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Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for their report and in particular for their interesting set of annexes, as well as Ms. Levonian and Ms. Smith for their clear buff statement.

The Bahamas have been very strongly hit by two major shocks in the last 18 months, highlighting the country's large vulnerabilities to external shocks. We generally welcome the swift action from the authorities, in particular to protect the unemployed, vulnerable, small businesses and to support health sector. We also welcome the transparency and accountability efforts regarding the emergency expenditures. This being said, we also note that the stimulus package was relatively limited, at 1.2 percent of GDP, and was under executed. Going forward, and over the medium term, the authorities will have to address two major challenges: improve resilience to natural disasters, and implement a credible medium-term consolidation strategy, while protecting the most vulnerable. Partnership with the Fund to address these issues will be key.

While we recognize the severity of the shock, in particular on the tourism sector, compounding existing challenges remain, and we generally think that there is room to enhance domestic resource mobilization over the medium term to increase resilience. The Bahamas is the richest country in Latin America and the Caribbean, but it remains characterized by a very low tax-to-GDP ratio, the absence of tax income and high inequalities. While it is welcome that the authorities have been able to rely on sizable IFI financing to fill financing needs in the context of the crisis, it also highlight the strong need to develop domestic resources to increase fiscal resilience. *Could staff provide a detailed table of the external financing needs requirements on 2018-2026?* More broadly, a greater contribution from the large financial center to the real economy would be welcome, and technical assistance could play a key role in this regard, as the issue of administrative absorptive capacity is central in small states, as regularly emphasized by the board.

In this regard, delineating an ambitious tax reform will be a top priority in the coming years, and we welcome the initiation of discussion by the authorities on areas of progress. We strongly welcome staff's recommendation regarding the mobilization of more resources from income tax (which is currently at zero over the projection period), property taxation and building comprehensive real estate price indices to help in this direction, as well as more progressivity. The intentions of the authorities are welcome in this regard. Moreover, while the VAT increase was a positive step, progress on rationalizing VAT exemptions is needed. Given that tax reform is a complex endeavor whose implementation will take years, strong and lasting commitment from the authorities to this agenda will be important. It would be useful for staff to provide a detailed and quantified roadmap on this issue in the next Article IV, to better assist the authorities. On the expenditures side, we also agree with staff that the reprioritization of public spending, more SOE efficiency and the operationalization of the Fiscal Responsibility Council would help support debt sustainability. Given downside risks, working on contingency plans will be important. The annex VII regarding social spending and more specifically the reform options is very valuable to improve the efficiency and the targeting of social spending, in a context where risks of social discontent is scored as high in the RAM.

We strongly commend the authorities for exiting the FATF grey list last December. We welcome the significant efforts to improve the AML/CFT framework and enhance tax transparency standards and welcome the exit the EU list of non-cooperative jurisdictions for tax purposes last February. The focus will now have to be on effective implementation of the AML/CFT framework. A greater transparency will also help monitor financial risks associated to the introduction of the *Sand Dollar.* More broadly the situation on the banking sector should be closely monitored, in particular regarding the risk of rising NPLs after the forbearance period. On the monetary front, we welcome the measures taken by the CBOB to protect the peg to the US dollar, as well as the adoption of the new central bank law which limits lending to the government, as well as the focus on reserve adequacy.

Working on resilience against natural disasters will be a priority going forward, as well as accelerating structural reforms to boost growth post-pandemic. In this sense, we continue to see the integration of natural disasters scenario in the DSA analysis as an insightful input from staff. We agree with staff that the mobilization of the private sector to improve the resilience against natural disasters is critical and that investment in climate infrastructures as well as mandatory property insurance could be helpful in this regard. *Could staff elaborate on the authorities' efforts since the last Article IV review and their future plans in this area?* Regarding the potentially high hysteresis effects of the current crisis on an already low potential growth, and as the country should converge back to its pre-pandemic level only by 2024, we encourage the authorities to adopt measures to improve productivity and increase human capital, which should also help the external position to be more in line with its fundamentals