INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/24

THE BAHAMAS

January 2021

2020 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE BAHAMAS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2020 Article IV consultation with The Bahamas, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 22, 2021 consideration of the staff report on issues related to the Article IV consultation with The Bahamas.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 22, 2021, following discussions that ended on November 20, 2020, with the officials of The Bahamas on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 5, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for The Bahamas.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2020 Article IV Consultation with The Bahamas

FOR IMMEDIATE RELEASE

Washington, DC – **January 26, 2021:** On January 22, 2021, The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with The Bahamas.

The COVID-19 pandemic has exacted a significant human, social, and economic toll on The Bahamas. The archipelago was just starting to recover from the severe damage caused by Hurricane Dorian in fall 2019, when the global outbreak of COVID-19 led to a sudden stop in tourism, the main source of its income and employment. The authorities mounted a rapid emergency response to support the economy and vulnerable households and put in place strict containment measures. But amid limited testing and health resources, reopening the economy has been challenging.

Real GDP is projected to contract by 16.2 percent in 2020, followed by a modest rebound of 2 percent in 2021, and to converge back to its pre-pandemic level only by 2024. Public debt is expected to jump to almost 90 percent of GDP by 2021 and to remain more than 22 percentage points above its pre-pandemic level over the medium-term. The banking sector remains well capitalized, but some banks and credit unions are vulnerable to pandemic-induced risks, including an erosion of asset quality once loan moratoria expire, with negative implications for profitability and capital adequacy. Risks around the baseline are high, reflecting the uncertain evolution of the COVID-19 pandemic, and The Bahamas' vulnerability to natural disasters.

Executive Board Assessment[2]

Executive Directors 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

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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.

Table 1. The Bahamas: Selected Social and Economic Indicators

I. Social Indicators

GDP (US$ millions), 2019	13,579	Poverty rate (percent), 2013	12.8
GDP per capita (US$), 2019	35,664	Unemployment rate (percent), May 2019	9.5
Population (thousands), 2019	381	Infant mortality rate (per 1,000 live births), 2018	8.3
Life expectancy at birth (years), 2019	73.6	Human development index (rank), 2019	60
Adult literacy rate, 15+ (percent), 2007	96		

II. Economic Indicators

	Est.	Projections						
	2019	2020	2021	2022	2023	2024	2025	2026
	(Annual percentage changes, unless otherwise indicated)							
Real sector 1/								
Real GDP	1.2	-16.2	2.0	8.5	4.0	3.5	1.8	1.5
Nominal GDP	4.3	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
GDP deflator	3.0	-1.3	2.2	1.9	1.9	2.0	1.9	1.9
Consumer price index (annual average)	2.5	-0.2	1.5	2.2	2.2	2.1	2.1	2.1
Consumer price index (end of period)	1.4	0.8	2.2	2.2	2.1	2.1	2.1	2.1
Unemployment rate (in percent)	10.1	25.6	24.0	17.2	13.5	12.8	12.5	12.0
Gross national saving rate (percent of GDP)	27.5	10.5	6.5	7.6	9.4	12.0	12.6	12.7
Investment rate (percent of GDP)	23.6	27.9	28.9	24.3	22.3	20.9	20.4	20.2
Financial sector								
Credit to the nonfinancial public sector	1.5	8.2	9.1	14.1	8.8	6.3	5.1	3.1
Credit to the private sector	0.1	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
External sector								
Exports of goods and services	8.1	-65.2	-14.4	123.9	30.2	23.9	8.9	5.1
Of which: Travel receipts (gross)	10.7	-75.1	-18.7	206.7	36.2	27.6	9.8	5.4
Imports of goods and services	-4.0	-21.5	-5.1	38.8	12.3	9.7	5.9	3.9
	(In percent of GDP, unless otherwise indicated)							
Central government 2/								
Revenue and grants	18.1	16.9	14.2	16.2	17.9	19.0	19.4	19.6
Expenditure	19.8	23.4	26.7	25.0	21.9	21.5	21.1	20.7
Expense	18.3	21.6	24.8	22.8	20.7	20.3	19.9	19.5
Net acquisition of nonfinancial assets	1.4	1.8	1.9	2.1	1.2	1.2	1.2	1.2
Overall balance	-1.6	-6.6	-12.4	-8.8	-4.0	-2.6	-1.8	-1.0
Primary balance	0.8	-3.8	-8.9	-5.2	-0.7	0.8	1.6	2.1
Central government debt	58.8	68.6	88.6	88.1	86.2	84.5	82.8	81.3
External sector								
Current account balance	3.9	-17.4	-22.4	-16.8	-12.9	-8.9	-7.8	-7.5
Change in NIR (increase -) 3/	-4.1	-5.2	5.6	0.2	-0.6	-0.7	-0.9	-1.0
Central government external debt	18.9	35.1	39.5	38.8	37.7	36.3	35.4	34.4
Memorandum items								
Gross international reserves								
(End of period; millions of U.S. dollars)	1,758	2,339	1,683	1,653	1,731	1,832	1,967	2,123
(In months of next year's G&S imports)	5.5	7.7	4.0	3.5	3.3	3.3	3.4	3.5
GDP (in millions of Bahamian dollars)	13,579	11,235	11,706	12,947	13,726	14,480	15,025	15,542
Output gap (percent)	1.3	-11.7	-10.8	-4.2	-2.1	-0.3	-0.1	0.0

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and Fund staff projections.

1/ The Department of Statistics revised the 2013-2018 National Accounts data to provide a more accurate measure of GDP. These revisions incorporated new data sources and recommended methodological changes.

2/ The data refer to fiscal years ending on June 30.

3/ Net International Reserves.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

January 5, 2021

KEY ISSUES

Context. The economic impact of COVID-19 on The Bahamas is unprecedented. The archipelago was just recovering from the devastation of Hurricane Dorian in the fall of 2019, when the pandemic led to a sudden stop in tourism, the main source of income and employment. The authorities mounted a rapid emergency response to support the economy and vulnerable households and put in place strict containment measures. But amid limited testing and health resources, reopening the economy has been challenging.

Outlook and Risks. Real GDP is projected to contract by 16.2 percent in 2020, followed by a modest rebound of 2 percent in 2021, and to converge back to its pre-pandemic level only by 2024. Public debt is expected to remain sustainable, but more than 22 percentage points above its pre-pandemic level over the medium-term and vulnerable to significant shocks. Risks around the baseline are high, reflecting the uncertain evolution of the pandemic, and vulnerability to hurricanes.

Policy Advice. The Bahamas would benefit from a comprehensive package of policies to limit the damage from the pandemic, set the stage for a resilient recovery, and achieve durable and inclusive medium-term growth:

- *Fiscal Policy*. In the near-term, focus on protecting lives and livelihoods, ensure rigorous appraisal and selection processes of the announced capital projects and enhance the efficiency of social spending; develop detailed contingency plans. Announce credible medium-term tax policy, revenue administration and spending measures to finance investment in infrastructure and education, strengthen resilience to climate change, and lower public debt.
- *Monetary and Financial Sector Policies*. Focus on reserve adequacy; gradually remove capital flow management measures once the economy is on a stronger footing. Closely monitor financial stability risks. Ensure effective implementation of crisis management reforms and strengthen central bank data collection and capacity. Continue enhancing the country's regime to counter money laundering and terrorist financing and cybersecurity preparedness.
- *Structural Reforms*. Steadfastly implement reforms to enhance diversification and productivity, including streamlining administrative processes, modernizing the insolvency regime, and reducing frictions in the job-matching process.

Approved By
Aasim M. Husain (WHD) and Bikas Joshi (SPR)

Discussions took place virtually during November 13–20, 2020. Staff's assessment is based on information available as of December 30, 2020. The team comprised Anke Weber (head), Serhan Cevik, Tariq Khan, and Atsushi Oshima, with assistance from Sheng Tibung and Tianle Zhu (all WHD). Inutu Lukonga (MCM) joined the discussions with the central bank on the digital currency. Latoya Smith (OED) participated in the meetings. The mission held discussions with former Deputy Prime Minister and Minister of Finance Turnquest, Central Bank Governor Rolle, other Ministers and senior government officials, and private sector and civil society representatives.

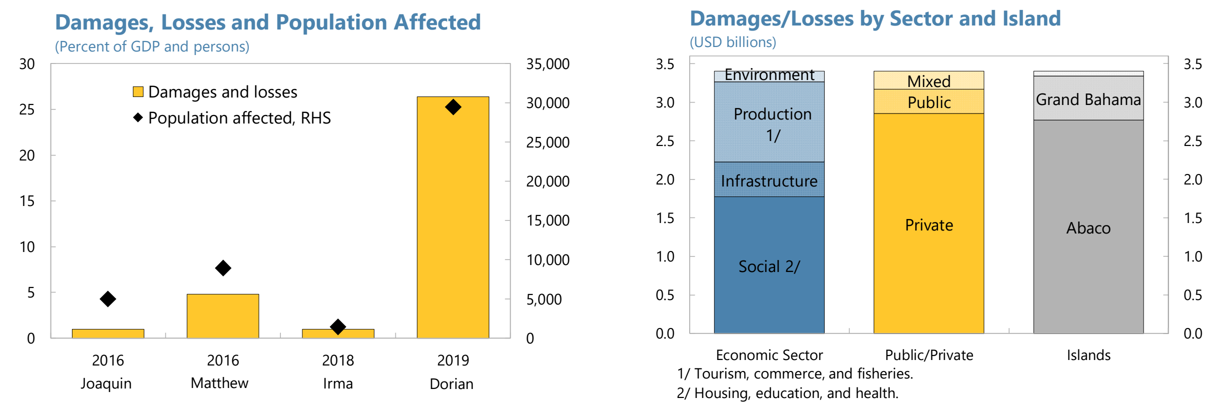
CONTENTS

ANNEXES

PRE-COVID-19: THE AFTERMATH OF HURRICANE DORIAN

1. The Bahamas entered 2020 still reeling from Hurricane Dorian, the strongest storm in its recent history. On September 2–3, 2019, Dorian made landfall in two islands, Grand Bahama and Abaco, causing substantial loss of life and severe damage, exceeding 25 percent of GDP. Cleanup and reconstruction were proceeding only slowly amid coordination difficulties and labor shortages.

The Economic Impact of Hurricane Dorian



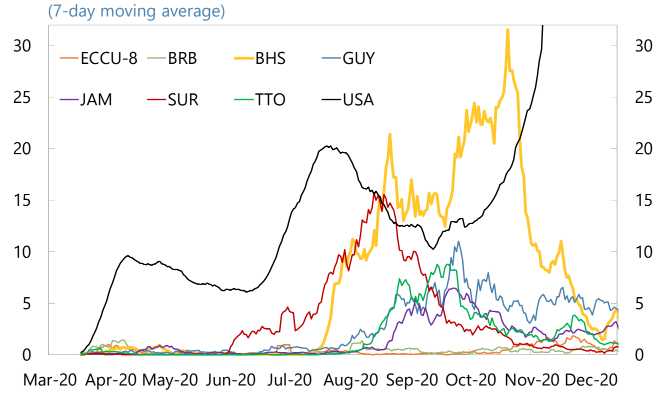
Sources: UNECLAC and IDB (2019); and IMF staff estimates.

2. The hurricane required directing significant resources to recovery and reconstruction, leaving the country with limited fiscal space as it confronted the pandemic. The various tax exemptions, including on construction-related materials and services, and additional outlays on social protection and infrastructure amounted to about 6 percent of GDP over four years. As a result, the government activated the escape clause under the Fiscal Responsibility Act (FRA) and postponed the achievement of its targets—a fiscal deficit of 0.5 percent of GDP and public debt-to-GDP ratio of 50 percent—by four years, to fiscal years (FY, July 1-June 30) 2024/25 and 2028/29, respectively.

3. Over the past years, the authorities have undertaken important institutional reforms, but implementation has slowed following Dorian. The government established a rules-based fiscal policy framework and a fiscal council. Progress was also made regarding strategic deficiencies in the country's regime to counter money laundering and terrorist financing. However, while several of the 2019 Financial Sector Stability Assessment Program (FSAP) recommendations were legislated, progress on various structural and fiscal reforms, including a review of the tax system and tax expenditures, has been slow (Annexes I and II).

THE COVID-19 SHOCK: IMPACT AND POLICY RESPONSE

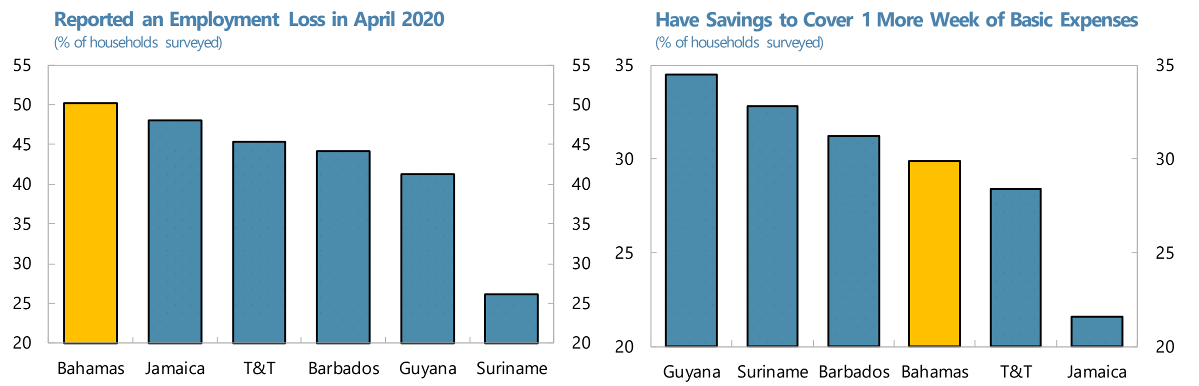
New COVID Cases per 100,000 People
(7-day moving average)



Sources: Johns Hopkins University, Ministry of Health, and IMF staff calculations.

4. **The pandemic has exacted a tragic human, economic, and social toll on The Bahamas.** As of December 30, 2020, over 7,800 Bahamians have been infected and 170 have died due to COVID-19 (Annex VI). Tourist arrivals declined by 70.5 percent year-on-year in the first ten months of 2020 (Figure 1). The collapse in tourism, accounting for about 50 percent of GDP and 70 percent of employment, is estimated to have large-scale socio-economic effects, especially coupled with domestic containment measures. The National Insurance Board (NIB) accepted more than 47,000 unemployment benefit applications between April and September (about 20 percent of the workforce), and over 7,000 self-employed received government assistance.

Socio-Economic Survey Results



Source: Inter-American Development Bank Survey.

5. **The current account fell back into deficit, following a small surplus in 2019**. Net travel receipts were negative for the first time in the second quarter of 2020 (Figure 2). Exports contracted more than imports (35 percent vs. 17 percent) in the first three quarters relative to 2019, but the remainder of Hurricane Dorian related re-insurance receipts—about $400 million compared to $900 million in 2019—helped limit the current account deterioration. External foreign reserves reached an all-time high of $2.3 billion at the end of October, mostly thanks to government external borrowing.

6. **Fiscal policies appropriately shifted toward providing relief to the unemployed, vulnerable groups, small businesses, and the health sector**. The government doubled the duration of existing unemployment benefits (UEB) to 26 weeks and provided income to the self-

employed. It also allowed companies to defer tax payments if they retained at least 80 percent of their employees. The health sector received additional resources of $15 million. These measures were estimated at 1.2 percent of GDP for FY2019/20, but execution fell short given limited demand for some programs and implementation delays.

Text Table The Bahamas: Key Fiscal Policy Measures in Response to COVID-19

(In percent of GDP)

Measure	Details	Budget	Outturn
Total		**1.2**	**0.8**
Tax Credit & Tax Deferral Program	Medium and large size businesses with at least 25 employees can receive tax credits/deferrals of up to $600k for 3 months to service non-tax payroll.	0.5	0.2
SME Support	Small Business Development Center loans and grants of up to $300k and $20k, respectively. For FY2020/21, extended to include grants for niche businesses (food delivery and agriculture).	0.2	0.3
Utility Subventions	Compensate for payment waivers to COVID-19 impacted persons for 3 - 6 months.	0.2	-
Health	Ministry of Health funding	0.1	0.0
Unemployment Assistance	Self-employed persons receive up to $200 per week for 8 weeks. For FY2020/21, up to $500 per month for a 5-month period. Also, the duration of regular unemployment benefits was extended from 13 to 26 weeks.	0.1	0.3
Food Assistance	Food vouchers of up to $100 per week for 8-weeks. For 2020/21, extend the program at a cost of $15M and provide an additional $17M to other programs under the Ministry of Social Services.	0.1	0.0

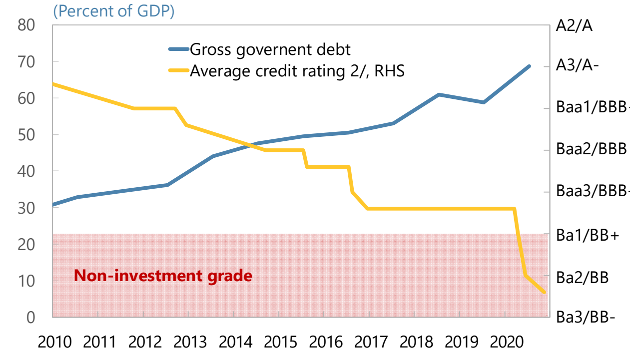
Sources: Ministry of Finance and IMF staff calculations.

7. **The 2019/20 fiscal deficit was more than 5 percentage points higher than planned**. 2020Q2 year-on-year revenues halved, with value-added, custom, and departure taxes accounting for most of the shortfall (Figure 3). Overall, revenues were 20 percent lower than originally budgeted. COVID-19 also led to significant spending pressures, especially on subsidies and grants. However, the government cut spending on salaries and goods and services, maintaining total expenditure to GDP only 2½ percentage points higher than originally planned. With an overall deficit of about 6½ percent of GDP, public debt increased by 10 percentage points to 68.6 percent of GDP in FY2019/20.

8. **Faced with large financing needs, the authorities requested IMF emergency assistance**. On June 1, the IMF Executive Board approved access of 100 percent of quota (SDR 182.4 million or about $250 million) under the Rapid Financing Instrument (RFI), accounting for about 40 percent of the additional financing needs for FY2019/20. The remainder was filled by other international financial institutions (IFIs), notably the IDB and Caribbean Development Bank (CDB), and domestic sources. The greater reliance on IFI financing came against the background of sovereign rating downgrades by Standard and Poor's (in April and November) and Moody's (June).

Public Debt and Ratings 1/

(Percent of GDP)



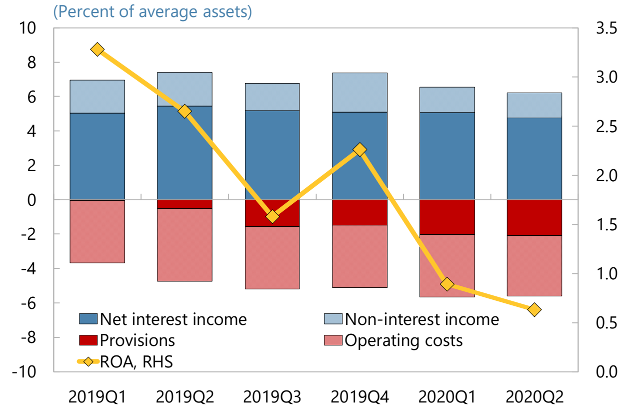
Sources: CBOB, Moody's and S&P.
1/ General government debt and LT foreign currency sovereign rating.
2/ Average of Moody's and S&P.

9. The Central Bank of the Bahamas (CBOB) focused on protecting the one-to-one peg to the U.S. dollar, while maintaining the policy rate at a historically low level of 4 percent. Measures to ensure adequate liquidity in the foreign exchange market—designed for residents and not covering offshore banking sector transactions—included (i) suspending exchange control approvals for commercial banks' dividends[1], (ii) providing more latitude to commercial banks to supply foreign exchange to the public before approaching the central bank to replenish such funds, (iii) suspending access to foreign exchange for international capital market and real estate investments; and (iv) requesting the NIB to repatriate some of its external assets (about $60 million).

10. The CBOB also asked domestic banks and credit unions to put in place loan moratoria. Starting in March 2020, the arrangement provided for a mandatory 3-month deferral against repayments on credit facilities negatively impacted by the pandemic and required the resumption of payments, with accrued interest, when borrowers' financial circumstances improve. Some financial institutions announced credit support extending well beyond the 3-month period. The CBOB provided guidance that loans in good standing before the pandemic will not be reclassified because of the deferral. However, if at the end of the forbearance period loans are not performing, banks must reclassify them as needed. Banks have to report monthly on their loan portfolio. As of October, about 15 percent of loans were on deferral (compared to 37 percent in April).

11. The pandemic is starting to have an adverse impact on banks. Bank liquidity further improved during the third quarter, owing to accumulated net proceeds from the public sector's external borrowing and the cautious lending posture of commercial banks (Figure 4). The average ratio of capital to risk-weighted assets also remained well above the regulatory minimum of 17 percent.[2] But credit quality indicators are starting to deteriorate, as some banks are phasing out loan deferral schemes, and overall profitability contracted due to the increase in loan loss provisioning.

Banks' Income Statements
(Percent of average assets)



Source: CBOB.

OUTLOOK AND RISKS

12. Staff projects real GDP to fall by 16.2 percent in 2020. The contraction is mostly driven by the sharp drop in tourism, while the further downward revision to 2020 growth—from -12.5 percent in the June RFI request—reflects the impact of domestic containment measures (see Annex VI) on domestic demand. Tourist arrivals are expected to remain depressed in 2021 given the surge

[1] Staff is seeking further information to conclude an assessment of this measure from an Article VIII perspective.

[2] Capital adequacy ratios (CAR) have historically been high due to a large foreign bank, with over 50 percent CAR in 2019.

in COVID-19 cases in the main trading partners, including the U.S., as the country heads into its peak winter tourism season. As a result, real GDP is projected to grow only modestly by 2 percent in 2021, partly supported by a rebound in domestic construction activity. Consumer price inflation is expected to decline to 0.8 percent by end-2020 and pick up to 2.2 percent in 2021, in line with the global recovery.

13. It could take years for the economy to return to pre-pandemic levels. Empirical evidence confirms that even less contagious infectious diseases tend to have long-lasting adverse effects on tourism.[3] Furthermore, even assuming a steady recovery, potential scarring effects in the labor market and among businesses could keep potential output low for a prolonged period. Staff assumes that tourism will pick up significantly in 2022—consistent with the January 2021 *World Economic Outlook* Update assumption of broad vaccine availability in advanced countries by the summer of 2021—and then gradually returns to 2019 levels by 2024. Real GDP will accelerate to above 8 percent in 2022 and converge to the medium-term growth rate of 1.5 percent by 2026.

14. External imbalances will gradually decline over the medium-term. The current account deficit is projected at 17.4 percent in 2020, indicating an external position that is moderately weaker than suggested by fundamentals and desirable macroeconomic policies. Driven by a reduction in oil and tourism related imports, the improvement in the goods balance is partially offset by trade activity to support hurricane and tourism-related construction. In line with the rebound in tourism, the current account deficit is expected to gradually decline. Staff assesses the real effective exchange rate (REER) as moderately overvalued in the range of 6-9 percent (Annex III). Foreign reserves are projected to end 2020 above 2019 levels due to external borrowing, but face a net drawdown in 2021, owing to construction-related imports and the slow recovery of tourism receipts. Numerous FDI projects over the medium term should help reserves remain above three months of imports.

15. Risks around this baseline are large and skewed to the downside. The recent reopening to international tourism could lead to a resurgence of domestic COVID-19 cases, necessitating further lockdowns (Annex IV). Despite recent breakthroughs on vaccines, there may be delays in reaching widespread immunization, further postponing the tourism recovery. In such a scenario, growth, the current account, and fiscal position would all deteriorate, with implications for debt sustainability (Annex V). On the upside, faster distribution of vaccines or further breakthroughs on treatments could lessen the impact significantly. Finally, given climate change, the vulnerability to hurricanes is increasing, while the central bank digital currency poses potential cybersecurity risks. Managing these risks will require political consensus and vigilant policymaking ahead of the next general elections due by May 2022.

Authorities' Views

16. The authorities broadly agreed with staff's assessment of the outlook, but see upside risks to the forecasts. They have a lower growth projection for 2020 (-19 percent), but a higher

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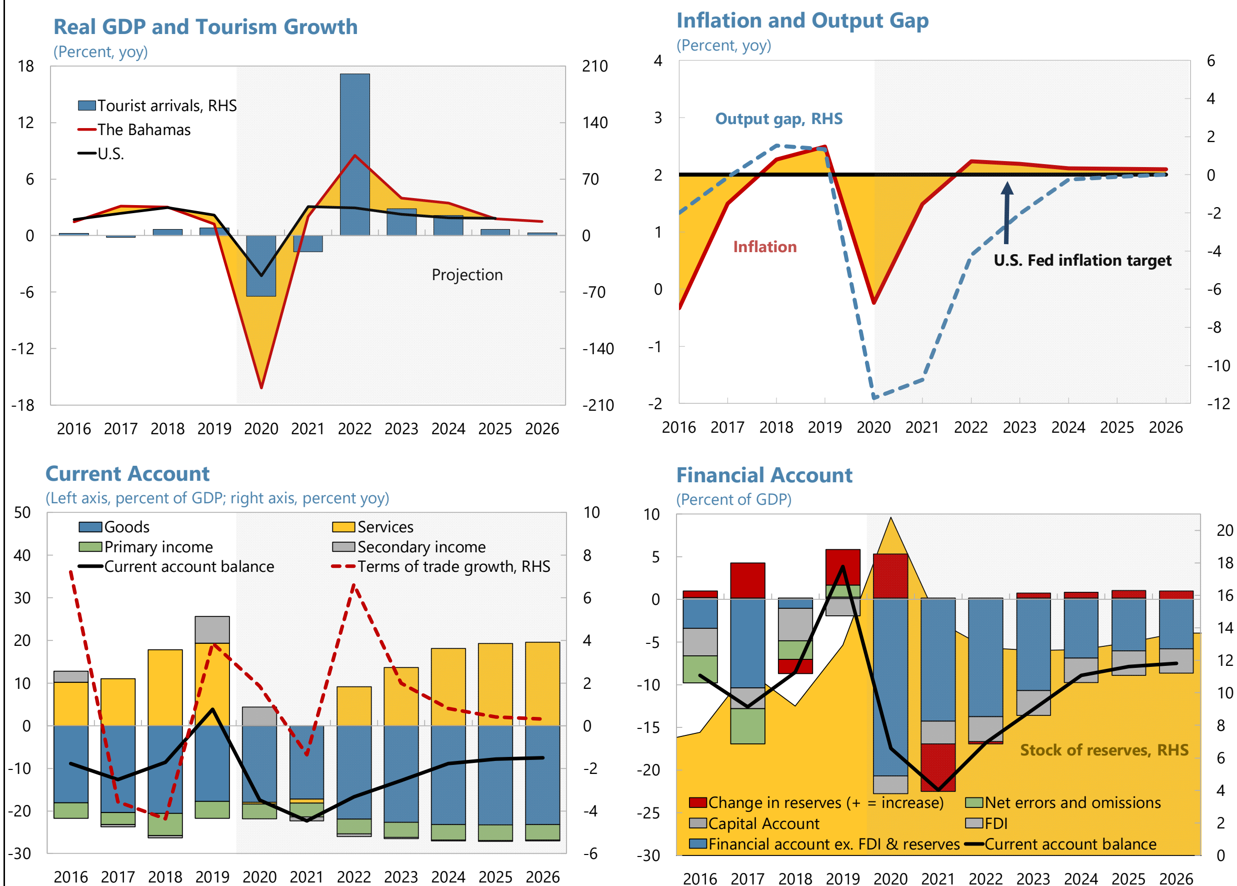
[3] Cevik, 2020, "Going Viral: A Gravity Model of Infectious Diseases and Tourism Flows," IMF Working Paper No. 20/112 (Washington: International Monetary Fund).

forecast for 2021 (3 percent). The authorities agree that the recovery will likely be gradual, with real GDP back at pre-pandemic levels by 2024. Confident about the Bahamian tourism sector's attractiveness given the close proximity to the U.S., they see risks as tilted to the upside and are hopeful that the recent reopening could result in a significant pickup in tourist arrivals over the next few months. The CBOB expects deflationary pressures to dissipate towards the end of2020 and inflation to converge back to about 2.5 percent in 2021.

