limit of $5 million on net long exposures.

impact on gross financing needs over the medium term but leading to a significant increase in external debt.

POLICY RECOMMENDATIONS

16. Staff supports the fiscal measures taken by the authorities to address the fallout from the pandemic. The focus on supporting the health care system, ensuring adequate food supply and protecting employment is appropriate. Transfers in-kind could also be considered to protect undocumented workers. Enhancing transparency by providing a separate reporting mechanism for COVID-19 expenditures, commissioning and publishing an independent, third-party audit, and publishing all public contracts as well as beneficial ownership information on companies that receive pandemic-related procurement contracts, will be critical. Effective implementation of the Public Procurement Law, Public Financial Management and Public Debt Management Bills will require appropriate staffing of the macro-fiscal and debt management units at the Ministry of Finance. To prevent arrears, expenditure monitoring and reporting should be strengthened through more frequent communication between Ministry of Finance, line ministries and agencies.

17. Staff sees some room for monetary easing, but the policy stance should take into account developments in the foreign exchange market. Against the backdrop of a collapse in economic activity and limited inflation pressures, there is some room to lower interest rates. The benefits of doing so have to be weighed against the potential erosion of international reserves and structural bottlenecks in the monetary transmission mechanism. While the recent CBOB interventions could help ensure an adequate level of international reserves, the repatriation of NIB assets needs to be done in a controlled manner that avoids any potential fire-sale dynamics and preserves the NIB's financial position. The CFMs are appropriate under the IV but need to be closely monitored and removed as crisis conditions abate.

18. Staff recommends maintaining a balance between supporting economic activity and safeguarding financial stability. Loan moratoria, where considered useful for households and firms to weather liquidity shocks, should be introduced without relaxing current credit risk standards. They need to be targeted to those borrowers affected by the pandemic, to promote transparency and sound risk management, and prevent a potential buildup of financial risks and moral hazard. While moratoria should not lead to automatic reclassification of assets and an increase in loan provisions, the CBOB should provide guidance so banks' estimates of expected credit losses are robust and timely, and ask for regular loan portfolio reviews and risk assessments by banks to measure the pandemic's impact on financial conditions and asset quality.

19. Once the present crisis subsides, the focus needs to shift to rebuilding buffers and strengthening resilience:

- **Size and speed of fiscal adjustment.** Decisive and significant fiscal measures are needed to bring public debt on a clear downward path and achieve the fiscal targets under the FRA. Staff calculations suggest that to achieve the FRA debt target by 2030/31, an average primary surplus of 4 percent would be needed starting in FY2024/2025, with significantly faster consolidation than in the current baseline already beginning in FY2022/23. The exact speed of this adjustment should be calibrated to the economic outlook, subject to scrutiny by the Fiscal Council and parliament approval.

- **Composition of fiscal measures**. The composition of fiscal adjustment should be carefully balanced to achieve inclusive growth, protect key public services and invest in natural disaster preparedness. Actions to achieve these objectives include containing expenditure growth by further rationalizing the wage bill, advancing the pension reform, and accelerating SOE reforms. On the revenue side, there is significant scope to increase revenue collection by accelerating planned revenue administration reforms and streamlining tax expenditures. Increasing revenues from departure taxes, business license fees, and property taxes should be strongly considered. A well-crafted communication strategy will help foster the credibility of the medium-term fiscal framework.

- **Resilience**. Introducing mandatory hurricane insurance would strengthen private sector resilience; improving data collection, sharing, and management among agencies would enhance the resilience of the social safety net.

- **FX and monetary policy.** The new Central Bank Law should be adopted to strengthen the CBOB's governance framework. Reducing central bank lending to the government and developing domestic debt markets would help strengthen the transmission mechanism over the medium term.

- **Financial sector policies**. The authorities should ensure timely monitoring and resolution of NPLs, especially in already vulnerable financial institutions and reduce credit market asymmetries by moving ahead with an asset registry and real estate price index, while enhancing banking supervision, resolution frameworks, and governance of asset management companies. They should continue to improve the effectiveness of the AML/CFT regime, as agreed with the Financial Action Task Force (FATF), including by focusing on measures to enhance entity transparency and building upon the Register of Beneficial Ownership Act. They should also monitor pressures on correspondent banking relationships.

MODALITIES OF SUPPORT

20. The RFI is the appropriate instrument for The Bahamas at this juncture. The Bahamas meets the qualification requirements for support under the RFI.

- It has an urgent balance of payments need, which, if not addressed promptly, would result in immediate and severe economic disruption.

- It is not feasible at this stage to put in place an upper-credit-tranche arrangement due to the urgent needs facing The Bahamas and the high degree of uncertainty regarding the duration and scale of the COVID-19 pandemic.

- The Bahamas is assessed as having sustainable debt (see Annex I). The Bahamas's capacity to repay the Fund remains adequate. Obligations to the Fund will peak in 2021—when the recovery is underway—and decline steadily to below 1 percent of GDP over the medium term. The relatively high share of credit outstanding as percent of debt service reflects The Bahamas' low level of external indebtedness. Downside risks to the capacity to repay the Fund include a more severe and longer-lasting COVID-19 pandemic and vulnerability to future hurricanes.

- Staff is confident that the authorities will cooperate with the Fund and pursue the economic policies appropriate for addressing the impact of the pandemic, based on the country's track record of economic policies and relations with the Fund.

21. Staff considers access of 100 percent of quota under the RFI to be appropriate. The Bahamas does not currently have an IMF arrangement, and access of 100 percent of quota is within the applicable access limits under the GRA.

- The access of 100 percent of quota (SDR 182.4 million or about US$252 million), together with financial assistance from other IFIs, would provide relief to the sizable BOP and fiscal needs facing The Bahamas, which is facing temporary difficulties in accessing the international capital markets, thereby supporting the country's policy response to the COVID-19 shock. Remaining external financing needs are expected to be filled through other official and private sources and a significant drawdown of international reserves. Overall, gross reserves are expected to remain slightly above both the Fund's reserve adequacy metric and CBOB's statutory minimum of 3 months' imports coverage in 2020.

- The purchase will be channeled to the Ministry of Finance for budget support. In their Letter of Intent, the authorities confirm that a Memorandum of Understanding between the CBOB and the Ministry of Finance related to the obligation of repayment to the Fund will be signed before the purchase. The authorities commit to undertake a safeguards assessment that would need to be completed before the Executive Board approval of any subsequent arrangement to which the safeguards policy applies. The authorities agree to provide Fund staff with the necessary central bank audit reports and to authorize the external auditors of the CBOB to hold discussions with staff.

AUTHORITIES' VIEWS

22. The authorities broadly agree with staff on the economic outlook, which remains subject to significant risks and uncertainty. They foresee a deep recession in 2020 with real GDP contracting between 9 and 15 percent, depending on when the economy reopens and tourism demand from advanced economies resumes. Unemployment could climb to as high as 35 percent. The authorities hope to lift the domestic lockdown measures and reopen air and sea borders by

July 1. Post-Hurricane Dorian reconstruction efforts—delayed because of the pandemic—should gain pace in the second half of 2020, as domestic containment measures are relaxed. While real GDP is expected to reach pre-crisis levels in 2023 in line with staff projections, the authorities are projecting significantly lower growth in 2021 and higher growth in 2022/2023. They expect the lingering effects of the global COVID-19 travel restrictions and consumer hesitancy to temper the pace of the recovery in tourism demand through the first half of 2021.

23. The COVID-19 pandemic will have a profound impact on public finances, including through an unprecedented loss in revenues. The authorities highlighted the severe revenue shortfalls they are experiencing, with April revenues being 50 percent lower than last year. This—together with the measures taken to save lives and livelihoods—will significantly increase budget deficits this fiscal year and next. The authorities are currently targeting a deficit of B$1326 million for FY2020/21, somewhat higher than staff's projection, given their different recovery profile.

24. The authorities share staff's views on the importance of advancing structural fiscal and governance reforms and safeguarding debt sustainability. They confirmed that the COVID-19 measures will be audited within 9 months of the end of the fiscal year, and results will be published on the government's website, ensuring efficiency and transparency of relevant spending. The government will continue to finalize the new PFM-related laws. These—together with the Fiscal Council—will further enhance fiscal management and discipline. The authorities are also committed to medium-term debt sustainability targets and view the reform of SOEs as particularly promising in generating savings over the medium-term.

25. The CBOB sees an urgent need to maintain an adequate level of international reserves. While there are no significant capital outflows at this stage, the CBOB views the recent foreign exchange measures as necessary to preserve reserve adequacy. Repatriating some of the NIB's external assets, representing a small portion of its portfolio, and allowing domestic banks greater latitude in open positions to purchase funds in the interbank market should contribute to foreign exchange liquidity. The CBOB argues that it has adequate systems to monitor the effects on the banking system of these interventions. The CBOB also highlighted their temporary nature and that they will not jeopardize recent progress in exchange control liberalization. The CBOB agreed that the new central bank law should be adopted without delay.

