Executive Board Minutes 21/8-2

January 22, 2021–12:40 p.m.

The Bahamas—2020 Article IV Consultation

Documents: SM/21/1 and Sup.1

Staff: Weber, WHD; Joshi, SPR

Length: 41 minutes

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CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They expressed sympathy for the loss of life and economic hardship caused by the COVID-19 pandemic. Directors commended the authorities for the timely measures to sustain public health, protect the vulnerable and cushion the impact of the pandemic on employment. They noted that the recovery to pre-pandemic levels will likely take years and downside risks loom large, reflecting the uncertain evolution of the pandemic and The Bahamas' vulnerability to natural disasters.

Directors agreed that the near-term priority is to save lives and livelihoods and postponing the achievement of the public debt target by another two years in response to the pandemic is appropriate. However, putting debt on a clear downward path over the medium-term and rebuilding buffers will require significant fiscal effort. Directors called for tax policy and administration reforms and expenditure prioritization to ensure a robust and equitable consolidation once the pandemic abates.

Directors welcomed the central bank's focus on reserve adequacy. They emphasized that the COVID-19 related capital flow management measures are appropriate for now but should be phased out when the pandemic recedes. They recommended the establishment of an asset registry and real estate price index to reduce information asymmetries, which would also support financial inclusion. Directors supported the nation-wide introduction of the central bank digital currency. They stressed, however, that there are significant risks to financial intermediation, integrity, and cybersecurity that require careful monitoring.

Directors observed that the banking sector remains vulnerable to pandemic-induced risks. They urged the central bank to ask banks for regular loan portfolio reviews and risk assessments. They also noted the importance of further developing macroprudential tools and strengthening interagency coordination.

Directors welcomed The Bahamas' successful exit from the Financial Action Task Force list of jurisdictions under enhanced monitoring, but emphasized the criticality of continuous and effective AML/CFT implementation.

Directors underlined that The Bahamas faces long-standing structural impediments and vulnerability to natural disasters. They recommended modernizing the business climate, rationalizing SOEs, and reducing labor market frictions. Directors called for gradually restoring the disaster relief fund, which was depleted following Hurricane Dorian, while improving the targeting of social programs.

It is expected that the next Article IV consultation with The Bahamas will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE[1]

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	O. Odonye (AE)
	H. Andrianometiana (AF), Temporary
	B. Lischinsky (AG), Temporary
	C. White (AP)
	Z. Mohammed (BR), Temporary
	Z. Zhang (CC)
	F. Rivera Molina (CE), Temporary
L. Levonian (CO)	
	C. Just (EC)
A. Buisse (FF)	
R. von Kleist (GR)	
S. Bhalla (IN)	
	M. Massourakis (IT)
	K. Chikada (JA)
	K. Osei-Yeboah (MD), Temporary
	M. Merhi (MI), Temporary
	A. De Lannoy (NE)
	J. Sigurgeirsson (NO)
	L. Palei (RU)
	J. Al Saud (SA), Temporary
	F. Mochtar (ST)
	M. Peter (SZ)
	D. Ronicle (UK)
	P. Robitaille (US), Temporary

C. McDonald, Acting Secretary
S. Kalra, Summing Up Officer
R. Smith Yee, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
Communications Department: R. Elnagar. Fiscal Affairs Department: K. Primus. Legal Department: K. Kwak. Monetary and Capital Markets Department: I. Lukonga, J. Nelmes. Strategy, Policy, and Review Department: B. Joshi. World Bank Group: A. Prasad. Western

[1] For countries in each constituency, please see the Constituency Codes in the annex.

Hemisphere Department: S. Cevik, A. Husain, T. Khan, A. Oshima, A. Weber. Executive Director: A. Andrianarivelo (AF), A. Mahasandana (ST), M. Mahmoud (MI), P. Moreno (CE), A. Mozhin (RU). Alternate Executive Director: B. Alhomaly (SA), Y. Indraratna (IN), R. N'Sonde (AF), F. O'Brolchain (CO), P. Rozan (FF), B. Saraiva (BR), F. Sylla (AF). Senior Advisors to Executive Directors: M. Choueiri (MI), I. Fragin (GR), L. Smith (CO), G. Vasishtha (CO), M. Zhunusbekova (SZ). Advisors to Executive Directors: M. Albert (FF), F. Al-Kohlany (MI), S. Belhaj (MD), A. Biriukv (RU), E. Cartagena Guardado (CE), T. Cham (AE), J. Corvalan (AG), R. Edwards (CO), K. Florestal (BR), T. Iona (AP), K. Kuretani (JA), P. Mooney (CO), E. Ondo Bile (AF), T. Persico (IT), B.Piasecki (SZ), M. Pucnik (EC), B. Rankin (CO), D. Tevdovski (NE), S. Yoe (ST), Y. Zhao (CC), A. Clark (UK).

DISCUSSION RECORD[2]

The Acting Chair (Mr. Zhang):

The subject of this session is on The Bahamas - 2020 Article IV Consultation.

I also want to acknowledge that the World Bank staff is also attending this session, and 21 Directors have issued 17 gray statements.

Directors may recall that The Bahamas entered 2020 still recovering from Hurricane Dorian, the strongest storm in its recent history, when the global outbreak of COVID-19 devastated its tourism-dependent economy. The authorities launched a rapid emergency response to support the economy and vulnerable businesses and households. And, of course, they put in place strict containment measures. The June 2020 disbursement of about US$250 million under the Fund's Rapid Financing Instrument (RFI) contributed to the recovery efforts; but amid the limited testing and health resources, reopening the economy remains challenging.

Today we will have an opportunity to hear from Ms. Levonian, staff, and all of you regarding the challenges faced by The Bahamas in mitigating the socioeconomic impact of COVID-19 and, in particular, how a highly tourism-dependent economy like The Bahamas can set the stage for a robust and equitable economic recovery.

Ms. Levonian:

I want to thank my Board colleagues for their supportive comments and recommendations, which I will share with my authorities.

The Bahamian authorities broadly agree with the staff's assessment, as well as the suggested policy measures; I am going to focus my remarks on four areas that we highlighted in the gray statements.

First, the road to recovery will be long and very difficult, but our authorities are committed to hard work and everything necessary to bring the economy back on track. Our authorities are optimistic that the country's proximity to the United States, the pent-up demand for travel, and the notable

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[2] Edited for clarity.

progress on the vaccine front all position The Bahamas well for a strong recovery; albeit, they understand that this will take a number of years.

As several Directors have rightly emphasized, structural reforms will be critical. This is why the Bahamian government established the Economic Recovery Committee (ERC). The ERC has already issued comprehensive recommendations to address the longstanding structural issues and help place the country on a steady recovery path, many of the recommendations the government has already taken onboard.

Indeed, the Bahamian authorities understand that increased public sector efficiency, improving the ease of doing business, and addressing education must feature prominently in any development plan, and are committed to successfully meeting these objectives. Moreover, they fully appreciate the criticality of building resilience to climate change, especially given the increased size and frequency of hurricanes.

Second, weathering two consecutive shocks of historical proportion has caused setbacks in the government's fiscal targets, but my authorities will forge ahead with their plans as soon as conditions allow. This includes fiscal consolidation, strengthening public financial management (PFM), enhanced revenue mobilization, and broadening the tax base, as recommended by the staff and many Directors. The government's rules-based fiscal policy framework and commitment to fiscal responsibility were instrumental in helping to navigate the shocks and will be critical to restoring fiscal stability.

As noted in our buff statement, progress continues on fiscal reforms. The Fiscal Responsibility Council has convened, and their first report will be issued this quarter. In addition, a suite of legislation was finalized and is scheduled to be submitted to parliament this year, including the public financial management bill and the public debt management bill.

Also noteworthy was the completion of the Statistics Bill, 2020, for submissions to parliament, which should help to improve the frequency and quality of national statistics and, ultimately, strengthen policy execution.

The authorities are committed to improving transparency and accountability, as evidenced by their publishing quarterly reports on budgetary performance and the annual fiscal strategy reports. Further work is ongoing to improve operational efficiency within state-owned enterprises (SOEs) as well.

Third, monetary stability and financial sector integrity remain priorities for the Bahamian authorities. The capital flow measures implemented due to the pandemic were necessary to preserve capital adequacy in support of the peg, and the authorities have given their assurance that they will be reversed once the crisis subsides.

As a reputable financial center, The Bahamas takes the health and stability of the financial sector very seriously and have taken significant measures to strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. Several Directors expressed a cautious optimism regarding the central bank digital currency (CBDC). Our authorities are very sensitive to the risks and have implemented multilayered safeguards to minimize fraudulent activity.

Finally, the past year has presented challenges and setbacks, but our authorities are committed to: first, prioritize the health and welfare of Bahamians; second, maintain fiscal responsibility and debt sustainability; and third, building the institutions needed for resilient growth and recovery.

The staff representative from the Western Hemisphere Department (Ms. Weber):

We submitted our technical answers to Directors' questions, but I would like to further elaborate on a few issues that Directors have raised. Let me start with the outlook.

The authorities and staff agree that we are in truly uncharted waters and that the path of the pandemic and its impact on the economy and tourism is inherently difficult to predict. Given this uncertainty and the absence of timely quarterly GDP data or high-frequency indicators for consumption, for instance, for The Bahamas, it is not surprising that there are some differences between the staff and the authorities on the near-term outlook. What is very clear, though, is that in 2020, we will see a double-digit economic contraction and that, in 2021, growth will be very modest, at best.

Regarding tourism, the staff projects that 2021 will be weaker than 2020 in terms of tourist arrivals. This is because the peak spring tourism season will be lost this year; whereas, in 2020, January and February marked record tourist arrivals for The Bahamas.

We assume that, in 2022, tourism will be at about half of its pre-pandemic levels and that, by 2024, we are back to pre-pandemic levels. These assumptions are coordinated with the other teams in the Caribbean region.

The assumption of this gradual return to normality is supported by staff research, which shows that previous pandemics, which were not as severe as the COVID-19 pandemic, had long-lasting effects on tourism flows. This is not surprising because, after all, there may be preference changes, both for personal and also business travel.

Given the continued travel restrictions well into 2021, the staff notes that the correlation between advanced economies' GDP and GDP in The Bahamas is likely limited in the short term. Given what I have just mentioned, the staff feels it is prudent to treat any pent-up demand for travel following the pandemic as an upside risk.

Second, there were several questions regarding the central bank digital currency. We answered many of these in writing, with assistance from our colleagues in the Monetary and Capital Markets Department (MCM), but let me just note one thing. It is too early to assess whether the central bank digital currency in The Bahamas has succeeded in providing equal, expanded, and resilient access to digital payments. In fact, there was never an expectation that these objectives were going to be reached on day one. It will take time for businesses and individuals to become used to transacting in the Sand Dollar.

That said, the staff has encouraged the authorities to periodically assess how well the Sand Dollar is doing against its objectives; for instance, looking into whether it has provided access to individuals who were previously excluded from financial services.