Text Figure The Bahamas: IMF Staff Baseline Projections



Sources: Central Bank of the Bahamas, IMF October 2020 *WEO* (for U.S.), and IMF staff projections.

POLICY DISCUSSIONS

17. Following two unprecedented shocks, The Bahamas faces the challenge of preserving lives and livelihoods, while laying the basis for a resilient recovery. The key near-term challenge is to deploy adequate resources to save lives, preserve livelihoods and mitigate scarring effects. Over the medium-term, fiscal and financial stability need to be preserved. Ideally, these plans would dovetail with addressing the long-standing challenges of low potential growth and vulnerability to natural disasters.

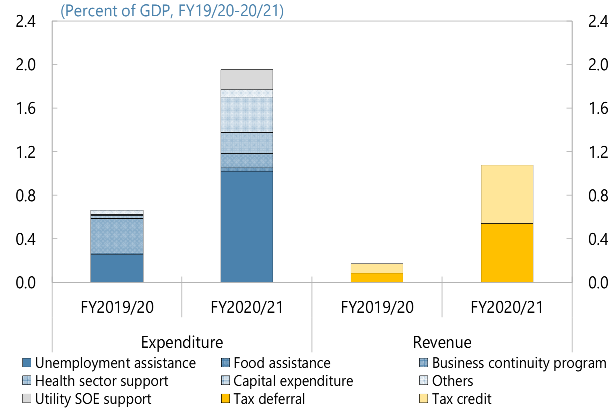
A. Fiscal Policy

Near-Term Policies

18. The FY2020/21 budget proposes a mix of spending and revenue measures to mitigate the impact of the pandemic. Revenue is projected to decline to 14.2 percent of GDP given the contraction, continuation of the tax deferral and credit programs, and VAT exemptions—for building supplies, personal protective equipment, and agricultural products. The COVID-19 spending measures have been extended, at least until end-2020, and the authorities plan several capital projects. Arrears clearance is proceeding, albeit with some delays. The government has so far settled about $240 million of the $360 million it committed to clear in a three-year period. Savings will come from a reduction in subventions to state owned enterprises (SOEs) of about 0.8 percent of GDP over the next four years and delayed salary increases until 2021. Nonetheless, expenditures are projected to increase to 26.7 percent of GDP, raising the deficit to 12.4 percent of GDP, and pushing up the debt-to-GDP ratio to almost 90 percent.

COVID-19 Budget Allocations and Estimates

(Percent of GDP, FY19/20-20/21)

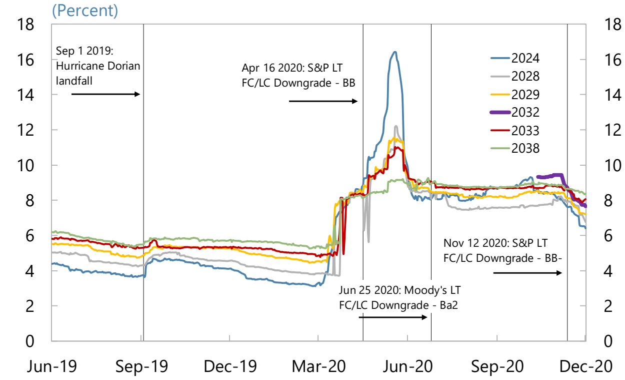


Source: Ministry of Finance.

19. The deficit will be financed by external and domestic debt issuance, as well as support from IFIs. Gross financing needs this fiscal year are estimated at about $2 billion (17.6 percent of GDP). 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. The authorities also received US$225 million from the IDB and US$40 million from the CDB. They expect to borrow an additional US$150 million from the IDB, US$100 million from the World Bank Development Policy Operation, and up to US$75 million from international commercial banks under the World Bank Multilateral Investment Guarantee Agency (MIGA) framework by June 2021. The remaining financing needs of about US$600 million will be filled from domestic sources.

External Bond Yields 1/

(Percent)



Source: Bloomberg.
1/ Year indicates date of maturity.

Text Table The Bahamas: FY2018/19–2019/20 Outturn and IMF Projection for 2020/21

(In percent of GDP)

	FY2018/19	FY2019/20 Prel.	FY2020/21 Proj.
Fiscal deficit	**1.6**	**6.6**	**12.4**
Revenue	18.1	16.9	14.2
***of which*:**			
Loss by Hurricane Dorian (-)	-	1.9	1.5
Tax measures for COVID-19 (-)	-	0.2	1.1
Expenditure	19.8	23.4	26.7
***of which*:**			
Dorian-related measures	-	1.1	1.0
COVID-19-related measures	-	0.7	1.7
Acquisition of financial assets	**0.6**	**-1.2**	**0.6**
***of which*:**			
Temporary support to utility-related SOEs	-	0.0	0.2
Amortization of existing Debt	**6.0**	**7.1**	**5.2**

Sources: The Bahamian authorities; and IMF staff calculations.
Note: Tax measures shown for COVID include deferrals, which are due at the end of the 2020 calendar year.

20. Staff welcomed the continued support to the domestic economy and the public health system. Providing income support and extended unemployment benefits to the affected population is critical. The government also secured resources for essential capital projects, including hospital and clinics, roads, and infrastructure rehabilitations, which will help support aggregate demand. These projects should be put through rigorous appraisal and selection processes. Staff cautioned against VAT exemptions, which erode the tax base and could create a competitive disadvantage (tax cascading) for local suppliers, and recommended that they are repealed at the first legislative opportunity and replaced with more direct and targeted measures to support the vulnerable.

21. Given limited fiscal space, the authorities should develop a detailed contingency plan. The Ministry of Finance has conducted a scenario analysis and identified potential measures, such as a sin tax on alcohol and tobacco, further recurrent spending cuts and delaying non-essential road and maintenance works. In line with staff advice to prioritize spending contingent on sufficient revenues, it has since tasked agencies to scale back recurrent and capital expenditures by $200 million for the remainder of the fiscal year. Clear communication between the Ministry of Finance, line ministries and agencies is critical to avoid accidental unfunded commitments.

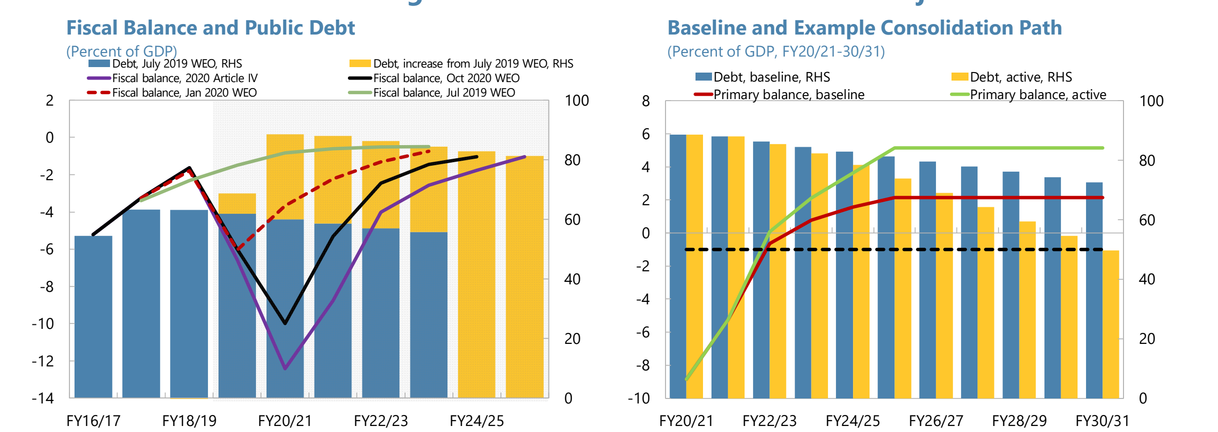
22. There is scope to further enhance the effectiveness of social spending. Most social assistance programs are application based, and validation is difficult given limited digitization (Annex VII). As the country moves from the containment to the recovery phase, strengthening identification and monitoring of the vulnerable population should be prioritized, while systematic communication among relevant stakeholders needs to be established. In this regard, staff welcomed the planned pilot in New Providence of a means-tested social program starting in 2021. To minimize long-term scarring effects and raise human capital, the government could also temporarily expand existing vocational training programs for the young to the wider population. The Bahamas Technical and Vocational Institute (BTVI), an autonomous public entity, could be a platform for such programs.

23. Transparency and accountability of the emergency expenditure measures are key to facilitate verification and audit. The authorities are committed to publishing procurement contracts of COVID-19 related spending with beneficial ownership information on their website in the coming months and have started collecting the necessary information from the line ministries. The Auditor General (AG) will audit the FY2019/20 COVID-19 related expenses and revenue losses by March 2021. The AG will report on any irregularities and abuse and can recommend legal proceedings. Such efforts strengthen the public's confidence in the government and ensure that spending is of high quality.

Policies for a Resilient Recovery

24. The fiscal targets under the FRA serve as an anchor, but credible and decisive fiscal measures will be needed to achieve them. Staff projects the various pandemic and hurricane-related measures to gradually phase out in FY2021/22 along with the recovery.[4] Staff supports the authorities' intention—announced in the Fiscal Strategy Report in December—to postpone the achievement of the debt target by another two years to allow more gradual adjustment following the pandemic. To achieve the debt target by FY2030/31, staff recommended 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. To preserve credibility, the authorities should start preparing measures and communicate a timetable to implement them once the pandemic-related uncertainty subsides.

Text Figure The Bahamas: IMF Staff Fiscal Projections



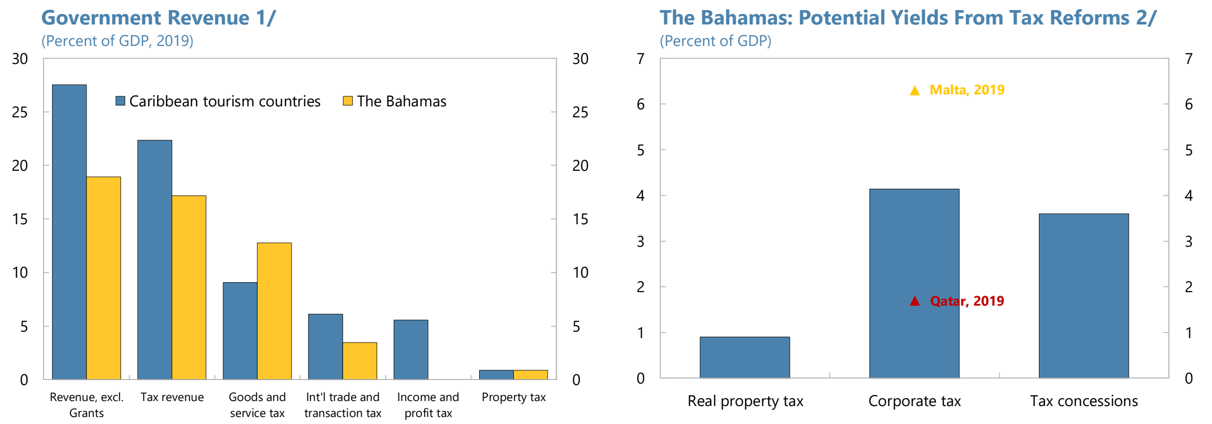
Sources: Ministry of Finance and IMF staff calculations.

25. Tax policy reforms are essential to a robust and equitable fiscal consolidation. Without income taxation, The Bahamas relies on VAT, stamp duties, business license fees, and, to a lesser

[4] Staff estimates that the decline in the deficit over the medium term of about 11 percent of GDP corresponds to fiscal effort of about 5.5-7 percent of GDP, depending on the methodology used.

extent, property taxation. While there is scope to enhance revenues within the existing tax policy regime, staff also recommended building comprehensive real estate price indices to provide a basis for market-value-based property taxation and consider strengthening the progressive features of the current system by increasing the rate on higher value residences. Over the medium-term, income taxation can help achieve a more equitable income distribution. The government should also review its tax expenditures.

Text Figure The Bahamas: Government Revenues in The Bahamas and Region



Sources: Ministry of Finance and IMF staff calculations.

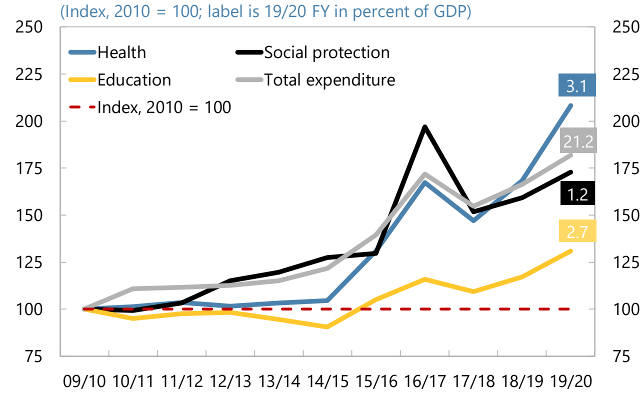
1/ "Caribbean tourism countries" refers to the simple average of Antigua and Barbuda, Aruba, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

2/ Real property tax: Kelly, et al, 2011, "Conditions for Improving Property Tax in The Bahamas", Inter-American Development Bank. Corporate tax: Deloitte, 2018, "Tax Strategy for The Bahamas as an International Financial Center". The value refers to the average of Hong Kong, Singapore, Qatar, Panama, and Malta. Tax concessions: IMF Country Report No. 14/17, https://www.imf.org/external/pubs/ft/scr/2014/cr1417.pdf

26. Tax policy reforms need to be complemented by improvements in revenue administration. In tax administration, the government should (i) prioritize the review of the Department of Inland Revenue's (DIR) organizational structure, completing the DIR bill and appropriate amendments to existing tax laws to support the integration of the departments, (ii) develop strategic and operational plans, focusing on results-based management, and (iii) modernize core administration functions. For customs, priorities include establishing an effective exemption monitoring and verification unit, strengthening risk management functions, and developing capacity in post-clearance audit (PCA), while establishing a trusted trader program (TTP) that gives defined benefits to program members.

27. Staff also recommended reallocating resources to enhance potential growth and strengthen resilience. Savings could be achieved through containing administrative costs, the share of which has nearly doubled in the last decade and reducing subsidies to state-owned enterprises (SOEs)—representing almost 16 percent of current expenditure last year—by increasing their operational efficiency. The planned comprehensive spending review, in consultation with the IDB, provides an opportunity to identify other areas for savings, and to develop a guiding framework to rank outlays by their medium-term growth effects and potential to enhance social cohesion and disaster resilience.

Real Government Expenditures
(Index, 2010 = 100; label is 19/20 FY in percent of GDP)



Sources: CBOB and IMF staff calculations.

28. Key structural fiscal reforms should be passed expeditiously to support debt sustainability.

- Public Financial Management (PFM) reforms should continue to enhance fiscal discipline. Tabling the Public Procurement Bill in Parliament in June 2020 was an important first step. Modernization of procurement processes will eventually result in savings through more competition and transparency. The draft PFM Bill and Public Debt Management Bill will be submitted to Parliament in the next few months, and should be enacted as soon as possible. The Fiscal Responsibility Council should be fully operationalized without further delay.

- Tax transparency efforts are showing first results, but there is scope to expand accountability initiatives to the wider public sector. The EU removed The Bahamas from its list of Non-Cooperative Jurisdictions for Tax Purposes in February 2020, highlighting efforts to improve information exchange and tackling harmful tax practices. Staff cautioned against potential abuse of the country's economic permanent residency program, including opportunities for tax evasion, and welcomed the launch of a tax residency certificate by end-2020, which will provide access to financial accounts and income records according to OECD common reporting standards. Other parts of the public sector would benefit from similar efforts. For example, the National Insurance Board's (NIB) annual report should be published in a timely manner. Publishing annual audits of public enterprises within a prescribed time-period would allow for a consolidated view of the public sector.

Authorities' Views

29. The authorities broadly concurred with the fiscal challenges ahead. They remain committed to reaching the budgeted deficit target this fiscal year despite significant revenue shortfalls in the first quarter (a decline of about 45 percent compared to the same period last year). They are confident that, if needed, the various contingency measures could result in additional revenues and savings of up to $300 million. The Ministry of Finance has begun hosting quarterly meetings with line ministries to prevent unfunded commitments. The authorities view the various tax exemptions, including for construction-related materials on islands impacted by Hurricane Dorian, as essential to encourage reconstruction activity.

30. The authorities reiterated their commitment to fiscal discipline once the crisis subsides. Most of the COVID-19 measures have time limits and thus the fiscal balance should swiftly improve once the recovery sets in. They have also started discussing property and income tax policy reforms, and are seeking technical assistance from the international community, but acknowledge that implementation will take years. The findings of the expenditure review are expected by March 2021 and will feed into next year's budget. The government hired an international accounting firm to review six SOEs as pilots. The initial report has been completed with recommendations on how to improve their corporate governance. Further restructuring/rationalization recommendations will be provided in 2021.

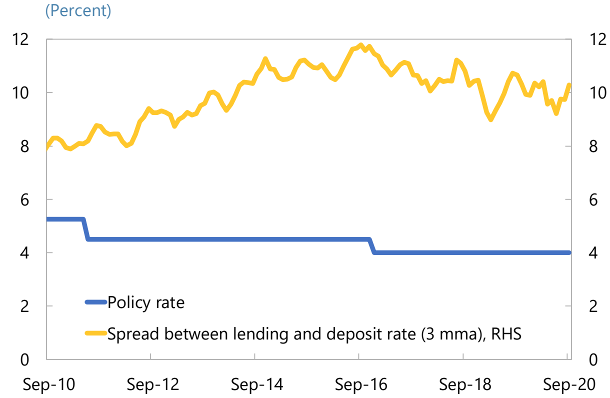
B. Monetary and Exchange Rate Policies

31. Monetary policy should continue focusing on reserve adequacy. Significant slack and limited inflation pressures suggest that there is some room to lower interest rates. However, the benefits of doing so have to be weighed against the potential erosion of international reserves (given the high import content of domestic consumption and potential implications for private capital flows) as well as structural bottlenecks in monetary transmission. On balance, staff recommended keeping interest rates on hold for now.

32. The pandemic-related foreign exchange measures are appropriate for now but should be phased out when the pandemic recedes. Some of the measures taken in spring are considered capital flow management measures (CFMs) under the IMF's Institutional View (IV). The decision to provide more latitude to commercial banks to supply foreign exchange to the public is an easing of an inflow CFM, while the suspension of access to foreign exchange for investments and the NIB's asset repatriation are assessed as a tightening of CFMs on outflows. A temporary tightening of CFMs under crisis conditions is appropriate, but they need to be closely monitored and removed as the pandemic recedes. The authorities should eventually resume advancing exchange control liberalization, especially in a small open economy with a large international financial center.

33. The transmission of policy rates to lending rates is limited. Credit bottlenecks associated with information asymmetry can be addressed by establishing an asset registry and real estate price index. Staff welcomed the ratification of the new central bank law, which, among others, limits lending to the government, and the listing of government debt on the Bahamas International Stock Exchange in July 2020, while stressing the need to further develop domestic debt markets, including by operationalizing the new debt management office within the Ministry of Finance.

Interest Rates
(Percent)

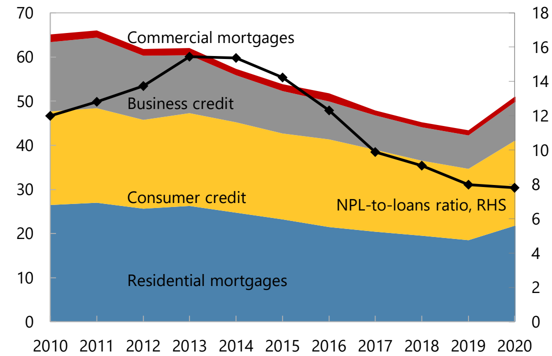


Sources: CBOB and IMF staff calculations.

C. Financial Sector Policies

34. Staff recommended supporting economic activity while safeguarding financial stability. Loan moratoria, where considered useful for households and firms to weather liquidity shocks, should be targeted to those borrowers affected by the pandemic and phased out as the pandemic recedes, to promote transparency and sound risk management, and prevent moral hazard. The CBOB should provide guidance so banks' estimates of expected credit losses are robust and timely, and ask for regular loan portfolio reviews and risk assessments by banks.

Credit to the Private Sector
(Left axis, percent of GDP; right axis, percent))

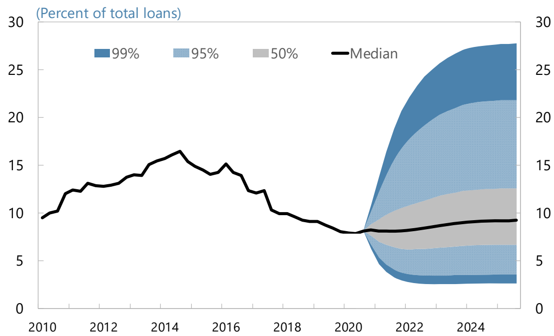


Sources: CBOB and IMF staff calculations.

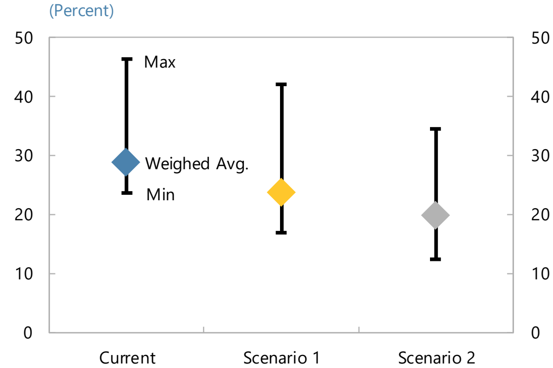
35. While the system overall remains well capitalized, there is some heterogeneity among banks. The commercial onshore banks can overall withstand a stress scenario in which the ratio of NPLs to gross loans increases by 15 percentage points, although some banks (representing about ¼ of system wide assets) could experience modest capital shortfalls. Some of the credit unions, which represent about 3 percent of total banking system assets, are heavily exposed to the tourism sector and may need to be resolved. Staff urged the CBOB to intensify oversight and ensure timely intervention. 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.

The Potential Impact of Macroeconomic Shocks on NPLs and Capital

Simulated Distribution of NPLs in Response to Macroeconomic Shocks
(Percent of total loans)



Capital Adequacy Ratios
(Percent)



Sources: CBOB and IMF staff calculations.
Notes: Based on bank-level data for the 7 onshore commercial banks. The distribution and confidence intervals were generated using one million repetitions. They are based on an econometric model that simulates the statistical joint distribution of possible paths for real GDP growth, real interest rates and the real effective exchange rate based on historical shocks. See also IMF (2012), Bolivia Article IV. Scenarios 1 and 2 assume a 50 and 100 percent coverage ratio. NPLs are assumed to increase in the scenarios by 15 percentage points in line with the 95 percentile in the left chart.

36. The recent reforms of the crisis management framework are timely given that systemic risk will increase as a result of the pandemic. The 2020 Central Bank and Banks and Trust Companies (Amendment) Acts establish the CBOB as the sole resolution authority, require banks to prepare recovery plans, and provide additional resolution tools. The 2020 Protection of Depositors (Amendment) Act 2020 enhances the Deposit Insurance Fund's (DIF) governance, reduces the time within which it must make payouts and provides access to credit unions. Effective implementation of these reforms will require adequate staffing at the CBOB and the DIF. While annual DIF premiums doubled to 0.1 percent of insured deposits, it will still take years to reach the 2019 FSAP recommended target ratio of 2 percent of insured deposits (about $125 million), given that the Fund only contained about $60 million in 2020. The FSAP had cautioned against expanding coverage to credit unions before the sector was adequately capitalized.

37. Strengthening systemic risk oversight would help maintain financial stability and improve financial inclusion. A macroprudential bank capital buffer will eventually be introduced as part of the Basel III reforms, the implementation of which has been delayed to 2022 as a result of COVID-19. The operationalization of the credit bureau within a year should improve financial inclusion and reduce the cost of borrowing. The collection of loan-level data would assist in market monitoring and future implementation of loan-to-value (LTV) and debt-to-income (DTI)-based lending standards. Interagency coordination on systemic matters should be improved, and the CBOB should have the authority to recommend regulatory policy for non-bank financial institutions. The CBOB should also improve data collection and its analytical capacity for assessing solvency and liquidity risks.

38. After strengthening the AML/CFT framework, the authorities now need to ensure its effective implementation. Good progress was made 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. In February 2020, the FATF made an initial determination that The Bahamas had largely completed its action plan, warranting a follow-up on-site assessment to support the country's removal from the FATF's Compliance Document (Grey List). However, as the visit was delayed due to COVID-19, The Bahamas was placed on the European Union's 'AML Blacklist' in October 2020. The FATF completed its inspection in November and removed the Bahamas from its Grey List in December.

39. The CBOB officially launched the "Sand Dollar" digital currency (CBDC) to all residents on October 20. The *Sand Dollar* will allow previously unbanked parts of the population to participate in digital payments and enhance the payment system's efficiency and resilience considering The Bahamas' vulnerability to natural disasters (Annex VIII). While offering a promising route to boost financial inclusion, there are significant risks to financial intermediation, integrity, and cybersecurity associated with the *Sand Dollar* that require careful monitoring.