26. The CBOB views recent financial sector measures as appropriate and in line with international best practice. The central bank is in constant consultation with international regulatory bodies and agrees on the need to carefully monitor asset quality and compliance with the regulatory regime in the financial system. The CBOB will also conduct stress tests of the banking sector to better assess the strategies, processes and risk resilience of individual institutions.

STAFF APPRAISAL

27. The Covid-19 pandemic comes on the heels of Hurricane Dorian that caused significant economic damage in the fall of 2019. These are significant external shocks to The Bahamas' tourism and related sectors, which account for about 40 percent of GDP and represent the major source of income and employment. Coupled with domestic containment measures, the collapse in tourism will cause a deep recession and an urgent balance-of-payments need. The economic outlook remains subject to an unusually high degree of uncertainty.

28. The authorities' response to the pandemic is appropriate. The authorities have introduced fiscal measures to support public health, protect the most vulnerable and cushion the impact of the pandemic on employment. These measures come on top of the recovery and reconstruction measures that were put in place in response to Hurricane Dorian. Staff supports the CBOB's measures to mitigate the impact of the pandemic on the banking sector, but also highlights the need to safeguard financial stability. The temporary relaxation of prudential regulations should be accompanied by close monitoring of NPL classification and prudent risk management practices.

29. Once the present crisis subsides, the focus needs to shift to rebuilding buffers and strengthening resilience. Significant and determined fiscal effort will be needed to bring debt on a clear downward path and achieve the long-term targets under the FRA. Actions to achieve this objective could include increasing revenue collection, especially through property taxation, streamlining tax expenditures as well as containing the wage bill and reducing transfers to SOEs. Steps should also be taken to enhance resilience to natural disasters by putting in place mandatory hurricane insurance and strengthening the social safety net. Timely resolution of NPLs is a key objective, while legislative reforms of crisis management and resolution need to be completed.

30. Staff supports the authorities' request for an RFI in the amount of SDR 182.4 million (100 percent of quota). The unprecedented economic fallout from the COVID-19 pandemic and the urgent balance-of-payments needs justify the authorities' request for emergency financial assistance from the Fund through an RFI. The authorities have reiterated their commitment to prudent policies through the Fiscal Responsibility Act, which is designed to ensure debt sustainability over the long term. Staff assessed The Bahamas' capacity to repay the Fund as adequate.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Bahamas has requested a purchase in an amount equivalent to SDR 182.4 million (100 percent of quota) under the Rapid Financing Instrument.

2. The Fund notes the intentions of The Bahamas as set forth in the letter from the Deputy Prime Minister and Minister of Finance of The Bahamas, and the Governor of the Central Bank of The Bahamas, dated May 22, 2020, and approves the purchase in accordance with the request.

Table 1. The Bahamas: Selected Social and Economic Indicators

I. Social Indicators

GDP (US$ millions), 2019	12,827	Poverty rate (percent), 2013	12.8
GDP per capita (US$), 2019	33,689	Unemployment rate (percent), May 2019	9.5
Population (thousands), 2019	381	Infant mortality rate (per 1,000 live births), 2018	8.3
Life expectancy at birth (years), 2019	73.6	Human development index (rank), 2019	60
Adult literacy rate, 15 & up (percent), 2007	96		

II. Economic Indicators

	Average				Est.	Projections					
	1991-2018	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						(Annual percentage changes, unless otherwise indicated)					
Real sector											
Real GDP	1.3	0.4	0.1	1.6	1.8	-12.5	8.0	3.4	2.6	1.4	1.5
Nominal GDP	3.3	1.6	1.8	2.3	3.2	-11.4	9.8	5.3	4.6	3.4	3.4
GDP deflator	1.9	1.1	1.7	0.7	1.4	1.2	1.7	1.9	2.0	2.0	1.9
Consumer price index (annual average)	2.1	-0.3	1.5	2.3	2.5	2.3	2.3	2.4	2.3	2.3	2.2
Consumer price index (end of period)	2.0	1.0	1.6	2.0	2.5	2.1	2.5	2.3	2.3	2.2	2.2
Unemployment rate (in percent)	11.1	12.2	10.1	10.4	10.7	22.5	17.0	15.2	14.6	14.4	14.4
Gross national saving rate (percent of GDP)	19.6	20.5	13.9	11.8	24.6	11.5	13.2	13.6	14.0	14.7	15.3
Investment rate (percent of GDP)	28.1	26.4	26.3	23.9	24.0	28.7	27.5	26.1	25.5	25.1	25.0
Financial sector											
Credit to the nonfinancial public sector	10.5	12.3	-3.8	6.6	1.5	13.9	11.8	12.4	7.5	4.8	4.3
Credit to the private sector	4.8	-2.0	-3.0	-1.6	0.1	-11.4	9.8	5.3	4.6	3.4	3.4
Broad money	5.6	8.7	1.5	1.0	11.0	-11.4	9.8	5.3	4.6	3.4	3.4
External sector											
Exports of goods and services	3.6	13.6	-1.4	14.4	4.5	-61.4	63.2	21.6	10.5	7.4	6.2
Of which: Travel receipts (gross)	3.8	21.2	-2.6	12.0	6.7	-70.4	97.8	23.5	9.4	5.7	4.4
Imports of goods and services	4.6	-2.2	10.2	4.3	-6.9	-29.5	21.1	10.8	7.2	2.8	3.0
						(In percent of GDP, unless otherwise indicated)					
Central government 1/											
Revenue and grants	13.3	16.3	17.1	16.6	19.0	17.1	16.3	18.7	19.2	19.8	20.0
Expenditure	15.4	18.8	22.5	20.0	20.7	23.8	25.8	23.5	22.6	21.7	21.6
Expense	13.6	16.9	19.3	18.1	19.2	22.2	23.1	21.3	21.0	20.1	19.9
Net acquisition of nonfinancial assets	1.7	1.9	3.2	1.9	1.5	1.6	2.6	2.2	1.7	1.6	1.7
Overall balance	-2.0	-2.6	-5.4	-3.4	-1.7	-6.7	-9.5	-4.8	-3.5	-1.9	-1.6
Primary balance	-0.3	-0.2	-3.1	-0.8	0.9	-3.6	-5.9	-1.6	-0.4	1.2	1.4
Central government debt	29.2	50.4	54.3	63.3	61.8	72.3	82.6	80.1	80.9	80.0	79.2
External sector											
Current account balance	-5.7	-6.0	-12.4	-12.1	0.7	-17.2	-14.2	-12.5	-11.5	-10.4	-9.7
Change in NIR (increase -) 2/	-0.4	-0.8	-4.2	1.8	-4.4	3.7	0.9	0.1	-0.1	-0.2	-0.5
Central government external debt	6.0	14.6	21.5	20.9	20.0	29.2	30.9	30.4	29.8	29.3	28.6
Memorandum items											
Gross international reserves											
(End of period; millions of U.S. dollars)	711	904	1,417	1,196	1,760	1,343	1,233	1,217	1,234	1,266	1,343
(In months of next year's G&S imports)	1.8	2.2	3.3	3.0	6.3	4.0	3.3	3.0	3.0	3.0	3.0
External debt-service ratio											
(in percent of exports of G&S)	6.4	8.5	18.0	9.2	9.2	22.9	18.7	17.7	22.2	27.9	20.7
GDP (in millions of Bahamian dollars)		11,938	12,150	12,425	12,827	11,360	12,476	13,140	13,747	14,219	14,705
Output gap (percent)		1.8	1.7	2.9	4.0	-10.1	-4.7	-4.4	-2.8	-2.3	-1.8

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and Fund staff projections.

1/ The data refer to fiscal years ending on June 30.

2/ Net International Reserves.

