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January 20, 2021

Statement by Mr. Ronicle and Mr. Clark on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank Staff for the comprehensive papers and Ms. Levonian and Ms. Smith for their informative buff statement. We share Staff's assessment on the outlook for the economy of The Bahamas. COVID-19 hit the economy hard at a time when it was just recovering from the devastation of Hurricane Dorian. We commend the authorities for the rapid emergency response to support the economy and vulnerable households as well as the strict containment measures. However, given the outlook, the authorities should undertake a comprehensive set of actions to minimize the continuing impact from the pandemic, put in place the building blocks for a resilient economy, whilst addressing long standing structural issues, including vulnerability to natural disasters.

Given the Bahamas have been heavily impacted by the combined effects of recent natural disasters and the pandemic, the initial response has been appropriate. COVID-19 has had a significant impact on tourism, unemployment and has had wider socio-economic effects. Policies appropriately shifted to providing relief to vulnerable groups, small business and the health sector as well as protecting commercial banks and maintaining liquidity in the banking sector. The extension of support to the unemployed and self-employed, the deferral of tax payments and the additional resources to the health sector helped mitigate the immediate effects of the pandemic. The initial response of the CBOB supported liquidity in the banking sector and the protection of commercial banks. In addition, given the emergency financing needs, the authorities appropriately sought additional external support.

The economic outlook, however, suggests the need for a comprehensive set of policies to continue to mitigate the impact of the pandemic, ensure a resilient recovery and lay the foundations for longer-term inclusive growth. The further downgrade of growth projections since the RFI request in June and the continued depressed longer-term outlook in the tourism sector suggest the need to plan appropriately for the downside scenario. This is reinforced by significant uncertainties around the re-opening the international tourism sector, the international roll out of vaccines and the increasing vulnerability to natural disasters. Managing these risks and any subsequent deterioration of the current account and fiscal position could have implications for already high levels of debt and debt sustainability.

Protecting the most vulnerable, enhancing the transparency and efficiency of social spending whilst taking forward credible tax and revenue reforms in the medium term will be necessary. The extension of the current COVID measures focused on the domestic economy and public health system is welcome, especially maintaining a focus on extending income and unemployment support. We also welcome the authorities' efforts to access vaccines through the COVAX facility. Rigorous project appraisal and selection processes will be required for capital projects, as will developing a detailed contingency plan given the uncertainties around revenue collection. Tax policy reforms will be necessary going forward, including on income taxation and providing a more market-based approach to property taxes as well as wider tax administration reforms. We welcome the authorities' commitment to publishing all procurement contracts related to COVID-19, including information on beneficial ownership. Whilst we can support postponing the debt target and fiscal targets in the short-term, the FRA should remain as the anchor for fiscal policy. Given the likely financing gaps, we welcome the authorities seeking additional financing from the Multilateral Development Banks. *Can staff elaborate further on what the proposed domestic sources of financing would be for the remaining financing needs and the longer-term debt implications from an external and domestic debt issuance?*

Maintaining financial sector stability and closely monitoring financial stability risks as the pandemic subsides will be important. Loan moratoria should be more targeted and eventually phased out. Greater oversight of NPLs by the CBOB and engagement with the banks to address any outstanding NPLs is likely to be required going forward. We welcome the recent reforms to the crisis management framework, but we encourage the authorities to ensure there is adequate staffing and capacity to implement the proposed reforms. We strongly welcome the removal of the Bahamas from the FATF grey list. We note the risks to financial intermediation, integrity, and cybersecurity from the *Sand Dollar* and encourage the authorities to put in place strong safeguards to mitigate these risks.

Addressing long-standing structural issues and continuing to build resilience should remain a priority. Long-standing structural issues have exacerbated the impact of COVID-19 and, given the likely impact of climate change on the economy, these should be addressed over the medium and longer-term. Business climate reform, improving the competitiveness of SOEs, addressing youth unemployment and promoting sustainable tourism should remain a priority. We note that many of the Staff recommendations in this area have been long-standing. Continued investment in climate resilience infrastructure and mandatory property insurance will help buffer the impact of further natural disasters. *Could staff update us on the authorities' efforts to put in place a more robust disaster risk finance strategy and the recommendation from the last Article IV that this should be accompanied by a more comprehensive disaster resilience strategy?*