Authorities' Views

40. The CBOB broadly agreed with staff's assessment and pointed out a series of measures to ensure stability. It stressed that further monetary easing could deplete reserves, while reiterating its commitment to remove the foreign currency restrictions once the pandemic recedes. The CBOB recently announced that it will lift the suspension of exchange control approvals for bank dividends—introduced in consultation with the domestic commercial banks and directly impacting three of them—by March 2021. The impacted commercial banks are expected to resume accelerated repatriation over the medium-term. Depending on the state of the economy, the CBOB plans to require banks to increase loan loss provisioning gradually at an increasing scale. The CBOB agreed that DIF resources need to be stepped up but cautioned about moving too quickly given the negative implications for banks' capital.

41. The CBOB highlighted the progress made on AML/CFT legislation and regulation. While the international sector will always be a potential risk, the CBOB believes that it has increasingly sound controls in place with continuous supervision and cross agency collaboration on AML/CFT matters. The authorities also reiterated that tremendous efforts had been made to address all concerns of the FATF—legislative, regulatory and enforcement landscapes have been thoroughly reviewed and strengthened.

42. The central bank emphasized the gradual approach of introducing the CBDC. It remains actively engaged with stakeholders to ensure that the legal framework develops in tandem with payments system needs. The CBOB stressed that the *Sand Dollar* is only for local use and will not affect the capital controls. Any cross-border foreign exchange payments will continue to be channeled through the commercial banks, the only authorized dealers for conversions in and out of B$ instruments.

D. Structural Challenges and Resilience-Building

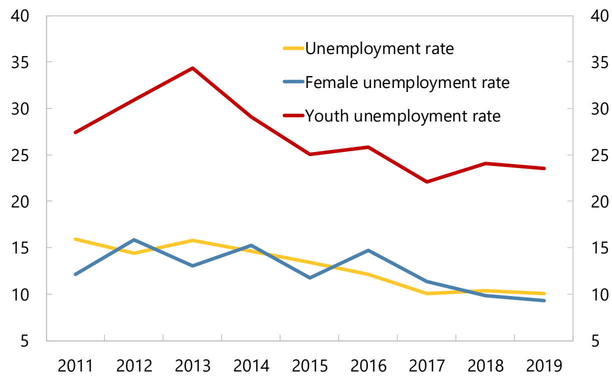
Competitiveness

43. The economy faces long-standing structural impediments, and COVID-19 brought many of these to the fore. Staff projects medium-term potential growth at just 1.5 percent, also considering the future impact of climate change. The recent report by the Economic Recovery Committee (ERC) outlines reform options to make the economy more resilient, inclusive, and sustainable, many of which are in line with longstanding staff advice.

- *Addressing key weaknesses in the business environment.* Reforms should focus on modernizing administrative services and rationalizing regulatory requirements for starting a business. Establishing the Department of Transformation and Digitization (DTD) in November 2019 was an important first step, that will make major government services accessible on online platforms. The development of a National Digital Marketplace as an e-commerce platform could provide opportunities for small businesses. Reform of the corporate insolvency regime should also be treated as a priority. While the laws allow for liquidation, they do not provide a rehabilitative component towards the financial rescue and recovery of a company.
- *Improving competitiveness by reducing utility costs.* Reforms to reduce costs should focus on reducing operational inefficiencies of SOEs, fostering an enabling regulatory environment and investing in cost-effective renewable energy solutions.

- *Reducing frictions in the job matching process*. Policies should aim at expanding technical and vocational training programs and improving the quality of general education. Improving skill databases and job placement services could facilitate better job matching.
- *Promoting sustainable tourism*. To protect The Bahamas' natural beauty and curb carbon emissions related to mass-tourism, a greater focus on sustainable tourism is recommended.

Unemployment Rate
(Percent of Labor Force)



Sources: Department of Statistics and WDI.

- *Accelerating the agenda on Caribbean integration*. As a member of the Caribbean Community (CARICOM), The Bahamas would benefit from greater economies of scale, under a firm commitment by all CARICOM members to improve channels of integration.

Resilience-Building

44. High private sector losses from hurricanes point to the need to improve physical, financial, and social resilience against natural disasters. Accelerating adaptation will require improving public investment management and reprioritizing expenditure based on a multi-year macro-fiscal framework. Continued investment in climate-resilient infrastructure can also buffer the macro-fiscal impact of natural disasters. Mandatory property insurance would be a beneficial addition to the multidimensional resilience strategy (Annex IX).

45. Timely and reliable data form the basis for effective policymaking, especially when responding to exogenous shocks like natural disasters and global pandemics. Staff called for providing necessary resources to the Department of Statistics, and accelerating data management initiatives currently underway. Announcing and adhering to an advance release calendar would improve predictability. Other areas for improvement include the production of timely quarterly national accounts, a household survey, and more frequent labor market statistics. Staff acknowledged steps taken to improve external sector statistics through adherence to relevant BPM6 guidelines and develop international investment position statistics, both to be advanced in 2021.

Authorities' Views

46. The authorities acknowledged the importance of structural reforms to achieve faster and inclusive growth. They concur with the recommendations laid out in the ERC report and are internally discussing an implementation timeline. They also agreed with staff's recommendation for mandatory property insurance and pledged to bring a new law to parliament in 2021 to mitigate risks associated with natural disasters. They are preparing the final draft of the Statistics Bill for debate in Parliament, which will establish an independent statistical office with a comprehensive mandate to collect and disseminate data.

STAFF APPRAISAL

47. COVID-19 has hit The Bahamas hard and it could take years for employment and incomes to return to pre-crisis levels. The authorities introduced timely measures to sustain public health, protect the most vulnerable and cushion the impact of the pandemic on employment. Nevertheless, real GDP is projected to contract by about 16 percent in 2020, followed by a modest rebound of 2 percent in 2021, and to converge back to pre-pandemic levels only by 2024. Risks around the baseline are high, reflecting the uncertain evolution of the pandemic, and the vulnerability to natural disasters.

48. The near-term priority is to save lives and livelihoods but maintaining stability will require significant fiscal effort over the medium term. While postponing the achievement of the public debt target by another two years in response to the pandemic is appropriate, putting debt on a clear downward path over the medium-term and rebuilding buffers will require decisive and credible fiscal measures. It is therefore advisable to start preparing measures now and communicate a timetable to implement them once the pandemic-related uncertainty subsides. As financing needs will decline only gradually, a robust, multi-year government financing strategy should be put in place and the new debt management office within the Ministry of Finance should be operationalized without delay.

49. Tax policy and administration measures are essential to a robust and equitable consolidation. Comprehensive real estate price indices would facilitate market-value-based property taxation, while the progressive features of the current system could be strengthened by increasing the rate on higher value residences. Income taxation can help achieve a more equitable income distribution. In tax administration, the review and modernization of the Department of Inland Revenue's organizational structure should be prioritized. For customs, priorities include establishing an effective exemption monitoring and verification unit, strengthening risk management, and developing post-audit clearance capacity.

50. A reprioritization of public spending would promote inclusive and resilient medium-term growth. Savings could be achieved through containing administrative costs and improving the operational efficiency of SOEs. The planned comprehensive spending review should be used to identify areas offering scope for savings, and to develop a guiding framework to rank outlays by their medium-term effects on growth and resilience.

51. Monetary policy should continue focusing on reserve adequacy. The COVID-19 related capital flow management measures are appropriate for now but should be phased out when the pandemic recedes. The new central bank law, which limits lending to the government, and the listing of government debt on the Bahamas International Stock Exchange in July 2020, will help strengthen domestic debt markets. Establishing an asset registry and real estate price index would reduce information asymmetries.

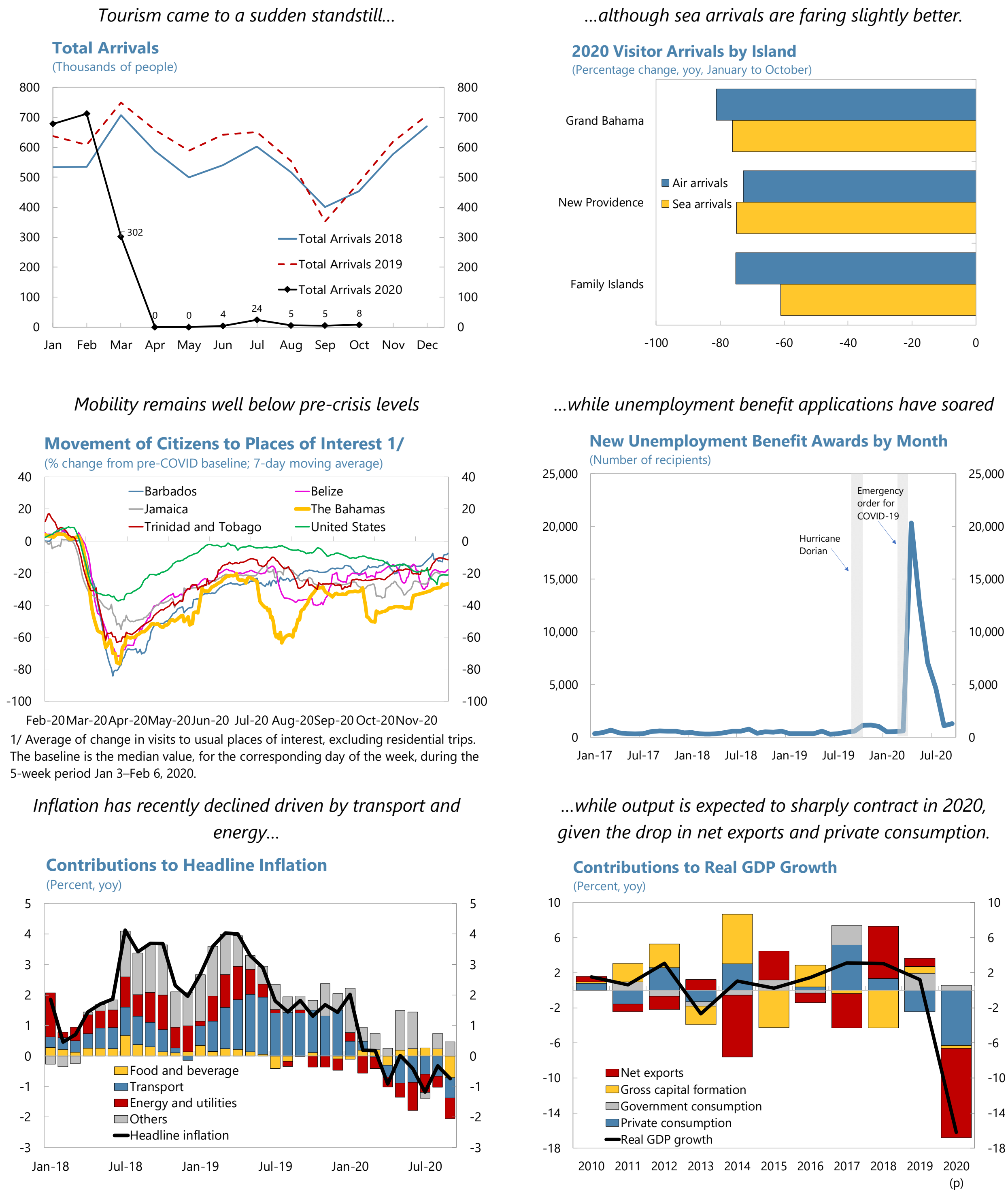
52. The banking sector remains vulnerable to pandemic-induced risks. Lower incomes and higher unemployment will weigh on asset quality as loan moratoria expire. The central bank should provide guidance to banks to ensure their estimates of expected credit losses are robust and ask for regular loan portfolio reviews and risk assessments. The recent reforms of the crisis management framework are timely, but their effective implementation, including by ensuring adequate staffing at the central bank, remains key. Going forward, further developing some macroprudential tools and strengthening interagency coordination will be essential to enhance financial sector stability.

53. The "Sand Dollar" can help foster financial inclusion, but effective implementation of the strengthened AML/CFT framework remains key. The CBDC may allow previously unbanked parts of the population to participate in digital payments and enhance payment infrastructure resilience to natural disasters. However, there are significant risks to financial intermediation, integrity, and cybersecurity that require careful monitoring. To this end, the effective implementation of the country’s AML/CFT framework and tax transparency efforts will be critical.

54. The Bahamas faces long-standing structural impediments and significant vulnerability to natural disasters. Reform priorities include modernizing the business climate, rationalizing SOEs, and reducing frictions in the labor market. The disaster relief fund—exhausted following Hurricane Dorian—should be gradually restored, while better data collection and management can help improve agility and targeting of social programs. The Bahamas would benefit from mandatory property insurance with a means-tested subsidy for premiums for all private properties.

55. It is recommended that the next Article IV consultation takes place on the regular 12-month cycle.

Figure 1. The Bahamas: Real Sector Developments

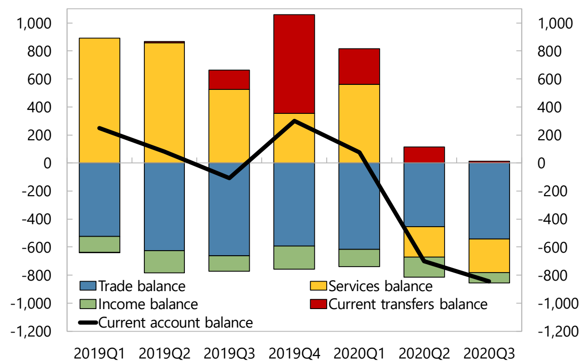


Sources: CBOB, Google COVID-19 Mobility Reports, National Insurance Board, and IMF staff calculations.

Figure 2. The Bahamas: External Sector Developments

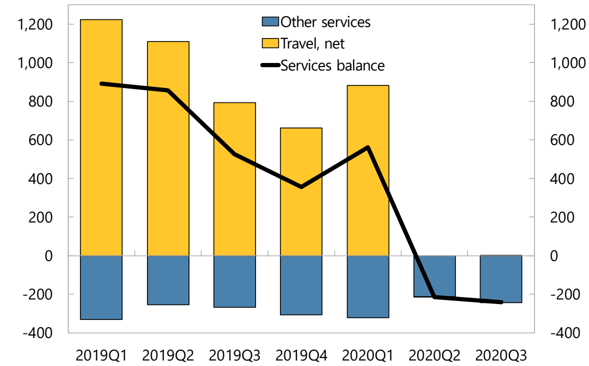
The CA deficit worsened as the pandemic took hold, …

Current Account Balance
(B$ billions)



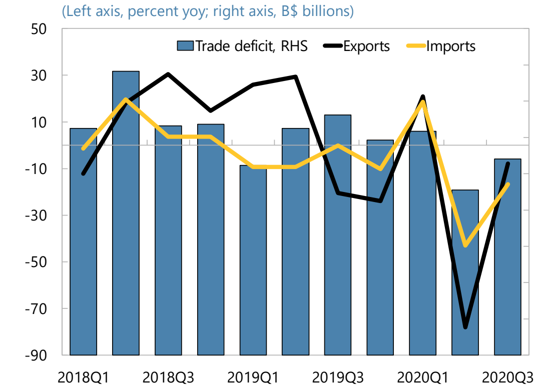
… since net travel receipts were negative for the first time.

Services Balance
(B$ billions)



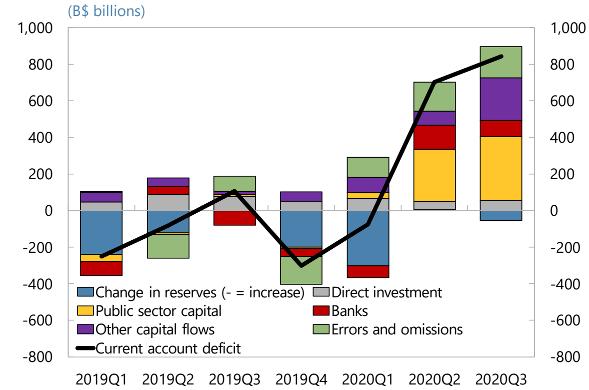
Imports as well as exports began to shrink in Q2, …

Trade Deficit
(Left axis, percent yoy; right axis, B$ billions)



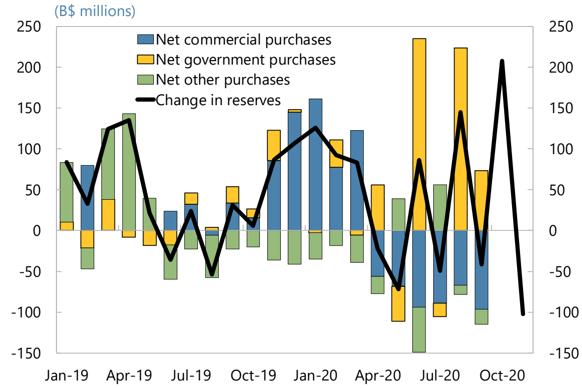
…as foreign borrowing supported the external position.

Capital Flows
(B$ billions)



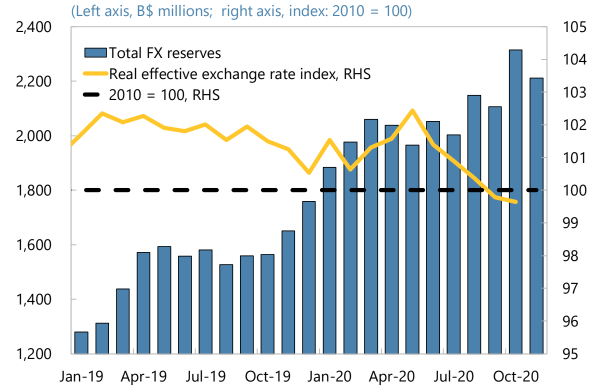
Foreign exchange reserves were well supported, …

Change in Central Bank FX Reserves
(B$ millions)



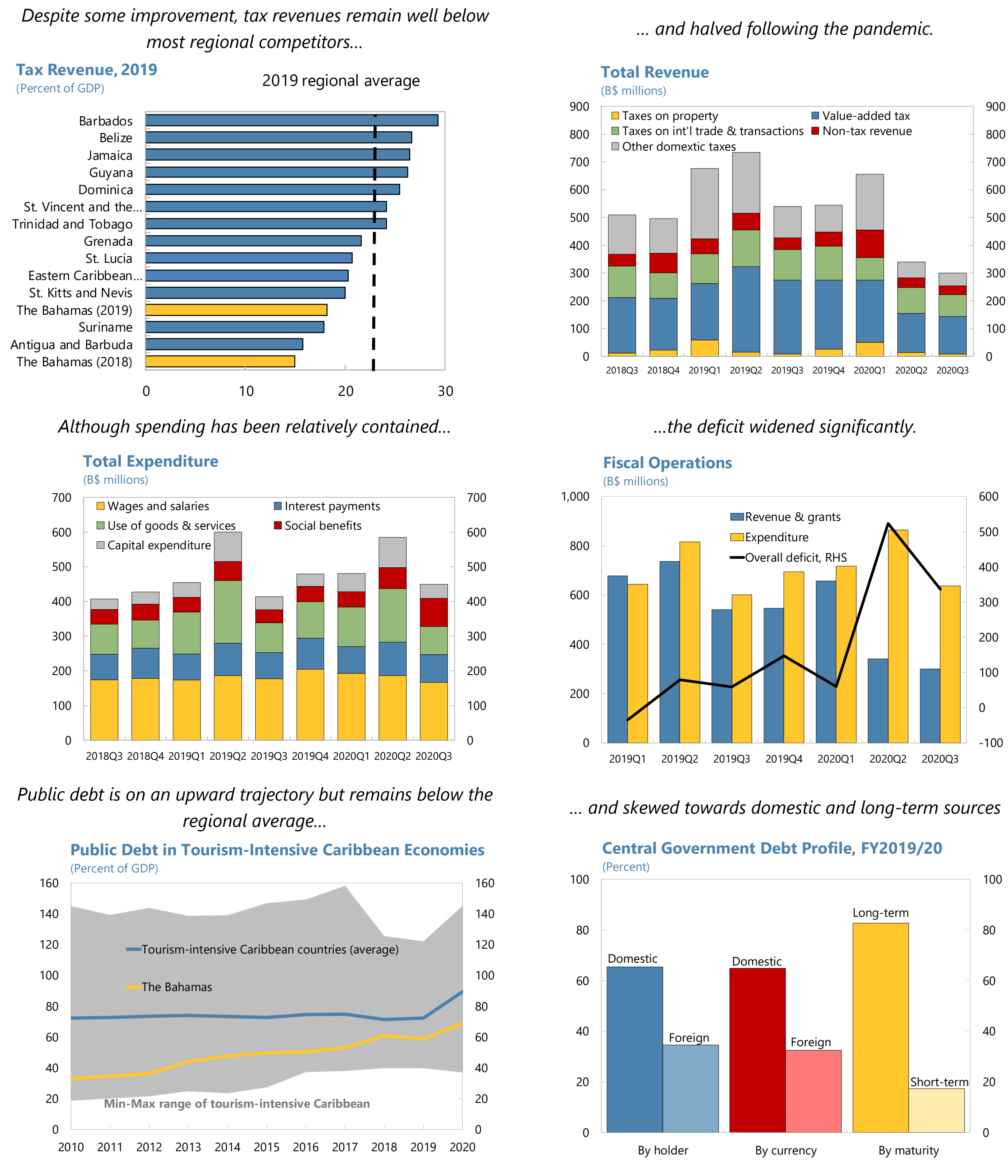
… reaching their highest level to help support the $ peg.

REER and Reserves
(Left axis, B$ millions; right axis, index: 2010 = 100)



Sources: CBOB, IMF International Financial Statistics, and IMF staff calculations.

Figure 3. The Bahamas: Fiscal Developments

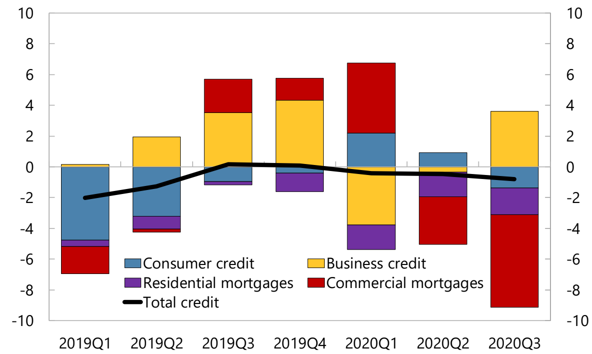


Sources: CBOB, Ministry of Finance, and IMF staff calculations.

Figure 4. The Bahamas: Financial Sector Developments

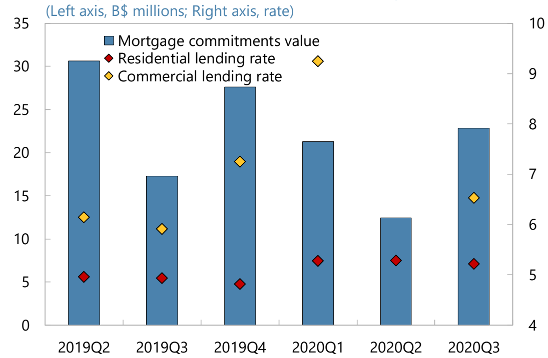
Private sector credit continues to contract…

Credit Growth by Sector
(Percent, yoy)



… although new mortgage commitments have recently increased from low levels.

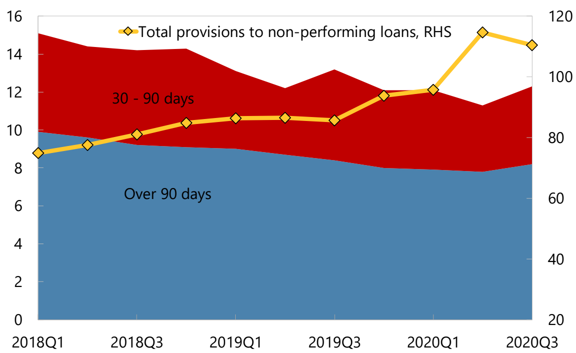
Mortgage Commitments and Lending Rates 1/
(Left axis, B$ millions; Right axis, rate)



1/ Including residential and commercial mortgage commitments value.

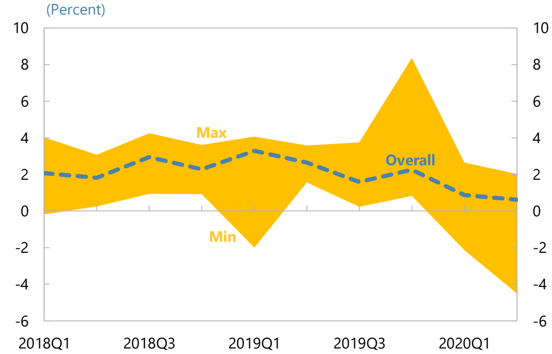
NPLs are starting to increase as widespread moratoria are phased out, amid increased provisioning …

Non Performing Loans (NPLs)
(Percent of total loans)



…dampening profitability, which remains uneven across banks

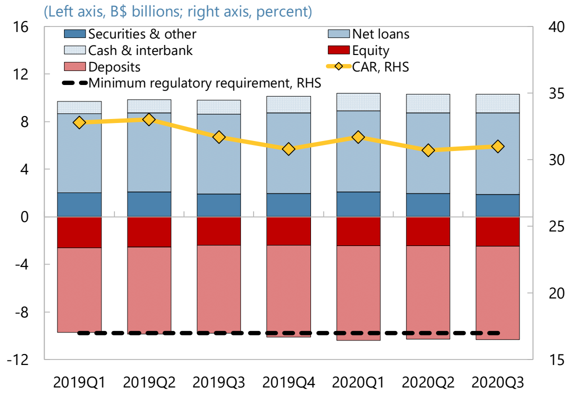
Return on Assets 1/
(Percent)



1/ Includes 2 domestic banks and 3 foreign banks.

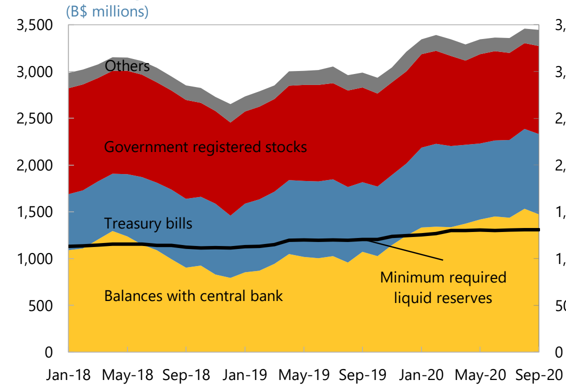
Capital ratios remain well above the regulatory minimum,…

Banks' Balance Sheets
(Left axis, B$ billions; right axis, percent)



… while liquidity remains ample.

Banking Sector Liquid Assets
(B$ millions)



Sources: CBOB, S&P Global Market Intelligence, and IMF staff calculations.