Table 2a. The Bahamas: Operations of the Central Government
(In millions of Bahamian dollars)

	2015/16	2016/17	2017/18	Prel. 2018/19	Proj. 2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	(Millions of Bahamian dollars, fiscal year 1/)									
Revenue	1,928	2,060	2,042	2,422	2,041	1,919	2,415	2,574	2,766	2,897
Taxes	1,676	1,837	1,836	2,197	1,784	1,678	2,150	2,295	2,469	2,587
Taxes on property	204	233	124	109	99	95	105	116	126	137
Taxes on goods and services	831	886	1,276	1,634	1,377	1,326	1,697	1,769	1,894	1,977
of which: VAT	628	638	681	896	834	792	1,031	1,087	1,165	1,216
Taxes on international trade and transactions	641	717	432	444	299	248	338	399	438	461
Other taxes	0	0	4	10	9	9	10	10	11	11
Grants	0	0	3	0	2	0	0	0	0	0
Other revenue	252	223	204	226	255	241	265	280	297	310
Expenditure	2,231	2,705	2,457	2,635	2,843	3,041	3,039	3,042	3,030	3,125
Expense	2,001	2,323	2,229	2,448	2,657	2,730	2,752	2,820	2,809	2,885
Compensation of employees	665	705	729	712	787	791	825	826	852	882
Goods and Services	310	496	423	470	456	447	524	551	575	611
Interest Payments	275	267	314	325	377	421	417	416	431	428
Subsidies	507	628	328	393	323	329	334	327	345	348
Grants	16	26	33	129	116	152	127	220	92	95
Social Benefits	146	137	166	186	222	241	198	198	205	213
Other Expense	81	64	236	233	376	348	328	282	308	308
of which: Transfers to public entities	0	0	67	53	78	78	93	93	96	100
Net acquisition of nonfinancial assets	230	383	229	188	186	311	287	223	221	240
Overall Balance	-303	-645	-415	-213	-803	-1,122	-624	-468	-264	-228
Primary Balance	-28	-379	-101	112	-425	-701	-208	-51	168	200
Net acquisition of financial assets	118	372	36	80	66	48	2	45	45	45
Net incurrence of liabilities	744	1,157	451	293	869	1,170	626	513	309	273
Debt securities	388	156	671	247	434	940	493	404	243	215
Loans	321	43	13	37	434	230	133	109	66	58
of which : Usage of RFI resource (possible)					252				-128	-128
Other net liabilities	34	958	-234	9	0	0	0	0	0	0
Memorandum items										
Gross operating balance	-73	-263	-186	-25	-616	-811	-338	-245	-43	12
Central government debt	5,965	6,542	7,782	7,881	8,650	9,740	10,360	10,873	11,182	11,455
of which : External	1,753	1,756	2,637	2,553	2,863	3,773	3,930	4,058	4,135	4,204
Central government debt in FRA 2/	5,965	6,542	7,243	7,527	8,396	9,566	10,192	10,873	11,182	11,455
Nominal GDP (In millions of B$) (FY)	11,845	12,044	12,287	12,754	11,965	11,793	12,933	13,444	13,983	14,462

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal year ends June 30.

2/ Excludes payment arrears and promissory notes for the resolution of Bank of The Bahamas.

Table 2b. The Bahamas: Operations of the Central Government

(In percent of GDP)

				Prel.	Proj.					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	(Percent of GDP, unless otherwise specified, fiscal year 1/)									
Revenue	16.3	17.1	16.6	19.0	17.1	16.3	18.7	19.2	19.8	20.0
Taxes	14.2	15.2	14.9	17.2	14.9	14.2	16.6	17.1	17.7	17.9
Taxes on property	1.7	1.9	1.0	0.9	0.8	0.8	0.8	0.9	0.9	0.9
Taxes on goods and services	7.0	7.4	10.4	12.8	11.5	11.2	13.1	13.2	13.5	13.7
of which: VAT	5.3	5.3	5.5	7.0	7.0	6.7	8.0	8.1	8.3	8.4
Taxes on international trade and transactions	5.4	6.0	3.5	3.5	2.5	2.1	2.6	3.0	3.1	3.2
Other taxes	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.1	1.9	1.7	1.8	2.1	2.0	2.0	2.1	2.1	2.1
Expenditure	18.8	22.5	20.0	20.7	23.8	25.8	23.5	22.6	21.7	21.6
Expense	16.9	19.3	18.1	19.2	22.2	23.1	21.3	21.0	20.1	19.9
Compensation of employees	5.6	5.9	5.9	5.6	6.6	6.7	6.4	6.1	6.1	6.1
Goods and Services	2.6	4.1	3.4	3.7	3.8	3.8	4.0	4.1	4.1	4.2
Interest Payments	2.3	2.2	2.6	2.5	3.2	3.6	3.2	3.1	3.1	3.0
Subsidies	4.3	5.2	2.7	3.1	2.7	2.8	2.6	2.4	2.5	2.4
Grants	0.1	0.2	0.3	1.0	1.0	1.3	1.0	1.6	0.7	0.7
Social Benefits	1.2	1.1	1.3	1.5	1.9	2.0	1.5	1.5	1.5	1.5
Other Expense	0.7	0.5	1.9	1.8	3.1	3.0	2.5	2.1	2.2	2.1
of which: Transfers to public entities	0.0	0.0	0.5	0.4	0.6	0.7	0.7	0.7	0.7	0.7
Net acquisition of nonfinancial assets	1.9	3.2	1.9	1.5	1.6	2.6	2.2	1.7	1.6	1.7
Overall Balance	-2.6	-5.4	-3.4	-1.7	-6.7	-9.5	-4.8	-3.5	-1.9	-1.6
Primary Balance	-0.2	-3.1	-0.8	0.9	-3.6	-5.9	-1.6	-0.4	1.2	1.4
Net acquisition of financial assets	1.0	3.1	0.3	0.6	0.6	0.4	0.0	0.3	0.3	0.3
Net incurrence of liabilities	6.3	9.6	3.7	2.3	7.3	9.9	4.8	3.8	2.2	1.9
Debt securities	3.3	1.3	5.5	1.9	3.6	8.0	3.8	3.0	1.7	1.5
Loans	2.7	0.4	0.1	0.3	3.6	2.0	1.0	0.8	0.5	0.4
of which : Usage of RFI resource (possible)					2.1				-0.9	-0.9
Other net liabilities	0.3	7.9	-1.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Gross operating balance	-0.6	-2.2	-1.5	-0.2	-5.2	-6.9	-2.6	-1.8	-0.3	0.1
Central government debt	50.4	54.3	63.3	61.8	72.3	82.6	80.1	80.9	80.0	79.2
of which : External	14.8	14.6	21.5	20.0	23.9	32.0	30.4	30.2	29.6	29.1
Central government debt in FRA 2/	50.4	54.3	58.9	59.0	70.2	81.1	78.8	80.9	80.0	79.2
Nominal GDP (In millions of B$) (FY)	11,845	12,044	12,287	12,754	11,965	11,793	12,933	13,444	13,983	14,462

Sources: Ministry of Finance; and IMF staff projections.

1/ Fiscal year ends June 30.

2/ Excludes payment arrears and promissory notes for the resolution of Bank of The Bahamas.