Finally, I would like to address a question on whether the authorities have considered requesting an IMF upper-credit tranche (UCT) program. To date, the authorities have not requested or expressed interest in such a program. Of course, the staff will engage with the authorities to discuss the COVID-19 policy response and will reiterate that the Fund stands ready to discuss a successor program, in the event of a request from the authorities.

Mr. von Kleist:

We note the unprecedented economic impact of COVID-19 on The Bahamas, on top of Hurricane Dorian in 2019. To mitigate the adverse effects of the pandemic and safeguard macroeconomic stability, we broadly concur with the policy mix proposed by the staff.

The key medium-term priorities include containing public debt, safeguarding reserves, and pushing ahead with ambitious structural reforms, including strengthening its resilience to climate change. In line with staff, we see merit in beginning to prepare measures now and in communicating an implementation timeline early on.

Lastly, we encourage the authorities to continue strengthening governance and transparency, including monitoring COVID-19-related spending, completing an independent third-party audit, and publishing beneficial ownership information on companies that receive pandemic-related procurement contracts.

Mr. Massourakis:

We issued a joint gray statement; but still, I want to add a few comments. Before my comments, let me praise the authorities for their timely response and strong commitment after the two consecutive shocks, Hurricane Dorian and the COVID-19 pandemic, devastated its tourist economy.

First, I would like to highlight the key role of country platforms for donors' coordination and public investment coordination. We look forward to greater attention being paid to such institutional frameworks. For example, The Bahamas National Recovery and Reconstruction Trust Fund, being independent and nonpolitical, is well positioned to support the envisaged and unprecedented recovery efforts. Thus, its planning should be carefully integrated in the policy discussions.

Finally, I want to recall the importance of having in place appropriate regional insurance schemes. Tools like the Caribbean Catastrophic Risk Insurance Facility and close coordination among regional development partners are important elements to complement domestic resilience-building actions in regions particularly vulnerable to natural disasters.

Ms. Mohammed:

We issued a detailed gray statement; therefore, I will make only a few brief points.

The Bahamas, like many other tourism-dependent small island countries, has suffered severely from the health and economic crisis associated with the COVID-19 pandemic. As others, we would like to commend the authorities for their swift and appropriate policy response and would note that the RFI disbursement last year has helped provide relief to the most vulnerable, while supporting the economy.

Once the pandemic allows, fiscal consolidation and structural reforms should be accelerated to put debt on a downward path. We underscore that implementing tax reforms, strengthening PFM, and improving SOEs' governance and operational efficiency will be essential to achieve the fiscal targets specified in the Fiscal Responsibility Act going forward. A credible debt management strategy will also prove beneficial to navigate debt toward a downward trajectory.

Also, given that the financial institutions are heavily exposed to the tourism sector, we stress the authorities to remain vigilant to safeguard financial stability and, as the crisis abates, prioritize the resolution of NPLs.

We also welcome the removal of The Bahamas from the Financial Action Task Force (FATF) gray list and would encourage the authorities to continue to improve the AML/CFT framework.

Finally, considering the severe loss of life and the damages caused by hurricanes over the years, enhancing the fiscal, financial, and social resilience to natural disasters should remain a priority. In this regard, we encourage the authorities to continue to develop an adequate natural disaster risk management framework to proactively respond to such shocks.

Mr. Rozan:

We published quite a detailed gray statement. I wanted to focus on three points.

First, we commend the authorities for their exit from the FATF gray list last December and their exit from the EU list of non-cooperative jurisdictions for tax purposes almost a year ago. Significant improvements have been made, in particular, regarding the AML/CFT framework, and we should really take the time to emphasize this success. Now, effective implementation is key, and we are looking forward to seeing the evolution on this front.

Second, as mentioned in our gray statement, we think a comprehensive tax reform is a top priority, building on the initial work highlighted in the report and in the authorities' buff statement. It is hardly understandable that, despite having the highest GDP per capita in Latin America and in the

Caribbean, The Bahamas never implemented income taxes. It is a longstanding issue. In addition, external financing is more costly than domestic financing. In this regard, the focus on the valuation of the real estate and how more progressive tax policy could play a role, as suggested in the report, is critical. We are glad that these reforms are currently being discussed by the authorities. We definitely hope strong and concrete progress in this area will be achieved going forward. That could play a key role by bringing its high-level expertise on tax policy reforms. We encourage the publication of clear and detailed remarks in the next Article IV consultation.

Third, resilience against natural disasters remains a critical area of work for the country. We thank the staff for the details provided in the written answers. We welcome the steps taken by the authorities to implement the multilayered disaster risk financing strategy. Despite the crisis, building a sustainable post-COVID path should be completely consistent with the resilience strategy and the improvement of growth potential. In this regard, more resilient infrastructure and more investment in green energies, for example, deserve specific attention.

Finally, we would be interested to have information from the staff on a potential Climate Change Policy Assessment (CCPA). It is being done for other island states, and it is a very valuable tool. We would be very interested to know if there is any plan in this regard for The Bahamas.

Mr. Mochtar:

We already issued a joint gray statement with Mr. White. Here, we would like to highlight a few points for emphasis.

First, it is important to strengthen systemic risk oversight to help maintain financial stability. We note the authorities' concerns that the pandemic could set back the improvement in asset quality. We, therefore, welcome the staff's initiative to check with the authorities on their interest to conduct a granular asset quality review to examine the soundness of bank balances.

Second, on building climate resilience, we take comfort that the authorities have taken steps to implement a multilayered disaster risk financing strategy. While it is understandable that resources may need to be allocated for post-Hurricane Dorian reconstruction, we encourage the authorities to redouble their efforts in investing in climate-resilient infrastructure as soon as conditions allow. We also welcome the staff's plan to conduct the Climate Change Policy Assessment to help the authorities develop a comprehensive disaster resilience strategy.

Mr. De Lannoy:

We have issued a joint gray statement with Mr. Massourakis, so I can be brief.

First, we share the view of Mr. Ronicle, Mr. Chikada, Mr. Peter, and others, that addressing longstanding structural issues and building resilience against natural disasters should remain a priority. Economic diversification, business climate reform, improving the competitiveness of SOEs, and addressing youth unemployment, together with continued investment in climate resilience infrastructure, are key for sustainable and inclusive growth in the medium term.

Second, we share Mr. Buissé's view, that an ambitious tax reform is needed. We welcome the staff's recommendations regarding revenue mobilization and how to improve the efficiency and targeting of spending.

Third, as Mr. Chikada, Mr. Peter, and others, we welcome the recent progress to strengthen the AML/CFT regime. The completion of the action plan to comply with FATF's recommendations constitutes an important step forward. We encourage the authorities to ensure its effective implementation.

Last, but not least, in light of the importance of tourism for the Bahamian economy, I would like to commend the authorities for the responsible reopening of the islands, with a strong focus on broad and regular testing, combined with social distancing and the widespread use of face masks. There is less than 200 miles between Miami and Nassau; but in terms of responsible COVID-19 policies, they could not be further apart. Florida could learn a few valuable lessons from The Bahamas.

Ms. Robitaille:

We submitted a gray statement but have a few additional points to mention.

First, The Bahamas's public debt data does not include the obligations of the SOEs. Including that debt is important to assessing debt sustainability. This chair continues to support strong transparency with respect to the data on public debt. To that end, we expect the staff to work with the authorities to incorporate SOE debt into the estimates of the public debt. We realize that there may be capacity constraints, and we wonder whether technical assistance has become available.

Second, on the central bank digital currency, or CBDC, we welcome the staff's detailed discussion of the Sand Dollar architecture. In future Article IV consultations, we feel that the IMF should review all central bank digital currency projects that are in advanced stages, particularly given that the implications of the CBDCs remain unclear until a longer track record is established. A CBDC could potentially promote financial inclusion, as others have noted, and lower transaction costs; but as the staff note, there are also potential risks to financial stability.

The Acting Chair (Mr. Zhang):

I agree with Ms. Robitaille that CBDCs and cross-border payments are one of the key focuses of the Fund's work--not only this year, but starting a few years back, and will continue to be the focus. We will come back to the Board on these issues in due time.

Mr. Just:

We would like to add few comments.

First, on fiscal policy, we fully share Mr. Buissé and Mr. Rozan's points, that there is a strong need to develop domestic resources, and there is significant scope to do so. The authorities also need to proactively manage potential fiscal risks, as any further deterioration of the current accounts and fiscal position will have implications for the already high levels of debt.

Second, on the exchange rate, like Mr. Chikada and Mr. Peter, we call on the staff to closely monitor these events. The authorities should remove them as the pandemic recedes. Over the longer run, the authorities should pursue a broader liberalization of exchange controls.

Third, on the Sands, we stress that the authorities need to put in place strong safeguards against risks to financial intermediation, integrity, and cybersecurity, which could arise from the Sand Dollar. In general, we would think it useful to keep the Board updated on the work by the new division in MCM and the development of best practices in CBDCs.

Fourth, on macroprudential supervision, the authorities should start using macroprudential tools to cushion the crisis and safeguard financial stability. In this respect, the Bahamian central bank should consider implementing capital buffers to make banks more resilient to procyclical dynamics and borrowed based macroprudential instruments to prevent a potential increase of NPL ratios.

Last, on regulatory and institutional quality, we commend the authorities for implementing the FATF recommendations. Effective implementation of the enhanced AML framework will be critical. In this context, further enhancing the reporting and transparency of debt data, the transparency and accountability of spending to strengthen public confidence will also be crucial. Like Mr. De Lannoy and Mr. Massourakis, we also encourage the authorities to consider the role that transparent surveillance could play in catalyzing donor support and building investor confidence.

The staff representative from the Western Hemisphere Department (Ms. Weber):

Let me start with the question on the CCPA and then on the SOE data.

On the CCPA, the staff could not agree more that such an assessment would be highly desirable for The Bahamas, given that climate change is a very important topic for The Bahamas. It is very prone to hurricanes, but it is also a very low-lying archipelago; both of these things make it highly vulnerable.

In terms of the timeline for such an assessment, we are in the midst of a pandemic; it is hard to put down an exact timeline, but we will certainly discuss this with the authorities, as well as with IMF departments in terms of resource availability, to proceed with this assessment.

Just to note, one of the longstanding points that the staff has made to the authorities is on the disaster resilience strategy which, of course, a three-pronged approach. The staff has long advocated for that. And the CCPA will be an important element in terms of the diagnostic assessment in that regard.

There was also a question on SOE data. We know that SOE debt is currently in the double-digit figures, roughly 15 percent, according to the latest data from the central bank. We are not including that in the central government's debt statistics that we are sharing because the data are a bit spotty and not timely. We do not have a consolidated view of the public sector. Again, this has been a very longstanding issue in terms of staff advice. We know that the authorities have made important progress in many areas in terms of increasing transparency; and certainly, the SOEs should be one part of that.

I should mention that the authorities are working with a management consultancy or tax advisory firm, reviewing a few of these SOEs and are also trying to resolve some of the data issues. They have already started a few pilots for a few of the SOEs; hopefully, they will be moving fairly swiftly on this.

In addition to that, we do have the Caribbean Regional Technical Assistance Center (CARTAC) available. They have a statistics advisor, which is currently focused on part of the GDP data; but certainly, going forward, there could be a role for CARTAC in this as well.