Table 1. The Bahamas: Selected Social and Economic Indicators, 2018–26

I. Social Indicators

GDP (US$ millions), 2019	13,579	Poverty rate (percent), 2013	12.8
GDP per capita (US$), 2019	35,664	Unemployment rate (percent), May 2019	9.5
Population (thousands), 2019	381	Infant mortality rate (per 1,000 live births), 2018	8.3
Life expectancy at birth (years), 2019	73.6	Human development index (rank), 2019	60
Adult literacy rate, 15 & up (percent), 2007	96		

II. Economic Indicators

	Average		Est.	Projections						
	1991-2018	2018	2019	2020	2021	2022	2023	2024	2025	2026
			(Annual percentage changes, unless otherwise indicated)							
Real sector 1/										
Real GDP	1.5	3.0	1.2	-16.2	2.0	8.5	4.0	3.5	1.8	1.5
Nominal GDP	3.4	4.3	4.3	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
GDP deflator	1.8	1.2	3.0	-1.3	2.2	1.9	1.9	2.0	1.9	1.9
Consumer price index (annual average)	2.1	2.3	2.5	-0.2	1.5	2.2	2.2	2.1	2.1	2.1
Consumer price index (end of period)	2.0	2.0	1.4	0.8	2.2	2.2	2.1	2.1	2.1	2.1
Unemployment rate (in percent)	11.1	10.4	10.1	25.6	24.0	17.2	13.5	12.8	12.5	12.0
Gross national saving rate (percent of GDP)	19.1	14.2	27.5	10.5	6.5	7.6	9.4	12.0	12.6	12.7
Investment rate (percent of GDP)	27.8	22.8	23.6	27.9	28.9	24.3	22.3	20.9	20.4	20.2
Financial sector										
Credit to the nonfinancial public sector	10.5	6.6	1.5	8.2	9.1	14.1	8.8	6.3	5.1	3.1
Credit to the private sector	4.8	-1.6	0.1	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
External sector										
Exports of goods and services	4.0	26.3	8.1	-65.2	-14.4	123.9	30.2	23.9	8.9	5.1
Of which: Travel receipts (gross)	4.2	27.2	10.7	-75.1	-18.7	206.7	36.2	27.6	9.8	5.4
Imports of goods and services	4.6	4.0	-4.0	-21.5	-5.1	38.8	12.3	9.7	5.9	3.9
			(In percent of GDP, unless otherwise indicated)							
Central government 2/										
Revenue and grants	13.3	16.0	18.1	16.9	14.2	16.2	17.9	19.0	19.4	19.6
Expenditure	15.3	19.2	19.8	23.4	26.7	25.0	21.9	21.5	21.1	20.7
Expense	13.6	17.5	18.3	21.6	24.8	22.8	20.7	20.3	19.9	19.5
Net acquisition of nonfinancial assets	1.7	1.8	1.4	1.8	1.9	2.1	1.2	1.2	1.2	1.2
Overall balance	-2.0	-3.2	-1.6	-6.6	-12.4	-8.8	-4.0	-2.6	-1.8	-1.0
Primary balance	-0.3	-0.8	0.8	-3.8	-8.9	-5.2	-0.7	0.8	1.6	2.1
Central government debt	29.0	61.0	58.8	68.6	88.6	88.1	86.2	84.5	82.8	81.3
External sector										
Current account balance	-5.7	-8.6	3.9	-17.4	-22.4	-16.8	-12.9	-8.9	-7.8	-7.5
Change in NIR (increase -) 3/	-0.4	1.7	-4.1	-5.2	5.6	0.2	-0.6	-0.7	-0.9	-1.0
Central government external debt	5.9	19.9	18.9	35.1	39.5	38.8	37.7	36.3	35.4	34.4
Memorandum items										
Gross international reserves										
(End of period; millions of U.S. dollars)	711	1,196	1,758	2,339	1,683	1,653	1,731	1,832	1,967	2,123
(In months of next year's G&S imports)	1.8	2.9	5.5	7.7	4.0	3.5	3.3	3.3	3.4	3.5
GDP (in millions of Bahamian dollars)		13,022	13,579	11,235	11,706	12,947	13,726	14,480	15,025	15,542
Output gap (percent)		1.5	1.3	-11.7	-10.8	-4.2	-2.1	-0.3	-0.1	0.0

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and Fund staff projections.

1/ The Department of Statistics revised the 2013-2018 National Accounts data to provide a more accurate measure of GDP. These revisions incorporated new data sources and recommended methodological changes.

2/ The data refer to fiscal years ending on June 30.

3/ Net International Reserves.

Table 2a. The Bahamas: Operations of the Central Government, FY2018–26
(In millions of Bahamian dollars)

		Prel.	Proj.						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	(Millions of Bahamian dollars, fiscal year 1/)								
Revenue	2,042	2,426	2,087	1,583	2,011	2,388	2,673	2,857	3,000
Taxes	1,836	2,199	1,858	1,394	1,795	2,139	2,403	2,572	2,703
Taxes on income and profits	0	0	0	0	0	0	0	0	0
Taxes on property	124	109	99	82	97	114	126	132	139
Taxes on goods and services	1,276	1,634	1,347	1,071	1,351	1,498	1,658	1,754	1,838
of which: VAT	681	897	880	691	844	945	1,039	1,096	1,147
Taxes on international trade and transactions	432	445	406	235	340	520	612	678	718
Other taxes	4	10	7	6	7	7	8	8	8
Grants	3	0	0	0	0	0	0	0	0
Other revenue	204	228	229	189	217	249	270	284	297
Expenditure	2,457	2,646	2,899	2,965	3,098	2,923	3,035	3,117	3,157
Expense	2,229	2,453	2,678	2,759	2,834	2,763	2,865	2,939	2,973
Compensation of employees	729	712	761	737	772	760	786	801	822
Goods and Services	423	469	462	411	471	464	480	489	502
Interest Payments	314	328	345	397	436	448	469	493	482
Subsidies	328	393	428	351	383	377	389	397	407
Grants	33	130	109	93	112	110	113	116	94
Social Benefits	166	186	188	288	287	283	292	298	309
Other Expense	236	234	387	482	373	322	335	345	357
of which: Transfers to public entities	40	31	152	223	152	104	111	116	120
Net acquisition of nonfinancial assets	229	193	221	206	264	160	170	178	184
Overall Balance	-415	-219	-812	-1,382	-1,087	-535	-362	-261	-157
Primary Balance	-101	109	-467	-985	-651	-87	107	232	325
Net acquisition of financial assets	36	74	-149	66	36	36	46	46	47
Net incurrence of liabilities	451	293	662	1,449	1,123	571	409	307	205
Debt securities	671	247	187	720	531	315	322	242	161
Loans	13	37	475	729	593	256	87	65	44
of which : Usage of RFI resource			252				-132	-132	
Other net liabilities	-234	9	0	0	0	0	0	0	0
Memorandum items									
Gross operating balance	-186	-27	-591	-1,176	-823	-374	-192	-83	27
Central government debt	7,782	7,881	8,493	9,861	10,931	11,502	11,911	12,218	12,423
of which : External	2,637	2,553	2,933	4,360	4,922	5,122	5,224	5,300	5,352
Central government debt in FRA 2/	7,243	7,527	8,191	9,640	10,763	11,502	11,911	12,218	12,423
Nominal GDP (In millions of B$) (FY)	12,767	13,395	12,371	11,126	12,412	13,336	14,103	14,752	15,283

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal year ends June 30.

2/ Excludes payment arrears and promissory notes for the resolution of Bank of The Bahamas.

Table 2b. The Bahamas: Operations of the Central Government, FY2018–26
(In percent of GDP)

		Prel.	Proj.						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	(Percent of GDP, unless otherwise specified, fiscal year 1/)								
Revenue	16.0	18.1	16.9	14.2	16.2	17.9	19.0	19.4	19.6
Taxes	14.4	16.4	15.0	12.5	14.5	16.0	17.0	17.4	17.7
Taxes on income and profits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on property	1.0	0.8	0.8	0.7	0.8	0.9	0.9	0.9	0.9
Taxes on goods and services	10.0	12.2	10.9	9.6	10.9	11.2	11.8	11.9	12.0
of which: VAT	5.3	6.7	7.1	6.2	6.8	7.1	7.4	7.4	7.5
Taxes on international trade and transactions	3.4	3.3	3.3	2.1	2.7	3.9	4.3	4.6	4.7
Other taxes	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.6	1.7	1.8	1.7	1.7	1.9	1.9	1.9	1.9
Expenditure	19.2	19.8	23.4	26.7	25.0	21.9	21.5	21.1	20.7
Expense	17.5	18.3	21.6	24.8	22.8	20.7	20.3	19.9	19.5
Compensation of employees	5.7	5.3	6.1	6.6	6.2	5.7	5.6	5.4	5.4
Goods and Services	3.3	3.5	3.7	3.7	3.8	3.5	3.4	3.3	3.3
Interest Payments	2.5	2.5	2.8	3.6	3.5	3.4	3.3	3.3	3.2
Subsidies	2.6	2.9	3.5	3.2	3.1	2.8	2.8	2.7	2.7
Grants	0.3	1.0	0.9	0.8	0.9	0.8	0.8	0.8	0.6
Social Benefits	1.3	1.4	1.5	2.6	2.3	2.1	2.1	2.0	2.0
Other Expense	1.8	1.7	3.1	4.3	3.0	2.4	2.4	2.3	2.3
of which: Transfers to public entities	0.3	0.2	1.2	2.0	1.2	0.8	0.8	0.8	0.8
Net acquisition of nonfinancial assets	1.8	1.4	1.8	1.9	2.1	1.2	1.2	1.2	1.2
Overall Balance	-3.2	-1.6	-6.6	-12.4	-8.8	-4.0	-2.6	-1.8	-1.0
Primary Balance	-0.8	0.8	-3.8	-8.9	-5.2	-0.7	0.8	1.6	2.1
Net acquisition of financial assets	0.3	0.6	-1.2	0.6	0.3	0.3	0.3	0.3	0.3
Net incurrence of liabilities	3.5	2.2	5.4	13.0	9.1	4.3	2.9	2.1	1.3
Debt securities	5.3	1.8	1.5	6.5	4.3	2.4	2.3	1.6	1.1
Loans	0.1	0.3	3.8	6.6	4.8	1.9	0.6	0.4	0.3
of which : Usage of RFI resource			2.0				-0.9	-0.9	0.0
Other net liabilities	-1.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Gross operating balance	-1.5	-0.2	-4.8	-10.6	-6.6	-2.8	-1.4	-0.6	0.2
Central government debt	61.0	58.8	68.6	88.6	88.1	86.2	84.5	82.8	81.3
of which : External	20.7	19.1	23.7	39.2	39.7	38.4	37.0	35.9	35.0
Central government debt in FRA 2/	56.7	56.2	66.2	86.6	86.7	86.2	84.5	82.8	81.3
Nominal GDP (In millions of B$) (FY)	12,767	13,395	12,371	11,126	12,412	13,336	14,103	14,752	15,283

Sources: Ministry of Finance; and IMF staff projections.

1/ Fiscal year ends June 30.

2/ Excludes payment arrears and promissory notes for the resolution of Bank of The Bahamas.

Table 3. The Bahamas: Balance of Payments, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projections					
				(In millions of U.S. dollars)					
Current account balance	**-1,115**	**526**	**-1,959**	**-2,618**	**-2,170**	**-1,765**	**-1,286**	**-1,178**	**-1,166**
Goods (trade balance)	-2,675	-2,404	-2,023	-2,016	-2,836	-3,104	-3,349	-3,498	-3,595
Domestic exports	410	432	291	231	316	379	437	466	487
Domestic imports	-3,067	-2,818	-2,300	-2,232	-3,135	-3,465	-3,768	-3,944	-4,061
Oil	-530	-515	-382	-376	-494	-539	-581	-606	-622
Capital goods	-675	-776	-784	-813	-853	-869	-880	-884	-885
Other domestic imports	-1,862	-1,527	-1,134	-1,043	-1,788	-2,057	-2,306	-2,455	-2,554
Other net exports	-19	-18	-15	-15	-17	-18	-19	-20	-20
Services	2,311	2,631	-44	-111	1,188	1,868	2,627	2,899	3,041
Travel (net)	3,396	3,790	910	727	2,323	3,177	4,074	4,444	4,640
Travel (credit)	3,728	4,126	1,029	836	2,564	3,492	4,457	4,892	5,155
Travel (debit)	-332	-335	-119	-109	-241	-315	-383	-448	-515
Other services	-1,085	-1,160	-954	-838	-1,135	-1,309	-1,447	-1,544	-1,599
Income and transfers	-751	299	108	-491	-522	-529	-564	-580	-612
o/w Hurricane insurance payout		908	404						
Capital and financial account	**894**	**36**	**2,540**	**1,962**	**2,140**	**1,842**	**1,388**	**1,313**	**1,323**
Capital transfers	-21	-20	-17	-17	-19	-20	-22	-22	-23
Long-term public sector	-48	-45	1,463	755	468	316	-18	33	60
Commercial banks' NFA	-141	-157	244	94	-112	-122	-127	-125	-138
Direct investment	491	265	235	310	378	400	416	429	444
Other private capital 1/	612	-7	614	820	1,425	1,269	1,138	997	980
Overall balance	**-221**	**562**	**581**	**-656**	**-30**	**77**	**102**	**134**	**157**
Change in gross reserves (increase -)	**221**	**-562**	**-581**	**656**	**30**	**-77**	**-102**	**-134**	**-157**
				(In percent of GDP)					
Current account balance	**-8.6**	**3.9**	**-17.4**	**-22.4**	**-16.8**	**-12.9**	**-8.9**	**-7.8**	**-7.5**
Goods (trade balance)	-20.5	-17.7	-18.0	-17.2	-21.9	-22.6	-23.1	-23.3	-23.1
Domestic exports	3.2	3.2	2.6	2.0	2.4	2.8	3.0	3.1	3.1
Domestic imports	-23.5	-20.8	-20.5	-19.1	-24.2	-25.2	-26.0	-26.3	-26.1
Oil	-4.1	-3.8	-3.4	-3.2	-3.8	-3.9	-4.0	-4.0	-4.0
Capital goods	-5.2	-5.7	-7.0	-6.9	-6.6	-6.3	-6.1	-5.9	-5.7
Other domestic imports	-14.3	-11.2	-10.1	-8.9	-13.8	-15.0	-15.9	-16.3	-16.4
Other net exports	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Services	17.7	19.4	-0.4	-0.9	9.2	13.6	18.1	19.3	19.6
Travel (net)	26.1	27.9	8.1	6.2	17.9	23.1	28.1	29.6	29.9
Travel (credit)	28.6	30.4	9.2	7.1	19.8	25.4	30.8	32.6	33.2
Travel (debit)	-2.5	-2.5	-1.1	-0.9	-1.9	-2.3	-2.6	-3.0	-3.3
Other services	-8.3	-8.5	-8.5	-7.2	-8.8	-9.5	-10.0	-10.3	-10.3
Income and transfers	-5.8	2.2	1.0	-4.2	-4.0	-3.9	-3.9	-3.9	-3.9
o/w Hurricane insurance payout		6.7	3.6						
Capital and financial account	**6.9**	**0.3**	**22.6**	**16.8**	**16.5**	**13.4**	**9.6**	**8.7**	**8.5**
Capital transfers	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Long-term public sector	-0.4	-0.3	13.0	6.4	3.6	2.3	-0.1	0.2	0.4
Commercial banks' NFA	-1.1	-1.2	2.2	0.8	-0.9	-0.9	-0.9	-0.8	-0.9
Direct investment	3.8	1.9	2.1	2.6	2.9	2.9	2.9	2.9	2.9
Other private capital 1/	4.7	0.0	5.5	7.0	11.0	9.2	7.9	6.6	6.3
Overall balance	**-1.7**	**4.1**	**5.2**	**-5.6**	**-0.2**	**0.6**	**0.7**	**0.9**	**1.0**
Change in gross reserves (increase -)	**1.7**	**-4.1**	**-5.2**	**5.6**	**0.2**	**-0.6**	**-0.7**	**-0.9**	**-1.0**
Memorandum items									
Gross international reserves									
(End of period; millions of U.S. dollars)	1,196	1,758	2,339	1,683	1,653	1,731	1,832	1,967	2,123
(In percent of base money)	95.6	101.5	163.3	112.8	100.2	98.9	99.2	102.7	107.2
(In months of next year's G&S imports)	2.9	5.5	7.7	4.0	3.5	3.3	3.3	3.4	3.5
Nominal GDP (millions of U.S. dollars)	13,022	13,579	11,235	11,706	12,947	13,726	14,480	15,025	15,542

Sources: Central Bank of The Bahamas; Department of Statistics; and IMF staff projections.

1/ Includes errors and omissions.

Table 4. The Bahamas: Summary Accounts of the Central Bank and the Financial System, 2018–26

			Projections						
	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In millions of Bahamian dollars, end of period)								
Central Bank									
Net international reserves 1/	1,196	1,758	2,339	1,683	1,653	1,731	1,832	1,967	2,123
Net domestic assets	55	-27	-554	163	350	372	367	302	211
Credit to nonfinancial public sector (net)	436	353	353	353	353	353	353	353	353
Of which: Central Government	504	396	396	396	396	396	396	396	396
Other	-381	-380	-907	-190	-3	19	14	-51	-142
Reserve money	1,252	1,731	1,432	1,493	1,651	1,750	1,846	1,916	1,982
Currency held by the private sector	460	489	404	421	466	494	521	541	559
Liabilities with financial institutions	792	1,243	1,028	1,071	1,185	1,256	1,325	1,375	1,423
Financial system									
Net foreign assets	1,071	1,790	2,127	1,377	1,459	1,658	1,887	2,146	2,441
Of which : Commercial banks and OFIs	-125	32	-212	-306	-194	-73	55	179	317
Net domestic assets	6,037	6,103	4,403	5,427	6,066	6,320	6,530	6,587	6,593
Credit to nonfinancial public sector, net	2,735	2,775	3,003	3,276	3,740	4,070	4,325	4,544	4,686
Central Government, net	2,539	2,621	2,815	3,055	3,485	3,783	4,005	4,189	4,295
Credit to private sector	5,886	5,892	4,874	5,079	5,617	5,955	6,283	6,519	6,743
Other	-2,584	-2,564	-3,474	-2,928	-3,291	-3,705	-4,078	-4,476	-4,836
Liabilities to the private sector (broad money)	7,109	7,893	6,530	6,804	7,525	7,978	8,416	8,733	9,034
Money	2,728	3,248	2,688	2,800	3,097	3,284	3,464	3,594	3,718
Currency	310	337	279	290	321	340	359	373	385
Demand deposits	2,418	2,912	2,409	2,510	2,776	2,943	3,105	3,222	3,332
Quasi-money	4,381	4,644	3,843	4,004	4,428	4,695	4,953	5,139	5,316
	(Change in percent of liabilities to the private sector at the beginning of the period)								
Net foreign assets	-1.2	10.1	4.3	-11.5	1.2	2.6	2.9	3.1	3.4
Net domestic assets	2.2	0.9	-21.5	15.7	9.4	3.4	2.6	0.7	0.1
Credit to nonfinancial public sector	2.4	0.6	2.9	4.2	6.8	4.4	3.2	2.6	1.6
Credit to private sector	-1.4	0.1	-12.9	3.1	7.9	4.5	4.1	2.8	2.6
Liabilities to private sector (broad money)	1.0	11.0	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
Money	1.1	7.3	-7.1	1.7	4.4	2.5	2.3	1.5	1.4
Quasi-money	0.0	3.7	-10.2	2.5	6.2	3.5	3.2	2.2	2.0
	(Annual percentage change)								
Net domestic assets	2.6	1.1	-27.8	23.3	11.8	4.2	3.3	0.9	0.1
Credit to nonfinancial public sector	6.6	1.5	8.2	9.1	14.1	8.8	6.3	5.1	3.1
Credit to private sector	-1.6	0.1	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
Liabilities to private sector (broad money)	1.0	11.0	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
Money	2.8	19.1	-17.3	4.2	10.6	6.0	5.5	3.8	3.4
Quasi-money	-0.1	6.0	-17.3	4.2	10.6	6.0	5.5	3.8	3.4

Sources: Central Bank of The Bahamas; and IMF staff projections.

1/ Under the assumption that reserves are used to sterilize the monetary impact of government drawing down on its deposits at the central bank.

Table 5. The Bahamas: Financial Soundness Indicators for the Banking System, 2012–19

(In percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy								
Regulatory capital to risk-weighted assets	29.1	31.1	32.8	33.3	28.6	32.5	32.3	28.1
Regulatory Tier I capital to risk-weighted assets	...	...	...	...	27.0	31.0	31.4	27.0
Capital to assets	26.3	26.5	25.9	27.0	26.0	26.5	18.4	15.2
Credit to economic sectors 1/								
Nonfinancial corporations	24.3	22.5	19.0	18.0	17.2	15.5	16.4	16.3
Households	73.3	73.7	75.6	75.6	75.3	77.5	74.7	73.1
Financial institutions	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Government	2.1	3.6	5.1	6.0	7.3	6.7	8.5	10.2
Asset Quality 2/ 3/								
Nonperforming loans to total gross loans	13.6	15.3	15.3	14.2	11.4	9.2	8.3	7.2
Nonperforming loans net of provisions to capital	27.8	32.5	29.3	22.8	15.5	12.0	7.3	5.4
Specific provisions to nonperforming loans 3/	33.0	29.5	41.1	47.5	56.0	52.0	68.6	76.4
Profitability								
Return on assets	1.5	1.4	-1.2	1.9	2.0	1.8	2.3	2.4
Return on equity	5.9	5.4	-4.6	7.0	7.9	6.8	8.5	10.6
Noninterest expenses to gross income	40.8	47.1	66.3	47.4	48.4	52.1	48.0	49.0
Personnel expenses to noninterest expenses	51.2	50.3	34.8	46.8	44.0	40.8	42.6	40.2
Liquidity 2/								
Liquid asset to total assets	20.2	21.8	22.6	24.1	25.9	29.0	26.6	29.6
Liquid asset to short-term liabilities 4/	31.2	34.0	34.4	37.0	37.8	42.7	38.3	40.9
Memo items 2/								
Total private sector credit to GDP	61.8	61.6	58.1	53.4	52.1	49.2	47.4	45.9
Spread between domestic lending and deposit rates	8.9	9.4	10.4	10.9	11.3	10.8	10.5	9.9
Loans to assets	74.0	72.8	72.2	70.6	69.1	64.8	67.9	62.4

Sources: Central Bank of The Bahamas and IMF staff calculations.

1/ In percent of total credit.

2/ Includes the two largest credit unions.

3/ 2018 & 2019 data does not include Credit Union data for Asset Quality

4/ Short-term liabilities are defined as resident deposits.

Annex I. Past Policy Advice

Recommendations	Current Status
Fiscal Policy	
Ratify remaining PFM reforms and operationalize the fiscal council	The fiscal council was established, and its first report will be submitted to Parliament in Q1 2021, but some details about budgetary control and compensation are still being finalized and hiring of technical staff is proceeding. Key PFM reforms are ongoing.
Give fiscal policy a greater role to achieve medium-term public policy objectives, including greater income equality	No changes.
Review tax expenditures and consider a more comprehensive tax reform	No progress on tax expenditure review. Real property tax reform has been internally discussed.
Structural Policy	
Increase resilience to natural disasters	Catastrophe insurance policy helped improve financial resilience to natural disasters. Natural Disaster Fund was depleted following Dorian.
Advance energy sector reforms to improve the reliability of the electricity grid and reduce costs	Investments have been made, but equipment failures continue disrupting power provision and the financial restructuring of BPL is not yet concluded.
Reduce skills mismatches in the labor market	The Bahamas Technical and Vocational Institute introduced a tuition-free training program to New Providence with IDB funding.
Monetary and Financial Policy	
Fully implement the new framework for the international sector and comply with AML/CFT and global tax transparency commitments	Parliament enacted key legislation, including the Business License and Investment Fund acts. Legislative improvements in AML/CFT and tax transparency now need to be implemented effectively.
Develop a local real estate price index	Discussions are ongoing.
Operationalize the Credit Bureau	The Credit Bureau has been established, but it is yet to become fully operational.
Consider alternative technologies to a Central Bank Digital Currency (CBDC), mitigate risks	The CBDC was rolled out to all islands. Risk mitigation underway.
Data	
Produce quarterly National Accounts, compile balance-of-payments statistics according to BPM6, produce estimates of the IIP; publish and adhere to a data release calendar	Department of Statistics completed and published quarterly National Accounts. Compilation of BPM6 and IIP statistics has started. The public consultation period for the new Statistical Bill ended in September 2020 and the final draft is being prepared for debate in Parliament
Conduct a household survey	The household survey will take place after the completion of the 2021 National Census.

Annex II. Implementation of Key FSAP Recommendations

Recommendations	Time *	Actions
Banking Supervision		
Strengthen assessments of credit underwriting and enhance credit risk management and ICAAP reviews. Update guidelines on impaired assets and other asset classifications.	I	In progress. The CBOB continues to advance work on revisions to the guidelines for credit risk, impaired assets, and ICAAP as part of its Policy Work Agenda. The Bank has recruited a credit risk specialist for its examination team.
Ensure strong governance arrangements for state-controlled financial institutions.	ST	In progress. Governance at Bank of The Bahamas has strengthened over the past two years.
Strengthen effectiveness assessments of bank boards of directors, senior management, and internal audits.	ST	In progress. In addition to its enhanced board engagement policy released in 2018, work is ongoing in reviewing the corporate governance guidelines as a part of the Policy work agenda.
Increase staffing to support critical functions, including analytics and on-site examinations.	ST	In progress. In mid-2019, the schedule of Central Bank levies was amended to increase AML-related funding by $1.2 million p.a. This additional funding has been collected for 2020, and the Central Bank has commenced recruiting the resultant 10 new positions. The increased levies also support increased AML training and data acquisition, notably from SWIFT, and more external outreach.
Financial Crisis Management and Safety Nets		
Enact bank resolution legislation, including guidance for public AMCs.	I	Parliament has enacted the Banks and Trust Companies Regulations Act, 2020; the Central Bank Act, 2020 and the Protection of Depositors (Amendment) Act, 2020, all of which came into force on 1st September, 2020.
Create a Crisis Management Committee to improve coordination and operationalize reforms.	I	A Crisis Preparedness Working Group has been formed by the Group of Financial Service Regulators. The group has since met to discuss the way forward and work is in the early stages.
Increase DIC funding to reach 2 percent of insurable deposits. Establish a pre-arranged emergency funding facility.	ST	Recent amendments to Section 5 of the Protection of Depositors (Amendment) Act, 2020 permits the assessment of annual premiums at a variable rate to be determined by the Corporation from time to time. Discussions are ongoing at the Board level with respect to increasing the annual base premium from 5 basis points to a range between 5.0 basis points and 10 basis points. Moreover, effective 2021, annual assessments shall also include an additional premium charge based on the degree of risk incurred by an institution. The Board's approval for the increase in the premium rate and the target fund ratio is planned for completion by Q1 of 2021.