Table 3. The Bahamas: Balance of Payments

	2016	2017	2018	Projections 2019	2020	2021	2022	2023	2024	2025
				(In millions of U.S. dollars)						
Current account balance	**-711**	**-1,509**	**-1,505**	**84**	**-1,953**	**-1,777**	**-1,648**	**-1,583**	**-1,484**	**-1,425**
Goods (trade balance)	-2,150	-2,538	-2,675	-2,312	-1,515	-1,935	-2,108	-2,185	-2,240	-2,235
Domestic exports	357	401	410	416	307	320	392	465	541	620
Domestic imports	-2,497	-2,926	-3,067	-2,596	-1,805	-2,237	-2,481	-2,630	-2,761	-2,834
Oil	-309	-401	-530	-514	-188	-303	-368	-415	-452	-485
Capital goods	-669	-770	-775	-776	-741	-657	-647	-651	-670	-670
Other domestic imports	-1,518	-1,755	-1,762	-1,306	-876	-1,278	-1,465	-1,564	-1,639	-1,680
Other net exports	-11	-13	-19	-18	-16	-18	-19	-20	-20	-21
Services	1,564	1,445	1,921	2,110	-87	738	1,090	1,209	1,412	1,512
Travel (net)	2,292	2,111	2,599	2,930	719	1,690	2,174	2,397	2,542	2,657
Travel (credit)	2,621	2,481	2,949	3,266	989	1,987	2,488	2,727	2,883	3,011
Travel (debit)	-329	-371	-349	-335	-269	-297	-314	-329	-341	-354
Other services	-728	-666	-679	-820	-807	-953	-1,084	-1,188	-1,129	-1,145
Income and transfers	-125	-416	-751	286	-351	-580	-630	-607	-656	-702
o/w Hurricane insurance payout				749	251					
Capital and financial account	**802**	**2,021**	**1,284**	**488**	**965**	**1,667**	**1,632**	**1,600**	**1,517**	**1,502**
Capital transfers	-14	-26	-21	-20	-18	-20	-21	-22	-22	-23
Long-term public sector	219	825	-48	-45	761	579	283	288	-16	68
o/w IMF Repayments								-46	-91	-46
Commercial banks' NFA	-306	40	-141	-157	-116	-116	-112	-122	-127	-125
Foreign direct investment	390	305	491	285	265	328	385	430	454	473
Other private capital 1/	513	878	1,002	424	72	896	1,097	1,025	1,229	1,109
Overall balance	**92**	**513**	**-221**	**564**	**-987**	**-111**	**-16**	**17**	**32**	**77**
Financing	**-92**	**-513**	**221**	**-564**	**987**	**111**	**16**	**-17**	**-32**	**-77**
Change in gross reserves (increase -)	-92	-513	221	-564	417	111	16	-17	-32	-77
Financing Gap					483					
IMF RFI					252					
IDB					180					
CDB					50					
MIGA guaranteed commercial loans					88					
					(In percent of GDP)					
Current account balance	**-6.0**	**-12.4**	**-12.1**	**0.7**	**-17.2**	**-14.2**	**-12.5**	**-11.5**	**-10.4**	**-9.7**
Goods (trade balance)	-18.0	-20.9	-21.5	-18.0	-13.3	-15.5	-16.0	-15.9	-15.8	-15.2
Domestic exports	3.0	3.3	3.3	3.2	2.7	2.6	3.0	3.4	3.8	4.2
Domestic imports	-20.9	-24.1	-24.7	-20.2	-15.9	-17.9	-18.9	-19.1	-19.4	-19.3
Oil	-2.6	-3.3	-4.3	-4.0	-1.7	-2.4	-2.8	-3.0	-3.2	-3.3
Capital goods	-5.6	-6.3	-6.2	-6.0	-6.5	-5.3	-4.9	-4.7	-4.7	-4.6
Other domestic imports	-12.7	-14.4	-14.2	-10.2	-7.7	-10.2	-11.2	-11.4	-11.5	-11.4
Other net exports	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Services	13.1	11.9	15.5	16.5	-0.8	5.9	8.3	8.8	9.9	10.3
Travel (net)	19.2	17.4	20.9	22.8	6.3	13.5	16.5	17.4	17.9	18.1
Travel (credit)	22.0	20.4	23.7	25.5	8.7	15.9	18.9	19.8	20.3	20.5
Travel (debit)	-2.8	-3.0	-2.8	-2.6	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Other services	-6.1	-5.5	-5.5	-6.4	-7.1	-7.6	-8.3	-8.6	-7.9	-7.8
Income and transfers	-1.0	-3.4	-6.0	2.2	-3.1	-4.6	-4.8	-4.4	-4.6	-4.8
o/w Hurricane insurance payout	0	0	0	5.8	2.2	0	0	0	0	0
Capital and financial account	**6.7**	**16.6**	**10.3**	**3.8**	**8.5**	**13.4**	**12.4**	**11.6**	**10.7**	**10.2**
Capital transfers	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Long-term public sector 2/	1.8	6.8	-0.4	-0.3	6.7	4.6	2.2	2.1	-0.1	0.5
o/w IMF Repayments								-0.3	-0.6	-0.3
Commercial banks' NFA	-2.6	0.3	-1.1	-1.2	-1.0	-0.9	-0.9	-0.9	-0.9	-0.8
Foreign direct investment	3.3	2.5	4.0	2.2	2.3	2.6	2.9	3.1	3.2	3.2
Other private capital	4.3	7.2	8.1	3.3	0.6	7.2	8.3	7.5	8.6	7.5
Overall balance	**0.8**	**4.2**	**-1.8**	**4.4**	**-8.7**	**-0.9**	**-0.1**	**0.1**	**0.2**	**0.5**
Change in GIR (increase -)	**-0.8**	**-4.2**	**1.8**	**-4.4**	**3.7**	**0.9**	**0.1**	**-0.1**	**-0.2**	**-0.5**
Memorandum items 3/										
Gross international reserves										
(End of period; millions of U.S. dollars)	904	1,417	1,196	1,760	1,343	1,233	1,217	1,234	1,266	1,343
(In percent of base money)	70.0	97.8	95.6	101.7	87.6	73.2	68.6	66.5	66.0	67.7
(In months of next year's G&S imports)	2.2	3.3	3.0	6.3	4.0	3.3	3.0	3.0	3.0	3.0
(In percent of ARA metric; percent)	75.8	131.0	99.1	141.9	107.2	...	...	...	...	...
Nominal GDP (millions of U.S. dollars)	11,938	12,150	12,425	12,827	11,360	12,476	13,140	13,747	14,219	14,705

Sources: Central Bank of The Bahamas; Department of Statistics; and IMF staff projections.

1/ Includes errors and omissions.

2/ Staff assumes that a quarter of the $350 million of commercial loans associated with the World Bank's Multilateral Investment Guarantee Agency (MIGA) will be externally issued and disbursed in 2020. Of the $320 million of IDB loans under discussion, $125 million (of which $25 million are investment loans recorded above the line) are assumed to be disbursed in 2020.

3/ Reserves as percent of ARA metric amount to 77.4 percent without external support.

Table 4. The Bahamas: Summary Accounts of the Central Bank and the Financial System

					Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(In millions of Bahamian dollars, end of period)									
Central Bank										
Gross international reserves	904	1,417	1,196	1,760	1,343	1,233	1,217	1,234	1,266	1,343
Net international reserves 1/	904	1,417	1,196	1,760	1,091	979	962	1,042	1,202	1,343
Net domestic assets	388	32	55	-29	795	1,058	1,165	1,167	1,071	995
Credit to nonfinancial public sector (net)	713	381	436	353	353	353	353	353	353	353
Of which: Central Government	717	390	504	396	396	396	396	396	396	396
Other	-325	-348	-381	-382	442	705	812	814	718	642
Reserve money	1,292	1,450	1,252	1,731	1,533	1,684	1,774	1,856	1,919	1,985
Currency held by the private sector	426	439	460	489	433	475	500	524	542	560
Liabilities with financial institutions	866	1,011	792	1,243	1,101	1,209	1,273	1,332	1,378	1,425
Financial system										
Net foreign assets	679	1,153	1,071	1,790	1,237	1,240	1,335	1,537	1,824	2,090
Of which : Commercial banks and OFIs	-225	-265	-125	30	145	262	374	495	622	747
Net domestic assets	6,252	5,885	6,037	6,103	5,754	6,436	6,750	6,922	6,926	6,958
Credit to nonfinancial public sector, net	2,668	2,566	2,735	2,775	3,161	3,534	3,971	4,267	4,473	4,667
Central Government, net	2,551	2,383	2,539	2,621	2,973	3,313	3,717	3,979	4,152	4,312
Credit to private sector	6,171	5,983	5,886	5,892	5,218	5,730	6,035	6,314	6,531	6,754
Other	-2,587	-2,664	-2,584	-2,564	-2,625	-2,828	-3,256	-3,659	-4,079	-4,463
Liabilities to the private sector (broad money)	6,930	7,037	7,109	7,893	6,990	7,677	8,086	8,459	8,750	9,049
Money	2,461	2,654	2,728	3,248	2,877	3,159	3,328	3,481	3,601	3,724
Currency	281	293	310	337	298	328	345	361	373	386
Demand deposits	2,180	2,361	2,418	2,912	2,579	2,832	2,983	3,120	3,228	3,338
Quasi-money	4,470	4,383	4,381	4,644	4,113	4,517	4,758	4,978	5,149	5,325
	(Change in percent of liabilities to the private sector at the beginning of the period)									
Net foreign assets	6.2	6.8	-1.2	10.1	-7.0	0.1	1.2	2.5	3.4	3.0
Net domestic assets	2.5	-5.3	2.2	0.9	-4.4	9.8	4.1	2.1	0.0	0.4
Credit to nonfinancial public sector	4.6	-1.5	2.4	0.6	4.9	5.3	5.7	3.7	2.4	2.2
Credit to private sector	-2.0	-2.7	-1.4	0.1	-8.5	7.3	4.0	3.4	2.6	2.6
Liabilities to private sector (broad money)	8.7	1.5	1.0	11.0	-11.4	9.8	5.3	4.6	3.4	3.4
Money	6.1	2.8	1.1	7.3	-4.7	4.0	2.2	1.9	1.4	1.4
Quasi-money	2.6	-1.2	0.0	3.7	-6.7	5.8	3.1	2.7	2.0	2.0
	(Annual percentage change)									
Net domestic assets	2.6	-5.9	2.6	1.1	-5.7	11.9	4.9	2.6	0.0	0.5
Credit to nonfinancial public sector	12.3	-3.8	6.6	1.5	13.9	11.8	12.4	7.5	4.8	4.3
Credit to private sector	-2.0	-3.0	-1.6	0.1	-11.4	9.8	5.3	4.6	3.4	3.4
Liabilities to private sector (broad money)	8.7	1.5	1.0	11.0	-11.4	9.8	5.3	4.6	3.4	3.4
Money	18.8	7.9	2.8	19.1	-11.4	9.8	5.3	4.6	3.4	3.4
Quasi-money	3.9	-1.9	-0.1	6.0	-11.4	9.8	5.3	4.6	3.4	3.4

Sources: Central Bank of The Bahamas; and IMF staff projections.

1/ Under the assumption that reserves are used to sterilize the monetary impact of government drawing down on its deposits at the central bank.