Ms. Levonian:

I already made a comprehensive intervention. I just wanted to thank the mission team for their work, advice, and the time spent with the authorities. It is much appreciated. Also, a thank you to colleagues for their helpful comments and advice, which I will convey to the authorities.

The Acting Chair (Mr. Zhang) noted that The Bahamas is an Article VIII member, and no decision is proposed.

The Chair adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

BUFF/ED/21/10

January 19, 2021

Statement by Ms. Levonian and Ms. Smith on The Bahamas
Executive Board Meeting
January 22, 2021

Our Bahamian authorities extend their gratitude for the support received under the Rapid Credit Facility last year, which was helpful in meeting liquidity needs and offering support to households and firms impacted by the pandemic. They also appreciate the candid and productive deliberations during the Article IV consultation, as well as the detailed and insightful appraisal of economic conditions outlined in the staff report. The authorities largely agree with the assessment as well as the recommendations put forward.

COVID-19 Developments

Like many countries globally, The Bahamas finds itself in the second wave of the Covid-19 pandemic, with over 7,000 confirmed cases and just under 200 deaths to date. The government has worked aggressively to contain the virus through a combination of lockdowns, curfews, and border closures. At the same time, several measures have been employed to assist households and businesses, such as unemployment and food assistance, business continuity and payroll programs, as well as public health support. Following extensive consultation and planning, as well as the implementation of robust safety protocols, the borders were re-opened in the latter part of 2020 and two major resort began accepting tourists in December.

Recent Performance and Economic Outlook

After the passage of Hurricane Dorian in the third quarter of 2019, real GDP grew by only 1.2 percent, slowing from 3.0 percent in 2018. The modest growth was underpinned by gains in the tourism sector as well as increased construction activity, which was mainly driven by foreign investment-led projects and to a smaller extent by post-hurricane rebuilding. However, the pandemic took a significant toll on the economy, as travel restrictions and lockdowns brought the tourism industry to a protracted halt. Real GDP is estimated to have contracted by 16.2 percent in 2020. A modest rebound to 2.0 percent growth is projected for 2021, but a full recovery to pre-crisis levels is not anticipated until 2024.

The Bahamian authorities broadly agree with staff’s medium-term economic outlook, although they project a slightly stronger decline in 2020 GDP. Further, expectations surrounding the timeline for a full recovery are more optimistic than that of staff. Prudent travel precautions and protocols, pent up demand for travel and the country's proximity to the U.S. are anticipated to bear favorably on recovery prospects, causing growth to reach pre-pandemic levels by 2023 – about a year earlier than in the staff projection.

Average annual prices are forecasted to decline by 0.2 percent for 2020, due to tepid demand and low international oil prices, following a 2.5 percent increase in the preceding year. The inflation rate is projected to return to trend in 2021, at 2.2 percent, as global demand recovers. Similarly, the Central Bank of The Bahamas (CBoB) anticipates that deflationary pressures will subside by the end of 2020, with the inflation rate returning to approximately 2.5 percent in 2021.

Labor market conditions remain constrained owing to repeated shocks to the tourism industry. The unemployment rate is expected to rise by more than two-fold, to 25.6 percent in 2020. The surge in unemployment is seen as temporary and a gradual improvement is expected as tourism comes back on stream. In the meantime, measures implemented by the government to provide support to small and medium-sized enterprises (SMEs) and promote entrepreneurship, such as the Small Business Development Center (SBDC) are expected to provide some impetus to employment.

Fiscal Responsibility and Sustainability

Prior to the onset on the pandemic, The Bahamas made significant progress on the fiscal reform agenda, which provided a modest buffer heading into the pandemic. Despite some setbacks, the authorities remain committed to strengthening fiscal responsibility and transparency with a view to support economic stability and improve policy credibility.

The government has made progress with its recently implemented rules-based fiscal policy framework, as well as establishing a fiscal council. The council's first report will be submitted to parliament by the end of the first quarter of 2021. Over the course of 2020, work continued on strengthening legislation, with the Public Procurement Bill passed in parliament in June 2020, and the Public Financial Management (PFM) and Public Debt Management (PDM) Bills scheduled for submission to parliament early 2021. Moreover, measures to improve tax transparency and minimize harmful tax practices resulted in the Bahamas' removal from the EU's list of Non-Cooperative Jurisdictions for Tax Purposes in February 2020.

Sustained implementation of responsibility measures yielded a decline in the deficit to 1.7 percent of GDP in FY2018/2019. However, the overall budget deficit rose to 6.4 percent of GDP in FY2019/2020 due to a sharp fall in government revenue, amid reduced economic activity, and a significant increase in social outlays to support healthcare, social assistance, and SMEs. Although the latest budget forecasts the deficit to rise further during the next two years, the authorities are confident that the fiscal strategies will reduce the deficit and debt to GDP ratios to 0.5 percent and 62.9 percent, respectively, by FY2024/2025.

The Fiscal Strategy Report (2020 FSR)—submitted to parliament in December 2020—outlines a suite of revenue and expenditure measures aimed at achieving the debt and fiscal objectives. Specifically, the government plans to conduct diagnostic reviews of the tax regime, as well as tax expenditures and incentives. Expenditure measures will include, limiting growth in public sector employment and a targeted review of public expenditure in FY2020/2021. The government also plans to strengthen the capacity of the recently established revenue enhancement unit and accelerate the State-Owned Enterprises (SOE) reform agenda.

Long-term, Inclusive Growth

The authorities remain resolute in their commitment to promoting long-term growth, by improving competitiveness and the ease of doing business. To this end, an Economic Recovery Committee (ERC) was established in April of 2020, with the mandate to develop strategic recommendations to address the economic impact of COVID-19. The ERC presented its summary report to the Prime Minister and his Cabinet for review, and the recommendations therein were largely supported by the government.

Over the medium term, focus will be placed on initiatives which support micro-, small- and medium-sized businesses (MSMEs), as well as diversification and skills development, with a view to encourage inclusive development. When feasible, the government also plans to increase investment in digitization within its agencies to increase efficiency and simplify conducting business.

Building Resilience to Climate Change

The authorities fully agree with staff's recommendations to enhance ex-ante preparedness, pursue risk reduction strategies (including mandatory property insurance), invest in resilient infrastructure, and rebuild financial resilience. To this end, the authorities committed to presenting a new law to parliament in 2021 to mitigate risks associated with natural disasters. Further, the government proposes to utilize $80 million of the $170 million IDB Contingent Credit Line for investment projects to advance solar energy opportunities on a commercial scale in the Family Islands in FY2020/2021. Moreover, the streetlight retrofitting project with solar installation is also in progress, with the help of funding from the Caribbean Development Bank.

Monetary and Financial Sector

The CBoB employed several measures to give support to impacted borrowers and maintain monetary and financial stability amid the COVID-19 pandemic. At the onset of the crisis, commercial banks and credit unions were encouraged to defer loan payments—initially for 3 months— for households and firms impacted by the pandemic. The CBoB issued supervisory guidance on these arrangements, as well as on business continuity and other pandemic related issues. The authorities recognize that the current pandemic has the potential to set back hard-won improvements in asset quality and have, therefore, heightened surveillance to ensure appropriate monitoring and provisioning by financial institutions.

The border closures occasioned by the pandemic resulted in a sudden stop in tourism activity, the country's main foreign currency generator. To ensure reserve adequacy, the CBoB temporarily suspended exchange control approvals of dividend payments for commercial banks, and limited residents' access to foreign currency for international capital market investments through the Bahamas Depository Receipt (BDR) and the Investment Currency Market (ICM). In addition, the National Insurance Board was asked to liquidate some of its external investments and bring the proceeds back onshore. Further, the margin within which commercial banks were permitted to sell foreign exchange to the public was relaxed. The authorities understand that these measures may be considered capital flow management measures (CFMs) and give their assurance that the measures are temporary and will be phased out as the recovery takes hold.

Given the uncertainty regarding foreign exchange inflows, and that monetary accommodation would compromise reserve adequacy, the CBoB considers a neutral monetary policy stance most prudent at this time. Nonetheless, the authorities are committed to strengthening monetary policy transmission and, to this end, have listed government debt on the Bahamas International Stock Exchange (BISX).

The authorities have worked arduously to enhance the supervision and regulation of the financial sector. Efforts to strengthen the AML/CFT framework and address outstanding Financial Action Task Force (FATF) deficiencies are ongoing, with the progress thus far resulting in the removal of the Bahamas from the FATF Grey list in December 2020. Measures to strengthen crisis management and reduce systemic risk included the enactment of the Central Bank of the Bahamas Act 2020 which was amended to make the Central Bank the Resolution Authority for troubled banks, establish the Bank's CBDC as legal currency, and improve the governance arrangements between the CBoB and the government. Further, the Banks and Trust Companies Act 2020 now establishes a framework for bank resolutions and liquidations, while the Protection of Depositors (Amendment) Act 2020 has been revised to improve the governance of the Deposit Insurance Fund (DIF).

Central Bank Digital Currency

Following extensive research, public and international consultation, as well as a successful pilot in 2019, the Sand Dollar was launched nationwide in October 2020. The broader aim of the digital currency is to assist in modernizing the payments system and enhancing resilience to external shocks as well as promoting financial inclusion. Acknowledging that this new facility is not without risks, the authorities have put in place safeguards to mitigate threats to financial stability, the integrity of the banking sector, and cyber security. For example, the CBDC is only permitted for domestic transactions and it is not interest bearing, to minimize disintermediation and substitutability within the Banking system. Further, the Central Bank Act was amended to establish the Sand Dollar as legal tender and makes it an offence for anyone to counterfeit or reproduce digital currency. The Payments Systems Act was also revised to make the Central Bank the regulator of issuers of electronic money products. Moreover, the Central Bank is in the final stage of establishing an electronic customer due diligence or e-KYC system.

Thus far, cybersecurity assessments were successfully completed for six firms to distribute Sand Dollars within their registered mobile wallets, and the evaluation process has commenced for an additional three firms, including one bank and one credit union.

COVID-19 Vaccines

The authorities recognize that vaccinations will be critical to containing the spread of the virus and easing concerns about travel globally. As a result, the government has established a National COVID-19 Vaccine Consultative Committee, comprising professionals from both the public and private sector, to assist in developing a national COVID-19 Vaccination Plan. Moreover, the government is diligently working to secure vaccines through the World Health Organization's COVID-19 Global Access Facility (COVAX Facility) and has already made a down payment to secure enough doses to vaccinate 20 percent of the population. The authorities have also commenced efforts to acquire additional doses and expects to have vaccines available in The Bahamas by the end of the first quarter of this year.

Conclusion

The past two years have presented unprecedented challenges for the Bahamas. The pandemic hit at a time when the country was weathering the fallout from a hurricane of an historic magnitude. These shocks have eroded fiscal buffers, interrupted investment plans and caused some reform setbacks. At this juncture, the health and welfare of Bahamians remains a priority; however, the authorities are committed to their fiscal strategy, as well as to economic reform, and will redouble their efforts when the crisis subsides.