Recommendations	**Time** *	**Actions**
		With respect to a pre-arranged emergency funding facility, preliminary discussions were held with the Central Bank with a view to the Corporation establishing a pre-arranged line of credit. Further, the Corporation has also engaged in preliminary discussions with stakeholders seeking guidance on the requirements to facilitate the timely issuance of a private and/or public bond issue in the event that additional funding is required by the Corporation. Finally, while the Corporation recognizes the current fiscal constraints on the Government due to the COVID-19 related economic downturn, an arrangement for emergency funding will still be explored with a view to reaching an agreement in 2021.
Issue Resolve financial statements and asset sales information, and commission a third-party comprehensive review of its operations.	I/ST	In progress. The third party review was provided to the government and is being reviewed.
Financial Stability Analysis and Stress Testing		
Operationalize the proposed Consumer Credit Bureau.	I	Over the past ten months, the Credit Bureau has been engaging with various data providers and held meetings with alternative data providers. The Credit Bureau has recently hired a contractual consultant who will transitioned to full time management position in January 2021 to establish a local presence to aid in the local-level engagement with institutions.
Improve data collection and analytical capacity for assessing solvency and liquidity risks; strengthen focus on key systemic and macroeconomic risks.	ST	The Central Bank is running ad hoc collections but generally, this item has been placed on hold until after the pandemic crisis.
Develop a real estate price index.	ST	Discussions are ongoing.
Systemic Risk Oversight and Macroprudential Policy		
Introduce a macroprudential capital buffer above a core common equity requirement.	ST	This would be captured in the Basel III reforms, which were deferred from 2020 to 2022.
Collect loan-level data for potential implementation of LTV/DTI mortgage lending standards.	ST	This has not yet started, and may be subsumed in Post-Dorian work on requiring fit for purpose home loans, including fit for purpose insurance coverage.
Introduce CBOB recommendations regarding lending standards in NBFIs.	ST	This has been placed on hold until after the COVID-19 crisis.
Strengthen the role of the Group of Financial Services Regulators in systemic risk surveillance and oversight.	I	The Group of Financial Services Regulators have formed 3 working groups to assist in this regard, the AML External Relations, Crisis Preparedness and Joint Guidance Working Groups

Recommendations	Time *	Actions
Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT)		
Continue to strengthen AML/CFT risk-based supervision of FIs and DNFBPs by enhancing risk analysis, dedicating resources, and using enforcement actions.	I	Central Bank supervised financial institutions are all routinely supervised with respect to AML and the Bank has instituted its annual AML data collection.
Assess potential ML/TF risks related to Fintech initiatives.	I	AML/KYC regime for digital wallets has been incorporated into the Sand Dollar roll-out.
Prevent pressure on correspondent banking relationships, including by ensuring availability of accurate beneficial ownership information.	ST	In addition to the enactment of the Beneficial Ownership Act 2018, the Bank issues a newsletter to some 70 correspondent banks as part of its engagement strategy with these stakeholders. Correspondent banks are invited to meet with the Central Bank when conducting their country visits to clients.
Developmental Recommendations: Financial Inclusion – Payment Systems and SMEs		
Open the ACH to regulated and supervised non-bank financial institutions and modernize the electronic payment infrastructure. Differentiate debit and credit merchant discount rates.	ST	The 2020 Central Bank Act allows supervised non-bank financial institutions to have direct access to the ACH. Regulated credit unions, international banks, PSPs and MTBs are now permitted to establish settlement accounts directly with the Central Bank as opposed to having to negotiate settlement arrangements with commercial banks. Direct access to the ACH, however, is subject to approval by its Board of Directors.
Promote digitizing government payments and allow Treasury participation in the ACH.	ST	The 2020 Central Bank Act allows supervised non-bank financial institutions to have direct access to the ACH. The Bank has also proposed that the Government and the National Insurance Board would be allowed to join the ACH and RTGS, as the two largest single originators and recipients of payments. Both institutions have been members of the RTGS since inception (2004). They do not have direct access to the ACH however and, in the absence of SWIFT infrastructure, their settlements are actioned via the Central Bank's payment operations unit. The Central Bank also facilitates settlements across ACH on behalf of both entities in accordance with ACH/RTGS transaction value guidelines.
Improve operations and coordination of public empowerment funds targeting SMEs.	I	The audit of the Small Business Development Center (SBDC) is ongoing, and the report is expected to be published in December 2020. The SBDC is an institute to promote small business under the partnership among the government, University of The Bahamas, and The Bahamas Chamber of Commerce and Employers Confederation.
* C = continuous; I (immediate) = within one year; ST (short term) = 1–3 years; MT (medium term) = 3+ years		

Annex III. External Sector Assessment

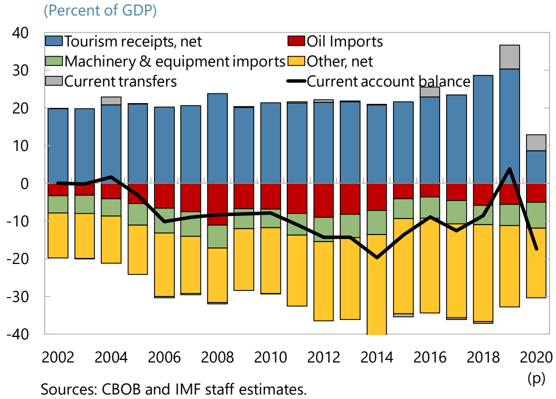
Overall Assessment: *Based on preliminary data and EBA model results, the external position of The Bahamas in 2020 was moderately weaker than the level implied by fundamentals and desirable policies, although subject to an unusually wide margin of error given uncertainty around how quickly the massive shock to tourism will unwind.* The pandemic-related unprecedented shock to tourism caused a sharp fall in services receipts, and despite a decline in the goods balance, the current account (CA) reversed from a surplus in 2019 to a large deficit in 2020. International reserves remained adequate in 2020, primarily due to public external borrowing and policies to limit capital outflows.

Potential Policy Responses: The focus should be on providing sufficient policy support in the near term, while committing to implement pro-growth and inclusive fiscal reforms once the pandemic recedes. Reinvigorating structural reforms, to improve competitiveness and the investment climate, will assist in the rebound of key sectors and encourage additional FDI. Although pandemic and hurricane-related government external borrowings provide temporary relief, authorities must strike a fine balance between the preservation of the peg and capital controls should reserves continue to fall in the medium-term.

Current Account

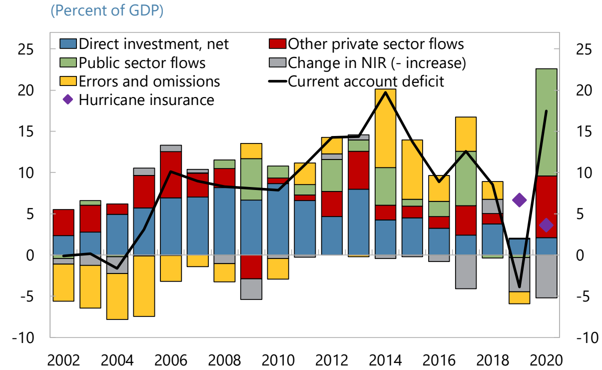
Background. As a small, open, and service-based economy, The Bahamas relies heavily on imports to meet its consumption and investment needs. Over the past five years, the CA deficit averaged 8 percent of GDP. Goods imports, of which about 30 percent are tourism related, have steadily increased to nearly seven times that of goods exports, resulting in a trade deficit averaging around 19.5 percent of GDP between 2015-19. On the services side, net inflows, mainly tourism receipts, have averaged about 14 percent of GDP. In 2019, the CA improved to a surplus of 3.9 percent of GDP, from a deficit of 8.6 percent of GDP in 2018. This reflects a significant improvement in current transfers due to one-off reinsurance inflows to settle claims from Hurricane Dorian.

Current Account Balance
(Percent of GDP)



Sources: CBOB and IMF staff estimates.

Current Account Balance and Capital Flows
(Percent of GDP)

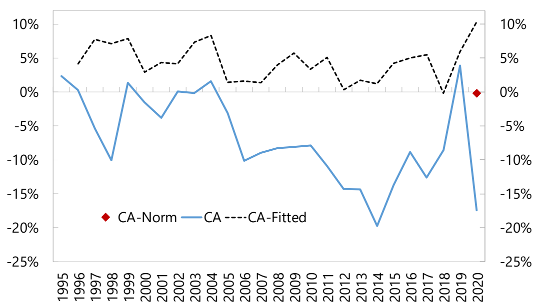


Sources: CBOB and IMF staff estimates.

The 2020 CA is projected to decline sharply to a deficit of 17.4 percent of GDP, due to a collapse in tourism receipts. Driven by a reduction in oil and tourism related imports, the improvement in the goods balance is partially offset by trade activity to support hurricane and tourism-related construction. Additional re-insurance inflows somewhat offset the overall CA contraction. The key risk to staff's forecasts of a gradual reduction in the CA deficit over the medium-term is the uncertain path of the pandemic, which determines tourism flows going forward.

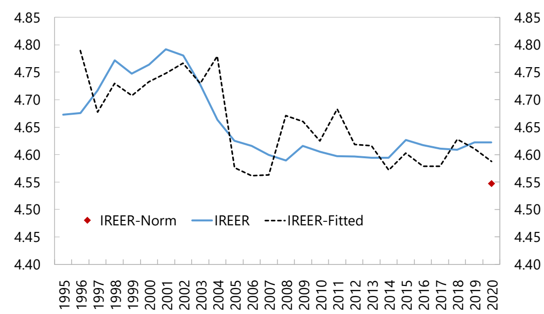
Assessment. According to the EBA CA model, in 2020, the cyclically adjusted CA deficit is -9.1 percent of GDP, after an IMF staff adjustment of 11 percent of GDP[1] to account for the impact of the pandemic on the CA. The CA norm is estimated at -0.2 percent of GDP, inferring a CA gap of -8.9 percent of GDP. Policy gaps contribute 8.4 percentage points to the model-estimated CA gap and the remainder reflects unidentified country-specific factors and/or regression residuals.

External Sector Assessment: CA Model
(Percent of GDP)



Sources: CBOB and IMF staff estimates.

External Sector Asseessment: REER Model
(log REER)



Sources: CBOB and IMF staff estimates.

The large adjustment was required because the estimate does not seem to adequately reflect the pandemic-related shock to tourism, which explains the large deterioration in the current account balance in 2020, since the model assessment is based on medium-term targets. Moreover, the CA model is limited in its ability to analyze The Bahamas, which is heavily dependent on tourism income and subject to irregular, large-scale FDI projects with high import content. Therefore, staff's bottom line assessment draws mainly on the REER model, which has showcased a better fit over time. Under the CA-REER elasticity of -0.22, the REER model suggests a CA gap that is moderately weaker than implied by fundamentals and desired policies, at -1.7 percent. The REER policy gap is 0.1 percent, primarily due to greater capital controls and reserve accumulation, although the gaps relating to negative credit growth and levels were offsetting.

The Bahamas: Results from EBA-lite models, 2020
(In percent of GDP)

	CA model	REER model
CA-Actual	**-17.4**	
Cyclical contributions (from model)	1.2	
IMF adjustment for tourism shock due to COVID-19	11.0	
Natural disasters and conflicts	1.5	
Adjusted CA	**-9.1**	
CA Norm (from model) 1/	**-0.2**	
CA Gap	**-8.9**	**-1.7**
o/w Policy gap	8.4	0.1
Elasticity	-0.22	
REER Gap (in percent)	**40.4**	**7.5**

1/ Cyclically adjusted, including multilateral consistency adjustments.

[1] The impact of the pandemic is captured through the interaction of the fall in tourism receipts and a coefficient of 0.6, derived from an auxiliary regression that looks at the impact of tourism shocks on the cyclically adjusted CA.

Real Exchange Rate
Background. Despite its falling value in the final months of 2019, the REER appreciated 1.4 percent from its average 2018 level. In October 2020, the REER was 2.1 percent weaker than the 2019 average. **Assessment.** Based on the results of the REER model, the REER gap at end-2020 is estimated at 7.5 percent. This indicates a moderate overvaluation which staff assesses in the range of 6-9 percent.
Capital and Financial Accounts: Flows and Policy Measures
Background. In the Bahamas, FDI has been large and lumpy – declining in magnitude in recent years to 2.7 percent of GDP by 2019 – while net portfolio outflows were negligible. In addition to some FDI and reconstruction projects which have continued throughout 2020, government external borrowing from IFIs and the two recent Eurobond issuances, as well as an increase in domestic banks' short-term liabilities, are behind the projection of a large increase in the financial account. Furthermore, several measures have been implemented to control the outflow of capital, including the NIB's liquidation of overseas investment holdings and suspension of portfolio investments. In addition, the authorities eased an inflow CFM in April 2020, when for commercial banks, the ceiling on the Bahamian Open Position on foreign exchange transactions was relaxed to the maximum 5 percent of Tier 1 capital, removing the more binding limit of US$5 million on net long exposures that constrained most institutions, thus providing more latitude to commercial banks to supply foreign exchange to the public. Meanwhile, portfolio investments, related to the Bahamas Depository Receipt (BDR), shifted to a net inflow in Q2 and Q3. **Assessment.** Numerous large and mid-scale tourism-related FDI projects are scheduled over the next 5 years. However, the high degree of uncertainty about the scarring effects of COVID-19 on the global economy make it challenging to assess the medium-term prospects for capital flows. A renewed spike in international risk aversion, potentially linked to future waves of COVID-19, could hinder investment appetite. Reinvigorating structural reforms, to improve competitiveness and the investment climate would stimulate and sustain FDI flows. On the other hand, as capital flow risks are mitigated by prudent macroeconomic policies, measures should be rolled back over time once pressures abate.
FX Intervention and Reserves Level
Background. In December 2019, international reserves stood at US$1,758 million (5.5 months of the following year's imports); up 47 percent from 2018, boosted by one-off re-insurance inflows in 2019. Despite the sharp fall in tourism receipts, external reserves were at an all-time high of approximately $2.3 billion at the end of October 2020, due to front-loading of the government's external borrowing activity. By the end of 2020, reserves are forecasted to remain at elevated levels, near $2.3 billion, and higher than the previous year. **Assessment**. At 178 percent of the Fund's Assessing Reserve Adequacy (ARA) metric, the forecasted end-2020 level of foreign reserves is above the suggested range of 100-150 percent for reserve adequacy. Despite global uncertainties caused by the pandemic, reserve metrics are projected to remain within the adequate range in the medium-term on average. To reduce the dependence on the tourism sector for foreign exchange earnings, where the timing of a rebound remains subject to uncertainty, reforms that encourage FDI and reinvigorate key sectors are desirable. Furthermore, reducing food and tourism related imports, while improving the industry around local substitutes, would shrink the goods deficit in the long run.

Annex IV. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risk	**Up/ Downside**	**Relative Likelihood[1]**	**Impact**	**Policy Response**
Unexpected shift in the COVID-19 pandemic	↓	High	High	Institute robust screening and quarantine processes, strengthen health system, and establish effective channels of communication
	↑	Low	Medium	COVID-19-related fiscal measures to be phased out faster to reduce the fiscal burden
Widespread social discontent and political instability	↓	High	High	Implement well-targeted social assistance programs and provide adequate healthcare to respond to the pandemic
Oversupply and volatility in the oil market	↑	Medium	Medium	Reform utility SOEs to improve pass-through of energy prices to customers
Slow recovery from hurricanes	↓	High	High	Prioritize reconstruction efforts to kick-start the local economy, employ a multi-sector recovery strategy
Higher frequency and severity of natural disasters related to climate change	↓	Medium	High	Enhance ex-ante preparedness and risk reduction strategies, invest in resilient infrastructure, rebuild financial resilience
Cyber-attacks	↓	Medium	High	Strengthen cybersecurity preparedness in Fintech and digitalization projects

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex V. Public Debt Sustainability Analysis

1. Debt stock and gross financing requirements. As a result of Hurricane Dorian and COVID-19, central government debt increased to 68.6 percent of GDP in FY2019/20 compared to 58.8 percent in FY2018/19.[1] Gross financing needs for FY2019/20 are estimated at 13.7 percent, 6.1 percentage points above FY2018/19. For FY2020/21, debt and gross financing needs are projected to increase further to almost 90 percent of GDP and 18 percent of GDP, respectively. Over the medium term, both are projected to decrease in line with the economic recovery. Staff expects that by 2025/26 the economy is at its maximum revenue capacity without further policy changes (the VAT rate was increased from 7.5 to 12 percent in 2018/19, but due to an initial grace period, the 2018/19 revenue-to-GDP ratio is not an accurate indicator of the steady state).

2. Debt profile. In the short term (until FY2020/21), the government is expected to rely heavily on external financing to support foreign reserves. Recently approved external loans (since June 2020) include the IMF's RFI (about US$250 million), IDB Policy Based Loans (US$225 million), a CDB loan (US$40 million) and the recent external issuances (US$600 million in October and US$225 million in early December). Loans from the Development Policy Operation by the World Bank (US$100 million), and under World Bank MIGA initiatives (up to US$75 million) are being discussed. As a result, the share of foreign currency debt increases to 46.1 percent of total debt in FY2020/21, compared to 32.4 percent in FY2018/19. Staff assumes that once the pandemic recedes, the authorities will increase their reliance on domestic financing. Regarding maturity, most of the new external debt is expected to be long-term. Hence, the short-term debt share is projected to gradually decline toward 9 percent of total debt although it sharply increased in FY2019/20 to finance Hurricane Dorian and COVID-19 measures.

3. Debt vulnerability. The heat map deteriorated relative to the June 2020 RFI request. While risks around the debt level remain high, as the debt-to-GDP ratio peaks above 80 percent, risks around gross financing needs turned to "high" from "low" or "moderate" as they now exceed the threshold of 15 percent of GDP for FY2020/21. The debt profile is now exposed to a high risk of market perception and change in the share of short-term debt, while risks around external financing requirements, public debt held by non-residents, and the size of foreign currency debt remain moderate.

4. Realism of baseline assumptions. Staff projects real growth to average 2 percent over the medium term. Inflation is expected to remain low (1.7 percent), while the primary balance is projected to improve after the temporary deterioration in the next two years, turning to a surplus from FY2023/24 onwards. Past growth forecasts errors are largely explained by a substantial revision to national accounts in 2017, which showed lower growth than previously thought, large unexpected events such as the bankruptcy of a major hotel project in 2015, and natural disasters (Hurricane Matthew and Dorian). Meanwhile, past projections for the primary balance appear to have been relatively optimistic, while inflation has turned out lower than expected.

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[1] The analyses here cover central government debt, which includes arrears to domestic sectors and the promissory note to the Bank of Bahamas (total 2.4 percent of GDP by end-June 2020). Due to the limited information, public corporations' debt (14.4 percent of GDP by FY2019/20, see table), including government guarantees (5.7 percent of GDP), is outside the scope of the DSA.

5. Macro–fiscal stress test. Due Dorian and COVID-19, risks to debt sustainability have risen.

- The debt-to-GDP ratio would exceed 100 percent under the contingent liability shock scenario. This scenario assumes a banking crisis that requires a one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets. The crisis is also expected to generate a real GDP growth shock of one standard deviation for two consecutive years together with higher interest rates and lower inflation.

- Under the real interest rate shock, the debt-to GDP ratio would stay around 85 percent over the medium term. In this scenario, the interest rate is assumed to increase by the difference between the average projected real interest rate level over the projection horizon and maximum real historical level (about 460 basis points). Differently from other scenarios, the debt-to-GDP ratio would not enter a decreasing trend due to the long-term impact on the debt service.

- Under the combined macro shock scenario, which consists of shocks to real GDP growth, inflation, government revenue and expenditure, exchange rate, and interest rate, the government debt to GDP ratio would go up to 103 percent over the medium term.

- A scenario of a major hurricane hitting the main islands in FY2022/23 ("combined macro-fiscal shock II") shows that government debt would increase to 107 percent over the medium term. This scenario assumes a devastating impact on infrastructure and housing resulting in a sharp contraction in FY2022/23 and zero growth in FY2023/24. The government response, as in the case of Dorian, would include wide-ranging tax exemptions. On average, revenue would be lower by 4 percent of GDP as a result. Unlike Dorian, the scenario assumes a longer lasting expenditure impact due to infrastructure recovery and social protection (cumulative expenditure would be about 7 percent of GDP higher). Inflation would eventually be higher than the baseline by 1 percentage point due to the strong demand on construction workers.

6. External Debt.[2] The stock of public external debt is expected to jump to 40 percent of GDP in 2020 from 23 percent in 2019, due to large central government external financing needs and the state-owned electricity company's plans to issue external bonds. Bound test results suggest that the external public debt profile is sensitive to shocks to the non-interest current account and real effective exchange rate. A permanent one-half standard deviation increase in the non-interest current account deficit beginning in 2022 would put the public external debt ratio on an increasing trajectory, reaching 55 percent of GDP by 2026. A permanent one-time 30 percent real effective exchange rate depreciation in 2022 would shift external debt level up by around 18 percentage points of GDP. In a combined shock scenario, where permanent ¼ standard deviation shocks are applied to the real interest rate, growth rate, and current account balance, the external debt-to-GDP ratio rises to 43 percent in 2022.

[2] Defined as central government and public corporate debt as the stock of private-sector external debt is not available. The data and projection refer to calendar year.

Table 1. The Bahamas: Outstanding Stock of Public Dept, FY 2013/14–2019/20

(In Percent of GDP) 1/

	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Central government debt	**47.6**	**49.6**	**50.6**	**53.0**	**61.0**	**58.8**	**68.6**
External	13.7	14.1	14.9	14.2	20.7	19.1	23.7
Domestic	33.9	35.4	35.7	38.8	40.3	39.8	44.9
Of which: in foreign currency	0.6	0.0	0.0	0.0	0.0	0.0	0.4
Public corporations' debt	**12.6**	**13.5**	**14.0**	**12.6**	**12.5**	**12.8**	**14.4**
External	4.0	4.7	5.3	5.0	4.8	4.2	4.8
Domestic	8.6	8.8	8.7	7.6	7.7	8.6	9.6
Of which: in foreign currency	3.6	3.2	2.9	2.1	1.9	2.4	2.7
Total public sector	**60.2**	**63.0**	**64.6**	**65.6**	**73.5**	**71.7**	**83.1**
External	17.7	18.8	20.2	19.3	25.5	23.3	28.5
Domestic	42.5	44.3	44.4	46.4	48.0	48.4	54.6
Of which: in foreign currency	4.2	3.2	2.9	2.1	1.9	2.4	3.1
Consolidated public sector 2/	**54.5**	**57.5**	**59.0**	**62.2**	**71.5**	**69.7**	**80.8**
External	17.9	18.8	20.1	19.8	26.5	24.2	29.6
Domestic 2/	36.6	38.8	38.9	42.4	45.0	45.5	51.3
Of which: in foreign currency	4.3	3.2	2.9	2.2	2.0	2.0	2.3

Source: Central Bank of The Bahamas.

1/ Fiscal year (July - June) basis.

2/ Excludes central government debt holdings by public corporations.

Figure 1. The Bahamas: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise stated)

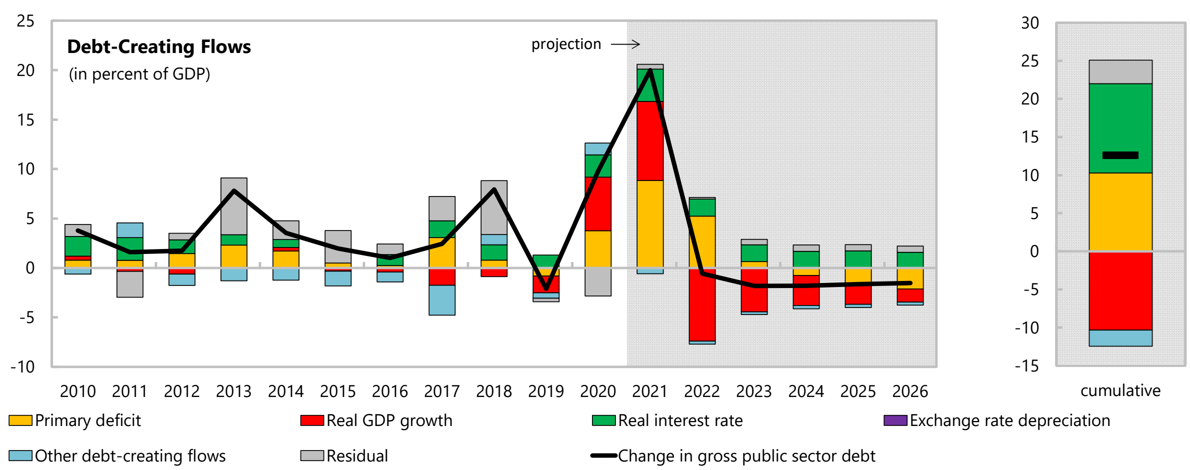
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	45.5	58.8	68.6	88.6	88.1	86.2	84.5	82.8	81.3
Public gross financing needs	7.0	7.6	13.7	17.6	15.7	8.8	8.7	5.6	3.5
Real GDP growth (in percent)	0.9	2.9	-8.5	-10.5	9.3	5.4	3.7	2.6	1.6
Inflation (GDP deflator, in percent)	1.6	1.9	0.9	0.4	2.0	1.9	2.0	1.9	1.9
Nominal GDP growth (in percent)	2.5	4.9	-7.6	-10.1	11.6	7.4	5.7	4.6	3.6
Effective interest rate (in percent) [4/]	5.1	4.2	4.4	4.7	4.4	4.1	4.1	4.1	3.9

As of October 16, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		849
5Y CDS (bp)		743
Ratings	Foreign	Local
Moody's	Ba2	Ba2
S&Ps	BB-	BB-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.5	-2.1	9.8	20.0	-0.6	-1.8	-1.8	-1.6	-1.5	12.6	
Identified debt-creating flows	1.4	-1.8	12.6	19.5	-0.7	-2.4	-2.4	-2.3	-2.2	9.5	
Primary deficit	1.3	-0.8	3.8	8.9	5.2	0.7	-0.8	-1.6	-2.1	10.3	0.0
Primary (noninterest) revenue and grants	14.5	18.1	16.9	14.2	16.2	17.9	19.0	19.4	19.6	106.3	
Primary (noninterest) expenditure	15.8	17.3	20.6	23.1	21.4	18.6	18.2	17.8	17.5	116.6	
Automatic debt dynamics [5/]	0.9	-0.4	7.7	11.3	-5.7	-2.7	-1.4	-0.4	0.3	1.4	
Interest rate/growth differential [6/]	0.9	-0.4	7.7	11.3	-5.7	-2.7	-1.4	-0.4	0.3	1.4	
Of which: real interest rate	1.3	1.3	2.2	3.3	1.7	1.7	1.7	1.7	1.6	11.7	
Of which: real GDP growth	-0.4	-1.7	5.4	8.0	-7.4	-4.4	-3.0	-2.1	-1.3	-10.3	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.8	-0.6	1.2	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-2.1	
Net acquisition of assets (negative)	-0.9	-0.6	1.2	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-2.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Promissory note for bank resolution	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.1	-0.3	-2.8	0.5	0.2	0.5	0.7	0.6	0.6	3.1	



Source: IMF staff.

