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January 20, 2021

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

We thank staff for the well-written report and Ms. Levonian and Ms. Smith for their informative Buff statement. The Bahamas faces an unprecedented crisis as it battles the fallout from two consecutive large shocks caused by Hurricane Dorian in the fall of 2019 and the pandemic which has exacted a tragic human, economic, and social toll on the country. **We broadly agree with staff's appraisal and offer the following points for emphasis.**

We welcome the continued support to the domestic economy and the public health system. We note that fiscal policies appropriately shifted toward providing relief to the unemployed, vulnerable groups, small businesses, and the health sector. However, for some measures, execution fell short given limited demand for some programs and implementation delays. On health issues, we see merit in the government's establishment of a National COVID-19 Vaccine Consultative Committee to assist in developing a national vaccination plan, as mentioned in the Buff statement.

Fiscal deficits have risen rapidly. We note that expenditures are projected to increase substantially, raising the fiscal deficit and pushing up the debt-to-GDP ratio to almost 90 percent. The deficit will be financed by external and domestic debt issuance, as well as support from IFIs. The greater reliance on IFI financing has come against the background of sovereign rating downgrades. *How have the downgrades impacted access to market financing, and are further downgrades expected? Have the authorities considered requesting a Fund UCT program to help fill the remaining financing gap and catalyze further support?*

Fiscal consolidation will be needed once the crisis subsides. We note staff's recommendation to deploy additional fiscal effort of about 3 percent of GDP over four years starting in FY2022/23, and a constant primary surplus of about 5 percent of GDP thereafter.

Acknowledging that this plan may seem challenging, we strongly agree that the authorities should start preparing measures and communicate a timetable for implementation once the pandemic-related uncertainty subsides, to preserve credibility. Public Financial Management reforms should continue to enhance fiscal discipline. Moreover, tax policy reforms, including on income taxation, can help support a robust and equitable fiscal consolidation.

Strengthening public confidence in the government and ensuring that spending is of high quality remain essential. We reiterate that strong safeguards remain essential to ensure that the emergency support is used for its intended purposes. We agree that transparency and accountability of the emergency expenditure measures are key to facilitate verification and audit. In this vein, we welcome the authorities' commitment to publish procurement contracts of COVID-19 related spending with beneficial ownership information on their website in the coming months, and that the Auditor General will audit COVID-19 related expenses and revenue losses by March 2021 and report irregularities.

Strengthening systemic risk oversight would help maintain financial stability. The pandemic is starting to have an adverse impact on banks. Credit quality indicators are starting to deteriorate, as some banks are phasing out loan deferral schemes, and overall profitability has contracted. We note that the Bahamian banks seem to be well capitalized and stress tests may provide some confidence. Still, tourism is hit hard, and the impact of the pandemic could drag out for a long period. As loan moratoria expire, lower incomes and higher unemployment will weigh on asset quality. Systemic risk will increase. We therefore see merit in staff's recommendations on further developing macroprudential tools and strengthening interagency coordination to enhance financial sector stability.

Capital flow measures have been deployed. Some of the measures taken in spring are considered capital flow management measures under the IMF's Institutional View. We agree with staff that a temporary tightening of CFMs under crisis conditions is appropriate, but they should be closely monitored and removed as conditions allow.

Structural reforms are needed to facilitate long-term sustainable growth. Lastly, we encourage the authorities to continue their structural reforms to improve competitiveness and the prospects for sustainable long-term growth. To that end, we see merit in the recommendations from staff and the ERC report, including measures to improve the business climate, improving the operational efficiency of SOEs, investing in cost-effective renewable energy solutions, and enhancing the quality of general education. We agree that the authorities should continue building resilience to natural disasters through investment in climate-resilient infrastructure.