GRAY/21/200

January 20, 2021

Statement by Mr. Bevilaqua and Ms. Mohammed on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for their report, and Ms. Levonian and Ms. Smith for their insightful statement. The Bahamas was still recovering from the devastation caused by Hurricane Dorian when the Covid-19 pandemic struck. These two consecutive shocks have taken a toll on the economic activity on The Bahamas, with the collapse of the tourism sector and increased unemployment and lower incomes. Consequently, the economy is anticipated to contract by double digits in 2020, followed by a modest rebound in 2021. We commend the authorities for their swift and appropriate counter-cyclical policies to sustain public health, protect the most vulnerable and cushion the impact of the pandemic on employment. While access to effective vaccines represents a key upside risk to key tourist market, the outlook remains highly uncertain with risks dominated by the evolution of the virus and the Bahamas' vulnerability to hurricanes. We encourage the authorities to remain steadfast in their efforts to position the economy on a more sustainable path once conditions allow by adopting fiscal consolidation, maintaining financial stability and advancing structural reforms while continuing to build resilience to natural disasters.

We support the relaxation of fiscal stance in the near term, however, a strong commitment to consolidation would be needed over the medium term. As recovery sets in and tourism rebounds, refocusing the fiscal path towards the medium-term targets under the Fiscal Responsibility Act will be critical to put debt on a firm downward path. We note that despite postponing the debt target by another two years, public debt is still projected to reach the long-term anchor of 50 percent of GDP by FY2030/31, but with notably higher primary surpluses in the outer years and higher risks. This underscores the need to return to fiscal prudence once the pandemic abates by improving expenditure control and strengthening tax policy and revenue administration. In this regard, we welcome the public expenditure review and the review of the SOEs with a view of improving their corporate governance. We positively note that the authorities are seeking technical assistance for property and income tax policy reforms and acknowledge the authorities' views that it would take years for the implementation to be done. *Could staff identify what are some of the* *implementation challenges for property and income tax policy reforms?* We commend the authorities for their efforts in improving tax transparency and positively note that The Bahamas was removed from the EU's list of Non-Cooperative Jurisdictions for Tax Purposes. Also, we note from the statement of Ms. Levonian and Ms. Smith that the authorities are more optimistic about the timeline for a full recovery and anticipate that growth would reach pre-pandemic levels a year earlier than projected by staff. *We would appreciate staff's comments on the authorities' more favorable outlook.*

Safeguarding the level of international reserves will be essential to support the Central Bank of Bahamas' (CBOBs') efforts to maintain the credibility of the peg and macroeconomic stability. The temporary capital flow measures to ensure adequacy of foreign exchange and international reserves are appropriate but should be closely monitored and phased out as conditions permit. That said, we welcome the authorities' cautious approach to further easing monetary policy in an effort to manage foreign exchange pressure. We also positively recognize the ratification of the new central bank law which limits lending to the government and strengthen CBOBs governance framework.

Although the banking sector is well capitalized, financial stability risks warrant close monitoring. We note that non-performing loans have increased substantially, and some banks and credit unions are vulnerable to high risk due to their exposure to the tourism sector. Therefore, as loan moratoria and other pandemic support is rolled back, increased vigilance of asset quality and compliance with prudent risk management practices would be necessary to detect early signs of vulnerability. The timely resolution of non-performing loans should be prioritized to ensure that they do not undermine the credit risk standards and financial stability. In this vein, we welcome the strengthening of the legislative reform framework for crisis management and resolution and encourage the authorities to ensure its effective implementation as soon as possible. In parallel, we welcome the nationwide rollout of the Central Bank Digital Currency "Sand Dollar" to help foster financial inclusion and strengthen the resilience of Bahamas' payment system during the pandemic. While we recognize that the architecture features several safeguards to mitigate financial intermediation, integrity and cyber security risks, the authorities should remain vigilant and continue to effectively implement the AML/CFT framework.

Advancing structural reforms and building resilience to natural disasters should remain a priority going forward. Implementation of structural reform is paramount to improving the business climate and boosting competitiveness to unlock potential growth. Addressing the constraints to growth and investments would require effective policy actions to reduce the high utility costs, streamline administrative processes and tackle skills mismatches in the labor market, among other structural factors. Moreover, given The Bahamas' high vulnerability to hurricanes and large private sector losses, we encourage the authorities to continue to develop an effective Natural Disaster Risk Management Framework by including property insurance to proactively respond to such shocks.

Finally, we take positive note that the Rapid Credit Facility disbursement last year provided timely relief to The Bahamas and helped mobilize assistance from other IFIs.

With these remarks we wish The Bahamian authorities success.

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GRAY/21/201

January 20, 2021

Statement by Mr. Ronicle and Mr. Clark on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank Staff for the comprehensive papers and Ms. Levonian and Ms. Smith for their informative buff statement. We share Staff's assessment on the outlook for the economy of The Bahamas. COVID-19 hit the economy hard at a time when it was just recovering from the devastation of Hurricane Dorian. We commend the authorities for the rapid emergency response to support the economy and vulnerable households as well as the strict containment measures. However, given the outlook, the authorities should undertake a comprehensive set of actions to minimize the continuing impact from the pandemic, put in place the building blocks for a resilient economy, whilst addressing long standing structural issues, including vulnerability to natural disasters.

Given the Bahamas have been heavily impacted by the combined effects of recent natural disasters and the pandemic, the initial response has been appropriate. COVID-19 has had a significant impact on tourism, unemployment and has had wider socio-economic effects. Policies appropriately shifted to providing relief to vulnerable groups, small business and the health sector as well as protecting commercial banks and maintaining liquidity in the banking sector. The extension of support to the unemployed and self-employed, the deferral of tax payments and the additional resources to the health sector helped mitigate the immediate effects of the pandemic. The initial response of the CBOB supported liquidity in the banking sector and the protection of commercial banks. In addition, given the emergency financing needs, the authorities appropriately sought additional external support.

The economic outlook, however, suggests the need for a comprehensive set of policies to continue to mitigate the impact of the pandemic, ensure a resilient recovery and lay the

foundations for longer-term inclusive growth. The further downgrade of growth projections since the RFI request in June and the continued depressed longer-term outlook in the tourism sector suggest the need to plan appropriately for the downside scenario. This is reinforced by significant uncertainties around the re-opening the international tourism sector, the international roll out of vaccines and the increasing vulnerability to natural disasters. Managing these risks and any subsequent deterioration of the current account and fiscal position could have implications for already high levels of debt and debt sustainability.

Protecting the most vulnerable, enhancing the transparency and efficiency of social spending whilst taking forward credible tax and revenue reforms in the medium term will be necessary. The extension of the current COVID measures focused on the domestic economy and public health system is welcome, especially maintaining a focus on extending income and unemployment support. We also welcome the authorities' efforts to access vaccines through the COVAX facility. Rigorous project appraisal and selection processes will be required for capital projects, as will developing a detailed contingency plan given the uncertainties around revenue collection. Tax policy reforms will be necessary going forward, including on income taxation and providing a more market-based approach to property taxes as well as wider tax administration reforms. We welcome the authorities' commitment to publishing all procurement contracts related to COVID-19, including information on beneficial ownership. Whilst we can support postponing the debt target and fiscal targets in the short-term, the FRA should remain as the anchor for fiscal policy. Given the likely financing gaps, we welcome the authorities seeking additional financing from the Multilateral Development Banks. *Can staff elaborate further on what the proposed domestic sources of financing would be for the remaining financing needs and the longer-term debt implications from an external and domestic debt issuance?*

Maintaining financial sector stability and closely monitoring financial stability risks as the pandemic subsides will be important. Loan moratoria should be more targeted and eventually phased out. Greater oversight of NPLs by the CBOB and engagement with the banks to address any outstanding NPLs is likely to be required going forward. We welcome the recent reforms to the crisis management framework, but we encourage the authorities to ensure there is adequate staffing and capacity to implement the proposed reforms. We strongly welcome the removal of the Bahamas from the FATF grey list. We note the risks to financial intermediation, integrity, and cybersecurity from the *Sand Dollar* and encourage the authorities to put in place strong safeguards to mitigate these risks.

Addressing long-standing structural issues and continuing to build resilience should remain a priority. Long-standing structural issues have exacerbated the impact of COVID-19 and, given the likely impact of climate change on the economy, these should be addressed over the medium and longer-term. Business climate reform, improving the competitiveness of SOEs, addressing youth unemployment and promoting sustainable tourism should remain a priority. We note that many of the Staff recommendations in this area have been long-standing. Continued investment in climate resilience infrastructure and mandatory property insurance will help buffer the impact of further natural disasters. *Could staff update us on the authorities' efforts to put in place a more robust disaster risk finance strategy and the recommendation from the last Article IV that this should be accompanied by a more comprehensive disaster resilience strategy?*

GRAY/21/202

January 20, 2021

Statement by Mr. Sigurgeirsson and Mr. Evjen on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for the well-written report and Ms. Levonian and Ms. Smith for their informative Buff statement. The Bahamas faces an unprecedented crisis as it battles the fallout from two consecutive large shocks caused by Hurricane Dorian in the fall of 2019 and the pandemic which has exacted a tragic human, economic, and social toll on the country. **We broadly agree with staff's appraisal and offer the following points for emphasis.**

We welcome the continued support to the domestic economy and the public health system. We note that fiscal policies appropriately shifted toward providing relief to the unemployed, vulnerable groups, small businesses, and the health sector. However, for some measures, execution fell short given limited demand for some programs and implementation delays. On health issues, we see merit in the government's establishment of a National COVID-19 Vaccine Consultative Committee to assist in developing a national vaccination plan, as mentioned in the Buff statement.

Fiscal deficits have risen rapidly. We note that expenditures are projected to increase substantially, raising the fiscal deficit and pushing up the debt-to-GDP ratio to almost 90 percent. The deficit will be financed by external and domestic debt issuance, as well as support from IFIs. The greater reliance on IFI financing has come against the background of sovereign rating downgrades. *How have the downgrades impacted access to market financing, and are further downgrades expected? Have the authorities considered requesting a Fund UCT program to help fill the remaining financing gap and catalyze further support?*

Fiscal consolidation will be needed once the crisis subsides. We note staff's recommendation to deploy additional fiscal effort of about 3 percent of GDP over four years starting in FY2022/23, and a constant primary surplus of about 5 percent of GDP thereafter. Acknowledging that this plan may seem challenging, we strongly agree that the authorities should start preparing measures and communicate a timetable for implementation once the pandemic-related uncertainty subsides, to preserve credibility. Public Financial Management reforms should continue to enhance fiscal discipline. Moreover, tax policy reforms, including on income taxation, can help support a robust and equitable fiscal consolidation.

Strengthening public confidence in the government and ensuring that spending is of high quality remain essential. We reiterate that strong safeguards remain essential to ensure that the emergency support is used for its intended purposes. We agree that transparency and accountability of the emergency expenditure measures are key to facilitate verification and audit. In this vein, we welcome the authorities' commitment to publish procurement contracts of COVID-19 related spending with beneficial ownership information on their website in the coming months, and that the Auditor General will audit COVID-19 related expenses and revenue losses by March 2021 and report irregularities.

