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January 20, 2021

Statement by Ms. Shortino and Ms. Robitaille on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

The Bahamas, with its heavy reliance on tourism, has been hit particularly hard by the adverse shocks of Hurricane Dorian—which caused the worst hurricane-related damage in memory—and the COVID-19 pandemic. The collapse in tourism and necessary implementation of containment measures has resulted in a plunge in real GDP and surge in unemployment. The two large adverse shocks greatly complicate authorities' efforts to strengthen public finances and enact structural reforms. We broadly agree with the staff's assessment and highlight the following issues for emphasis.

Fiscal policies. Public debt relative to GDP had been on a persistent upward trend over the past decade and may reach 90 percent of GDP this year. While the authorities have made use of more IFI funding to meet their fiscal needs, they also recently issued bonds at an average yield of nearly 9 percent—a rate that is unsustainably high. The authorities should continue to provide needed support to households and firms to help address this crisis. Nevertheless, we agree with staff's recommendation to rein in the deficit once the crisis subsides, including through a 3 percent of GDP fiscal consolidation over the next four years and through primary surplus of 5 percent of GDP over the medium term. By taking steps now to broaden the tax base through property and income taxes, remove tax exemptions as soon as possible and reduce SOE transfers, the authorities can lay the groundwork to restore debt sustainability. *Could staff comment on the impact of an adverse scenario in which tourism is slower to recover on debt sustainability and the size of the fiscal consolidation?* We note with concern that DSA excludes public corporation debt at about 15 percent of GDP and government guarantees of this debt at 5.7 percent of GDP. *Are staff engaging with the authorities to enhance reporting and transparency of SOE debt and incorporate these guarantees into future DSAs?*

Monetary policy/exchange rate/external sector. We note that the Central Bank is focused on maintaining its dollar peg. The staff report appears to suggest that the desire to protect international reserves, hence supporting the dollar peg, constrained the central bank's ability to lower its policy rate to support economic recovery, as the policy rate has continued to stand at 4 percent. *Could staff comment on whether a shift in exchange rate regime would benefit The Bahamas in the near or medium term?*

Anti-Money Laundering/Control of Financial Terrorism (AML/CFT). We welcome that the authorities for addressing the concerns of the Financial Action Task Force (FATF) by strengthening the AML/CFT framework. This progress enabled the FATF to remove The Bahamas from its worry list (the "grey list") last month. We fully support staff's recommendation that the authorities take measures to effectively implement the new AML/CFT framework.

Central Bank Digital Currencies (CBDC) and the "Sand Dollar." We welcome staff's detailed discussion of the Sand Dollar architecture (Annex VIII). While this CBDC provides the potential to help strengthen financial inclusion and lower transaction costs, as staff note implementation of this new initiative comes with inherent risks particularly with regards to preserving financial integrity. We recognize that the authorities have identified several measures to mitigate these risks; effective implementation of these measures will be key. We encourage staff to closely monitor these efforts in its future surveillance of The Bahamas.