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January 20, 2021

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

We thank staff for the comprehensive report and Ms. Levonian and Ms. Vasishtha for their insightful Buff statement.

The Bahamas' economy has been hit hard by two shocks—Hurricane Dorian and COVID-19 in 2019 and 2020, respectively. A recovery from Hurricane Dorian was slowed by the COVID-19 pandemic, which halted tourism, the main source of income and employment for Bahamas. The authorities acted swiftly through rapid emergency response to support the economy and vulnerable households. Reopening the economy has proved very challenging for the authorities because of the recurring virus and limited testing and health facilities. Against this background, we broadly agree with the staff recommendation for a comprehensive package of policies to limit the damage from the pandemic and to prepare the ground for a solid recovery and inclusive growth. We look forward to the government working aggressively through a combination of measures to contain second phase of the virus as elaborated in the Buff statement.

We note that growth contracted to -16.2 percent in 2020 and is expected to be modest in 2021 at 2 percent supported by construction before reaching the pre-crisis level in 2024. Inflation was moderate at 0.8 percent by end-2020 and is expected to edge up to 2.2 percent in 2021. We welcome optimism in Ms. Levonian and Ms. Vasishtha's statement that authorities would implement prudent travel precautions and protocols to reap the benefits of elevated demand for travel and the country's proximity to the U.S. to enhance recovery prospects. *Could staff elaborate the differences between their projections and those of the authorities, and why the later feel strong about their timeline for a full recovery?*

We encourage the authorities to intensify public financial management (PFM) reforms to enhance fiscal discipline. In this context, we look forward to passage of the public procurement Bill in Parliament, including the submission of the draft PFM bill and Public Debt Management Bill as well as the operationalization of the Fiscal Responsibility Council

and enhancement of the accountability and tax transparency. Furthermore, we encourage the authorities to develop a detailed contingency plan including the alcohol and tobacco tax, cut in recurrent spending and delay non-essential projects.

Given the low inflationary pressures, we support lowering rates by the Central Bank of Bahamas (CBOB) to strengthen recovery. However, we encourage close watch on price developments while building adequate reserves to shore domestic consumption and capital flows. Like staff, we welcome the temporary tightening of capital flow measures (CFM) under the crisis conditions and encourage their removal as the pandemic retreats. We encourage the authorities to resume exchange control liberalization, which would help Bahamas' small open economy integrate into large international financial centers. To ensure effective transmission of policy rates in the economy, we encourage the authorities to establish an asset registry and real estate price index, which would address the challenges of information asymmetry.

We note that the banking system remains sound and capital is adequate. The temporary loan moratoria for households and firms are intended to assist those impacted by the pandemic. In this regard, we urge the authorities to remain alert in supervision and monitoring to enhance transparency and approved prudential rules. Intensifying oversight of credit unions is strongly recommended to shield exposure to the tourism sector and ensure timely intervention of CBOB where necessary. While welcoming progress of financial inclusion through launching of the "Sand Dollar" digital currency, we encourage the authorities to implement strong measures to address risks of cybersecurity, integrity and digital currency related financial intermediation. Further, strengthening oversight for systemic risks would be crucial to maintain financial stability and effective implementation of the AML/CFT framework. We welcome the ratification of the new central bank law, which limits lending to government, enables listing of government debt on the Bahamas International Stock Exchange and promotes domestic debt markets and operationalizes the debt management office.

Finally, structural reforms remain essential to ensure the recovery and sustainable inclusive growth. In this context, we encourage the authorities to address weaknesses in the business environment and improve competitiveness. Reducing utility cost would be key through cutting down number of inefficient SOEs and investing in cost-effective renewable energy solutions. We encourage expanding technical and vocational training programs and enhancing the quality of education to minimize frictions in the job matching process. In addition, we urge the authorities to strengthen tourism, enhance diversification, invest in climate change, and accelerate the agenda on Caribbean integration.