Strengthening systemic risk oversight would help maintain financial stability. The pandemic is starting to have an adverse impact on banks. Credit quality indicators are starting to deteriorate, as some banks are phasing out loan deferral schemes, and overall profitability has contracted. We note that the Bahamian banks seem to be well capitalized and stress tests may provide some confidence. Still, tourism is hit hard, and the impact of the pandemic could drag out for a long period. As loan moratoria expire, lower incomes and higher unemployment will weigh on asset quality. Systemic risk will increase. We therefore see merit in staff's recommendations on further developing macroprudential tools and strengthening interagency coordination to enhance financial sector stability.

Capital flow measures have been deployed. Some of the measures taken in spring are considered capital flow management measures under the IMF's Institutional View. We agree with staff that a temporary tightening of CFMs under crisis conditions is appropriate, but they should be closely monitored and removed as conditions allow.

Structural reforms are needed to facilitate long-term sustainable growth. Lastly, we encourage the authorities to continue their structural reforms to improve competitiveness and the prospects for sustainable long-term growth. To that end, we see merit in the recommendations from staff and the ERC report, including measures to improve the business climate, improving the operational efficiency of SOEs, investing in cost-effective renewable energy solutions, and enhancing the quality of general education. We agree that the authorities should continue building resilience to natural disasters through investment in climate-resilient infrastructure.

GRAY/21/203

January 20, 2021

Joint Statement by Mr. Mochtar, Mr. White, Mr. Iona, and Ms. Yoe on The Bahamas (Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for the comprehensive papers and Ms. Levonian and Ms. Smith for the helpful Buff statement.

The COVID-19 pandemic hit The Bahamas at a time when recovery from the devastation of Hurricane Dorian was just beginning. The reopening of international borders and the economy as well as weaknesses in the overall public healthcare system led to a more severe second wave of the pandemic and weakened the economy. As such, we agree that near-term policy should focus on strengthening the response to both the health and economic crises. At the same time, the country should enhance diversification and productivity as well as mitigate risk from climate change and natural disasters through implementing policy reforms that lay the foundation for a resilient recovery once the crisis abates. We broadly agree with staff's appraisal and would like to offer the following comments for emphasis.

Better targeting of pandemic relief programs is important to save lives and livelihoods. While the authorities' policy responses to support the domestic economy following the two major external shocks have been appropriate, there is room to enhance the efficiency of social programs. In this regard, we encourage the authorities to improve social statistics, particularly on wealth distribution and sources of income, as well as to embrace digitalization that can strengthen the ability to identify and target vulnerable households and firms.

Fiscal consolidation and structural reforms should be accelerated once the crises ease. The elevated debt-to-GDP ratio of almost 90 percent calls for decisive and credible fiscal measures to put debt on a downward path in the medium term. In this context, we welcome the authorities' commitment to fiscal discipline once the crisis subsides, both through boosting revenues and consolidating expenditures. We underscore the importance of implementing tax reforms to strengthen the progressive features of the system and to modernize revenue administration. We also welcome the authorities' commitment to an expenditure review to identify areas for savings and spending priorities. With regard to structural reforms, we support expanding opportunities in technical and vocational training that would assist in reducing frictions in the labor market and minimize long-term scarring.

Striking an appropriate balance between maintaining monetary-financial stability and supporting the economy will be crucial to sustain the recovery. We share staff's assessment that a neutral monetary policy stance together with foreign exchange measures is appropriate to safeguard reserve adequacy, maintain confidence in the exchange rate as well as preserve monetary stability at the current juncture. With regard to strengthening financial stability, we see merit in developing macroprudential tools, such as bank capital buffers and LTV- and DTI-based lending standards. While we take comfort in knowing that the banking sector remains well capitalized, we also welcome authorities' efforts to closely monitor the credit quality of credit unions and banks with greater exposure to the tourism sector. We note that the launch of CBDC in The Bahamas would boost financial inclusion and strengthen the resilience of the payment system to natural disasters and pandemics. *We welcome further elaboration from staff on the impact of CBDC to financial stability risk as well as to the transmission mechanism of monetary policy in The Bahamas.*

Strengthening financial resilience to natural disasters is key to strengthen the economy. Like many other Small Developing States (SDS), The Bahamas is at risk of disproportionally large damage from natural disaster shocks that could trigger economic difficulties. We therefore welcome the authorities' efforts to mitigate risks associated with natural disasters, including plans to introduce mandatory property insurance. Furthermore, we see potential for The Bahamas to benefit from a Disaster Resilience Strategy exercise to support a multi-year macroeconomic framework. *Staff's comments on this issue are welcome.*

GRAY/21/204

January 20, 2021

Joint Statement by Mr. Chikada, Mr. Peter, Ms. Zhunusbekova, and Mr. Kuretani on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for the informative report and Ms. Levonian and Ms. Smith for their helpful Buff statement. The two consecutive shocks, hurricane Dorian and the COVID-19 pandemic, hit the country hard and had a severe impact both on its public health and the economy. According to the staff's projections, it could take years for the Bahamian economy to recover to pre-crisis levels. We commend the authorities for their timely and effective response to the pandemic, noting that the RFI disbursement in June has helped to support the economy and vulnerable households. As we broadly concur with the staff appraisal, we limit our comments to the following points.

Given the limited fiscal space, a detailed contingency plan needs to be developed in the near term as well as tax policy reforms and revenue administration improvements in the medium term. We note that the deficit will be financed by external and domestic debt issuance and support from IFIs. The postponed public debt target should be achieved once the crisis abates. Going forward, significant fiscal consolidation and revenue administration are essential for The Bahamas' further recovery. We also concur with staff that the authorities could achieve a more equitable income distribution through introducing income taxation and increasing the property tax rate on higher-value real estate. Reallocating resources by containing administrative costs and reducing subsidies to SOEs could complement the fiscal consolidation agenda.

We agree with staff that the pandemic-related foreign exchange measures are appropriate at this juncture. We welcome the authorities' focus on bolstering international reserves. Keeping the policy interest rate at the current level should help achieve this objective, as is the crisis-related introduction or tightening of capital flow management measures (CFMs) that have been adopted under the IMF's Institutional View on capital flows. As staff rightly points out, these CFMs need to be closely monitored and removed as the pandemic recedes. Over the longer run, the authorities should pursue a broader liberalization of exchange controls.

Closely monitoring financial stability is crucial, while the banking sector remains vulnerable to pandemic-related risks. Some financial institutions are heavily exposed to the tourism sector and may need to be resolved. We concur with staff that the CBOB should intensify its oversight and, after the crisis, engage with banks to facilitate the effective resolution of NPLs. We also commend the authorities for the recent reforms of the crisis management framework as well as for the good progress on strengthening the AML/CFT framework. We encourage them to implement these reforms effectively.

We take note that the CBOB officially launched a CBDC to all residents last year. We also note the main objectives of this project, which are to promote financial inclusion and strengthen the resilience of the payments system to natural disasters. While we understand this motive for a vast archipelago country like The Bahamas, we encourage the authorities to carefully monitor the considerable risks to financial stability, integrity and cybersecurity a CBDC entails. *Also, to make the CBDC resilient to natural disasters, it is essential to ensure offline usability when there's no electricity or cell phone network, and we are interested in learning The Bahama's progress thus far and the feasibility of offline usability.*

We concur with staff that structural reforms are critical to achieve higher and more inclusive growth. The pandemic exposed pre-existing structural impediments and enhanced the need for reforms. The authorities should take every step to improve the business climate, make regulation requirements simpler and more business-friendly, improve the quality of education and vocational training, and promote sustainable tourism. Given the severe loss of life and damage caused by the recent natural disasters, a particular focus should be placed on enhancing the physical, financial and social resilience to natural disasters. An important step in this context would be the introduction of a mandatory property insurance for all private properties. We also believe that a Climate Change Policy Assessment (CCPA) might be a useful tool for The Bahamas to adapt and build its climate change resilience. *We welcome staff's comments on this matter.*

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GRAY/21/205

January 20, 2021

Statement by Mr. Moreno and Ms. Rivera Molina on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank the staff for their informative report and Ms. Levonian and Ms. Smith for their helpful buff statement. The Bahamas entered the pandemic just as it was recovering from the economic slowdown caused by hurricane Dorian, making the impact of COVID-19 unprecedent with the sudden halt to tourism – the main source of income for the country – causing a further economic contraction in 2020. We commend the authorities for their swift response, nonetheless, the country still faces a lot of challenges given the prevailing uncertainty and its exposure to climate change.

Fiscal policy. We praise the authorities on their commitment to strengthening fiscal responsibility and transparency, thus the improvements in the policy framework leading to the Bahamas' removal from the EU's list of Non-Cooperative Jurisdictions for Tax Purposes. We take note of the recent submission to parliament of the Fiscal Strategy Report (FSR) and all steps taken by authorities on fiscal consolidation, which will help address the pandemic-related needs and prioritize spending. We encourage authorities to step up their efforts on tax expenditures review and tax reforms, and to continue efforts to clear arrears.

The monetary policy response by the Central Bank of Bahamas (CBOB) seems appropriate, though we agree with staff that some of these measures might be consider capital flow management measures (CFMs), and underscore staff's recommendation to the authorities to be vigilant and remove them once the conditions improve.

We congratulate the CBOB on the launching last October of Sand dollar – the first state-backed digital currency in the world – that has come to modernize The Bahamas' payment system. We recognize this great achievement but are also aware of the risks entailed, thus, we encourage the CBOB to continue closely monitoring, including under the AML/CFT framework. This project and its success can be set as a model for others. *We would welcome staff comments on the development of the project.*

COVID-19. We commend the Government's initiative to develop a national COVID-19 Vaccination Plan, to acquire the vaccine to help mitigate the spread of the pandemic and reactivate tourism. As more population get vaccinated, this will help reestablish the tourism sector.

AML/CFT. We welcome progress made by the authorities on improvements to AML/CFT legislation. As the Bahamas is now removed from the list of Financial Action Task Force (FATF), further efforts are needed to reinforce implementation.

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GRAY/21/206

January 20, 2021

Joint Statement by Mr. De Lannoy, Mr. Massourakis, Mr. Persico, and Mr. Tevdovski on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for the well-written report and Ms. Levonian and Ms. Smith for their informative Buff statement. Two consequent shocks, first the Hurricane Dorian and, after, the COVID-19 pandemic weighted on Bahamas' growth worsening country's existing vulnerabilities. Recent Fund's support under the RFI arrangement and timely emergency response helped to address urgent needs and mitigate crisis' effects on the most vulnerable. We broadly share the thrust of staff's appraisal and would like to offer the following comments for emphasis:

- **Considering the high correlation with US trends, growth projections seem to be over-pessimistic.** We noted that, while in agreement on staff's medium-term outlook, the authorities expect a quicker recovery. Indeed, in view of gradual economic re-opening and ongoing resumption of touristic inflows, as reported in the Buff statement, the country could return to pre-pandemic growth as early as 2023. Although this will require a strategy focused on climate resilience, improvements in governance, and a favorable business climate.