1/ Public sector is defined as central government. All the analyses are based on fiscal year (July - June).

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

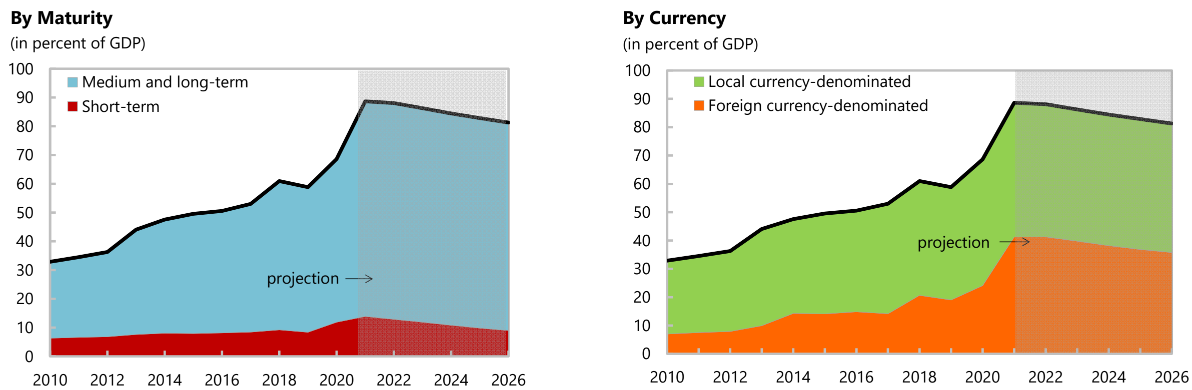
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

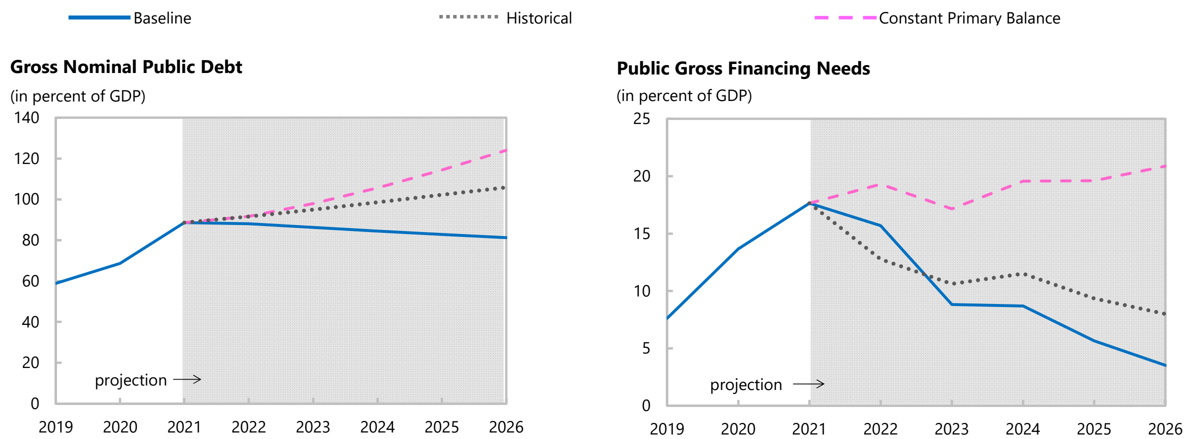
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. The Bahamas: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

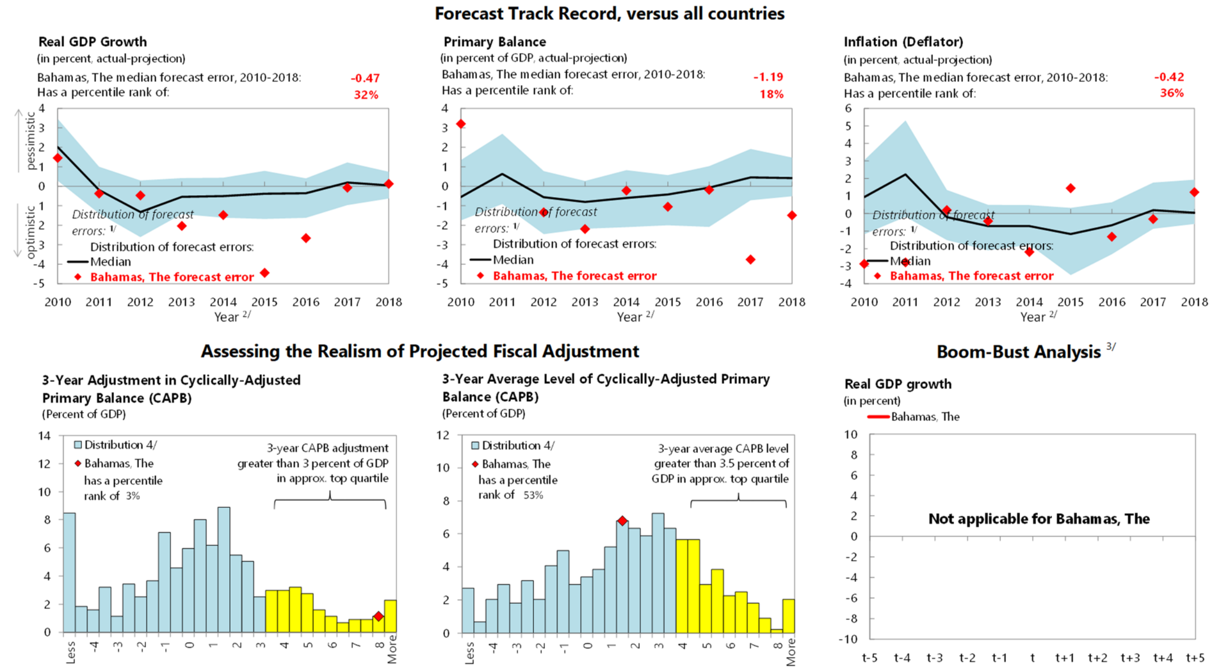
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-10.5	9.3	5.4	3.7	2.6	1.6
Inflation	0.4	2.0	1.9	2.0	1.9	1.9
Primary Balance	-8.9	-5.2	-0.7	0.8	1.6	2.1
Effective interest rate	4.7	4.4	4.1	4.1	4.1	3.9
Constant Primary Balance Scenario						
Real GDP growth	-10.5	9.3	5.4	3.7	2.6	1.6
Inflation	0.4	2.0	1.9	2.0	1.9	1.9
Primary Balance	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9
Effective interest rate	4.7	4.4	4.1	4.1	4.2	4.1

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-10.5	0.4	0.4	0.4	0.4	0.4
Inflation	0.4	2.0	1.9	2.0	1.9	1.9
Primary Balance	-8.9	-1.4	-1.4	-1.4	-1.4	-1.4
Effective interest rate	4.7	4.4	4.2	4.2	4.3	4.1

Source: IMF staff.

Figure 3. The Bahamas: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

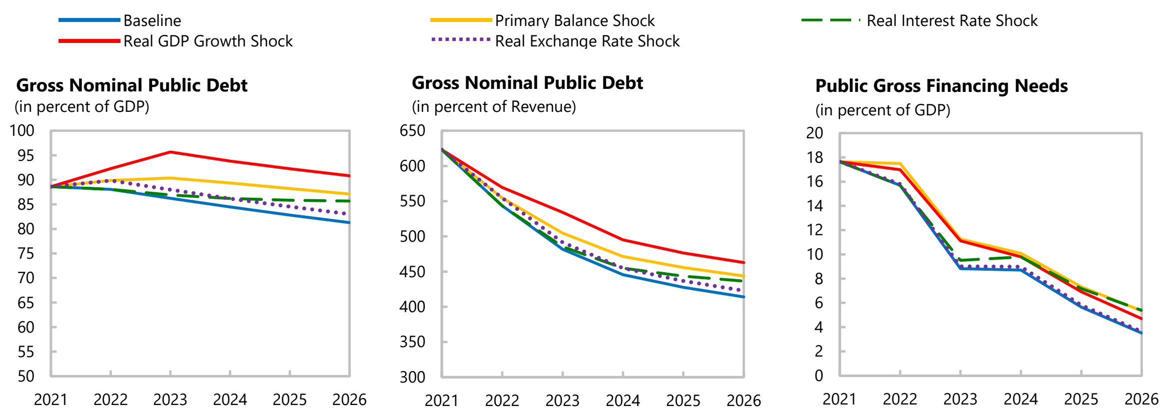
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Bahamas, The, as it meets neither the positive output gap criterion nor the private credit growth criterion.

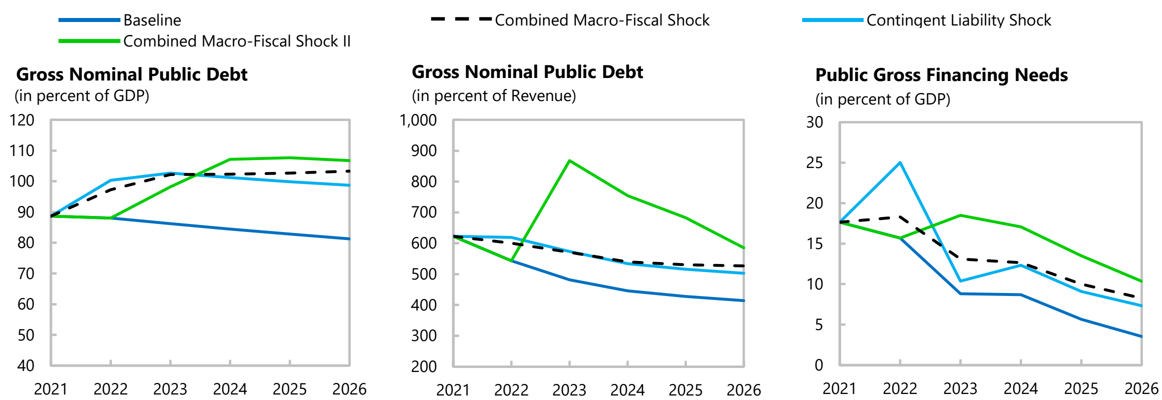
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. The Bahamas: Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	-10.5	9.3	5.4	3.7	2.6	1.6
Inflation	0.4	2.0	1.9	2.0	1.9	1.9
Primary balance	-8.9	-7.0	-2.9	0.1	1.2	1.8
Effective interest rate	4.7	4.4	4.2	4.2	4.3	4.1
Real Interest Rate Shock						
Real GDP growth	-10.5	9.3	5.4	3.7	2.6	1.6
Inflation	0.4	2.0	1.9	2.0	1.9	1.9
Primary balance	-8.9	-5.2	-0.7	0.8	1.6	2.1
Effective interest rate	4.7	4.4	4.9	5.4	5.7	5.6
Combined Shock						
Real GDP growth	-10.5	6.0	2.0	3.7	2.6	1.6
Inflation	0.4	1.2	1.1	2.0	1.9	1.9
Primary balance	-8.9	-7.0	-2.9	0.1	1.2	1.8
Effective interest rate	4.7	4.6	5.0	5.5	5.9	5.8
Combined Macro-Fiscal Shock II						
Real GDP growth	-10.5	9.3	2.4	0.0	4.1	2.6
Inflation	0.4	2.0	1.9	2.0	2.9	2.4
Primary balance	-8.9	-5.2	-10.1	-6.5	-3.0	0.2
Effective interest rate	4.7	4.4	4.1	4.2	4.3	4.1

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	-10.5	6.0	2.0	3.7	2.6	1.6
Inflation	0.4	1.2	1.1	2.0	1.9	1.9
Primary balance	-8.9	-6.1	-2.2	0.8	1.6	2.1
Effective interest rate	4.7	4.4	4.1	4.2	4.2	4.0
Real Exchange Rate Shock						
Real GDP growth	-10.5	9.3	5.4	3.7	2.6	1.6
Inflation	0.4	4.5	1.9	2.0	1.9	1.9
Primary balance	-8.9	-5.2	-0.7	0.8	1.6	2.1
Effective interest rate	4.7	4.6	4.1	4.1	4.1	4.0
Contingent Liability Shock						
Real GDP growth	-10.5	6.0	2.0	3.7	2.6	1.6
Inflation	0.4	1.2	1.1	2.0	1.9	1.9
Primary balance	-8.9	-13.9	-0.7	0.8	1.6	2.1
Effective interest rate	4.7	4.7	4.6	4.6	4.5	4.2

Source: IMF staff.

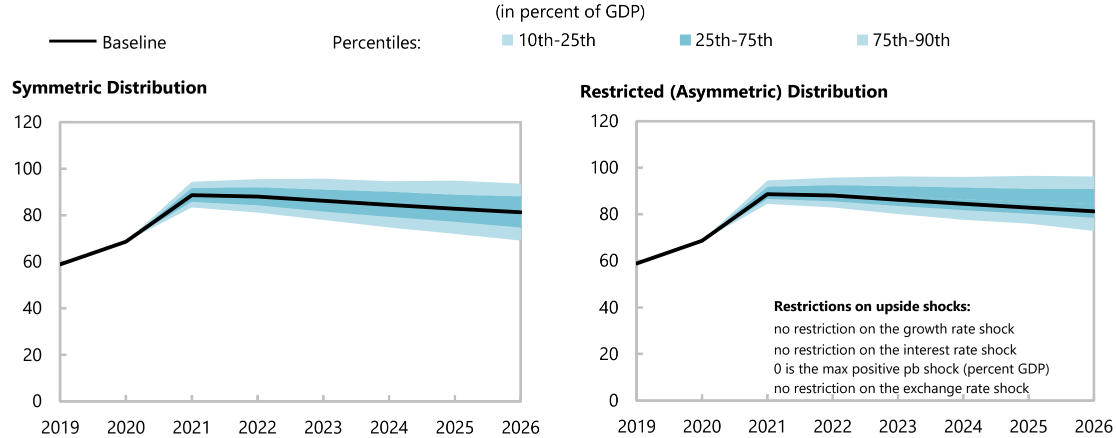
Figure 5. The Bahamas: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

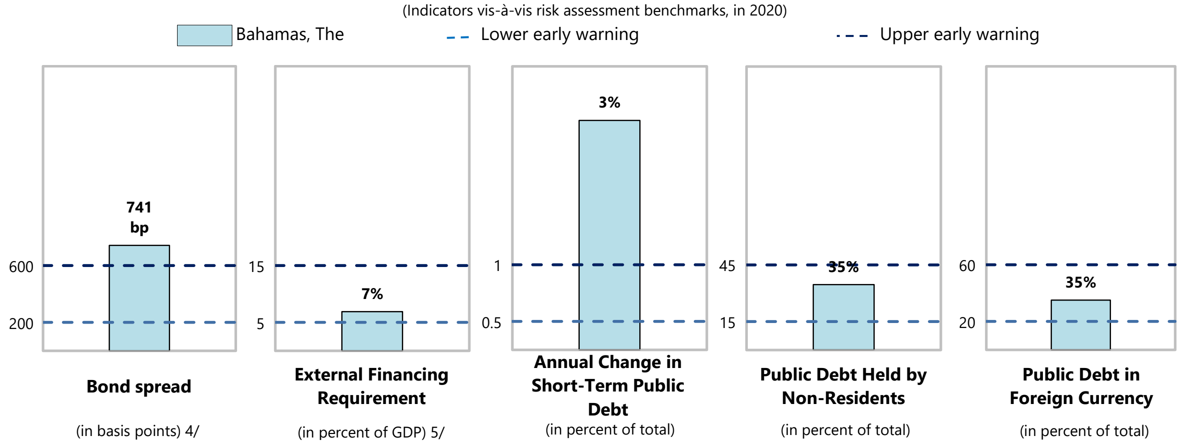
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

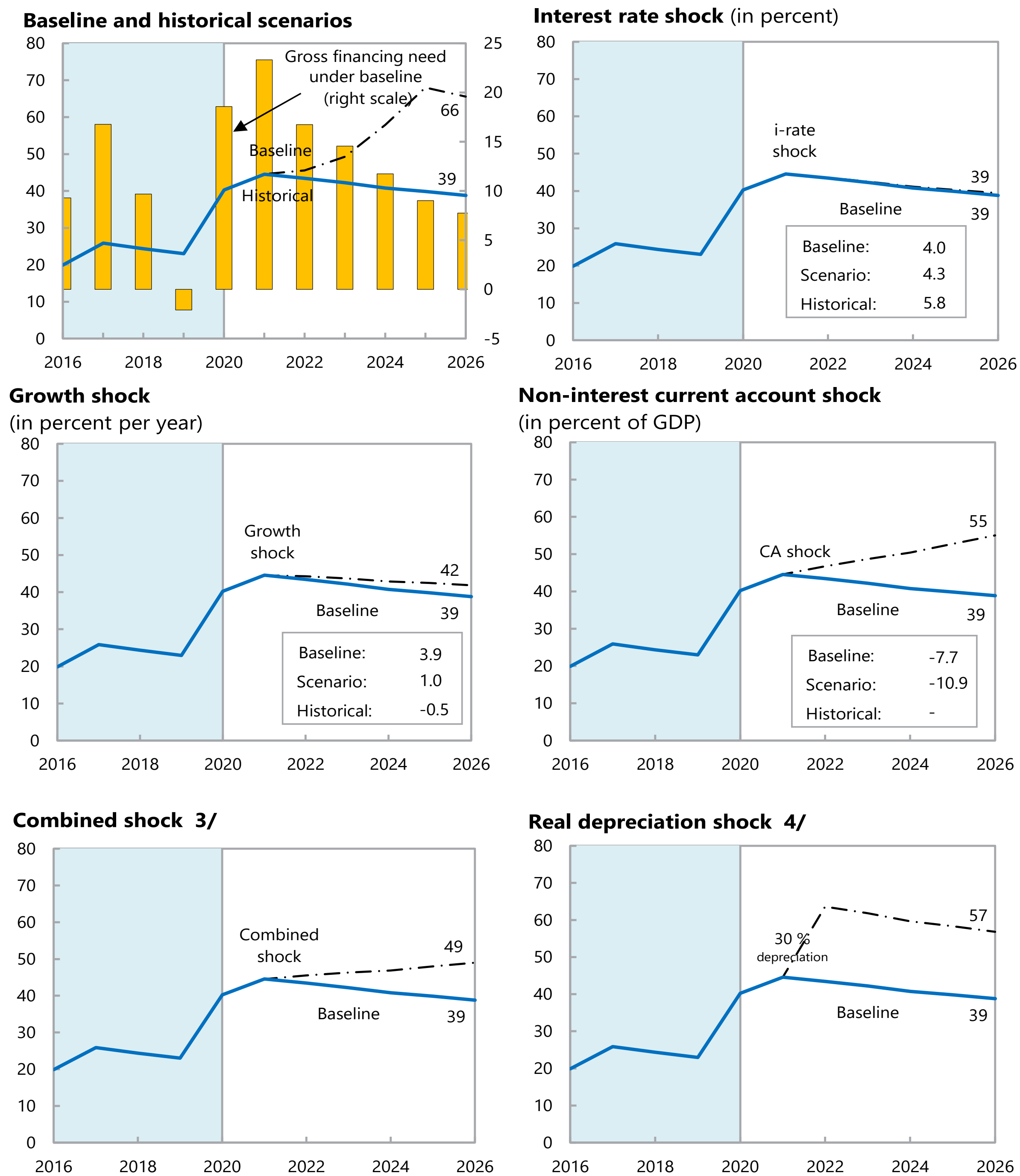
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 18-Jul-20 through 16-Oct-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 6. The Bahamas: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 2. The Bahamas: External Debt Sustainability Framework FY2016–26

(In percent of GDP, unless otherwise indicated)

				Actual								Projections			
		2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	19.9	25.9	24.4	23.0	40.2			**44.6**	**43.4**	**42.2**	**40.8**	**39.8**	**38.8**	**-10.1**
2	Change in external debt	1.3	6.0	-1.5	-1.4	17.2			4.3	-1.1	-1.2	-1.5	-0.9	-1.0	
3	Identified external debt-creating flows (4+8+9)	-0.1	2.7	-1.8	-13.4	14.8			12.1	2.3	-0.3	-4.5	-4.8	-4.7	
4	Current account deficit, excluding interest payments	7.9	11.6	7.3	-5.1	15.7			19.5	13.3	9.8	5.6	5.0	4.7	
5	Deficit in balance of goods and services	7.8	9.3	2.8	-1.7	16.3			16.6	10.6	6.9	2.5	1.6	1.2	
6	Exports	29.6	30.1	36.5	37.8	14.9			12.6	26.3	32.5	38.1	39.9	40.5	
7	Imports	37.4	39.4	39.3	36.2	31.2			29.2	36.9	39.4	40.6	41.4	41.7	
8	Net non-debt creating capital inflows (negative)	-8.7	-9.0	-9.3	-8.5	-7.4			-8.4	-9.2	-10.1	-10.3	-10.6	-10.3	
9	Automatic debt dynamics 1/	0.6	0.1	0.2	0.2	6.5			1.0	-1.7	0.0	0.2	0.8	0.9	
10	Contribution from nominal interest rate	1.0	1.0	1.3	1.2	1.7			1.8	1.7	1.6	1.6	1.5	1.5	
11	Contribution from real GDP growth	-0.3	-0.6	-0.8	-0.3	4.5			-0.8	-3.4	-1.6	-1.4	-0.7	-0.6	
12	Contribution from price and exchange rate changes 2/	-0.1	-0.3	-0.3	-0.7	0.3			...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	1.5	3.3	0.2	12.1	2.4			-7.8	-3.4	-1.0	3.0	3.9	3.6	
	External debt-to-exports ratio (in percent)	67.2	85.9	66.7	60.8	269.3			353.6	165.3	130.1	106.9	99.9	95.9	
	Gross external financing need (in billions of US dollars) 4/	1.1	2.1	1.3	-0.3	2.1			2.7	2.2	2.0	1.7	1.4	1.2	
	in percent of GDP	9.3	16.8	9.7	-2.1	18.6	10-Year	10-Year	23.3	16.7	14.6	11.7	9.0	7.8	
	Scenario with key variables at their historical averages 5/								**44.6**	**45.6**	**49.3**	**57.9**	**68.0**	**78.4**	**-5.3**
	Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
	Real GDP growth (in percent)	1.4	3.1	3.0	1.2	-16.2	-0.5	5.8	2.0	8.5	4.0	3.4	1.8	1.5	
	GDP deflator in US dollars (change in percent)	0.4	1.5	1.2	3.0	-1.3	1.8	2.1	2.2	1.9	1.9	2.0	1.9	1.9	
	Nominal external interest rate (in percent)	5.3	5.4	5.3	5.3	6.0	5.8	0.6	4.6	4.2	4.0	3.9	3.8	3.8	
	Growth of exports (US dollar terms, in percent)	3.4	6.5	26.3	8.1	-67.3	-1.6	24.6	-12.1	130.6	31.0	24.0	8.5	5.1	
	Growth of imports (US dollar terms, in percent)	-2.2	10.2	4.0	-4.0	-28.5	0.3	14.1	-2.6	39.6	13.3	8.7	5.9	4.2	
	Current account balance, excluding interest payments	-7.9	-11.6	-7.3	5.1	-15.7	-10.7	6.5	-19.5	-13.3	-9.8	-5.6	-5.0	-4.7	
	Net non-debt creating capital inflows	8.7	9.0	9.3	8.5	7.4	8.8	1.2	8.4	9.2	10.1	10.3	10.6	10.3	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

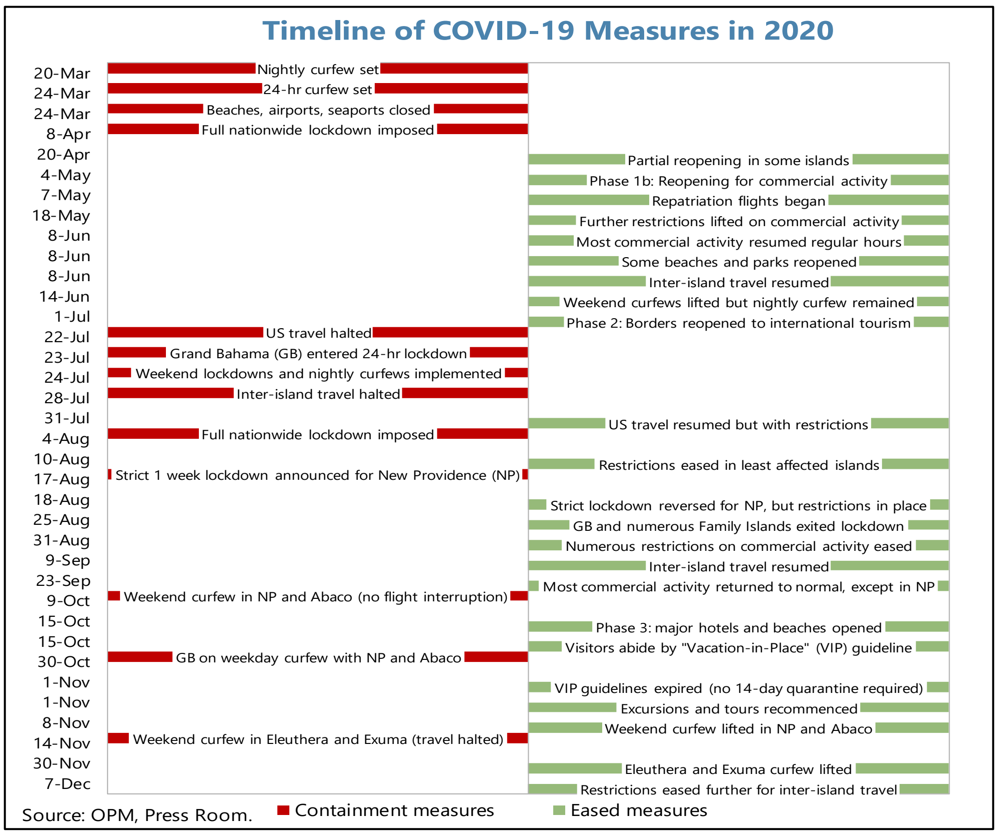
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex VI. The COVID-19 Pandemic[1]

COVID-19 has exacted a tremendous toll on The Bahamas. After successfully suppressing the initial spread, the reopening of international borders in July coincided with a sharp and prolonged rise in infections. New daily cases and total deaths, by population, were amongst the highest in the region between August and October. Numerous rounds of containment measures have restricted movement, while improvements were made to the health system to address shortfalls in testing, detection, and capacity. A second attempt of reopening to tourism went forward as planned in October. But as long as infections are high in source markets, lifting restrictions is unlikely to bring back domestic activity and tourism to pre-pandemic levels.