Table 5. The Bahamas: Financial Soundness Indicators for the Banking System

(In percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy								
Regulatory capital to risk-weighted assets	29.1	31.1	32.8	33.3	28.6	32.5	32.3	28.1
Regulatory Tier I capital to risk-weighted assets	…	…	…	…	27.0	31.0	31.4	27.0
Capital to assets	26.3	26.5	25.9	27.0	26.0	26.5	18.4	15.2
Credit to economic sectors 1/								
Nonfinancial corporations	24.3	22.5	19.0	18.0	17.2	15.5	16.4	16.3
Households	73.3	73.7	75.6	75.6	75.3	77.5	74.7	73.1
Financial institutions	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Government	2.1	3.6	5.1	6.0	7.3	6.7	8.5	10.2
Asset Quality 2/ 3/								
Nonperforming loans to total gross loans	13.6	15.3	15.3	14.2	11.4	9.2	8.3	7.2
Nonperforming loans net of provisions to capital	27.8	32.5	29.3	22.8	15.5	12.0	7.3	5.4
Specific provisions to nonperforming loans 3/	33.0	29.5	41.1	47.5	56.0	52.0	68.6	76.4
Profitability								
Return on assets	1.5	1.4	-1.2	1.9	2.0	1.8	2.3	2.4
Return on equity	5.9	5.4	-4.6	7.0	7.9	6.8	8.5	10.6
Noninterest expenses to gross income	40.8	47.1	66.3	47.4	48.4	52.1	48.0	49.0
Personnel expenses to noninterest expenses	51.2	50.3	34.8	46.8	44.0	40.8	42.6	40.2
Liquidity 2/								
Liquid asset to total assets	20.2	21.8	22.6	24.1	25.9	29.0	26.6	29.6
Liquid asset to short-term liabilities 4/	31.2	34.0	34.4	37.0	37.8	42.7	38.3	40.9
Memo items 2/								
Total private sector credit to GDP	61.8	61.6	58.1	53.4	52.1	49.2	47.4	45.9
Spread between domestic lending and deposit rates	8.9	9.4	10.4	10.9	11.3	10.8	10.5	9.9
Loans to assets	74.0	72.8	72.2	70.6	69.1	64.8	67.9	62.4

Sources: Central Bank of The Bahamas and IMF staff calculations.

1/ In percent of total credit.

2/ Includes the two largest credit unions.

3/ 2018 & 2019 data does not include Credit Union data for Asset Quality

4/ Short-term liabilities are defined as resident deposits.

Table 6. The Bahamas: External Financing Requirements, 2019–2020

(In millions of US dollars)

	2019	2020
Financing needs	**492**	**1,536**
Current account deficit	(72)	1,953
Net payment to the IMF	0	0
Reserve accumulation (+= increase)	564	(417)
Financing sources	**257**	**965**
Capital account	(20)	(18)
Financial account	277	983
o/w: FDI (net)	285	265
Public sector (net)	(39)	761
Exceptional financing	0	0
Errors and omissions	**235**	**0**
Financing gap	**0**	**571**
Prospective financing		**571**
IMF - RFI		252
IDB		180
CDB		50
MIGA guaranteed commercial loans		88
Residual financing gap		**0**

Sources: The Bahamian authorities and IMF staff projections.

Table 7. The Bahamas: Indicators of Capacity to Repay the Fund, 2020–2025

	Projections					
	2020	2021	2022	2023	2024	2025
Fund obligations based on existing and prospective credit						
Total (in millions of SDRs)	1.7	1.9	1.9	47.5	92.4	45.8
Principal (in millions of SDRs)	0.0	0.0	0.0	45.6	91.2	45.6
Charges/interest (in millions of SDRs)	1.7	1.9	1.9	1.9	1.2	0.2
Total (in millions of US dollars)	2.4	2.7	2.7	66.4	129.5	64.5
Principal (in millions of US dollars)	0.0	0.0	0.0	63.7	127.9	64.2
Charges/interest (in millions of US dollars)	2.4	2.7	2.7	2.6	1.6	0.3
Total obligations based on existing and prospective credit						
in percent of GDP	0.0	0.0	0.0	0.5	0.9	0.4
In percent of exports of goods and services	0.1	0.1	0.1	1.7	3.1	1.5
In percent of debt service	0.6	0.8	0.5	16.4	19.2	19.0
In percent of quota	0.9	1.1	1.1	26.0	50.6	25.1
In percent of gross international reserves	0.2	0.2	0.2	5.4	10.2	4.8
Fund credit outstanding						
In millions of SDRs	182.4	182.4	182.4	136.8	45.6	0.0
In millions of U.S. dollars	252.6	253.5	254.3	191.2	63.9	0.0
in percent of GDP	2.2	2.0	1.9	1.4	0.4	0.0
In percent of exports of goods and services	14.3	8.8	7.3	4.9	1.5	0.0
In percent of debt service	66.3	79.1	47.6	47.3	9.5	0.0
In percent of quota	100.0	100.0	100.0	75.0	25.0	0.0
In percent of gross international reserves	18.8	20.6	20.9	15.5	5.0	0.0
In percent of public external debt	7.6	6.6	6.4	4.7	1.5	0.0
Net use of Fund credit						
Total (in millions of SDRs)	182.4	0.0	0.0	-45.6	-91.2	-45.6
Disbursements (millions of SDRs)	182.4	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	45.6	91.2	45.6
Total (in millions of US dollars)	252.6	0.0	0.0	-63.7	-127.9	-64.2
Disbursements (millions of US dollars)	252.6	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of US dollars)	0.0	0.0	0.0	63.7	127.9	64.2
Memorandum items:						
Exports of goods and services (millions of US dollars)	1765.0	2880.1	3501.9	3868.7	4153.2	4409.1
Public sector external debt service (millions of US dollars)	381.1	320.6	534.7	404.1	674.9	339.6
Public sector external debt (millions of US dollars)	3318.1	3851.5	3993.9	4096.7	4169.5	4203.7
Quota (millions of SDRs)	182.4	182.4	182.4	182.4	182.4	182.4
Quota (millions of US dollars)	252.6	253.5	254.3	254.9	255.8	256.7
Gross international reserves (millions of US dollars)	1343.3	1232.5	1216.8	1234.0	1266.3	1343.3
GDP (millions of US dollars)	11360.1	12475.8	13140.1	13747.3	14219.4	14705.3

Sources: Central Bank of The Bahamas and Fund staff estimates and projections.

Annex I. Debt Sustainability Analysis

The Bahamas' government debt remains sustainable, but the sharp increase in debt, especially external debt, increases the vulnerability of the debt path to downside risks.

1. Central government debt is projected to increase from 61.8 percent of GDP in FY2018/19 to 82.6 percent of GDP by FY2020/21, after which it gradually declines to 79.2 percent over the medium term. External debt is expected to increase from 20 to 32.0 percent of GDP from FY2018/19 to FY2020/21. As a result, the risk to the debt level is assessed as "red" in the heatmap.

2. The Bahamas were hit by two consecutive major shocks in FY2019/20: Hurricane Dorian and the COVID-19 pandemic. Government revenue will decline sharply as a result of the sudden stop in tourism and the domestic lockdowns/curfews. In addition, the government is facing significant spending pressures to mitigate the adverse impact of the pandemic and Hurricane Dorian. Nevertheless, the authorities remain committed to achieve the long-term debt target of 50 percent of GDP, and fiscal consolidation will restart after the COVID-19 crisis wanes.

3. Stress tests show that the most adverse shock would be another major hurricane (combined macro-fiscal shock II in DSA Figure 4). The Bahamas is exposed to significant hurricane risk every year. A major hurricane can have devastating effects on infrastructure and housing, paralyzing the local economy. Such a scenario could push the central government debt-to-GDP ratio to slightly above 100 percent in FY2020/21. A contingent liability shock and a combined macro-fiscal shock could raise public debt to beyond 90 percent of GDP.

4. Significant additional downside risks stem from prolonged disruptions due to COVID-19. Tightening global and domestic financial market conditions would be another risk as the government will face substantial financing needs in FY2020/21.

5. In the baseline scenario, real GDP contracts by 7.4 percent in FY2019/20 and 2.9 percent in FY2020/21. Growth is expected to rebound in FY 2021/22 and converge to 1.5 percent over the medium term. The primary balance is projected to turn from a surplus of 0.9 percent of GDP in FY2018/19 to a deficit of 3.6 and 5.9 percent of GDP in the current and next fiscal years, respectively. The government plans to finance the FY2020/21 deficit largely by external multilateral and commercial—including with WB MIGA guarantees—borrowing. Over the medium term, the government is expected to resume fiscal consolidation to bring the debt and deficit closer to their fiscal targets under the Fiscal Responsibility Act (FRA). Measures include resuming the reviews of SOE governance, investment incentives, and the pension system, enhancements to public financial management (PFM) to increase expenditure control and efficiency, and revenue administration reforms. However, significant additional fiscal effort will be needed to achieve the 50 percent debt target by FY2030/31. Illustrative staff calculations suggest that an average primary surplus of 4 percent of GDP would be needed starting in FY2024/2025, with significantly faster consolidation than in the current baseline already beginning in FY2022/23.

6. **The debt sustainability analysis covers only central government debt**. In addition to formal loans and debt securities, the DSA includes the promissory note to the Bank of The Bahamas and arrears to domestic sectors accumulated by the past administrations (total 4.5 percent of GDP). Most government debt is medium- and long-term and denominated in domestic currency.

