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January 20, 2021

**Statement by Mr. Just and Mr. Pucnik on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021**

We thank staff for the well-focused and high-quality report and Ms. Levonian and Ms. Smith for their helpful Buff statement. As an economy heavily dependent on tourism, The Bahamas has been hit hard by the pandemic as well as the hurricane in the fall of 2019. Growth prospects in the short run rest heavily on the implementation and roll-out of an effective national vaccination strategy so that The Bahamas can benefit from the expected rebound of the tourism sector once the COVID-19 abates as well as of high quality regulatory and structural reforms to enhance medium-term growth prospects..

The Bahamas' future economic growth and development will critically hinge on diversification of revenue. As the overdependence on the tourism sector weighs heavy on the economy, the authorities will need to more steadfastly seek economic diversification, including by promoting private sector-led growth. *Can staff provide more details on the structural reforms towards enhancing diversification of revenue in The Bahamas?*

Implementing Public Financial Management (PFM) reforms should be one of the key pillars of structural reforms. PFM should aim to improve the transparency and consistency of the fiscal framework and enhance fiscal discipline. We welcome the authorities' ratification of the new central bank law, which, among others, lays the foundations to develop domestic debt markets and for operationalizing the new debt management within the Ministry of Finance. Domestic debt markets could serve as a source of financing for a potential domestic disaster fund to provide mandatory natural disaster insurance. *Can staff provide more details on the draft PFM Bill and Public Debt Management Bill?*

Continued efforts to improve effective implementation of the AML/CFT framework will pave the way for a safe and sound financial services center . While we welcome that The Bahamas has been removed from the FATF Grey list of countries with strategic AML deficiencies, sustained and effective implementation of the enhanced AML/CFT regime will be critical also to be removed from the EU's AML blacklist.

Sand Dollar regulation should in particular focus on preventing AML/CFT loopholes.

We recognize that one of the main objectives of the Sand Dollar is to foster financial inclusion. However, we note that the Bahamian Central Bank will need to adjust the AML/CFT framework to avoid possible money laundering via new means. As many smaller countries are studying or are already in the process of designing digital currencies, *we would appreciate staff's comments on how the Fund can help those members designing an effective regulatory and legal framework for digital currencies.*

Effectively broadening the tax base will be crucial for The Bahamas' debt sustainability.

A comprehensive tax reform, introducing an income tax, corporate tax, capital gains tax and wealth tax would help mobilize revenue and reduce the vulnerability of the economy to various external shocks. We note the continuation of tax deferral and the slow review of the tax system and tax expenditures and urge the authorities advance the tax system reforms by removing the many exemptions and other obstacles to increasing tax revenues once the COVID-19 crisis subsides. *Would staff consider providing technical assistance in order to accelerate the implementation of tax reforms?*

Monetary policy is rightly focused on supporting the exchange rate peg with the US dollar, given the small size of The Bahamian economy and its integration with the U.S. economy.

However, we see merit in staff's advice that the authorities should strike a fine balance between the preservation of the peg and capital controls should reserves continue to fall in the medium term.

Implementation of macroprudential measures in the banking sector will strengthen financial stability.

The already significant share of Bahamian banks that may suffer capital shortfalls in normal times is a risk to financial stability which is further exacerbated by the COVID-19 pandemic and increasingly frequent climate catastrophes. Therefore, macroprudential measures, including capital buffers (CCyB) and systemic risk buffers (SyRB), to make the Bahamian banks more resilient to pro-cyclical dynamics that may occur more often in the coming years, are warranted. In order to prevent a potential increase of the NPL ratio, implementing borrowed based macroprudential instruments, such as debt servicing costs to the consumer's annual income (DSTI) and loan-to-value (LTV) requirements should be considered. Additionally, the authorities should strengthen bank supervision to mitigate systemic risks. *Can staff provide more details on the macroprudential instruments envisaged to be used in The Bahamas?*

The Bahamas are vulnerable to increasingly frequent climate change and catastrophes.

We positively note the authorities' intention to continue investments in climate-resilient infrastructure and to submit a new law to the parliament in 2021 to mitigate natural disasters risks. We also see merit in staff's proposal to introduce mandatory national disaster insurance, possibly via a domestic disaster fund, possibly along the lines of New Zealand and Turkey.