GRAY/21/208

January 20, 2021

Joint Statement by Mr. Mohieldin, Mr. Mouminah, Mr. Alhomaly, Ms. Al Saud, Mr. Al-Kohlany, and Ms. Merhi on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for their comprehensive report on The Bahamas, and Ms. Levonian, and Ms. Smith for their informative Buff statement. The Bahamian economy continues to grapple with the dual shocks of the impact of Hurricane Dorian and the ongoing effects of the global COVID-19 pandemic, which have inflicted significant losses. These shocks have eroded fiscal buffers, interrupted investment plans, and caused some reform setbacks, as elaborated in the buff. Policy discussions rightly focused on how to limit the damage from the pandemic and mitigate scarring effects, while setting the stage for a resilient recovery, in order to achieve durable and inclusive growth in the medium-term. We agree with the thrust of the staff's appraisal and would like to add the following comments for emphasis.

We commend the authorities for accommodating critical health and social spending within tight fiscal constraints. In the near-term, alleviating the social cost of the double shocks by providing income support and extended unemployment benefits to the affected population is a key priority, but limited fiscal space constrains the ability to pursue a deeper emergency response. Ensuring rigorous appraisal and selection processes of the essential hospital and clinics roads and infrastructure are important to enhance the efficiency of social spending. We concur with staff that the authorities need to develop contingency plans given the limited fiscal space and uncertainties around the timing of the recovery.

Once the pandemic abates, the authorities need to resume their focus on rebuilding buffers and strengthening resilience. We take positive note of the authorities' commitment to fiscal consolidation in order to bring public debt on a clear downward path and to pursue their fiscal targets, as specified under the Fiscal Responsibility Act. To this end, enhancing revenue mobilization, property and income tax policy reforms, as well as improvements in revenue administration will prove critical to achieving the fiscal targets. In this regard, we encourage the authorities to prioritize their spending, build a tax collection capacity, and conduct a comprehensive review of tax policies. It would also be important to resume public financial management reforms, including enacting the legislations on public debt management and public finance management by early 2021 to improve efficiency in the fiscal framework, as well as strengthening the operational efficiency of SOEs.

With high poverty rates, social safety nets efficiency should be improved through better targeting. There is a need to strengthen the identification of the vulnerable population to cushion the negative impacts of the pandemic and ensure that the delivery of social services is efficient. We welcome in this regard that the authorities plan to pilot a means-tested social program in New Providence in 2021. However, as noted in Annex VII, this initiative will have to rely on outdated data from the 2013 Household Survey. We, therefore, concur with staff that there is a pressing need to improve social statistics and collect more information about households to understand the income/wealth distribution and sources of income. *Have the authorities requested technical assistance in this regard from the World Bank or other multilateral agencies?* Digitalizing the information in social assistance programs will be important going forward to enhance the efficiency of social safety nets.

We take note of the authorities' introduction of the "Sand Dollar" which is the first state-backed digital currency in the world and aims to boost financial inclusion and strengthen the resilience of the payments system. While the central bank is working to ensure the offline usability of the Sand Dollar, so that citizens can still transact even when there's no electricity or cell phone network, *we would be interested to learn about any updates on this area and about the number of participants since the launch of the CBDC, and about the mobile phone penetration rate in the Bahamas.*. We call on the authorities to remain vigilant about risks related to financial stability, cybersecurity, and AML/CFT.

We welcome the authorities' efforts to strengthen the AML/CFT framework and move towards compliance with tax transparency standards. The authorities should continue to implement measures as agreed with the FATF to address the identified AML/CFT deficiencies, including through risk-based supervision. Furthermore, close monitoring of financial stability risks is warranted as credit quality indicators are starting to deteriorate, due to some phasing out of loan deferral schemes, in addition to a decline in overall profitability due to the increase in loan loss provisioning. The authorities should ensure effective implementation of crisis management reforms and strengthen central bank data collection and capacity. Once the crisis recedes, the CBOB should engage with banks to facilitate the effective work-out of NPLs so that they do not drag down credit growth. We welcome that the Credit Bureau has been established, but it is yet to become fully operational.

Building resilience to natural disasters should remain a key priority in the medium term. The Catastrophe insurance policy that was in place helped improve financial resilience to natural disasters. We also note that the Natural Disaster Fund was depleted following Hurricane Dorian. A comprehensive disaster resilience strategy, covering existing physical infrastructure and post-disaster management, needs to be in place.

We agree that addressing long-standing structural issues is a necessary priority, since these continue to reduce competitiveness and constrain private investment. Focus areas should be those highlighted by the Doing Business Index, specifically lowering the administrative costs by reducing onerous processes, reducing the costs of cross-border trading and reducing energy costs.