1. The pandemic in The Bahamas has so far occurred in two waves. Between the first case in March until the reopening in July, there were 104 positive tests of COVID-19 and 11 deaths. This was the first wave, where the authorities quickly initiated restrictions and closed borders. International borders were reopened on July 1, coinciding with a sharp and prolonged rise in new cases – the second wave. Between August and October, cases and deaths rose to amongst the highest in the region. Since then, new daily cases have fallen considerably amid targeted and intermittent curfews, as well as improvements in contact tracing. By December 30, there were 7,871 confirmed cases and 170 deaths.

2. The authorities instituted a plethora of containment measures, including national lockdowns and island specific measures, while trying to reopen the borders in a phased approach.

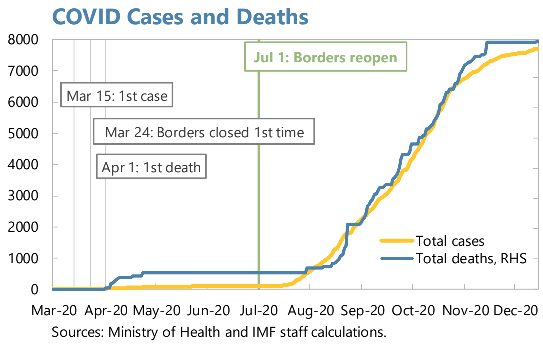


Source: OPM, Press Room.

[1] Prepared by Tariq Khan

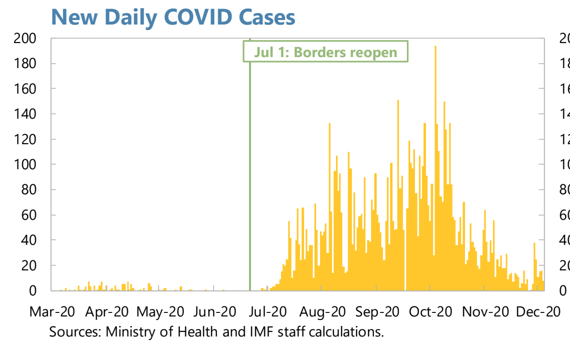
Figure 1. The Bahamas: COVID-19

Cases were contained through June 2020, …



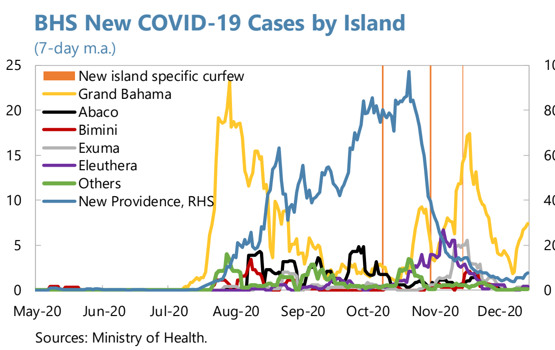
Sources: Ministry of Health and IMF staff calculations.

… but rose quickly after borders reopened.



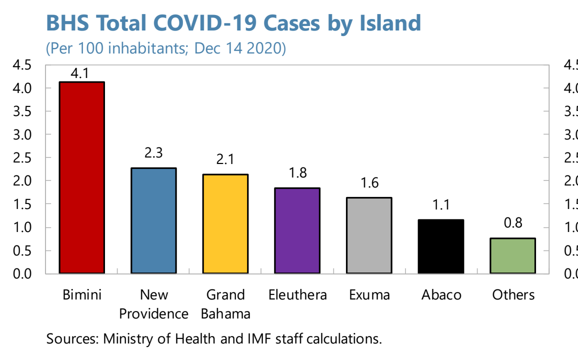
Sources: Ministry of Health and IMF staff calculations.

Infections surged in New Providence until late October, …



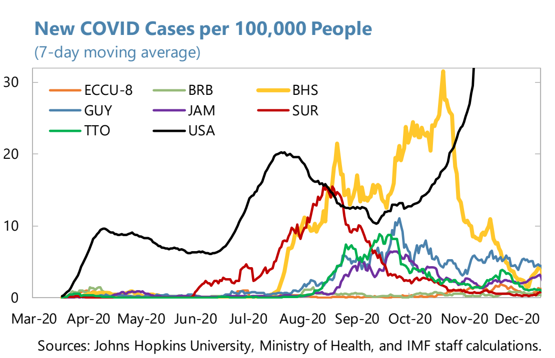
Sources: Ministry of Health.

… but cases were highest relative to size in Bimini.



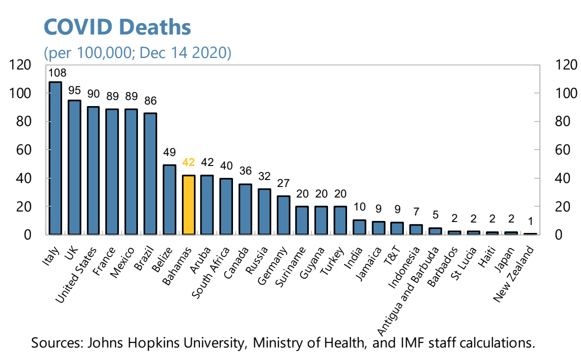
Sources: Ministry of Health and IMF staff calculations.

New cases per person have recently come down, …



Sources: Johns Hopkins University, Ministry of Health, and IMF staff calculations.

… while total deaths-to-inhabitants have been among the highest in region.

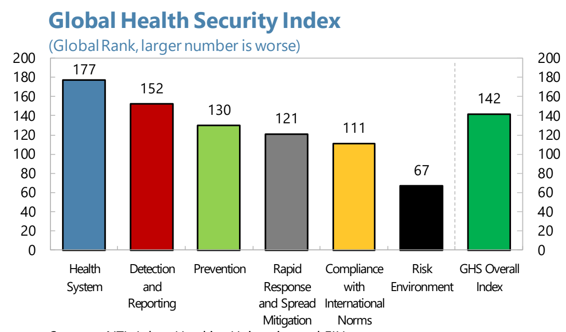


Sources: Johns Hopkins University, Ministry of Health, and IMF staff calculations.

3. **During the second wave, The Bahamas faced worse outcomes relative to its size than the rest of the region.** The number of new cases relative to the population (approximately 385,000 people) was the highest in the Caribbean (excluding Aruba) from August to October, even exceeding the United States – where many new cases were imported from in July. After a new round of measures to restrict mobility and activity, the spike was quelled by end-August in Grand Bahama, but infections surged in New Providence until end-October. This pattern was more prolonged than for peers at their respective peak periods – by mid-October, for every 100,000 people, new cases on average, per day peaked, at over 30. Total deaths relative to population have also been higher than most of the Caribbean.

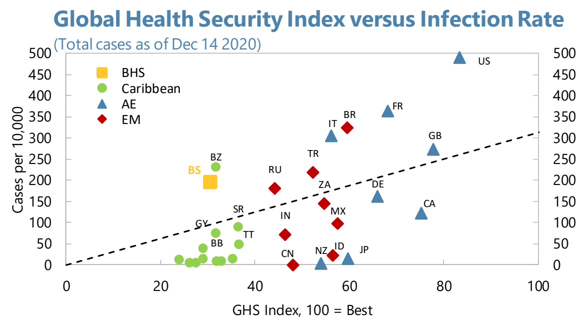
4. Inadequate detection and facilities were initially a hinderance. The Bahamas is ranked 142nd in the Global Health Security (GHS) Index, a measure that assesses countries' health security and capabilities across six categories. The "health system" (sufficient and robust care to treat the sick and protect health workers) and "detection" (early detection and reporting for epidemics of potential international concern) are lowest in The Bahamas, at 177th and 152nd, respectively. Although low scores could explain the high relative infection rate, some countries which were assessed 'higher' faced worse outcomes – like the United States and Brazil. While health security may not predict which countries would be affected more (other factors such as accountability of citizens are important), it does give an indication of which areas of the health system are vulnerable.

The Bahamas ranks low in terms of global health security, …



Sources: NTI, Johns Hopkins University and EIU.

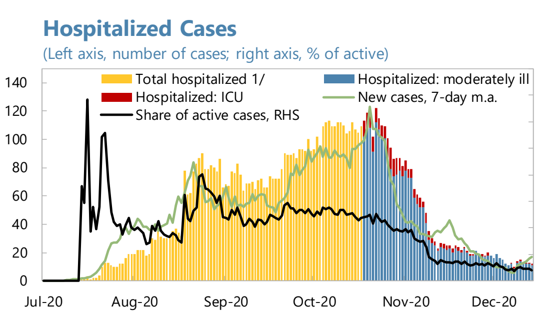
… which may explain the high infection rate there.



Sources: NTI, Johns Hopkins University, EIU and IMF staff calculations.

5. The sharp rise in cases placed significant pressure on the healthcare system. To ease the burden, the government hired workers from abroad, expedited exams for locally registered nursing students, and employed junior doctors. A National Response Facility was set up to combine public and private healthcare resources, and redevelop certain hospitals. An emergency field hospital was deployed through the international relief agency, Samaritan's Purse. Hospitalized cases recently fell as new daily infections trended downwards.

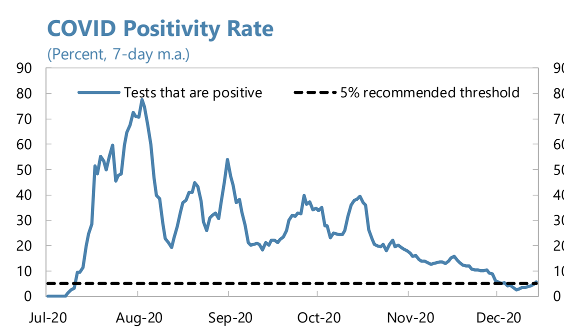
The number of persons hospitalized fell recently …



1/ Breakdown not yet available.

Sources: Ministry of Health and IMF staff calculations.

… as did the test positivity rate.

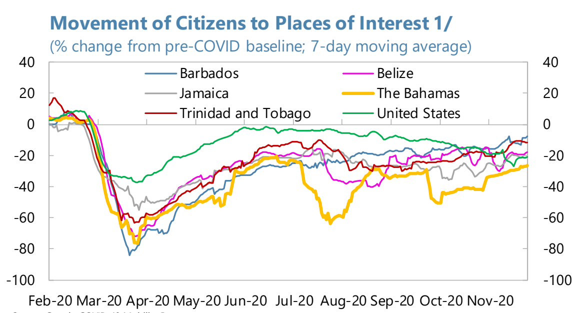


Sources: Ministry of Health and IMF staff calculations.

6. Testing increased during the second wave as efforts were made to enhance contact tracing. Nonetheless, the positivity rate – new tests that returned positive – remained high for an extended period. Facing unprecedented challenges, authorities gradually updated inefficient data management systems, enhanced testing capacity in labs, and found faster ways to process tests. A contact tracing command center was set up to improve surveillance.

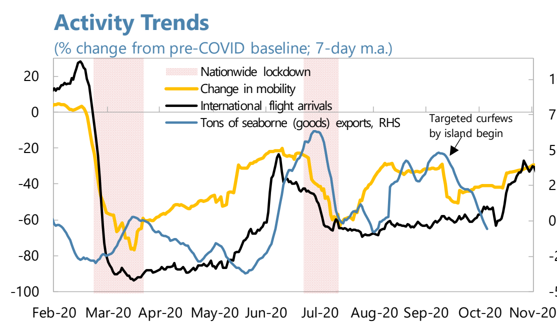
7. Mobility metrics suggest that mitigation measures worked well to restrict movement. As lockdown measures were first imposed, Google Mobility metrics – which track the daily change in visits to places of interest relative to a pre-COVID-19 baseline – showed a sharp drop. Visits to different destinations increased as various measures were gradually lifted in May and June. However, after cases began rising in July, some restrictions were re-implemented and visits to places of interest once again fell. Intermittent weekend curfews starting from mid-October for the worst affected islands coincided with a sizeable fall in new cases. A continuously updated health travel visa has served to further monitor and restrict international and domestic travel. Resultantly, visits to usual places of interest have remained depressed.

Mobility remains subdued …



Source: Google COVID-19 Mobility Reports.
1/ Average of change in visits to usual places of interest, excluding residential trips.
The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

… and most activity metrics are below pre-crisis levels.



Sources: Google COVID-19 Mobility Reports, FlighRadar24 and UN Comtrade.

8. The authorities hope that the roll-back of restrictions will eventually boost activity, but the experience thus far is a cautionary tale. Phase 3 reopening went forward as planned, with numerous U.S. carriers expanding their flight schedules to various islands in October. However, previous attempts to lift restrictions and open borders quickly led to rising cases and the need to reinstate containment measures. Moreover, as long as infections remain high in source markets, lifting containment measures is unlikely to rapidly bring back activity given the importance of voluntary social distancing (October 2020 *World Economic Outlook*). The relative success stories of some Eastern Caribbean Currency Union (ECCU) countries, also point to the importance of strict guidelines accompanying the reopening to international tourists (including strict screening upon arrival and border controls such as a tier system of high to low risk source countries). Despite removing the need for mandatory quarantine on arrival to The Bahamas, many hotels have added an extra layer of testing on the first day, in addition to the requirement for testing five days after arrival.

Annex VII. Social Spending and the COVID-19 Pandemic[1]

The pandemic has affected sources of income for a significant part of the Bahamian population. This annex describes the social spending in The Bahamas, how it has held up during the COVID-19 pandemic and—drawing lessons from the recent experience—outlines some reform options.

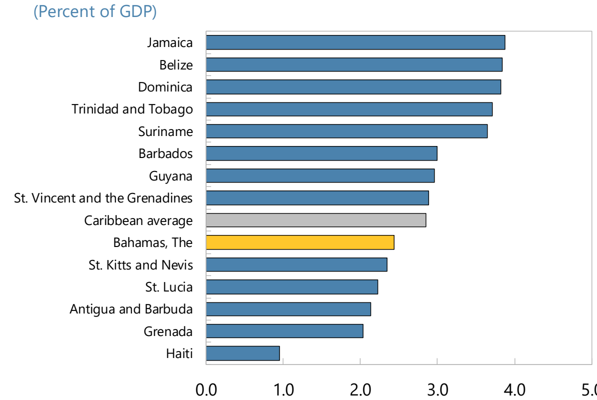
A. Overview of Social Spending in The Bahamas

1. The Bahamas has a comprehensive set of programs to foster inclusion and tackle inequality. Despite these programs, poverty and inequality remain elevated. According to the latest 2014 data, inequality, measured in terms of the Gini coefficient, was around 0.5, much higher than the average Gini coefficient of 0.3 recorded in countries with similar per-capita income levels. Moreover, vulnerability is high. In 2014, about one-fifth of the population earned below US$12.4 a day (with about 5 percent living in extreme poverty, earning below $5 per day).

- **Social insurance**. All employees participate in the national social security system, operated by the National Insurance Board (NIB), an autonomous public entity. Programs include: (i) unemployment benefits (UEB), covering 50 percent of average weekly insurable income for a maximum period of 13 weeks within a year, (ii) pensions, starting at age 60 (women) or 65 (men); (iii) work-related benefits, such as sick leave, medical care for job-related injuries, disability, and death; (iv) and life event benefits, such as maternity, funeral, and survivors' pensions. Mandatory contributions depend on salary (employees, 3.9 percent) and income (self-employed, 8.8 percent). Employers also provide an additional contribution (5.9 percent).

- **Health Care.** The Ministry of Health is responsible for the governance of the health system, consisting of both public and private providers. The Department of Public Health delivers preventive and curative primary health services through 74 clinics. The Public Hospitals Authority manages the nation's three public hospitals and oversees the National Emergency Medical Services and the Supplies Management Agency. The National Health Insurance (NHI) Authority was established in 2016 to introduce universal health care. The government pays the cost of primary healthcare insurance of registered Bahamians and legal residents through the NHI system. But rollout is proceeding slowly, amid limited funding and coverage under the NHI is limited (about 20 percent of the population) while out-of-pocket expenses still account for about 1/3 of total health expenditures. In FY2019/20, heath sector spending accounted for about 3.3 percent of GDP, well below regional peers.

Government Health Expenditure, 2017
(Percent of GDP)



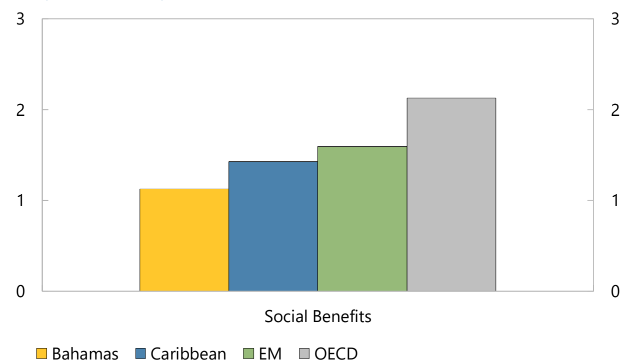
Sources: World Bank; and IMF staff calculations.

[1] Prepared by Atsushi Oshima (IMF) and Laura Giles Álvarez (Inter-American Development Bank).

- **Education:** The Ministry of Education is responsible for more than 50,000 students, spread across approximately 170 educational institutions and 14 districts in the major islands. In addition, there are 77 independent schools and tertiary entities including the University of The Bahamas. Education is compulsory for children between the ages of 5 and 16, and tuition is free of cost. Undergraduate degrees are also free of charge for Bahamian citizens who score above a GPA threshold and are enrolled in a minimum amount of credits. Primary school enrollment is practically universal, and net enrollment in secondary education is almost 85 percent. In FY2019/20, spending on education accounted for about 3 percent of GDP.

- **Social assistance programs:** The Ministry of Social Services and Urban Development oversees social programs. Total spending on social protection in FY2019/20 was just above 1 percent of GDP, which is lower than the regional average. According to the 2013 Household Expenditure survey, around 13 percent of the population lived in poverty, with 25 percent of these being children between the ages of 5-14. Among the programs, the largest one is food support for the poor, school children, and persons with disabilities. For eligible persons, the government provides a pre-paid card that can be used for food purchase. Other support to vulnerable groups includes compensation for school uniforms, utility charges, furniture purchases and medical expenses. All social assistance programs are application based. The authorities plan to pilot a means-tested social program in New Providence in 2021. However, this initiative will rely on outdated data from the 2013 Household Survey.

Government Social Spending
(Percent of GDP)



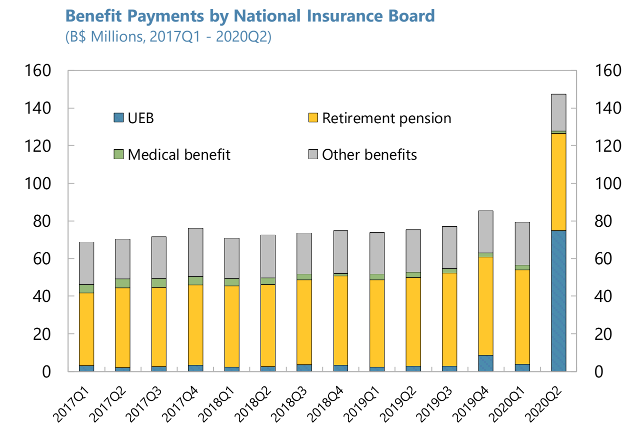
Sources: World Bank; and IMF staff calculation.
Note: For comparison, the refernce year is 2015.

B. COVID-19 Response and Challenges

2. The pandemic led to an increase in social spending across all programs. According to a survey by the Inter-American Development Bank (IDB) and Cornell University in April 2020, about 34 percent of households received at least one of the assistance programs, and receivers included all income levels.

Social Insurance

3. UEB payments were nearly 20 times higher in the first six months of 2020 than during the same period last year. In March, the government extended the UEB duration and relaxed eligibility requirements for employees under the age of 35. This extended program is available to employees that lost their jobs after March 23 due to COVID-19 and have exhausted the 13 weeks of NIB's UEB payments (or were previously enrolled in the Hurricane Dorian UEB extension program). The duration of this extension was originally an additional 13 weeks, but it was further extended through the end of January with B$150 per week. The NIB had transferred B$37.9 million to 28,478 beneficiaries by September.



Source: Bahamas National Insurance Board.

4. Challenges: Given the prolonged downturn, a further extension will likely be needed, requiring additional resources. In 2020Q3 alone, the NIB paid $47 million to the unemployed under the extended UEB program.

Health Care

5. COVID-19 has also triggered additional expenditures in the health sector. At the end of June 2020, about 0.1 percent of GDP were spent on setting up and managing quarantine facilities, expanding existing healthcare facilities, purchasing protective equipment and other medical supplies, as well as supporting the Family Islands' response to COVID-19. Resources for the National Reference Laboratory were also expanded. The FY2020/21 budget allocates an additional 0.3 percent of GDP to the Ministry of Health for activities related to the detection, treatment, and mitigation of COVID-19. The NHI budget is also being expanded by B$18 million to B$38 million.

6. Challenges. Coverage of the NHI is only 20 percent of the population. Thus, those who have not been registered under the NHI cannot benefit from the government initiatives.

Education

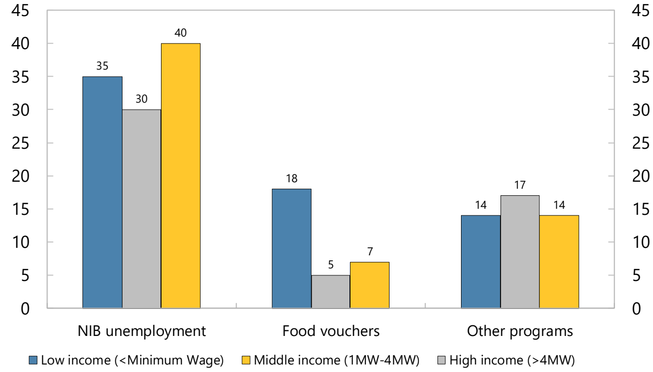
7. Public schools were closed between March and October 2020 and have since been conducting classes in a face-to-face, virtual or hybrid modality depending on the island. The University of The Bahamas has also continued its curriculum in a virtual format. Between 8,000 and 10,000 students between the ages of 5 and 18 are using a new virtual platform to access pre-uploaded programs. The Ministry of Education is setting up new content and livestream lessons and providing digital packages plus print materials where students are not connected. An online application has been created for parents wishing to home school their children during the pandemic. The school lunch program continues and currently 5,087 students are enrolled in the program.

8. Challenges: The Ministry of Education has not developed a strategy for digitalization, and not all students have access to tools to access online classes. This could increase inequality in education outcomes across the population with long term consequences for human capital, inequality, and productivity.

Social Assistance

9. The targeting performance of the various social assistance programs was mixed. The National Distribution Task Force has processed $1 million per week in food support, benefiting approximately 110,000 persons at September 2020. As of September 2020, the government increased this allocation to $1.3 million a week. The government has also been partnering up with local NGOs for social assistance delivery. To date approximately $11.9 million have been disbursed through the task force to participating NGOs. Food support was relatively well targeted, with vouchers being more prevalent among low-income families. But other social programs benefited high-income households in particular.

Households Receiving Social Protections
(Percent of Each Income Cohort)



Source: Inter-American Development Bank.

10. Unemployment benefits have been extended to self-employed persons, who would ordinarily not qualify for NIB unemployment insurance. While the program is administered by the NIB, it is outside of the NIB regular benefits and does not require contributions. Instead, the government provided financing resources to the NIB. The program was implemented between the end of March and June 2020 and was extended in the FY2020/21 budget to the first half of the fiscal year and most recently until end-January 2021. However, it is applied only to Bahamian self-employed in the tourism sector. Originally, the amount was B$200 per week for 8 weeks. After July 1, B$150 per week for 13 weeks are being provided. This program also covers self-employed who converted their business to part-time, with a deduction of B$30 per working day. To date, B$15.4 million have been paid out to 7,115 beneficiaries.

11. Challenges:

- **Coverage and informal sector**. Only self-employed workers in tourism-related businesses are covered by the UEB extension. This means that self-employed informal workers for other industries (many indirectly linked to tourism) and informal employees are not included among the unemployment beneficiaries. There are approximately 13,500 informal workers in The Bahamas (UNDB, 2020). However, limited information about inter-linkages of the economy would make effective targeting beyond the tourism sector difficult.

- **Targeting and needs beyond food support**. The distribution of food support through walk-in demand and the lack of up to date data and registration of poor households will significantly limit the effectiveness of this policy. Moreover, food assistance leaves households with the need to request other types of benefits to cover day to day expenses. The government will have to register the citizen again every time a benefit is granted. Since social assistance programs are application based, validating information is challenging because of limited digitalized information and limited information exchange across relevant stakeholders.

C. Reform Options

12. As the country moves from the containment to the recovery phase, more emphasis should be placed on improving the efficiency and targeting of social spending. Without current information, it is impossible to target help and subsidize appropriately. Thus, 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. The latest household level information was collected in 2013 and the latest full labor force survey was collected in May 2019. Data on socioeconomic variables at the subnational level, by island, would also help better assess vulnerabilities and needs. Furthermore, updating the Tourism Satellite Account would shed light on linkages between the tourism sector and other domestic sectors.

13. Digitizing key information, particularly in the health sector will be key. This will be critical to ensure an efficient and adequate healthcare system for the eventual new, post-COVID-19 normal. Staff recommended expanding telemedicine services and modernizing the processes for data collection, flow, storage and analysis of health information, as also suggested by the IDB. This should be accompanied by a significant investment in connectivity, digital and medical equipment, training of health providers and development of digital health solutions that should be shared with the public. i.e. apps or wearables to track health data.

14. Staff also recommended institutionalizing the information exchange across relevant stakeholders, including the Ministry of Finance, Ministry of Social Services and Urban Development, Ministry of Health and health service providers, Ministry of Education, National Emergency Management Agency, and National Insurance Board. Moreover, new statistics collection methods should be developed that allow for the continuation of data generation during times of extreme shocks such as hurricanes or the pandemic. Online or telephone surveys could be options based on international experience.

15. Finally, staff encouraged the authorities to conduct further analysis of the role of the private sector in the delivery of health care. Currently 15 percent of NHI affiliates have private insurance, thus there is a duplication of services, since these users seek healthcare at the NHI instead of using their private providers.

Annex VIII. The "Sand Dollar"[1]

The Bahamas' Central Bank Digital Currency (CBDC), the "Sand Dollar", *was officially launched on October 20, 2020, and is the first state-backed digital currency in the world. The main objective is to boost financial inclusion for communities in remote islands and strengthen the resilience of the payments system to natural disasters and pandemics. The CBDC architecture features several safeguards to mitigate financial intermediation, integrity, and cybersecurity risks.*

1. **The "Sand Dollar" is part of a broader initiative to modernize The Bahamas' payment system.** The Payment System has been undergoing reforms to modernize the infrastructure and to make it more efficient, resilient and inclusive. A National Payment Council was introduced in 2003 to oversee development of the National Payment Strategy and since 2005 The Bahamas has a real time gross settlement (RGTS) system, which was complemented in 2010 by an automated clearing house (ACH). To further competition and innovation, the Central Bank of The Bahamas (CBOB) adapted the legal and regulatory framework in 2017 to allow service provision by Payment Service Providers (PSPs) and Money Transmission Businesses (MTBs). PSPs, MTBs, and regulated Credit Unions gained access to the RGTS in 2019, and the Central Bank is considering giving the Government and the National Insurance Board direct access to the RGTS and ACH as well.