Figure 1. The Bahamas: The Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

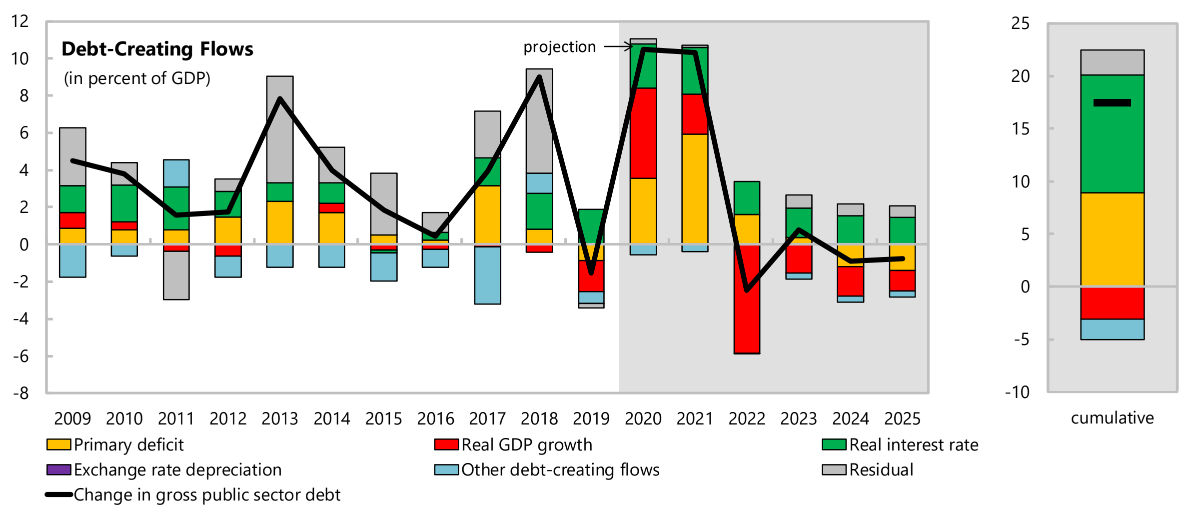
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	42.2	63.3	61.8	72.3	82.6	80.1	80.9	80.0	79.2
Public gross financing needs	5.9	14.0	8.0	10.9	14.0	9.9	11.6	11.1	9.1
Real GDP growth (in percent)	-0.2	0.8	2.7	-7.4	-2.9	7.8	2.0	2.0	1.5
Inflation (GDP deflator, in percent)	1.6	1.2	1.1	1.3	1.5	1.8	1.9	2.0	1.9
Nominal GDP growth (in percent)	1.5	2.0	3.8	-6.2	-1.4	9.7	4.0	4.0	3.4
Effective interest rate (in percent) [4/]	5.2	4.8	4.2	4.8	4.9	4.3	4.0	4.0	3.8

As of May 08, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		536
5Y CDS (bp)		894
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BB	BB
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.3	9.0	-1.5	10.5	10.3	-2.5	0.8	-0.9	-0.8	17.4	
Identified debt-creating flows	1.4	3.4	-1.3	10.2	10.2	-2.5	0.1	-1.6	-1.4	15.1	
Primary deficit	1.3	0.8	-0.9	3.6	5.9	1.6	0.4	-1.2	-1.4	8.9	0.0
Primary (noninterest) revenue and grants	14.2	16.6	19.0	17.1	16.3	18.7	19.2	19.8	20.0	111.0	
Primary (noninterest) expenditure	15.6	17.4	18.1	20.6	22.2	20.3	19.5	18.6	18.6	119.9	
Automatic debt dynamics [5/]	1.2	1.5	0.2	7.2	4.6	-4.1	0.1	0.0	0.3	8.1	
Interest rate/growth differential [6/]	1.2	1.5	0.2	7.2	4.6	-4.1	0.1	0.0	0.3	8.1	
Of which: real interest rate	1.2	1.9	1.9	2.4	2.5	1.8	1.6	1.5	1.4	11.2	
Of which: real GDP growth	0.0	-0.4	-1.7	4.8	2.1	-5.8	-1.5	-1.6	-1.1	-3.1	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.1	1.1	-0.6	-0.6	-0.4	0.0	-0.3	-0.3	-0.3	-2.0	
Net acquisition of assets (negative)	-1.1	-0.3	-0.6	-0.6	-0.4	0.0	-0.3	-0.3	-0.3	-2.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Promissory note for bank resolution	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.9	5.6	-0.3	0.3	0.1	0.0	0.7	0.6	0.6	2.3	



Source: IMF staff.

1/ Public sector is defined as central government. All the analyses are based on fiscal year (July - June).

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

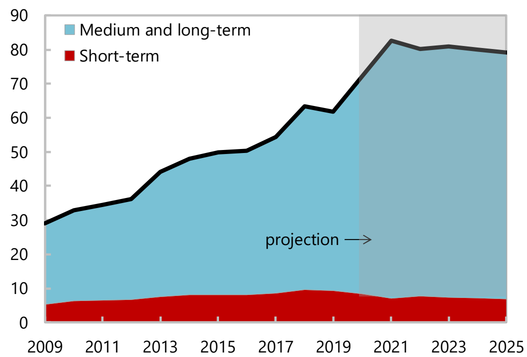
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. The Bahamas: The Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

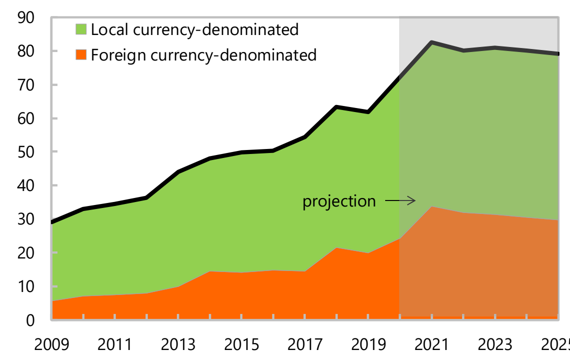
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

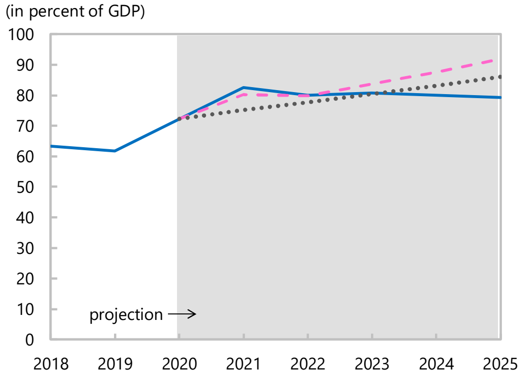


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

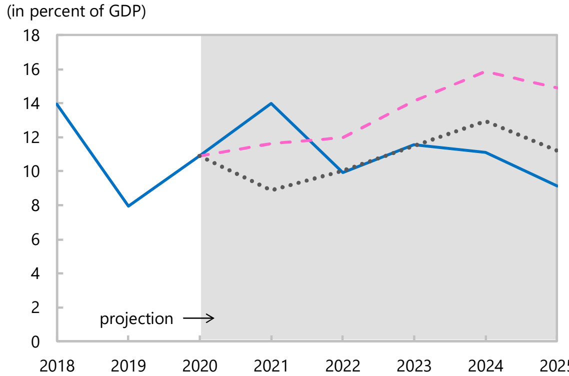
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