- **We commend the authorities for their emergency response and invite them to step up policy efforts to promote a quick recovery.** We share staff advice pointing to a comprehensive package of policies. In particular, the authorities should safeguard social spending implementing adequate contingency measures and support strategic investments. As the crisis abate, the authorities should aim to gradually reduce debt and to rebuild buffers.

- **We invite the authorities to resume the structural reform agenda.** Critical reforms should aim to mitigate fiscal pressures improving SOEs governance, public financial management (PFM), and tax revenue administration. Furthermore, economic diversification and climate resilience are key to ensure a sustainable and inclusive growth in the medium term. *Could staff elaborate about the plans for building more climate resilient infrastructure in the future?* Moreover, boosting international integration could support a quick recovery. *Could staff provide an update on WTO accession, Post-Cotonou agreement and other relevant international cooperation processes?*

- **We welcome the recent progress to strengthen the AML/CFT regime, however further actions are required to align the country with best practices.** The completion of the action plan to comply with FATF's recommendation constitutes a positive result. However, the inclusion of the country in the EU AML blacklist provided a mixed signal to investors and development partners. For this reason, we invite the authorities to ensure a timely and effective implementation of the AML framework.

- **Finally, we noted that the authorities asked for additional time to decide on the publication of the report.** In this regard, we invite them to carefully consider the role that transparent surveillance plays in catalyzing donor support and build investors' confidence. We wonder whether further staff engagement could facilitate a positive outcome in this direction. *Staff comments are welcome.*

GRAY/21/207

January 20, 2021

Statement by Mr. Zhang and Ms. Zhao on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

We thank staff for well-written reports and Ms. Levonian and Ms. Smith for their informative Buff statement. The COVID-19 pandemic hit the Bahamas hard and led to a sudden stop in tourism when the country was just recovering from the widespread destruction caused by Hurricane Dorian. We commend the authorities for their rapid emergency responses and strict containment measures to support the economy and vulnerable households. Going forward, strengthening resilience to external shocks and steadfastly implementing reforms are essential to set the stage for a resilient recovery and achieve inclusive medium-term growth. We broadly share staff's assessment and would limit ourselves to the following points for emphasis.

On fiscal policy, we welcome the authorities' swift crisis response to support healthcare infrastructure, employment, small and medium enterprises, and vulnerable groups in the population. Given the limited fiscal space, we agree with the need to establish a detailed contingency plan. Over the medium term, strengthening debt sustainability by fiscal consolidation is appropriate and necessary. Tax policy reforms are essential for a robust and equitable fiscal consolidation. It is also important to ensure rigorous selection of the announced capital projects and enhance the efficiency of social spending.

On monetary policies, we take note that the authorities have adopted capital flow measures to ease capital inflows and tighten capital outflows in the spring of 2020. While we understand the necessity of these measures, it is also important to closely monitor the evolvement of circumstances, remove these measures as the crisis abates, and eventually advance exchange control liberalization. We welcome the ratification of the new central bank law that limits lending to the government, which will help to strengthen the credibility of the exchange rate peg.

On financial policies, the recent reforms of the crisis management framework are timely and commendable. We welcome the good progress made in completing action items agreed with the Financial Action Task Force (FATF) and encourage the authorities to ensure its effective implementation.

On structural reforms, structural reforms are indispensable to raise competitiveness and reduce the country's vulnerability to natural disasters. We see value in taking prompt actions in advancing SOE reforms, lowering the cost of conducting business, and reducing frictions in the labor market. It is also essential to improve physical, financial, and social resilience against natural disasters.

With these remarks, we wish the authorities every success in these challenging times.

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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.

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GRAY/21/209

January 20, 2021

Statement by Mr. Palei and Mr. Biriukov on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

1. We thank staff for the comprehensive report on The Bahamas, and Ms. Levonian and Ms. Smith for their helpful Buff statement.

2. We commend the authorities for the introduction of timely measures to sustain public health and protect the most vulnerable during the COVID-19 pandemic. The authorities had to act with the limited fiscal space further reduced by the devastation of Hurricane Dorian in 2019. Staff anticipate a gradual recovery subject to a range of downside risks. At the same time, we believe that there is room for cautious optimism with respect to available resources, given the recent news that the UK-based Bahamas Petroleum Company (BPC) has begun drilling an offshore exploratory well. This could mark a new stage in long-running efforts to diversify somewhat the country's tourism-dependent economy. *Could staff please comment on the prospects of oil find in The Bahamas and its potential economic implications?*

3. After the economic recovery gains firmer footing, policymaking will have to focus on consolidating the public finances. We see merit in postponement of the achievement of the public debt target by another two years to provide state support to vulnerable segments of the population and to implement a nationwide vaccine rollout. Over the long term the fiscal stance will probably have to be austere, given the need to put debt on a clear downward path and rebuild buffers. Some cushion to the government's fiscal position will come from the Public Debt Management Bill and the Public Finance Management Bill. The former of the two bills requires the government to create a debt management plan, which will help the country to navigate its precarious debt position. We hope both bills will raise investor confidence and help to attract financing once they are passed.

4. We welcome the ratification of the new central bank law, which limits lending to the government. The law will increase the central bank’s independence, maintain the credibility of the peg and foster macroeconomic stability. Overall, the authorities are appropriately

focused on reserve adequacy and stable interest rates. Such factors as significant output slack and limited inflation pressures, which argue for lower rates, are generally offset by the need to maintain international reserves at an adequate level, which favors higher rates. Capital flow management measures tightening because of the COVID-19 outbreak has been justified but it should be reversed once the pandemic recedes. We also encourage the authorities to advance exchange control liberalization once the conditions allow.

5. We commend the authorities for significant progress they have made in improving the AML/CFT regime. The FATF removed The Bahamas from the list of Jurisdictions under Increased Monitoring in December after related technical deficiencies had been corrected and the strategic deficiencies identified by the FATF in October 2018 had been remedied. The effective implementation of the country's modified AML/CFT framework remains key for successful recovery and sustainable growth.

With these comments, we wish the authorities every success in their endeavors.

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GRAY/21/210

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.

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GRAY/21/211

January 20, 2021

Statement by Mr. Andrianarivelo, Mrs. Raoilisoa Andrianometiana, and Mr. Ondo Bile on The Bahamas (Preliminary) Executive Board Meeting January 22, 2021

We thank staff for the well written and comprehensive report and Ms. Levonian and Ms. Smith for their insightful Buff statement. Following the devastating hurricane Dorian that struck in 2019, The Bahamas economy is now experiencing severe impacts from the Covid-19 pandemic. We take note of the authorities' timely containment measures and emergency response to safeguard the healthcare system, protect the most vulnerable, and bolster the economy. Nevertheless, the tourism sector has been hit hard, resulting in a sharp declining growth estimated at 16.2 percent of GDP in 2020, to be follow by a moderate rebound of 2 percent of GDP this year. Given the significant downside risks to the outlook stemming from the uncertain evolution of the pandemic and exposure to natural disasters, we concur with the staff policy advice that targets a comprehensive policy mix to mitigate the pandemic damage, build resilience against shocks and frame a solid foundation for more inclusive and resilient medium-term growth.

We agree with staff that the focus of fiscal policy should continue to contain the spread of the virus to protect lives and livelihood in the near term, and gradually resuming fiscal consolidation over the medium term. The proposed combined spending and revenue measures for FY2020/21 is consistent with the projected still depressed landscape. Fiscal deficit is projected to 12.4 percent of GDP, as a result of revenue shortfall and additional pressure on spending. In this regard, we welcome the set of emergency fiscal measures to sustain jobs and businesses, and to support the economic recovery. We also see merit in the authorities' commitment to fiscal discipline once the crisis abates.

Building resilient recovery and guarding against external shocks is warranted. To preserve macroeconomic stability and maintain debt sustainability over the medium term, swift implementation of the Fiscal Responsibility Law (FRL) and Public Financial Management (PFM) legislation should include the set of fiscal measures proposed by staff with the objective of putting debt on a downward path. To this end, we support the need to uphold expeditiously the key structural fiscal reforms to ensure debt sustainability, notably in areas of fiscal discipline and transparency. We expect that the draft PFM and Public Debt Management (PDM) Bills will be submitted to the Parliament in coming months, as planned, and that the Fiscal Responsibility Council will be fully operational without further delay this year.

Monetary and financial sector policies should remain accommodative to economic activity and reserve adequacy until the recovery is solidified. To safeguard financial stability and improve financial inclusion, we welcome the Central Bank of The Bahamas (CBOB) ongoing efforts on implementing the 2019 FSAP recommendations to enhance credit risks management and Internal Capital Adequacy Assessment Process (ICAAP) reviews. Strengthening the banking supervision and Non-Performing Loans (NPLs) resolution should proceed as well, in addition to improving systemic risk-based oversight and enhancing financial crisis management function of the central bank. We also concur that an effective implementation of AML/CFT strengthened framework is essential, now that the deficiencies identified by the Financial Action Task Force (FATF) are satisfied. We welcome the CBOB launching of the *Sand Dollar,* as legal tender for The Bahamas Central Bank Digital Currency, (CBDC), on October 2020 - the first known state-backed digital currency worldwide - aimed to strengthen the resilient of the payment system and boost the financial inclusion for communities in remote locations of the 700-island archipelago. *Staff comments are welcome on the feasibility of the CBOB's expectation that from the CBCD's roll out onward, The Bahamas will have equal, expanded and resilient access to digital payments.*

Tackling existing structural bottlenecks is essential to enhance competitiveness and foster resilient and strong growth. On competitiveness, the reform options to make the economy more resilient, inclusive and sustainable identified by the Economic Recovery Committee (ERC) should be implemented as soon as the recovery phase takes off. In this connection, priority should be given to reducing energy costs, lowering cost of doing business with the government as well as addressing skills mismatches. To enhance resilient, we concur that there is a real need to improve physical, financial and social resilient against natural disasters. We also support the need to make national statistics data more reliable and timelier to enhance policy making, notably at the time of emergency like the hurricane and pandemic.

We wish the authorities and people of Bahamas every success in their future endeavors.

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GRAY/21/212

January 20, 2021

Statement by Mr. Lischinsky and Mr. Corvalan Mendoza on The Bahamas (Preliminary) Executive Board Meeting January 22, 2021

We thank staff for the informative report and by Ms. Levonian and Ms. Smith for their helpful Buff statement.

Two unprecedent shocks, hurricane Dorian in the third quarter of 2019 and Covid-19 in the first quarter of 2020, have exacted a human, economic, and social toll on the Bahamas. The authorities' have made efforts to save lives, protect the most vulnerable, rebuild damaged infrastructure, and maintain macroeconomic variables at reasonable levels. We see merit in their approach to advance with many different policy challenges gradually, taking into account the massive external shock the archipelago had to endure. The international community helped to fill the financial gap that broadened the shocks, and the Rapid Financing Instrument (RFI) was part of it.