2. **The CBOB aims to boost financial inclusion and payment system resilience with the introduction of the Sand Dollar.** The Bahamas is a financial center and access to financial services is high on aggregate, but due to the geographic nature of the 700-island archipelago, smaller communities do not have good access to financial services. Physical financial infrastructure like bank branches and ATMs, in addition to being scarce in the remote Family Islands, are also vulnerable to natural disasters or pandemics. Hurricane Dorian and COVID-19 have shown that in the immediate aftermath of a disaster, economic transactions rely exclusively on cash, and that access to cash becomes difficult and costly. The CBOB expects that after a successful rollout of the CBDC, Bahamians will have equal, expanded, and more resilient access to digital payments.

3. **The project started with pilots in Exuma and Abaco in December 2019 and February 2020, which attracted significant interest.** By March 2020 the Exuma pilot had exceeded the initial expectation of 500 participants, with enrollment of 1,300 individuals and 2,000 more expressions of interest. Sand Dollars amounting to B$ 48,000 were in circulation. Two private payment service providers and one commercial bank formed part of the pilot, and were engaged in onboarding people and businesses, and offering the Sand Dollar as part of their financial products.

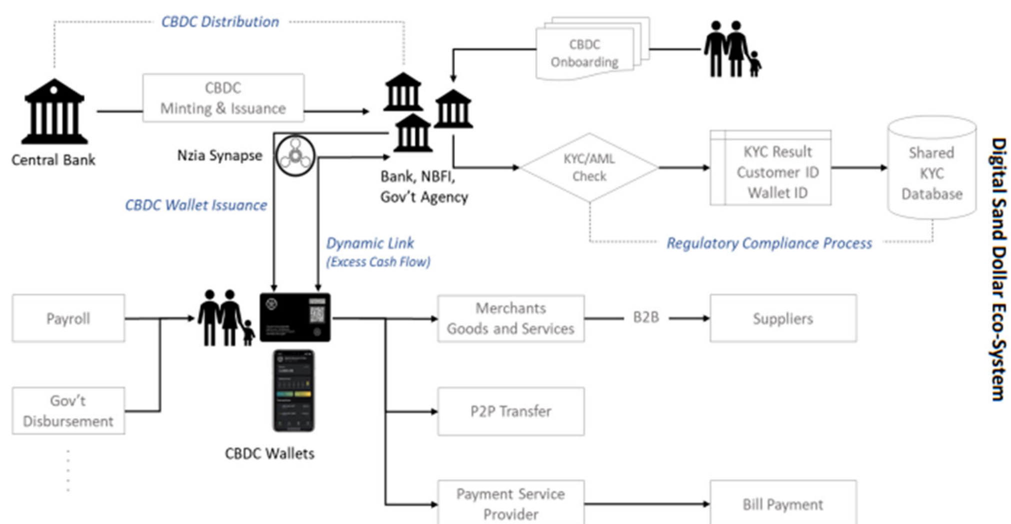
4. **The nationwide rollout that started on October 20 will have two phases**. In the first phase, private-sector players such as banks and credit unions will ready their systems with know-your-customer (KYC) and other compliance checks across low-value, personal and enterprise wallets. The Central Bank has an in-house know your customers (KYC) or eKYC solution, which all the institutions can use and hence don't need to incur extra costs. This is used to establish which of three wallet levels a user can have. A basic wallet only requires an email address or phone number

[1] This annex benefited from comments and inputs by Inutu Lukonga (MCM).

but no photo ID. However, it is restricted to a $500 balance and $1500 in monthly transactions. The next level requires a government photo ID and the limits are $5,000 for balances and $10,000 transactions. And the enhanced level requires businesses to provide their license and tax filings. The Sand Dollar's second phase, slated for early- through mid-2021, will focus on preparing essential infrastructure services in the government and private sectors, such as utility companies. Regulations to underpin the CBDC are still in the works.

5. **The "Sand Dollar" architecture is detailed in Figure 1.** The CBOB has the authority to issue and redeem the digital currency, which is a legal tender. Users and financial institutions receive the CBDC using the blockchain network. The payments occur in a secure tokenized environment, requiring a mobile device, a smart card, or the dedicated point of sales terminals that businesses deploy. The architecture enables secure transactions, and ultimately will also provide for offline capabilities. There are three different levels of access, targeting users from the un- or underbanked individual to large businesses (Table). The Sand Dollar is linked to the existing financial system through a dynamic link, where excess balances in wallets are deposited in a user's accounts at financial institutions.

Figure 1. The Bahamas: Sand Dollar Architecture



Source: CBOB

Table 1. The Bahamas: Sand Dollar Access Levels			
	Simplified (Level 1)	**Regular (Level 2)**	**Enhanced (Level 3)**
Target group	Unbanked individuals, micro entrepreneurs	Individuals with bank accounts	Registered businesses and high-value individuals
Balance limit (B$)	500	5,000	8,000

Table 1. The Bahamas: Sand Dollar Access Levels (concluded)			
Transactions limit (per month, B$)	1,500	10,000	20,000
Link to bank account	No	Yes	Yes
Access to wallet	Online, face to face (banks, PSPs, MTBs)	Face to face (banks, PSPs, MTBs)	Authorized onboarding entities
Customer due diligence / KYC requirements	Low, no official ID required	KYC and identification required, waived if applicant is existing customer of the wallet provider	Enhanced Due Diligence as per AML/CFT guidelines
Foreign Transactions	No	No	No
Source: CBOB.			

6. **According to the CBOB, the Sand Dollar offers several benefits**. By providing a safe and liquid government-backed means of payment to the public, particularly in remote areas, the CBDC increases financial inclusion among the unbanked and underbanked. Transaction costs are lower compared to the costs associated with cash or existing electronic payment forms such as credit cards—where they are accepted and available. The CBDC could improve the safety and efficiency of making payments –for example, at the point of sale (POS), online and peer-to-peer. The CBDC could also help to improve delivery of social programs and strengthen tax administration through the formalization of financial transactions. Widespread adoption could also facilitate detection of illicit financial flows.

7. **But it comes with challenges and costs**. The CBDC could substitute for deposits in commercial banks, with implications for bank funding, profitability, and financial intermediation. Moreover, a digital currency involves costly investments in new technologies, infrastructure, and external expertise. It can also expose a central bank to new risks as it becomes active along several steps of the payments chain, by building front-end wallets, maintaining technology, monitoring transactions, and ensuring financial integrity. New technologies are vulnerable and cyberattacks or technological glitches can impact the central bank's reputation.

8. **The Sand Dollar architecture has several features to mitigate those risks:**

- ***Financial stability.*** To limit disintermediation risks and substitutability with bank deposits, Sand Dollar holdings will not earn interest, and a ceiling is in place limiting the amount users are able to hold in their wallets. Moreover, level 2 and 3 wallets are linked to accounts at financial institutions. Commercial banks and other financial service providers can integrate the Sand Dollar into their product portfolio. To mitigate potential runs in case of stress, a circuit breaker has been embedded in the system to prevent massive flows. However, depending on the deposit structure of banks, some banks could still be vulnerable to financial disintermediation and bank runs, and deposits could quickly move from a financial institution to the CBDC. While access to central bank facilities mitigates liquidity risks, careful bank-level analysis of the deposit structure is recommended to help identify vulnerable banks.

- ***Financial integrity.*** The Central Bank Law and other legislation was amended to reflect the new digital legal tender. The central bank also plans to promote a e-KYC register to maintain identification of individuals who do not maintain such information with banks or other financial intermediaries. Sand Dollar-integrated wallets are enabled with multi-factor authentication features. All mobile devices are required to support a passcode or biometrics to access the app and complete transactions. Although each wallet provides a unique set of data encryption to ensure privacy and confidentiality, all transactions are linked to an AML/CFT engine to safeguard regulatory compliance and governance. The pending CBDC-related legislation in this area should be implemented without delay. The wallets cannot be used outside the country or for foreign exchange operations on their own, which reduces their susceptibility to illicit international flows.
- ***Cybersecurity.*** The central bank has a unit tasked to monitor cyber risk and is upgrading its IT systems and monitoring systems. All Sand Dollar authorized financial institutions (AFIs) are required to complete robust and intensive cybersecurity assessments by an independent international firm before receiving approval to integrate the Sand Dollar platform with their custom applications. As the biggest risk to cybersecurity lies with the clients, financial literacy training and raising consumer awareness are ongoing.

9. Next steps. 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. Moreover, the CBDC should be interoperable with other wallets, and facilitate integration between the ACH and RTGS. As the largest originators and recipients of payments, the Public Treasury and the National Insurance Board are being invited to become direct participants in the RTGS and ACH systems.

Annex IX. Introducing Mandatory Property Insurance[1]

As highlighted by Hurricane Dorian, most of the property damage in The Bahamas is paid by the private sector, with or without insurance coverage. A mandatory insurance scheme with premiums adjusted according to the quality of buildings would help ease the socioeconomic burden, encourage mitigation measures, and prevent moral hazard. New Zealand and Turkey are two relevant examples of such mandatory national disaster insurance.

1. The majority of damage caused by hurricanes to The Bahamas is not covered by insurance. The lack of insurance payouts following a large disaster can hinder reconstruction efforts and slow the economic recovery. While building resilience against natural disasters may lower fiscal risks, it is important for vulnerable countries to adopt a combination of risk management instruments, including risk transfer options, to increase mitigation and post-disaster management.[2]

2. The public sector can transfer some of the natural disaster risks through insurance and state-contingent debt instruments, but most of the damages are in the private sector. The Caribbean Catastrophe Risk Insurance Facility (CCRIF), for example, builds on regional coordination among island states and provides both disaster risk management tools and financing when natural disasters strike. However, private losses account for most of the damage, while private property insurance is largely optional unless the property is financed by a bank. As a result, about 60 percent of buildings destroyed by Hurricane Dorian in The Bahamas were not insured at all or not adequately insured. Government grants to assist with reconstruction are insufficient and present a significant burden to the public purse.

3. The Bahamas would benefit from a compulsory property insurance, regardless of whether there is mortgage financing to properties. Two relevant examples of mandatory natural disaster insurance are New Zealand and Turkey.

- **New Zealand.** Since the introduction of compulsory earthquake insurance in 1993, New Zealand has achieved almost complete insurance coverage at affordable premiums and managed to limit the macro-financial impact of large earthquakes on the government and private sector.
    - The New Zealand Natural Disaster Fund (NDF) provides the first layer of insurance for 98 percent residential homes throughout New Zealand, with the private sector delivering additional coverage. It provides insurance for residential structures, land, and contents in the event of an earthquake, natural landslide, volcanic eruption, hydrothermal event, and tsunami, as well as fire resulting from any of these natural disasters. The NDF is administered by the Earthquake Commission (EQC), a statutory entity, on an autonomous, arm's length basis, and funded through a charge against the premium paid for building insurance by residential homeowners. The premium is fixed in law and bears

[1] Prepared by Serhan Cevik.

[2] S. Cevik and G Huang, 2018, "How to Manage the Fiscal Costs of Natural Disasters," IMF How-to-Notes 18/03 (Washington, DC: International Monetary Fund)

no relationship to structure-related or geographical risk, or to any other actuarial reality. Currently, the natural disaster insurance policy costs 20 cents for every $100 of home or contents fire insurance that a household had. The fund is underpinned by a legislated government guarantee to compensate for any shortfall if the balance is insufficient to cover damages.

- While the NDF is invested mainly in New Zealand's fixed interest securities, the EQC also invests part of the fund in international equities. The goal is to ensure sufficient liquidity in tradable financial assets outside New Zealand that would not be affected by a major natural disaster in the country. If a drawdown on the NDF is needed to meet significant claims, international equities can be sold first, thereby eliminating the government's responsibility to provide immediate funding. Another advantage of investing part of the fund in global equities is that the fund can potentially grow faster.

- Transparency is achieved through frequent publication of the NDF's audited financial statements. Extensive information about the fund is also included in the government's aggregate financial statements, and the NDF is fully incorporated into the central government's balance sheet and income statement. The NDF's statement of investment policies is published, and there is a formal mechanism by which the EQC (and every ministry, executing agency, statutory body, and state-owned enterprise) prepares an annual statement of intent, reporting back on its implementation.

- **Turkey.** With multiple fault lines passing through the country, Turkey is among the nations most exposed to large-scale earthquakes. The Turkish Catastrophe Insurance Program (TCIP), established in 2000, requires all property owners to have disaster insurance and functions like a conventional indemnity-based catastrophe insurance pool. The TCIP is a nonprofit public entity supervised by the undersecretariat of the Treasury, but its operational management is subcontracted to private insurance companies.

  - The TCIP has the following objectives: (1) providing nationwide compulsory insurance against earthquakes for all dwellings within the scope of the scheme at an affordable premium; (2) ensuring risk sharing within the country and transfer a portion of the risk to the international reinsurance market; (3) reducing the government's fiscal exposure to earthquakes; (4) encouraging risk mitigation and earthquake-resistant construction practices; and (5) accumulating long-term resources to cover catastrophic damages.

  - The compulsory TCIP policy is designed as a stand-alone property earthquake policy with a maximum insured amount per policy and a deductible of 2 percent (to reduce administrative costs associated with small claims). The annual premium rate is determined according to construction type (steel or reinforced concrete, masonry, and so on) and location (five seismic zones throughout the country). As a public-private partnership, the TCIP has become the largest insurance program in Turkey, has reduced the government's fiscal exposure to natural disaster risk, and has raised public awareness about risk mitigation.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

January 5, 2021

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 30, 2020)

Membership Status: Joined August 21, 1973; Article VIII

General Resources Account:

	SDR Millions	Percent of Quota
Quota	182.40	100.00
Fund holdings of currency	345.52	189.43
Reserve position in the Fund	19.29	10.57

SDR Department:

	SDR Millions	Percent of Quota
Net cumulative allocation	124.41	100.00
Holdings	124.42	100.01

Outstanding Purchases and Loans:

	SDR Millions	Percent of Quota
Emergency Assistance[1]	182.40	100.00

Latest Financial Commitments:

Outright Loans:

	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Jun 01, 2020	Jun 03, 2020	182.40	182.40

Overdue Obligations and Projected Payments to Fund[2]:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal	. . .	. . .	. . .	45.60	91.20
Charges/Interest		2.05	2.05	2.01	1.24
Total		**2.05**	**2.05**	**47.61**	**92.44**

Implementation of HIPC Initiative: Not Applicable

[1] Emergency Assistance may include ENDA, EPCA, and RFI.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement

The Bahamas has a conventional peg arrangement, with the Bahamian dollar pegged to the U.S. dollar at B$1 per US$1. The Bahamas has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Prior to the COVID-19 pandemic, there had been a continuous relaxation of exchange controls. In February 2018, the premium charged on purchases and sales in the Investment Currency Market rate was reduced to 5 and 2½ percent. In October 2019, exchange controls on residential property transactions involving non-residents were lifted, and authority to sell foreign currency for proceeds of such transactions was delegated to commercial banks. However, following the COVID-19 crisis, the Central Bank of the Bahamas introduced new capital flow management measures (CFMs) including (i) (i) suspending access to foreign exchange for international capital market and real estate investments; and (ii) requesting the NIB to repatriate some of its external assets (about $60 million). In addition, the authorities eased an inflow CFM in April 2020, when for commercial banks, the ceiling on the Bahamian Open Position on foreign exchange transactions was relaxed to the maximum 5 percent of Tier 1 capital, removing the more binding limit of US$5 million on net long exposures that constrained most institutions, thus providing more latitude to commercial banks to supply foreign exchange to the public. The central bank informed staff about its suspension of all exchange control approvals for dividend payments by domestic commercial banks. Staff is seeking further information to conclude an assessment of this measure from an Article VIII perspective.

Assessment of Data Adequacy for Surveillance:

Data provision is broadly adequate for surveillance. All critical macroeconomic data, including comprehensive central government finance statistics, are regularly published in the Central Bank of the Bahamas' "*Monthly Economic and Financial Developments*" and "*Quarterly Statistical Digest*". Subscription to the enhanced General Data Dissemination System (e-GDDS) in December 2018 has improved timelines and accessibility. Initial work is being done on developing quarterly international investment position (IIP) statistics after a remote TA was conducted in October 2020, which provided initial training to central bank staff. Over the next year, the aim will be to enhance source data for the quarterly balance of payments statistics to move to the *Balance of Payments Manual 6*. The authorities have commenced compiling and publishing quarterly national accounts. Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance to further improve national accounts and IIP statistics.

Last Article IV Consultation

The Bahamas is on a 12-month cycle. The last Article IV consultation was concluded by the Executive Board on June 3, 2019 (IMF Country Report No. 19/198).

Technical Assistance		
Department	**Dates**	**Purpose**
LEG	July 2012	Payment System Laws
STA	Jan 2013	Government Finance Statistics
MCM	February 2013	Financial Stability Reporting
FAD	April 2013	Tax Reforms for Increased Buoyancy
CARTAC	April 2013	Draft VAT Bill
MCM	May 2013	Basel II Implementation
CARTAC	May/September 2013	Central Revenue Agency
CARTAC	July 2013	Support for Customs and Excise Department's Preparation of VAT
FAD	January/February 2014	Revenue Administration
FAD	March 2014	Tax Administration Readiness to Successfully Launch and Administer VAT
FAD	March 2014	Goods and Services Tax
FAD	March 2014	VAT Revenue Projection
FAD	April 2014	Revenue Impact of Implementing VAT
MCM	March 2014	Financial Crisis Management Planning
MCM	April 2014	Debt Management
CARTAC	June 2014	Price Statistics
CARTAC	August 2014	Balance of Payment and International Investment Position
FAD	September/October 2014	Revenue Administration
FAD	October 2014	Preparation to Launch a Value Added Tax
CARTAC	November 2014	Quarterly National Accounts
CARTAC	December 2014	Price Statistics
CARTAC	December 2014	Risk-Based Supervision of the Securities Market
LEG	March 2015	Strengthening the Legal Framework for Bank Resolution and Crisis Management
CARTAC	August/September 2015	Quarterly National Accounts
FAD	February/March 2016	Assessment of VAT Launch and Administration
CARTAC	August 2016	National Accounts Statistics
CARTAC	August 2016	Financial Health and Stability Indicators for the Pension Sector in the Bahamas
CARTAC	May/June 2017	External Sector Statistics

Technical Assistance (Concluded)		
CARTAC	June 2017	Macro-Prudential and Systemic Risk Indicators for Financial Stability Assessment
CARTAC	August 2017	National Accounts Statistics
CARTAC	November/December 2017	Price Statistics
CARTAC	April 2018	Public Financial Management
STA	April 2018	Monetary and Financial Statistics
CARTAC	May 2018	Financial Stability Framework
CARTAC	June 2018	Corresponding Bank Relationship Monitoring Toolkit
CARTAC	August 2018	National Accounts Statistics
CARTAC	September 2018	Public Financial Management
STA	October 2018	e-GDDS
CARTAC	November 2018	Tax Administration
LEG	July 2019	Tax Appeals
CARTAC	September 2019	National Account Statistics
CARTAC	October 2019	Public Financial Management
CARTAC	February 2020	Public Financial Management
STA	October 2020	External Sector Statistics
ICD	November 2020	Financial Programming and Policies

Resident Representative: None

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of December 4, 2020)

Country Strategy with The Bahamas 2018–2022

- The Country Strategy for The Bahamas 2018-2022 was approved in May 2018 and focuses on three pillars of engagement: (i) enhancing public sector effectiveness, (ii) supporting infrastructure for growth, and (iii) fostering an enabling environment for private sector competitiveness. Cross cutting issues include data generation, gender, and climate resilience and disaster risk management.
- The IDB's portfolio has 10 loan programs totaling US$558 million. 64 percent of the portfolio consists of investment loans and the remainder is budget support.
- The 2020 programing has focused on supporting the country in the aftermath of Hurricane Dorian and during COVID-19.
    - The Bank approved a US$200 million PBL on sustainability and inclusive growth in August 2020 and reformulated US$19.5 million to support employment retention during the pandemic. A US$20 million prototype loan for the health sector is being prepared and should be approved in December 2020. The Bank also approved a US$80 million energy loan in January to support reconstruction efforts on the islands affected by Hurricane Dorian and foster greater use of renewable energy.
    - The Bank continues to support the country through the investment loan portfolio, strengthening the institutional capacity for a digital government, the framework for integrity and transparency in the public sector, citizen security and justice and the institutional capacity of private-public coordination. The Bank is also supporting the government in creating innovative public-private initiatives to finance resilient infrastructure and investing in upgrading seaport and air infrastructure in the Family Islands, as well as in more resilient coastal zone management. Finally, the Bank is supporting programs that incentivize digital skills that are more akin to the needs of the labor market and access to credit for small and medium enterprises.

https://www.iadb.org/en/countries/bahamas/overview

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of December 4, 2020)

Country Strategy with The Bahamas 2018–2022

The overarching aim of the CDB's current strategy for The Bahamas is to support the country's advancement as a progressively stable and vibrant economy, as well as an increasingly safe society with enhanced opportunities for productive employment and improved living standards. An indicative 5-year program of assistance of USD106.5 million was approved in 2018 to help the country achieve faster, more inclusive and environmentally sustainable development, buttressed by macroeconomic stability and citizen security. The Country Strategy (CS) responds to these development priorities through loan and technical assistance interventions designed to achieve the following outcomes: (i) increasing access to quality climate resilient infrastructure; (ii) broadening energy efficiency and sustainable energy options; (iii) enhancing educational outcomes; (iv) improving governance; and (v) increasing productivity, competitiveness and economic diversification. Projects currently under implementation include a streetlighting retrofitting project; a water supply improvement project; and The Bahamas Technical and Vocational Institute enhancement project.

The devastation caused by Hurricane Dorian in 2019 and the current challenges brought on by the COVID-19 pandemic have brought to the fore the need for environmentally sustainable development and macroeconomic stability. In the wake of these shocks, CDB has provided budget support in the amount of USD90 million to the government to assist with the recovery from the hurricane, and the difficulties caused by COVID-19.

Other areas for future dialogue: The Bank will conduct a mid-term review of the existing strategy during the first half of 2021. This will inform the next strategy, due to commence in 2022. Discussions are likely to focus on consolidating the work of the existing strategy, with a focus on further development needs in relation to infrastructure in the Family Islands.

https://www.caribank.org/countries-and-members/borrowing-members/bahamas

STATISTICAL ISSUES

(As of December 4, 2020)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. However, some weaknesses remain in both coverage and timeliness, partly reflecting capacity constraints.
National Accounts: With the support of CARTAC missions, the supply and use tables were finalized and rebased GDP estimates were released by the Department of Statistics (DoS) in September 2017. The new national accounts system, rebased to 2012, has expanded coverage, including the production of offshore banking units and the branch operations of foreign airlines, along other improvements. With Statistics Canada's support, a National Accounts Advisory Committee has been established and MOUs are being implemented to improve administrative data classification, quality assurance and sharing. The DoS published quarterly GDP estimates for the period 2015-2019 in November 2020, which are broadly consistent with the 2008 SNA recommendations.
Price Statistics: The DoS last updated the weight reference period and basket of items for CPI using the results of the 2013 Household Expenditure Survey (HES); these weights are over seven years old now and require updating. The November 2017 mission recommended conducting a Household Expenditure Survey in 2018/19, which would support this activity. During the mission, errors in the CPI for May and June 2017 were corrected and series revised.
Government Finance Statistics: The Bahamas has been submitting data according with the *Government Finance Statistics Manual 2014,* and the data cover only operations of the budgetary central government. The authorities are working on consolidated general government data. Data coverage should be expanded to include all the public bodies classified outside the existing budgetary central government and consequently to compile the General Government. Monthly or quarterly data should be made available in a timely manner. The authorities are not reporting public sector debt data to the World Bank's Quarterly Public Sector Debt database, but the Central Bank of The Bahamas published quarterly debt data of public corporations as well as the central government debt.
Monetary and Financial Statistics: The Central Bank of The Bahamas reports monetary and financial statistics for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department using the standardized report forms. The Bahamas reports data on some basic series and indicators of the Financial Access Survey (FAS), including the two indicators that are part of the U.N. Sustainable Development Goals. **Financial Sector Surveillance:** The CBOB compiles for internal use 16 financial soundness indicators (FSIs) and publishes them in its annual *Financial Stability Report*.

External Sector Statistics (ESS): The Central Bank of The Bahamas (CBOB) does not compile international investment position (IIP) statistics. Also, the CBOB's balance of payments presentation has remained unchanged for many years, the compilation system has not captured new developments, such as growing portfolio investment outflows, and the framework does not conform to the latest international statistical guidelines. A remote technical assistance (TA) mission on ESS was conducted in September 2020. The recent mission recommended that the CBOB undertake an overhaul of the ESS compilation system by (i) introducing numerous enhancements and corrections to the existing source data; (ii) expanding its data sources to improve both scope and coverage; (iii) addressing classification changes from *BPM5* to *BPM6*, and preparing a set of *BPM6*-compliant balance of payments and IIP statistics. This would require more resources are allocated by the CBOB to ESS compilation to implement the recommended actions.

II. Data Standards and Quality	
The country participates in the Enhanced General Data Dissemination System (e-GDDS) and launched a National Summary Date Page in December 2018 with the assistance of STA.	Data *Reports on the Observance of Standards and Codes* (ROSC) are not available.

Table 1. The Bahamas: Table of Common Indicators Required for Surveillance
(As of December 4, 2020)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	08/20	10/20	M	M	M
Reserve/Base Money	08/20	10/20	M	M	M
Broad Money	08/20	10/20	M	M	M
Central Bank Balance Sheet	08/20	10/20	M	M	M
Consolidated Balance Sheet of the Banking System	08/20	10/20	M	M	Q
Interest Rates[2]	09/20	10/20	M	M	M
Consumer Price Index	06/20	10/20	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	06/20	9/20	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	06/20	9/20	Q	Q	Q
External Current Account Balance	03/20	08/20	Q	Q	I
Exports and Imports of Goods and Services	03/20	08/20	Q	Q	Q
GDP/GNP	2019	9/20	A	A	A
Gross External Debt	06/20	9/20	Q	Q	Q
International Investment Position[6]	NA	NA	NA	NA	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic banks, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Louise Levonian, Executive Director for The Bahamas and Latoya Smith, Senior Advisor to the Executive Director
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 3months— 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.