

**EXECUTIVE
BOARD
MEETING**

EBS/20/103
Correction 2

June 2, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached correction to EBS/20/103, Cor. 1 (5/29/20) has been provided by the staff:

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Questions: Ms. Weber, WHD (ext. 34013)
Mr. Oshima, WHD (ext. 36670)
Mr. Cevik, WHD (ext. 36695)

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 long-term external bond issuance in FY2020/21. They are also evaluating seeking two guarantees 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 5 years. Discussions are ongoing with the IDB for new credit facilities amounting to \$320 million in FY 2020/2021 for policy loans and 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.

	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 A/V.
 3/ Loans for investment projects are included in "External, net".