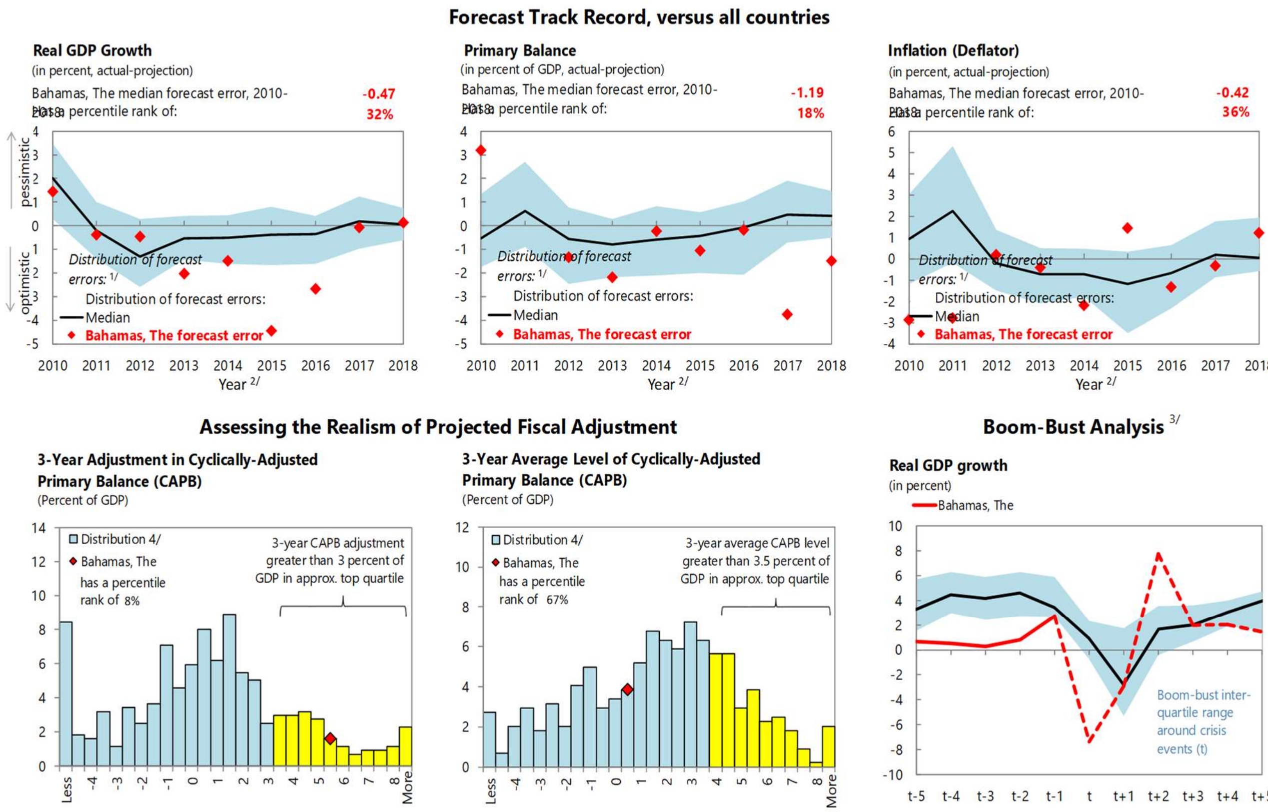
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.4	-2.9	7.8	2.0	2.0	1.5
Inflation	1.3	1.5	1.8	1.9	2.0	1.9
Primary Balance	-3.6	-5.9	-1.6	-0.4	1.2	1.4
Effective interest rate	4.8	4.9	4.3	4.0	4.0	3.8
Constant Primary Balance Scenario						
Real GDP growth	-7.4	-2.9	7.8	2.0	2.0	1.5
Inflation	1.3	1.5	1.8	1.9	2.0	1.9
Primary Balance	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	4.8	4.9	4.3	4.0	4.0	3.9

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.4	0.5	0.5	0.5	0.5	0.5
Inflation	1.3	1.5	1.8	1.9	2.0	1.9
Primary Balance	-3.6	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	4.8	4.9	4.3	4.2	4.2	4.2

Source: IMF staff.

Figure 3. The Bahamas: The Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

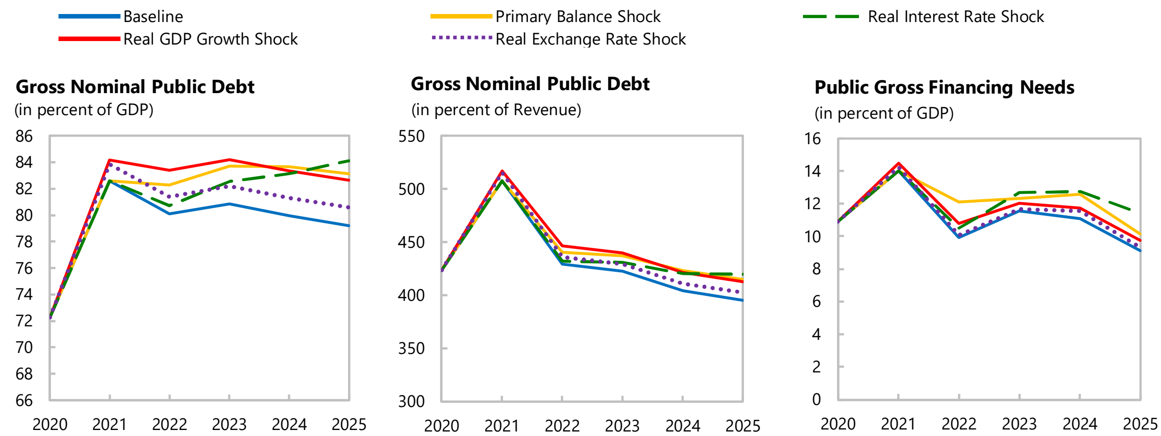
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Bahamas, The has had a positive output gap for 3 consecutive years, 2017-2019. For Bahamas, The, t corresponds to 2020; for the distribution, t corresponds to the first year of the crisis.

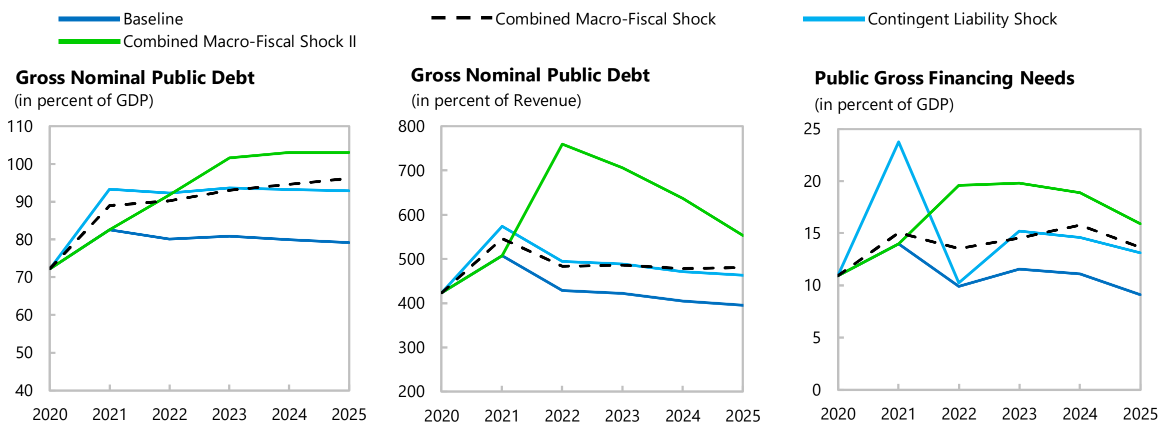
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. The Bahamas: The Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-7.4	-2.9	7.8	2.0	2.0	1.5
Inflation	1.3	1.5	1.8	1.9	2.0	1.9
Primary balance	-3.6	-5.9	-3.8	-1.0	0.4	1.3
Effective interest rate	4.8	4.9	4.3	4.1	4.1	4.0
Real Interest Rate Shock						
Real GDP growth	-7.4	-2.9	7.8	2.0	2.0	1.5
Inflation	1.3	1.5	1.8	1.9	2.0	1.9
Primary balance	-3.6	-5.9	-1.6	-0.4	1.2	1.4
Effective interest rate	4.8	4.9	5.1	5.4	5.8	6.0
Combined Shock						
Real GDP growth	-7.4	-4.1	6.5	2.0	2.0	1.5
Inflation	1.3	1.2	1.5	1.9	2.0	1.9
Primary balance	-3.6	-6.3	-3.8	-1.0	0.4	1.3
Effective interest rate	4.8	5.2	5.2	5.6	5.9	6.2
Combined Macro-Fiscal Shock II						
Real GDP growth	-7.4	-2.9	4.8	0.0	3.5	2.5
Inflation	1.3	1.5	1.8	1.9	3.0	2.4
Primary balance	-3.6	-5.9	-11.0	-7.6	-3.4	-0.5
Effective interest rate	4.8	4.9	4.3	4.1	4.1	4.1

	2020	2021	2022	2023	2024	2025
Real GDP Growth Shock						
Real GDP growth	-7.4	-4.1	6.5	2.0	2.0	1.5
Inflation	1.3	1.2	1.5	1.9	2.0	1.9
Primary balance	-3.6	-6.3	-2.2	-0.4	1.2	1.4
Effective interest rate	4.8	4.9	4.3	4.1	4.0	3.9
Real Exchange Rate Shock						
Real GDP growth	-7.4	-2.9	7.8	2.0	2.0	1.5
Inflation	1.3	6.0	1.8	1.9	2.0	1.9
Primary balance	-3.6	-5.9	-1.6	-0.4	1.2	1.4
Effective interest rate	4.8	5.2	4.4	4.1	4.0	3.9
Contingent Liability Shock						
Real GDP growth	-7.4	-4.1	6.5	2.0	2.0	1.5
Inflation	1.3	1.2	1.5	1.9	2.0	1.9
Primary balance	-3.6	-15.3	-1.6	-0.4	1.2	1.4
Effective interest rate	4.8	5.2	4.9	4.7	4.5	4.2

Source: IMF staff.