To restore fiscal discipline, debt sustainability, rebuild reserves and lay the groundwork for future economic growth might take time. The collapse in tourism and subdued domestic demand were the main channels through which the economy was negatively affected. The sudden stop of economic activity was evident, with the unemployment rate reaching 25.6 percent in 2020 versus 10.4 percent in 2018. GDP growth for 2020 was in double-digit negative territory. For 2021 a modest GDP rebound of 2 percent is expected, supported by construction activity.

We commend the authorities' immediate efforts to contain the impact of the shocks by reprioritizing spending and reinforcing health services, as well as protecting jobs and the most vulnerable population.

The exogeneous and transitory nature of the shocks increased the level of public debt, deteriorating the heat map of the debt sustainability analysis, as the debt-to-GDP ratio gradually surpasses 80 percent and risks related to financing needs turned to high. The latter is explained when taking into consideration the overall fiscal deficit projected for FY 2020/21 of 12.4 percent of GDP, which almost doubles the 6.5 percent of GDP of last year. Therefore, the debt profile is now exposed to a high risk of market perception.

The authorities' resolution to return to fiscal discipline path once the scars of both shocks dissipate is warranted. Tax policy reforms will be urgently needed to reinforce the credibility and equitability of the system. Current discussions to implement revenue-enhancing measures should be a priority to tackle mounting risks on the sustainability of the economic policy. It will prove critical for the medium-term horizon to resume a downward path of the debt-to-GDP ratio to a more reasonable level. We take note that public debt dynamics remain vulnerable to the uncertainties the Covid-19 pandemic might bring if it extends for long period of time, along with the risks of potential natural disasters, and the contingent liabilities from State-Owned Enterprises. Continued engagement with the Fund is highly relevant to catalyze financing and technical assistance from development partners and the donor community to support the economy in these times of distress.

Regarding monetary policy, we take positive note of the ability of the central bank to sustain the one-to-one peg to the US dollar despite the enormous challenges the archipelago has recently faced. We also welcome the passing of the new central bank law, which among other best international practices, limits the lending to the government. We found Annex VIII on "Sand Dollar", the first state-backed digital currency in the world, which was officially launched last October, a very interesting tool to enhance financial inclusion and to learn from their experience. We commend the authorities for the removal of the Bahamas from the FATF Grey list last December. This was due to the hard work to improve the regulation and supervision of the financial sector. However, continued efforts to reinforce the AML/CFT framework are required along with the implementation of the recommendations by FATF to address financial sector deficiencies. *We would like to have staff's comments on the possibility of performing an asset quality review for the financial system to support the authorities' concerns.*

With these comments, we wish the people of the Bahamas all the best in these challenging times.

GRAY/21/213

January 20, 2021

Statement by Mr. Bhalla and Ms. Indraratna on The Bahamas
(Preliminary)
Executive Board Meeting
January 22, 2021

1. We thank staff for the comprehensive report and Ms. Levonian and Ms. Smith for the insightful buff statement. We broadly concur with the staff assessment and recommendations and highlight some issues for emphasis.

2. Bahamas was hit by the COVID-19 pandemic in the aftermath of Hurricane Dorian which caused severe damage to the country. While the hurricane necessitated significant resources for recovery and reconstruction, the pandemic led to a sudden stop in tourism, depriving the country of its main source of income and employment. These conditions, together with aggressive containment measures adversely impacted domestic economic activity. Consequently, the economy is expected to severely slowdown in 2020 with real GDP growth estimated to record a double-digit contraction, followed by a modest rebound in 2021 and convergence to pre-pandemic levels only in 2024. The Bahamian authorities have obtained emergency financing under the Rapid Financing Instrument in June 2020 to deal with the crisis and resorted to financing from other development partners.

3. We welcome the authorities' efforts at limiting the adverse social and economic effects of the pandemic to protect lives and livelihoods. We note positively key investments made towards strengthening the health system and increased social assistance to the unemployed, vulnerable households and businesses during the pandemic period.

4. Bahamas has made progress on fiscal reforms, including the recently implemented rules-based fiscal policy framework and the establishment of a fiscal council. We note that the higher fiscal deficit in 2020 mainly reflects the impact of the COVID-19 outbreak. However, we welcome the authorities' commitment to fiscal and debt sustainability over the medium- term and support the implementation of revenue enhancing and expenditure rationalization measures as set out in the Fiscal Strategy Report submitted to Parliament in December 2020. On the revenue front, we

encourage the authorities to improve the progressivity of the tax structure by introducing income taxes and developing property taxation as such taxes will bring about a more equitable income distribution. We also lend our support to the introduction of the sin tax on alcohol and tobacco. We concur with the staff view that VAT exemptions should be removed at the earliest as they undermine the efficiency of the VAT system. We also call upon the authorities to improve the effectiveness of social spending through better targeting and means testing of subsidies to enhance efficiency gains.

5. We take positive note of the numerous measures implemented by the monetary authorities to mitigate the impact of the COVID-19 outbreak and maintain financial stability, including loan moratoria and heightened supervisory measures. However, we would like to urge the authorities to be vigilant on risks to financial stability as credit quality indicators are deteriorating and overall profitability declining due to increases in loan loss provisioning. We also encourage the authorities to reverse the series of capital flow measures taken to ensure adequate liquidity in the foreign exchange market once the pandemic subsides.

6. We encourage the authorities to continue with structural reforms once the pandemic recedes and underscore the importance of improving competitiveness and addressing key weaknesses in the business environment and the labor market to achieve sustained inclusive growth in the medium term.

7. With these remarks, we wish the authorities success in all their future endeavours.

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GRAY/21/214

January 20, 2021

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

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GRAY/21/215

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.

GRAY/21/216

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.

The Bahamas

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/21/8—January 22, 2021

Staff's responses to technical questions are below. Broader policy questions on the realism of staff's baseline assumptions, the central bank digital currency and potential IMF support will be addressed in staff's intervention at the Board meeting.

Outlook / Risks

1. We would appreciate staff's comments on the authorities' more favorable outlook.

The authorities agree with staff's medium-term outlook but have slight differences regarding the depth of recession in 2020 and the pace of recovery in 2021. While staff projects a decline of 16.2 percent in real GDP in 2020, the authorities expect the economy to contract by 18.6 percent. As a result of base effects and faster normalization of tourism flows (especially from the U.S.), the authorities anticipate a quicker recovery in 2021 with a real GDP growth of 3.1 percent, whereas staff projects the economy to recover by 2 percent. For the medium-term outlook, the critical difference between staff and the authorities is the timing of tourism normalization. While staff expects international tourist arrivals to reach the pre-pandemic level in 2024 in line with global and regional assumptions, the authorities anticipate pent-up demand for travel to accelerate tourism growth and reach the pre-pandemic level by 2023.

2. 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?

Staff will respond to this question during the Board meeting.

3. Could staff please comment on the prospects of oil find in The Bahamas and its potential economic implications?

The UK-based Bahamas Petroleum Company (BPC) has begun drilling an offshore exploratory well to the south-west of Andros Island in late December 2020. BPC holds five licenses for offshore exploration in an area totaling 16,000 km2. The company has complied with all relevant Bahamian legislation, including an Environmental Impact Assessment, but it is still facing legal challenges on environmental grounds. The Supreme Court granted the applicants leave to seek a judicial review but refused a request for a stay on drilling activity pending the review's outcome. This means that Judicial timelines effectively mean that the exploratory well will be complete or largely complete by the time the judicial review has been carried out. Despite concerns about the environmental consequences, there is significant economic incentive to consider oil exploration.

BPC estimates that an oil find at the first exploratory well and subsequent successful development could generate US$5bn (about 40 percent of GDP) for the government.

Fiscal Policy

4. Could staff identify what are some of the implementation challenges for property and income tax policy reforms?

Both reforms are currently being discussed by the authorities. The main challenge around introducing more progressive property taxation is valuation. As the 2019 FSAP pointed out, there is no comprehensive real estate price database in the country. The Central Bank of The Bahamas is currently working on it. Regarding income taxes, The Bahamas has never imposed them, instead relying on a mix of VAT, stamp duties, business license fees, and, to a lesser extent, property taxation. Thus, careful discussion at all levels will be needed to produce a fair tax environment that does not jeopardize competitiveness and longer-term growth potential.

5. Can staff elaborate further on what the proposed domestic sources of financing would be for the remaining financing needs and the longer-term debt implications from an external and domestic debt issuance?

The main instruments are bilateral or syndicated loans from commercial banks and domestic bond issuances, but at the time of the mission, the authorities had not finalized their plans for the current budget year. Given historical data on domestic issuance, liquidity in the banking sector, and limited investment opportunities in the domestic economy, the authorities and staff expect that the domestic economy can absorb the financing needs for this fiscal year.

External financing is a mix of loans from IFIs, loans from international commercial banks, and Eurobond issuances. While external financing is supporting international reserves, external financing is more costly than domestic financing. Under staff's baseline, the authorities are expected to increase the reliance on the domestic sources gradually over the medium term, strengthening long-term debt sustainability. The 2019 FSAP recommended that The Bahamian presence in the Eurobond market should also be maintained.

6. How have the downgrades impacted access to market financing, and are further downgrades expected?

The market perception of The Bahamas has been influenced by the recent major external shocks —Hurricane Dorian and COVID-19—and their impact on tourism. In October and December, a total of US$825 million was issued externally, at an annual interest rate of 8.95 percent, and an average maturity of 11 years. Previously, in 2017, the authorities issued a Eurobond with an 11-year maturity at 6 percent.

Both Moody’s and S&P’s latest ratings maintained their negative outlook for The Bahamas.

7. 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?

Staff is not aware of a request by the authorities for TA on conducting future household expenditure surveys. The Inter-American Development Bank has provided technical assistance on improving health sector data.

8. 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?

Tax policy reforms are in the initial stage. The authorities are reviewing the existing tax regime and revenue laws to develop more detailed action plans. They aim to modernize the system to achieve more progressivity, fairness and stability of revenue collections over the medium-term. In the meantime, the authorities are implementing a variety of tax compliance measures, for example, increasing the use of risk-based audits for Value Added Tax and strengthening investigation and intelligence capability to reinforce the efforts undertaken by the Revenue Enhancement Unit.

In addition to tax reforms, the planned structural reforms and economic policies would help to diversify the economy and thus government revenue. Such actions include, but are not limited to: micro, small and medium size business development through providing government guarantees on their commercial bank loans, FDI promotion with simplified administration process, business climate improvement through a more efficient license system, and support to The Bahamas Technical and Vocational Institute. The authorities are also articulating a strategy for economic diversification into new and emerging ocean-based activities and sectors, including marine aquaculture, seabed mining, maritime safety and surveillance, marine biotechnology, marine security offshore wind energy, ocean renewable energy, and deep-sea oil and gas production. To this end, the government has secured a recent grant from the Inter-American Development Bank in the amount of US$500,000 to finance a three-year technical cooperation project with a particular focus on the digital economy and the blue economy.

9. Can staff provide more details on the draft PFM Bill and Public Debt Management Bill?

PFM Bill: The draft Bill seeks to replace the existing Financial Administration and Audit Act, 2010, and to clearly specify the roles and responsibilities of financial officers, enhance reporting requirements and accountability expectations across the public service, and solidify criminal penalties for malfeasance in public financial matters.