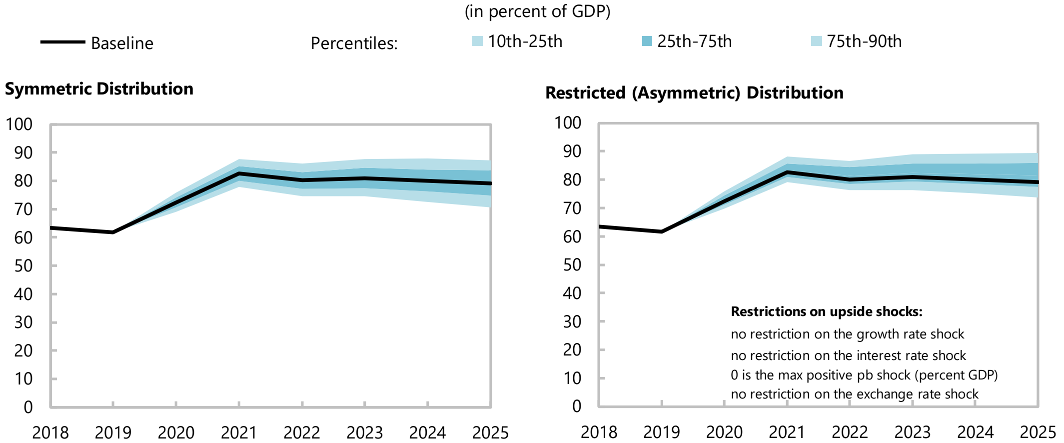
Figure 5. The Bahamas: The Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

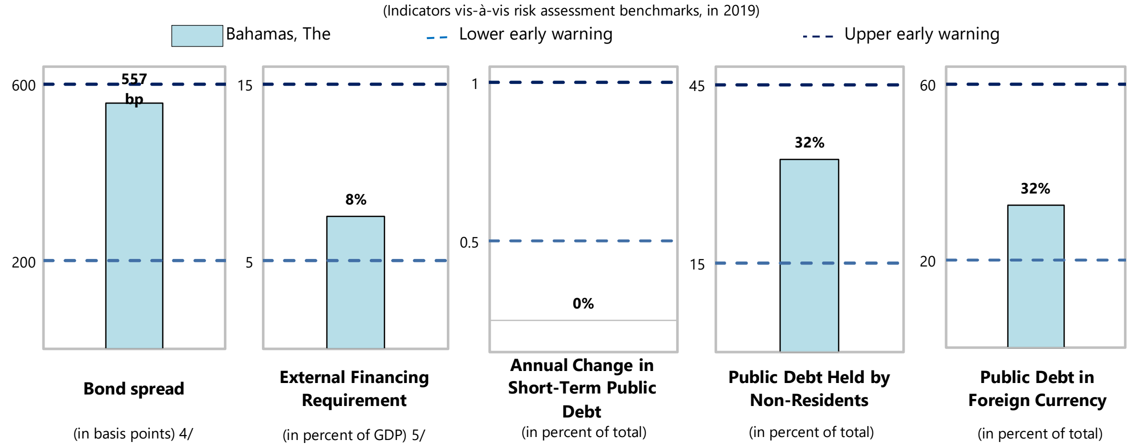
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 08-Feb-20 through 08-May-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix I. Letter of Intent

Nassau, Bahamas
May 22, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva:

Since early March 2020, the Government of The Bahamas has taken proactive steps to contain the spread of the COVID-19 pandemic. Despite these efforts, the number of Bahamians with confirmed infections have been rising, and so have the number of casualties. As of late-May, we reported 97 cases of COVID-19 with 11 deaths. As part of our firm commitment to minimize the cost of the pandemic on the lives and livelihoods of the citizens of The Bahamas, we have closed air and sea borders to incoming passengers and enforced daily curfews on weekdays with full lockdowns during weekends.

The COVID-19 crisis comes on the heels of Hurricane Dorian, the strongest storm in The Bahamas' recent history, which resulted in a tragic loss of life and severe damage. As a result of the pandemic, we are now facing a sudden stop of tourism, an industry which is critical to our economy. Reconstruction of Hurricane Dorian related damage has also come to an abrupt halt. Our preliminary projections indicate that real GDP will contract by over 10 percent in 2020, while unemployment will exceed 20 percent. These developments have given rise to significant fiscal and balance of payments needs.

To protect our citizens and the economy, our government has undertaken several measures:

- As part of a comprehensive pandemic response strategy, we appointed an Economic Recovery Committee to advise the government on ways to jumpstart the economy following the COVID-19 crisis, with a focus on job-creation and stimulating small business development. The recently established National Food Committee will steer the collaboration among public institutions, the private sector and civil society organizations to improve food distribution, especially to the most vulnerable groups.

- As a result of the COVID-19 crisis and the sudden stop in tourism, we are experiencing an unprecedented decline in our revenues. At the same time, we are implementing temporary and targeted fiscal measures of about 4 percent of GDP to mitigate the impact of the pandemic on the economy. These include provisions for unemployment assistance, food and social support, tax deferrals, and business loans. In response to the damage caused by Hurricane Dorian, we also introduced broad-based tax exemptions for the hurricane-affected islands and increased spending on social protection and infrastructure.

- We will adhere to best practices in procurement and contract awards related to the pandemic, ensuring transparency and ease of tracking of COVID-19 expenditures in the budget. We have recently re-established the Audit Committee to strengthen implementation of recommendations by internal and external audits. The Auditor General is empowered to undertake regular audits of public procurement. We will publish procurement contracts of crisis mitigation spending, including beneficial ownership information of companies awarded procurement contracts, report quarterly on COVID-19 mitigation spending, and such spending will be audited by the Auditor General in accordance with international best practice within 9 months of the end of the fiscal year, and auditing results will be published on the government's website. We will also ask the Auditor General to quantify the revenue losses that are directly associated with the COVID-19 pandemic.

- The Central Bank of The Bahamas (CBOB) has maintained short-term interest rates at historically low levels and ensured ample liquidity in the foreign exchange market and throughout the banking system. It has encouraged banks and credit unions to consider loan moratoria. This will be done without relaxing credit standards. We will provide guidance so banks' estimates of expected credit losses are robust and timely, and ask for regular loan portfolio reviews and risk assessments by banks to measure the pandemic's impact on financial conditions and asset quality.

Against this background, the Government of The Bahamas requests emergency financing from the IMF in the equivalent of SDR 182.4 million (about US$252 million), equivalent to a purchase of 100 percent of quota under the Rapid Financing Instrument (RFI) to proactively respond to the severe balance of payments needs. Coupled with our own reserves and support by the Inter-American Development Bank and Caribbean Development Bank, this disbursement will help us fill the external gap in 2020 and the fiscal financing gaps in FY2019/20 and FY2020/21.

We are determined to protect The Bahamas' hard-won reforms and advance our structural agenda after the COVID-19 crisis:

- We are committed to prudent policies through the Fiscal Responsibility Act, which is designed to ensure the sustainability of our debt over the long term. To ensure compliance with the FRA over the medium term, we intend to embed sunset clauses in the new budget for the temporary measures put in place in response to COVID-19 and Hurricane Dorian and resume various measures planned before Hurricane Dorian (including the review and reform of investment incentives, reform of tax administration, and review and reform of SOEs to make them self-sustained entities) once the COVID-19 crisis abates. We will also develop detailed contingency plans to protect priority spending, including on social assistance, healthcare and key infrastructure projects. In addition, we will take steps to increase revenue collection, contain the wage bill and reduce transfers to SOEs at a measured pace over the coming years.

- We intend to finalize the Public Procurement Law—which will modernize our procurement system and bring it in line with international best practice—by end-June this year. We also plan to submit the Public Financial Management Bill and the Public Debt Management Bill to Parliament by end-2020.

- We will continue to develop our foreign exchange and debt markets, and to upgrade institutions, notably by approving the new Central Bank Law, which, among others, limits lending to the government. We have made good progress in implementing several action items agreed with the Financial Action Task Force (FATF) to strengthen our AML/CFT regime. As a result, in February 2020, the FATF made an initial determination that The Bahamas has largely completed its action plan, to be confirmed through an on-site visit. The latter has been delayed due to the COVID-19 pandemic. We will work closely with the FATF and continue taking the appropriate measures to ensure that The Bahamas adheres to international best practice.

The Government of The Bahamas will maintain an open dialogue with the IMF. We are committed to ensuring continued macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements, which are inconsistent with Article VIII of the Fund's Articles of Agreement.

In line with the IMF safeguards policy, we commit to undergoing a safeguards assessment in connection with the RFI. We will provide IMF staff with the Central Bank of The Bahamas' most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff. Given that financing from the IMF will be disbursed for budget support, a framework agreement will be established between the Central Bank of The Bahamas and the Ministry of Finance on the respective responsibilities for servicing financial obligations to the IMF.

We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI.

Sincerely yours,

/s/	/s/
Peter Turnquest	John Rolle
Deputy Prime Minister and Minister of Finance of The Bahamas	Governor of the Central Bank of The Bahamas