Public Debt Management Bill: The Bill seeks to consolidate and amend existing laws for public debt management, as well as implement an oversight framework of public debt activities, which are to be guided by defined objectives. The Bill will also establish a Debt Management Unit and a Debt Management Committee and require the production of an annual Debt Management Strategy Report, which is to be presented to Parliament at the time of the Fiscal Strategy Report.

10. Would staff consider providing technical assistance in order to accelerate the implementation of tax reforms?

Yes. The country team is communicating with the CARTAC and the Ministry of Finance regarding the timing and scope.

11. Could staff provide a detailed table of the external financing needs requirements on 2018-2026?

Government External Financing

(Percent of GDP)

.	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Gross financing needs	13.5	7.6	13.7	17.6	15.7	8.8	8.7	5.6	3.5
Net external financing	6.8	-0.6	3.1	12.8	4.5	1.5	0.7	0.5	0.3
Borrowing	10.7	0.1	3.2	14.0	6.2	3.6	4.5	2.3	1.2
of which : Eurobond 1/	5.9		6.7						
Amortization	4.0	0.7	0.1	1.1	1.7	2.1	3.8	1.7	0.8
Government external debt	20.7	19.1	23.7	39.2	39.7	38.4	37.0	35.9	35.0

Sources: The Bahamian authorities; and IMF staff calculations and projections.

1/ Only actual issuance.

12. 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?

Staff notes that the baseline is already using conservative assumptions on tourism (with 2021 tourist arrivals below 2020 levels and a slow recovery towards pre-pandemic levels by 2024.

A scenario in which tourism is weaker than in this baseline would be similar to the "combined macro-fiscal shock" scenario in the DSA. The delay in the tourism recovery would reduce real GDP and revenue. At the same time, continuation of income and business support would widen the deficit. In such a scenario, public debt could exceed 100 percent of GDP and remain elevated over the medium term, necessitating more fiscal adjustment over the medium-term and potentially a further postponement of the achievement of the FRA's debt target.

13. Are staff engaging with the authorities to enhance reporting and transparency of SOE debt and incorporate these guarantees into future DSAs?

Enhancing reporting and transparency of SOEs has been a longstanding Article IV recommendation. Currently, SOE debt data are published periodically by the CBOB. More regular access to income and expenditure data of key SOEs would allow staff to project the debt dynamics in more meaningful manner and thus to expand the DSA coverage to SOEs.

Monetary/Financial/External Policy

14. Can staff provide more details on the macroprudential instruments envisaged to be used in The Bahamas?

The Central Bank of The Bahamas will introduce a macroprudential bank capital buffer as part of the Basel III reforms, the implementation of which has been delayed to 2022 owing to the pandemic. With the operationalization of the credit bureau within a year, staff also expects the collection of loan-level data to assist in implementing loan-to-value (LTV) and debt-to-income (DTI) based mortgage lending standards.

15. We would like to have staff's comments on the possibility of performing an asset quality review for the financial system to support the authorities' concerns.

The Central Bank of The Bahamas closely monitors the banking system, but staff will inquire whether the authorities would be interested in conducting a granular asset quality review to examine the post-pandemic soundness of bank balance sheets. As noted in the 2019 FSAP, guidelines allow banks to follow a variety of credit risk methodologies for NPLs and provisioning, which could lead to inconsistent asset classification, collateral valuation, and loss provisioning practices (particularly for residential mortgages), resulting in errors in reported financial data and underestimation of credit risk.

16. Could staff comment on whether a shift in exchange rate regime would benefit The Bahamas in the near or medium term?

The latest exchange rate assessment by staff indicates that the Bahamian dollar is moderately overvalued by 6-9 percent. A devaluation would likely generate only modest improvements in competitiveness, given the high import content of tourism. Moreover, a devaluation would directly translate into higher prices for consumption goods, most of which are imported, with vulnerable parts of the population significantly impacted. Staff recommends developing a roadmap to phase out the pandemic-related capital controls and restart progress towards exchange control liberalization.

Sand Dollar and Central Bank Digital Currency

17. We would welcome staff comments on the development of the [Sand Dollar] project.

18. [T]o make the CBDC resilient to natural disasters, it is essential to ensure offline usability when there's no electricity or cell phone network, and we are interested in learning The Bahama's progress thus far and the feasibility of offline usability.

19. 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.

The Sand dollar was piloted in late 2019 in Exuma and rolled out nationwide in October 2020. The intention of the central bank has always been that of a gradual release of the Sand Dollar, which staff views as prudent given the novelty of a CBDC in action.

One of the key features of the Sand Dollar is offline functionality, given that The Bahamas is prone to natural disasters. This will be achieved through built-in safeguards to allow users to make a pre-set dollar value of payments when communications access to the Sand Dollar Network was disrupted. Wallets would update against the network once communications were re-established.

Sand dollars are now in circulation and there are some small businesses already using them, including in Nassau. The Sand dollar project will benefit from almost universal access to mobile phones in The Bahamas, with mobile phone penetration estimated to exceed [90] percent.

That said, uptake so far has been gradual, since so far there are only six authorized Sand Dollar enabled financial institutions. An additional three firms have begun the cybersecurity assessment process to become authorized institutions and are likely to complete this evaluation in early 2021. The central bank projects that public access to the Sand Dollar will significantly increase during the first quarter of 2021, as financial institutions continue to integrate the Sand Dollar into their mobile wallet platforms.

20. We welcome further elaboration from staff on the impact of CBDC to financial stability risk as well as to the transmission mechanism of monetary policy in The Bahamas.

Since the Sand Dollar was only recently released nationwide, it is still too early to determine the long-term impact on monetary policy and financial stability. That said, the Bahamian authorities recognized the potential impact that a CBDC could have on monetary policy and financial stability and built in design features in its CBDC to mitigate both risks. Limits on accounts, no interest, and a three-tier wallet design are expected to mitigate financial stability concerns including bank disintermediation. Real-time monitoring of transaction volumes is intended to provide early warning signs for bank liquidity issues with circuit breakers that would prevent system instances of failure or runs on bank liquidity. Thus far, initial data show that The Bahamas witnessed an increase in bank deposits since the launch of the CBDC.

21. 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.

The newly established Monetary and Capital Markets (MCM) Payments, Currencies, and Infrastructure (MCMPI) division has, among other responsibilities, the mandate to meet challenges from the rise of digital currencies. Towards this objective, the division has, in collaboration with the Legal Department (LEG), begun to provide TA to member countries that are considering issuing central bank digital currencies (CBDC). The TA aims to provide advice and guidance to central banks on deciding whether to issue CBDC, and if so, help them work through the design and other modalities, including ensuring that there is an effective legal and regulatory framework for digital currencies. Additionally, the IMF is working to establish a global network of central banks to compare CBDC experiences, challenges, and questions.

22. Staff comments are welcome on the feasibility of the CBOB's expectation that from the CBDC's roll out onward, The Bahamas will have equal, expanded and resilient access to digital payments.

Staff will respond to this question during the Board meeting.

Natural Disaster / Climate Change Issues

23. Could staff update us on the authorities' efforts to put in place a more robust disaster risk finance strategy and the recommendation from the last Article IV that this should be accompanied by a more comprehensive disaster resilience strategy?

24. [W]e see potential for The Bahamas to benefit from a Disaster Resilience Strategy exercise to support a multi-year macroeconomic framework. Staff's comments on this issue are welcome.

25. The Bahamas to benefit from a Disaster Resilience Strategy exercise to support a multi-year macroeconomic framework. Staff's comments on this issue are welcome.

26. We also believe that a Climate Change Policy Assessment (CCPA) might be a useful tool for The Bahamas to adapt and build its climate change resilience. We welcome staff's comments on this matter.

27. Could staff elaborate about the plans for building more climate resilient infrastructure in the future?

28. 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?

The authorities are in full agreement with staff's recommendations to enhance ex-ante preparedness, pursue risk reduction strategies (including mandatory property insurance), invest in resilient infrastructure, and rebuild financial resilience. To this end, the authorities had taken important steps to implement a multilayered disaster risk financing strategy, including establishing a natural disaster fund, but those resources were allocated to urgent reconstruction and recovery efforts after Hurricane Dorian.

The government is working on its Resilient Recovery Policy, which will provide context and guidelines for a timely rebuilding process after a disaster. This resilient recovery policy establishes a vision and a system of principles to guide decisions and a rational process of recovery within the framework of the National Economic Development Plan ("Vision 2040"), developed in partnership with the IDB, with a strong focus on climate resiliency. To aid this effort, a US$35 million IDB loan will finance shoreline stabilization and coastal flooding control measures, natural infrastructure for hazard resilience through the restoration of coastal natural habitats, and institutional strengthening for Bahamas' coastal risk management efforts. The authorities remain committed to bring new legislation, including mandatory property insurance, to parliament in 2021 to mitigate risks associated with natural disasters and utilize more resources for alternative energy investments.

Looking forward, staff will approach the authorities to conduct the Climate Change Policy Assessment (CCPA), which would provide a valuable diagnostic for the authorities in the context of developing a comprehensive Disaster Resilience Strategy.

Other

29. Could staff provide an update on WTO accession, Post-Cotonou agreement and other relevant international cooperation processes?

The Bahamas had made some progress with its WTO accession process, but Hurricane Dorian and the COVID-19 pandemic have shifted the government's focus away from necessary structural reforms and legislative changes. Nevertheless, the authorities are considering new competition and foreign investment bills to codify the national investment policy, tariff quota regulations, anti-dumping regulations, animal health, food safety and plant protection regulations as well as a public procurement bill.

The chief negotiators from the European Union (EU) and the Organization of African, Caribbean and Pacific States (OACPS) reached a political deal on the text for a new Partnership Agreement that will succeed the Cotonou Agreement. The Agreement, which will have to be approved, signed and ratified by the parties, will cover a large number of areas, ranging from sustainable development and growth, to human rights and peace and security and will be geared to empower each region. The signature of the agreement is expected take place in 2021. Once in effect, the Agreement will serve as the new legal framework and guide political, economic and cooperation relations between the EU and 79 members of the OACPS for the next twenty years.

The Bahamas made good progress in completing action items agreed with the Financial Action Task Force (FATF) as a jurisdiction with strategic AML/CFT deficiencies, including enhancing international cooperation, initiating risk-based supervision of non-bank institutions, implementing the Beneficial Ownership Law and strengthening enforcement. Although The Bahamas was placed on the European Union's 'AML Blacklist' in October 2020 due partly to the delayed FATF assessment, the FATF completed its inspection in November and removed the Bahamas from its Grey List in December.

30. Have the authorities considered requesting a Fund UCT program to help fill the remaining financing gap and catalyze further support?

31. [W]e noted that the authorities asked for additional time to decide on the publication of the report. In this regard, we invite them to carefully consider the role that transparent surveillance plays in catalyzing donor support and build investors' confidence. We wonder whether further staff engagement could facilitate a positive outcome in this direction. Staff comments are welcome.

Staff will respond to questions 30-31 during the Board meeting.

CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States